

1  
2  
3  
4  
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6  
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BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of :  
Application for rate increase :  
in Brevard, Charlotte/Lee, :  
Citrus, Clay, Duval, Highlands, :  
Lake, Marion, Martin, Nassau, :  
Orange, Osceola, Pasco, Putnam, :  
Seminole, Volusia, and :  
Washington Counties by :  
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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TALLAHASSEE, FLORIDA

FIRST DAY

VOLUME I

Pages 1 through 66

PROCEEDINGS: SPECIAL AGENDA CONFERENCE  
BEFORE: COMMISSIONER THOMAS M. BEARD  
COMMISSIONER SUSAN F. CLARK  
DATE: Monday, February 15, 1993  
TIME: Commenced at 9:40 a.m.  
PLACE: FPSC Hearing Room 106  
Fletcher Building  
101 East Gaines Street  
Tallahassee, Florida  
REPORTED BY: SYDNEY C. SILVA, CSR, RPR  
PAMELA A. CANELL  
Official Commission Reporters

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1 PARTICIPATING:

2 WILLIAM D. TALBOTT, FPSC Deputy Executive  
Director/Technical.

3 PRENTICE PRUITT, FPSC Office of the General  
4 Counsel.

5 SUZANNE SUMMERLIN, FPSC Division of Legal  
6 Services.

7 MARSHALL WILLIS, FPSC Division of Water and  
Wastewater.

8 JOHN STARLING, FPSC Division of Water and  
Wastewater.

9 TOM WALDEN, FPSC Division of Water and  
10 Wastewater.

11 BOB CROUCH, FPSC Division of Water and  
Wastewater.

12 ED FUCHS, FPSC Division of Water and  
13 Wastewater.

14 BILLIE MESSER, FPSC Division of Water and  
Wastewater.

15 N. D. WALKER, FPSC Division of Water and  
16 Wastewater.

17 TRISH MERCHANT, FPSC Division of Water and  
Wastewater.

18 JOHN MANN, FPSC Division of Water and  
19 Wastewater.

20 SALLY MONIZ, FPSC Division of Water and  
Wastewater.

21 ROY JETER, FPSC Division of Water and  
22 Wastewater.

23 GEORGE SU, FPSC Division of Water and  
Wastewater.

24

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INDEX - VOLUME I

	<u>ISSUES:</u>	<u>PAGE NO.</u>
1		
2		
3	Issue A	5
4	Issue No. 1	6
5	Issue No. 2	6
6	Issue No. 3	15
7	Issue No. 4	15
8	Issue No. 5	15
9	Issue No. 6	15
10	Issue No. 7	15
11	Issue No. 8	15
12	Issue No. 9	17
13	Issue No. 10	18
14	Issue No. 11	18
15	Issue No. 12	18
16	Issue No. 13	18
17	Issue No. 14	18
18	Issue Nos. 15 - 21	18
19	Issue No. 22	18
20	Issue No. 23	18
21	Issue Nos. 24 - 27	18
22	Issue No. 28	19
23	Issue Nos. 29 - 35	19
24	Issue Nos. 36 - 42	19
25		

	<u>ISSUE:</u>	<u>PAGE NO.</u>
1	Index of Issues Continued:	
2	<u>ISSUE:</u>	<u>PAGE NO.</u>
3	Issue No. 43	19
4	Issue No. 44	33
5	Issue Nos. 45 - 47	33
6	Issue No. 48	35
7	Issue No. 49	35
8	Issue No. 50	35
9	Issue Nos. 51 - 54	35
10	Issue No. 55	35
11	Issue No. 56	35
12	Issue No. 57	35
13	Issue No. 58	36
14	Issue No. 59	36
15	Issue No. 60	37
16	Issue Nos. 61 - 63	38
17	Issue No. 64	38
18	Issue No. 65	49
19	Issue No. 66	49
20	Issue No. 67	49
21	Issue No. 68	52
22	Issue No. 69	52
23	Issue No. 70	54
24		
25		

	Index of Issues Continued:	
	<u>ISSUE</u>	<u>PAGE NO.</u>
1		
2		
3	Issue No. 71	54
4	Issue No. 72	55
5	Issue No. 73	55
6	Issue Nos. 74 - 78	55
7	Issue 79	55
8	Issue Nos. 80 - 82	57
9	Issue 83	58
10	Issue 84 - 88	58
11	Issue 89	59
12	Issue 90	59
13	Issue 91	59
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

P R O C E E D I N G S

(Hearing convened at 9:40 a.m.)

COMMISSIONER BEARD: Good morning, I apologize for being a little bit late. Okay.

MR. WILLIS: Good morning, Commissioners. We're here today for Southern States, Docket 920199, Mega II. We are ready to proceed however you want to proceed, but first we have some minor mathematical adjustments that we have discovered since we filed the case, and I'd like Mr. Walker to go through those at this time.

MR. WALKER: There are four adjustments that relate to the used and useful corrections. And the adjustments for the first -- there or four systems affected, Citrus Springs, the wastewater system; we have an adjustment that would appear on Page 396, and reduce the revenue requirement by about \$4,000 for that system.

The second adjustment concerns Marion Oaks wastewater system. We have an adjustment that reduces the revenue requirement on the wastewater system.

COMMISSIONER CLARK: These are all used and useful?

MR. WALKER: Yes, they are. (Pause)

Actually, this is an adjustment that

1 increases the revenue requirement by about \$4,000.  
2 I'll give you the specific numbers. Basically, we made  
3 adjustments that affected the rate base by about a  
4 \$20,000 error, so we're going to correct that. And the  
5 revenue impact of a \$20,000 rate base adjustment is  
6 about 20%, so it tends to be about \$4,000. So the  
7 adjustment on Page 657, where the revenue requirement  
8 currently reads \$592,821, it should read \$596,736.

9           The next adjustment is on Page 665. The  
10 revenue requirement for water service should be  
11 \$137,446, which is a reduction of about \$4,000, again.

12           And the last adjustment is on Page 797, and  
13 this is for the River Park systems, and it's a real  
14 small one but it's about a \$300 reduction. It should  
15 read now \$62,168.

16           Overall, the impact is about a \$3,000 net  
17 reduction to rate base -- excuse me, net reduction to  
18 the income requirement.

19           COMMISSIONER CLARK: Revenue requirement?

20           MR. WALKER: Revenue requirement. Those are  
21 just mechanical errors that we needed to correct.

22           MR. WILLIS: Commissioners, we're ready to  
23 proceed however you desire. The first issue is Issue  
24 A, stipulation.

25           COMMISSIONER CLARK: I think we can move the

1 stipulations.

2 COMMISSIONER BEARD: Yes.

3 COMMISSIONER CLARK: Commissioner, I have  
4 gone through the recommendations and I did have the  
5 opportunity to sit down with Staff. I'm ready to move  
6 fairly rapidly through the revenue requirements.  
7 Unfortunately, I didn't make a list but I think I can  
8 leaf through them and --

9 COMMISSIONER BEARD: I think maybe the thing  
10 to do is maybe let us go issue by issue. And I know  
11 I've got mine marked where I have some questions, and mine  
12 are few. It will either be some further question or  
13 comment. Again, those are relatively minimal on my part.

14 COMMISSIONER CLARK: All right. I can move  
15 the stipulations.

16 COMMISSIONER BEARD: Okay, without objection.

17 COMMISSIONER CLARK: And I can move "Quality  
18 of Service," Issue 1. That is not where we deal with  
19 what we should do about the quality of service?

20 MR. WILLIS: That is correct.

21 COMMISSIONER BEARD: Issue 2, I have some  
22 questions about.

23 COMMISSIONER CLARK: As do I. Commissioner  
24 Beard, my recommendation would be that an increase, if  
25 any, for any of these systems be held in abeyance until



1 the service is satisfactory. I have been informed by  
2 Staff that there are some systems that under the rate  
3 proposals would have a decrease in rates; but it would  
4 be my view that those decreases in rates can go into  
5 effect, but any increase for a system where the quality  
6 of service is not adequate would not go into effect  
7 until they have been remedied. My understanding is  
8 that's not a major impact.

9 COMMISSIONER BEARD: My understanding is that  
10 there are five systems that do not meet the DER  
11 standards, is that correct?

12 MR. FUCHS: That's correct, Commissioner.

13 COMMISSIONER BEARD: Okay. Basically, what  
14 my thoughts are going to be is would that be held in  
15 escrow? I needed a little bit of input because a year  
16 seems a little long unless there's something  
17 extraordinary. And my thinking was more in line of  
18 like 90 days, unless there are some specifics that  
19 can't be done in those times.

20 I want a reasonable time frame to accomplish  
21 what has to happen. I don't want to penalize movement  
22 in the proper direction but I also don't want to drag  
23 it out, I guess, is where I'm at.

24 MR. FUCHS: Commissioners, several of these  
25 systems we have it from good sources that these have

1 been already been accomplished; for example, the rust  
2 in the Chuluota system, replacement of the 3,000 feet  
3 of pipe has already been accomplished. We don't have a  
4 letter to that effect from the Company, yet.

5 COMMISSIONER CLARK: That's fine. As soon as  
6 they send it in, the rate increase can go into effect.

7 MR. FUCHS: Many of these things the Company  
8 has testified to that they have been corrected, that  
9 they've met the DER standards, but we do not have it on  
10 file yet.

11 COMMISSIONER CLARK: Commissioner Beard, I  
12 think that the deficiencies or the systems that were  
13 deficient were basically segregated into two groups, those  
14 which the Staff felt needed to be corrected as soon as  
15 possible, and I think -- is that the six-month frame?

16 MR. WILLIS: There's an eight-month time  
17 frame. On the first five?

18 COMMISSIONER CLARK: Yeah.

19 MR. WILLIS: Those were considered  
20 unsatisfactory and there's an eight-month time frame to  
21 have those satisfactorily completed. And there is the  
22 second group which are kind of borderline, and that's  
23 the 12-month --

24 COMMISSIONER CLARK: And your thinking was  
25 that you want the ones that are unsatisfactory and need

1 to be addressed quickly to be addressed first. And  
2 that was the reason for giving a longer time frame for  
3 the less critical systems.

4 MR. WILLIS: That's correct.

5 COMMISSIONER CLARK: And my feeling is we can  
6 leave those. And where you have the rate increase, if  
7 any, not going into effect, that is added incentive to  
8 get it done in a short period of time.

9 MR. WALDEN: Commissioner Clark, if I could  
10 expand on that just a little bit. The reasoning why  
11 Staff allowed the time frame that it did, is because  
12 some of these problems are going to take a little  
13 design work by the Company's engineers, or if they have  
14 to retain an outside consultant to do it. We wanted to  
15 make sure we allowed sufficient time for the design  
16 work to take place. But at the end of Issue 1, Staff  
17 had stated that "We recognize that corrective action is  
18 needed and it needs to be accomplished as expeditiously  
19 as possible." That's on Page 34 of the  
20 recommendations, the last paragraph.

21 Getting back to what Commissioner Beard  
22 stated, we'd like to have it done in 90 days. Staff  
23 certainly agrees, but there might be one or two  
24 instances where there hasn't been any design work, and  
25 permits will have to be acquired from the DER before

1 any work can proceed. If we allow just 90 days, the  
2 Company may come back and ask for an extension of that  
3 time due to the circumstances and I think we need to be  
4 aware of that.

5 COMMISSIONER BEARD: And that's why it was in  
6 the form of a question, to find out, in fact, what a  
7 reasonable time is, to send a signal while we're all  
8 chatting here today that don't take a year because you  
9 have a year. Let's get it done.

10 MR. WALDEN: Yes, sir, we agree.

11 MR. WILLIS: Commissioners, there's also the  
12 issue of interim rates for these systems which may have  
13 a decrease, and which you're holding the rates in  
14 abeyance if they have an increase. And you might want  
15 to touch base on whether or not you want those interim  
16 rates refunded.

17 COMMISSIONER CLARK: They will be refunded.

18 MR. WILLIS: All right.

19 COMMISSIONER CLARK: My view is that the  
20 rates that were in effect or -- prior to this rate case  
21 or the decrease will take effect, but no increase will  
22 take effect until the systems are satisfactory.

23 COMMISSIONER BEARD: But my concern, though,  
24 is conversely what I don't want to do in a system, and  
25 each of the five are different that you have. For

1 example, interim rates in effect today; we roll back to  
2 original rates, we might be substantially lower. And  
3 then, in turn, once it's fixed, rolled back up and you  
4 create a roller coaster. I want to avoid that issue as  
5 well. That's the concern that I have.

6 COMMISSIONER CLARK: Well, I would agree with  
7 you except for the fact you have a quality of service  
8 issue here, and I just think that they should not have  
9 to pay the higher rates even if they have one or two  
10 months where they have different rates. I think the  
11 principle is important.

12 COMMISSIONER BEARD: Well, I think we're  
13 talking semantics. Because I think what you can do is  
14 perhaps maintain interim rates in those instances and  
15 calculate those dollars, and at some point refund them.

16 COMMISSIONER CLARK: Okay.

17 COMMISSIONER BEARD: Okay. And I don't want  
18 to create a nightmare for you all; a bookkeeping  
19 nightmare. I understand the concern. But I don't want  
20 to see a situation where you go from rate to rate to  
21 rate. And you've got people on fixed incomes that one  
22 of the things they like is a steadiness. Obviously,  
23 they want the lowest rates possible, but they also like  
24 to know what that bill is day in and day out. And  
25 that's the concern.

1 I think, conceptually, we're in the same  
2 ballpark, I just don't want to get on a roller coaster.  
3 If that creates a nightmare, now say something to me.

4 MR. WILLIS: It should not. Now, to make  
5 sure I understand this completely, now this is for the  
6 systems who may have a rate reduction.

7 COMMISSIONER BEARD: As I understand it, let  
8 me take this -- you have five systems that we're  
9 talking about. If you have a system that's got --

10 COMMISSIONER CLARK: Is it just five systems?

11 MR. WILLIS: There's five systems in the  
12 first group.

13 COMMISSIONER CLARK: Yes.

14 MR. WILLIS: This probably goes over to all  
15 the systems. I'm not sure whether you want to apply it  
16 just to the first five or to all the systems.

17 COMMISSIONER CLARK: There were several  
18 systems that had varying levels of less than  
19 satisfactory quality of service. There was what you  
20 characterized as unsatisfactory and a second group that  
21 was less than satisfactory.

22 MR. WILLIS: Right.

23 COMMISSIONER CLARK: One had to meet a time  
24 frame of eight months and one had a year. For all  
25 those systems, I do not believe any increase should go

1 into effect until the problems are corrected. And I  
2 think what Commissioner Beard is saying is that rather  
3 than refund the interim now, set a new rate and then go  
4 to a higher rate, leave the interim in effect and, as a  
5 result, they will get a larger refund later, I guess.  
6 And that's all right with me.

7 COMMISSIONER BEARD: Part of the problem is  
8 some of this doesn't wash out until we make some  
9 decisions on rates, and that's the problem. And maybe  
10 what we want to do is clarify this issue after we do  
11 rates and we see what in fact is the impact. Because  
12 there's two categories and we may be talking now at  
13 odds a little bit.

14 A Utility, a system that is unsatisfactory by  
15 DER standards clearly should revert to whatever the  
16 lowest of the rates have been, if they are old rates  
17 because, at least in theory, you have some rates going  
18 down.

19 MR. WILLIS: That's true.

20 COMMISSIONER BEARD: And I don't know --  
21 we're looking at original, we're looking at interim,  
22 we're looking at future, we're looking at rate  
23 structure and what that does in those. So we may need  
24 to revisit this issue just to clarify what we mean at  
25 some point in time.

1 MR. WILLIS: That's fine. We'll bring it  
2 back up when we get to the rate issue and refund of  
3 interim rates.

4 COMMISSIONER BEARD: Okay. I think we have  
5 an idea what we want to do, but I don't want to give  
6 the Company the wrong incentive to move along on this.  
7 And I may have a little slightly different feeling than  
8 you on unsatisfactory versus less than satisfactory, and  
9 the impact and the penalty, if you will.

10 MR. WILLIS: That's fine. We can handle that  
11 portion of this issue at the time we handle the refund  
12 of interim, which is after the rate issues.

13 COMMISSIONER BEARD: Well, maybe we can deal  
14 with the rate issue. Let's come back and perhaps -- I  
15 think we have some time on Wednesday?

16 MR. WILLIS: Yes, we do.

17 COMMISSIONER BEARD: Okay. We may want to  
18 look at those systems and see. How many are less than  
19 satisfactory?

20 MR. WILLIS: There are five systems which are  
21 considered unsatisfactory.

22 COMMISSIONER BEARD: I understand that.

23 MR. WILLIS: I think there are --

24 MR. CROUCH: Seven of the others.

25 COMMISSIONER BEARD: So we're talking a total



1 of 12 systems?

2 MR. WILLIS: 12 systems.

3 COMMISSIONER BEARD: It won't be hard for us  
4 to look and see what happens in those scenarios on  
5 those 12 systems, whatever rate situation or structure  
6 we choose to do. Okay. Okay with you?

7 COMMISSIONER CLARK: Well, then shall we  
8 temporarily pass Issue 2?

9 COMMISSIONER BEARD: I think we can just TP 2.

10 COMMISSIONER CLARK: Okay. I can move Staff  
11 on Issue 3.

12 COMMISSIONER BEARD: Without objection. My  
13 next question is on Issue 8.

14 COMMISSIONER CLARK: I can move Staff on  
15 Issue 4.

16 COMMISSIONER BEARD: Without objection.

17 COMMISSIONER CLARK: Issue 5.

18 COMMISSIONER BEARD: Without objection.

19 COMMISSIONER CLARK: I can move Staff on  
20 Issue 6.

21 COMMISSIONER BEARD: Without objection.

22 COMMISSIONER CLARK: And Issue 7.

23 COMMISSIONER BEARD: Without objection.

24 COMMISSIONER CLARK: Now we're on Issue 8.

25 COMMISSIONER BEARD: Right. As I understand

1 this, part of the discussion here you recommend no  
2 discussion because it's .2%?

3 COMMISSIONER CLARK: Uh-huh.

4 MR. WALKER: Yes, that's --

5 COMMISSIONER BEARD: Which translates to  
6 \$24,007. Is that --

7 MR. WALKER: I'm not sure about the \$24,000.

8 COMMISSIONER BEARD: Okay. The reason I  
9 asked, .2% is not much, but 24,000 is a bigger issue  
10 than some changes we make in other issues.

11 MR. WALKER: That's not the reason why we are  
12 recommending that an adjustment should not be made to  
13 the allocation of administrative expenses or  
14 administrative common plant.

15 There are some officers at the Company's home  
16 office that are involved in acquiring utility systems  
17 from year-to-year; most of the large acquisitions are  
18 handled by the people who work for Topeka, who do not  
19 reside in Apopka, or who work for Minnesota Power and  
20 do not reside in the Apopka office.

21 We first disagreed with Ms. Dismukes' adjustment  
22 because we thought there was some technical problems with  
23 it, but we recommended that no adjustment was appropriate  
24 because it tends to be a very minor amount.

25 COMMISSIONER BEARD: A case can be made that

1 there is some benefit to the overall systems?

2 MR. WALKER: I think the customers benefit  
3 when the number of customers available to share common  
4 expenses grows, so there is some benefit to be obtained  
5 by the customers from a growing system.

6 But it seemed to be a very minor expense or a  
7 very minor amount that would be involved with the  
8 acquisition activity. If there were no officers  
9 involved in acquisition activity, that would not reduce  
10 the level of expenses or the level of common plant,  
11 they would be there in any case. That was my  
12 reasoning.

13 COMMISSIONER CLARK: No one would lose their  
14 jobs if they quit acquiring.

15 MR. WALKER: I don't think so.

16 COMMISSIONER BEARD: Well, more importantly,  
17 I think I want it on the record that there is, and I  
18 tend to agree there is benefit to the customer base in  
19 some of these plants to reasonable and prudent growth.

20 MR. WALKER: The economies of scale would  
21 certainly be a benefit that all customers would share.

22 COMMISSIONER BEARD: Okay. That's all I have.

23 COMMISSIONER CLARK: I move Staff on Issue 8.

24 COMMISSIONER BEARD: Without objection.

25 COMMISSIONER CLARK: Move Staff on Issue 9.

1 COMMISSIONER BEARD: Without objection.

2 COMMISSIONER CLARK: Issue 10.

3 COMMISSIONER BEARD: Without objection.

4 COMMISSIONER CLARK: Issue 11.

5 COMMISSIONER BEARD: Let me just say to you  
6 that my next issue is the question on Issue 43.

7 (Laughter) I don't want to burn the words "Without  
8 objection" out today.

9 COMMISSIONER CLARK: Okay, I can move Staff  
10 on Issues 12, 13 and 14.

11 COMMISSIONER BEARD: Okay. (Pause)

12 COMMISSIONER CLARK: I can move Staff on  
13 Issues 15 through 21. 21 was stipulated, correct?

14 COMMISSIONER BEARD: Yeah. Without  
15 objection, approved.

16 COMMISSIONER CLARK: Issue 22, move Staff.

17 COMMISSIONER BEARD: 20-what?

18 COMMISSIONER CLARK: 22 and 23.

19 COMMISSIONER BEARD: Okay. (Pause)

20 COMMISSIONER CLARK: I can move Staff on 24  
21 through 27. Let me ask a question: I understand that  
22 28 is a fallout issue; should we go ahead and deal with  
23 those and then adjust them later if it's necessary? I  
24 guess 28 will have been taken care of by previous issues?

25 MR. WILLIS: That's correct.

1 COMMISSIONER CLARK: I can move Staff on 28.

2 COMMISSIONER BEARD: Without objection. (Pause)

3 COMMISSIONER CLARK: I can move Staff on  
4 Issue 29 through 35.

5 COMMISSIONER BEARD: Without objection. (Pause)  
6 Is there a collective sigh of relief at that point?

7 COMMISSIONER CLARK: And I can move Staff on  
8 Issues 36 through 43. Now, we're on 44.

9 COMMISSIONER BEARD: 43 we're going to have  
10 to deal with.

11 COMMISSIONER CLARK: Oh, all right.

12 COMMISSIONER BEARD: We're not quite ready.

13 COMMISSIONER CLARK: All right. I move Staff  
14 on 29 through 42.

15 COMMISSIONER BEARD: Without objection. My  
16 question is this: It's two parts to this issue for me.  
17 The first one is, I get concerned, if we look at total  
18 compensation package, is that package reasonable or is  
19 it unreasonable? And it's very clear in my position  
20 on micromanagement, and I'm not trying to infer  
21 anything here, but I get concerned when I begin  
22 dissecting that package. It either is reasonable and  
23 the Company compensates however they deem they have to  
24 do it to get the job done, or it is unreasonable. Once  
25 I get past that issue within this, we're talking about

1 a reduction of 47.9 for bonuses, for certain employees,  
2 which is up to 20%; is that correct?

3 MR. WALKER: That's correct.

4 COMMISSIONER BEARD: One, Commissioner, I'm  
5 hesitant, I guess the first question, absent this  
6 discussion on this specific piece, is the overall  
7 compensation package reasonable?

8 MR. WALKER: We believe it is.

9 COMMISSIONER BEARD: Okay. And therein lies  
10 my first problem: if it's reasonable, it's reasonable.

11 COMMISSIONER CLARK: Is it reasonable with  
12 the bonuses included?

13 MR. WALKER: We didn't have any reason to  
14 believe that it was too large. There was no evidence  
15 in the record to say that anybody was paid too much,  
16 that they weren't doing their job well. I guess we  
17 just latched onto the most obvious objectionable item  
18 is that bonuses were awarded in the test year to  
19 certain officers, and this \$40,000--some only deals with  
20 the upper level management.

21 COMMISSIONER BEARD: I guess my point would  
22 be, if the Company had paid these employees a base  
23 salary that happened to include these amounts and that  
24 were bonuses -- in other words, you've got base plus  
25 bonus, if it had all been paid just as base salary,

1 would we have questioned it?

2 MS. MERCHANT: It would be a what?

3 COMMISSIONER BEARD: You've got bonuses for  
4 certain select employees, okay, and you've got their  
5 base salaries over here, right?

6 MS. MERCHANT: That's correct.

7 COMMISSIONER BEARD: Okay. If the Company,  
8 in this test year, for example, instead of paying their  
9 base salary, and say, "We're going to reward this bonus  
10 because of certain things you've done," if they had  
11 simply said, "The salary we pay these employees, their  
12 base salary was X, and it happened to be the sum of  
13 those two parts," would we have questioned this figure?

14 MS. MERCHANT: I don't know if we would have  
15 questioned it in that context, but there is evidence in  
16 the record that states that the bonuses were a one-time  
17 bonus and they weren't included in the base. And they  
18 wouldn't be built into the base and escalated each  
19 year, that is in the record.

20 COMMISSIONER BEARD: And I understand that,  
21 and, quite frankly, my point is that the bonus may or  
22 may not occur the next year.

23 MS. MERCHANT: That's correct.

24 COMMISSIONER BEARD: Okay. But the bonus  
25 program is there, the question is whether they will

1 earn that or not?

2 MR. WALKER: The officers have to perform  
3 above average or at some exemplary level each year to  
4 obtain their own particular bonus.

5 COMMISSIONER BEARD: And the fear could be  
6 here -- I don't want to use the term "fear," but the  
7 risk, if you will, could be that this money is in the  
8 test year and the next year these officers are not  
9 awarded that.

10 MR. WALKER: Not those particular officers.

11 COMMISSIONER BEARD: And those would be  
12 somewhat excess earnings, if you will?

13 COMMISSIONER CLARK: Nonrecurring expense,  
14 right.

15 MR. WALKER: Perhaps nonrecurring for those  
16 particular individuals.

17 COMMISSIONER BEARD: And my thought process  
18 to show you where I'm following to is, okay, I'm a  
19 stockholder and so I want to earn a little more money,  
20 I'm going to penalize these key officers by not paying  
21 these bonuses, even though they may have earned them,  
22 simply to make a few more dollars.

23 In this category, if I were a stockholder, I  
24 don't think that I would be wanting to disincenent the  
25 key employees in that fashion, if you follow me,



1 strictly from an earnings standpoint.

2 I'm trying to segregate how I'm thinking through  
3 this process. I guess --

4 COMMISSIONER CLARK: Commissioner Beard, I'm  
5 in favor of incentives. I think they work and my  
6 concern would be whether or not the total amount of  
7 compensation is out of line, and I don't think that  
8 that is correct, that they are out of line.

9 I think to the extent you can do it in the  
10 private sector and in the public sector, it's always a  
11 good idea to have a certain amount at risk based on  
12 performance.

13 MR. WALKER: Commissioner, we did have -- if  
14 I can go first? We had a problem with one aspect of  
15 the bonus program, and I think it was more in the  
16 mechanical treatment of the Company's request for a pay  
17 increase of 5% to be awarded to all employees. And we  
18 deal with that in a subsequent issue. That 5% -- and  
19 actually it was a little more than 5% when we deal with  
20 the actual increase, that included a provision for  
21 bonuses as well. And we have in that issue carved out  
22 the additional increment, which would be a bonus for  
23 officers. What we wanted to make certain we did, if  
24 nothing else, was not allow bonuses actually that  
25 occurred in the test year and another increment for

1 bonuses to occur in 1992. So we preserved that  
2 elimination of two bonuses by keeping it at the 4.54%  
3 increase that we'll deal with on the pro forma  
4 provision for pay increases.

5 But again, back to this issue, this is just  
6 the actual test year, \$47,000 item. It is rather minor  
7 in relation to the Company's total payroll expense of  
8 in excess of \$10 million.

9 COMMISSIONER BEARD: Okay. Let me see if I  
10 understand, what I thought I heard you saying is  
11 there's potential for double counting?

12 MR. WALKER: There would have been but we  
13 would exclude that in a subsequent issue. It does not  
14 occur in Staff's recommendation. There was in the  
15 Company's calculation a request for pay increases, which  
16 consisted of 4.54% for pay increases to all employees.

17 COMMISSIONER BEARD: Uh-huh.

18 MR. WALKER: And for employees attaining a  
19 different level of expertise, becoming a higher grade  
20 operator or something like that. And then there was  
21 another increment that pushed it above 5% that would  
22 reflect bonuses awarded for, we believe, officer  
23 employees.

24 COMMISSIONER BEARD: What would that amount,  
25 just if -- can you have a ballpark figure as to what

1 that dollar figure might be?

2 MR. WALKER: I'm guessing it's around  
3 \$50,000. That'll probably be about the same as it was  
4 here because I recall, not too distinctly, that we are  
5 holding the Company to 4.54, and I think it was  
6 something in excess of 5. So it would be roughly .5%  
7 times 10 million, so I think that works out to be  
8 50,000.

9 COMMISSIONER BEARD: Well, let me understand  
10 what I'm saying. You're saying that you excluded that --

11 MR. WALKER: Correct.

12 COMMISSIONER BEARD: -- there.

13 MR. WALKER: Correct.

14 COMMISSIONER BEARD: But you're recommending  
15 excluding it here as well, so you go from double  
16 counting to zero counting.

17 MR. WALKER: That's what we accomplish, if  
18 you agree with Staff. We are eliminating both the  
19 bonuses that occurred in 1991, the test year, and our  
20 elimination of the --

21 COMMISSIONER CLARK: Of the same type of  
22 bonuses.

23 MR. WALKER: -- of the bonuses that would  
24 have been awarded in 1992. We were concerned that  
25 there would be, from the Company's adjustment, a double

1 counting, and we have, as you said, made it a zero  
2 counting.

3 COMMISSIONER BEARD: Okay. And that's where  
4 I have the problem.

5 MR. WALKER: I understand.

6 COMMISSIONER BEARD: Double counting I  
7 understand. I'm more apt to think in terms of --  
8 either way, I think it's six of one, half dozen of the  
9 other. It might be more appropriate to say that the  
10 amount in the other issue is a going-forward thing, and  
11 it takes care of this as a specific expense issue. And  
12 I can see eliminating one or the other, but not both.

13 COMMISSIONER CLARK: Okay.

14 MR. WALKER: If I could make a suggestion  
15 then, I would leave the test year expense of the  
16 \$47,000 in as an actual cost, and then there would be  
17 some very minor --

18 COMMISSIONER CLARK: Use the 4.54.

19 MR. WALKER: -- increment allowed with regard  
20 to the 4% added to this feature. That is, like you  
21 say, it's basically six of one or half a dozen of the  
22 other. We have an actual test year payment to officers  
23 for their performance and we, by --

24 COMMISSIONER BEARD: Okay.

25 MR. WALKER: -- allowing that expense, you

1 are giving the Company the incentive or the officers  
2 the incentive to perform well.

3 COMMISSIONER BEARD: Then, in this instance,  
4 we would deny Staff. And in the other instance, we  
5 would move the Staff recommendation. Do you know what  
6 issue that is?

7 MS. MONIZ: 57.

8 COMMISSIONER BEARD: 57? Okay.

9 MS. SUMMERLIN: Commissioners, could I just  
10 give a couple of other reasons that I personally feel  
11 that Staff's position is appropriate on this particular  
12 issue? It's certainly true that if you looked at the  
13 whole package, it might not be something that you would  
14 seize upon and see as a problem. But in this case, it  
15 was couched in these terms as a specific bonus program.

16 Part of my belief is that when you look at  
17 this kind of compensation not allowing the ratepayers  
18 to pay for it does not keep the shareholders from  
19 providing that kind of an incentive. I think that  
20 Staff agrees that incentives are good. I think there  
21 are other incentives that have already been provided,  
22 and that this is on top of those other incentives in  
23 this case.

24 COMMISSIONER CLARK: What other incentives?

25 MS. SUMMERLIN: I think there is another

1 level of incentive provided here.

2 MS. MERCHANT: There's postretirement  
3 benefits. I mean, is that what you're referring to?  
4 I mean, there's employee benefits. There are merit  
5 increases for the officers.

6 MS. SUMMERLIN: Merit increases is what --

7 COMMISSIONER CLARK: That's the 4.54%, right?

8 MS. MERCHANT: Included in that amount are  
9 merit increases in the 4.54.

10 COMMISSIONER BEARD: In most typical  
11 compensation packages, you start with a base salary.  
12 You, typically, unless it's a bad year and you're in  
13 state government, get some form of cost of living, if  
14 you will, adjustment to that. There is then a range  
15 within your job classification with which you, through  
16 time and experience and skill, can move forward. It's  
17 typically considered a merit increase.

18 And then you further have the opportunity, if  
19 you are a Category I employee and there is a Category  
20 II, there's Secretary I, II and III, that you could, in  
21 fact, move to that new range.

22 MS. MERCHANT: That's correct.

23 COMMISSIONER BEARD: I don't know that's  
24 considered a bonus plan. No pieces of that are bonus  
25 plan. I mean, that applies down to Custodian I, if you

1 will.

2 MS. MERCHANT: All three of those are  
3 included up to and including your 4.54%. All of those  
4 mechanisms are in that amount.

5 COMMISSIONER BEARD: Sure. Now, in addition  
6 to that, if there's something, I need to know.

7 MS. SUMMERLIN: Well, all I'm saying is that  
8 is a form of an incentive plan to me, in my view,  
9 anyway. This bonus is above and beyond that. And I  
10 guess that, to me, there seems to need to be some  
11 weighing of fairness between what's appropriate for  
12 this particular group of employees as opposed to what  
13 the ratepayers are being asked to pay for a product  
14 that is a necessity that's being provided by a monopoly  
15 company. And I guess that's -- I'm just trying to give  
16 you my personal thinking on this. That's why I think  
17 that what Staff has recommended is appropriate. There  
18 certainly plenty of other --

19 COMMISSIONER CLARK: Let me ask you a  
20 question. Are these bonuses like what we give out at  
21 the end of the year for a job well done or a particular  
22 project? I realize that the magnitude of what these  
23 people may be getting and the bonuses to our Staff, but  
24 isn't the concept the same? It is to say, you know,  
25 you did a particularly good job on a particular project

1 in the Commission's case, or you have given stellar  
2 performance over a period of time. And it's not just  
3 the usual merit that you're entitled to. You're  
4 entitled to some special monetary recognition.

5 Although, I would agree that ours don't rise to this  
6 level, but it's the concept is the same, is it not?

7 MR. WILLIS: I believe these bonuses are  
8 profit-driven, to my understanding.

9 COMMISSIONER CLARK: Are what?

10 MR. WILLIS: Profit-driven. In other words,  
11 your bonus is given to you based on profit that the  
12 Company achieves. That's strictly what these bonuses  
13 are for from my understanding.

14 MR. WALKER: I think they're probably not.

15 MR. WILLIS: Not? (Laughter)

16 COMMISSIONER BEARD: That's not the way I  
17 remember the --

18 MR. WALKER: Because in 1991, the year the  
19 Company awarded these bonuses for other goals, was the  
20 year they happened to lose a major rate case. And I  
21 don't think that there was a lot of extra profit in  
22 1991. There are -- the incentives, I believe, that are  
23 awarded in the two officers are for key performance  
24 standards. The Executive Board sets forth certain  
25 goals they wish to achieve -- they could be customer



1 satisfaction, service improvements or things like that  
2 -- and various upper level employees receive bonuses,  
3 if in management's judgment or the Executive Board's  
4 judgment they do perform exceedingly well.

5           COMMISSIONER BEARD: A bonus is typically a  
6 one-shot deal. It does not add to your future base  
7 salary in future years, which your merit increase does  
8 do, barring some substandard performance that causes it  
9 to decrease. And typically against measurable results  
10 associated with a time period. Normally, it's not --  
11 it could be specific project-driven, but typically it's  
12 over that time period that they achieved the measurable  
13 results and the benefits associated with that. That's  
14 typically what a bonus does.

15           MS. MERCHANT: And that is the same in this  
16 case. There's testimony in the record regarding that.  
17 There was testimony stating that a bonus could be  
18 awarded for meeting the financial goals, but they did  
19 testify that they did not receive it for that in the  
20 test year.

21           COMMISSIONER BEARD: In fact, I don't think  
22 they achieved the financial goals that year, did they?

23           MS. MERCHANT: No, they didn't. That was in  
24 the record.

25           COMMISSIONER BEARD: Right. The bonuses were

1 not awarded for financial achievement. I think they  
2 were for other issues.

3 MS. MERCHANT: Other goals.

4 COMMISSIONER BEARD: Right. And that's not  
5 to say that a financial goal is inappropriate. Because  
6 to the extent that you earn excessively, then the  
7 ratepayers can ultimately earn -- be rewarded one  
8 through either better quality of service, or you get  
9 into a rate case and we reduce rates. If they achieve  
10 it. That may or may not be an admirable goal. It may  
11 be one of many goals that more relates to stockholders  
12 as opposed to the other goals related to the ratepayer.

13 MR. TALBOTT: I think the Commissioners are  
14 on the right track. For the bigger utilities that we  
15 regulate, It's not unusual at all for them to have  
16 incentive plans especially for the higher level  
17 officers; and not only have we allowed it, it hasn't  
18 been an issue.

19 You wouldn't want to double count, but zero  
20 -- it seems to me like disallowing it strictly because  
21 it was an incentive plan would be the wrong thing to  
22 do. You look at the total compensation package, and if  
23 it was out of line, we ought to take exception to it.  
24 And I'm hearing the Staff say the total compensation  
25 package really isn't out of line. So you wouldn't want

1 to double dip; but if the total package is reasonable,  
2 I think the Commissioners are on the right track.

3 COMMISSIONER CLARK: I would make a motion to  
4 deny Staff on Issue 43.

5 COMMISSIONER BEARD: I would vote that way also.

6 COMMISSIONER CLARK: I move Staff on Issue 44.

7 COMMISSIONER BEARD: My next issue, just for  
8 curiosity's sake, is -- actually it just went away. It  
9 was Issue 57, so my next issue is 64.

10 COMMISSIONER CLARK: I can move Staff on  
11 Issue 45 through 47.

12 I thought it was appropriate to comment on  
13 Issue 48. As I understand it, the cost for this rate  
14 case expense per system is \$12,000. And that is less  
15 than what was projected by the Utility in terms of rate  
16 case expense.

17 MR. WILLIS: It's little over 12,000 per  
18 system. Something like \$12,400 per system.

19 COMMISSIONER BEARD: What do we typically  
20 average in rate case expense on a stand-alone system  
21 doing a rate case?

22 MS. MERCHANT: Anywhere from 60,000 up. Some  
23 systems have even gone up as high as 200,000, some  
24 utility companies.

25 COMMISSIONER BEARD: That was my general

1 recollection as well.

2 MR. WILLIS: In comparison, the Lehigh case,  
3 which was just finished, which is a Southern States  
4 Company, was somewhere in the neighborhood of 160,000  
5 or somewhere in there.

6 MS. MERCHANT: I don't recall the exact  
7 number, but it was above a hundred. I know that.

8 COMMISSIONER BEARD: Significant.

9 MS. MERCHANT: It was significant.

10 COMMISSIONER BEARD: At a minimum, most of  
11 these cases run four times that amount to anywhere up  
12 to 10 to 15 times that amount.

13 MS. MERCHANT: That's correct.

14 COMMISSIONER BEARD: There appears to be at  
15 least some benefit to this -- "Mega II," if you will.

16 MR. WILLIS: I certainly believe there is.

17 COMMISSIONER BEARD: Okay.

18 COMMISSIONER CLARK: I think that's a very  
19 important issue because I think one of the -- in the  
20 rate design, one of the things that comes up later on  
21 is the idea of the revenue flows and parity between  
22 rates. But I think if you step back and you look at --  
23 if you are going to -- if a system-specific rate is  
24 appropriate, then it would seem that it would be  
25 appropriate that rate cases would be based on the need

1 of individual systems to have a rate increase or rate  
2 decrease.

3 And I am, frankly, of the view that it's  
4 better to spend money on capital improvements and  
5 things that will ultimately improve the service to the  
6 customer rather than the rate case expense that, while  
7 it is a cost of service, it doesn't result in any  
8 tangible improvements or tangible improvement to the  
9 quality of service.

10 I move Staff. Is that Issue 48?

11 COMMISSIONER BEARD: Uh-huh.

12 COMMISSIONER CLARK: 49 went away, didn't it?

13 It's a nonissue now, but I move Staff on Issue 49.

14 MS. MERCHANT: That's correct.

15 COMMISSIONER BEARD: Without objection.

16 COMMISSIONER CLARK: Okay. This is the

17 OPEBs. I move Staff on Issue 50.

18 COMMISSIONER BEARD: Approved.

19 COMMISSIONER CLARK: I move Staff on 51 and

20 52 and 53 and 54.

21 COMMISSIONER BEARD: Without objection. 55

22 is a stipulation.

23 COMMISSIONER CLARK: I move Staff -- yeah. I

24 move Staff on 56.

25 COMMISSIONER BEARD: Okay. 57 is the other

1 half of the 47 issue.

2 COMMISSIONER CLARK: I move Staff.

3 COMMISSIONER BEARD: It's approved.

4 COMMISSIONER CLARK: I move Staff on Issue 58  
5 and 59.

6 MS. MERCHANT: Commissioner Clark, on Issue  
7 No. 59, I wanted to point out that the amount 9,312 is  
8 the total company amount as opposed to the filed system  
9 amounts, and that is the difference between Public  
10 Counsel's position and Staff's adjustment.

11 COMMISSIONER CLARK: Okay.

12 MS. MERCHANT: So that this amount, 9,312,  
13 was allocated to total -- to the total company and only  
14 the amount associated with filed systems was reduced.

15 COMMISSIONER CLARK: Say it again?

16 MS. MERCHANT: The 9,312 was removed from  
17 total company.

18 COMMISSIONER CLARK: And what was the Public  
19 Counsel's expense of \$7,000?

20 MS. MERCHANT: Public Counsel's position was  
21 only filed systems for water and sewer.

22 COMMISSIONER CLARK: Okay. All right. I got  
23 you.

24 Issue 60. Do I understand it correct that  
25 the reduction of common expenses of -- no, this is -- I

1 move Staff on that.

2 COMMISSIONER BEARD: Okay. Hang on just a  
3 second. Now, Issue 60, system expense 47,970, is that  
4 figure associated back with Issue No. 43?

5 MS. MERCHANT: On the bonuses?

6 COMMISSIONER BEARD: Yes.

7 MS. MERCHANT: No.

8 COMMISSIONER BEARD: Okay. It's just a  
9 coincidence that the figures are within \$15 of each  
10 other.

11 MS. MERCHANT: That's correct.

12 COMMISSIONER BEARD: Okay. It just struck me.

13 COMMISSIONER CLARK: I move Staff on 61.

14 COMMISSIONER BEARD: Now, let me back up just  
15 a second. On Issue 60, Staff says system expense  
16 should be reduced by 47,955? That's not an annualized  
17 figure, is it?

18 MR. WALKER: It should be.

19 COMMISSIONER BEARD: Should be annualized to  
20 a little over 70,000?

21 MR. WALKER: Well, let me do it this way.  
22 There are some administrative expenses that are  
23 captured at the Apopka office. Those then are  
24 allocated among all the water, wastewater, gas, garbage  
25 systems on the basis of relevant customers. The

1 \$47,000 appears to be the share that would be assigned  
2 to our 127 systems in this case. It would be the  
3 annual savings.

4 COMMISSIONER BEARD: Okay.

5 MR. WALKER: And sometimes the adjustment in  
6 Staff's recommendation is worded that there is an  
7 adjustment. It applies to the whole company.  
8 Regardless of how we word it, we've been careful to  
9 make sure that we've captured the portion that should  
10 be the savings or the increase, whichever may be. It  
11 should be assigned to our systems in this case.

12 COMMISSIONER BEARD: Okay.

13 MS. MONIZ: Commissioner Beard, the total  
14 amount is 70,024. It's on the last paragraph.

15 COMMISSIONER BEARD: That's my question.  
16 70,024, that is what I said. Okay.

17 COMMISSIONER CLARK: I move Staff on Issues  
18 61 through 63.

19 MS. MERCHANT: Commissioner, did you move  
20 Staff on Issue 60 already?

21 COMMISSIONER BEARD: Yes.

22 COMMISSIONER CLARK: I still have a question  
23 on 64. I can't understand why if it is not a cost of  
24 service to make deposits with other utilities for  
25 service. It seems to me that you have to get the money



1 and it's, in effect, an investment you make because you  
2 leave the deposit there until you can get it back. I  
3 cannot get a handle on why the interest on that doesn't  
4 go above the line.

5 MS. MERCHANT: Basically, Staff's position on  
6 this issue is that there was no other evidence to do  
7 anything else with this. The only evidence in the  
8 record is what we have in Staff's recommendation from  
9 the Utility, and Public Counsel or no other parties  
10 presented any conflicting evidence. So that's --

11 COMMISSIONER CLARK: Well, I guess I'm not --  
12 does this really need evidence? I mean, in the sense  
13 that you know utilities have to make deposits with  
14 other utilities for their phone service and for their  
15 electric service. And I would assume that that -- the  
16 dollars that they have to take to send to the other  
17 utility is, in effect, an investment. It's working  
18 capitals.

19 MR. WILLIS: Yes. It's an investment, it  
20 normally goes in working capital.

21 COMMISSIONER CLARK: So why isn't the  
22 interest from --

23 MR. JETER: Commissioner?

24 COMMISSIONER CLARK: -- the other utilities?  
25 I still can't get that.

1           MR. JETER: Commissioner, it could be argued  
2 that the formula method implicitly excludes something  
3 like that.

4           COMMISSIONER CLARK: But see, I disagree with  
5 that. It seems to me that the formula method is, in  
6 effect, a substitute for the balance sheet.

7           MR. JETER: Yes, Commissioner. But with the  
8 balance sheet method, even OPC concedes that the amount  
9 would be removed.

10          MR. WALKER: I want to try something here.

11          COMMISSIONER BEARD: Please do, because I'm  
12 just as lost.

13          MR. WALKER: There's probably not a whole lot  
14 in the record on this interest earned on customer -- I  
15 mean, deposits with utilities. I was just thinking of  
16 it in terms of what happens to a customer. At the end  
17 of the year when Southern States figures up what a  
18 customer should get on his bill, they get some interest  
19 on their deposit, and that interest on the deposit is a  
20 credit towards the expense. The customer's bill that  
21 month is less.

22                 I don't know if that occurs with Southern  
23 States, but maybe they get the same form of credit for  
24 keeping money on account with Florida Power and Light,  
25 That they get a credit at the end of year on their bill

1 that they would have to pay -- or with the telephone  
2 company.

3 COMMISSIONER CLARK: Well, Mr. Talbott,  
4 correct me if I'm wrong. Shouldn't this be an issue in  
5 every rate case we have and shouldn't we have some  
6 uniform treatment of this?

7 MR. TALBOTT: I thought we did in using the  
8 balance sheet approach.

9 COMMISSIONER CLARK: The balance sheet  
10 approach takes it into effect.

11 MR. TALBOTT: And normally that's what we do  
12 use is the balance sheet approach, and it would take it  
13 into consideration and treat it --

14 COMMISSIONER BEARD: And your point is  
15 precisely where I'm at. If the Utility is required to  
16 treat the retail customer in a certain fashion, then  
17 when they deal with the Utility, they will be treated  
18 in that fashion. The problem we get to -- and I  
19 suspect that some of these municipalities that some of  
20 these systems may have to deal with for electric rates  
21 for example, that we don't necessarily regulate the  
22 rates, I suspect they may not get that credit. They  
23 don't need to get double-counted either.

24 MR. WALKER: In line with what Mr. Talbott  
25 was talking about, when we do the balance sheet

1 approach, when we used to do the balance sheet  
2 approach, one of the cardinal rules was that  
3 interest-bearing accounts, those that earn interest and  
4 those that bear interest, are excluded. So if there is  
5 a deposit by a utility for service from another  
6 utility, that would earn interest and it would be  
7 excluded from working capital. On the other hand, if  
8 there was, say, customer deposits, those are in the  
9 capital structure. They also bear interest. Short  
10 term liabilities that bear interest are not included in  
11 working capital. So this is one where, if it ever  
12 bears interest, it would be excluded from the balance  
13 sheet calculations under that principle.

14 COMMISSIONER CLARK: But what happens to the  
15 earnings on --

16 MR. WALKER: The interest income, I assume,  
17 is below the line just like the interest expense on the  
18 other liabilities is below the line. Both interest  
19 income and interest expense are considered below the  
20 line items in terms of how does the Company profit from  
21 or meet debt cost.

22 COMMISSIONER CLARK: When you say the  
23 interest expense on -- for work, I always think of  
24 working capital as the money that you have to pay up  
25 front and maintain in the system to recognize the lag

1 in between time you go into business and you start  
2 getting revenues.

3 MS. MERCHANT: That's correct.

4 COMMISSIONER CLARK: Okay. So when you start  
5 a business, you would have to put money on deposit at  
6 various utilities; and what you're saying is in the  
7 balance sheet, you just simply don't include that.

8 MR. WALKER: If it's an interest earning  
9 account, we exclude that when we do the balance sheet  
10 approach. There are a number of other tests that are  
11 made, but one of the tests is: Is there interest to be  
12 accrued on this account? If there is, then that  
13 account is excluded.

14 COMMISSIONER CLARK: Because, in effect, the  
15 investment is not in the Utility; it's in the other  
16 utility and they're paying a return or you don't need  
17 to pay.

18 MR. WALKER: It's already earning some sort  
19 of rate of return.

20 COMMISSIONER CLARK: Okay.

21 MR. WALKER: It's somehow meeting its cost of  
22 capital.

23 COMMISSIONER BEARD: Let me see if I can  
24 understand what the formula approach does to this, now,  
25 and also express my concern. If I follow the logic

1 here, we move it below the line, any interest income  
2 accrued is below the line and any interest expense is  
3 below the line. Okay. Now, let's apply that in real  
4 world. Real world is that the Utility pays a deposit  
5 -- this utility pays a deposit to some other utility.

6 MR. WALKER: Sure.

7 COMMISSIONER BEARD: Now, if they, in fact,  
8 that second utility -- let's say Florida Power  
9 Corporation as an example -- in fact, pays interest on  
10 that deposit and they credit that interest against the  
11 bill at some point when it's rendered, okay, then the  
12 ratepayers are gaining the benefit of that to the  
13 extent it's in the test year.

14 MR. WALKER: If that is occurring, there is a  
15 reduction to the expense rather than an income item. I  
16 guess, I suggested something that I really didn't know  
17 to be sure.

18 COMMISSIONER BEARD: Well, I understand we  
19 don't know. That's the question, okay, now, that's  
20 half of it. The flip of that is, that if they, Florida  
21 Power Corporation, does not pay interest on that  
22 deposit, okay? At that point in time, there is an  
23 expense incurred; there are carrying costs associated  
24 with that, if you will, or whatever, and there is no  
25 return on that. In both instances the ratepayer gains,

1 correct?

2 MS. MERCHANT: I don't really agree with your  
3 first scenario when they get the reduction in their  
4 bill. For accounting purposes, you would have to  
5 separate out that payment. You would have to debit the  
6 expense for the total amount of the expense for that  
7 electric bill and the credit would go to revenue.

8 COMMISSIONER BEARD: Depends on how --

9 MS. MERCHANT: So you would really --

10 COMMISSIONER BEARD: -- depends on how it's  
11 billed.

12 MS. MERCHANT: Well, I would assume that on  
13 my electric bill it would be separately identified, so  
14 that I could see how much power I actually used during  
15 the month, and I could compare it to other months, so  
16 you would see that amount. And then you would have to  
17 be able to show what your dollar amount of your deposit  
18 was so you could actually compare from your records  
19 from when you paid it. But appropriately to account  
20 for that, you would have to separate the two amounts  
21 out and book each one to a separate expense account or  
22 revenue account.

23 COMMISSIONER CLARK: I think what they're  
24 doing is right for this reason. I think in the balance  
25 sheet, the reason you would exclude interest earning

1 and interest bearing is, in fact, the interest earning  
2 is an investment the Utility is making elsewhere and  
3 earning a return; therefore, they will not need to get  
4 a return from the ratepayers in the form of an  
5 allowance for the working capital.

6 MS. MERCHANT: That's correct.

7 COMMISSIONER CLARK: Likewise, with the  
8 deposits that they have, the rationale for excluding  
9 those, is that you really have a loan from the  
10 customers; and we require them to pay the customers an  
11 8% rate; and it is similar to, in effect, they have  
12 some monies for which they don't have to investment  
13 their own monies, but they borrow from the customers,  
14 so you exclude them and then you have symmetry between  
15 the two issues.

16 MS. MERCHANT: That's correct.

17 COMMISSIONER CLARK: So I can move Staff on  
18 this issue.

19 COMMISSIONER BEARD: I'm not going to fight  
20 it here. I don't necessarily agree that you have  
21 symmetry. Okay. I don't think we know. The question  
22 to ask, and for future reference, does Southern States  
23 pay interest on a deposit from Florida Power  
24 Corporation if they provide water to them?

25 COMMISSIONER CLARK: We require -- because



1 when you have a customer deposit, we require payment of  
2 interest.

3 MS. MERCHANT: That's correct. They do pay  
4 interest. And they only keep that deposit -- I would  
5 assume that they only keep the deposit for a certain  
6 amount of time until they establish a good paying  
7 record and then the deposits are refunded.

8 COMMISSIONER BEARD: Which is true of the  
9 utilities we regulate.

10 MS. MERCHANT: That's true with water and  
11 wastewater.

12 COMMISSIONER BEARD: It's not true of the  
13 utilities that we don't regulate, for example  
14 municipalities.

15 MR. WILLIS: That's correct. That's not  
16 always true.

17 COMMISSIONER BEARD: I can promise you they  
18 don't.

19 COMMISSIONER CLARK: Well, then the issue  
20 doesn't come up, does it? Because there's nothing to  
21 put above or below the line.

22 COMMISSIONER BEARD: There's a deposit that's  
23 not refunded until you leave the system.

24 COMMISSIONER CLARK: No. The deposit goes  
25 into the working capital because it's not interest

1 earning, right?

2 MS. MERCHANT: That's correct.

3 MR. WILLIS: If you're doing the balance  
4 sheet --

5 COMMISSIONER CLARK: So either way you have  
6 interest being earned. It depends on -- I mean, if you  
7 look at it as the customer making the investment in the  
8 form of their deposit, the Utility is paying them. If  
9 the Utility has made an investment in a deposit with  
10 another utility, if it earns interest, you exclude it  
11 from working capital. If it doesn't earn interest,  
12 then you include it because they need a return.

13 MS. MERCHANT: That's correct.

14 MR. WILLIS: That's correct.

15 COMMISSIONER BEARD: Then we know whether or  
16 not they're earning interest on that deposit.

17 COMMISSIONER CLARK: When you do the balance  
18 sheet --

19 MR. WILLIS: This includes the deposits as if  
20 they are earning interest.

21 COMMISSIONER BEARD: We're not doing the  
22 balance sheet.

23 COMMISSIONER CLARK: Well, I realize that,  
24 but I think the philosophy should be the same.

25 COMMISSIONER BEARD: I agree the philosophy

1 should be the same. I'm just not convinced and maybe  
2 not knowledgeable enough that, in fact, the former  
3 method does that.

4 That's probably just my ignorance. Perhaps  
5 it does. Issue 64 is approved with confusion.

6 COMMISSIONER CLARK: I move Staff on Issue  
7 65.

8 COMMISSIONER BEARD: Okay.

9 COMMISSIONER CLARK: 66.

10 COMMISSIONER BEARD: Without objection.

11 COMMISSIONER CLARK: 67.

12 COMMISSIONER BEARD: 67, without objection.

13 I have a question on 68. The company spent  
14 15.7 rounded off for "legal research and acquisition  
15 policy in preparation for a workshop." And Staff  
16 contended that that was excessive.

17 Now, my concern is probably only in  
18 mechanics. If it's excessive, let's determine what's  
19 excessive and expense it. I don't agree with  
20 amortizing it over five years. Either it's excessive,  
21 what's the appropriate amount? Let's plug that for the  
22 expense, and let's don't walk this dog out for five  
23 years.

24 MS. MERCHANT: What we're saying is the  
25 Utility should not -- the total expense should not be

1 disallowed because we recognize that the Utility should  
2 be allowed to attend Commission functions, acquisition  
3 adjustment policy, rule hearings or whatever. We're  
4 just saying that the total amount we didn't believe was  
5 prudent, and we were allowing a portion of it by  
6 amortizing it over five years that allowed -- that  
7 recognized some portion of it.

8 COMMISSIONER BEARD: One-fifth.

9 MS. MERCHANT: That's correct.

10 COMMISSIONER BEARD: All right. All I guess  
11 I'm saying --

12 COMMISSIONER CLARK: Excuse me. Excluded  
13 15,000, though, right?

14 COMMISSIONER BEARD: No.

15 COMMISSIONER CLARK: There was some research  
16 done, acquisition adjustments and other --

17 MS. MERCHANT: We reduced test year expenses  
18 by 12,551, and the 3,138 would be allowed for the total  
19 of 15,000.

20 COMMISSIONER BEARD: What I'm saying is  
21 semantics perhaps, okay? I don't want to amortize this  
22 expense over five years, the 15,689. If it's  
23 appropriate to say that that's excessive and the  
24 appropriate amount that they should have spent on  
25 research for this \$3,137.80, which happens to be

1 one-fifth of that amount, then that's the appropriate  
2 amount to be spent.

3 MS. MERCHANT: Okay.

4 COMMISSIONER BEARD: And it should have been  
5 expensed in that --

6 MS. MERCHANT: That can --

7 COMMISSIONER BEARD: -- same thing --

8 MS. MERCHANT: And that can certainly be  
9 changed. The only reasonable amount should be allowed  
10 is in the amount of 3,138, as opposed to amortizing the  
11 total.

12 COMMISSIONER BEARD: If you amortize the  
13 total, you are somehow inferring that the total expense  
14 was appropriate.

15 MS. MERCHANT: That's correct.

16 COMMISSIONER BEARD: Okay. If you say the  
17 total expense wasn't appropriate, this is what the  
18 reasonable amount is, and we can then debate the  
19 reasonable amount.

20 MS. MERCHANT: That's correct.

21 COMMISSIONER BEARD: Okay. And we can put  
22 that in. Because I have a concern about discouraging  
23 active participation in our procedures here from a  
24 major player -- especially in rulemaking proceedings,  
25 which are as much educational as anything.

1 MS. MERCHANT: So your recommendation would  
2 be that a reduction of 12,551 is appropriate?

3 COMMISSIONER BEARD: If that is the  
4 appropriate number.

5 MS. MERCHANT: To reflect a reasonable level  
6 of 3,000.

7 COMMISSIONER BEARD: Expense.

8 COMMISSIONER CLARK: Okay. So I move Staff  
9 on 68 with that.

10 COMMISSIONER BEARD: Move Staff on 68 as  
11 clarified or amended.

12 COMMISSIONER CLARK: Amended.

13 COMMISSIONER BEARD: Without objection.

14 COMMISSIONER CLARK: Move Staff on 69.

15 COMMISSIONER BEARD: One second.

16 COMMISSIONER CLARK: It is nonrecurring,  
17 right?

18 COMMISSIONER BEARD: 69 is nonrecurring. Let  
19 me express -- because this is not a big ticket item,  
20 let me express my concern. And I know that these are  
21 officials from out of state, but a part of regulating  
22 is understanding the relationships between these  
23 companies. I happen to remember that presentation.

24 Conversely, I see other states where there is  
25 a major utility, not necessarily in the water and

1 wastewater industry, where they want results and they  
2 want action and the closest utility executive that can  
3 make a decision is in, let's say a hypothetical,  
4 Houston, Texas, or Dallas, Texas. And those state  
5 regulators are very, very unhappy; and I don't want to  
6 discourage some way over a nit being able to directly  
7 communicate with the powers that be. And understanding  
8 the relationship, for example in this case, of Southern  
9 States to Topeka Group to Minnesota -- is it Minnesota  
10 Power and Light, is that right?

11 MS. MERCHANT: That's correct.

12 CHAIRMAN BEARD: Okay. And I just have a  
13 concern. This is not a big figure. It's not worth --

14 COMMISSIONER CLARK: As I understood it, you  
15 didn't think, it was more a nonrecurring philosophy  
16 that was not reasonable --

17 MS. MERCHANT: That's our only position.

18 COMMISSIONER CLARK: -- that it would be  
19 unlikely you would have this level of expense because  
20 it was an instance where you had major acquisitions  
21 going on and they felt it appropriate to come to the  
22 Commission and tell the Commission about themselves.  
23 Well, you wouldn't expect that to have to occur again.  
24 That's sort of a one-time thing.

25 MR. WILLIS: That's correct. That's our only

1 reason.

2 COMMISSIONER CLARK: At least for this  
3 utility.

4 It's not that you won't allow aircraft  
5 expense, it is that you won't allow it at the same  
6 level.

7 COMMISSIONER BEARD: Okay. Just a word of  
8 feeling from me, that's all.

9 COMMISSIONER CLARK: I move Staff on Issue 70.

10 COMMISSIONER BEARD: Without objection.

11 COMMISSIONER CLARK: 71.

12 COMMISSIONER BEARD: Without objection --  
13 wait, whoa, whoa, whoa. Let me see here.

14 The \$19,698 test year organization  
15 development charges, amortized over five years?

16 MR. MANN: It was our opinion that the  
17 Utility decided to change its amortization to expensing  
18 it in the period incurred in the test year and we felt  
19 that they should be amortized over a period to mirror  
20 the employment of the employees receiving this training  
21 from Minnesota Power and Light. That's why we decided  
22 to amortize it instead of expensing it for the period.

23 COMMISSIONER BEARD: And I understand. I  
24 guess I just -- again, we're not talking major. I was  
25 just making sure that we were matching time periods to



1 the value.

2 MR. MANN: That's what we're trying to do,  
3 and we assume that they are going to employee people  
4 with the idea that they will stay around for a while  
5 and that training is going to benefit subsequent  
6 periods, so why not match it with the revenue earned.

7 COMMISSIONER BEARD: Okay. Without  
8 objection, 71 is approved.

9 COMMISSIONER CLARK: Move Staff on 72 and 73.

10 COMMISSIONER BEARD: My next question is on  
11 79. Without objection.

12 COMMISSIONER CLARK: Then I can move Staff on  
13 everything up to Issue 79.

14 COMMISSIONER BEARD: It's approved.

15 On 79, the only question there, the  
16 amortizing over three years, my only question was, was  
17 there -- with this particular system, was there  
18 anything -- who am I looking at?

19 Was there anything here as far as some really  
20 excessive unaccounted-for water that would push to move  
21 this project, that there was a shorter term benefit  
22 than that?

23 MR. CROUCH: On Issue 79?

24 COMMISSIONER BEARD: 79, which is the --

25 MR. CROUCH: Wastewater infiltration, they're

1 going in to televise the line to check for the --

2 COMMISSIONER BEARD: I understand what  
3 they're doing.

4 MR. CROUCH: What was your question again?

5 COMMISSIONER BEARD: My question is, in this  
6 instance we're saying "amortize this expense over three  
7 years."

8 MR. CROUCH: Yes, sir.

9 COMMISSIONER BEARD: Okay. And the only  
10 question is, typically you would amortize it over some  
11 period of time because there's benefit to the period  
12 unless there's something unusual there that says this  
13 thing really needs to be pushed because there is  
14 extremely large, excessive infiltration or maybe there  
15 is an extremely large, you know, inner project  
16 unaccounted-for water loss, those kinds of things that  
17 would drive you to look at this as more of an emergency  
18 type situation.

19 MR. SU: Yes, Commissioner, it was that kind  
20 of incident in 1991. It is a record from DER saying  
21 this sewer line is broken and there's a lot of  
22 stormwater flowing to the collection system, so they  
23 have to do the repair work.

24 COMMISSIONER BEARD: And the thought process  
25 is, though, this is not going to be recurring every

1 year?

2 MR. SU: No, it would not.

3 MR. WALKER: That's true. It's incurred on  
4 an infrequent basis. The work was necessary, but for a  
5 system of this size, \$14,000 would not be a normal  
6 recurring expense. So our recommendation was to  
7 amortize it over some period to show that the Company  
8 did incur some costs. It should be allowed to recover  
9 it but not as a single charge on an ongoing basis for  
10 all future periods.

11 COMMISSIONER BEARD: Okay.

12 COMMISSIONER CLARK: I'd like to move Staff  
13 on Issue 80 through 82.

14 COMMISSIONER BEARD: 79 is approved. 80, 81  
15 and 82 are approved.

16 COMMISSIONER CLARK: I had a question on 83.  
17 And I think -- was it COVA who brought up the issue of  
18 appropriate property taxes?

19 And I think that what the evidence brought  
20 out was that the way that the property appraiser may  
21 appraise the value of the land and improvements doesn't  
22 necessarily have anything to do with what's on the  
23 books, right?

24 MR. WALKER: That's true.

25 COMMISSIONER CLARK: And there's not much the

1 Utility can do; but in those cases where it's  
2 outrageous compared to other utilities, then they would  
3 pursue an appropriate adjustment through the appeals  
4 board but --

5 MR. WALKER: They can do what they can do.

6 This Issue 83 deals with real property. And  
7 in terms of real property, the County generally  
8 establishes its value independent of what might be on  
9 the books of the Utility.

10 COMMISSIONER CLARK: Okay. All right.

11 MR. WALKER: In terms of COVA's concern, it  
12 was the personal property, and there was some concern  
13 whether the Utility was aggressively arguing that their  
14 property taxes should be reduced. It appeared that the  
15 Company took some measures to attain the lowest  
16 possible rate for the lowest possible expense. There  
17 is some adjustment in the test year for an  
18 out-of-period charge.

19 COMMISSIONER CLARK: Okay. I can move Staff  
20 on 83 through 88.

21 COMMISSIONER BEARD: Let me ask a question  
22 on 88.

23 You're imputing the revenue associated with  
24 the contractual agreement with Deltona Country Club.  
25 Correct?

1 MS. MESSER: That's correct.

2 COMMISSIONER BEARD: The expenses associated  
3 with providing that service are above the line?

4 MS. MESSER: Yes.

5 COMMISSIONER BEARD: Okay. 88 is approved as  
6 well.

7 COMMISSIONER CLARK: Move Staff on 89.

8 COMMISSIONER BEARD: Without objection.

9 COMMISSIONER CLARK: And 90.

10 COMMISSIONER BEARD: I think I'm good to go  
11 until we get to --

12 COMMISSIONER CLARK: And 91.

13 COMMISSIONER BEARD: -- 103.

14 COMMISSIONER CLARK: Well, that begins our  
15 rates and charges. 92 begins rates and charges, and  
16 it's five minutes to 11:00.

17 COMMISSIONER BEARD: Okay. Wait a minute.

18 MR. WALKER: With regard to 91, I told you  
19 very early in the Agenda Conference that I had some  
20 corrections. So we want to say again that it would  
21 need to be amended to agree with the \$4,000 errors that  
22 I needed to correct.

23 COMMISSIONER CLARK: Okay. It's a  
24 mathematical correction.

25 MR. WALKER: Right. All this is a

1 mathematical fallout of your determination.

2 MS. MERCHANT: Also, 90 is test year  
3 operating income, that would also change. But the  
4 numbers in the actual recommendation, there are no  
5 numbers in the actual recommendations, but the numbers  
6 would have a change and we can provide those, you  
7 know.

8 COMMISSIONER CLARK: Wednesday? Is that  
9 when? We don't have much further to discuss the rates,  
10 and we certainly have time set aside for a follow-up at  
11 agenda.

12 COMMISSIONER BEARD: What year is this? Just  
13 kidding. (Laughter) We're set for 8 a.m.

14 MR. WILLIS: My understanding is we have a  
15 very limited time on Wednesday to do this, too.

16 COMMISSIONER BEARD: Yes, because fuel  
17 adjustment --

18 COMMISSIONER CLARK: Huh?

19 MR. WILLIS: My understanding is we have like  
20 from 8:00 till shortly before 9:30.

21 COMMISSIONER BEARD: Yes. 9:30 is when we  
22 start fuel adjustment.

23 COMMISSIONER CLARK: Who is "we"?

24 COMMISSIONER BEARD: You, me, and the  
25 Chairman.

1                   COMMISSIONER CLARK: Mr. Chairman, I've  
2 read through the rates. I believe that they do require  
3 some discussion. We both have the Southern Bell;  
4 frankly, I need time to look over the Southern Bell  
5 transcripts some more, and for that reason I'd like to  
6 leave it.

7                   COMMISSIONER BEARD: And I have no problem  
8 leaving that.

9                   Let me ask. Short of the discussion on  
10 rates, which I think can occur in the time frame that  
11 we have for Wednesday morning --

12                   COMMISSIONER CLARK: I do, too.

13                   COMMISSIONER BEARD: -- or if there is either  
14 disagreement, we'll either achieve resolution or full  
15 knowledge that we can't achieve resolution in an  
16 hour-and-a-half, okay?

17                   COMMISSIONER CLARK: That's right.

18                   COMMISSIONER BEARD: And by that time we'll  
19 have a look at any impact on those 12 systems in that  
20 concept.

21                   I have one question on Issue 103 that I'd  
22 like just to -- I think we can resolve. Short of that  
23 rate discussion, that's basically my questions on this  
24 area.

25                   COMMISSIONER CLARK: Okay.

1                   COMMISSIONER BEARD:  And Staff is  
2 recommending a service availability case for all the  
3 systems within two years.  Assuming we would move the  
4 worst ones faster and sooner and some of the smaller  
5 ones sooner --

6                   MS. MESSER:  Commissioners, our concern was  
7 to allow the Utility, once they receive some guidance  
8 from the Commission on your intentions and philosophy  
9 towards rate design, to give them enough time to  
10 review, fully review, their service availability policy  
11 and come back with a full plan.  And we were just  
12 concerned that there might, if we required a six-month  
13 time frame, that that would force them to come in  
14 prematurely when they really could do a more thorough  
15 job in a longer time.

16                   COMMISSIONER BEARD:  You would envision them,  
17 then, coming back with a, I don't want to use the wrong  
18 term, but a "full system review," all systems looked at  
19 in total at one time as opposed to bringing in X number  
20 of systems three months from now that maybe have the  
21 worst case scenarios?

22                   MS. MESSER:  Basically, yes.

23                   COMMISSIONER CLARK:  It would be a  
24 system-wide filing, and it would address service  
25 availability charges in those -- it may recommend



1 changes for some systems; it may recommend none for  
2 others.

3 MS. MESSER: Right.

4 COMMISSIONER CLARK: Okay. But it's a total  
5 look.

6 COMMISSIONER BEARD: Okay.

7 MR. WILLIS: Commissioners, would you like  
8 to go ahead and vote out some of the other issues  
9 that don't deal with rates, like 110A, which is  
10 AFUDC?

11 COMMISSIONER BEARD: Like what?

12 COMMISSIONER CLARK: The ones at the end?

13 MR. WILLIS: Yes. Issues 110, which deals  
14 with AFUDC and some of the legal issues.

15 COMMISSIONER CLARK: Yes.

16 MR. WILLIS: It would cut down on some of the  
17 time on Wednesday.

18 COMMISSIONER CLARK: Do you think we could do  
19 that?

20 COMMISSIONER BEARD: I have no problem with --

21 COMMISSIONER CLARK: What page are we on?

22 MR. WILLIS: Page 302, which is AFUDC.

23 COMMISSIONER BEARD: Are you talking about  
24 Issue 110 now?

25 COMMISSIONER CLARK: Move Staff.

1 COMMISSIONER BEARD: Without objection.

2 COMMISSIONER CLARK: And I think I can move  
3 Staff on all the legal issues.

4 MS. MESSER: Also 109 is AFPI.

5 COMMISSIONER BEARD: Well, slow down just a  
6 second.

7 Legal issues are 111, 112, 113. Okay. And  
8 those are approved. And going back to 109.

9 COMMISSIONER CLARK: Move Staff.

10 COMMISSIONER BEARD: Without objection, 109  
11 is approved.

12 MS. MERCHANT: 110 is AFUDC.

13 COMMISSIONER BEARD: We just did 110 already.  
14 You're going to have to keep up now. We're a pretty  
15 rapid-moving bunch. (Laughter)

16 COMMISSIONER CLARK: Get with the program.

17 COMMISSIONER BEARD: Yeah. Hey. (Laughter)

18 You don't deserve this kind of abuse on  
19 Monday morning, do you? (Pause) Okay.

20 MR. WILLIS: Would you like to have from us  
21 on Wednesday morning changed revenue requirements for  
22 these systems?

23 COMMISSIONER BEARD: I think what I generally  
24 want --

25 COMMISSIONER CLARK: There's not going to be

1 any major change in revenue requirements.

2 MR. WILLIS: No. I don't believe so. I  
3 believe you could probably make a decision on rates  
4 without those revenue changes. Because they're not  
5 going to be that material.

6 COMMISSIONER CLARK: Yes. That was my  
7 thought, they were --

8 MR. WILLIS: Really on what you would like to  
9 have --

10 (Simultaneous conversation.)

11 COMMISSIONER BEARD: Yes. That's fine.

12 The only question would then be for, again,  
13 the five-plus-seven systems that we could then go back  
14 and clarify. We can look at System A: this is their  
15 situation, this is their current interim. They're an  
16 unsatisfactory system, this is what their original  
17 rates were, and so we can make sure we're communicating  
18 what we want to happen. Because I'm not sure we are in  
19 total agreement on that.

20 MR. WILLIS: We can have revenue requirements  
21 corrected for those five systems.

22 COMMISSIONER BEARD: Okay.

23 MS. MERCHANT: And also the \$47,000 bonus  
24 adjustment, we would have to change all the systems for  
25 that.

1           COMMISSIONER BEARD: Sure. Does that get us  
2 through today?

3           MR. WILLIS: Yes. I believe it does.

4           COMMISSIONER BEARD: Mouchos gracias.

5           COMMISSIONER CLARK: 8:00 Wednesday?

6           COMMISSIONER BEARD: 8:00 Wednesday. Okay.

7           (Thereupon, hearing recessed at 10:55 a.m. to  
8 reconvene at 8:00 a.m. Wednesday, February 17, 1993, at  
9 the same address.)

10           (Transcript follows in sequence in Volume  
11 II.)

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