

1 BEFORE THE  
2 FLORIDA PUBLIC SERVICE COMMISSION

98-713

3 In the Matter of :

: DOCKET NO. 920199-WS

4 Application for rate increase in Brevard:  
5 Charlotte/Lee, Citrus, Clay, Duval, :  
6 Highlands, Lake, Marion, Martin, Nassau, :  
7 Orange, Osceola, Pasco, Putnam, Seminole:  
8 Volusia, and Washington Counties by :  
9 SOUTHERN STATES UTILITIES, INC.; Collier:  
County by MARCO SHORES UTILITIES :  
(Deltona); Hernando County by SPRING :  
HILL UTILITIES (Deltona); and Volusia :  
County by DELTONA LAKES UTILITIES :  
(Deltona) :

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10  
11 FIFTH DAY - MORNING SESSION

12 VOLUME XII

13 Pages 1791 through 1973

14 PROCEEDINGS:

FINAL HEARING

15 BEFORE:

CHAIRMAN THOMAS M. BEARD  
COMMISSIONER BETTY EASLEY  
COMMISSIONER SUSAN F. CLARK

17 DATE:

Thursday, November 12, 1992

18 TIME:

Commenced at 9:10 a.m.

19 PLACE:

FPSC, Hearing Room 106  
101 East Gaines Street  
Tallahassee, Florida 32399

21 REPORTED BY:

JOY KELLY, CSR, RPR  
SYDNEY C. SILVA, CSR, RPR  
PAMELA A. CANELL  
Official Commission Reporters  
and  
LISA GIROD JONES, RPR, CM

24 APPEARANCES:

25 (As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION DOCUMENT NUMBER-DATE

13572 NOV 18 1992

FPSC-RECORDS/REPORTING

I N D E XWITNESSES - VOLUME XII

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EXHIBITS - VOLUME XII

<u>Number:</u>		<u>Identified</u>	<u>Admitted</u>
124	(Composite) (Loucks) Exhibit HL-1 through HL-6	1796	1855
125	(Loucks) Yearly Precipitation	1816	1973
126	(Late-Filed) (Loucks) List of Systems Having in Excess of 50% One-Inch Residential Meters	1838	
127	(Composite) (Dismukes) KHD-1 (Eight Schedules)	1859	1973
128	(Dismukes) Potential Impact to Ratepayers of St. Augustine Shores Condemnation	1947	1973
129	(Dismukes) Public Counsel's Response to Southern States' Interrogatory No. 26	1962	1973

P R O C E E D I N G S

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

4 (Hearing reconvened at 9:10 a.m.)

5 CHAIRMAN BEARD: Okay.

6 MR. McLEAN: Commissioners, I have a  
7 preliminary matter I'd like to deal with just for a  
8 moment.

9 CHAIRMAN BEARD: How many witnesses are you  
10 going to eliminate?

11 MR. McLEAN: None. Not for the moment.

12 But, my job is to poke holes in the Utility's  
13 case and point out whatever weaknesses I think are  
14 there, And not to go after the witnesses personally.  
15 In my questioning of Mr. Morse yesterday, I think I  
16 crossed that line.

17 And I've known Mr. Morse for years; i've used  
18 him as a witness myself. And to the extent I went  
19 after Mr. Morse on a personal level, I want to apologize  
20 to the Company, and particularly to Mr. Morse.

21 CHAIRMAN BEARD: Okay. I thought we were  
22 just having fun.

23 MR. McLEAN: Probably no fun for him.

24 CHAIRMAN BEARD: Oh, okay. Thank you.

25 Wherever are we? Next witness, that's right.

1 And you've been sworn?

2 WITNESS LOUCKS: Yes.

3 CHAIRMAN BEARD: Okay. Anybody else that's  
4 going to be testifying today that hasn't been sworn?  
5 You might as well stand up and I'll get you, too.

6 (Witnesses sworn collectively.)

7

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8

HELENA LOUCKS

9 was called as a witness on behalf of Southern States  
10 Utilities, Inc., and, having been duly sworn, testified  
11 as follows:

12

DIRECT EXAMINATION

13

BY MR. HOFFMAN:

14

Q Could you please state your name and your

15

business address?

16

A My name is Helena Loucks. My business

17

address is Southern States Utilities, Inc., 1000 Color  
18 Place, Apopka, Florida, 32703.

19

Q Ms. Loucks, did you prepare and cause to be

20

filed prefiled direct testimony on behalf of Southern  
21 States Utilities in this proceeding?

22

A Yes, I did.

23

Q Do you have any changes or revisions to your

24

prefiled direct testimony?

25

A Yes, I do. Only one.

1 Q Could you provide it right now?

2 A It's on Page 11, Line 11. It should read as  
3 "Exhibit HL-6 under cover page," and strike the  
4 following word "page" and "entitled."

5 Q With that revision, Ms. Loucks, if I asked  
6 you the same questions contained in your prefiled  
7 direct testimony today, would your answers be the same?

8 A Yes, it would.

9 MR. HOFFMAN: Mr. Chairman, I would ask that  
10 Ms. Loucks prefiled direct testimony be inserted into  
11 the record as though read.

12 CHAIRMAN BEARD: It will be so inserted.

13 Q (By Mr. Hoffman) Ms. Loucks, have you  
14 attached your Exhibits HL-1 through HL-6 to your  
15 prefiled direct testimony?

16 A Yes.

17 MR. HOFFMAN: Mr. Chairman, could I have Ms.  
18 Loucks Exhibits 1 through 6 marked for identification.

19 CHAIRMAN BEARD: Exhibit 124.

20 (Exhibit No. 124 marked for identification.)

21

22

23

24

25

1                   **I. QUALIFICATIONS AND RESPONSIBILITIES**

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

3           **A. My name is Helena Loucks. My business address**  
4           **is Southern States Utilities, Inc. ("Southern**  
5           **States" or "Company"), 1000 Color Place,**  
6           **Apopka, Florida 32703.**

7           **Q. WHAT IS YOUR POSITION AND YOUR RESPONSIBILITY**  
8           **WITH SOUTHERN STATES?**

9           **A. I serve as Manager of Rate Administration for**  
10           **Southern States. I am responsible for**  
11           **coordinating and implementing all rate**  
12           **schedules, customer billing and budgeted**  
13           **revenues for operating and regulatory**  
14           **purposes, including rate case applications.**

15           **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

16           **A. I received a Bachelor of Science Degree in**  
17           **Business Administration from the University of**  
18           **Minnesota - Minneapolis. I have attended**  
19           **several schools, seminars, conferences,**  
20           **workshops and short courses in utility**  
21           **economics, pricing, management and computer**  
22           **science.**

23           **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND?**

24           **A. My professional background consists of fifteen**

1 years of experience in areas such as rates,  
2 rate design, revenue requirements and cost of  
3 service for electric, gas, telecommunication,  
4 and water and wastewater utilities.

5 I began my career at Northern States  
6 Power Company in 1977 where I prepared and  
7 analyzed various rate design studies. From  
8 1979 to 1985, I was employed by the Minnesota  
9 Department of Public Service ("MDPS"). At  
10 MDPS, I was responsible for making rate design  
11 recommendations to the Minnesota Public  
12 Utilities Commissions ("MPUC") for more than  
13 one hundred general and miscellaneous tariffs.  
14 I prepared and submitted rate design and cost  
15 of service study testimony and testified  
16 before the MPUC in nine rate cases. These  
17 rate proceedings involved major Minnesota  
18 utilities such as Northern States Power  
19 Company, Otter Tail Power Company, Minnesota  
20 Power Company, North Central Power Company,  
21 Inter-City Gas Corporation, Inc. and Peoples  
22 Natural Gas Company. I also acted as Rate  
23 Case Manager in some of the general rate  
24 proceedings and made recommendations to MPUC



1 on both federal and state public utility  
2 regulatory legislation.

3 I joined Seminole Electric Cooperative, Inc.'s  
4 ("Seminole") Rates and Corporate Planning  
5 Department in 1985. I was responsible for  
6 Seminole's corporate revenue budget, wholesale rate  
7 design and fuel and purchased power costs budget.  
8 I also analyzed Seminole's wholesale power  
9 suppliers' rate increase filings and made  
10 recommendations to Seminole's Board Of Trustees.  
11 In addition, I assisted in the development of  
12 Seminole's ten year generation planning forecast  
13 and its ten year purchased power cost requirements.  
14 On January 2, 1991, I started working for Southern  
15 States.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 **A.** The purpose of my direct testimony is to  
18 present the Company's rate design objectives  
19 and explain the development of Southern  
20 States' proposed final rate design based on  
21 these objectives. I will also present the  
22 proposed rate structure modifications and the  
23 resulting tariff changes in the rate schedules  
24 proposed by the Company.

1 Q. ARE YOU SPONSORING ANY MINIMUM FILING  
2 REQUIREMENTS ("MFRs") SCHEDULES?

3 A. Yes. I am sponsoring the Rates and Rate  
4 Design Schedules ("E" schedules) and the  
5 Billing Analyses for all systems included in  
6 the MFRs which previously have been identified  
7 as Exhibit No. 39 (FLL-1).

8 Q. WERE THESE SCHEDULES PREPARED BY YOU OR UNDER YOUR  
9 DIRECTION AND SUPERVISION?

10 A. Yes, they were.

11 Q. COULD YOU BRIEFLY DESCRIBE THESE SCHEDULES?

12 A. Yes. These Schedules and Billing Analyses are  
13 found in the following volumes and books of the  
14 MFRs:

15 Volume II - Water Minimum Filing Requirements

16 Book 8 of 11 Schedule E: Rates and Rate  
17 Design - Schedule E1 - E5, E7,  
18 E9 - E13

19 Book 9 of 11 Schedule E: Rates and Rate  
20 Design - Schedule E14; Billing  
21 Analyses Summaries By System

22 Book 10 of 11 Schedule E: Rates and Rate  
23 Design - Schedule E14; Billing  
24 Analyses Summaries By System,

1		<u>By Class</u>
2		<u>Volume III - Wastewater Minimum Filing Requirements</u>
3	Book 4 of 6	Schedule E: Rates and Rate
4		Design - <u>Schedules E1 - E5, E9</u>
5		<u>- E13</u>
6	Book 5 of 6	Schedule E: Rates and Rate
7		Design - <u>Schedule E14: Billing</u>
8		<u>Analyses Summary</u>
9		<u>Volume V - Additional Filing Requirements</u>
10	Book 1 of 8	Rate Schedules
11	Book 2 of 8	Billing Analyses - Water
12		Summary
13	Book 3 of 8	Billing Analyses - Wastewater
14		Summary
15	Book 4 of 8	Billing Analyses - Water Detail
16		for <u>Amelia Island through</u>
17		<u>Friendly Center</u>
18	Book 5 of 8	Billing Analyses - Water Detail
19		for <u>Golden Terrace through</u>
20		<u>Rosemont</u>
21	Book 6 of 8	Billing Analyses - Water Detail
22		for <u>Samira Villas through</u>
23		<u>Zephyr Shores</u>
24	Book 7 of 8	Billing Analyses - Wastewater

1 Detail for Amelia Island  
2 through Morningview  
3 Book 8 of 8 Billing Analyses - Wastewater  
4 Detail for Palm Port through  
5 Zephyr Shores

6 **II. SOUTHERN STATES' RATE DESIGN OBJECTIVES**

7 Q. WHY IS IT NECESSARY TO DEFINE THE OBJECTIVES  
8 OF A PROPOSED RATE DESIGN?

9 A. It is necessary to set forth rate design  
10 objectives in order to provide a framework for  
11 the Commission to evaluate the reasonableness  
12 of the Company's recommendations as compared  
13 to other potential alternatives.

14 Q. WHAT ARE SOUTHERN STATES' BASIC RATE DESIGN  
15 OBJECTIVES IN THE DEVELOPMENT OF THE PROPOSED  
16 FINAL AND INTERIM RATES?

17 A. There are four basic objectives the Company  
18 seeks to accomplish through its proposed rate  
19 design:

20 1. Rates should be designed to provide a  
21 reasonable opportunity for the Company to  
22 attract capital and maintain sound corporate  
23 credit. This is consistent with the basic  
24 principle that "rates as a whole should cover

- 1 costs as a whole";
- 2 2. Rates should be set as close as is  
3 practical to reflect the allocated unit costs  
4 of the customer (base facility) and commodity  
5 (gallonage) components;
- 6 3. Rates should provide a reasonable  
7 continuity with past and future rates. This  
8 is to prevent unnecessary impact on existing  
9 and future customers; and
- 10 4. Rates should avoid unnecessary complexity  
11 and should be as simple, understandable and  
12 easy to administer as practical.

13 **Q. WHAT OTHER FACTORS WERE USED IN THE**  
14 **DEVELOPMENT OF SOUTHERN STATES' PROPOSED FINAL**  
15 **AND INTERIM RATE DESIGN?**

16 **A.** Two other factors were used in the development  
17 of the Company's rate design. First,  
18 residential customers with usage at 10,000  
19 gallons should not pay more than \$52 for water  
20 service and \$65 for wastewater service.  
21 Second, no system will receive a rate  
22 reduction even though its existing rates  
23 result in collections that are more than the  
24 required revenue requirements, unless its

1 residential bill at 10,000 gallons is more  
2 than the maximum residential bills proposed by  
3 SSU in this proceeding.

4 **III. RATE DESIGN PROPOSAL**

5 **Q. PLEASE BRIEFLY DESCRIBE SOUTHERN STATES'**  
6 **PROPOSED RATE CHANGE.**

- 7 **A.** SSU is proposing the following rate changes  
8 for all systems included in this proceeding:
- 9 1. Establish a uniform monthly billing  
10 cycle.
  - 11 2. Establish flat gallonage rates (the same  
12 gallonage rate regardless of the level of  
13 consumption).
  - 14 3. Establish a uniform wastewater cap of  
15 10,000 gallons for all of its wastewater  
16 systems.
  - 17 4. Establish a uniform determination of  
18 residential wastewater only rates (where  
19 applicable) to be set at 10,000 gallons usage.
  - 20 5. Eliminate public fire protection rates.
  - 21 6. Establish a uniform determination of  
22 private fire protection rates (where  
23 available) at one-third of the base facility  
24 charge of the applicable system.

1 Q. WOULD YOU PLEASE EXPLAIN THE RATIONALE OF  
2 SOUTHERN STATES' PROPOSED RATE DESIGN?

3 A. Mr. Joseph P. Cresse will explain the  
4 rationale and policies supporting Southern  
5 States' proposed rate design.

6 IV. DEVELOPMENT OF SOUTHERN  
7 STATES' PROPOSED RATE DESIGN  
8

9 Q. HOW DID THE COMPANY DETERMINE THE MAXIMUM  
10 RESIDENTIAL BILL OF \$52 AND \$65 FOR WATER AND  
11 WASTEWATER, RESPECTIVELY?

12 A. The level of the maximum water and wastewater  
13 bill was essentially a judgement call made by  
14 the Company. The rationale and policies  
15 supporting the Company's determination of the  
16 maximum residential bill are discussed by Mr.  
17 Cresse. The maximum residential water bill  
18 represents a multiple of 3 over and above  
19 SSU's weighted average residential bill. The  
20 maximum residential wastewater bill represents  
21 a multiple of 2 over and above SSU's weighted  
22 average residential bill.

23 Q. I SHOW YOU EXHIBIT 124 (HL-1) UNDER COVER  
24 PAGE ENTITLED "RESIDENTIAL BILL UNDER REQUIRED  
25 STAND ALONE RATES AT AVERAGE USE." WAS THIS

1 EXHIBIT PREPARED BY YOU OR UNDER YOUR  
2 DIRECTION AND SUPERVISION?

3 A. Yes, it was.

4 Q. I ALSO SHOW YOU EXHIBIT 124 (HL-2) UNDER COVER PAGE  
5 ENTITLED "WEIGHTED AVERAGE RESIDENTIAL BILLS FOR  
6 WATER AND WASTEWATER SERVICE AT AVERAGE USAGE."  
7 WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR  
8 DIRECTION AND SUPERVISION?

9 A. Yes, it was.

10 Q. COULD YOU BRIEFLY DESCRIBE THESE EXHIBITS?

11 A. Yes. These exhibits demonstrate that the Company's  
12 system average bills were developed as follows:

13 1. The average residential consumption for  
14 each system was first calculated. The  
15 residential bill at average usage under  
16 Southern States' present rates for each system  
17 was then developed. Exhibit No. 124 (HL-1)  
18 shows the residential bill for each system  
19 under required stand-alone rates at average  
20 usage.

21 2. The residential bill was then weighted by  
22 the average number of residential customers  
23 for each applicable system. Exhibit No. 124  
24 (HL-2) shows that our weighted average



1 residential bills for water and wastewater  
2 services are approximately \$17.39 and \$32.92,  
3 respectively, at average usage.

4 Q. I SHOW YOU EXHIBIT 124 (HL-3) UNDER COVER PAGE  
5 ENTITLED "CONVERSION TO MONTHLY BILLING AND ERCS  
6 USING AWWA STANDARDS," EXHIBIT 124 (HL-4) UNDER  
7 COVER PAGE ENTITLED "SYSTEMS WITH RESIDENTIAL BILLS  
8 HIGHER THAN THE PROPOSED MAXIMUM BILL," EXHIBIT 124  
9 (HL-5) UNDER COVER PAGE ENTITLED "RECALCULATED  
10 SYSTEM REVENUES USING PROPOSED MAXIMUM BILL," AND  
11 EXHIBIT 124 (HL-6) UNDER COVER PAGE ~~PAGE ENTITLED~~  
12 "SYSTEMS CONTRIBUTING TO PROPOSED MAXIMUM BILL  
13 ADJUSTMENT." WERE THESE EXHIBITS PREPARED BY YOU  
14 OR UNDER YOUR DIRECTION AND SUPERVISION?

15 A. Yes, they were.

16 Q. COULD YOU BRIEFLY DESCRIBE THESE EXHIBITS?

17 A. These exhibits present information used by Southern  
18 States to develop the rates we are proposing in  
19 this proceeding. In general, Southern States'  
20 proposed rates were developed based on the rate  
21 design objectives and guidelines of the Company  
22 that I have previously discussed. The steps taken  
23 to calculate the proposed final rates were as  
24 follows:

- 1           1.    I used the revenue requirement cost  
2           components by system as proposed by the  
3           Company and allocated each of the cost  
4           components to either base facility cost or  
5           gallongage cost. MFR schedule E-1B in Volume  
6           II, Book 8 of 11 and Volume III, Book 4 of 6  
7           of Exhibit No. 39 (FLL-1) shows the allocation  
8           of each cost component. Miscellaneous  
9           revenues were then subtracted from the base  
10          facility costs.
- 11          2.    Since we are proposing monthly billing,  
12          I converted bills for each system to a monthly  
13          billing cycle. These bills were then  
14          converted to equivalent residential  
15          connections ("ERC") by applying the standard  
16          American Water Works Association demand  
17          factors to the monthly bills of each systems  
18          by meter size. See Exhibit No. 124 (HL-3).
- 19          3.    The annualized historical ERCs for each  
20          system were developed by totaling each  
21          system's ERCs by meter size as described  
22          above.
- 23          4.    Unit cost for the base facility cost and  
24          the gallongage cost were developed by dividing

1 the annualized total ERCs and consumption for  
2 each system into the allocated base facility  
3 cost and gallonage cost, respectively.

4 5. Base facility charge by meter size for  
5 each system was then developed by multiplying  
6 the resulting base facility charge per ERC to  
7 each applicable demand factor.

8 6. The base facility charge and gallonage  
9 charge at 5/8" x 3/4" meter size were used to  
10 calculate the residential bill at 10,000  
11 gallons.

12 7. Systems with residential bills higher  
13 than the proposed maximum bill were  
14 identified. See Exhibit No. 124 (HL-4). The  
15 base facility charge and the gallonage charge  
16 of these systems were reduced to meet the  
17 maximum water and wastewater bill levels of  
18 \$52 and \$65, respectively.

19 8. Proposed revenues for the Company were  
20 re-calculated to determine the revenue impact  
21 of the maximum bill. Exhibit No. 124 (HL-5)  
22 shows that approximately \$775,500 in revenues  
23 was required to recover the maximum bill  
24 adjustment.

1           9.    Since rates as a whole need to recover  
2           cost as a whole, the rates for each system  
3           were then adjusted to recover the maximum bill  
4           adjustment.

5       **Q.   HOW DID YOU ADJUST THE RATES TO RECOVER THE**  
6       **MAXIMUM BILL ADJUSTMENT?**

7       **A.   To recover the maximum bill adjustment of**  
8       **\$775,500, the rates for each of the systems**  
9       **were adjusted as follows:**

10       1.   Systems which required a rate reduction  
11       due to existing revenues in excess of the  
12       required stand-alone final revenue  
13       requirements were identified.   The base  
14       facility charge and the gallonage charge of  
15       these systems were adjusted to generate their  
16       existing revenue level.  These systems would  
17       not experience any increase or decrease in  
18       revenues.  The revenues in excess of the  
19       required revenue requirements, approximately  
20       \$365,000, were used to mitigate the maximum  
21       bill adjustment.

22       2.   The remaining \$410,000 of the maximum  
23       bill adjustment were recovered by applying an  
24       additional increase of 1.9% to all the water

1 and wastewater systems except:

2 a) those systems that have been adjusted as  
3 described in step 1 above; and

4 b) those systems that have stand-alone  
5 revenue requirements in excess of the  
6 company's proposed maximum bill for water and  
7 wastewater services.

8 Q. I SHOW YOU EXHIBIT 124 (HL-6) UNDER COVER  
9 PAGE ENTITLED "SYSTEMS CONTRIBUTING TO  
10 PROPOSED MAXIMUM BILL ADJUSTMENT." WAS THIS  
11 EXHIBIT PREPARED BY YOU OR UNDER YOUR  
12 DIRECTION AND SUPERVISION?

13 A. Yes, it was.

14 Q. COULD YOU BRIEFLY DESCRIBE THIS EXHIBIT?

15 A. Exhibit 124 (HL-6) shows the contributions  
16 made to the proposed maximum bill adjustment  
17 by ten systems for which no stand alone rate  
18 reduction is proposed. Mr. Cresse will  
19 explain the Company's rationale behind the  
20 proposed contributions from these ten systems.

21 Q. PLEASE INDICATE WHICH SYSTEMS BENEFIT FROM THE  
22 MAXIMUM BILL ADJUSTMENT?

23 A. Exhibit No. 124 (HL-5) shows systems that have  
24 required stand-alone final revenue

1 requirements which exceed proposed revenue  
2 requirements utilizing the maximum bill rate  
3 caps. Exhibit No. 124 (HL-5) also shows the  
4 benefits in revenue relief these systems  
5 receive as a result of the maximum bill  
6 adjustments.

7 **Q. HAVE YOU PREPARED ANY SCHEDULES THAT SHOW THE**  
8 **RESULT OF SOUTHERN STATES' PROPOSED FINAL**  
9 **RATES?**

10 A. Yes. Columns 10 and 11 in Appendix P of Exhibit  
11 39 (FLL-2) (modified MFR Schedules E-2A) provide  
12 our proposed rates and resulting revenues for each  
13 system.

14 **Q. DO THESE RATES GENERATE THE PROPOSED FINAL**  
15 **REVENUE REQUIREMENTS FOR EACH SYSTEM?**

16 A. No. Due to our proposed rate design, Southern  
17 States' proposed final rates will not generate  
18 the required revenue requirements on a system  
19 by system basis. However, the proposed rates  
20 will generate Southern States' total revenue  
21 requirements of \$28.9 million for the Company  
22 as a whole.

23 **Q. DID YOU CALCULATE ANY RATES THAT WOULD**  
24 **GENERATE THE PROPOSED REVENUE REQUIREMENTS ON**

1           **A STAND ALONE BASIS?**

2           **A.**    Yes.  Columns 8 and 9 in Appendix P of Exhibit  
3           39 (FLL-2) contain modified MFR Schedules E-  
4           2A which indicate the rates that are required  
5           to meet the proposed final revenue  
6           requirements for each system and the resulting  
7           revenues.

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

9           **A.**    Yes, it does.

10

1 MR. HOFFMAN: Thank you, Mr. Chairman, she's  
2 available to cross.

3 CHAIRMAN BEARD: Public Counsel.

4 CROSS EXAMINATION

5 BY MR. MCLEAN:

6 Q Good morning, Ms. Loucks.

7 A Good morning.

8 Q Ms. Loucks, you worked a good while for the  
9 Minnesota Public Service, called the Minnesota  
10 Department of Public Service, correct?

11 A That's correct.

12 Q And you participated in rate design matters  
13 there, did you?

14 A Yes, I did.

15 Q For how many years?

16 A From 1985 to -- from 1979 to 1985.

17 Q And then you came to Florida and went to work  
18 for Seminole Cooperative? Is that correct?

19 A Seminole Electric Cooperative, that's  
20 correct.

21 Q And you worked in the Rate Design Department  
22 or the Rate Department there, too, as well, right?

23 A That's correct.

24 Q Okay. When you were up at Minnesota Power  
25 and Light, you handled quite a few rate filings -- I'm



1 sorry, when you were with the Minnesota PSC. I'm going  
2 to call it that, now I understand that --

3 A It's Minnesota DPS.

4 Q Okay. Sorry. You participated in some rate  
5 filings filed by electric utilities up there?

6 A Yes, I did.

7 Q Okay. Did you all engage in any measure of  
8 weather normalization when they would file; did you  
9 make any inquiry on weather normalization?

10 A I did not do any kind of weather  
11 normalization stuff like that.

12 Q Do you know whether the Commission itself  
13 did?

14 A Yes, they did, only on projected year.

15 Q Only on projected year.

16 A As far as on the rate case I'm involved in.

17 Q I understand. Now, Minnesota probably is a  
18 winter peaking state, isn't it? (Pause)

19 A I think so. I don't remember any more, it's  
20 been so many years ago.

21 Q More than likely. Okay. My question is  
22 going to be to you, and I want you to answer these  
23 questions hypothetically. If it was an unusually cold  
24 winter, if the test year represented an unusually cold  
25 winter, wouldn't you look for a higher level of

1 revenues in electric utility during that time than you  
2 would, all other things being equal?

3 A That's correct.

4 Q Okay. I am sorry, did I interrupt?

5 A Go ahead.

6 Q Okay. Now, let's look to Florida and to this  
7 case more specifically and I have a hypothetical  
8 question for you. Let me give out an exhibit first, if  
9 you please. (Pause)

10 CHAIRMAN BEARD: Are you going to need an  
11 exhibit number?

12 MR. McLEAN: Yes, sir. Please.

13 CHAIRMAN BEARD: 125. Short title, "Yearly  
14 Precipitation"?

15 MR. McLEAN: Yes, sir, please.

16 (Exhibit No. 125 marked for identification.)

17 Q (By Mr. McLean) Let me back up just a little  
18 bit and ask you whether you know enough about the  
19 ratemaking process to say whether the test year is  
20 really an attempt to find a typical operating period  
21 for the Utility, isn't that true?

22 A If all the data -- are we trying to reflect  
23 that that's true. However, this cost effect that we  
24 have currently filed in the historical year, all the  
25 data are based in a historical period? I do not think

1 that on that basis -- if you're going to adjust your --  
2 normalize your weather, there is a whole lot of factors  
3 you do have to adjust at the same time. So you cannot  
4 just adjust one and then ignore the rest.

5 Q Okay. Now, be that as it may, I want to ask  
6 you: Did you agree with me that the test year is  
7 really an attempt to find a typical operating period  
8 for the Utility?

9 A Yes, it does.

10 Q And the hope is that that will be typical in  
11 the future. And the way you determine whether it's  
12 typical for the future is you look somewhat to the  
13 past, right? Isn't that it, pretty much, roughly so?

14 A You are looking at the past, the present and  
15 the future.

16 Q Sure. And your task, representing the  
17 Utility, is to make the Commission aware of whatever  
18 changes you know about that occurred during the  
19 calendar year, for example, 1991, so that they could  
20 arrive at a test year 1991, isn't that how ratemaking  
21 works?

22 A They are looking at the 1991 test year, and  
23 look at it whether there was any abnormal factors --

24 Q Sure.

25 A -- that was out of the period that needs to

1 be adjusted.

2 Q Sure. And that might be in addition to the  
3 test year or deletion from the test year, so to speak,  
4 right?

5 A That's correct.

6 Q Now, I want you to look at the exhibit I've  
7 handed you, if you will, please?

8 A I have not seen this exhibit before.

9 Q I understand. Sure. Take a moment or two  
10 and become familiar with it. (Pause)

11 Have you had a moment?

12 A Yes, I did. I had a moment.

13 Q Okay. Ms. Loucks, would you agree with me  
14 that what this graph purports to show are several  
15 things, but the bottom line is that it attempts to show  
16 the amount of rainfall for each of the years '81  
17 through '91. Would you agree with me that the first  
18 page at least purports to do that?

19 A It tries to show the rainfall of Florida from  
20 '81 to '91 only on certain cities. It's not for every  
21 single city of Florida. As a matter of fact, as far as  
22 SSU goes, and we have a very diverse -- all our systems  
23 are very diverse, and we're all over the state of  
24 Florida. It may or may not be a representative as far  
25 as the rainfall that you show -- you are trying to

1 attempt to show that it would be a representative for  
2 SSU systems.

3 Q Sure. Now, suppose that that was every data  
4 collection station maintained by the National Weather  
5 Service in the state of Florida. Would you think that  
6 that would include areas where Southern States serves?

7 A Maybe include some of it, if it's for each of  
8 the weather station for each of the cities. I do not  
9 know whether it includes a certain subdivision. Like  
10 for example, in Florida, you could have rainfall one  
11 block and the next block you do not have any rainfall  
12 at all.

13 Q Yes, ma'am. So can you suggest a better way  
14 to measure weather in the state of Florida, rainfall?

15 A I am not an expert in measuring rainfall, so,  
16 I'm just trying to point out is that if you're trying  
17 to weather normalize something you will have to take a  
18 very representative data in order to do so. And to the  
19 points that I do not know, you know, whether these are  
20 the representation of Southern States Utilities, I do  
21 not know whether this particular graph will be  
22 representative reflection of Southern States Utilities  
23 systems, or companies, as a whole.

24 Q Okay. So what you're saying is basically  
25 that, if you don't have the rainfall for Jungle Den,

1 knowing what the rainfall was at an adjacent station  
2 might not tell you anything about Jungle Den. Is that  
3 your opinion?

4 A That's correct.

5 Q Okay. But, now you said you're not an expert  
6 in the collection of weather data, correct?

7 A That's correct. I do not know about weather  
8 data and I'm not an expert in that.

9 Q And for that reason, all the questions that I  
10 ask you about this exhibit are going to be  
11 hypothetical, okay?

12 A Okay.

13 Q Okay. Now hypothetically speaking, if the  
14 horizontal line that begins at about 640 represents  
15 typical rainfall for the state of Florida in general,  
16 would you agree that that shows an eleven-year average,  
17 based upon the data that's in the exhibit?

18 A Just for the exhibit limited to the exhibit  
19 alone, yes.

20 Q Sure. Go ahead, ma'am.

21 A However, you are all over the map and I  
22 really -- you know, you have to do a regression  
23 analysis, and this is just -- probably it's an average?

24 Q Sure.

25 A I do not know how you arrive at this line in

1 the first place, either, so --

2 Q Okay. We'll deal with that. Now, can you  
3 look to the year 1991?

4 A Okay.

5 Q Now, would you agree with me that whatever  
6 rainfall fell that year, according to this graph, is  
7 very substantially higher? Let me ask you if it's  
8 substantially higher than the average which the graph  
9 purports to show?

10 A It looks like.

11 Q Okay. Now, let's assume for a moment, and  
12 this is an assumption I'd like you to make just for the  
13 purposes of this question, that the rainfall which  
14 purports to be measured on this graph accurately does  
15 measure the rainfall in the Southern States areas where  
16 it happens to serve. Do you understand, the assumption  
17 I'd like you to make, just for the purposes of the  
18 question?

19 A To accurately reflect?

20 Q Yes, ma'am.

21 A SSU? Assuming this accurately reflects SSU  
22 system?

23 Q Yes, ma'am.

24 A This is an assumption, right?

25 Q Yes, ma'am. You betcha.

1           A     Yeah. I wanted to make sure that this is an  
2 assumption, because it's not true at all.

3           Q     You already said that --

4           A     I don't know at all, yes.

5           Q     I'm just asking you to assume.

6                     Now, if the rainfall were as high as this  
7 graph shows in 1991, and if the average is as it is  
8 shown right there, wouldn't that substantially lessen  
9 the revenues which Southern States received during  
10 1991, and wouldn't the rainfall be the cause?

11          A     Can you repeat that question?

12          Q     I'll do my best.

13          A     Okay.

14          Q     If the amount of rainfall which this graph  
15 says fell in 1991 is correct, and if the average here  
16 shown is correct, wouldn't that suggest to you that  
17 Southern States received less revenue than it otherwise  
18 would have because of the difference in the rainfall?  
19 Between 1991 and the average?

20          A     That's based on what -- at what points that  
21 you set your rate at. For example, a company files a  
22 rate case, and they always have the danger of going  
23 higher or lower than what you are being set at that  
24 point of time when you set your rates at a certain  
25 level. And rainfall will probably will be a factor.



1 Conservation will be a factor. There's a whole lot of  
2 other factors that you would have to consider whether  
3 or not you will have higher or lower revenues.

4 Q Well, I want you to keep all those constant  
5 for the purposes of my question. All the other  
6 variables, let's ignore them just for the moment and  
7 look specifically to rainfall. And my question is if  
8 it rained a whole lot more in 1991 than it did the  
9 average, wouldn't Southern States have received less  
10 revenue in 1991 than they would have if they had  
11 received average rainfall?

12 A Did you set the rate at 1991, or did you set  
13 the rate at the average?

14 Q During the calendar year 1991, the test year  
15 for this case.

16 A If you set the rate at 1991, your denominator  
17 for usage, your rate will be lower. Rates per unit.

18 Q Okay. I see what the problem is. Yes,  
19 ma'am. I see where the problem is.

20 Now, if you construct a test year -- as you  
21 know well this Company did -- and it took into account  
22 all the known variables that it knew about, would it  
23 take all of that into consideration?

24 A If the --

25 Q Go ahead.

1           A     Okay.    If the Company set rates in for --  
2 based on the consumption in 1991 because you've got a  
3 whole lot of rainfall, then are you assuming that the  
4 consumption is lower?

5           Q     Yes, ma'am.

6           A     You're assuming the consumption for 1991 will  
7 be lower.

8           Q     Because the rainfall is higher.

9           A     That's right.

10          Q     Yes.    That's an assumption which I asked you  
11 to make also for purposes of answering the question.

12          A     And you're asking me whether or not that I  
13 would receive less revenues?   Because the fact is that  
14 I have lower consumption?

15          Q     Perhaps, I could jump forward and ask you if  
16 there is something shown to be atypical with respect to  
17 the test year and in terms of rainfall, shouldn't the  
18 Commission take that into consideration when they  
19 design rates for future years?

20          A     If it can be identified as atypical, yes.

21          Q     You said identified as "atypical," correct?

22          A     Yes.    That's the difficulty Company's ran  
23 into at this point, because due to the diversity of our  
24 system, and because in the location of all of our  
25 systems, that, you know.   You could have higher or

1 lower in one system and higher and lower in the other.  
2 The diversity may be balance it all out. We don't know  
3 because we do not have a study and there's no study on  
4 record to show us that what is atypical at all. And at  
5 this point the Company is really not that sophisticated  
6 to be able to accumulate all the rainfall data to come  
7 up with atypical weather normalization pattern for the  
8 Commission to consider. That is the reason why we did  
9 not file. We did not put the weather normalizations  
10 into consideration due to the fact that I think that in  
11 the long run it would be all balanced right due to the  
12 diversity.

13 Q But that would be a guess that it would  
14 balance out, right? You don't really know that?

15 A We don't know that, and also on the fact that  
16 what is atypical is a big question. If we don't know  
17 that, you know, and you pick a certain number and say  
18 that that was atypical, that means that you are really  
19 picking an arbitrary number and the customer will not  
20 -- either way you are not going to get to where you  
21 intended to go.

22 Q Okay. Ms. Loucks, I think I heard you say  
23 that the reason that the Company did not present the  
24 weather normalization to the Commission is because it  
25 lacks the sophistication and resources to do so. Is

1 that what you said?

2 A And at the same time because of the diversity  
3 on the location of our systems, it may well balance out  
4 in the long run, and it is factors we don't know at  
5 this point.

6 Q That would be speculation that it would  
7 balance out, correct?

8 A If you just -- there's always a theory saying  
9 that if you're higher or lower in one year in the long  
10 run your going to balance out.

11 Q You don't oppose weather normalization for  
12 more sophisticated utilities like Florida Power and  
13 Light, do you?

14 A No I do not oppose that. If we're going to  
15 file projected year I would be more in favor of it.  
16 Because when you are weather normalized, you will also  
17 have to weather normalize, and when you not weather  
18 normalize certain things, your consumption being  
19 weather normalized, there will be certain variable  
20 costs. You also have to normalize it, because your  
21 consumption has certain costs -- variable costs  
22 associated with it that you have to put into  
23 consideration.

24 Q And that's part and parcel of any weather  
25 normalization study, right?

1 A Exactly. And --

2 Q But you didn't present one to the Commission?

3 A No. And neither does any party do so in this case.

4 Q Let me ask you one more question. You mention --  
5 you are suggesting that a distinction ought to be drawn  
6 between projected test year and historical test year for  
7 purposes of weather normalization. Is that your testimony?

8 A That's part of the factor, too.

9 Q Okay. But isn't it true -- I think you  
10 testified that what you're trying to do when you have a  
11 test year is to arrive at atypical operating period for  
12 the Utility, right?

13 A That's correct.

14 Q Well, isn't that also what you're trying to  
15 do when you have a projected test period?

16 A No, we did not try to have a projected  
17 period, we are filing a historical year. All our data  
18 is based on historical data.

19 Q I think I may have stated the question wrong.  
20 What I'm asking you to say is, if you can, first of  
21 all, you agreed with me that a historical test year is  
22 an attempt to find atypical operating period for a  
23 utility, correct? You agreed with that before, I think.

24 A Yes, I do.

25 Q Okay. Now, if a utility does seek a projected

1 test year, isn't the Commission's task exactly the same,  
2 and that is to find atypical operating period for a utility?

3 A It's just for simplicity purposes, if you're  
4 taking a look at a projected year versus a historical  
5 year, and we say -- the Company is saying that we would  
6 like to file a historical year so all the historical  
7 data -- all our data is based on a historical year and,  
8 therefore, we're only going to make adjustment to any  
9 kind of out-of-period adjustments that we are really  
10 aware of. We're not going to file any projected  
11 purposes based on maybe weather, maybe conservation and  
12 what we're looking into the future. We're saying that  
13 we're going to file historical based on whatever the  
14 historical data is.

15 Yes. You know, our test year should reflect  
16 a normalized period; however, at the same time is that  
17 you have to look at on what kind of basis we are basing  
18 this particular case is on.

19 MR. MCLEAN: Thank you, Ms. Loucks. I have  
20 no further questions.

21 CROSS EXAMINATION

22 BY MS. JABER:

23 Q I'm going to start out with a series of  
24 questions that were referred to you from Mr. Sweat. If  
25 you can't answer them, just let me know who would be a

1 witness that could.

2           When the Company discovers a stuck meter, how  
3 long does it take before it is changed out?

4           A     That depends.  If we are detect it, we  
5 will try to go out as soon as possible to try to  
6 resolve it and fix it as soon as possible.  It can  
7 range from a month to two months, or maybe three  
8 to six months.  That depends on a case-by-case  
9 basis.

10          Q     Okay.  During the period while the meter is  
11 stuck and not registering, does the Company render an  
12 estimated bill to the customer?

13          A     On the commercial accounts, yes, we do.  
14 We generally go back to the prestuck period, and  
15 using a 12-month average, try to estimate those  
16 usages and backbill the customer based on  
17 that.

18          Q     And do the estimated gallons show up on the  
19 billing analysis?

20          A     When we backbill them, yes, it will show up  
21 on the billing analysis.

22          Q     Is there a limit on the number of months the  
23 Company will estimate a bill, for instance, as a result  
24  
25

1 of a standard operating procedures manual?

2 A We only backbill our customer up to 12 months.

3 Q Would you agree that as soon as a stuck meter

4 is replaced with a registering meter, the gallonage

5 becomes revenue producing?

6 A Yes, it would.

7 COMMISSIONER EASLEY: What do you do about

8 residential if you only backbill the commercial?

9 WITNESS LOUCKS: Generally, we'll be able to

10 detect a residential quite fast than a commercial

11 customer so we generally do not backbill the customers.

12 COMMISSIONER EASLEY: So you don't do an

13 average if it's out longer than a month, you'll just

14 not bill for that month?

15 WITNESS LOUCKS: No, the customer would not

16 be billed for that month.

17 COMMISSIONER EASLEY: Okay. Thank you.

18 Q (By Ms. Jaber) The next series of questions

19 were referred to you from Mr. Lewis.

20 Palisades County Club has three connections

21 at the present time; is that correct?

22 A I'm sorry, I didn't catch your question.

23 Q Palisades Country Club has three connections

24 at the present time; is that correct?

25 A I have to check. Okay. (Pause)



1           We have one customer at this time. I do not  
2 know whether we have three connections or not but I do  
3 know that we do have one customer.

4           Q     All right. Wouldn't you agree that setting  
5 rates based on 38 ERCs per year for Palisades would be  
6 unreasonable for the current customer?

7           A     Based on what I provided to -- in my E-2a, we  
8 have 27 customers. We base our -- we calculate our  
9 rates based on 27 customers on that system. That's  
10 based on our projection due to the fact that in 1991  
11 Palisades, the rates have not become effective yet.

12          Q     Are you aware that the Commission generally  
13 sets rates based on 80% build-out for new systems, such  
14 as Palisades?

15          A     No. We only calculate rate based on how many  
16 number of customers that we had on the system.

17          Q     Okay. Quail Ridge is also on your system; is  
18 that correct?

19          A     That's correct.

20          Q     Wouldn't it be more reasonable to apply the  
21 80% build-out in setting rates for Quail Ridge?

22          A     We do not have the number of customers -- if  
23 we do not expect to have the number of customers in  
24 that system, we cannot use it to base our rates on.

25          Q     Okay. Let me refer you to MFR Schedule E-2a

1 for Amelia Island. Under fire protection, is it  
2 correct to say that the "4" shown next to "two inches"  
3 indicates that there's only one customer there?

4 A No. That's two customers there. I'd like to  
5 -- under fire protection, if you look at number of  
6 bills in Column 2, when you see a 4 over there, private  
7 fire protection is a semi-annual billing. We have four  
8 bills. So if you divide it by two -- during the year  
9 we have four bill, if you divide it by two you, would  
10 have two customers. So on your Column 6, you take that  
11 two customers and multiply by 12, because we would  
12 change it to a monthly billing, you will get 24. So  
13 you would have two customers with two inches fire  
14 protection. That is private fire protection.

15 Q Okay. So am I correct to say that these two  
16 customers are receiving private fire protection through  
17 a 2-inch meter?

18 A That's correct.

19 Q Besides these two customers, is there anyone  
20 else that's receiving private fire protection from a  
21 meter that is less than four inches?

22 A Not that I know of at this time.

23 Q Would you agree that the standard meter size  
24 for a residential customer is five-eighths by  
25 three-quarters?

1           A     Yes.

2           Q     Would you also agree that a residential  
3 customer requiring a larger meter size would probably  
4 be using that additional water for reasons other than  
5 inside the home, such as lawn irrigation?

6           A     A typical residential customer, yes, but if  
7 he owns a mansion, five-eighths and three-quarters would  
8 not be enough for his big house.

9           CHAIRMAN BEARD: Does everybody in Sugar Mill  
10 own mansions?

11          WITNESS LOUCKS: I don't know about Sugar  
12 Mill Woods, as far as the characteristic of the  
13 customers, but depending on if it is a one-inch meter  
14 customer, it may be irrigations and other things, too.

15          CHAIRMAN BEARD: If, in one of your systems,  
16 the vast majority of the residential customers, and  
17 let's just say hypothetically 95% or more, had a  
18 one-inch meter, would you then assume that the typical  
19 residential connection is one inch?

20          WITNESS LOUCKS: That's correct.

21          CHAIRMAN BEARD: Okay.

22          Q     (By Ms. Jaber) Wouldn't you also agree that  
23 that water that's not used in the home does not return  
24 to the wastewater system?

25          A     Would I agree?

1 Q Let me go back and clarify. Earlier you  
2 testified that the extra water would follow that it  
3 would be used for purposes other than inside the home,  
4 such as lawn irrigation. Would you agree that that  
5 water does not return to the wastewater system?

6 A That's correct.

7 Q Wouldn't you also agree that water used for  
8 irrigation purposes does not place a greater demand on  
9 the wastewater system, and, therefore, would not have a  
10 effect on the wastewater treatment cost?

11 A If that particular meter is solely for the --  
12 having a larger meter, it may or may not because of the  
13 fact that it is used for irrigation. What I'm trying  
14 to say is that having a larger meter -- you may have a  
15 bigger house that demands a larger meter, or it may be  
16 the fact that you have a residential customer that has  
17 irrigation.

18 Yes, for those residential customers that  
19 have irrigation demand require a larger meter. Those  
20 water would not be imposed any demand on your  
21 wastewater system. But if you have a larger house and  
22 you have a larger meter, then, in that case, you will  
23 impose a larger demand to the wastewater system.

24 That depends on what the purpose of the  
25 larger meter is, and it varies from customers to

1 customers. And I do agree the majority of our  
2 customers having a larger meter is for the basis that  
3 it was for the irrigation purposes.

4 Q You've proposed a 10,000 gallon wastewater  
5 cap for all residential customers; is that correct?

6 A That's just a Company policy, yes, that's  
7 correct.

8 Q How did you determine that the 10,000  
9 wastewater gap was appropriate for all residential  
10 customers?

11 A It's a judgment call, and also for the rates  
12 simplicity purposes. I believe Mr. Ludsen and Mr. Cresse  
13 have already testified as far as the rationale behind  
14 why they used a 10,000 cap.

15 Q Well, your present rates have residential  
16 wastewater caps of 6,000, 7,000, 8,000 and 10,000  
17 gallons for the systems involved in this application;  
18 is that correct?

19 A That's correct.

20 Q Did the Utility do any kind of analysis or  
21 study of the consolidated factors at different levels  
22 to determine what the appropriate cap would be?

23 A We just make a judgment call saying that due to  
24 the fact that our weighted average is approximately  
25 10,000, and we used the AWWA, looking at the average water

1 consumption from the AWWA standard, and Mr. Cresse  
2 and Mr. Ludsen do a judgment call saying that would be  
3 -- 10,000 would be the uniform cap and that's how we  
4 arrived at the cap.

5 Q So based on what you've just told me, is it  
6 correct for me to say that you did not look at  
7 consolidated factors in your determination?

8 A That's correct.

9 CHAIRMAN BEARD: While you're hesitating,  
10 which is a mistake to do that and let me get a shot at  
11 this thing.

12 I'm trying to remember. I thought at one  
13 time I asked for information related to, I thought it  
14 was Sugar Mill, and specifically to the number of  
15 customers or percentage of customers that had one-inch  
16 meter. And I'm looking to see if I had a late-filed on  
17 that. I think I did, too.

18 COMMISSIONER EASLEY: It may have been  
19 included in something.

20 MR. HOFFMAN: My recollection was, I think,  
21 that, if I'm thinking of the right system, that maybe  
22 Commissioner Easley had asked a question about that.  
23 If it was the Sugar Mill system, the number of  
24 customers that had a one-inch meter versus a 5/8-inch  
25 meter, and I think we provided that answer.

1 CHAIRMAN BEARD: You did?

2 MR. HOFFMAN: Yeah, yeah. The information  
3 that we had was based on the number of bills which we  
4 divided by 12.

5 COMMISSIONER EASLEY: Yeah. And we needed to  
6 talk about that.

7 CHAIRMAN BEARD: What was the percentage?

8 WITNESS LOUCKS: I can calculate it for you,  
9 Mr. Chairman.

10 CHAIRMAN BEARD: Here's what I want to do. I  
11 want a late-filed, okay. It's going to be Exhibit No.  
12 126. I'm just punishing you this morning because no  
13 one else was available at the moment. And what I would  
14 like, and I'm just trying to think of the appropriate  
15 percentage. I would like to see the systems, I'd like  
16 to know which systems have residential meters that are  
17 one inch that are in excess of 50%.

18 In other words, if you've got 51-plus percent  
19 of the residential customers in each system that have  
20 one-inch meters, I'd like to know which systems they  
21 are, and I'd like to know what that percentage is,  
22 okay.

23 And, specifically, I'm also going to be  
24 curious about -- I don't know how to incorporate this  
25 in there -- I guess you could put a column with a "yes"

1 or "no," currently, prior to this rate case, are those  
2 one-inch meters priced identically to the five-eighths,  
3 three-quarters. For example, in Sugar Mill I think  
4 that is the case. They are priced identically. And  
5 the 50% is somewhat arbitrary, but I just want to get a  
6 handle on where we are.

7 WITNESS LOUCKS: Mr. Chairman, are you  
8 talking about for both water and wastewater?

9 CHAIRMAN BEARD: I don't know what kind of  
10 one-inch meters you have on your wastewater. What I'm  
11 talking about a one-inch meter on the water system.

12 WITNESS LOUCKS: On the water system. Okay.

13 COMMISSIONER EASLEY: And specifically  
14 residential.

15 CHAIRMAN BEARD: Specifically residential.  
16 I'm not worried about commercial or anything else.

17 (Late-Filed Exhibit No. 126 identified.)

18 CHAIRMAN BEARD: Okay?

19 WITNESS LOUCKS: Okay.

20 CHAIRMAN BEARD: And then I guess we'll see  
21 from there.

22 Q (By Ms. Jaber) Ms. Loucks, are you aware  
23 that the Commission's policy with regard to  
24 establishing the wastewater gallonage charge for  
25 residential and general service customers is that 80%



1 of the water sold to residential customers and 96% of  
2 water sold to general service return to the wastewater  
3 system?

4 A Yes. The Commission, as far as my understanding  
5 is, that was the Commission policy. However --

6 Q With that -- I'm sorry, go ahead.

7 A However, I have not seen any study as far as  
8 being related to our systems that this is true.

9 Q Okay. Well, with the fact that you are aware  
10 of the Commission policy, with that in mind, do you  
11 agree that if the two charges are not different, the  
12 residential customers subsidize the general service  
13 customers?

14 A If the assumption is true, then there was no  
15 subsidization. However, as I point out that in the  
16 case that it deviate from that assumption, you might  
17 have the impact of cross-subsidies, you know, subsidize  
18 the residential versus the general service.

19 Q Okay. Earlier in the hearing, there is a  
20 question regarding whether some customers were  
21 double-billed. Apparently, there are water customers  
22 who receive one bill and they receive another bill for  
23 irrigation. Are you aware of that?

24 A Yes.

25 Q Okay. Do you know how many customers are

1 affected by this? How many customers receive two bills?

2 A That's approximately -- there's close to --  
3 if you're asking about a customer receiving more than  
4 one bill because they have a different account,  
5 customer account, irrigation versus water and sewer  
6 services?

7 Q That is correct.

8 A Currently, we have approximately, let's see,  
9 1,725 customers.

10 COMMISSIONER EASLEY: 17?

11 WITNESS LOUCKS: 1725 customers.

12 COMMISSIONER EASLEY: Out of the total of?

13 WITNESS LOUCKS: For water?

14 COMMISSIONER EASLEY: Well, whatever that  
15 1725 represents. Is that systemwide? Let me ask you  
16 that way.

17 WITNESS LOUCKS: For the total Company or  
18 what we filed in this particular?

19 COMMISSIONER EASLEY: I don't know what your  
20 1725 is.

21 WITNESS LOUCKS: Our total filed FPSC systems.

22 COMMISSIONER EASLEY: What's the total that  
23 it could have been if everybody got double-billed?

24 WITNESS LOUCKS: Out of a total of 101,021  
25 customers.

1 COMMISSIONER EASLEY: Can I ask the next  
2 question?

3 MS. JABER: Yes.

4 CHAIRMAN BEARD: You bet.

5 COMMISSIONER EASLEY: We got the impression  
6 when we were trying to explore this earlier, and I  
7 don't remember whether it was with Mr. Sweat or who,  
8 that the reason people were getting two bills was  
9 because a consumer, a property owner, was counted as  
10 two customers if they had two accounts and, therefore,  
11 got two bills. Have I said that right?

12 WITNESS LOUCKS: Yeah. They're being set up  
13 as two accounts due to the limitation of our billing  
14 system.

15 COMMISSIONER EASLEY: How do you know that  
16 you have 1725 if your computer can't make a distinction  
17 that instead of two customers you have one customer?  
18 Are you sure of that number and how do you know that?

19 WITNESS LOUCKS: We go through -- just to let  
20 you know, is that we go through more than eight hours  
21 of work in order to try to find this out. We do have  
22 some things, we work very hard in order to get this  
23 number up.

24 COMMISSIONER EASLEY: So you got this number  
25 specifically because you knew that question was going

1 to be asked?

2 WITNESS LOUCKS: Because that question was  
3 being deferred to me.

4 COMMISSIONER EASLEY: Ah-ha. It was not  
5 information you would have had otherwise?

6 WITNESS LOUCKS: No.

7 CHAIRMAN BEARD: Did you employ one of those --

8 WITNESS LOUCKS: It's a very difficult  
9 information that we had to come up with.

10 CHAIRMAN BEARD: You employed one of those  
11 very slow speed computers, you have this one, this one,  
12 the human being.

13 COMMISSIONER EASLEY: The problem we have is  
14 that we really do not have a readily identified field  
15 for those customers in the structure of the billing  
16 file.

17 COMMISSIONER EASLEY: You can't sort by  
18 address?

19 WITNESS LOUCKS: We sort it by address, sort  
20 it by accounts and then we have to go through it  
21 manually --

22 COMMISSIONER EASLEY: Oh, you can't make that  
23 -- okay.

24 CHAIRMAN BEARD: When I said the low-speed  
25 computer, that's what I was referring to, manually.

1 WITNESS LOUCKS: Right. We have a computer  
2 run but we still have to go through it manually in  
3 order to identify it.

4 CHAIRMAN BEARD: Sure.

5 COMMISSIONER EASLEY: Okay. Thank you.

6 Q (By Ms. Jaber) So if I wanted to arrive at  
7 the percentage of the customers that were affected by  
8 this double-billing, would it be to take the number  
9 that you have given me, the one 1,075, I believe you  
10 said, divided by the total number of water customers?

11 A That's correct.

12 Q Let me take you back to Schedule E-2a on the  
13 fire protection. Is it correct to say that those two  
14 customers are receiving sprinkler service and not  
15 hydrant service?

16 A Not hydrant service. All the hydrant service  
17 has been taken out.

18 Q And, also, you responded to Commissioner  
19 Easley's question about stuck meters for residential  
20 customers, and said if the meter was stuck, SSU did not  
21 bill the customers. Does this mean that the customer  
22 receives no bill at all, or do they receive a bill  
23 regarding base facility charge?

24 A They do got the base facility charge billed.

25 COMMISSIONER EASLEY: They do what?

1           WITNESS LOUCKS: They do got billed for the  
2 base facility charge.

3           Q     That would not reflect the gallons until the  
4 meter is changed?

5           A     That's correct. And there's not that many  
6 incidents that we have stuck meters on the residential  
7 customers. We really have a very, very small percentages  
8 of that. And our billing system has exception reports  
9 that comes out every month to look at it, and we try to  
10 catch it as much as possible.

11          Q     What about the systems that have gallons that  
12 are included in the base facility charge, how is that  
13 handled?

14          A     That he was being billed for the base  
15 facility charge.

16               CHAIRMAN BEARD: How many customers do you  
17 all bill, total?

18               WITNESS LOUCKS: Including the gas customers?

19               CHAIRMAN BEARD: No. Just water and  
20 wastewater.

21               WITNESS LOUCKS: For the systems that we  
22 filed or including everybody?

23               CHAIRMAN BEARD: Everybody.

24               WITNESS LOUCKS: Everybody, we have --

25               CHAIRMAN BEARD: Ballpark figure.

1 WITNESS LOUCKS: Altogether we have 152,000.

2 CHAIRMAN BEARD: Do you all do daily billing?

3 WITNESS LOUCKS: Every day we have a billing  
4 out in most of the time.

5 CHAIRMAN BEARD: So your 130,000 or whatever  
6 is spread over 21 or 22 working days in the month?

7 WITNESS LOUCKS: Yes, it is, approximately,  
8 that's correct.

9 CHAIRMAN BEARD: Okay. Most of your systems  
10 are read monthly?

11 WITNESS LOUCKS: No. Some of them are  
12 bimonthly, some of them are quarterly. That's why in  
13 this particular proceeding we asked to have a monthly  
14 billing. And also of the facts that it will be easier  
15 for us to develop some consumption patterns if we are  
16 looking at any kind of normalization or conservation  
17 study.

18 MS. JABER: Staff doesn't have any more  
19 questions for the witness.

20 WITNESS LOUCKS: Pardon me?

21 MS. JABER: No more questions for you.

22 COMMISSIONER CLARK: You're going to eliminate  
23 public fire protection rates. Does that mean it's not  
24 going to be available?

25 WITNESS LOUCKS: The fire?

1 COMMISSIONER CLARK: Public fire protection.  
2 I'm on Page 8 of your testimony.

3 WITNESS LOUCKS: Yes. It would be regarding  
4 the fire hydrants that we will not --

5 COMMISSIONER CLARK: You won't send water to  
6 them any more?

7 WITNESS LOUCKS: We will provide them water  
8 but there will not be any --

9 COMMISSIONER CLARK: Charge for?

10 WITNESS LOUCKS: -- charge for it.

11 COMMISSIONER CLARK: Why not?

12 WITNESS LOUCKS: That's a Company policy at  
13 this time that they make a judgment. And most of the  
14 time it's for the county or for whatever the city we  
15 bill, they refuse to pay the bill and it is for the  
16 benefits of all the customers really for fire hydrant  
17 surfaces, you know, if anybody their house is on fire  
18 that particular service is a benefit.

19 COMMISSIONER CLARK: So it's for the benefit of  
20 the customers so you might as well put it in their bill?

21 WITNESS LOUCKS: That's correct.

22 COMMISSIONER CLARK: I just want to make sure  
23 I understand it. When you say "establish a flat  
24 gallonage rate," that means regardless of what you use  
25 you're going to be charged for 10,000 gallons?



1                   WITNESS LOUCKS: No. A flat gallonage  
2 charge, that means that you do not have any block  
3 rates. For example, you don't have -- for the first  
4 1,000, you're going to charge that rate, the second  
5 1,000, you're going to charge this rate. All you have  
6 to do is any gallons that you use, you will charge that  
7 particular rate per gallon or per 1,000 gallons.

8                   COMMISSIONER CLARK: Okay. And let me be  
9 clear on wastewater. You have a cap of 10,000 and you  
10 will assume that you will, for wastewater, you will use  
11 a consumption of 10,000 gallons?

12                   WITNESS LOUCKS: No more than 10,000. If  
13 your consumption is less than 10,000, you will be  
14 billed less than 10,000.

15                   COMMISSIONER CLARK: Okay.

16                   COMMISSIONER EASLEY: I just have one question,  
17 Mr. Chairman. Let me -- this is a comfort, "I want to  
18 feel good," question.

19                   In Schedule, your Exhibit No. 1, and you  
20 don't really need to look at it, but what you're doing  
21 is comparing the typical residential water and  
22 wastewater bills for residences and you're talking  
23 about using the present rates and then making certain  
24 adjustments and going on forward, here's what's going  
25 to happen.

1 I've got a question about present rates. You  
2 don't need to look at the exhibit. I just want to make  
3 sure that when you say "present rates," those are rates  
4 that were in effect prior to the megacase, the last  
5 case?

6 WITNESS LOUCKS: In this, when we filed --

7 COMMISSIONER EASLEY: Uh-hum.

8 WITNESS LOUCKS: -- some of those systems  
9 that's in the megacase will be under interim rates.

10 COMMISSIONER EASLEY: At the interim rate?

11 WITNESS LOUCKS: At the interim rate because  
12 of the fact at that time the order, the court order,  
13 having come out yet.

14 COMMISSIONER EASLEY: All right.

15 CHAIRMAN BEARD: I've got a question.

16 Counselor, you may need to listen because I don't think  
17 you're the right witness, but I've only got two more  
18 Company witnesses left and somebody may get to come  
19 back to answer a question for me.

20 You have a system, and let's take Sugar Mill,  
21 it's purported that it's some 95%-plus 1-inch meters  
22 residential. Okay? I think it's Sugar Mill; anyway,  
23 whatever system it was. And the requested rates would  
24 now begin to differentiate between the five-eighths and  
25 the 1-inch meters. Where they are currently identical,

1 they would now become separation, which would then, I'm  
2 assuming, cause customers to want to migrate to the  
3 five-eighths, three-quarters inch meter. That's part  
4 of the purpose, as I understand it.

5 And one of the complaints or concerns was in  
6 replacing that 1-inch meter with a 5/8-inch meter --  
7 there's two, actually -- one is the pressure problem  
8 that would now occur and the second is tearing up the  
9 yard by replacing that meter. Okay.

10 My question is: to the extent that a customer  
11 requested to move from a one-inch to a 5/8-inch meter,  
12 number one, what cost is incurred and by whom to replace  
13 that meter? Do you have the answer to that question?

14 WITNESS LOUCKS: We have a service connection  
15 charges for replacing meters.

16 CHAIRMAN BEARD: So if I wanted to go from a  
17 1-inch to a 5/8-inch meter, I'm going to have to pay  
18 the Company to come out and replace that 1-inch meter,  
19 is that correct?

20 WITNESS LOUCKS: That's correct.

21 CHAIRMAN BEARD: Do you know how much that  
22 will be? And take Sugar Mill as an example.

23 WITNESS LOUCKS: I don't have that offhand,  
24 but I certainly will provide that to you. It will be  
25 -- probably it's in our tariff.

1           COMMISSIONER EASLEY: Do you think it's  
2 probably close to somewhere around \$25? Does that  
3 sound familiar?

4           WITNESS LOUCKS: \$25?

5           COMMISSIONER EASLEY: I don't know why, for  
6 some reason, maybe it's Lehigh, but for some reason a  
7 \$25 figure comes floating to go the surface here.

8           CHAIRMAN BEARD: I don't thing you can go out  
9 -- I know you can't physically do it for \$25.

10          COMMISSIONER EASLEY: I know what it was. It  
11 was checking a meter. Sorry.

12          CHAIRMAN BEARD: How about on that late-filed  
13 -- these columns are growing exponentially. How about  
14 on that where you have predominantly 1-inch meters and  
15 we've indicated that yes, you will be changing from the  
16 same charge for one-inch and five-eighths inch to  
17 different charges, add one more column, and what will  
18 be the charge to the customer for changing out that  
19 meter from one inch to five-eighths.

20          MS. JABER: Mr. Chairman, if I may clarify.  
21 I'm being told that the system you're talking about is  
22 Sugar Mill Woods.

23          CHAIRMAN BEARD: What did I say?

24          MS. JABER: Sugar Mill.

25          CHAIRMAN BEARD: Sugar Mill Woods, okay.

1 Whatever, any of the systems. That way that's now  
2 what, about four columns. You can turn it on and go on  
3 legal size now?

4 WITNESS LOUCKS: Mr. Chairman, if we have any  
5 questions regarding your late exhibit, who can we  
6 contact just for clarification purposes?

7 CHAIRMAN BEARD: Me.

8 COMMISSIONER EASLEY: How about the Staff  
9 attorney?

10 CHAIRMAN BEARD: My exhibit. Contact the  
11 Staff attorney and they can contact me, or however you  
12 want to do it. I don't care. I know what I want.

13 MS. JABER: If you can contact the Legal  
14 Division, we'll can clarify it for you.

15 WITNESS LOUCKS: Okay, thank you.

16 CHAIRMAN BEARD: Because I know what I want.

17 WITNESS LOUCKS: We just want to make sure  
18 that's the information you are looking for.

19 CHAIRMAN BEARD: It's pretty simple what I  
20 want, I think, at least it's simple in my mind. It has  
21 to be. Okay.

22 COMMISSIONER EASLEY: I did think of a  
23 follow-up question, I'm sorry.

24 On this business about the rates you used,  
25 are the interim rates for those systems that were

1 included in the megacase? I did remember at the  
2 service hearings, I think Public Counsel pointed out  
3 that the rates that are printed are based on the  
4 interim rates and made some statement about how the  
5 percentage of increase then is different.

6 I thought I recalled that, because of the  
7 court order, there would be additional calculations  
8 made. Do you know whether there was a decision to  
9 simply not do that and just let it be done in the  
10 process of the rate case analysis? Do you know?

11 WITNESS LOUCKS: I haven't heard that we need  
12 to recalculate under that percentages.

13 COMMISSIONER EASLEY: Okay. I may have made  
14 a leap of logic here that doesn't fit. But I brought  
15 it up because I know that way I'll get an answer before  
16 it's all over with. Thank you.

17 CHAIRMAN BEARD: Redirect?

18 REDIRECT EXAMINATION

19 BY MR. HOFFMAN

20 Q Ms. Loucks, leaving aside the many factors  
21 which may affect the consumption and projected  
22 revenues, if excessive rainfall has any impact on water  
23 consumption, would that impact affect domestic  
24 consumption, irrigation or both?

25 A Irrigation. It would not be domestic

1 consumption.

2 MR. HOFFMAN: That's all I have.

3 CHAIRMAN BEARD: Witness may step down.

4 CHAIRMAN BEARD: Exhibits?

5 MR. McLEAN: 125.

6 MR. HOFFMAN: Mr. Chairman, I object to the  
7 admission of Exhibit 125.

8 CHAIRMAN BEARD: You don't like the way he  
9 draws his graphs?

10 MR. HOFFMAN: No, I like that. I don't know  
11 that he drew this one. I'm going to object because the  
12 document has not been authenticated. It says "Florida  
13 Statistical Abstract." I personally am not aware of  
14 who they are. The Commission may know who they are,  
15 and for that reason that may provide some exception in  
16 terms of the self-authentication.

17 But even more importantly, this document was  
18 used only for the purpose of hypothetical questions,  
19 and we don't believe it has any relevance to this case.

20 There has been no evidence that this document  
21 represents rainfall applicable to Southern States  
22 systems, either from a geographic standpoint or from a  
23 customer distribution standpoint.

24 There is no information in this docket  
25 regarding year-to-date 1992, and we don't see how in

1 the world this document could possibly form the basis  
2 for a known and measurable adjustment outside the test  
3 year which would be applicable to Southern States'  
4 specific systems.

5 CHAIRMAN BEARD: I was going to ask Staff to  
6 do a linear regression so I could see the analysis.

7 (Laughter)

8 MR. HOFFMAN: And I would add to that this  
9 document -- there's no evidence in the record and there  
10 was nothing taken from this docket on the historic  
11 consumption levels of the specific SSU systems and what  
12 that impact might be on projected revenues outside the  
13 historic test year. So for those reasons, we object to  
14 the admission of the document.

15 MR. McLEAN: I'll concede that it's compiled  
16 by the University of Florida.

17 CHAIRMAN BEARD: Whoa. (Laughter) Wait a  
18 minute. I went to school there, you're in trouble.

19 MR. McLEAN: I didn't know that. (Laughter)

20 COMMISSIONER CLARK: So did I.

21 COMMISSIONER EASLEY: I didn't.

22 MR. McLEAN: I'm going to -- I plan to look  
23 to Witness Dismukes to authenticate it. Now, with  
24 respect -- I think all of Mr. Hoffman's objections go  
25 primary to authentication, actually.



1 CHAIRMAN BEARD: Why don't we do this. Why  
2 don't we hold this exhibit, not move it until your  
3 witness is done and then we can fold, spindle and  
4 mutilate it as everybody desires. Okay. So we'll  
5 withhold moving 125 into the record at this time. Do  
6 you have any exhibits you want to move?

7 MR. HOFFMAN: Yes, sir. I would move Exhibit 124.

8 CHAIRMAN BEARD: Without objection? Hearing  
9 none. Exhibit 123 we held until Kimball comes back up,  
10 did we not?

11 MR. HOFFMAN: Yes, sir.

12 CHAIRMAN BEARD: It has not been moved?

13 MR. HOFFMAN: I did not move it yesterday.

14 CHAIRMAN BEARD: Just trying to keep my  
15 records straight.

16 (Exhibit No. 124 received in evidence.)

17 (Witness Loucks excused.)

18 - - - - -

19 CHAIRMAN BEARD: Okay. Public Counsel, if  
20 you will put your witness on the stand --

21 COMMISSIONER EASLEY: Let's take just a  
22 couple minutes to make the switch.

23 CHAIRMAN BEARD: We're going to take a break.

24 MR. McLEAN: Is Mr. Wood not up next?

25 COMMISSIONER EASLEY: Oh, do you want to do

1 Mr. Wood, the Staff witness?

2 MR. HOFFMAN: Mr. Chairman, with respect to  
3 Mr. Wood, we have discussed Issue 77 with Public  
4 Counsel and with Staff. I am not sure where Staff is  
5 on this issue. Public Counsel and the Utility have  
6 agreed that Public Counsel will waive cross based on a  
7 stipulation under which the costs of the Leilani  
8 Heights reuse studies would be included in rates but  
9 amortized over a four-year period.

10 MR. MCLEAN: Yes.

11 MS. BEDELL: And Staff is willing to agree to  
12 that, also.

13 CHAIRMAN BEARD: You mean I can scratch Mr. Wood  
14 off my list?

15 MR. HOFFMAN: I'm not sure if Staff has any  
16 other questions for Mr. Wood.

17 MR. MCLEAN: But if that stipulation is  
18 acceptable, we have none.

19 MS. BEDELL: We do have other questions for  
20 Mr. Wood.

21 CHAIRMAN BEARD: Okay. Well, Mr. Wood  
22 currently is listed as the last witness in this case.  
23 If there's a change in that, no one told me yet. So  
24 unless there's a change, Public Counsel, your witness  
25 is on.

1 MR. McLEAN: I was mistaken, I thought he was  
2 up next. Fine.

3 CHAIRMAN BEARD: Just for our own purposes  
4 where we are now, Dismukes, Montanaro, Williams,  
5 Chapdelaine, Todd -- except we're possibly taking Todd  
6 out of order today if we don't get done today --  
7 Kimball and Wood. And I will remind Ms. Dismukes  
8 yesterday evening she predicted that we would finish  
9 today.

10 Okay, we're going to take a break.

11 (Brief recess.)

12 - - - - -

13 CHAIRMAN BEARD: Did I tell you all how late  
14 we'll work today and tomorrow?

15 MR. HOFFMAN: No, sir.

16 CHAIRMAN BEARD: Well, we'll just keep it a  
17 surprise.

18 No, it is my intent to work to approximately  
19 5:00 today and the same thing on Friday and, if  
20 necessary, to come back on Saturday. So gear that  
21 accordingly.

22 We will quasi work through lunch today; we  
23 may take a short break, but it will not be a long one.

24 COMMISSIONER EASLEY: We can't get out  
25 anyway.

1 CHAIRMAN BEARD: It's too wet to go anywhere  
2 for something, so we'll send somebody else for the  
3 food. Okay?

4 Public Counsel, you're on.

5 MR. McLEAN: Thank you, sir. The Citizens  
6 call Kim Dismukes.

7

- - - - -

8

KIMBERLY H. DISMUKES

9 was called as a witness on behalf of the Citizens of  
10 the State of Florida and, after being duly sworn,  
11 testified as follows:

12

DIRECT EXAMINATION

13

BY MR. McLEAN:

14

Q Have you been sworn, Ms. Dismukes?

15

A Yes, I have.

16

Q State your name, please, by whom you are

17

employed and in what capacity.

18

A My name is Kimberly H. Dismukes. I'm

19

employed by the Office of Public Counsel as a

20

Legislative Analyst.

21

Q Ms. Dismukes, have you caused to be filed

22

certain testimony in the docket?

23

A Yes, I have.

24

Q Do you have any additions, deletions or

25

corrections?

1 A Yes, I have an errata sheet.

2 CHAIRMAN BEARD: Got it.

3 COMMISSIONER EASLEY: Brownie points, brownie  
4 points.

5 Q (By Mr. McLean) All right. Ms. Dismukes, if  
6 I asked you all those questions contained in your  
7 testimony, would your testimony be the same today as it  
8 was then?

9 A Yes.

10 Q And this is your sworn testimony to present  
11 to the Commission, correct?

12 A Yes, it is.

13 Q Now, you've prepared some schedules which go  
14 along with your testimony, haven't you?

15 A Yes, I have.

16 Q How many schedules does that consist of?

17 A There are eight schedules.

18 MR. MCLEAN: Thank you, ma'am. Mr. Chairman,  
19 may we have those schedules marked as a composite  
20 exhibit?

21 CHAIRMAN BEARD: It will be Exhibit No. 127.

22 (Exhibit No. 127 marked for identification.)

23 Q (By Mr. McLean) Now, Ms. Dismukes, were you  
24 in the room during the testimony of Helena Loucks?

25 A Yes, I was.

1 Q Are you familiar with the exhibit that was  
2 numbered 125 --

3 A Yes, I am.

4 Q -- during her examination? Was that exhibit  
5 prepared at your direction and supervision?

6 A Yes.

7 MR. HOFFMAN: Mr. Chairman, I'm going to  
8 object. The subject matter of this exhibit, if I  
9 understood the questions and answers directed to Ms.  
10 Loucks, relates to the issue of weather normalization.  
11 That is an issue which is not discussed in Ms.  
12 Dismukes' prepared testimony, and I think it is  
13 inappropriate and improper to attempt to expand her  
14 testimony at this stage of the proceeding.

15 MR. McLEAN: Mr. Chairman, the document is  
16 offered only to show that it rained more in Florida in  
17 1991 than it did in the average year from 1981 through  
18 1991.

19 It is admittedly outside the scope of her  
20 direct testimony, and I think the Commission ought to  
21 weigh the prejudice to the parties in deciding what is  
22 the correct thing to do.

23 The prejudice to the Company, if any, is  
24 substantially discounted by the fact that if you look at  
25 Issue No. 42, they should have known and did know that

1 weather normalization would be an issue in this case.

2 Now, the prejudice to us is somewhat  
3 different. We filed our testimony on September 25th.  
4 Our perennial problem is the testimony is filed before  
5 we know what the issues are. The issues we develop  
6 primarily from testimony; but if, in the course of  
7 discovery or other investigation other issues develop,  
8 it's virtually impossible to bring them before the  
9 Commission because the testimony is set in stone.

10 The issues were reduced to writing on October  
11 28th in the form of the Prehearing Order. Because the  
12 document purports to say nothing more than 1991 was a  
13 atypical year, we think the prejudice to the Company is  
14 very minimal. To exclude it and to prevent us from  
15 supporting the weather normalization issue in any way,  
16 shape, manner or form, that prejudice is great.

17 MR. HOFFMAN: Mr. Chairman, may I very  
18 briefly respond?

19 Public Counsel had the opportunity obtain  
20 discovery and to endeavor into this issue four months  
21 ago, five months ago, seven months ago, whatever they  
22 wanted to do. They chose to sit back and not go after  
23 this issue; and I think it's inappropriate and I think  
24 it is prejudicial to the Company to, at this point,  
25 attempt to expand Ms. Dismukes' testimony.

1           And I just need to also add that I would  
2 incorporate the objections I raised before. I think  
3 there is no correlation between this document and the  
4 systems at issue in this case, and there is no evidence  
5 supporting any correlation. For those reasons, I do  
6 not think any questions should be directed to Ms.  
7 Dismukes on this document and the document should not  
8 be admitted.

9           MR. McLEAN: I have misspoken. Ms. Dismukes'  
10 testimony was filed on October 5th of this year.

11           The point is, the issues -- the testimony is  
12 filed before the issues are defined. And as we  
13 investigate the case, if we find things potentially  
14 wrong with the case, we don't have the opportunity to  
15 tell you about that because their testimony is already  
16 filed. This is our only way to do that.

17           CHAIRMAN BEARD: Any comments from Staff?

18           MS. BEDELL: No, sir.

19           CHAIRMAN BEARD: Mr. Pruitt, your sage  
20 advice?

21           MR. PRUITT: Mr. Chairman, the insufficiency  
22 of evidence to support a document goes more to the  
23 weight of the evidence than it does to its  
24 admissibility. And if it would be helpful to the  
25 Commissioners to have the information in making their



1 decision, you could receive it under those restraints.

2 CHAIRMAN BEARD: Commissioners, any thoughts?

3 COMMISSIONER CLARK: The concern I have is if  
4 you were going to introduce this as an exhibit or want  
5 to provide evidence on this point, it seems to me as  
6 soon as you knew you wanted to do that, you should have  
7 filed a motion indicating that you were going to add or  
8 supplement the testimony with it.

9 MR. McLEAN: Yeah. I think we only developed  
10 it as an exhibit last week, because it took us some  
11 considerable trouble to get to the data. It was a  
12 suspicion we had, and I think it was confirmed somewhat  
13 by the investigation. And I think the point is that  
14 the Company isn't particularly prejudiced by the  
15 introduction, and I think we would be particularly  
16 prejudiced by its exclusion. But I agree with you.

17 CHAIRMAN BEARD: Well, part of my problem is  
18 the cyclical nature of the weather in Florida. I don't  
19 see any of the '92 data. I know that '91 is the test  
20 year, but to the extent that the test year is abnormal,  
21 you have to look at that, I mean look at the data  
22 itself. I don't know.

23 MR. McLEAN: And you do have two witnesses  
24 who linked rainfall to revenues. As I recall, Mr.  
25 Hartman did and my recollection is Ms. Loucks did, as

1 well.

2 And I think you also have testimony before  
3 you that it would take a fairly sophisticated study to  
4 adjust revenues in accordance with the change in  
5 weather. I think the document is offered solely to  
6 show that the rainfall for the year 1991 was atypical.

7 COMMISSIONER EASLEY: Well, you know, the  
8 only problem is with one of these types of charts, you  
9 almost have to go back, since you can't go forward, you  
10 almost have to go back more than ten years to see if  
11 that pattern repeats itself.

12 MR. McLEAN: Well, yes, ma'am. As Mr. Pruitt  
13 says, that, of course, goes to the weight.

14 COMMISSIONER EASLEY: I understand.

15 COMMISSIONER CLARK: Is this something we  
16 could take judicial notice of?

17 MR. McLEAN: You could take judicial notice  
18 of the individual entries, I think. Actually, I think,  
19 Commissioner Clark, it comes in -- Mr. Hoffman did not  
20 raise a hearsay objection.

21 CHAIRMAN BEARD: Let me make it simple.

22 I'm going to allow the exhibit. I think that  
23 the weight given to it is extremely valid. To the  
24 extent that it's in isolation, to the extent that it  
25 may or may not relate to the Southern States systems,

1 since this is, I assume, a state-wide statistic,  
2 there's a lot of "what ifs" in here to generate this.  
3 And I think we'll give it the weight it deserves once  
4 we finish with that. And you certainly have the  
5 opportunity to cross examine the witness on this  
6 exhibit; And if you haven't had time, to the extent  
7 that we need to come back later today on it or  
8 something, we can. But we're going to allow it.

9 Go ahead.

10 Q (By Mr. McLean) Ms. Dismukes, do you believe  
11 that the exhibit shows that the rainfall for the year  
12 1991 was higher than it was for the average period '81  
13 through '91?

14 A Yes.

15 MR. McLEAN: Ms. Dismukes is available for  
16 cross.

17 CHAIRMAN BEARD: Go forth.

18 MR. HOFFMAN: Thank you, Mr. Chairman.

19 (REPORTER'S NOTE: Prefiled Direct Testimony  
20 of Witness Dismukes inserted for the convenience of the  
21 record.)

22

23

24

25

1 Q. What is your name and address?

2 A. Kimberly H. Dismukes, 111 West Madison Street, Room 812,  
3 Tallahassee, Florida, 32399-1400.

4 Q. Do you have an appendix that describes your educational  
5 and occupational history and your qualifications in  
6 regulation?

7 A. Yes. Appendix I, attached to my testimony, was prepared  
8 for this purpose.

9 Q. Do you have an exhibit in support of your testimony?

10 A. Yes. Exhibit Q (KHD-1) contains eight Schedules which  
11 support my testimony.

12 Q. What is the purpose of your testimony?

13 A. The purpose of my testimony is to respond to certain  
14 portions of Southern States Utilities, Inc.'s (SSU,  
15 Southern States, or the Company) request to increase  
16 rates by \$8,665,518, which equates to an increase of  
17 \$5,064,353 for water service and \$3,601,165 for  
18 wastewater service.

19

20 My testimony is organized into eight sections. In the  
21 first section of my testimony, I address the Company's  
22 relationship to its parent and sister companies. In the  
23 second part of my testimony, I examine the method used by  
24 the Company to allocate Southern States Utilities  
25 Service, Inc.'s (SSUSI) common costs to SSU. In the third

1 section, I discuss the sale of St. Augustine Shores and  
2 University Shores property and the appropriate ratemaking  
3 treatment of the gain on these sales. In the fourth  
4 section of my testimony, I discuss the Company's method  
5 of calculating margin reserve and propose an alternative  
6 method. In the fifth section, I discuss certain known and  
7 measurable adjustments that should be made to the test  
8 year. In the sixth section of my testimony, I discuss  
9 expenses that should not be charged to ratepayers. In  
10 the seventh section, I address out-of-period adjustments  
11 that are necessary to reflect a more normal test period.  
12 Finally, in the eighth section, I discuss nonrecurring  
13 expense adjustments.

14 Q. Let's turn to the first section of your testimony. Would  
15 you please describe the relationship between SSU, its  
16 parent companies, and its sister companies?

17 A. Yes. Schedule 1 of my exhibit graphically depicts, in  
18 large part, the organizational relationship between  
19 Southern States, its parent companies, and its sister  
20 companies. As shown on this schedule, as of 1991, the  
21 Topeka Group owned Southern States Utilities, Inc. (which  
22 owned Venice Gardens Utilities and Southern States  
23 Utilities Service, Inc.), Deltona Utilities, Inc. (which  
24 owned Seaboard Utilities Corporation), United Florida  
25 Utilities (UFU), Lehigh Acquisition Corporation, and

1 Heater Utilities. The Topeka Group also owns Seminole  
2 Utility, which in turn owns Lehigh Utilities, Inc. With  
3 the exception of Heater Utilities, which has water and  
4 wastewater operations in North and South Carolina, all of  
5 the remaining subsidiaries of the Topeka Group operate in  
6 the State of Florida. Southern States Utilities Services,  
7 Inc. which is under Southern States Utilities, Inc.,  
8 provides customer service and administrative and general  
9 services on behalf of the water and wastewater systems  
10 operating in Florida.

11

12 At some time in 1990 the Topeka Group began making plans  
13 to consolidate/merge the operations of SSU, DUI, VGU, and  
14 UFU into one company. In 1992 this merger was completed  
15 and the companies became a "new" Southern States  
16 Utilities, Inc. The merger, however, did not include  
17 Lehigh, apparently for tax reasons.

18 Q. Let's turn to the second section of your testimony. Would  
19 you discuss the allocation of SSUSI administrative and  
20 general (A&G), customer service, and general plant costs  
21 to the Company?

22 A. Certainly. According to the testimony of Mr. Ludsen,  
23 these costs were allocated to Southern States' water and  
24 wastewater systems based on the number of customers  
25 served relative to the entire SSU system. Mr. Ludsen

1 claims that:

2 The allocation of common costs based  
3 on the number of customers served by  
4 individual systems is the  
5 established methodology of the  
6 Commission for water and wastewater  
7 utilities as evidenced by the use of  
8 this methodology by all such  
9 utilities which must allocate common  
10 costs similar to those allocated in  
11 this proceeding. [Ludsen Testimony,  
12 p. 32.]

13

14 The Company's defense is also predicated upon its belief  
15 that there are no Commission orders which oppose using  
16 the number of customers to allocate common costs. Mr.  
17 Ludsen concludes by stating that there is no logical  
18 basis for treating SSU any differently than other water  
19 and wastewater systems in Florida.

20 Q. What are common costs and why are they allocated?

21 A. A common cost is a cost incurred for the purpose of  
22 producing two or more products or services. Due to their  
23 commonality (inseparability), these costs are often  
24 considered unallocable except by some arbitrary method.  
25 An example of a common cost is the salary of the officers

1 of a company. This cost often can not be directly  
2 assigned to the various products and services offered by  
3 a company.

4  
5 In the context of utility regulation, common costs are  
6 allocated for the purpose of determining the revenue  
7 requirements of various jurisdictions. For example, the  
8 common costs of electric and telephone companies must be  
9 separated between the interstate and intrastate  
10 jurisdictions. In the instant proceeding, common costs  
11 are being split first between the various systems owned  
12 by the SSU family. Next, within particular systems,  
13 common costs are split between the water and wastewater  
14 operations. The distribution of these costs allows the  
15 Commission to develop a revenue requirement specific to  
16 each system owned by the SSU family.

17 Q. Are there accepted allocation methods other than the one  
18 proposed by the Company?

19 A. Yes, there are. From a broad cost allocation perspective  
20 there are numerous ways in which common costs can be  
21 allocated--many of which have been accepted by regulatory  
22 commissions. In general, there is no one established  
23 method which is considered universally preferable by  
24 regulators and parties involved in the regulatory  
25 process. Hence, the Commission should not be persuaded by



1 the Company's attempts to indicate that the number of  
2 customers is the only allocation factor used by water and  
3 wastewater utilities. In the broader perspective of  
4 electric, telephone, and gas utilities, many methods are  
5 used to distribute common costs.

6  
7 The number of customers might be reasonable for a small  
8 water and wastewater company. For example, administrative  
9 convenience might be the primary reason for using such a  
10 method. This allocation method may not be appropriate  
11 for SSU, which is the largest water and wastewater  
12 operation in Florida. These unique circumstances should  
13 persuade the Commission to deviate from tradition and  
14 from what is used for small utilities.

15  
16 There is an added problem with the SSU family as well.  
17 SSU and Lehigh both own nonregulated operations  
18 (primarily gas). The Commission needs to be concerned  
19 about the fair treatment of the Company's regulated  
20 systems. Under the Company's proposed customer allocation  
21 methodology, a smaller amount of common costs are  
22 allocated to the nonregulated gas operations than under  
23 the direct labor method used for internal accounting  
24 purposes. The same may be true for SSU's water and  
25 wastewater operations which are not regulated by the

1 Commission, but by the counties. Clearly, the Commission  
2 should address whether or not the allocation method  
3 proposed by the Company is fair in light of SSU's  
4 nonregulated operations.

5 Q. In the last SSU rate case, Docket No. 900329-WS, did  
6 Southern States propose to use the number of customers to  
7 allocate its common A&G costs?

8 A. No, it did not. In the last rate proceeding, Southern  
9 States proposed to allocate these costs based upon direct  
10 labor. As mentioned above, this is the method used by  
11 SSUSI for internal accounting purposes to distribute its  
12 common A&G expenses. In contrast, in the instant case  
13 SSUSI has repooled its common administrative and general  
14 expenses and reallocated them to each system based upon  
15 the number of customers.

16  
17 In the last rate proceeding, SSU addressed, at fairly  
18 great length, the benefits of using direct labor as an  
19 allocation methodology and the pitfalls of using the  
20 number of customers. In response to a question from  
21 Commissioner Easley, Mr. Ludsen responded as follows:

22  
23 Basically, two types of allocation  
24 factors are customer allocation  
25 factors and labor allocation

1 factors. If you allocate -- if you  
2 allocate A&G expenses or general  
3 plant [on] customers, you're  
4 assuming that each customer gets an  
5 equal share of those costs no  
6 matter what type of facilities they  
7 have or what type of treatment or  
8 how much labor they have providing  
9 service in their area.

10

11 If you have, when you allocate on  
12 labor, your A&G costs, which are  
13 very closely related to labor, they  
14 relate to labor, they will follow  
15 the costs of labor. So if you get  
16 into like wastewater plants, which  
17 are labor intensive, they have a  
18 higher intensity of labor, you'll  
19 allocate more A&G costs to a  
20 wastewater plant than you would to a  
21 water plant.

22

23 In the case of our RO [Reverse  
24 Osmosis] plants, they are also very  
25 labor intensive because they require

1 more personnel. So you allocate  
2 more A&G to the RO plants. [Docket  
3 No. 900329-WS, Tr. 338.]  
4

5 Mr. Ludsen also explained at the hearings in the last  
6 case that, if the number of customers was used to  
7 allocate common A&G costs, SSU's FPSC regulated customers  
8 may end up subsidizing the non-FPSC regulated water and  
9 wastewater customers. In a response to a question raised  
10 by Commissioner Easley, Mr. Ludsen replied:

11  
12 Like, for instance, we serve 20  
13 counties under FPSC jurisdiction and  
14 seven counties under county  
15 jurisdiction. Now, if a county has  
16 an RO plant, then if we don't  
17 allocate -- if we allocate on  
18 customer, we're not properly  
19 assigning the amount of costs to  
20 that county, so the FPSC customers  
21 are picking up more of those costs.  
22 Whereas, if you assign on labor,  
23 they're going to get their full  
24 allocation. [Ibid., Tr. 338-39.]  
25

1 Q. Has the Company explained why it has deviated from its  
2 recommendation in the last docket to the instant case?

3 A. Not in its prefiled direct testimony. It did provide  
4 several reasons in a response to an OPC Interrogatory:

5 (1) Commission precedent confirms that an  
6 allocation based on customers is  
7 reasonable...;

8 (2) an allocation based upon customers is  
9 easily quantified and verified;

10 (3) customers served by small systems will be  
11 benefitted;

12 (4) in contrast to an allocation based on  
13 direct labor, where a large proportion of the  
14 A&G costs would be allocated to wastewater  
15 customers and customers served by advanced  
16 treatment methodologies, an allocation based  
17 on customers provides for a large portion of  
18 A&G costs to be allocated to water customers  
19 who out-number sewer customers by a 2 to 1  
20 margin. Since a larger portion of the costs  
21 are spread over a larger base, the impact on  
22 any one system is decreased;

23 (5) there is no conflict with prior Company  
24 testimony in Docket No. 900329-WS since the  
25 Company clearly stated that no allocation

1 method was perfect and we never indicated that  
2 an allocation based upon the number of  
3 customers was in any way unreasonable;  
4 (6) interim rates in effect at the time this  
5 case was filed were established, in part, on  
6 allocations of A&G costs which had been  
7 allocated based on the number of customers...;  
8 (7) reversion to the customer allocation  
9 methodology was expected to eliminate a  
10 controversial issue from this case....  
11 [Southern States Utilities, Inc., Response to  
12 OPC Interrogatory 170.]

13 Q. Do you have any comments concerning Southern States'  
14 response?

15 A. Yes. I have several comments. First, as I noted above,  
16 administrative convenience might be appropriate for a  
17 small water and wastewater Company, but it should not  
18 necessarily be the driving force behind how costs should  
19 be allocated to SSU's systems.

20  
21 Second, in the last case, SSU claimed that direct labor  
22 was superior because A&G costs were closely related to  
23 direct labor. SSU also argued that such a method tended  
24 to allocate more costs to the more labor intensive  
25 wastewater systems and even more costs to the very labor

1 intensive RO plants. In the last case, SSU appeared to be  
2 arguing that the costs should follow the cost causers, to  
3 the extent that an allocation methodology can effectuate  
4 such a result. On the other hand, in this case, Southern  
5 States appears to be arguing that it is preferable to use  
6 a method which allocates more costs to the bigger systems  
7 and hence the impact on any one system is decreased.  
8 Contrasting the two positions, it would appear that  
9 Southern States is proposing that water customers  
10 subsidize wastewater customers, accepting SSU's argument  
11 in its last rate case that direct labor more accurately  
12 reflects the true A&G costs of serving the different  
13 systems.

14 Q. Do you believe that the Commission, as a matter of  
15 policy, should use an indirect vehicle, like cost  
16 allocations, to achieve cross-subsidies?

17 A. No, I do not. If the Commission decides that water  
18 systems should subsidize wastewater systems, I do not  
19 believe that implementing such a policy through the cost  
20 allocation process would be a good regulatory practice.  
21 Instead, if the Commission decides that cross-  
22 subsidization should take place, then it would be  
23 preferable to implement such a policy through the revenue  
24 distribution process; thereby making the subsidy direct,  
25 as opposed to indirect.

1 Q. Do you see any other reasons why the Company's logic for  
2 using the number of customers should be closely  
3 scrutinized?

4 A. Yes. Put rather directly, allocation of the A&G costs  
5 using the number of customers may require the Company's  
6 water customers to carry a larger share of A&G costs than  
7 wastewater customers. If, as SSU argued in the last rate  
8 case, allocating costs according to direct labor more  
9 closely approximates the A&G costs that would be incurred  
10 by the water versus wastewater systems, then a real  
11 inequity may result if the Commission adopts the customer  
12 method proposed by the Company.

13

14 For example, if an SSU water customer receives wastewater  
15 service from a system other than SSU, and that other  
16 system incurs a higher level of A&G costs consistent with  
17 the more labor intensive nature of wastewater service,  
18 then SSU's water customers will essentially pay for the  
19 incrementally higher cost of wastewater service twice--  
20 once through the subsidy created by the Company's  
21 customer allocation method and once through the direct  
22 payment for the provision of wastewater service from the  
23 other system. Clearly, such a situation would be unfair.

24 Q. Have you analyzed different allocation methods for the  
25 SSU systems?



1 A. Yes, I have. The result of this analysis is depicted on  
2 Schedule 2 of my exhibit. This schedule shows the  
3 allocation percentages for each system, under three  
4 different allocation methods--direct labor, average ERCs,  
5 and average customers. As shown, the allocation  
6 percentages change considerably between the different  
7 allocation methods.

8  
9 For example, using the number of customers as an  
10 allocation factor, 72.21% of SSU's common A&G costs would  
11 be allocated to water customers and 27.79% would be  
12 allocated to wastewater customers. In contrast, if direct  
13 labor is used as the allocation factor, 55.90% of these  
14 expenses would be allocated to water customers and 44.10%  
15 would be allocated to wastewater customers. If average  
16 ERCs is used as the basis for allocation, 71.11% of A&G  
17 expenses would be allocated to water customers and 28.89%  
18 would be allocated to wastewater customers.

19 Q. What factors should the Commission consider when  
20 evaluating alternative allocation methods?

21 A. Generally costs should be allocated using a cause and  
22 effect relationship. However, for costs such as A&G  
23 expenses and general plant this is generally not  
24 possible. Consequently, some arbitrary method must be  
25 used to distribute these expenses to SSU's various

1 systems. Under these circumstances, the Commission should  
2 look at a variety of factors. For example, one criterion  
3 the Commission should examine is the benefits received  
4 from the costs being incurred. In other words, is there  
5 an allocation method that would distribute these costs in  
6 proportion to the benefits received by each system?

7  
8 Another factor to consider might be ability to pay. This  
9 is somewhat similar to the Company's use of the number of  
10 customers as an allocation method. That is, the systems  
11 with the larger base of customers receives the largest  
12 allocation of costs regardless of the benefits received.

13  
14 Finally, the Commission might want to consider the  
15 question of fairness and equity--does the allocation  
16 method distribute the costs in a fair and equitable  
17 manner?

18 Q. Do you have a recommendation concerning how A&G costs and  
19 general plant should be allocated?

20 A. Yes I do. I recommend that the Commission use a factor  
21 weighted equally based upon direct labor and ERCs. In  
22 other words, 50% weight should be given to the direct  
23 labor allocation factor and 50% weight should be given to  
24 the average ERCs allocation factor. Schedule 3 of my  
25 exhibit depicts this allocation factor. In my opinion,

1 this allocation factor is superior to the one employed by  
2 the Company.

3  
4 Since it is difficult to determine a cause and effect  
5 relationship between administrative and general expenses  
6 and SSU's various water and wastewater systems, I believe  
7 that using this weighted ERC/direct labor factor will  
8 more fairly distribute the costs to SSU's different  
9 systems. Because the allocation factor is partly weighted  
10 with direct labor any relationship between direct labor  
11 and the incurrance of administrative and general expenses  
12 will be reflected in this part of the allocation factor.

13  
14 Using ERCs for the other part of the allocation factor  
15 spreads the costs consistent with the services received.  
16 For example, water customers that use more water will  
17 generally pay more of the A&G costs. Using ERCs also  
18 accomplishes one of the Company's goals which is to  
19 spread the costs over a large customer base. However, the  
20 advantage of using ERCs over customers is that it  
21 distinguishes between varying customer usage.

22  
23 As shown on Schedule 3, using this 50% direct labor/50%  
24 ERCs allocation factor results in allocating 63.51% of  
25 SSU's common costs to water customers and 36.49% to

1 wastewater customers.

2 Q. Were you able to implement your recommendation?

3 A. No, I was not. Unfortunately, due to discovery  
4 difficulties, I was unable to implement my  
5 recommendations. For purposes of developing the  
6 adjustments that I recommend, I was forced to use the  
7 Company's customer allocation factor. Nevertheless, if  
8 the Commission finds my method superior to the one  
9 recommended by the Company, it can order it to distribute  
10 its common A&G and general plant costs using this  
11 methodology in SSU's next rate proceeding.

12 Q. Do you have any other recommendations concerning the  
13 Company's cost allocations?

14 A. Yes. SSU did not allocate any common costs to its  
15 acquisition and sales efforts. SSUSI expends considerable  
16 effort on possible acquisitions of new systems as well as  
17 sales of old systems. In my opinion, a portion of the  
18 common A&G expenses and general plant costs of SSUSI  
19 should be allocated to this acquisition/sales effort.  
20 Certainly the A&G costs incurred by SSUSI benefit the  
21 acquisition/sales effort as much as they benefit the  
22 water and wastewater systems. For example, the cost of  
23 electricity for the general plant which houses SSUSI's  
24 personnel was incurred for the benefit of the Company's  
25 acquisition and sales activity as well as its water and

1 wastewater operations.

2

3 Clearly if the Company treated this effort as a separate  
4 subsidiary or a separate division, A&G costs would be  
5 allocated to this subsidiary or division. Just because  
6 the Company does not clearly distinguish this effort from  
7 its water and wastewater service does not indicate that  
8 A&G and general plant costs should not be allocated to  
9 it.

10 Q. How did you develop these adjustments?

11 A. I determined the approximate percent of A&G costs which  
12 should be allocated to SSUSI's acquisition/sales effort  
13 based upon the direct wages and salaries of SSU and  
14 Lehigh, relative to the expenses booked during the test  
15 year to account 166.100 Possible Acquisitions-  
16 Miscellaneous and account 166.200 Possible Sale-Gas  
17 Division. This comparison resulted in an allocation  
18 factor of 2.28%. Applying this factor to the SSUSI A&G  
19 and general plant costs results in the amount of expense  
20 and plant that should be removed from Southern States'  
21 test year results before the allocation of these costs to  
22 the various SSU systems.

23 As shown on Schedule 8 of my exhibit, applying 2.28% to  
24 the total SSU A&G expenses of \$7,321,659 produces an  
25 adjustment of \$166,975. In other words, of the total

1 SSUSI A&G costs, \$166,975 should be removed prior to  
2 allocating these costs to SSU's systems. For the SSU's  
3 filed systems this amount to a reduction in test year  
4 expenses of \$106,384.

5  
6 Schedule 8 shows similar information for general plant:  
7 a \$378,900 reduction to general plant, a \$119,163  
8 reduction to accumulated depreciation, a \$34,820  
9 reduction to depreciation expense, and a \$9,122 reduction  
10 to the Company's accumulated depreciation software  
11 adjustment. Also, the Company's adjustments to allocated  
12 A&G expenses needs to be reduced by \$47,735.

13  
14 Schedule 8 of my exhibit summarizes all of my recommended  
15 adjustments and shows the impact on the filed SSU  
16 systems. It also shows that for each adjustment, I have  
17 allocated a portion of it to SSU's acquisition efforts,  
18 where applicable.

19 Q. Are there any other general problems with the Company's  
20 allocations that you would like to bring to the attention  
21 of the Commission?

22 A. Yes. Apparently, for internal accounting purposes the  
23 Company directly charges some of its A&G and customer  
24 service expenses. However, for purposes of this rate case  
25 A&G and customer service costs were grouped into one

1 common pool and reallocated to all systems. This  
2 essentially requires that some directly incurred costs of  
3 one system be charged to other systems via the allocation  
4 process. For example, during the test year, the Company  
5 incurred \$14,097 in legal fees concerning either  
6 permitting or EPA and/or DER violations for the Venice  
7 Gardens system. The total legal fees allocated to the VGU  
8 system amount to only \$9,561. Thus, in this instance the  
9 directly incurred legal fees for the VGU system were more  
10 than the amount allocated.

11

12 Due to the Company's repooling of A&G costs, these legal  
13 fees have been allocated to all systems. In my opinion,  
14 it would have been more appropriate to directly charge  
15 this expense to the VGU system rather than all SSU  
16 systems. Likewise, all directly incurred A&G and customer  
17 service expenses should be charged to the system for  
18 which the service was rendered. The balance should be  
19 allocated. Only those costs which cannot be directly  
20 associated with a particular system should be allocated.

21 Q. Let's turn to the third section of your testimony. Would  
22 you please discuss the sale of St. Augustine Shores?

23 A. Yes. According to SSU's response to OPC's Interrogatory  
24 215, United Florida Utilities Corporation (UFU), a  
25 wholly-owned subsidiary of Topeka and a sister company to

1 Southern States, sold substantially all of the assets of  
2 the UFU's St. Augustine Shores water and sewer utility  
3 division to St. Johns County, Florida as of August 22,  
4 1991. [Southern States Utilities, Inc., Response to OPC  
5 Interrogatory 215.] According to Minnesota Power and  
6 Light Company's (MPL) Annual Report, the net after-tax  
7 gain associated with this sale was \$4.2 million. The sale  
8 of St. Augustine Shores was the result of a condemnation  
9 by St. Johns County.

10 Q. Are you proposing that a portion of the gain on this  
11 sale be passed along to Southern States customers?

12 A. Yes, I am. The Company is likely to claim that the  
13 proceeds from the gain on the sale do not belong to the  
14 customers regulated by the Florida Public Service  
15 Commission, since the St. Augustine system was not under  
16 the Commission's jurisdiction. In fact, when Public  
17 Counsel requested information concerning the sale of St.  
18 Augustine Shores, the Company initially objected to  
19 providing the information claiming:

20 The St. Augustine Shores system was  
21 regulated by St. Johns County at the  
22 time of the County's condemnation.  
23 Southern States is not seeking  
24 recovery of any 1991 costs or  
25 investment in the St. Augustine



1 system from customers serviced by  
2 systems regulated by the Florida  
3 Public Service Commission,  
4 particularly those served by the 127  
5 systems included in this proceeding.  
6 The information requested is not  
7 relevant and is not likely to lead  
8 to the production of admissible  
9 evidence in this proceeding. For  
10 these reasons, Southern States  
11 objects to this discovery request.  
12 [Southern States Utilities, Inc.,  
13 Response to OPC Audit Request 22.]

14  
15 Unlike Southern States, I believe that information  
16 concerning the sale of St. Augustine Shores is very  
17 relevant to this proceeding. While Southern States claims  
18 that no costs are being borne by the remaining FPSC  
19 regulated systems, this is not completely accurate.  
20 Because of the sale, Southern States, as well as the  
21 other systems, are absorbing the A&G and general plant  
22 costs that would have been allocated to St. Augustine  
23 Shores had it not been sold. Thus, indirectly through the  
24 allocation of common costs, Southern States' customers  
25 are paying for a portion of the costs that would have

1           been allocated to St. Augustine Shores.

2   Q.   Why do you believe that the gain on the sale   of St.  
3       Augustine Shores should benefit Southern States  
4       customers?

5   A.   In my opinion, there are several reasons why this gain  
6       should be shared with ratepayers. First, the Company has  
7       continually argued over the years that the acquisition of  
8       small water and wastewater systems throughout Florida is  
9       beneficial to all customers because of alleged economies  
10      of scale. [Southern States Utilities, Inc., Exhibit FLL-  
11      3.] Continuing with the Company's logic indicates that  
12      the associated benefits (gains) of the sales of regulated  
13      water and wastewater systems should be shared with  
14      customers.

15  
16      Second, as I explained above, unless adjustments are made  
17      to SSUSI's A&G, general plant, and customer costs, SSU's  
18      customers will incur a higher level of A&G, general  
19      plant, and customer costs as a result of the sale.

20  
21      Third, in past proceedings this Commission has required  
22      utilities to share with ratepayers the gain on the sale  
23      of utility property. For example, in Docket No. 82007-EU  
24      the Commission stated:

25                   In Docket Nos. 81002-EU (FPL) and

1           810136 (Gulf Power), we determined  
2           that gains or losses on the  
3           disposition of property devoted to,  
4           or formerly devoted to, public  
5           service should be recognized above-  
6           the-line. We consider it appropriate  
7           to treat this gain in the same  
8           manner .... [Florida Public Service  
9           Commission, Docket No. 820007-EU,  
10          Order No. 11307, p. 26.]

11

12          The Commission should continue with its past precedent and  
13          attribute the gain on the sale of this system to  
14          ratepayers.

15

16          For these reasons, I believe the Commission should impute  
17          to the benefit of Southern States customers a portion of  
18          the gain on the sale of St. Augustine Shores.

19   Q.    Have you developed a recommendation concerning the amount  
20          of the gain that should be attributed to Southern  
21          States' customers?

22   A.    Yes. Using the number of customers as a basis to  
23          distribute the gain between the various systems, I  
24          determined that Southern States filed FPSC systems' share  
25          of the gain is \$1,932,332 for water and \$668,304 for

1 wastewater. I recommend that the gain be amortized over  
2 four years, so the adjustments to increase test year net  
3 operating income would be \$483,083 for water and \$167,076  
4 for wastewater.

5 Q. Have you attributed any of this gain to stockholders?

6 A. Yes, I have. I essentially attributed the portion of the  
7 gain that would have been allocated to St. Augustine  
8 Shores had it still been a part of the SSU family. The  
9 portion of the gain that I attributed to the Company's  
10 stockholders was \$118,162.

11 Q. The Company had a gain on the sale of University Shores  
12 property. Should this also be moved above the line for  
13 ratemaking purposes?

14 A. Yes. During the test year the Company received a pre-tax  
15 gain of \$229,703 associated with condemned property at  
16 the University Shores system. In response to OPC's  
17 Interrogatory 113, the Company stated that this property  
18 was previously included in rate base as 100% used and  
19 useful. For the reasons addressed above, I believe that  
20 this gain should also be shared with ratepayers.

21  
22 Specifically, I believe that 98% of this gain should be  
23 moved above the line. The remainder should be given to  
24 SSU's stockholders. The percentage given to stockholders  
25 is based upon the percentage of SSU's efforts devoted to

1 the acquisition and sale of various water, wastewater,  
2 and gas systems.

3

4 I have estimated the after tax gain to be \$144,000. Of  
5 this amount \$141,120 should be moved above the line and  
6 attributed to the Company's University Shores wastewater  
7 customers. Using a four year amortization this produces  
8 an adjustment to test year Net Operating Income of  
9 \$35,280.

10 Q. Do you have an alternative recommendation if the  
11 Commission does not adopt your primary recommendation?

12 A. Yes. If the Commission treats these gains as non-utility  
13 or does not pass them along to ratepayers then I believe  
14 that, at a minimum, the associated dollars should be  
15 removed from the equity portion of SSU's capital  
16 structure. This would reduce the Company's equity ratio  
17 and overall cost of capital.

18 Q. Let's turn to the fourth section of your testimony. What  
19 are your concerns about the Company's calculation of  
20 margin reserve?

21 A. In calculating its requested margin reserve the Company  
22 used historical growth in ERCs, generally over the last  
23 five years. In reviewing the information supplied by the  
24 Company in the MFRs, it appeared that in several  
25 instances the historical growth in ERCs may not be

1 reflective of the growth that would occur during the next  
2 year and a half. Under these circumstances, the Company's  
3 requested margin reserve would be excessive.

4  
5 To evaluate the reasonableness of the Company's estimates  
6 of future ERCs and the historical growth rates relied  
7 upon to make this projection, I examined the historical  
8 growth in ERCs compared to the growth actually projected  
9 by the Company over the next three years. This  
10 comparison, shown on Schedule 4 of my exhibit, indicates  
11 that in many instances the Company's historical growth  
12 rates are not indicative of what it projects for the  
13 future.

14  
15 For example, as shown on page 1 of Schedule 4, the  
16 Company's five year historical growth rate for the Beacon  
17 Hills water system is 12.25%. The individual yearly  
18 growth rates suggest that the past may not be  
19 representative of the future. For the year 1988 the  
20 growth rate was 22.80%, for 1989 it was 13.01%, for 1990  
21 it was 6.72%, and for 1991 it was 6.48%. This trend  
22 suggests that the Company's growth in ERCs is declining.  
23 Hence, it would not be appropriate to include in the  
24 estimate of future growth the high percentages that were  
25 achieved during the years 1988 and 1989. In fact, over

1 the next three years the Company only projects the ERCs  
2 for this system to grow by 4.7%.

3

4 Based upon the Company's projections, the historic growth  
5 in ERCs will not continue in the future. Under these  
6 circumstances, I do not believe the margin reserve should  
7 be calculated using the average historic growth rate.  
8 Instead, it would be more appropriate to use the  
9 Company's projections. As shown on Schedule 5, for the  
10 Beacon Hills water system, the average June 31, 1993,  
11 number of ERCs the Company projects it will serve is  
12 2,853. This compares to the number used to determine  
13 margin reserve of 3,084--a difference of 231 ERCs. If  
14 this lower number of ERCs is used in the margin reserve  
15 calculations, SSU's used and useful percentages drop from  
16 69% to 64% for supply wells. Similarly, if the analogous  
17 calculations are performed for the wastewater system, the  
18 Company's used and useful percentages drop from 64% to  
19 59% for its treatment and disposal plant and effluent  
20 disposal lines. In my opinion, when the Company's  
21 historic growth rate is not indicative of the future, it  
22 would be more appropriate to use the actual projected  
23 number of ERCs to determine the used and useful  
24 percentages with margin reserve.

25

1 Another example where the Company's historic growth does  
2 not appear to be at all consistent with the Company's  
3 projection is Spring Hill. For this water system, the  
4 historic average growth rate was 8.75%. A review of  
5 Schedule 4 shows that the growth for this system has been  
6 declining. The Company's projected growth rate for the  
7 next three years is only 5.62%. Based upon its historic  
8 growth rate the Company used 28,148 ERCs for purposes of  
9 determining margin reserve. However, as shown on Schedule  
10 5, the Company only projects that it will be serving  
11 26,900 ERCs--a difference of 1,248 ERCs.

12

13 If this lower number of projected ERCs is used to  
14 determine the Company's margin reserve, the used and  
15 useful percentages for this water system drop from 93% to  
16 88% for the supply well and from 85% to 84% for the  
17 distribution system. For the Spring Hill wastewater  
18 system the same calculations show that the used and  
19 useful percentage fall from 51% to 49% for the treatment  
20 and disposal plant and effluent disposal lines.

21

22 Schedule 4 of my exhibit shows the historic growth rates  
23 used by the Company compared to the Company's projected  
24 growth rate for each system for which the Company is  
25 requesting a margin reserve. As shown on this schedule,



1 the vast majority of the systems have a lower projected  
2 growth rate than the five year average growth rate.  
3 Schedule 5 depicts the number of ERCs the Company  
4 projects (shown under the OPC column) it will be serving  
5 over the next 18 months (or 12 months depending upon the  
6 Company's margin reserve request) compared to the number  
7 that results from applying the historic five year growth  
8 rate to test year ERCs. Again, for the vast majority of  
9 these systems, the Company's projections are less than  
10 what it used to calculate its margin reserve. In my  
11 opinion, where there is an important difference between  
12 the Company's projections and what the 5-year average  
13 growth rate produces, the Commission should use the  
14 projected number of ERCs, shown under the OPC column, on  
15 Schedule 5 to calculate margin reserve.

16  
17 Specifically, in my opinion, the projected number of ERCs  
18 should be used for the following water systems: Amelia  
19 Island, Beacon Hills, Beechers Point, Burnt Store,  
20 Carlton Village, Deltona, Fountains, Gospel Island, Lake  
21 Ajay Estates, Marion Oaks, Palisades, Pine Ridge, Quail  
22 Ridge, Rolling Green, Spring Hill, Sunny Hills,  
23 University Shores, Venetian Village, and <sup>Wooten.</sup> ~~Zephyr Shores.~~

24  
25 For the wastewater systems, the projected number of ERCs

1 should be used for the following systems: Beacon Hills,  
2 Burnt Store, Florida Commerce Park, Fox Run, Marco  
3 Shores, Point 'O Woods, Salt Springs, Spring Hill, and University Shores  
4 Zephyr Shores.

5 Q. Let's turn to the fifth section of your testimony  
6 concerning various adjustments necessary to reflect known  
7 and measurable changes beyond the test year and other  
8 events not reflected in the test year. What is the first  
9 adjustment that you recommend?

10 A. The first adjustment that I recommend concerns the merger  
11 of SSU and its sister companies. Since the Company has  
12 not quantified the cost savings associated with the  
13 merger, I believe that at a minimum the Commission should  
14 remove from test year expenses the costs incurred to  
15 effectuate the merger.

16  
17 According to Southern States' response to OPC's  
18 Interrogatory 177, \$11,640 of costs associated with the  
19 merger of SSU, UFU, VGU and DUI into SSU were captured  
20 and expensed during the test year. Prior to April 1991,  
21 the costs associated with the merger were booked to  
22 account 186.500, a deferral account established to  
23 collect these charges. In a memo written by Ms. Judy  
24 Kimball, the policy was changed and SSUSI's employees  
25 were informed that the costs associated with the merger

1 were to be expensed, rather than capitalized.

2

3 It would appear that with the exception of the legal fees  
4 associated with the merger, the costs incurred by SSUSI,  
5 were not tracked after April 1991. Thus, to the extent  
6 that any costs were incurred, these would enter the  
7 normal expense accounts and it would be very difficult  
8 and time consuming to identify expenses incurred after  
9 April 1991. Nevertheless, it would appear fairly certain  
10 that expenses were incurred, although the amount is not  
11 known.

12

13 Q. How do you recommend that these merger costs be treated  
14 for ratemaking purposes?

15 A. I recommend that the Commission exclude these costs from  
16 test year expenses, for several reasons. First, the  
17 Company has not recognized any savings in the test year  
18 associated with the merger. Certainly, the Topeka Group  
19 or MPL would not have considered the merger if no cost  
20 savings were anticipated. In fact, in its petition to the  
21 Commission for restructuring, the Company expounded on  
22 the efficiencies associated with several facets of its  
23 operations:

24 The merger of Petitioners as  
25 proposed herein will result in

1 numerous efficiencies associated  
2 with regulatory oversight (one  
3 annual report, one set of internal  
4 and external audits, etc.), record-  
5 keeping (one set of books and  
6 records, etc.), customer service  
7 procedures (billing, collections,  
8 etc.) and corporate and regulatory  
9 procedures (one tariff, one rate  
10 application, one set of minimum  
11 filing requirements.) [Petition of  
12 Southern States Utilities, Inc.,  
13 Deltona Utilities, Inc. and United  
14 Florida Utilities Corporation for  
15 Approval of Restructuring, Docket  
16 No. 910662-WS, p. 7.]

17  
18 Second, there is a mismatch between the expenses incurred  
19 during the test year and the benefits to be derived as a  
20 result of the merger. The merger did not occur until 1992  
21 and any benefits associated with it would not be included  
22 in the test year results used by the Company.

23  
24 Third, the costs associated with the merger should be  
25 considered nonrecurring and as such should not be

1 included in the rates that will be charged customers on  
2 an annual and ongoing basis.

3 Q. Have you determined what portion of the costs of the  
4 merger were allocated to Southern States and should be  
5 removed from the test year?

6 A. Yes. As shown on Schedule 8, I have determined that  
7 \$5,385 should be removed from the Company's water  
8 operations and that \$1,862 should be removed from the  
9 wastewater operations.

10 Q. What is the next adjustment you recommend?

11 A. The next adjustment concerns an additional write-down of  
12 the Deltona Lakes land values after the end of the test  
13 year. According to the Company, an additional \$30,000 was  
14 written down to the acquisition adjustment account in  
15 1992. [Southern States Utilities, Inc., Harter  
16 Deposition, p. 69.] Since this amount is known and  
17 measurable and consistent with the land write-downs  
18 included in the test year, I believe the Deltona Lakes  
19 land should be reduced by an additional \$30,000.

20 Q. What is the next adjustment?

21 A. During early 1992 the Company consolidated several of its  
22 customer service offices. As a result, certain expenses  
23 incurred during the test year will not arise in the  
24 future. Accordingly, adjustments should be made to the  
25 test year to reflect these cost savings.

1

2

In January 1992, the Company completed a study concerning these office consolidations with the associated cost savings. [Southern States Utilities, Inc., Response to OPC Document Request 37.] During depositions the Company indicated that several of the proposed office consolidations had taken place as planned. [Southern States Utilities, Inc., Haggerty Deposition, pp. 6-9.] Accordingly, I have used the estimated nonlabor cost savings provided by the Company to determine the necessary adjustments to reflect a more normal going forward level of expense.

12

13 Q. What offices were closed or consolidated and what  
14 adjustments are you recommending?

15 A. According to the deposition of Ms. Haggerty, the  
16 following office consolidations took place: Amelia Island  
17 and Keystone Heights were closed and combined with  
18 Jacksonville; the Deep Creek customer service office was  
19 closed and combined with Venice Gardens; the Sugarmill  
20 Woods customer service office was closed and combined  
21 with Spring Hill; and the Citrus Springs customer service  
22 offices were closed and combined with Marion Oaks.

23

24 The adjustments that I recommend concerning these  
25 consolidations are taken directly from the Company's

1 report; however, the figures were annualized. The Company  
2 indicated that the savings appearing in the report were  
3 only for the part of the year after the consolidation  
4 took place. Thus, for example, the Company estimated that  
5 it could save \$9,365 in 1992, by closing Amelia Island  
6 and Keystone Heights by April 1992. This cost savings is  
7 only for nine months. I annualized the amount by  
8 dividing by 9 to arrive at a monthly figure of \$1,041. I  
9 then multiplied this result by 12. For this particular  
10 consolidation the annualized cost savings is \$12,487.  
11 Similar calculations for the other consolidations amount  
12 to \$29,547 for Deep Creek and VGU, \$24,120 for Spring  
13 Hill and Sugarmill Woods, and \$10,871 for Citrus Springs  
14 and Marion Oaks. For all four consolidations a total cost  
15 savings of \$70,024 is indicated.

16  
17 It is unclear whether or not these expenses would be  
18 directly charged to the individual systems or if they  
19 were allocated. Based upon their description (rent,  
20 postage, purchased power, and telephone expenses) one  
21 would expect that they would be directly incurred.  
22 However, since the Company repooled customer service  
23 costs and reallocated them to all systems I recommend  
24 that the Commission also allocate these cost savings to  
25 all systems, unless the Company can show that they were

1 directly charged during the test year. Schedule 8 of my  
2 exhibits depicts the amount of the adjustment for the  
3 filed SSU systems.

4 Q. Would you address your next adjustment?

5 A. Yes. The Company failed to include in test year revenue  
6 effluent sales that occurred at Deltona Lakes. [Southern  
7 States Utilities, Inc., Response to OPC Interrogatory  
8 324.] Accordingly, the revenue associated with these  
9 sales, \$9,308, should be included in the Deltona Lakes  
10 test year revenues.

11 Q. Let's turn to the sixth section of your testimony  
12 concerning expenses that should not be charged to  
13 ratepayers and discounts which were booked below the  
14 line. Would you discuss the discounts issue first?

15 A. Yes. In September 1990, SSUSI implemented a policy  
16 whereby the discounts lost or taken for early payment  
17 would be recorded below the line to account 420.00. In my  
18 opinion, these discounts should be recorded above the  
19 line for ratemaking purposes. The Company's ratepayers  
20 provide the funds to pay these invoices in a timely  
21 manner and as such, they should receive the benefit of  
22 any discounts received by the Company.

23

24 According to the trial balance, Southern States booked  
25 \$9,061 of discounts to account 420.00. In my opinion,



1 the Commission should reduce test year expenses by  
2 \$5,641--the amount allocated to SSU's filed systems.

3 Q. What is the next adjustment you recommend?

4 A. In response to OPC's Interrogatory 30, Southern States  
5 indicated that charitable contributions in the amount of  
6 \$1,975 were expensed on Southern States' books and  
7 subsequently allocated to the systems based upon the  
8 number of customers. The Company is apparently not  
9 disputing that these costs should be removed from test  
10 year expenses, since it stated: "The Company does not  
11 seek recovery of charitable contributions in this  
12 filing." [Southern States Utilities, Inc., Response to  
13 OPC Interrogatory 30.] In addition, at the deposition,  
14 the Company indicated that \$500 for a Blue Key  
15 Sponsorship should also be treated as a charitable  
16 contribution. Accordingly, this amount should be removed  
17 from test year expenses, unless they Company can show  
18 that it was removed though a journal entry. [Southern  
19 States Utilities, Inc., Kimball Deposition, p. 16.] In  
20 total, charitable contributions amounted to \$2,457. For  
21 the Southern States filed systems this amounts to \$1,541.

22 Q. What is the next group of adjustments that you propose?

23 A. The next group of adjustments relate to costs which in my  
24 opinion should not be passed along to ratepayers. If the  
25 Company or SSUSI wishes to continue to incur these

1 costs, they should be absorbed by stockholders not  
 2 ratepayers. In particular, I do not believe that  
 3 customers should effectively pay dues to the various  
 4 chambers of commerce that SSUSI belongs to, nor should  
 5 they pay for related functions attended by SSUSI  
 6 personnel. During 1991, SSUSI incurred the following dues  
 7 and related fees for various chambers of commerce:

8		
9	Florida Chamber of Commerce - Dues	\$ 586.00
10	Apopka Area Chamber of Commerce - Dues	300.00
11	Seminole County Chamber of Commerce - Dues	550.00
12	Apopka Chamber of Commerce - Breakfast	7.00
13	Apopka Chamber of Commerce	
14	- Various Functions	365.50
15	Apopka Chamber of Commerce	
16	- Planning Retreat	<u>35.00</u>
17	Total	\$1,843.50
18		

19 In past proceedings the Commission has disallowed chamber  
 20 of commerce membership dues. For example, in Docket No.  
 21 810002-EU, the Commission stated as follows concerning  
 22 chamber of commerce dues:

23 ...it is our opinion that these dues  
 24 serve to improve the image of the  
 25 Company, with direct benefits

1                   accruing to the stockholders of the  
2                   Company and with no benefits being  
3                   received by ratepayers. [Florida  
4                   Public Service Commission, Order No.  
5                   10306, p. 27.]  
6

7                   I addition, two of SSUSI's employees belong to a  
8                   professional associations which I do not believe benefits  
9                   ratepayers and hence these costs should not be passed on  
10                  to customers. These two employees are members of the  
11                  Florida Public Relations Association with an annual  
12                  membership of \$100 each. In addition, SSUSI also  
13                  purchased a corporate <sup>sponsorship</sup> membership for \$300. ~~(It is unclear~~  
14                  ~~why individual and corporate memberships would be~~  
15                  ~~needed.)~~ SSUSI also incurred \$590 for two employees to  
16                  attend a conference sponsored by this group. It appears  
17                  that the purpose of this association is to support the  
18                  public relations efforts of its members which largely  
19                  benefits stockholders not ratepayers. Accordingly, I  
20                  believe that the total \$3,023 expensed for commerce dues  
21                  and related functions and public relations efforts should  
22                  be removed from test year expenses. As shown on Schedule  
23                  8, for the Southern States filed systems this amounts to  
24                  \$1,882.

25    Q.    What is your next adjustment?

1 A. My next adjustment concerns the Company's bad debt  
2 expense. During the test year the Company increased its  
3 bad debt expense by over \$80,000. According to the  
4 Company this increase resulted from a change in  
5 methodology in determining the bad debt reserve. However,  
6 upon further inspection there appears to be some problems  
7 with the Company's estimate.

8  
9 First, \$30,000 of the increased bad debt expense appears  
10 to relate to M&M Utilities. The Company, however, no  
11 longer operates this system. According to the Company's  
12 response to OPC's Interrogatory 215, the M&M Utilities  
13 receivership was terminated on 11/11/91. I see no reason  
14 to require SSU's customers to absorb the bad debt expense  
15 of a utility which is no longer a part of the SSU family.  
16 The Company has removed M&M Utilities' customers from its  
17 allocation base, thus requiring SSU's remaining customers  
18 to absorb the related administrative and general  
19 expenses. There is no reason to add to this burden by  
20 also requiring them to pay for the bad debt of a utility  
21 the Company no longer operates.

22  
23 Second, the Company's increase in bad debt expense also  
24 included \$15,000 associated with the Deltona Gas  
25 operations that were sold. For the reasons discussed with

1        respect to M&M utilities, I see no logical basis for  
2        allocating this bad debt expense to SSU's water and  
3        wastewater customers.

4  
5        Third, \$20,000 of this increased bad debt expense may be  
6        related to Citrus Sun Club Condo Association, Inc. During  
7        the test year, the Company filed suit against this  
8        customer for the \$20,000 the customer owed. The lawsuit  
9        was settled and the customer has agreed to make payments  
10       to the Company for the amount owed. Accordingly, I do not  
11       believe this amount should be included in bad debt  
12       expense, since it appears likely that the Company will  
13       collect it. [Southern States Utilities, Inc., Response to  
14       OPC Interrogatory 272.] (I would note that discovery is  
15       still outstanding on this issue.)

16  
17       Accordingly, summing these amounts indicates that the  
18       Company's test year bad debt expense should be reduced by  
19       \$65,000. As shown on Schedule 8, the amount allocated to  
20       SSU's filed systems is \$40,469.

21    Q.    Would you please explain your next adjustment?

22    A.    Yes. My next adjustment concerns legal fees associated  
23       with Department of Environmental Regulations (DER) fines  
24       and violations. This Commission has historically not  
25       allowed the Company to pass along to customers such

1 fines. In fact, the Company has booked below the line  
2 \$127,848 in DER fines during the test year. [Southern  
3 States Utilities, Inc., Response to OPC Interrogatory  
4 93.]

5  
6 In my opinion, ratepayers should not be charged with any  
7 legal fees associated with defending the Company in these  
8 situations. In response to an OPC Interrogatory asking  
9 the Company to state the amount of legal costs incurred  
10 during 1991, associated with EPA and DER violations, the  
11 Company indicated that it incurred legal expenses  
12 associated with fines as well as permitting issues in the  
13 amount of \$16,632. The Company noted in its response that  
14 it had not specifically determined the portion of the  
15 costs related directly to contesting EPA or DER  
16 violations as opposed to other environmental-related  
17 services, i.e. permitting. [Southern States Utilities,  
18 Inc., Response to OPC Interrogatory 307.] In the absence  
19 of a showing of what portion of the \$16,632 is related to  
20 penalties versus permitting, I recommend that the  
21 Commission disallow the entire amount. As shown on  
22 Schedule 8, this amounts to \$10,355 for the SSU filed  
23 systems.

24 Q. Would you please address property taxes?

25 A. Yes. I have two recommendations with respect to property

1 taxes. The first concerns property taxes associated with  
2 property held for future use in the Marion Oaks system.  
3 The Company removed this property held for future use  
4 from the test year, but did not remove the associated  
5 property taxes. In my opinion, if the property is not  
6 used and useful to current customers, then the associated  
7 property taxes should also not be charged to current  
8 customers. Accordingly, I recommend that the Commission  
9 reduce the property taxes for this system by \$4,477.  
10 [Southern States Utilities, Inc., Kimball Late Filed  
11 Deposition Exhibit 5.]

12  
13 My second recommendation concerns the Company's treatment  
14 of property taxes associated with nonused and useful  
15 plant. Southern States has included these taxes in  
16 current operating expenses, despite the fact that the  
17 associated property is not included in rate base. When  
18 questioned about this at the deposition, the Company was  
19 unable to give a satisfactory explanation as to why its  
20 treatment of property taxes is appropriate for ratemaking  
21 purposes. When Mr. Lewis was questioned about this in his  
22 deposition, he responded that it was Company policy.  
23 [Southern States Utilities, Inc., Lewis Deposition, pp.  
24 91-93.] When Mr. Ludsen was questioned about the same  
25 subject, he was also unable to respond:

1 Q. All right. Given that the non-  
2 used and useful plant is not used  
3 for provisions of water and sewer to  
4 your customers, why would the taxes  
5 associated with that part of the  
6 plant be an expenses of providing  
7 water and sewer service to  
8 customers?

9  
10 A. I don't have a position on that  
11 at this time. [Southern States  
12 Utilities, Inc., Ludsen Deposition,  
13 p. 43.]

14  
15 In response to a Staff Interrogatory the Company did  
16 provide a better explanation than the ones offered by Mr.  
17 Lewis and Mr. Ludsen.

18 The Company believes that the  
19 application of the Non-Used and  
20 Useful adjustment to Property Taxes  
21 results in an excessive adjustment,  
22 since it is highly unlikely that  
23 there is any direct correlation  
24 between the non-used and useful  
25 percentages and the amount of



1 property taxes assessed against the  
2 plant. For instance, if the  
3 Commission determined that a 1  
4 million gallon per day plant is 75%  
5 used and useful, there is no  
6 evidence that the taxes on the plant  
7 would be reduced by 25% if the  
8 valuation were determined on a .75  
9 million gallon per day plant. Also,  
10 certain counties reflect non-used  
11 and useful facilities in their  
12 computation of property taxes. These  
13 would include the counties of  
14 Charlotte, Citrus, Collier,  
15 Hernando, Hillsborough, Lee, Marion,  
16 Sarasota, Volusia, and Washington  
17 Counties. [Southern States  
18 Utilities, Inc., Response to Staff  
19 Interrogatory 27.]

20 Contrary to the Company, I do not believe that property  
21 taxes on non-used and useful plant should be collected  
22 from current customers. This expense is more properly  
23 collected through the AFPI charge.

24

25 The Company's treatment of property taxes associated with

1 nonused and useful plant is inconsistent with its  
2 treatment of the investment and related depreciation,  
3 both of which have been excluded from the calculation of  
4 revenue requirements. In my opinion, the associated  
5 property taxes should also be excluded, unless the  
6 Company can show that the property appraisers in each  
7 county do not assess property taxes on nonused and useful  
8 plant. As shown on Schedule 6, using each system's  
9 composite nonused and useful percentages results in a  
10 reduction to property taxes of \$283,653.

11 Q. Let's turn to the seventh section of your testimony  
12 concerning out of period adjustments. What adjustments do  
13 you propose that fit this category?

14 A. There are three adjustments that fit this category.  
15 First, during the test year, the Beacon Hills system was  
16 charged for a purchased water billing error that occurred  
17 during the previous three and one-half years. Apparently,  
18 from August 27, 1987, until January 17, 1991, the  
19 Jacksonville Suburban Utilities Corporation underbilled  
20 Southern States for purchased water due to the former's  
21 failure to properly read the Beacon Hill's meter. For  
22 this time period, Southern States was not billed for  
23 16,587,000 gallons of purchased water. In December of  
24 1991, the Company paid Jacksonville Suburban Utilities  
25 \$14,925 for the underbilling that took place during 1987,

1 1988, 1989, and 1990. This amount was apparently included  
2 in the test year, but relates to a prior period.  
3 Accordingly, it should be removed for ratemaking  
4 purposes. In his deposition, Mr. Lewis agreed that the  
5 amount should be removed. [Southern States Utilities,  
6 Inc., Lewis Deposition, p. 75.]

7  
8 Second, during the test year, the Company also expensed  
9 \$1,447 associated with a drinking water study conducted  
10 in 1984. This deferred charge was inadvertently not  
11 amortized over 1984-86. When it was discovered, the  
12 Company wrote it off to expense during the test year.  
13 [Southern States Utilities, Inc., Response to OPC  
14 Interrogatory 266.] Ms. Kimball agreed in her deposition  
15 that this charge should not be passed on to ratepayers.  
16 The amount charged to each system can be found in  
17 Appendix M of the Company's MFRs.

18  
19 Third, during the test year, the Company reclassified  
20 costs, that it had previously booked to organizational  
21 costs, to acquisition adjustment and other miscellaneous  
22 expenses accounts. The amounts that were expensed above  
23 the line should be removed from test year expenses. As  
24 shown on Schedule 7, the total for the Southern States  
25 system is \$2,984.

1 Q. Let's turn to the eighth section of your testimony. What  
2 nonrecurring expense adjustments do you recommend?

3 A. There are five adjustments that fall into this category.  
4 First, during 1991, SSUSI completed the amortization of  
5 several professional studies that were deferred. The  
6 costs associated with these studies were initially  
7 charged to account 186.245 Deferred Professional Studies.  
8 Through journal entries, the Company reversed these  
9 accruals and charged them to various expense accounts. In  
10 total, SSUSI charged \$24,489 to expense associated with  
11 these professional studies. Although I do not yet have  
12 complete documentation on these studies, it would appear  
13 that the costs have been fully amortized and will not  
14 recur in future years. As such, these nonrecurring costs  
15 should not be passed to ratepayers. The amount that  
16 should be removed from Southern States' test year  
17 expenses is \$15,247.

18  
19 Second, during the test year, the Company used Price  
20 Waterhouse to perform an audit of Southern States'  
21 employee savings plan and employee pension plan. Price  
22 Waterhouse apparently exceeded the original budget for  
23 the project. The audit company explained in part that the  
24 additional time incurred by two of the individuals  
25 working on the project was due to the fact that it was a

1 first year engagement and that the "recurring fee should  
2 be substantially less." [Southern States Utilities, Inc.,  
3 Price Waterhouse Statement, August 31, 1991.]  
4 Accordingly, since a portion of this test year charge  
5 appears to be nonrecurring, it should not be included in  
6 test year expenses. Of the total \$15,505 charge, I  
7 recommend that \$3,800 of this expense be removed from the  
8 test year. This amounts to one-fourth of Price  
9 Waterhouse's labor charges for these audits.

10  
11 Third, \$10,500 should be removed from the test year  
12 expenses of the Leilani Heights wastewater system. During  
13 1991, the Company was required to prepare a reuse study  
14 to comply with the Indian River SWIM at Chapter 90-262 of  
15 the Laws of Florida. [Southern States Utilities, Inc.,  
16 Response to OPC Interrogatory 278.] In his deposition,  
17 Mr. Wood responded that this was the first reuse study  
18 conducted for this system. As such it appears to be  
19 nonrecurring and should be removed from the test year.

20  
21 Fourth, during the test year, the Company incurred  
22 \$14,327 associated with services rendered due to manhole  
23 overflows and lift station failures at the Jungle Den  
24 wastewater system. [Southern States Utilities, Inc.,  
25 Response to OPC Interrogatory 267.] During her

1 deposition, Ms. Kimball testified that these expenses  
2 were nonrecurring. [Southern States Utilities, Inc.,  
3 Kimball Deposition, p. 48.] Accordingly, they should be  
4 removed from test year expenses.

5  
6 Fifth, during the test year, it appears that the Company  
7 incurred relocation expenses that will not be incurred at  
8 the same level in the future. According to the Company's  
9 response to OPC Interrogatory 104, during the test year,  
10 SSU spent \$58,788 in relocating employees. This amount is  
11 less than the amount spent in previous years.  
12 Nevertheless, the Company has been undergoing a fairly  
13 significant reorganization over the last three years and  
14 it appears that this level of expense will not recur in  
15 the future. In fact, the Company budgeted \$42,000 for  
16 relocation expenses for the year 1992. Likewise, as of  
17 July 31, 1992, the Company had only expended \$6,795 on  
18 relocation efforts. [Southern States Utilities, Inc.,  
19 Response to OPC Interrogatory 292.] The Company, however,  
20 explained that it anticipates additional relocation  
21 expenses during 1992.

22  
23 For example, the Company expects to spend approximately  
24 \$15,000 in relocating the Vice President of Finance. The  
25 Company also expects additional expenses associated with

## CROSS EXAMINATION

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BY MR. HOFFMAN:

Q Good morning, Ms. Dismukes.

A Good morning.

Q As you know, I'm Ken Hoffman. I represent Southern States.

If you could turn to Page 35 of your testimony at Lines 16 and 17. (Pause) Are you there?

A Yes.

Q Okay. You use the words "known" and "measurable" to support an adjustment of the value of Deltona Lakes land. Based on your ratemaking experience, can you give us an opinion what it is that makes a proposed adjustment known and measurable?

A This adjustment or adjustments in general?

Q In general. (Pause)

A If it is something that has already occurred, obviously, it's known. If the data is available and is historic or within some time period after the historic test year but it is there available, then it's measurable.

Q How does the availability of data make an out-of-period adjustment measurable?

A Well, the data is available to measure the information in question.

1 Q All right. So you're talking, then, if I  
2 understand your testimony, about year-to-date results,  
3 actual results, rather than projections.

4 A Well, it wouldn't necessarily be  
5 year-to-date. You may have, for example, a partial  
6 year, and you could normalize it, something along those  
7 lines, if you wanted to try and get, I guess, an  
8 estimate of what it would be on a yearly basis, if you  
9 had a half a year's worth of historic data.

10 Q Okay. But you had to have some actual  
11 results to annualize or to make that projection?

12 A Yes. As we've been discussing it.

13 Q With respect to the Deltona Lakes adjustment,  
14 the Company has actually written down the value of the  
15 land \$30,000. Is that correct?

16 A I believe so, yes.

17 Q And that is what makes that adjustment known  
18 and measurable, isn't that true?

19 A Yes.

20 Q Ms. Dismukes, would you agree that if the  
21 Commission evaluates what it considers to be known and  
22 measurable of decreases in expenses which occurred  
23 outside the test year that it should also consider  
24 known and measurable increases in expenses which arise  
25 outside the 1991 historic test year?



1           A     Yes, as long as we're consistent in terms of  
2 the information that we're looking at. So, for  
3 example, if you have an expense increase that's going  
4 to result in an increase in revenues, you would need to  
5 take both of those into consideration, you can't just  
6 look at the expense increase.

7           Q     Ms. Dismukes, I'm going to hand you a copy of  
8 a Court decision entitled "Marco Island Utilities v.  
9 Public Service Commission." Do you have that in front  
10 of you?

11          A     Yes, I do.

12          Q     Okay. If you would turn to Page 1328 of that  
13 opinion.

14                COMMISSIONER EASLEY: Is this something that  
15 needs to be numbered, or is this something that needs  
16 to be taken notice of, or --

17                MR. HOFFMAN: We would ask that you take  
18 official recognition of this decision.

19                COMMISSIONER EASLEY: All right. Do you want  
20 to put it on the record what it is?

21                MR. HOFFMAN: It is "Marco Island Utilities  
22 v. Public Service Commission, 566 So.2d 1325, Florida  
23 First DCA 1990."

24                COMMISSIONER EASLEY: Thank you.

25                MR. McLEAN: Commissioners, I want to raise a

1 relevance objection. I don't know what question Mr.  
2 Hoffman is going to ask, and I'm willing to listen, but  
3 I think we're going to have a relevance objection.

4 COMMISSIONER EASLEY: Well, you've put him on  
5 notice, let's hear the question.

6 Q (By Mr. Hoffman) Ms. Dismukes, on Page 1328,  
7 over on the right side of the page, in the second full  
8 paragraph, I believe it's four sentences down. I'm  
9 going to read into the record the statement by the  
10 Court and ask you to read it yourself.

11 It says, "The law is well established that  
12 the Commission is not allowed to ignore an existing  
13 fact establishing with certainty an expense item that  
14 admittedly will affect future rates; such expense item  
15 cannot be ignored even though not properly included  
16 under the methodology employing the critical time frame  
17 of the test year."

18 Do you agree with that statement of the  
19 Court?

20 A I think so. I'm not sure what they mean by  
21 "critical time frame of the test year."

22 Q All right. If you take that statement up to  
23 the semicolon, where it says "The law is well  
24 established that the Commission is not allowed to  
25 ignore an existing fact establishing with certainty an

1 expense item that admittedly will affect future rates;"  
2 do you agree with that, without any contingencies?

3 (Pause)

4 A As a nonlawyer, yes.

5 CHAIRMAN BEARD: As a nonlawyer, that second  
6 half of that, I assume, would mean outside the test  
7 year as opposed to the critical time frame of the test  
8 year? I mean -- (Pause)

9 Never mind, go ahead.

10 Q (By Mr. Hoffman) Is that what you would  
11 interpret that language to be?

12 A Basically, that the Commission should take  
13 into consideration events that happened beyond the end  
14 of the test year?

15 Q Right.

16 A Yes.

17 Q Under the standard set forth in this  
18 decision?

19 A I haven't read the entire decision, but  
20 basically, I agree with what's being said there.

21 Q You agree with the language that I've just  
22 read into the record?

23 A Yes.

24 Q Ms. Dismukes, can you tell me how many  
25 adjustments you have recommended to the Company's

1 revenue requirements for known and measurable increases  
2 in expenses arising following the 1991 historic test  
3 year?

4 A Did you say "increase in expenses following  
5 the 1991 test year"?

6 Q Right. Known and measurable increases in  
7 expenses following the 1991 historic test year.

8 A I don't believe I have any adjustments that  
9 increase test year expenses for nonmeasurable changes.  
10 I do have some proposed adjustments, if you will, that  
11 would increase the level of the Company's rate base.

12 Q Okay. So you have not recommended any  
13 increases in the Company's expenses outside the  
14 historic test year for known and measurable increases  
15 in expenses?

16 A I don't believe so. I think they are all --

17 MR. McLEAN: Pardon me. May I object a bit  
18 to the form of the question.

19 I think it may assume there are known and  
20 measurable changes outside the test year.

21 I don't think Mr. Hoffman intends to mean  
22 that, but that may be what the record would reflect.

23 MR. HOFFMAN: Let me ask the question again,  
24 Ms. Dismukes.

25 Q (By Mr. Hoffman) Have you -- in your

1 opinion, are there any known and measurable increases  
2 in the Company's expenses following the 1991 historic  
3 test year?

4 A There is one that I believe Mr. Ludsen  
5 brought up in his rebuttal testimony concerning the  
6 postage and mailing expenses associated with the  
7 Company going from a bimonthly or quarterly billing  
8 system to a monthly billing system.

9 Q Let me move along and ask you a couple of  
10 questions about your allocation methodology.

11 You agree, do you not, that allocation  
12 methodologies are not an exact science, don't you?

13 A Yes.

14 Q You have never previously proposed your  
15 recommended methodology, which you've outlined in your  
16 testimony in this case, before any regulatory body,  
17 including the Florida Commission, have you?

18 A That's correct.

19 Q And you are not aware of any Florida Public  
20 Service Commission precedent in which the Florida  
21 Commission has adopted your methodology, is that  
22 correct?

23 A That's correct.

24 Q And per your testimony, you're not proposing  
25 the adoption of your methodology in this rate case, is

1 that correct?

2 A Well, I think the Commission could adopt the  
3 methodology, but they cannot implement it. And I  
4 suppose that's somewhat contradictory, but if they are  
5 persuaded by my arguments concerning how I believe that  
6 my allocation methodology is superior to the Company's,  
7 they can adopt it and ask that the Company, or order  
8 the Company to develop the information to allocate  
9 those costs in that manner for their next rate case.

10 Q And your testimony states, does it not, that  
11 the Commission -- and I'm reading at Page 18 -- that  
12 the Commission can order the Company to distribute its  
13 common A&G and general plant costs using this  
14 methodology in southern States' next rate proceeding,  
15 is that right?

16 A That's correct.

17 Q Would you turn to Pages 35 through 37 of your  
18 testimony. On those pages, you discuss a proposed  
19 adjustment for the closing or consolidation of customer  
20 service offices, is that correct?

21 A Yes, it is.

22 Q And per your testimony in Schedule 8 of your  
23 exhibit, you have recommended an adjustment of \$47,955  
24 for office consolidations, is that correct?

25 A Yes.

1 Q Is that what you consider to be a known and  
2 measurable adjustment?

3 A It's not known and measurable in the context  
4 that I described it earlier, in the sense that the data  
5 that I used to develop the adjustment was not historic  
6 data. It was information that the Company provided in  
7 a -- what they -- we asked for productivity studies and  
8 they provided a study showing certain office  
9 consolidations and employee reductions that they  
10 anticipated making in 1992. During the deposition of  
11 Ms. Haggerty, she explained and told us which ones of  
12 those consolidations actually had taken place. The  
13 majority of them had taken place by April of 1992. I  
14 did not make any kind of an adjustment for those office  
15 consolidations where the consolidation did not take  
16 place. The data, as I understand it, that the Company  
17 used in their report was an estimate. I looked at the  
18 items listed as far as cost savings go. They were  
19 things like telephone expenses -- (Pause) rental costs  
20 -- so if you closed a building you know what your  
21 rental cost is going to be -- but rental cost, purchase  
22 power, postage, telephone and data line.

23 And basically I felt like the Company's  
24 estimates would be fairly realistic, that they are not  
25 costs that are subject to a great deal of variability,

1 or they just were pretty known in the sense that the  
2 Company's estimates would be reliable, I guess, is the  
3 way I looked at it.

4 I did not adjust for people that the Company  
5 indicated would be terminated, or that they would have  
6 some labor savings also associated with this. And I  
7 specifically did not make the labor adjustment, because  
8 of the fact that the Company has a lot of turnover and  
9 they may also be adding people.

10 Q Ms. Dismukes, are you aware that the Company  
11 leased a new office in Marco Island for \$30,000 per  
12 year?

13 A That sounds vaguely familiar. It may have  
14 been in somebody's rebuttal testimony.

15 Q Can you tell me what the savings to the  
16 Company have been to date in 1992, with respect to the  
17 closing and consolidation of customer service offices?

18 A No, sir, I don't have that answer. I believe  
19 in the deposition we asked -- well, I'm not going to  
20 say. I don't recall whether or not we asked the  
21 Company whether or not they had that information. I  
22 think we may have, but --

23 Q Ms. Dismukes, on Pages 33 through 35 of your  
24 testimony, you recommend an adjustment for merger costs  
25 incurred by the Company of \$5,385 for water operations,



1 and \$1,862 for wastewater operations, is that correct?

2 A Yes.

3 Q And at Line 16 on that page you state that  
4 the Company has not recognized any savings in the test  
5 year associated with the merger. My question is, is it  
6 your testimony that savings must be recognized in the  
7 test year, in order to permit the inclusion of the  
8 merger expenses?

9 A Well, I think in this instance that is what  
10 I'm arguing, that the Company incurred expenses during  
11 the test year. I think that they argued -- not argued,  
12 but in their petition for consolidation, indicated that  
13 there would be some efficiencies. I would have to say,  
14 undoubtedly, there would be cost savings associated  
15 with that. Those cost savings are not in the test  
16 year. I asked the Company several interrogatories  
17 about it, whether or not they had any estimates of it,  
18 what the cost Staff savings would be, et cetera. The  
19 Company said, that they didn't have anything. And so,  
20 in my opinion, since we can't, if you will, put the  
21 savings back in the test year at a minimum, we should  
22 at least take the costs out.

23 Q So it is your testimony that savings with  
24 respect to this adjustment, must be recognized in the  
25 test year in order to permit the merger expense to be

1 included?

2 A That would be my preference, yes.

3 Q Now, can you cite me to any Commission  
4 precedents in support of your opinion?

5 A No, sir, I can't.

6 Q In fact, in this rate case you have  
7 recommended an adjustment, which we discussed  
8 previously, for expenses arising out the consolidation  
9 and closing of business offices based on anticipated  
10 savings, which may occur outside the test year, have  
11 you not?

12 A Yes.

13 Q On Page 34 of your testimony, at Lines 20  
14 through 22. Are you there?

15 A Yes.

16 Q Okay. You state that the merger did not  
17 occur until 1992, and any benefits associated with it  
18 would not be included in the test year results used by  
19 the Company. Now, I take it from that sentence that  
20 you do acknowledge that there are benefits enjoyed by  
21 the ratepayers from the merger of Southern States  
22 Utilities, Deltona Utilities and United Florida  
23 Utilities. Is that a correct assumption on my part?

24 A Yes.

25 Q I'd like to just discuss briefly with you

1 some of those benefits that we went through in the  
2 Lehigh case. Would you agree, that the merger makes it  
3 less confusing for the customers because they will now  
4 have one name associated with their utility service  
5 provider?

6 A Generally, yes.

7 Q Wouldn't you agree, as you did in the Lehigh  
8 case, that it would be more efficient for 150 systems  
9 owned and operated by the same Company to file one  
10 annual report with the Commission?

11 A Yes.

12 Q Wouldn't you also agree that it would be more  
13 efficient for 150 systems owned and operated by the  
14 same Company to have one set of financial statements  
15 and one set of general ledgers?

16 A Yes, and as I stated in the Lehigh case, it  
17 would result in cost savings as well.

18 Q And it would also be more efficient, would it  
19 not, for the Company to have one outside independent  
20 auditor performing one independent audit, which results  
21 in one set of audited financial statements?

22 A Yes, and it should result in cost savings as  
23 well.

24 Q This is sounding familiar. And it would also  
25 be more efficient for the ratepayers, would it not,

1 that -- to have a merger so that there would be a more  
2 efficient rate case process, and a more efficient rate  
3 case audit process?

4 A I think we had a little more discussion on  
5 that one in the Lehigh case.

6 Q Would you agree with that statement, that  
7 that -- there would be efficiencies in the rate case  
8 process and the rate case audit process due to the  
9 merger?

10 A I think it really depends on how you look at  
11 the situation. From OPC's standpoint, it makes it more  
12 difficult for our office to evaluate the rate case due  
13 to its size. Therefore, as far as the customer is  
14 concerned, perhaps there is not as great of a benefit  
15 to them because of that -- the complexity of the case  
16 and our inability to deal with something of this size.

17 To the extent that -- if you ignore Staff-  
18 assisted rate cases and the PAA process, which are  
19 available to the Company, then I would agree that it  
20 would be more efficient because there would be savings  
21 associated with the rate case expense. But you have to  
22 ignore those two items.

23 Q So your response, essentially, is that  
24 combining the systems in a rate case makes it more  
25 difficult, from a work load standpoint, for Public

1 Counsel, the Company and other intervenors, is that  
2 correct?

3 MR. McLEAN: I think there's a point of  
4 confusion here, Mr. Chairman. The question is more  
5 compared to what? We have the consolidated filing on  
6 the one hand, but I don't think the witness has been  
7 told what she is expected to compare that with.

8 MR. HOFFMAN: I think her last response is  
9 what I was alluding to.

10 CHAIRMAN BEARD: How would you compare that  
11 to putting on the Olympics in Atlanta? (Laughter)

12 WITNESS DISMUKES: I'm sorry, what?

13 CHAIRMAN BEARD: Everything is relative.

14 WITNESS DISMUKES: Are you waiting for an  
15 answer?

16 MR. HOFFMAN: Yes. (Laughter)

17 MR. McLEAN: I'm objecting to the question,  
18 and my memory is not good enough to remember --

19 CHAIRMAN BEARD: Let me see if I can rephrase  
20 it and see if I understood it correctly. You're  
21 comparing one consolidated case, and the difficulty  
22 associated with that, as opposed to filing in 127  
23 individual cases?

24 MR. HOFFMAN: Yes, sir. My point is that --  
25 and if I recall correctly from the Lehigh case, I

1 believe Ms. Dismukes' testimony was that the merger  
2 would, in fact, cause a more efficient rate case  
3 process and more rate case audit process. And I think  
4 the transcript would speak for itself, and I think what  
5 she is talking about today is that, while that may be  
6 true, it does impose a greater workload on the parties  
7 and the Company.

8 CHAIRMAN BEARD: Does that conclude your  
9 testimony?

10 MR. HOFFMAN: Yes.

11 MR. McLEAN: Greater compared to what?

12 MR. HOFFMAN: Compared to filing separate  
13 systems.

14 MR. McLEAN: I don't think she can answer  
15 that unless you're willing to ask her to assume that we  
16 would participate in all those separate filings, which  
17 may or may not be true.

18 Q (By Mr. Hoffman) Let me just -- I'll get off  
19 this. One more try. Ms. Dismukes, subject to check, I  
20 believe your testimony in the Lehigh case was that the  
21 merger would result in a more efficient rate case  
22 process, compared to the filing of separate systems,  
23 and a more efficient rate case audit process.

24 A Mr. Hoffman -- I'm sorry.

25 Q Subject to check, do you still stand on that

1 testimony?

2           A     Mr. Hoffman, if you have my transcript here,  
3 I would like to take a look at it. I do recall this  
4 discussion. I do recall kind of agreeing with you, but  
5 I also recall making a small speech in terms of OPC's  
6 problems with the process. So you're trying to either  
7 take something out of context -- not intentionally,  
8 necessarily, but I'd rather just have it here. I don't  
9 particularly want to accept it, subject to check, at  
10 this point. Because then I would have to come back  
11 again and clarify it.

12           Q     Okay, fair enough. Ms. Dismukes, do you know  
13 how much a merger of two corporations typically costs?

14           A     In the Lehigh case my answer was no, I did  
15 not. I would like to expand upon that a little bit and  
16 say that there is probably not a typical merger.

17           Q     Have you ever been personally involved in a  
18 merger of two companies?

19           A     I have never been personally involved in the  
20 merger of two companies, however, I have testified on  
21 the subject of the merger of two companies and  
22 participated in a rate case where that was at issue.

23           Q     Ms. Dismukes, let's switch subjects, and let  
24 me ask you to turn to Pages 50 and 51 of your  
25 testimony.

1           If I am reading your testimony correctly --  
2 and this is addressing a proposed adjustment for the  
3 expense associated with the Price Waterhouse audit.  
4 You are recommending an adjustment of \$3,800, to the  
5 \$15,505 of expenses which Southern States paid for the  
6 Price Waterhouse audit of Southern States' employee  
7 savings plan and employment pension plan, is that  
8 correct?

9           A     Yes, sir.

10          Q     And your adjustment amounts to one-fourth of  
11 Price Waterhouse's labor charges for these audits, is  
12 that correct?

13          A     That's correct.

14          Q     What data led you to conclude that a 25%  
15 adjustment, as opposed to a 10%, 40%, 15%, adjustment  
16 is appropriate?

17          A     Well, I didn't really rely upon any data. I  
18 relied upon the bill that was sent by Price Waterhouse  
19 that said the recurring fee would be substantially  
20 less. I did look at that the billing that they had,  
21 the individuals, the number of hours that they spent on  
22 the project. I considered disallowing half of it, and  
23 decided that 25% would be more reasonable.

24          Q     Is there anything specific apart from the  
25 answer you just gave me that led you to a 25% figure?



1           A     No, sir.

2           Q     Is there any way that the Public Counsel, the  
3 Southern States or the Commission can guarantee that  
4 the audit fee will be substantially less in future  
5 years?

6           A     I think that would depend on whether or not  
7 the Company had negotiated any kind of arrangements  
8 with Price Waterhouse. I think in this particular  
9 instance, if Price Waterhouse does the same type of  
10 activity next year, and they charge me the same thing  
11 or they charge me more, I think I'd show this little  
12 bill to them and say, "You said it was going to be  
13 less. How come it's not? So, no, we can't guarantee  
14 it, but I would certainly question it if it was.

15          Q     To your knowledge, have any such arrangements  
16 been negotiated or completed between to the Company and  
17 Price Waterhouse? (Pause)

18          A     I don't believe so. I recall somewhere where  
19 we have a response to an interrogatory where the  
20 Company -- and it may be even unrelated to this, the  
21 Company indicated that because of the consolidation of  
22 their companies, that their Price Waterhouse audit  
23 costs would be less, but I think that's different than  
24 this particular savings plan.

25          Q     Ms. Dismukes, isn't it possible that the same

1 individuals who performed the 1991 audit will not  
2 perform the 1992 audit?

3 A Yes.

4 Q Wouldn't you agree that it's not unusual for  
5 independent auditors to assign different individuals to  
6 conduct an audit from year to year?

7 A Yes.

8 Q Isn't it possible that the 1992 audit could  
9 be expanded in scope, for one reason or another?

10 A I'm sorry, that one was a little quick.

11 Q I'm sorry, I'll slow down. Isn't it possible  
12 that the 1992 audit could be expanded in scope, for one  
13 reason or another?

14 A Sure.

15 COMMISSIONER CLARK: Mr. Hoffman, are you  
16 taking issue with Price Waterhouse' statement that the  
17 second -- the next audit should be substantially less?

18 MR. HOFFMAN: No, ma'am. Our position is  
19 that there is no way we can know that. And there's no  
20 way that the Public Counsel can know that.

21 COMMISSIONER CLARK: Well, you know, the  
22 people you used represented that it would be less.

23 MR. HOFFMAN: I think I'm going to move on,  
24 Ms. Dismukes. If you're turn to page --

25 CHAIRMAN BEARD: We could always stipulate

1 that death and taxes are the only two things that are  
2 for sure.

3 Q (By Mr. Hoffman) If you would turn to Page  
4 50 of your testimony. You are recommending an  
5 adjustment of \$15,247 for professional studies. Do you  
6 have that?

7 A Yes, I do.

8 Q Now, your adjustment is based on your belief  
9 that the customer survey study and the OPEB actuarial  
10 study are nonrecurring expenses, is that not correct?

11 A I don't believe that's correct. I think you  
12 put in there "customer survey study." I do not have an  
13 adjustment for the customer survey study.

14 Q Okay. So your study pertains only to the  
15 OPEB actuarial study?

16 A No, sir. Let me just tell you what it refers  
17 to and then you won't have to search for it.

18 Q Okay.

19 A It's basically the OPEB actuarial studies, as  
20 well as the charges by Minnesota Power and Light for  
21 what they refer to as organizational development. I  
22 think that completes my answer.

23 Q So just to make sure that I understand, your  
24 adjustment does not purport to adjust for the expense  
25 associated with the Cambridge report study, which was

1 the customer survey study that the Company had done?

2 A No, sir, I don't believe at all. The  
3 information that I used to pull this from was the  
4 Company's -- the Company's general ledger, I believe.  
5 And the entries that I was using, the adjusting journal  
6 entries were described as Milian & Roberts, which is  
7 the Company's actuary, as I understand it, and then  
8 MPLOD charges, to the extent that Minnesota Power and  
9 Light OD charges are the Cambridge study, then perhaps  
10 I've done that, but the Cambridge study, I think, is  
11 booked someplace completely -- someplace else. It's an  
12 issue that was raised by Staff. Public Counsel didn't  
13 even raise the issue.

14 Q With respect to the organizational  
15 development costs that you referred to earlier,  
16 wouldn't you agree that those are recurring costs?

17 A I would agree that some of them will more  
18 than likely be recurring costs. The Company answered  
19 an interrogatory for us recently on that, and they  
20 indicated that the organizational development was an  
21 initial effort, plus an ongoing effort on behalf of  
22 Minnesota Power and Light to help the Company, perhaps,  
23 be more efficient.

24 So the recurring portion that the Company  
25 alleges is going to be recurring, I guess, would be

1 recurring, if that makes much sense. The initial piece  
2 of it, I would have to say, would not be recurring  
3 because it was kind of an up front effort, if you will,  
4 you're moving down a learning curve, and I wouldn't  
5 expect that to recur.

6 Q Let me ask you a few questions on that part  
7 of your adjustment pertaining to the OPEB study,  
8 actuarial study.

9 A Yes, sir.

10 Q Wouldn't you agree that studies by  
11 independent actuaries of the appropriate level of the  
12 Company's OPEB expenses is a prudent business expense?

13 A Yes, I would.

14 Q Wouldn't you agree that such studies are  
15 necessary for the Company to justify to the Commission  
16 the appropriate level of OPEB expenses necessary to  
17 attract and retain quality employees?

18 MS. McLEAN: I want to object a little bit.  
19 There was a lot in that question.

20 MR. HOFFMAN: You want me to say it over  
21 again?

22 MR. McLEAN: Say it over again without  
23 testifying, Ken, and we'll be home free.

24 MR. HOFFMAN: Just following your lead.

25 Q (By Mr. Hoffman) My question, Ms. Dismukes,

1 was would you not agree that such studies are necessary  
2 for the Company to justify to the Commission the  
3 appropriate level of OPEB expenses necessary to attract  
4 and retain quality employees?

5 MR. McLEAN: Mr. Hoffman, would you agree  
6 just to one small amendment of the question, to try to  
7 justify?

8 MR. HOFFMAN: Sure.

9 WITNESS DISMUKES: Yes.

10 Q (By Mr. Hoffman) Isn't it true that it is  
11 prudent for the Company to constantly review the level  
12 of postretirement benefits it provides to its employees  
13 for such things as medical and dental insurance and  
14 life insurance?

15 A Yes. What I'd like to do at this point, if I  
16 might, is we received a -- as I state in my testimony  
17 here, I think I said, although I do not yet have  
18 complete documentation on these studies, it would  
19 appear that the costs have been fully amortized and  
20 will not recur in the future.

21 The Company provided us a response to an  
22 interrogatory which basically says that of the  
23 actuarial expenses that were incurred during the test  
24 year, included in the professional studies,  
25 approximately \$8,000 of those expenses would not be

1 recurring. The expenses associated with, I believe,  
2 the OPEBs that we're talking about were to be  
3 recurring. So, basically, I'm not recommending at this  
4 point that we kick out the expenses associated with the  
5 Company's actuarial study.

6           What I would recommend is that we remove the  
7 \$8,000 that I just mentioned, that the Company has  
8 agreed is nonrecurring. And that only applies to the  
9 piece of the deferred professional studies associated  
10 with the actuarial information. There's two pieces to  
11 the puzzle: The actuarial studies and the OD charges.

12           Q     I'm sorry, I didn't hear that.

13           A     There's two pieces to the puzzle: The  
14 actuarial studies and the organizational development  
15 charges from Minnesota Power and Light. The \$8,000  
16 figure that I just mentioned, \$8,141, relates only to  
17 the actuarial aspect of that.

18           Q     Ms. Dismukes, have you been provided any  
19 documentation or other evidence from the Company that  
20 the organizational costs -- organizational development  
21 costs assessed by Minnesota Power and Light, will  
22 decrease in 1992 or any year thereafter?

23           A     Let me tell you what the Company has provided  
24 me. Basically, I asked them to describe all  
25 professional studies for which the associated costs

1 were expensed during the test year. Then I had several  
2 -- well, "For each study described indicate the amount  
3 of expense during the test year, describe and indicate  
4 when the study was begun and when it will be completed,  
5 indicate if the cost is recurring or nonrecurring. For  
6 each study which the Company indicates is recurring,  
7 please explain why it is recurring."

8           On organizational development, the Company  
9 responded: "The organizational development process  
10 will create an environment in which employees will be  
11 empowered to make decisions about how SSU conducts  
12 business. This problem involves initial and ongoing  
13 training to both management and employees so that  
14 business philosophies and strategies will be consistent  
15 throughout the organization."

16           And then the Company goes on to explain for  
17 another page, half a page, about all the benefits of  
18 organizational development. They didn't really answer  
19 the question as I asked it. But because you said that  
20 there was initial and ongoing, I will interpret that  
21 that is to say that there is a piece that is recurring  
22 and a piece that is nonrecurring. That's the only  
23 information that I do have at this point in time.

24           Q     Okay. And there's nothing in that response  
25 which tells one anything about the level of expense in



1 future years, is that correct?

2 A That's correct.

3 Q Let me ask you a property tax question.

4 Would you agree that a determination that utility plant  
5 is 25% nonused and useful does not translate directly  
6 into a 25% reduction in property taxes associated with  
7 such nonused and useful plant?

8 A Yes.

9 Q Ms. Dismukes, is it your testimony that it is  
10 not fair for ratepayers to pay for the Company's  
11 defense and legal fees when the DER or the EPA alleges  
12 that the Company has violated the law?

13 A Yes, sir.

14 Q If the Company successfully defeats an  
15 attempt by DER to require the Company to construct  
16 additional treatment facilities, don't the ratepayers  
17 benefit from those efforts?

18 A Could you -- I missed the key piece about  
19 what was happening with the DER.

20 Q If the Company successfully defeats an  
21 attempt by DER, which would require the Company to  
22 construct additional treatment facilities, don't the  
23 ratepayers benefit from these efforts by the Company?

24 A Mr. Hoffman, I really hate to ask you to read  
25 that again, but --

1 Q That's okay. If the Company successfully  
2 defeats an attempt by DER --

3 A That I've got.

4 Q -- which would require the Company to  
5 construct additional treatment facilities, water  
6 treatment facilities, for example, don't the ratepayers  
7 benefit from the Company's efforts?

8 A Let me see if I can restate what it is that  
9 you're asking so that I can understand it.

10 Are you saying basically that the -- fighting  
11 the DER fine allowed the Company not to construct  
12 additional facilities? Is --

13 COMMISSIONER CLARK: Right.

14 WITNESS DISMUKES: Okay.

15 COMMISSIONER CLARK: That's it. I think the  
16 question is basically, if the Company doesn't have to  
17 build something they otherwise would have, if they  
18 hadn't fought DER, are the customers better off? Do  
19 they benefit?

20 MR. HOFFMAN: Yes, ma'am, that's --

21 COMMISSIONER CLARK: They don't have to make  
22 additional investment that ultimately the ratepayers  
23 have to pay.

24 MR. MCLEAN: Yeah, but there's --

25 COMMISSIONER CLARK: I agree, but that's the

1 question.

2 MR. McLEAN: Okay.

3 COMMISSIONER CLARK: I mean, she can answer  
4 "yes" or "no" and then explain.

5 WITNESS DISMUKES: I think it would depend  
6 upon the circumstances of the situation. If, for  
7 example, the quality of water would be improved, or the  
8 pressure, or whatever the situation might be,  
9 associated with what DER was requiring the Company to  
10 do, then perhaps the ratepayers don't benefit from that  
11 defeat. To the extent that you want to talk about  
12 placing additional dollars in the rate base, depending  
13 on the timing of the rate cases, et cetera, rates would  
14 be lower with a successful defeat, all else being  
15 equal.

16 Q Okay. Let me ask you just a few questions  
17 about your testimony which addresses the proposed  
18 adjustment for the gain on the sale of the condemnation  
19 of the St. Augustine Shores system, and I think that  
20 begins on Page 24 of your testimony.

21 A Yes, sir.

22 Q And I'd like to just limit my questions to  
23 that specific testimony which is found on Lines 16  
24 through 19.

25 Excuse me just a moment. (Pause)

1           You are saying in that passage there, are you  
2 not, that the ratepayers in this case have suffered  
3 because, with the condemnation of the St. Augustine  
4 Shores system, the same level of 1991 A&G and customer  
5 service expenses will be spread over a smaller total  
6 Company customer base, the result of which would be to  
7 increase the A&G and customer service expense for the  
8 ratepayers in this application?

9           A     Well, I didn't use the word "suffered" in  
10 there, but if you take that out, I think I can agree  
11 with you.

12          Q     Okay. What I would like to do is attempt to  
13 explore with you a little further the dollar impact of  
14 your position.

15               MR. HOFFMAN: I'm going to hand out an  
16 exhibit, Mr. Chairman, which I would like marked for  
17 identification. (Pause)

18               CHAIRMAN BEARD: This will be Exhibit No.  
19 128. Short title?

20               MR. HOFFMAN: "Potential Impact to Ratepayers  
21 of St. Augustine Shores Condemnation."

22                       (Exhibit No. 128 marked for identification.)

23          Q     (By Mr. Hoffman) Ms. Dismukes, why don't you  
24 take a moment to review that exhibit. (Pause)

25          A     Okay.

1 Q Okay. Would you accept, subject to check,  
2 that -- subject to check, that the number of customer  
3 figures found on this exhibit are found in Volume 1,  
4 Book 2, of the Company's MFRs?

5 A I can agree with the number there, if that's  
6 what you want me to do.

7 Q Yes. I'm just trying to verify that, subject  
8 to check, that these numbers, in terms of the number of  
9 customers, were taken out of Volume 1, Book 2 of the  
10 MFRs.

11 A Okay, sure.

12 Q Okay. Now, if you look at the first line  
13 across the page, you'll see that total Company number  
14 of customers for the 1991 historic test year is  
15 158,594, is that right?

16 A Yes.

17 Q Okay. Then if we move over to the  
18 FPSC-filed, and that represents the number of customers  
19 for the 1991 historic test year in this application,  
20 correct?

21 A Yes.

22 Q And that represents, on a percentage basis,  
23 approximately 63.7126%, correct?

24 A Yes.

25 Q And then if you look at the next number over,

1 you would see that there are 57,550 customers in the  
2 historic test year pertaining to the Lehigh system, the  
3 nonjurisdictional county systems and gas operations,  
4 correct?

5 A Yes.

6 Q And that would also include the Marco Island  
7 systems which are not part of this application,  
8 correct?

9 A Yes.

10 Q And that comes to 36.28%?

11 A I'll accept that, subject to check.

12 Q Okay, thank you.

13 If you move down, then, you'll see what we've  
14 done on this page is, say, with the St. Augustine  
15 Shores system, St. Augustine Shores, if you look all  
16 the way over on the right part of that column, that  
17 line -- excuse me -- had 4,591 customers, so that would  
18 make our total Company, if you add St. Augustine  
19 Shores, 163,185, would you agree?

20 A Yes.

21 Q And the percentages then go down in terms of  
22 the number of customers in this application to  
23 approximately 62% for the customers in this  
24 application, 35.2% for the -- under the other column,  
25 and 2.8% for St. Augustine Shores, is that correct?

1 A Yes.

2 Q Now, moving down to the dollar figures, if  
3 you look under "Customer Accounts," you'll see that  
4 there is a 1.7 million figure, which was taken from  
5 Volume 1, Book 2. And that represents total Company  
6 customer account expense, is that correct?

7 A Subject to check, yes.

8 Q Okay. And same question, subject to check, in  
9 terms of the total Company A&G expense of 7.3 million.

10 (Pause)

11 A I'll accept that number. It's been checked.

12 Q Thank you. And what we have done on this  
13 exhibit, Ms. Dismukes, if you move over to the next  
14 column, which is FPSC filed, is apply the percentages  
15 of 63.7126% for the customers in this case, to come up  
16 with the dollar figures under FPSC filed. Can you  
17 accept that, subject to check?

18 A Yes.

19 Q Likewise, under the column under "other," we  
20 have applied the percentage of 36.28% to the dollar  
21 figures over on the left to come up with our figures  
22 for customer account and A&G expense; can you accept  
23 that?

24 A Could you repeat that, please?

25 Q Sure. What we have done under the column

1 "Other Lehigh County and Gas," and that should include  
2 Marco Island; it does not but it should. Under  
3 "Customer and A&G Expenses," what we have done is we've  
4 applied the percentage number of customers, which is  
5 36.2874%, to the total company dollar figures, all the  
6 way on the left.

7 A Okay.

8 Q Okay. Now, what we come up with there, are  
9 total dollar figures for customer account expense and  
10 A&G expense for the 1991 historic test year, for the  
11 customers subject to the application in this rate case,  
12 and for the remaining customers of the Company; is that  
13 correct?

14 A Yes.

15 Q Okay. Finally, down to the last portion of  
16 this exhibit. What we have done here is we have thrown  
17 St. Augustine Shores back into the equation, using  
18 their percentage number of customers. And what we come  
19 up with by allocating to St. Augustine Shores, based on  
20 a 2.87% customer base, is \$48,929 of 1991 customer  
21 account expense, and 205,988 to St. Augustine Shores  
22 for A&G expense. Do you agree with that?

23 A Subject to check.

24 Q Subject to check. Thank you. And the total  
25 then is \$254,917, which would represent the amount



1 drawn out of the total company pool, and which would be  
2 allocated to the St. Augustine Shores customers; is  
3 that correct?

4 A Yes.

5 Q And then the last figure on the page, the  
6 \$157,844 is simply the 62%, a little bit under 62% of  
7 the 254,917, which would then be allocated to the  
8 customers in this application; is that correct?

9 A Yes.

10 CHAIRMAN BEARD: You just lost me. We were  
11 doing good until you got to there. I'm assuming that  
12 61.9199% is equivalent to the 61.9199% that's up under  
13 St. Augustine Shores, FPSC filed.

14 MR. HOFFMAN: Yes, sir.

15 CHAIRMAN BEARD: And I'm not sure why you're  
16 using that figure there.

17 MR. HOFFMAN: The reasoning there, Chairman,  
18 is that we take the 254,917, on the lower right part of  
19 the page.

20 CHAIRMAN BEARD: I'm with you there.

21 MR. HOFFMAN: Okay. And we say that is the  
22 total company amount which would have gone to St.  
23 Augustine Shores. So that we have a dollar figure  
24 there, which we then divvy up between the customers in  
25 this case and other gas customers, Lehigh customers,

1 Marco customers, nonjurisdictional county customers.

2 CHAIRMAN BEARD: Well, that's where I'm  
3 confused. I don't need for you to testify, but as I  
4 followed your logic, you had broken out your "other"  
5 already. And I'm going back up to the top where you  
6 got 61.9199% as FPSC filed, without St. Augustine  
7 Shores -- I mean those percentages are fallouts of the  
8 numbers.

9 MR. HOFFMAN: Right.

10 CHAIRMAN BEARD: And they're already  
11 separated out. It appears that you're hitting it  
12 twice, to me, and I'm not understanding, maybe my math  
13 is weak.

14 MR. HOFFMAN: Well --

15 CHAIRMAN BEARD: I mean, I followed you all  
16 the way down to the difference, and then going back and  
17 reapplying the 61.9199% to the St. Augustine Shores  
18 numbers confused me.

19 MR. HOFFMAN: Let me try asking Ms. Dismukes.

20 CHAIRMAN BEARD: Okay. Maybe she can help  
21 me. Because if you understand it, then help me.

22 WITNESS DISMUKES: Well, now I'm confused,  
23 but --

24 Q (By Mr. Hoffman) I think you testified, Ms.  
25 Dismukes, that the 157,844, you see that figure?

1 A Yes.

2 Q Represents the 61.9199% percentage for  
3 customers in this case, applied against the \$254,917;  
4 is that correct?

5 A That's the mathematical result.

6 Q Okay. And I think where we are now is  
7 whether or not under the calculations on this page, the  
8 appropriate amount being borne by the ratepayers in  
9 this case would be the 254,917 or the 157,844. And my  
10 question to you is which one would it be? (Pause)

11 CHAIRMAN BEARD: The appropriate amount to be  
12 borne by the ratepayers?

13 MR. HOFFMAN: Stated differently, Chairman,  
14 Ms. Dismukes' theory is there are additional A&G and  
15 customer account costs borne by the customers in this  
16 case, and I am trying to come up with that dollar  
17 figure.

18 MS. DISMUKES: Could you repeat the question?

19 Q (By Mr. Hoffman) Yes. I think some  
20 confusion set in as to which -- whether it is the  
21 \$254,917 or the further allocated amount of \$157,844,  
22 which would represent the additional A&G and customer  
23 account costs being requested of the ratepayers in this  
24 case due to the condemnation of St. Augustine Shores.  
25 My answer to you is which one would it be?

1           A     I think it's the 157,844.

2           Q     Okay. Now, my last question to you, I think,  
3 on this is, in your opinion, does that not represent a  
4 reasonable estimate of the amount of A&G and customer  
5 account expenses which would be transferred back to the  
6 customers in this case due to the condemnation of the  
7 St. Augustine Shores system?

8           A     Yes. I mean I think -- you actually  
9 quantified my second paragraph.

10          Q     Thank you.

11                CHAIRMAN BEARD: Not that it matters, I don't  
12 understand. Let me talk to you for a minute.

13                Let's say that St. Augustine Shores was never  
14 condemned and it was a part of this rate case, okay?  
15 I'm assuming we would take the column of St. Augustine  
16 Shores and migrate those numbers back in to the FPSC  
17 filed column?

18                WITNESS DISMUKES: Wait, I think you'd put  
19 them in the total company column, but they're not a  
20 FPSC filed system.

21                CHAIRMAN BEARD: If they had not been  
22 condemned.

23                WITNESS DISMUKES: They would end up under  
24 the "other" category.

25                MR. HOFFMAN: They were not regulated,

1 Chairman, by the Florida Public Service Commission.

2 CHAIRMAN BEARD: Okay. So we would migrate  
3 them into the "other" category. And at that point, in  
4 the "with St. Augustine Shores" you would then have  
5 62,141, or something like that, customers. You would  
6 have 38-plus some percent, is that correct, I would  
7 migrate that column back over, adding 35.2667% to  
8 2.8134%?

9 WITNESS DISMUKES: That's correct.

10 CHAIRMAN BEARD: Okay. And get those  
11 numbers. And you would do the same thing down at the  
12 bottom. In each instance, you would be adding the St.  
13 Augustine Shores column to the other column; is that  
14 correct?

15 WITNESS DISMUKES: Yes.

16 CHAIRMAN BEARD: Okay. Now, when you  
17 separate them out -- I see how you separate them out, I  
18 saw how you got that. What I don't understand is when  
19 you get to the bottom line the difference, St.  
20 Augustine Shores accounts for \$254,917. Okay? Their  
21 portion of total company.

22 WITNESS DISMUKES: Right.

23 CHAIRMAN BEARD: I don't understand why you  
24 are applying a 62% factor --

25 WITNESS DISMUKES: Factor to that?

1 CHAIRMAN BEARD: Yes.

2 WITNESS DISMUKES: I think why that is  
3 appropriate in this instance is you've got to then --  
4 this is the piece that would have been allocated to St.  
5 Augustine Shores.

6 CHAIRMAN BEARD: 254,000 would have been  
7 allocated to St. Augustine Shores.

8 WITNESS DISMUKES: Had it not been sold.

9 CHAIRMAN BEARD: Okay.

10 WITNESS DISMUKES: And then we want to try to  
11 figure out the impact of that on the customers in this  
12 filing. Part of that 254,000 would impact customers in  
13 this filing and in the nonfiled systems. So applying  
14 the allocation factor -- this 62% allocation factor  
15 actually quantifies that as it impacts this filing.

16 CHAIRMAN BEARD: And that's my point. I do  
17 not understand how it impacts the companies that were  
18 filed in this filing. Okay. Because if I followed our  
19 discussion earlier, if St. Augustine Shores was still  
20 hanging around, had not been condemned, the "other"  
21 column, "Lehigh counties, gas," et cetera, would now  
22 read \$347,404. You would add the "St. Augustine  
23 Shores" column to the "other" column, right?

24 WITNESS DISMUKES: That's right.

25 CHAIRMAN BEARD: Okay. How are the filed

1 companies impacted?

2 MR. McLEAN: Commissioner, I have something I  
3 want to whine about a little bit.

4 CHAIRMAN BEARD: Okay.

5 MR. McLEAN: They are using this exhibit to  
6 whoop up on my witness. You all are asking her to give  
7 it credibility.

8 CHAIRMAN BEARD: Well, actually, that last  
9 figure doesn't have any credibility with me.

10 MR. McLEAN: Okay.

11 CHAIRMAN BEARD: Right now.

12 MR. McLEAN: I just wanted to whine about it  
13 a little bit.

14 CHAIRMAN BEARD: But if she agrees with the  
15 figure, and she did -- okay, and, I mean, if she  
16 doesn't agree with the figure, tell me. Because then  
17 she and I would be thinking alike. Right now I don't  
18 understand it. And I know we're not suppose to -- I  
19 mean, the bottom line is, it's supposed to be to  
20 educate us, but we try to avoid that whenever possible.  
21 And I don't mean to put you on the spot either.

22 COMMISSIONER CLARK: All I can say is speak  
23 for yourself.

24 CHAIRMAN BEARD: I guess I just don't  
25 understand.

1 WITNESS DISMUKES: Why it's not the 254,917  
2 basically? (Pause)

3 CHAIRMAN BEARD: Are you saying -- maybe I do  
4 understand. Are you saying because -- I think I just  
5 understood.

6 You're saying you got \$254,917, St. Augustine  
7 Shores is gone but the money is still there, it's got  
8 to get accounted for.

9 WITNESS DISMUKES: Right.

10 CHAIRMAN BEARD: And you've got to spread  
11 that back over the two columns, which is "FPSC filed"  
12 and "other." And you've got to do that by the  
13 percentage of 61.9199 and 35.2667?

14 WITNESS DISMUKES: Right.

15 CHAIRMAN BEARD: I'm sorry, I'm with you.  
16 Just a little slow.

17 Q (By Mr. Hoffman) Ms. Dismukes, let me move  
18 on.

19 In terms of known and measurable impacts and  
20 adjustment, isn't it true that the impact on the  
21 remaining ratepayers in this application in terms of  
22 additional A&G and customer service expense, has been  
23 more than offset by the addition of approximately  
24 13,000 Lehigh customers?

25 A I think you're kind of mixing apples and



1 oranges. So I guess I can't agree to that, I will  
2 agree that you have added Lehigh customers, and as a  
3 result of that, there were total company A&G expenses  
4 that were allocated to Lehigh. But then the Company  
5 comes in and they have pro forma adjustments, and they  
6 take the Lehigh A&G and they allocate it to the rest of  
7 the system. So it's really kind of confusing in terms  
8 of what the bottom line result is -- what the outcome  
9 is in terms of is there a savings or not; how it  
10 actually impacts the bottom line. I'm not prepared to  
11 tell you that.

12 MR. HOFFMAN: Okay.

13 CHAIRMAN BEARD: Let me stop. Sorry, I've  
14 got to finish my thought process here.

15 St. Augustine Shores left the Southern States  
16 family when? Do you know, or can somebody help me?

17 WITNESS DISMUKES: I've got it in my  
18 testimony, let me just find it for you.

19 CHAIRMAN BEARD: Subject to check.

20 WITNESS DISMUKES: Southern States sold  
21 substantially all of its assets on August 22nd, 1991.

22 CHAIRMAN BEARD: Half way through the test  
23 year?

24 WITNESS DISMUKES: Yes.

25 CHAIRMAN BEARD: Okay. So help me out. St.

1 Augustine Shores incurred A&G expenses during the test  
2 year.

3 WITNESS DISMUKES: Can I just elaborate,  
4 maybe help out?

5 CHAIRMAN BEARD: Sure.

6 WITNESS DISMUKES: I think what the thing you  
7 need to consider here is that -- I don't want to use  
8 the words "generally speaking," but I'm going to have  
9 to -- generally speaking, your A&G is fixed in the  
10 short run. So all we're talking -- so we're not  
11 talking about actually incurred A&G that is specific to  
12 St. Augustine Shores.

13 CHAIRMAN BEARD: I understand that. But to  
14 the extent that you allocate it over existing companies  
15 during the test year, from January 1st to August the  
16 umpf, whatever that date was. Those should have been  
17 allocated to St. Augustine Shores, right?

18 WITNESS DISMUKES: Yes, sir, but they made an  
19 adjustment to the allocate factors to pull out all of  
20 St. Augustine Shores from the test year.

21 CHAIRMAN BEARD: Okay. Go ahead. I'm sorry.

22 MR. HOFFMAN: Thank you, Mr. Chairman.

23 Q (By Mr. Hoffman) Ms. Dismukes, I'm going to  
24 have an exhibit handed out to you. Mr. Chairman, if I  
25 could have a number.

1 CHAIRMAN BEARD: This would be Exhibit No.  
2 129. Short title.

3 MR. HOFFMAN: "Public Counsel's Response to  
4 Southern States Interrogatory No. 26."

5 (Exhibit No. 129 marked for identification.)

6 CHAIRMAN BEARD: Now, next question. About  
7 how much more do you have?

8 MR. HOFFMAN: About five minutes, I would say.

9 CHAIRMAN BEARD: Good for you.

10 MR. HOFFMAN: Just looking to counteract the  
11 brownie points distributed earlier in this proceeding.

12 CHAIRMAN BEARD: Keep moving along, you're  
13 (?) How much does Staff have?

14 MS. KNOWLES: Probably about ten minutes.

15 CHAIRMAN BEARD: Very good. We may try to  
16 finish before lunch then, if you all will live up to  
17 your word.

18 WITNESS DISMUKES: Maybe we'll even get done  
19 today.

20 CHAIRMAN BEARD: They'll make a great profit  
21 out of you yet. That's P-H-R-O, not P-R-O-F-I.

22 Q (By Mr. Hoffman) Ms. Dismukes, do you have  
23 what has been identified as Exhibit 129 in front of  
24 you?

25 A Yes, I do have it in front of me.

1 Q The question in that interrogatory, which  
2 says Southern States Interrogatory No. 26 to the Public  
3 Counsel, states "If Southern States successfully  
4 defeats a condemnation attempt, does Public Counsel  
5 believe that the costs associated with defeating the  
6 condemnation attempt should be recoverable from the  
7 customers?" And if you look at the third sentence of  
8 the response, the response is, "However, where the  
9 Utility demands more compensation than is found by a  
10 court to be just, then in the absence of a direct  
11 customer interest in the outcome, the customer ought  
12 not pay the reference costs.

13 Now, you are aware, are you not, Ms.  
14 Dismukes, from some prior testimony in this case, that  
15 Southern States is seeking recovery of expenses  
16 associated with condemnation attempts by governmental  
17 bodies which do not reach the point of filing a  
18 lawsuit; is that correct?

19 A I think so, yes.

20 Q Do you have any evidence that Southern States  
21 demanded excessive compensation in any of those  
22 instances?

23 A No, sir.

24 Q Ms. Dismukes, if the Company establishes --  
25 and this is a hypothetical, if the Company establishes

1 in this case that there will be known and measurable  
2 increases in the number of employees and the salaries  
3 associated therewith, in sludge-hauling cost, in water  
4 testing, in medical insurance and workers compensation  
5 costs, would you agree that those costs should be taken  
6 into account by the Commission in establishing rates?

7 A The very first part of your sentence, if the  
8 Company what?

9 Q If the Company establishes, in this  
10 proceeding, that there are known and measurable  
11 increases occurring outside the test year, in the  
12 number of employees, in the salary costs associated  
13 therewith, in sludge-hauling costs, in water-testing  
14 costs, in medical insurance costs and in workers  
15 compensation costs, would you agree that those known  
16 and measurable increases ought to be considered by the  
17 Commission in establishing rates?

18 A I'm sorry, but I really can't answer that  
19 with a yes. I think that there are a lot of things  
20 that would need to be considered before I could say yes  
21 to that question. It assumes that the Company needs  
22 those employees. I mean, there's just too many things  
23 in there that I'd have to assume in order to agree with  
24 that.

25 MR. HOFFMAN: Excuse me just a moment, Ms.

1 Dismukes, I'm getting ready to finish up here. (Pause)

2 MR. HOFFMAN: Thank you, Ms. Dismukes, that's  
3 all I have.

4 CROSS EXAMINATION

5 BY MS. KNOWLES:

6 Q Good morning, Ms. Dismukes.

7 A Hi.

8 Q Ms. Dismukes, you discussed margin reserve in  
9 your prefiled testimony. I'd like to ask you a couple  
10 of questions about that. If the Commission did not  
11 impute CIAC on margin reserve, the Utility would be  
12 able to earn a return on plant that would be  
13 contributed by future customers, correct?

14 A That would be contributed by future  
15 customers?

16 Q Yes, ma'am.

17 A Yes, I think that's correct.

18 Q How should the imputed CIAC amount be derived  
19 when a plant capacity fee or a main extension fee is  
20 being collected?

21 A You just went beyond the scope of my  
22 understanding on that subject.

23 Q Would you agree that imputation of CIAC  
24 against the margin reserve, recognizes that future  
25 customers will make contributions to the Utility,

1 thereby partially funding plant that is required for  
2 future growth?

3 A Yes.

4 Q Referring to your direct testimony on Page  
5 18, your opinion is that certain common costs should be  
6 allocated to the acquisition and sales efforts and  
7 removed from this case. Why? I believe that's Line 14  
8 on Page 18.

9 A Oh, I'm sorry. You asked me why a portion of  
10 the costs associated with the Company's acquisition and  
11 sales efforts should be removed from this case.

12 Basically all I'm recommending is that a  
13 portion of the A&G cost be allocated to the --  
14 basically below the line, or be removed from the test  
15 year. And that is just essentially to recognize that  
16 the Company does incur direct costs associated with  
17 that effort, and in my opinion, there is also A&G that  
18 would have to be associated with that effort in order  
19 to support it. Obviously they've got computers that  
20 they use for their water and sewer operations, as well  
21 as their acquisition efforts. They use the same  
22 stationery, they have the same office building, they  
23 incur the same maintenance on their general plant, et  
24 cetera, et cetera, et cetera. So that's all in the  
25 little A&G pool, and all I'm recommending is the A&G

1 that follows the direct expenses be removed.

2 Q Do you consider the sales and acquisition  
3 efforts to be nonutility activity?

4 A Basically this Commission in the past has  
5 said that those expenses should not be recovered from  
6 ratepayers, that they do not benefit current  
7 ratepayers.

8 Q If no acquisition activities were taking  
9 place, is it your opinion that certain common costs  
10 would decrease, and if so, why?

11 A If they did decrease, it would probably be  
12 pretty minor and undetectable.

13 Q Is it your understanding that salaries  
14 related to these acquisition efforts are charged below  
15 the line?

16 A To the extent that they are quantified, they  
17 are charged below the line. To the extent they are not  
18 quantified, then they are not charged below the line.  
19 In other words, if you have somebody -- somebody's  
20 secretary, for example, who works with the main man  
21 that's doing the acquisitions, her time is -- could  
22 easily be billed to an expense account that gets  
23 charged to ratepayers and there's no allocation between  
24 water and sewer utility service and the acquisition  
25 efforts. You also have situations where employees --



1 and I've seen this on the employees time sheets, where  
2 they accidentally, it's not intentional, charge time  
3 for acquisition efforts to expense accounts. And there  
4 may be some other things, but I can't remember them off  
5 the top of my head.

6 Q To your knowledge, does Southern States have  
7 a separate business unit specifically for acquisition  
8 and sales?

9 A No, they do not.

10 Q As far as you understand, who conducts the  
11 vast majority of the acquisition and sales efforts at  
12 Southern States?

13 A I'm just going to read you one of the  
14 Company's responses on that subject, if that's  
15 acceptable.

16 Q That's fine.

17 A "The lead individuals involved in possible  
18 acquisitions for the years '89, 90, '91 and '92," and  
19 this is going to make some Topeka people and some  
20 Southern States people -- but you'll get the whole  
21 picture with it," are Mr. Donald R. Crandell, Charles  
22 L. Sweat, Edward J. Mangold, Thomas C. Kravitz.  
23 Employees with Southern States Utilities " -- those  
24 were the Southern States employees as indicated in this  
25 response, although, I don't believe Mr. Kravitz was an

1 employee in '92." Mr. Philip Bergerson, Scott Vierima  
2 of the Topeka Group, as well as individuals from  
3 Minnesota Power Internal Audit Department." That's  
4 basically for 1992, they also give some individuals for  
5 '89. They also indicated that in 1991 the following  
6 individuals were involved in the Lehigh acquisition.  
7 Judith Kimball, Ralph Terrero, Frank Sanderson. And  
8 then as far as the sales efforts, the selling of their  
9 gas operations, the individuals were Donnie Middleton,  
10 Jack Bush, Diane Lindsey; there was a Spanish  
11 individual, Mercado, Arthur Atkinson, Kathy Harter, Ron  
12 Grella, George Hildreth. That's my list.

13 Q In light of the Utility's assertion that the  
14 majority of acquisition efforts are not handled by  
15 Southern States employees, what information can you  
16 offer -- what tangible proof can you offer to  
17 contradict that assertion, other than the information  
18 you have already given? (Pause)

19 A Let me just speak off the top of my head.  
20 The Company has indicated, I believe on the record  
21 already, that any acquisitions under \$1 million are  
22 handled by the Southern States employees, they are not  
23 handled -- they have the authority to deal with those  
24 acquisitions, and they are generally handled by the  
25 Southern States employees.

1           If you look at the Company's response to  
2 Interrogatory 6, Appendix B, in there you will see  
3 every system that this Company has acquired, the  
4 majority of those systems are under \$1 million. The  
5 Company had twenty-eight unsuccessful acquisitions  
6 during the test year that we know about. We also know  
7 that during 1991 -- again, this is in response to  
8 Interrogatory 6, Appendix B, that there were two  
9 systems that were purchased in 1991. We also know that  
10 Lehigh was purchased in 1991. Although the Lehigh was  
11 one of the biggest systems, and they wouldn't fall in  
12 the million-dollar category, but nevertheless, I've  
13 looked at the Company's time sheets and there were  
14 several individuals working on that effort. They  
15 billed their time back up to Minnesota Power and Light,  
16 but nevertheless, you still have those individuals working  
17 on it. They're support Staff, et cetera.

18           CHAIRMAN BEARD: Let me ask you a question:  
19 The 28 -- and I don't know where that document is and  
20 all this other stuff, some of those 28 that I looked  
21 at, the dollar expenditure, if that was an acquisition  
22 attempt, my gut instinct would be to label it feeble.  
23 I mean it's like, you know, they pick up a phone and  
24 they call us and they say, "Hey, are you all interested  
25 in being sold?" And that's about all you can afford to

1 do for what I saw. Is that the 28 you're talking  
2 about?

3 WITNESS DISMUKES: Those are the 28 that I'm  
4 talking about in terms of the ones that were  
5 unsuccessful. What we don't know about today are --  
6 those, as I understand it, are the ones they know  
7 they're not acquiring; that they attempted, and that  
8 they aborted their effort. There are also other  
9 acquisitions underway that we don't know about because  
10 the Company doesn't want to divulge that information  
11 because it's confidential. And I'm not complaining  
12 about that, but we went through that at the deposition.  
13 Those dollars are recorded in this "possible  
14 acquisition account" that I used.

15 MS. KNOWLES: I have nothing further.

16 CHAIRMAN BEARD: Redirect?

17 REDIRECT EXAMINATION

18 BY MR. McLEAN:

19 Q Ms. Dismukes, you had a line of questions  
20 from Mr. Hoffman which dealt with merger savings and  
21 merger costs. You mentioned costs in your testimony,  
22 but you only mentioned savings in a vague sort of way;  
23 is that correct?

24 A Yes.

25 Q Okay. Did you make any attempt to quantify

1 the savings?

2 A No.

3 Q Does the Commission look to you or to the  
4 Company for that particular task? (Pause)

5 MR. HOFFMAN: Mr. Chairman, I'm going to  
6 object. I think that calls for a legal conclusion as  
7 to who has the burden of proof in this proceeding with  
8 that issue.

9 MR. McLEAN: Good point.

10 Q (By Mr. McLean) And just one last question,  
11 Ms. Dismukes. There are strong successful attempts,  
12 presumably, and feeble successful attempts; do both  
13 require support Staff?

14 A Yes.

15 Q And secretaries come in both genders, right?  
16 (Laughter)

17 A I don't know with respect to this Company,  
18 but generally, yes. Did I do something wrong?

19 (Laughter)

20 CHAIRMAN BEARD: Okay. The witness may step  
21 down. Exhibits.

22 (Witness Dismukes excused.)

23

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24 MR. HOFFMAN: Mr. Chairman, we move 128 and  
25 129.

1 CHAIRMAN BEARD: Without objection.

2 MR. McLEAN: We move the exhibits to  
3 Ms. Dismukes.

4 CHAIRMAN BEARD: 125 and 127 with the  
5 objection noted to 125.

6 MR. HOFFMAN: Yes, sir.

7 CHAIRMAN BEARD: With objection, 125 is in  
8 the record. Without objection, 127 is in the record.

9 (Exhibits Nos. 125, 127, 128 and 129 received  
10 into evidence.)

11 CHAIRMAN BEARD: We will come back here --  
12 since you all have been so good, we'll give you 45  
13 minutes for lunch. And be back in here at a quarter to  
14 one, with Ms. Montanaro, I believe is next on the stand,  
15 fired up and ready to go.

16 (Lunch recess taken.)

17 (Transcript follows in sequence in Volume  
18 XIII.)

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