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DIRECT TESTIMONY OF FORREST L. LUDSEN  
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
ON BEHALF OF  
SOUTHERN STATES UTILITIES, INC.  
DOCKET NO. 93089 VS 7

DOCUMENT NUMBER-1000  
00358 JAN 11 1968  
FPC-RECORDS/RECORDING

1 Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

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

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

6 A. My position is Vice President in charge of Customer Services for  
7 Southern States Utilities, Inc. ("Southern States").

8 Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK  
9 EXPERIENCE?

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

21 I AM CURRENTLY EMPLOYED BY SOUTHERN STATES UTILITIES AS VICE PRESIDENT IN



1 A. Generally, I am responsible for all matters relating to customer service  
2 including the administration of customer billing, complaints and service  
3 requests as well as the determination of Southern States' revenue  
4 requirements, administration of rates, filing and administration of rate  
5 applications and the coordination of all activities required to comply  
6 with the rules and regulations of the Florida Public Service Commission.

7 **Q. HAVE YOU EVER TESTIFIED BEFORE A REGULATORY**  
8 **AGENCY?**

9 A. Yes, I testified before the Florida Public Service Commission on behalf  
10 of Southern States and United Florida Utilities Corporation in Docket  
11 No. 900329-WS. I have also testified on behalf of Lehigh Utilities, Inc.  
12 in Docket No. 911188-WS and Southern States in Docket Nos. 920199-  
13 WS and 920655-WS. I also have testified numerous times on behalf of  
14 Minnesota Power before the Minnesota Public Service Commission and  
15 the Federal Energy Regulatory Commission.

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

17 A. To provide support for the Commission's establishment of statewide  
18 rates for Southern States in Order No. PSC-93-0423-FOF-WS, as  
19 reaffirmed by the Commission in Order No. PSC-93-1598-FOF-WS  
20 (Docket No. 920199-WS). The Commission summarized the following  
21 points in its order establishing uniform rates for the systems

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1. administrative efficiencies in accounting, operations and maintenance;
2. rate stability;
3. insulation of customers from rate shock from major capital improvements or increased operating costs;
4. recognition of economies of scale;
5. ease of implementation; and
6. lower rate case expense in the long run.

I agree that each of these reasons support the charging of uniform rates to Southern States' customers. I will address these reasons, provide others and further refute certain representations made by opponents of uniform rates to date.

**Q. HAS THE COMMISSION APPROVED UNIFORM RATES IN THE PAST?**

A. Yes. Staff witness John D. Williams indicated in Docket No. 920199-WS that the Commission has established uniform rates rather frequently in the past. Notably, Jacksonville Suburban Corporation has had statewide uniform rates for many years. Other utilities serving multiple locations also have been authorized to collect uniform rates, including Mad Hatter Utilities, Marion Utilities, Sunshine Utilities and Utilities, Inc. Mr. Williams further indicated that prior to Docket No. 920199-WS, the Commission authorized Southern States to collect uniform rates



1 on a county-wide basis for six of the counties included in that docket.  
2 The counties which previously had uniform rates included Seminole,  
3 Lake, Martin, Marion, Orange and Duval.

4 **Q. WERE THE UTILITY FACILITIES SERVING CUSTOMERS**  
5 **UNDER THE VARIOUS UNIFORM RATE STRUCTURES YOU**  
6 **HAVE IDENTIFIED INTERCONNECTED BY LINES IN THE**  
7 **GROUND?**

8 A. In most circumstances, no.

9 **Q. DOES SOUTHERN STATES BELIEVE THAT IT IS RELEVANT**  
10 **THAT WATER FACILITIES SERVING DIFFERENT**  
11 **LOCATIONS MAY NOT BE INTERCONNECTED BY LINES IN**  
12 **THE GROUND?**

13 A. No. First, as confirmed by Bert Phillips, our President, most counties  
14 which provide water to county residents charge uniform rates regardless  
15 of the absence of a facility interconnect through lines. Messrs.  
16 Pennacchio and Barnes also confirm that the trend of water providers,  
17 both within Florida and nationwide, is toward uniform rates regardless  
18 of interconnection by lines. Second, as I previously indicated, there are  
19 numerous instances where the Commission previously has established  
20 uniform rates for systems not connected by lines. Third, the absence of  
21 an interconnection by lines in the ground does not obviate the fact that  
22 the services provided to all of our customers are the same or the fact

1 that Florida's water supply and water quality issues transgress all  
2 boundaries -- interconnection by lines being totally irrelevant. Fourth,  
3 as Messrs. Waller and Stewart testify, the correlation of Florida's  
4 various water supplies -- springs, rivers, lakes and aquifers is  
5 sufficiently intertwined so as to merit consideration as a whole -- in  
6 effect, Florida's water resources interconnect all of our facilities.  
7 Florida already is witnessing the transmission of water supplies over  
8 many miles from source to user. Regional water facilities are being  
9 created. The Floridan Aquifer, the source of much of the supply for a  
10 number of regional water facilities and thousands of individual facilities  
11 not connected by lines, transverses the entire State of Florida. In fact,  
12 Mr. Waller confirms that all of the 90 water facilities considered by the  
13 Commission in Docket No. 920199-WS are located above the Floridan  
14 Aquifer and thus, to varying degrees, are interconnected by the same  
15 water supply source. For all of these reasons, Southern States believes  
16 that the absence of interconnection by lines between water facilities is  
17 not dispositive of anything and should not be considered relevant by the  
18 Commission (just as counties, including Citrus and Hernando, appear to  
19 have deemed the absence of physical interconnection irrelevant to the  
20 creation of fair, just and reasonable uniform rates).

21 **Q. SHOULD THE LEVEL OF CONTRIBUTIONS IN AID OF**  
22 **CONSTRUCTION MADE BY CUSTOMERS BE DISPOSITIVE**



1 OF THE ISSUE OF WHETHER UNIFORM RATES ARE  
2 REASONABLE?

3 A. No, the level of contributions in aid of construction ("CIAC") paid by  
4 customers in the past, while relevant, should not be dispositive of the  
5 issue of whether uniform rates are reasonable. First, it should be  
6 recognized that the amount of CIAC collected from customers over time  
7 may, and does, change. Therefore, next door neighbors served by the  
8 same specific water facilities may have paid different amounts of CIAC  
9 to the Company. Just as with all other costs necessary to provide  
10 service, it is impossible to establish rates which correlate precisely with  
11 the amount of CIAC paid by individual customers. Second, whereas  
12 high or low levels of CIAC collected in certain locations may be a  
13 fundamental cause of lower or higher rates, respectively, in that  
14 particular location, there are other factors such as customer density,  
15 customer consumption patterns, age of facilities or any one (or  
16 combination) of the factors impacting rates which I previously identified  
17 which may be the fundamental cause of higher or lower rates in another  
18 location. The fact that CIAC levels alone should not be dispositive of  
19 the reasonableness of rates is demonstrated by a review of the facts  
20 concerning Sugarmill Woods. Whereas Sugarmill Woods customers  
21 may have higher CIAC amounts than many other Southern States  
22 customers, Sugarmill Woods customers also use more than twice as

1 much water as the average use of customers served by other water  
2 facilities. Under uniform rates, as the water facilities at Sugarmill  
3 Woods are expanded to accommodate customer usage and growth, all  
4 customers of Southern States would bear a portion of the cost of the  
5 expansion. Of course, we hope that the application of uniform rates to  
6 Sugarmill Woods, with the higher gallonage rates, will have some water  
7 conservation impact on customer use there so that future water facilities  
8 expansion can be decreased in size or possibly avoided. This fact brings  
9 up a further point. Although leaders of our Sugarmill Woods customers  
10 have been steadfast in their opposition to the Commission's uniform rate  
11 decision, given the excessive consumption of Sugarmill Woods  
12 customers and the increasing emphasis on water conservation,  
13 particularly as may be achieved by inverted conservation rate structures,  
14 it is likely that some form of higher conservation rate would be applied  
15 to Sugarmill Woods customers in the not too distant future. In fact, the  
16 Southwest Florida Water Management District, which has jurisdiction  
17 over water withdrawals (water use permits) in the Sugarmill Woods  
18 area, requires that Southern States (and all water providers) provide a  
19 detailed water conservation plan which must include an identification of  
20 the steps which have been taken to implement conservation rates.  
21 Southern States has made a commitment to the Commission that we will  
22 present conservation rate possibilities for consideration in our next rate



1 case. In addition, the Southwest Florida Water Management District  
2 (which encompasses Spring Hill as well as Sugarmill Woods) recently  
3 has imposed water shortage restrictions which limit landscape watering  
4 to twice a week for residential customers. Clearly, customers like  
5 Sugarmill Woods customers which as a group exhibit usage patterns  
6 which are twice the average for the Company's other water facilities  
7 could expect to weigh heavily in the design of conservation rates. Thus,  
8 on a stand alone basis, Sugarmill Woods could be expected to pay  
9 significantly higher conservation rates than if their consumption is  
10 lumped together with our remaining systems with lower usage patterns.

11 While water conservation techniques are being discussed, it  
12 should be mentioned that a leader of a Sugarmill Woods customer group  
13 indicated in a pre-hearing conference in this docket that his group  
14 may favor the construction of a water reuse plant on the wastewater  
15 facilities rather than the expansion of the Company's water treatment  
16 facilities. In either event, the need for additional water supplies, either  
17 potable or reuse water, appears to be recognized. Obviously, the reuse  
18 alternative, if practicable, is the preferred alternative from a  
19 conservation standpoint. Nevertheless, under uniform rates, the  
20 Company's tens of thousands of customers will share in the costs of  
21 construction of either the water plant expansion or the reuse  
22 plant on the wastewater plant -- rather than solely the

1 approximately 1,700 customers located at Sugarmill Woods.

2 In addition, Messrs. Waller and Stewart testify to the fragility of  
3 water supplies in Citrus County where Sugarmill Woods is located.  
4 Both Mr. Waller and Mr. Stewart relate their knowledge of past  
5 difficulties experienced in the area which would tend to indicate a  
6 definite potential for capital investment requirements in the area in the  
7 future. These investments, too, would be shared by all of our  
8 customers, not just the 1,700 customers at Sugarmill Woods.

9 To conclude my response to your question, it must be recognized  
10 that the Commission addressed the CIAC contribution issue in Docket  
11 No. 920199-WS by requiring Southern States to file a service  
12 availability filing within two years of the Commission's issuance of a  
13 final order in that docket. The evidence in Docket No. 920199-WS  
14 reveals that any changes to CIAC levels which may result from such a  
15 filing (or even if changes were made in the rate case) can only be  
16 expected to have a recognizable impact over a period of years. Also, as  
17 Mr. Pennacchio points out, it is customers such as Sugarmill Woods  
18 customers, who have paid a higher level of CIAC in the past, who will  
19 feel the greatest impact in their rates in the future as original plant  
20 deteriorates and must be replaced. Uniform rates will lessen that  
21 impact. For these reasons, I do not believe that the level of CIAC paid  
22 by a particular customer or groups of customers should be dispositive of



1 whether uniform rates are reasonable for Southern States.

2 **Q. WOULD IT BE MORE REASONABLE FOR THE COMMISSION**  
3 **TO ESTABLISH UNIFORM RATES ON A COUNTYWIDE OR**  
4 **REGIONAL BASIS AS OPPOSED TO A STATEWIDE BASIS?**

5 A. No. The political boundaries which identify a county bear no  
6 significance to the service being provided to customers or the cost  
7 thereof. The same is true for any boundaries created to identify regions  
8 for rate-setting purposes. As I have indicated previously and Messrs.  
9 Phillips, Ferrero and Denny testify in this proceeding, the service  
10 Southern States must provide to all of our customers, wherever located,  
11 is the same. The cost of providing that service varies based upon many  
12 factors totally unrelated to the geographic location where service is  
13 being rendered. These factors include the number of customers being  
14 served, the density of customers in a geographic area, the consumption  
15 habits of customers, the age of utility facilities, whether existing  
16 facilities comply with new laws or standards which may be enacted,  
17 type of treatment, the cost of materials and supplies, the level of  
18 contributions in aid of construction (CIAC) provided by developers or  
19 customers, the availability of water, and a potential myriad of other  
20 factors. No single factor can be said to be the primary determinant of  
21 the cost of providing service for every facility or every location. In any  
22 given situation, any one of these factors might be the primary

1           determinant of costs and thus rates. Also, over time, the extent to  
2           which each of these factors impacts costs (and thus rates), up or down,  
3           will change. As a result, a system located within a stone's throw of  
4           another system could have rates significantly lower than its neighbor  
5           one day and significantly higher the next.

6           In contrast, uniform rates treat customers receiving the same  
7           service in the same manner on a continuous basis, regardless of a  
8           particular customer's geographic location or other features of the system  
9           from which service is provided. Under uniform rates, metered  
10          residential customers, wherever located, which have the same size meter  
11          and use the same amount of water will pay the same water and  
12          wastewater bills. The setting of uniform rates for a very large customer  
13          base also will create a level of rate stability superior to any other rate  
14          structure since no facility will be immune from capital investment,  
15          environmental regulation, water supply and the other range of issues  
16          facing (and to be faced by) all water and wastewater providers in  
17          Florida today.

18       **Q.   IT HAS BEEN ARGUED IN OPPOSITION TO THE**  
19       **COMMISSION'S UNIFORM RATE DECISION THAT UTILITY**  
20       **RATES CHARGED TO ANY GROUP OF CUSTOMERS ONLY**  
21       **CAN COMPENSATE THE UTILITY FOR ITS INVESTMENT IN**  
          **VERY SPECIFIC FACILITIES NECESSARY TO PROVIDE**



1 WATER OR WASTEWATER TO THAT GROUP OF  
2 CUSTOMERS AND THE COSTS OF OPERATING AND  
3 MAINTAINING THOSE SPECIFIC FACILITIES. DO YOU  
4 AGREE WITH THIS ARGUMENT?

5 A. No, I do not and as Company witnesses repeatedly have pointed out, the  
6 Commission as well as county and municipal water and wastewater  
7 service providers also do not agree with this argument. Similar to  
8 investor owned utilities, county and municipal providers are required by  
9 Florida law to charge rates which are fair and reasonable. Thus, it can  
10 be presumed that the counties and municipalities charging their  
11 customers uniform rates considered it fair and reasonable to charge their  
12 own customers uniform county-wide rates. My knowledge of  
13 Commission actions in the past, and more particularly with regard to  
14 Southern States, indicates such an argument is not valid. I also have  
15 read section 367.081 of the Florida Statutes and from a layman's  
16 perspective, and as an expert witness on utility ratemaking, I see no  
17 substantiation of such an argument in that statute. The fact is that the  
18 Commission in Docket No. 920199-WS did consider Southern States'  
19 costs of providing service, including our investment in used and useful  
20 utility facilities, the costs of operating and maintaining such facilities  
21 and other common costs when setting rates. The Commission chose to  
22 consider these investments and costs on a Company-wide basis.



1 Southern States is one utility company, operates and manages all of our  
2 facilities as one company and we agree with the Commission that we  
3 should be treated for ratemaking purposes as one company. The  
4 Commission never has restricted its discretion to do so and in fact has  
5 exercised its discretion to do so, in whole or in part, on various  
6 occasions in the past.

7 **Q. COULD YOU BRIEFLY DESCRIBE THE COMMISSION'S**  
8 **PROGRESSION TOWARD STATEWIDE UNIFORM RATES FOR**  
9 **SOUTHERN STATES?**

10 **A.** Yes. Contrary to the picture which opponents to the Commission's  
11 decision are attempting to draw, the establishment of a uniform rate  
12 structure is not something that came from out of the blue. Issue 92 in  
13 the Commission's Prehearing Order in Docket No. 920199 specifically  
14 raised the uniform statewide rate issue. Issue 92 queried as follows:

15 Should SSU's final rates be uniform within  
16 counties, regions, or statewide.

17 At least three witnesses testified on behalf of the Company and  
18 Staff concerning the rate structure issue, including uniform rates, and  
19 counsel for Citrus and Hernando Counties conducted cross-examination  
20 on the uniform rate issue. Moreover, the Commission and Southern  
21 States have gradually progressed toward uniform statewide rates over a  
22 number of years. Let me explain: Southern States was incorporated in



1 1961. For many years, Southern States consisted of a small number of  
2 "Mom and Pop" type water and wastewater facilities. Southern States  
3 had been acquired by Universal Telephone Company ("Universal  
4 Telephone") but continued its "Mom and Pop" existence until 1984  
5 when Minnesota Power and Light Company ("Minnesota Power")  
6 purchased Universal Telephone and its subsidiary, Southern States.  
7 Minnesota Power sold Universal Telephone in 1989 but retained  
8 Southern States as part of Minnesota Power's planned diversification  
9 into the water and wastewater industry. At this time, Minnesota Power  
10 recognized the potential for growth and expansion of Southern States in  
11 Florida. The growth potential existed primarily due to the ever  
12 increasing level of scrutiny being focused on the water industry by  
13 federal and state authorities. This focus resulted initially in the passing  
14 of the Clean Water Act and the Safe Drinking Water Act. These federal  
15 laws, which focus on water quality and the protection of the nation's  
16 water supplies, imposed a higher level of regulation and enforcement  
17 upon water and wastewater utilities across the nation. The Florida  
18 Department of Environmental Regulation (now known and hereinafter  
19 referred to as the Department of Environmental Protection or "DEP")  
20 has been delegated authority from the Federal Environmental Protection  
21 Agency to administer and enforce these laws. In turn, the DEP has  
delegated some of its authority to certain counties in Florida which have



1 met DEP's criteria. In addition to DEP regulation of water and  
2 wastewater quality, Florida's five water management districts are the  
3 primary authority charged with protecting Florida's water supplies from  
4 depletion through their authority to issue consumptive use permits  
5 (sometimes called water use permits).

6 The principal effect of these developments has been a significant  
7 increase in the cost of providing water and wastewater service in  
8 Florida. Costs have increased due to increased testing requirements,  
9 increased permitting requirements (i.e., reuse feasibility studies,  
10 capacity analysis reports), capital investments required to meet new  
11 water and wastewater standards, more strict DEP enforcement of laws  
12 and regulations and other factors.

13 The end result of these developments have been increasing  
14 numbers of water and wastewater utilities in Florida as well as  
15 nationwide which could not, or were not willing to, invest the additional  
16 funds to comply with the new laws and rules. These utilities generally  
17 have been referred to as "non-viable" utilities.

18 It is important to note that in Southern States' experience these  
19 "non-viable" utilities more frequently are smaller, developer owned  
20 utilities which, while capable of complying with laws and rules which  
21 existed prior to passage of the Clean Water Act and the Safe Drinking  
22 Water Act, either were unable to comply or were experiencing difficulty



1 complying with these new laws and the rules and standard which  
2 followed them. These utilities, although perhaps "non-viable" in the  
3 new, more heavily regulated water and wastewater industry, do not  
4 consist solely of dilapidated or run down facilities and structures as  
5 opponents of uniform rates would like our customers to believe. It is  
6 the "non-viable" utilities, not dilapidated buildings and structures, which  
7 Southern States recognized as one potential source of growth for our  
8 Company.

9 In addition, Southern States recognized the financial difficulties  
10 which a number of Florida developers were experiencing in the 1980s.  
11 As a rule, these developers were involved in the utility business only as  
12 a necessary adjunct to their real estate business, particularly in instances  
13 where no other utility provider was operating in proximity to the area  
14 being developed. Developers generally subsidized utility operations to  
15 keep water and wastewater rates artificially low as another inducement  
16 to lot purchasers. Thus, even where the developer may not have been  
17 experiencing financial difficulty, if the area being developed was  
18 completed or nearing completion (in other words, the lots were sold),  
19 many developers would lose interest in continuing the subsidy of utility  
20 rates. Developers in this situation were particularly reluctant to invest  
21 the necessary funds to comply with the new spate of laws and rules  
22 involving such investment. The acquisition of these utilities also

1 appeared to offer Southern States significant growth potential.

2 As I indicated previously, Southern States was only a  
3 conglomeration of "Mom and Pop" utilities when the Clean Water Act  
4 and Safe Drinking Water Act were passed. The Company was not large  
5 enough to offer its customers sufficient economies of scale to be able to  
6 keep rates at low levels after the increased costs of complying with the  
7 new laws, standards and regulations were incurred.

8 Therefore, Southern States secured agreement from its parent,  
9 Minnesota Power, to concentrate its utility diversification efforts on an  
10 attempt to expand the water and wastewater business in Florida.

11 Southern States also secured a commitment from Minnesota Power of  
12 the necessary funds to comply with all laws, standards and regulations.  
13 Consistent with this agreement, in 1984, Minnesota Power sold  
14 Universal Telephone but held onto Southern States. A process of  
15 acquiring Florida water and wastewater utilities ensued.

16 In 1988, the Commission recognized Southern States' growth  
17 progression from a "Mom and Pop" operation to a "small business" size  
18 operation. The Commission had authorized a number of utility transfers  
19 to Southern States as being in the public interest because, among other  
20 things, Southern States has the expertise and financial ability to provide  
21 quality service to our customers throughout the state. Southern States  
22 then informed the Commission that the Company had taken its first step



1 toward acquiring Deltona Utilities, Inc. and United Florida Utilities  
2 Corporation, both of which were subsidiaries of a large Florida  
3 developer, The Deltona Corporation. About this time (1987), Southern  
4 States had acquired Venice Gardens Utilities Corporation from another  
5 Florida developer, Gulfstream Land and Development Corporation. The  
6 acquisition of Venice Gardens Utility Corporation increased Southern  
7 States' customer base by approximately 14,000 customers bringing the  
8 total customer base from 38,000 to 52,000. To ensure that Southern  
9 States could manage and operate these utilities and its existing utilities  
10 effectively, the Commission ordered its staff to perform the first  
11 management audit of a Florida water and wastewater utility. The  
12 Commission management audit report issued in September 1988 made  
13 79 recommendations to Southern States. Southern States ultimately  
14 implemented, in some form, 77 of the Commission's recommendations.  
15 The principal emphasis of the audit report was Southern States' need to  
16 centralize its operations and secure sufficient specialization of employees  
17 and departmentalization of services to manage and operate its utilities  
18 effectively.

19 In 1989, Southern States completed its acquisition of Deltona  
20 Utilities, Inc. and United Florida Utilities Corporation. This acquisition  
21 effectively doubled Southern States' customer base bringing the total  
22 service of customers served by Southern States to 135,000. Our last

1 acquisition was Lehigh Utilities, Inc. in 1991 bringing our current  
2 customer base to approximately 160,000. Southern States is now the  
3 largest investor-owned water and wastewater utility in Florida.

4 As I indicated previously, Southern States manages and operates  
5 all of these utilities from its headquarters in Apopka, Florida. All  
6 investment decisions and decisions as to how the investments should be  
7 financed are made by our executive team, engineering and finance  
8 departments and multi-disciplinary capital budget team in Apopka.  
9 Company-wide operations also are managed from Apopka where  
10 operations and maintenance processes and procedures are developed by  
11 our Operations Team for implementation in the field. Our purchasing  
12 department in Apopka also is responsible for purchasing materials and  
13 supplies such as chemicals on a Company-wide basis so as to achieve  
14 the greatest economies of scale possible. Also, our Environmental  
15 Compliance and Permitting Department, which monitors compliance  
16 with federal and state laws, standards and rules, administers permits and  
17 trains operations personnel for all of our systems concerning procedures  
18 and processes to comply with laws, regulations and permit conditions, is  
19 based in Apopka. These functions, in addition to the many, many other  
20 functions necessary to run the largest investor-owned water and  
21 wastewater utility in Florida are run out of Apopka.

22 In 1995, the Commission has recognized the consolidation of



1 what used to be numerous individual water and wastewater utilities into  
2 one utility, Southern States. This recognition has been demonstrated in  
3 many ways. For a number of years prior to the the Commission's  
4 authorization of state-wide uniform rates in Docket No. 920199-WS, the  
5 Commission established county-wide uniform rates for our facilities in  
6 six counties, including Lake, Seminole, Orange, Duval, Marion and  
7 Martin counties. Therefore, the Commission was very familiar with the  
8 pros and cons of uniform rates prior to Docket No. 920199-WS. A  
9 review of the six prior Commission orders authorizing uniform rates for  
10 Southern States and its affiliates reveals that the Commission believed  
11 uniform rates were fair, just and reasonable for a variety of reasons,  
12 including: 1) normalization of rates with no wide variations or  
13 fluctuations due to large construction projects; 2) a simplification and  
14 reduction in the expense for bookkeeping (only need one computer  
15 program and a simplified method of filing annual reports and future rate  
16 cases; 3) a reduction in rate case expense; and 4) the Commission had  
17 treated other utilities in the same manner in the past. Indeed, these  
18 prior uniform rate decisions concerning Southern States are in addition  
19 to the various orders authorizing uniform statewide and county-wide  
20 rates for other Florida utilities including Jacksonville Suburban Utilities  
21 Corporation, Sunshine Utilities, Inc., Utilities, Inc., etc.

22 The Commission also has progressed toward its statewide

1 uniform rate setting method by establishing uniform rates for  
2 Accumulated Funds Used During Construction ("AFUDC") and uniform  
3 depreciation rates. The Commission also has authorized the Company  
4 to implement indexing and/or pass-throughs on a company-wide basis.

5 The Commission has used a consolidated Company-wide capital  
6 structure for rate setting in recognition of the fact that financing  
7 decisions and resulting capital costs are made on a Company-wide basis.  
8 In fact, as Scott W. Verina, Vice President Finance and  
9 Administration, testifies, the consolidation of all of the Company's  
10 facilities into one large utility and, indeed, the size of Southern States  
11 itself, have provided Southern States access to low cost capital which  
12 either are not available to smaller utilities or are inaccessible to them  
13 because they do not have the expertise or capability to secure them. All  
14 customers benefit from our ability to secure low cost capital. As I will  
15 discuss later, it appears that opponents of uniform rates are attempting  
16 to retain all of the benefits (particularly those resulting in cost  
17 reductions) which Southern States offers as a large, consolidated utility,  
18 including lower costs of capital, economies of scale, etc., but avoid any  
19 responsibility for Company attributes which might increase costs and  
20 thus rates, even on a short term basis.

21 As Ms. Victoria Tschinkel, former Secretary of the Department

22 of Environmental Regulation, testifies, it is generally understood that



1 utility facilities similar to those currently owned and operated by  
2 Southern States -- if our utility were to be disaggregated and operated  
3 strictly on a stand-alone basis including financing, engineering,  
4 environmental compliance, operations, management, labor, employee  
5 benefits, etc. -- are experiencing difficulty complying with current laws,  
6 standards and regulations and state authorities charged with enforcing  
7 such laws, standards and regulations generally favor the consolidation of  
8 these utilities. There is little question that if disaggregated, rates for  
9 service to any of our facilities would increase above the Commission  
10 authorized rates in Docket No. 920199-WS.

11 The Commission also has acknowledged Southern States'  
12 consolidation and current existence as one company by recognizing the  
13 legal merger of our affiliated utilities over time. The Commission also  
14 has approved Southern States' consolidation of the various tariffs and  
15 implementation of uniform rules and regulations governing all of  
16 Southern States' facilities and operations in the consolidated tariff. The  
17 affiliated utilities which the Commission has permitted Southern States  
18 to merge into one company and under one tariff include Deltona  
19 Utilities, Inc., United Florida Utilities Corporation and Lehigh Utilities,  
20 Inc.

21 While all of this was going on, the Commission, of its own  
22 volition, initiated Docket No. 880863-WS, a generic proceeding to



1 discuss rate setting issues. One of the issues upon which the  
2 Commission concentrated was uniform rates. The Commission received  
3 evidence regarding the pros and cons of uniform rates including  
4 evidence from two Southern States employees who testified "to the  
5 many benefits of uniform rates and how [Southern States] is moving  
6 towards the goal of uniform statewide rates." The Commission issued  
7 its "Order on Rate-Setting Procedures" on May 8, 1989. In this order,  
8 the Commission found as follows:

9 We believe there is merit to the  
10 concept of statewide uniform rates.  
11 Cost savings due to a reduction in  
12 the accounting, data processing and  
13 rate case expense can be passed on  
14 to the ratepayers.

15  
16 Clearly, uniform rates were not a new and unknown rate-setting  
17 method prior to Docket No. 920199-WS. Rather, the Commission had a  
18 great deal of experience concerning uniform rates prior to authorizing  
19 uniform rates for Southern States in that docket.

20 Also prior to authorizing uniform rates in Docket No. 920199-  
21 WS, the Commission considered a Company request for uniform rates  
22 for 34 of its water and wastewater systems in Docket No. 900329-WS.  
23 For a variety of reasons, the Commission denied Southern States rate  
24 relief in that docket and, thus, no uniform rates resulted. It appears that  
25 one of the critical flaws which the Commission perceived with the  
26 Company's application was that information for only 34 of the



1 approximately 150 water and wastewater systems then operated by  
2 Southern States were included in the application. The Commission and  
3 the Office of Public Counsel were concerned that Southern States had  
4 only filed for rate increases for systems with revenue deficiencies while  
5 at the same time Southern States might be over-earning on other  
6 systems or perhaps doing well enough financially on a total Company  
7 basis such that less rate relief than that being requested would be  
8 necessary. The fact that the Commission and the Office of Public  
9 Counsel expressed these concerns confirms the prudence and  
10 reasonableness of viewing Southern States as one Company for rate-  
11 setting purposes. It would not be logical or fair for the Commission to  
12 deny Southern States revenue relief (or decrease the level of relief) for  
13 individual "systems" (or groups of "systems") on the basis that other  
14 "systems" may be performing well -- which constitutes Company-wide  
15 ratemaking -- and then refuse to authorize uniform rates after all  
16 information concerning all "systems" subsequently is provided by the  
17 Company and thoroughly reviewed by the Commission and all parties to  
18 Docket No. 920199-WS. Obviously, if the Commission were to reduce  
19 the level of rate relief provided to any "system" or group of "systems"  
20 which may have been included in one rate application on the basis that  
21 one, or a group, of other Southern States "systems" was exceeding its  
22 allowed rate of return, such action would have the same effect as

1 statewide uniform rates.

2 Recognizing the concerns of the Commission and Public  
3 Counsel, Southern States filed three applications for rate relief which all  
4 were accepted as meeting with the Commission's minimum filing  
5 requirements in 1992. These three rate applications included every  
6 Commission regulated system owned by Southern States at the time.  
7 All information necessary to determine rates for each of these systems  
8 and, in effect, Company-wide was made available to the Commission in  
9 the ensuing three dockets. Docket No. 920199-WS included 127 water  
10 and wastewater systems. Docket No. 911188-WS included the Lehigh  
11 water and wastewater systems (which at the time were only recently  
12 acquired by Southern States) and Docket No. 920655-WS included the  
13 Marco Island water and wastewater systems (in which Southern States  
14 had invested significant capital for water and wastewater improvements  
15 including a reverse osmosis plant and wastewater reuse facilities).  
16 Southern States responded to approximately 2,500 discovery requests  
17 and provided many, many depositions to Staff, Public Counsel and the  
18 other parties to those proceedings. Literally millions of pages of  
19 information were provided and/or copied for them as well. Surely, the  
20 Commission had a firm grip of Southern States' history, financial status,  
21 customer composition, procedures and practices, plant and equipment,  
22 etc., by the time these 3 proceedings were completed.



1 Q DO YOU HAVE ANY COMMENTS CONCERNING THE  
2 REFERENCE BEING MADE TO SYSTEM "STAND ALONE"  
3 RATES IN THIS DOCKET AS WELL AS DOCKET NO. 920199-  
4 WS?

5 A Yes, in Docket No. 920199-WS, Southern States proposed what was  
6 referred to as a modified stand alone rate structure. The modified stand  
7 alone rate structure addressed Southern States' revenue requirements on  
8 a Company-wide basis. As I attempted to explain in Docket No.  
9 920199-WS, we believe that the proposed rates were not truly stand  
10 alone given the great extent to which services being provided by  
11 Southern States were consolidated. As a result of this extensive  
12 consolidation, the disaggregation of costs related to individual "systems"  
13 was rendered (and, absent uniform rates, would continue to become)  
14 increasingly subject to imperfect allocation methodologies. Southern  
15 States is one utility company -- we are no longer an amalgam of  
16 individual utilities. If any one of the 127 "systems" included in Docket  
17 No. 920199-WS truly were to be viewed as a stand alone utility,  
18 assuming the same high quality service was being provided as is  
19 currently provided, we believe it is likely that the rates would be higher  
20 than the modified stand alone rates we proposed. I believe the same  
21 could be said of the uniform statewide rates. For instance, Sugarmill  
22 Woods customers refer to the level of CIAC they have paid to the

1 Company as justification for lower rates. However, CLAC offsets to  
2 plant-in-service investments is only one of a host of components  
3 analyzed to derive revenue requirements (and return on rate base plus  
4 associated taxes represents only approximately one-third of the revenue  
5 requirement). The vast majority of the components which comprise  
6 Southern States' revenue requirements are costs which either are  
7 common to all systems (and allocated) or are otherwise the result of  
8 activities occurring in Apopka for the benefit of all systems, i.e.,  
9 financing (cost of capital) and purchasing (bulk purchases of materials  
10 and supplies including vehicles, chemicals, meters, fittings, piping, etc.)  
11 There is little question that the economies of scale achieved by Southern  
12 States in all areas as a result of our size serve to reduce the rates which  
13 otherwise would result for all systems if they were truly "stand alone"  
14 (never mind the higher quality of service we are able to render our  
15 customers)

16 From this perspective, it is clear that what Sugarmill Woods  
17 customers are requesting is the ability to share in the savings in the vast  
18 majority of cost areas resulting from being a part of one consolidated  
19 utility, but to be treated individually when it comes to cost components  
20 which are lower on a pseudo "stand alone" basis for Sugarmill Woods.  
21 This "picking and choosing" is not fair to the Company or our  
22 remaining 100,000 plus customers. Moreover, as Florida and many



1 states across the nation are experiencing, the smaller utilities are having  
2 difficulty remaining viable in today's economic and environmental  
3 regulatory arenas. In fact, the former owner of the Sugarmill Woods  
4 system, Punta Gorda Isles Corporation ("PGI"), was experiencing severe  
5 economic difficulties at the time we purchased Sugarmill Woods from  
6 them. Surely, had Sugarmill Woods remained under PGI ownership, the  
7 opportunity to finance construction on that system could be expected to  
8 have cost far more than the 8.6% rate Southern States was able to  
9 obtain for our \$45 million refinancing in 1993.

10 **Q DO YOU BELIEVE THERE WILL BE ANY COST SAVINGS**  
11 **RESULTING FROM THE COMMISSION'S UNIFORM RATE**  
12 **DECISION?**

13 **A.** The cost savings resulting from uniform rates are largely unquantifiable.  
14 However, we expect savings and simplification in administration in the  
15 following areas: tariff administration, accounting (particularly annual  
16 reporting), rate case filing and administration, billing/computer related  
17 costs, customer services and possibly others not yet identified.

18 An indirect method of "savings" is the benefits to be derived by  
19 customers as improvements are made to plants serving them and  
20 associated costs are spread over a Company-wide customer base --  
21 thereby providing more stability and more reasonable rates.

The bottom line is that although SSU has over 150 systems, we



1 are one utility and have a responsibility to provide each of our  
2 customers a high quality of service at a reasonable price. We must also  
3 be responsible to Florida's environment and at a minimum meet Federal,  
4 State and County environmental rules and regulations.

5 Uniform rates and their benefits need to be considered on a  
6 macro rather than micro basis and the overall benefits should be  
7 considered long term to not only individual customers, but to Florida as  
8 a whole. Uniform rates give us the means of providing a high quality  
9 of service to all of our customers, at a reasonable price and still meet  
10 the environmental standards which will have long term benefits to all of  
11 Florida.

12 **Q. DOES SOUTHERN STATES BELIEVE THAT THE EXISTENCE**  
13 **OF UNIFORM RATES WILL EFFECT THE PARTICIPATION**  
14 **OF THE OFFICE OF PUBLIC COUNSEL AND CUSTOMERS IN**  
15 **FUTURE RATE PROCEEDINGS?**

16 **A.** The existence of uniform rates should not effect the participation of any  
17 person or organization at all. Certainly, we expect that the Office of  
18 Public Counsel will give no less scrutiny to future rate applications than  
19 the thorough scrutiny given in the past. The Public Counsel's office  
20 also is expected to solicit information from all customers in the future  
21 just as that office has done in the past. In addition to Public Counsel's  
22 representation, customers will still be able to intervene and/or appear at



1 customer service hearings. Customer participation after the  
2 establishment of uniform rates is not expected to be any different than  
3 prior to such time.

4 **Q. HAS THE COMPANY CONDUCTED A COST OF SERVICE**  
5 **STUDY REGARDING THE HERNANDO COUNTY BULK**  
6 **WASTEWATER SALES?**

7 **A.** Yes. Southern States performed a cost of service study which resulted  
8 in a rate of \$1.20 per 1,000 gallons of treated wastewater. Southern  
9 States believes that a separate rate should be approved for this bulk  
10 wastewater service, however, that rate has not yet been agreed upon  
11 with Hernando County.

12 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

13 **A.** Yes, it does.