

~~VOLUME 7~~
~~CASE NO. 95-0422~~

95-01122

855

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Interim and
Permanent Rate Increase in
Franklin County by St. George
Island Utility Company, Ltd.

DOCKET NO. 940109-WU

FILED
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TALLAHASSEE, FLORIDA

THIRD DAY - MORNING SESSION

VOLUME 7

Pages 855 through 1025

PROCEEDINGS: Hearing

BEFORE: CHAIRMAN J. TERRY DEASON
COMMISSIONER DIANE K. KIESLING

DATE: Wednesday, August 3, 1994

TIME: Commenced at 8:30 a.m.

PLACE: 101 East Gaines Street
Tallahassee, Florida

REPORTED BY: JANE FAUROT
Notary Public in and for the
State of Florida at Large

APPEARANCES:

(As heretofore noted.)

ACCURATE STENOGRAPHY REPORTERS, INC.
100 SALEM COURT
TALLAHASSEE, FLORIDA 32301
(904) 878-2221

DOCUMENT NUMBER-DATE
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P R O C E E D I N G S

(Transcript follows in sequence from Volume 6.)

(Hearing reconvened at 8:30 a.m.)

CHAIRMAN DEASON: Call the hearing to order.

As I recall when we broke week before last, we had concluded all the direct testimony, but we did have outstanding a question concerning the admission of three exhibits, I believe, Exhibits 20, 21 and 22. Is that correct?

MR. McLEAN: Yes, sir, that's correct. I have a suggestion, however, which might save a bit of time. My plan is to inquire of other witnesses on these same exhibits. And I can temporarily withdraw my motion and have those exhibits admitted into evidence, and renew the motion after those other witnesses have testified about the exhibits, and have had some opportunity to shed some light and maybe help you with your decision.

CHAIRMAN DEASON: Very well. The motion has been withdrawn, and we will proceed, and we will see where we are at a later point. And if you need to renew that motion --

MR. McLEAN: Let me point out that it was a suggestion. I'm happy to argue it now, if needs be, or if anyone has relied on that. Otherwise, there is a risk that you might wind up hearing the argument twice.

CHAIRMAN DEASON: Mr. Pfeiffer, do you have a

1 comment concerning this?

2 MR. PFEIFFER: What was this risk? I'm sorry, I
3 didn't hear the last part of the sentence.

4 MR. McLEAN: I think that if I had an adverse
5 ruling now, I would have the opportunity to argue for their
6 admission later. It doesn't make that much difference to
7 me. My effort here is to save a bit of time.

8 MR. PFEIFFER: Yes, sir. I certainly have no
9 objection -- if they withdraw the exhibits now, I have no
10 reason to further cross Ms. Dismukes, and we certainly
11 contend that it would be better to have these documents
12 authenticated.

13 CHAIRMAN DEASON: Make sure you understand that he
14 is going to renew the motion later on in the hearing,
15 apparently, after he has, as I understand it, he is going to
16 be using the same exhibits for cross examination purposes.

17 MR. PFEIFFER: I understand.

18 MR. McLEAN: Yes, sir. There is no intent on my
19 part to withdraw the exhibits. They have not been admitted
20 into evidence as yet.

21 CHAIRMAN DEASON: Very well. Ms. Sanders?

22 MS. SANDERS: That's fine, Commissioner Deason.

23 CHAIRMAN DEASON: Then with that, Mr. Pfeiffer, I
24 believe you can call your first rebuttal witness.

25 MR. PFEIFFER: I call Hank Garrett.

1 CHAIRMAN DEASON: Mr. Pfeiffer, you will need to
2 help us out as to which witnesses were present earlier and
3 were sworn and which ones, perhaps, were not.

4 MR. PFEIFFER: Mr. Garrett, were you sworn
5 previously as a witness in this proceeding?

6 WITNESS GARRETT: I don't think so.

7 CHAIRMAN DEASON: If you will stand and raise your
8 right hand, and will all the other witnesses who are here
9 today who have not yet been sworn, if you will please stand
10 and raise your right hand.

11 (Witnesses collectively sworn.)

12 CHAIRMAN DEASON: Thank you. Please be seated.

13 MARVIN H. GARRETT

14 was called as a rebuttal witness on behalf of St. George
15 Island Utility Company, Ltd., and, having been first duly
16 sworn, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. PFEIFFER:

19 Q Please state your name and your business address.

20 A Hank Garrett, 139 Gulf Beach Drive, St. George
21 Island, Florida.

22 Q And what is your occupation?

23 A Operations manager for St. George Island Utility
24 Company.

25 Q And who is your employer?

1 A St. George Island Utility Company.

2 Q Have you prepared prefiled testimony in this
3 proceeding?

4 A Yes, sir.

5 Q Do you have any additions, corrections, or changes
6 to make in your testimony?

7 A No, sir.

8 Q Did you sponsor any exhibits with your prefiled
9 testimony?

10 A Yes, sir. No, sir.

11 Q Could there be, perhaps, an Exhibit A to your
12 prefiled testimony, Mr. Garrett, some travel records?

13 A I think that was the rebuttal.

14 Q Yes, sir, that is what we are referring to, is
15 your rebuttal testimony.

16 A Yes, sir, I did.

17 Q All right, sir. And those are marked as Exhibit A
18 in your prefiled testimony?

19 A Yes, sir.

20 MR. PFEIFFER: Your Honor, we would ask that the
21 Exhibit A be identified as a composite exhibit, the next
22 numbered composite exhibit.

23 CHAIRMAN DEASON: Yes, that will be identified as
24 Exhibit No. 28.

25 (Exhibit No. 28 marked for identification.)

1 REBUTTAL TESTIMONY OF MARVIN H. GARRETT
2 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
3 REGARDING THE APPLICATION FOR INCREASED RATES FOR
4 ST. GEORGE ISLAND UTILITY COMPANY, LTD.
5 IN FRANKLIN COUNTY
6 DOCKET NO. 940109-WU
7
8

9 Q. Please state your name and address.

10 A. Marvin H. Garrett. My address is Eastpoint, FL 32328.
11

12 Q. Have you previously filed direct testimony in this
13 proceeding?

14 A. No.
15

16 Q. What is the purpose of your rebuttal testimony?

17 A. To rebut some of the direct testimony presented by OPC
18 and PSC witnesses.
19

20 Q. Where do you work?

21 A. St. George Island Utility Company.
22

23 Q. What is your position?

24 A. I am the operations manager on St. George Island.
25

- 1 Q. Do you hold any special licenses?
- 2 A. Yes, I have a Class "C" water operator's license.
- 3
- 4 Q. How long have you worked for St. George Island Utility
5 Company?
- 6 A. I started in 1984 and left in 1988. I then came back
7 to work in December of 1990 and have worked
8 continuously full time for the company since that time.
- 9
- 10 Q. Why did you leave in 1988?
- 11 A. I was looking for a career in utility operations and
12 wanted security and benefits which St. George Island
13 Utility could not offer.
- 14
- 15 Q. What were your duties when you first worked for the
16 company between 1984 and 1988?
- 17 A. I was a field assistant. My duties included repairing
18 leaks, running lines, installing services, reading
19 meters, disconnecting service, and all of the normal
20 duties that are required of water utility employees on
21 St. George Island.
- 22
- 23 Q. Did you work alone?
- 24 A. No, there were always two workmen or field assistants,
25 myself and one other man.

- 1 Q. Who was the operator of the system at that time?
- 2 A. Harry Braswell, who lives in Apalachicola, was the
3 Class "C" operator for the utility company on St.
4 George Island. However, he only worked part time. He
5 was also the operator for the Apalachicola water and
6 sewer system.
7
- 8 Q. What did you do when you left the utility company in
9 1988?
- 10 A. I went to work for the City of Apalachicola in a
11 similar capacity, as a field assistant or workman for
12 the Apalachicola water and sewer division.
13
- 14 Q. Who did you work for?
- 15 A. I reported directly to Harry Braswell, who was also
16 still serving as the Class "C" operator for the St.
17 George Island Utility Co.
18
- 19 Q. Did you have a operator's license when you worked for
20 the City of Apalachicola?
- 21 A. During the time I worked for the City, I obtained my
22 Class "C" sewer operator's license. However, I did not
23 have a Class "C" water operator's license.
24
25

1 Q. Did you have any employee benefits while you worked for
2 the City of Apalachicola.

3 A. Yes, we had a pension plan, vacation, sick leave and
4 regular salary increases.

5

6 Q. Why did you leave the City?

7 A. I had no plans to leave the City, but Gene Brown called
8 me in December of 1990 and asked if we could meet and
9 talk about coming back to work for the water company.
10 When we met, Gene explained that the utility company as
11 having problems and that it needed a full time Class
12 "C" operator on the island to begin solving the
13 problems and to bring the level of service up to where
14 he thought it should be. Gene told me that he had
15 terminated the operating agreement with Harry Braswell,
16 and that he had hired Wayne Conrad and his company,
17 Southern Water Services, as his qualified Class "C"
18 operator to oversee the water company operations.

19 Q. What promises, if any, did Mr. Brown make to you.

20 A. Gene basically pleaded with me to leave the City and
21 come back to work for the water company as a full time
22 operation's manager. He promised that he would give me
23 full authority to immediately hire one full time field
24 assistant, and that another full time assistant would
25 be added as soon as possible.

1 Q. What about transportation?

2 A. Gene and I both understood that the job would require
3 the full time, seven day per week, use of a good 4-
4 wheel drive truck. Gene promised that if I would go
5 and buy a new 4-wheel drive truck in my name, that he
6 would pay me an adequate transportation allowance of
7 \$200 per week to cover the wear and tear on the truck,
8 insurance, maintenance and other expenses of using my
9 new truck on water company business.

10 Q. What commitments were made by you and Gene Brown at
11 that time?

12 A. I committed to leave my secure job with the City and to
13 come to work immediately for the utility company. I
14 also committed to spend whatever time and energy that
15 was required to solve all of the water company's
16 operational problems on the island, which Gene and I
17 knew would take a full time, seven day per week effort.
18 I committed to immediately obtain my Class "C" water
19 operator's license, which only took a short time, since
20 I had already taken the necessary course and was
21 qualified to take the test. This was a promise by me
22 which would enable Gene to terminate his operating
23 contract with Wayne Conrad and Southern Water Service,
24 which was costing the water company a great deal of
25 money. I also committed to buy a new 4-wheel drive

1 truck which I knew I would have to have to do the job.
2 Gene committed to provide the necessary money to get
3 the job done, and to allow me to hire one person at
4 first, with a promise that an additional person could
5 be hired as soon as possible. He also committed to
6 other benefits in the future.

7 **Q. Have these commitments been met?**

8 **A.** Yes. I got my Class "C" operator's license, which
9 allowed Gene Brown to terminate his other operator. I
10 also purchased a new 4-wheel drive truck and I hired a
11 good man to help me. Gene has met his commitments by
12 providing the necessary money to do the job, and by
13 paying me everything that I was promised. He has also
14 continued to provide direct management.

15 **Q. Can you describe Gene Brown's ability as a manager?**

16 **A.** I think he is an outstanding manager. When I was
17 hired, Gene set one basic overall goal, to solve all of
18 the existing operational problems, to make the
19 necessary improvements to the system, and to bring the
20 level of service into full compliance with all DEP and
21 PSC requirements while providing a safe and adequate
22 supply of water to all of our customers. This goal has
23 been met by Gene and me working as a team. I talk with
24 him daily, either at his office, at his house, on his
25 mobile phone, or personally when he comes to the island

1 or I go to Tallahassee. He is always available to
2 advise and assist me in whatever I am doing and in
3 whatever problem I may be having. I can remember
4 calling him on his mobile phone during weekends when we
5 have had pump failures or other operational problems.
6 He has always responded immediately by doing whatever
7 is necessary to get the job done. This has included
8 his calling contractors at home on the weekend to
9 insist that they immediately go to the island and
10 install a new pump to avoid any possibility of an
11 outage, and it has included things like picking up a
12 new 400 pound transformer in his truck and meeting me
13 on the road in my truck so that the part could be
14 immediately installed without any break in service. We
15 often talk from our home telephones or on our mobile
16 phones. In my opinion, both of our mobile phones are
17 an absolute necessity if the company is to be managed
18 efficiently, and if we are to continue operating with
19 very little possibility of an outage, which were
20 frequent before I took this job.

21 **Q. How many outages have you had since you took over as**
22 **operation's manager?**

23 **A. We had one overall outage for approximately 15 or 20**
24 **minutes when the chlorination system blew up, requiring**
25 **the system to be temporarily shut down. We have made**

1 arrangements to assure that this does not happen again.
2 We have had a few partial interruptions in service when
3 I had to cut off a portion of the lines to work on the
4 system. However, these are advertised in advance and
5 they are only temporary.

6 **Q. Has the company ever failed a water quality test since**
7 **you took over as operation's manager in December of**
8 **1990?**

9 **A. No. We have consistently taken all of the required**
10 **samples in a timely manner, and all of these have**
11 **received passing grades.**

12 **Q. A question has been raised regarding the need for a**
13 **second field assistant. Would you speak to this issue?**

14 **A. Yes. When Gene hired me in 1990, he committed that if**
15 **I would work basically seven days per week with one**
16 **assistant until the major problems were solved, he**
17 **would provide for a second full time assistant as soon**
18 **as possible. The utility company has always had two**
19 **full time field assistants and a qualified Class "C"**
20 **operator, at least since I started in 1984. At that**
21 **time, the field assistants were myself and one other**
22 **man, and the Class "C" operator was Harry Braswell.**
23 **Now, we still have a Class "C" operator and two full**
24 **time assistants. The only difference is that the**
25 **company has me as a full time operator rather than**

1 Harry Braswell as a part time operator. The job was
2 not being done with only a part time operator, but the
3 job is being done now. However, my first assistant and
4 I could not continue working and being on call 24 hours
5 per day seven days per week as we had done since 1990.
6 Last year I insisted to Gene Brown that we hire a new
7 full time assistant, and he agreed.

8 **Q. When did the need for another man come up?**

9 **A.** We have always needed an operator and two field
10 assistants, since I started in 1990 as well as when I
11 worked for the company between 1984 and 1988. Because
12 of the company's cash flow problems, my first assistant
13 and I agreed to work overtime and to be on call
14 practically all the time because we knew the company
15 could not afford a second man. The DEP testing
16 requirements take up more and more of my time. Also,
17 the work order, purchase order and other technical
18 bookkeeping requirements take a great deal more of my
19 time than before. The cross connection control
20 program, the ongoing system audit, the leak detection
21 program, updating the maps, the meter testing program,
22 and all of the other special operational and managerial
23 duties take all of my time. Because of this, it is
24 impossible for me to work in the field repairing leaks,
25 doing maintenance work, putting in connections, reading

1 meters, cutting off meters, and the other work that is
2 required by the field assistants. Because of the
3 nature of the work, there is a need for two field
4 assistants who work in coordination as a team. Also,
5 we do a great many of our own repairs and maintenance
6 work, which saves the company money, but it requires
7 the two full time assistants, one of whom has
8 substantial electrical knowledge and the other has
9 substantial carpentry knowledge. Both of them have
10 knowledge and experience in plumbing.

11 **Q. It has been suggested that the second field assistant**
12 **is only needed during the summer months, when the**
13 **island is so busy. Would you respond?**

14 **A. Our engineering aerator analysis calls for extensive**
15 **flushing throughout the system on a daily basis. This**
16 **takes several hours per day, in addition to the growing**
17 **work required in connection with the cross connection**
18 **control program and other duties. This daily flushing**
19 **is even more important in the fall and winter months,**
20 **when the lines are not used as much, allowing a build**
21 **up of hydrogen sulfide. The winter months are when we**
22 **emphasize the repairs and maintenance to the system,**
23 **the meter testing program, updating the system maps,**
24 **and similar items in addition to the ongoing day to day**
25 **work. If we are to continue meeting the needs of our**

1 customers, we must have two full time assistants in
2 addition to myself. The first assistant and I have
3 sacrificed since I was hired in 1990, but it is not
4 fair or reasonable to expect us to continue doing that
5 on an ongoing basis with no help. We deserve some time
6 off and this is not a 40 hour per week job. Somebody
7 has to oversee and maintain the system 24 hours per day
8 7 days per week, 365 days per year. When Mr. Brown
9 hired me, he promised me that I could have a two week
10 vacation every year and that I could take an additional
11 two weeks to for comp time. It is impossible for me
12 to take vacation time during the summer because of the
13 workload. Since I was hired in December 1990, I have
14 only been able to take a few days off. Hopefully, with
15 two full time field assistants I will be able to enjoy
16 the benefits that I have earned.

17
18 **Q. I understand you have a fax and copy machine on the**
19 **island. Is that necessary?**

20 **A. Yes, it definitely is. We have always needed a fax and**
21 **copy machine. They are used daily, and I could not do**
22 **without them.**

1 Q. A question has been raised about the travel allowance
2 provided to you and one of your field assistants.
3 Please tell us what you think about this.

4 A. I would not have bought a new 4-wheel drive truck, and
5 my first assistant would not have bought a 4-wheel
6 drive truck, if we had thought that there was any
7 question about the company's commitment to provide us
8 with a transportation allowance. We both constantly
9 use our 4-wheel drive trucks on an ongoing daily basis,
10 7 days per week, in order to properly operate and
11 maintain the water system on St. George Island. As
12 requested, I kept a log for a thirty day period from
13 5/18/94 through 6/18/94. A copy of the log is attached
14 as Exhibit "A." This log accurately reflects the miles
15 I put on my truck on a month-to-month basis. I
16 required my first assistant to also have a 4-wheel
17 drive truck as a condition of his employment, because
18 he has to use it throughout the day for water company
19 matters. I have always kept a daily log showing what
20 we all do, and this daily operating log shows that we
21 both use our trucks extensively 7 days per week for the
22 use and benefit of the water company. I pay for all of
23 my own gas, oil, insurance all maintenance expenses,
24 licenses, taxes, and all other expenses connected with
25 owning a motor vehicle. A 4-wheel drive truck is

1 required on St. George Island to maintain and operate
2 the water system which is also more expensive. Neither
3 my first assistant nor I could do out jobs without the
4 full time use of our 4-wheel drive trucks, and neither
5 of us can afford to contribute these trucks and all the
6 required expenses to the utility company unless we
7 continue to receive a transportation allowance.

8
9 **Q. Is the standard IRS or state mileage adequate on St.
10 George Island?**

11 **A.** No. There are a great many differences in the utility
12 company miles and the standard miles allowed on state
13 vehicles or for IRS purposes. The salt air on St.
14 George Island is very corrosive as well as the sand and
15 other adverse conditions on the island. This requires
16 higher maintenance, such as constantly repacking the
17 wheel bearings on the necessary 4-wheel drive vehicles.
18 Also, we have to stop and start at least 1,200 times
19 per month just in reading meters, as well as all of the
20 other frequent stops and starts in checking services,
21 doing repairs and all of our other work running around
22 the island. These trucks constantly have to carry
23 heavy objects including pipes, fittings, tools, the
24 backhoe, and other items which result in the trucks
25 being constantly banged up. Highway miles are much

1 easier on a vehicle than St. George Island miles on a
2 4-wheel drive truck. I believe the overall cost
3 allowance should be around \$.40 per mile considering
4 all of the direct and indirect cost in operating a 4-
5 wheel drive truck on St. George Island.

6

7 **Q. What about the pension plan, is this necessary?**

8 A. It was promised to me and the other employees as a part
9 of my employment, and I believe it is fair and
10 reasonable. I left a fully paid plan with extensive
11 retirement benefits at the City of Apalachicola, and it
12 is very difficult for this company to hire and keep
13 good employees unless we have pension and retirement
14 benefits like I and other employees could get working
15 for most other utility systems.

16

17 **Q. What about health and medical benefits?**

18 A. Earlier in my employment as operation's manager, the
19 company was paying my insurance directly at a cost of
20 approximately \$450 per month. The \$300 per month
21 allowance that I now receive is actually a reduction.
22 This insurance is very important to me and the other
23 employees on St. George Island. I do not believe the
24 company can maintain good employees without such
25 benefits.

1 Q. What about your recent pay raise, is it "excessive"?

2 A. No. When I started with the company in 1990, my base
3 salary was \$22,400 with health benefits of \$4,680 and
4 with a transportation allowance of \$10,400 for a total
5 compensation package of \$37,480. I did not think it
6 was realistic to press for any big raises or additional
7 compensation until the operational and service problems
8 of the water system on St. George Island were solved,
9 as Gene Brown and I agreed when I was hired. Although
10 my salary has been raised since 1990 to \$32,500, my
11 health benefits have been cut by \$1,080 back to \$3,600
12 per year, and my transportation benefits have been cut
13 by \$5,200 per year, back to a total of \$5,200 per year,
14 for a total compensation package of \$41,300 per year.
15 This is approximately a 10% increase between 1990 and
16 1994, which is only about 2-3% per year. This is not
17 "excessive."

18

19 Q. What will you do if your benefits are cut further, and
20 if your salary is not maintained?

21 A. Although I would hate to do so, I would have to look
22 for another job, which I would not have any trouble
23 finding based on my experience and the fact that I have
24 both a Class "C" operator's license in water and a
25 Class "C" operator's license in sewer. These services

1 are in demand, and I have a responsibility to myself
2 and to my family to be adequately paid for my services.
3 I feel that I have done everything that was asked of me
4 under difficult times and circumstances, and I deserve
5 to be fairly compensated.
6

7 Q. In your opinion, is it necessary at this time for the
8 company to enter into a maintenance agreement regarding
9 both its ground storage tank and its elevated tank?

10 A. Yes. Definitely. The elevated tank is beginning to
11 corrode and rust. The ground storage tank is beginning
12 to show signs of leakage, and the almost 20 year old
13 roof needs repair and maintenance. In my opinion, it
14 would be foolish not to maintain both of these
15 facilities on an annual basis.
16

17 Q. Has this been done in the past?

18 A. Yes, we contracted for the drainage, cleaning and
19 maintenance of both tanks last year. The elevated tank
20 was under warranty until 1992. Since I started working
21 for the company in 1984, we periodically drained and
22 cleaned the ground storage tank as recommended by our
23 engineers and DEP.
24
25

1 Q. Was the company negligent in not properly maintaining
2 the ground storage tank?

3 A. No, not in my opinion. We drained, inspected and
4 cleaned the tank on a periodic basis. The roof is
5 almost 20 years old, and I do not know what we could
6 have done to prevent its need for repair at this time.
7 I do not know what else we could or should have done to
8 properly maintain this facility. It is just an old
9 tank that needs to be properly sealed and maintained at
10 this time because of normal wear and tear.

11

12 Q. Would you compare the St. George Island water system
13 now with the way it was when you came back to work for
14 the company in December of 1990?

15 A. Yes, we now have a first class, safe and reliable
16 system, as compared to a fairly unreliable system when
17 I came back to work in 1990.

18

19 Q. How was this achieved?

20 A. When I came back to work for the company, Gene Brown
21 and I discussed the pressing need to make sure that the
22 system would have no more unplanned outages, which were
23 so common prior to my employment as a full time
24 operation's manager. Gene Brown told me that he wanted
25 to work toward complete redundancy throughout the

1 system. He often made the analogy with a twin engine
2 airplane, which can continue to fly even with one
3 engine out. With this goal in mind, we installed a
4 complete new dual chlorination system, which includes a
5 complete and equal backup system to allow the system to
6 continue operating automatically with full chlorine
7 residual even if there is a problem with one of the
8 system. We also installed complete backup alarm
9 systems to provide visual and audio advance notice
10 whenever any problem arises with the chlorination
11 system, the pumps, the water level in the tank or other
12 operational facilities. This is designed to give us
13 advanced notice and plenty of lead time to solve
14 problems before there is an outage. When I came to
15 work, there were plans on the drawing board for a new
16 250 gpm third well on the mainland. This new 250 gpm
17 well was planned by the company's engineers, and had
18 been approved by DEP and the PSC, which had mandated
19 its construction. However, when Gene Brown and I
20 started looking at the plans, we decided that this size
21 well would not meet our goal of complete redundancy
22 throughout the system. Wells 1 and 2 operating
23 together produce 500 gpm, and we wanted a third well
24 that could provide complete redundance and a complete
25 backup to meet or exceed this 500 gpm flow demand. We

1 therefore mandated a change in the well before it was
2 actually constructed to assure that it would produce at
3 least 500 gpm. This caused a slight delay in bringing
4 the well on line, but it was worth it. For example,
5 over the recent Memorial Day weekend, wells 1 and 2
6 operating together could not keep up with the demand.
7 I then manually switched over to well no. 3 until the
8 Memorial Day weekend demand went down, and well no. 3
9 was able to consistently keep up with the demand
10 without calling on our reserve storage on the island.
11 During this time, well no. 3 was pumping almost 600 gpm
12 on a consistent basis. This would not have been
13 possible with the original 250 gpm well permitted by
14 DEP and mandated by the PSC. We recently completed the
15 installation of a brand new 50 hp high efficiency pump
16 and motor together with another brand new replacement
17 50 hp high efficiency motor. To avoid the "water
18 hammer" problem, we also are installing variable speed
19 drives for both pumps. In addition to these two brand
20 new side-by-side high efficiency 50 hp pumps, we have
21 in reserve the old 50 hp pump and the old 20 hp pump,
22 both of which can be used in a dire emergency. This
23 now allows us complete redundancy in the pumping
24 system. In addition to these improvements, we have
25 installed a new butterfly valve and a new altitude

1 valve, together with the necessary piping
2 reconfiguration. These improvements will now allow us
3 to operate the system at substantially higher
4 pressures, and the variable speed drive systems will
5 allow these pressures to be maintained on a consistent
6 basis within 1 psi despite tremendous fluctuations in
7 demand, which we consistently have on St. George
8 Island. Our current intent is to operate the system at
9 a consistent 65 psi. None of these current
10 improvements, the butterfly valve, the altitude valve,
11 the two new pumps or the variable speed drive, were
12 mandated or required by PSC, DEP or anyone else. These
13 improvements are the result of numerous conversations
14 and a management decision by Gene Brown and me to "get
15 ahead of the curve" and to steadily upgrade and improve
16 the system for the benefit of customers on St. George
17 Island. We now have a safe and reliable system, but we
18 need adequate rates to maintain and operate the system.

19
20 **Q. Does that conclude your testimony?**

21 **A. Yes, it does.**
22
23
24
25

1 MR. PFEIFFER: Your Honor, it appears that Mr.
2 Garrett's testimony is short enough that no summary of his
3 testimony would really be required, and we would simply ask
4 that his testimony be inserted in to the record in this
5 proceeding and would offer him for cross examination.

6 CHAIRMAN DEASON: Without objection the testimony
7 will be so inserted, and the witness is available for cross
8 examination.

9 (For convenience of the record Mr. Garrett's
10 prefiled rebuttal testimony was inserted at Page 862.)

11 CHAIRMAN DEASON: Ms. Sanders?

12 MS. SANDERS: No questions, Commissioner.

13 CHAIRMAN DEASON: Mr. McLean?

14 MR. McLEAN: No questions. Thank you,
15 Mr. Garrett.

16 THE WITNESS: Thank you.

17 CROSS EXAMINATION

18 BY MR. NASH:

19 Q I have some questions for you, Mr. Garrett, very
20 few.

21 As the operations manager for the Utility, could
22 you give your opinion as to what changes, what immediate
23 changes, or additions, or expansions are going to be needed
24 for the water system?

25 A I'm not sure I follow your question. Please --

1 Q Okay. What is your opinion as to the immediate or
2 near additions, expansions, or changes that are needed for
3 the water system to expand it?

4 A To expand it?

5 Q Yes.

6 A Immediate?

7 Q Yes.

8 A I don't really see any immediate changes.

9 Q How about some near immediate changes? How about
10 some changes in the near future?

11 A The near future, you'll probably need an elevated
12 tank on the east end, but probably not, you know, right
13 away. I think you would have to proceed with that, with a
14 line, laying the line across the bridge, and those dual
15 lines. I think that would be pretty -- in the near future
16 you would have to do that.

17 Q Are there any specific operational problems that
18 the Utility has at this point?

19 A No, sir.

20 Q No. Mr. Garrett, let me refer you to Page 20 of
21 your rebuttal testimony?

22 A Okay.

23 Q Okay. Lines 8 and 9, where you state it's the
24 Utility's current intent to operate the system at a
25 consistent 65 psi. At what point in the system would this

1 pressure be achieved?

2 A It already has been achieved.

3 Q Where would it be achieved?

4 A Where in the system?

5 Q Yes.

6 A The entire system.

7 Q Okay. And the Utility is meeting that, at this
8 time, in the entire system, correct?

9 A Yes, sir.

10 Q Okay. I want to go to Page 19 of your testimony?

11 A Okay.

12 Q Okay. Line 25, is the altitude valve installed
13 and operational at this point in time?

14 A Yes, sir.

15 Q Okay. Let me go to Page 16 and 17, please. We
16 are talking about the coastal conditions.

17 A Sir?

18 Q The coastal conditions.

19 A What line are you talking about?

20 Q Just a general, Page 16 through 17. I'm not
21 exactly sure which line at this point, but let me just ask
22 you the question.

23 A Okay.

24 Q Do the harsh coastal conditions at the Island
25 accelerate the deterioration of the storage tanks?

- 1 A Yes, sir, I would have to say yes.
- 2 Q Okay. And do you clean the lines at the Island?
- 3 A Clean the lines?
- 4 Q Yes, clean.
- 5 A No, sir, not at present, no.
- 6 Q Okay. Are the Savannah Labs now testing the
- 7 water?
- 8 A No, sir.
- 9 Q Is there anybody testing the water at this point
- 10 in time?
- 11 A Yes, sir, the Water Spigot.
- 12 Q Who?
- 13 A The Water Spigot.
- 14 Q Do you collect the samples yourself?
- 15 A Yes, sir.
- 16 Q Okay. Do you know anything about the Savannah
- 17 Labs and why they can't pick up the samples themselves?
- 18 A Why they can't pick them up themselves?
- 19 Q Yes. If you don't know, you don't know.
- 20 A They could pick them up, I guess. I'm not really
- 21 sure what you're asking me.
- 22 Q Okay. Do you know that Savannah Labs picks up the
- 23 hydrogen sulfide samples?
- 24 A Sir?
- 25 Q Do you know if the Savannah Labs pick up the

1 hydrogen sulfide samples?

2 A Do I know if they pick them up?

3 Q Yes.

4 A They will pick them up; but at current, no, they
5 are not picking them up.

6 Q Okay. When they pick them up, will they also pick
7 up the bacterial tests on their trips?

8 A I'm sure they would if we asked them to, yes, sir.

9 Q Is there any reason why they can't pick them up --
10 when they do pick up the hydrogen sulfide samples, would
11 there be a reason why they can't pick up the bacterial tests
12 at the same time?

13 A No, sir, not in my opinion, no.

14 Q Okay. And, lastly -- do you have a question?

15 A The only thing I can think of right now, they are
16 excessively high on the price they charge for
17 bacteriological samples.

18 Q Okay. If you have a question for an engineer
19 about the water system, who do you contact?

20 A Well, most of the time now I'm talking to Les
21 Thomas.

22 Q And he is?

23 A An engineer.

24 Q Okay. Do you contact Mr. Brown at any time when
25 you have --

1 A Yes, sir, I talk to Mr. Brown pretty regular, yes.

2 MR. NASH: Okay. No further questions.

3 CHAIRMAN DEASON: Questions? Redirect?

4 MR. PFEIFFER: No redirect, Your Honor.

5 CHAIRMAN DEASON: Okay. Thank you, Mr. Garrett.

6 THE WITNESS: Thank you.

7 CHAIRMAN DEASON: Exhibits?

8 MR. PFEIFFER: We would call Sandy Chase.

9 CHAIRMAN DEASON: Do you care to move Exhibit 28,
10 Mr. Pfeiffer?

11 MR. PFEIFFER: Thank you. We would move the
12 exhibit into evidence, Chairman Deason.

13 CHAIRMAN DEASON: Without objection? Hearing
14 none, Exhibit 28 is admitted.

15 (Exhibit No. 28 received in evidence.)

16 MR. PFEIFFER: Have you been previously sworn,
17 Ms. Chase?

18 THE WITNESS: Yes, I have, this morning.

19 SANDRA M. CHASE

20 was called as a rebuttal witness on behalf of St. George
21 Island Utility Company, Ltd., and have being first duly
22 sworn, was testified as follows:

23 DIRECT EXAMINATION

24 BY MR. PFEIFFER:

25 Q Please state your name.

1 A Sandra Chase.

2 Q And your business address?

3 A 3848 Killearn Court, Tallahassee.

4 Q By whom are you employed?

5 A I'm employed by St. George Island Utility and Gene
6 Brown.

7 Q And what is your job with St. George Island
8 Utility Company?

9 A Well, I do various things for the Utility Company.
10 Right now I'm in charge of the cross connection control
11 program. I'm solely responsible for that. And I am the
12 recording secretary for all of the employees of the Utility.
13 I have various duties. Just anything and everything that
14 comes up I do. I do the majority of the correspondence with
15 the state agencies, and just various duties. I'm a
16 secretary. I'm sorry. Go ahead.

17 Q And have you previously prepared prefiled rebuttal
18 testimony in this proceeding?

19 A Yes, I did.

20 Q And do you have any additions, corrections, or
21 changes to make in your testimony?

22 A No.

23 Q And did you sponsor any exhibits with your
24 testimony?

25 A No.

1 MR. PFEIFFER: Chairman Deason, we would ask that
2 the rebuttal testimony of Sandra Chase be inserted into the
3 record in this proceeding.

4 CHAIRMAN DEASON: Without objection, it will be so
5 inserted.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **REGARDING THE APPLICATION FOR INCREASED RATES FOR**
3 **ST. GEORGE ISLAND UTILITY COMPANY, LTD.**

4 **IN FRANKLIN COUNTY**

5 **DOCKET NO. 940109-WU**

6 **REBUTTAL TESTIMONY OF**

7 **SANDRA M. CHASE**
8

9 **Q. Please state your name, profession and address.**

10 **A. My name is Sandra M. Chase. I am employed by Gene**
11 **D. Brown, P. A. and St. George Island Utility**
12 **Company, Ltd.**
13

14 **Q. How long have you been associated with the utility**
15 **company?**

16 **A. Since 1981. Mr. Brown hired me to work as a legal**
17 **secretary in January of 1981. From the**
18 **commencement of my employment to the present time**
19 **I have worked for St. George Island Utility**
20 **Company.**
21

22 **Q. Did the utility company pay your salary beginning**
23 **in 1981?**

24 **A. No. Mr. Brown paid me for several years. In 1992,**
25 **the utility began paying a portion of my salary.**

- 1 Q. Do you consider the salary paid by St. George
2 Island Utility Company over the years to be a fair
3 allocation for your work?
- 4 A. No. There has always been a great deal of work
5 associated with the operation of St. George Island
6 Utility. Until December 1, 1993, the allocation
7 benefited the utility company in that Mr. Brown
8 paid most of my salary when in fact a great deal
9 of the work I performed was for the utility
10 company.
- 11
- 12 Q. Why do you think it is now properly allocated?
- 13 A. December 1, 1993, Mr. Brown made an adjustment to
14 allocate my salary 1/3 to Gene D. Brown, P.A. and
15 2/3 to St. George Island Utility Company. That is
16 approximately a fair allocation of my salary,
17 although I spend well over 2/3 of my time working
18 on utility company matters.
- 19
- 20 Q. How many hours per week do you work?
- 21 A. Approximately 45 hours per week. Since just
22 before the rate case was filed late last summer, I
23 have averaged approximately 50 hours per week.
24
25

1 Q. What are your duties and responsibilities as an
2 employee of St. George Island Utility?

3 A. I am responsible for administering the cross
4 connection control program. I am also the
5 corresponding secretary for all utility personnel.
6 I assist all employees when an extraordinary
7 problem arises. I type and transmit all
8 correspondence to regulatory agencies. I handle
9 all special projects and most customer complaints.

10

11 Q. How do you administer the cross connection control
12 program?

13 A. When a customer is identified by the utility's
14 field personnel with a potential hazard, I write a
15 certified letter to the customer giving a deadline
16 for compliance with our program. If the customer
17 complies, a certification is received by the
18 utility and details including the date of
19 installation and testing are recorded in my
20 records. I have a master list with each customer
21 and two books that contain detailed information on
22 each customer in our program. Since customers are
23 required to have their devices tested annually, I
24 send a certified letter to each customer
25 approximately one month before their due date. If

1 a customer does not comply, I issue a work order
2 for the field personnel to lock the meter. There
3 are approximately 80 customers presently in our
4 program and we are continuously identifying new
5 customers.

6

7 **Q. Have all hazards been identified?**

8 **A. No.** The utility has three degrees of hazard, low,
9 medium and high. We think we have identified all
10 high hazards and we are now trying to identify
11 medium hazards. Since our customers are not
12 required to report hazards to us such as a well
13 installation, we have to search out each and every
14 hazard. All customers present some degree of
15 hazard. Accordingly, our goal should be to have
16 100% of our customers install a cross connection
17 device.

18

19 **Q. How much of your time does the cross connection**
20 **control program now take?**

21 **A. To administer the program correctly, with the**
22 **current number of customers and with a reasonable**
23 **ongoing effort to identify new hazards, it takes**
24 **approximately 30 hours per week.**

25

1 Q. How much of your time will the program require in
2 the future?

3 A. When fully implemented, the administration of the
4 program will require all of my time or the time of
5 another full time employee. This does not include
6 the time required by field personnel to identify
7 hazards and enforce compliance.
8

9 Q. What type of special projects do you handle?

10 A. Anything that comes up. For example, in 1993, I
11 applied for and coordinated the approval of a
12 grant from Tri-County Community Council and the
13 Florida Energy Efficient Water Project. It took a
14 year to get the grant approved. In addition to
15 providing funds of \$7,372 to replace a motor,
16 upgrade a motor and replace a check valve, this
17 grant provided an energy audit. Another example
18 is a customer survey conducted in August of 1992.
19 We sent questionnaires to our customers asking
20 them to rate us and identify specific problems or
21 complaints. The responses of 339 customers told
22 us that 82% of our customers were generally happy
23 with our service. We also identified three basic
24 customer concerns and have resolved the problems
25 in favor of the customers.

- 1 **Q. Where do you work?**
- 2 **A. I have an office upstairs in Mr. Brown's law**
3 **office.**
- 4
- 5 **Q. Who provides the office space and equipment for**
6 **you to do your job?**
- 7 **A. Armada Bay Company provides office space through**
8 **its lease with the utility company, and the**
9 **equipment with the exception of the phone which is**
10 **provided by Mr. Brown's law office.**
- 11
- 12 **Q. Is there room for you to work downstairs in the**
13 **space rented by St. George Island Utility?**
- 14 **A. No. There are three full time employees**
15 **downstairs and one consultant who works part time.**
16 **In addition, there is only one phone line with**
17 **call waiting.**
- 18
- 19 **Q. Do you use your law office phone line for utility**
20 **company matters?**
- 21 **A. Yes, I always use 668-6103 for utility company**
22 **business. In addition, the utility company**
23 **employees use Mr. Brown's law office line when the**
24 **utility company line is not available, which is**
25 **very often with two full time and one part time**

1 person downstairs. I also give the law office
2 number to customers, consultants and other people
3 Mr. Brown and I communicate with so we can keep
4 the utility company line open for calls from
5 customers.

6

7 **Q. Do you have a cellular phone that is used for**
8 **utility company purposes?**

9 **A. Yes. I have often used it for utility purposes.**
10 All of the utility company personnel have the
11 number and have called me during my lunch break,
12 while I am running office errands, after hours and
13 on weekends.

14

15 **Q. Does the utility pay for your cellular phone?**

16 **A. No. It is paid by me personally.**

17

18 **Q. Does St. George Island Utility Company pay you for**
19 **travel?**

20 **A. Yes. I get a fixed amount of \$50 per week.**

21

22 **Q. How did Mr. Brown arrive at \$50 per week?**

23 **A. It is based on \$.29 per mile x approximately 173**
24 **miles.**

25

1 **Q. How often do you use your automobile for the**
2 **utility?**

3 **A. Almost daily. I regularly make trips to DEP,**
4 **Baskerville-Donovan, Wayne Coloney's office, post**
5 **office, PSC, office supply companies, Capital City**
6 **Bank, Florida Rural Water Association, IDS**
7 **Financial Services, printers, etc. In addition, I**
8 **have made at least four trips to the island in the**
9 **past few months. Because of the time I have**
10 **devoted to the rate case, I have not been able to**
11 **go to the island as frequently as I should. The**
12 **cross connection program needs more attention and**
13 **as soon as the rate case is over I expect to make**
14 **more trips to the island. There are many other**
15 **errands that are run occasionally.**

16
17 **Q. Do you think the travel allowance is adequate?**

18 **A. Yes.**

19

20 **Q. Does St. George Island Utility require you to keep**
21 **a travel log?**

22 **A. No. However, when Nancy Gaffney from the PSC**
23 **auditing staff came in to perform the audit for**
24 **the rate case, she made allegations about the**
25 **allocation of my work between the utility and Gene**

1 D. Brown. Since that time (approximately 12/3/93)
2 I have been recording a general description of my
3 daily work. The schedule includes many references
4 to errands on behalf of the utility. It was
5 provided to OPC as a late filed exhibit to my
6 deposition.

7

8 Q. What is your opinion of Mr. Brown's management of
9 St. George Island Utility Company?

10 A. As I stated earlier, I have been working with Mr.
11 Brown since 1981 and I have participated in most
12 aspects of the utility company operation. When I
13 was hired the utility had approximately 400
14 customers and only one homeowners' association on
15 the Island. Now there are approximately 1,200
16 customers and at least five homeowners'
17 associations. He has personally negotiated,
18 contracted and supervised all improvements to the
19 system to keep up with the island growth. During
20 that time, Mr. Brown has hired numerous managers
21 who failed to "manage" the utility. Mr. Brown
22 allowed each manager an opportunity to work
23 independently. Never did any of the managers
24 fully perform without having to consult or involve
25 Mr. Brown. Mr. Brown has made himself available

1 day and night for utility company purposes. When
2 the operations manager was on vacation in Texas
3 during December 1989 an unexpected cold front
4 froze several meters and some pipes. Mr. Brown
5 took control until he could fly the operation's
6 manager back to the island. There have been
7 numerous emergencies and crises over the years
8 that Mr. Brown has handled dutifully. Instead of
9 criticism, he should be complimented for using his
10 resourcefulness to keep the system in tact under
11 difficult circumstances. Instead of focusing on
12 several managers who did not work out, the focus
13 should be on the three or four employees dedicated
14 who have worked with the utility throughout the
15 years. This should also be an expression of Mr.
16 Brown's competence as a manager. My opinion is
17 that the company would have failed but for Mr.
18 Brown's management. He is being blamed for
19 problems that arose under other general managers
20 prior to the fall of 1991 when he took over as
21 manager. Instead of criticism, he should receive
22 credit for solving the problems after he took over
23 the direct management.

24
25

1 **Q. If Gene Brown is removed as manager, would you**
2 **continue to work for the company?**

3 **A. No. I have discussed this possibility with other**
4 **employees of the company and they are in**
5 **agreement. To say the least, it is disturbing to**
6 **me and other employees to be involved in the**
7 **unfair and outrageous attacks on Mr. Brown's**
8 **management of St. George Island Utility. It**
9 **constitutes a personal attack of our integrity**
10 **because we are part of the "team." If Mr. Brown**
11 **made any imprudent decisions regarding the water**
12 **company over the past few years, they were to**
13 **contribute money from his affiliates to make up**
14 **the operating deficit.**

15

16 **Q. Does that conclude your testimony?**

17 **A. Yes.**

18

19

20

21

22

23

24

25

1 BY MR. PFEIFFER:

2 Q And would you summarize your testimony,
3 Ms. Chase?

4 A Well, I discuss the allocation of my salary
5 between the Utility and Gene D. Brown, P.A. And I discuss
6 my duties in working for the Utility Company, specifically
7 my role in administering the cross connection control
8 program and the status of that program. And I discuss
9 customer survey and special projects that I have been
10 responsible for, and the location of my office and why it is
11 upstairs and not downstairs. And I guess I had an opinion
12 about the management, as well, but that is basically it.

13 MR. PFEIFFER: Your Honor, we would proffer the
14 witness for cross examination.

15 CHAIRMAN DEASON: Ms. Sanders?

16 MS. SANDERS: I have no questions, Commissioner.

17 CHAIRMAN DEASON: Mr. McLean?

18 MR. McLEAN: Just a couple.

19 CROSS EXAMINATION

20 BY MR. McLEAN:

21 Q Good morning, Ms. Chase.

22 A Hi.

23 Q You are aware that our office has taken the
24 position that some of the other office employees, other than
25 yourself, that their salary should be allocated in part to

1 Mr. Brown's other activities, meaning other than the
2 utility, is that correct? Are you familiar with that?

3 A Yes.

4 Q Okay. And aren't you, in fact, the supervisor of
5 those various other employees?

6 A No, not really. Mr. Brown supervises the other
7 employees. In his absence they come to me if they have a
8 question or a problem, but --

9 Q Okay. Are you familiar with their duties and
10 their daily activities?

11 A Oh, yes, I am.

12 Q Now, I think one of the things that you all have
13 said in your case, essentially, is that while it is true
14 that these other employees do have duties which are other
15 than -- they answer the phone for Mr. Brown's law office
16 sometimes or maybe for one of the other affiliates. Is that
17 a fair statement of what you said?

18 A That is correct. If I'm out of the office, and I
19 ask them to. We also have Voice Mailbox, which catches the
20 phone calls when I don't ask them specifically to do it,
21 when I am out.

22 Q Okay. But you all have said the reason you should
23 not allocate that 10 percent is because very frequently the
24 nature of those calls, although they are to Mr. Brown or to
25 his affiliates, are, essentially, utility related

1 themselves, isn't that right?

2 A That's correct.

3 Q Now, you all have also said, if I'm not too
4 mistaken, that although Mr. Brown once had a flourishing law
5 practice and had little contact with the Utility, that now
6 the situation is somewhat reversed. He is primarily in the
7 utility business and does very little law practice?

8 A Yes, that is correct.

9 Q Now, the law practice that he does, in fact, is
10 mostly the law practice that he does with respect to St.
11 George Island Utilities, is that right?

12 A Yes, a good deal of it.

13 Q Okay. In fact, the Utility is his largest client,
14 isn't it?

15 A Yes, probably so.

16 Q Now, wouldn't it make sense to you that the calls
17 that came in in association with his law practice, since the
18 Utility is his largest client, wouldn't it make sense to you
19 that those calls would have a Utility tenor to them, if you
20 will?

21 A That's right. But I think there is a fine line
22 there. You know, a good deal or a great deal of the calls
23 that come in are management related. I mean, that aren't
24 legal questions or legal problems. We invite customers to
25 call on the law firm line. Every time I give out my phone

1 number, when it's Utility Company related, for my duties, I
2 give out the law firm number because we only have one line
3 downstairs. We have two law firm lines. The utility
4 employees also use the law firm lines. When somebody is on
5 one of the Utility lines, and they need to use the phone,
6 they use the law firm lines. So, I don't, know if that
7 answers your question, but --

8 Q Somewhat. It's certainly not an equal sharing, is
9 it. I mean, it's not 50/50?

10 A Well, what being 50/50?

11 Q Are you aware that the Citizens have merely said
12 that 10 percent of the office employees' salaries should be
13 allocated to the law firm and other affiliates?

14 A Yes, I am aware of that, but I disagree with it.

15 Q I understand. And I think you all have
16 characterized the activities of the utility employees that
17 have to do with Mr. Brown's law firm or other affiliates as
18 a courtesy afforded to those other entities, is that right?

19 A Basically, it's a reciprocal arrangement. I mean
20 they -- that's right.

21 Q No records are kept of where that line might be
22 drawn, is there?

23 A No.

24 MR. McLEAN: Okay. I have no further questions.
25 Thank you, ma'am.

1 THE WITNESS: Thank you.

2 CHAIRMAN DEASON: Staff?

3 CROSS EXAMINATION

4 BY MR. NASH:

5 Q Yes, I just have a couple of questions for you,
6 Ms. Chase.

7 A Okay.

8 Q About the cross connection program that you
9 testified to.

10 A Yes.

11 Q Do you expect that you will have to travel to the
12 Island to administer this program?

13 A Oh, yes. I have and I will continue to do that.

14 Q Okay. Why do you have to travel for this?

15 A Well, Hank Garrett, on the Island, and his
16 employees identify customers who have problems. And in some
17 instances -- well, in several instances, I have had to
18 discuss the problems with the customers. And without
19 knowing or seeing the situation, it's hard to discuss those
20 with the customers. I mean, we have a hard time getting
21 customers to comply with the program. And unless you can
22 physically see it and tell the customer why we are requiring
23 him to hook up, or her to hook up, it's hard to administer
24 the program properly. I mean, unless you know what you're
25 talking about. And Hank and I occasionally have to meet and

1 get together and discuss this. It's a pretty big job
2 between all of us.

3 Q Great. Would you be calling some of the customers
4 by the phone?

5 A I beg your pardon?

6 Q Would you be calling some of the customers by
7 phone to discuss some the problems, instead of going out
8 there personally all the time?

9 A Oh, yes. Oh, yes. I talk to customers daily
10 about the problems with cross connection, yes. A lot of our
11 customers are out of town, as you know. They don't live on
12 the island, so I do talk with them by phone.

13 Q How often would you have to travel to the Island
14 for this program?

15 A I would say an estimate would be about once per
16 month. Because of the rate case, I have not had an
17 opportunity to get down there the last few months as often
18 as I should, but probably about once a month I need to go
19 down and meet with Hank. I also have to travel to the
20 Island when the Department of Environmental Protection does
21 their sanitary survey. Part of the sanitary survey is the
22 cross connection control program. And I have to take my
23 books and meet down there with them, usually, when they are
24 on the Island for that inspection.

25 Q Okay. Are you aware of the grant application

1 filed by St. George to clean the supply mains?

2 A I'm sorry, I didn't understand.

3 Q Are you aware of any grant application to clean
4 the supply mains at St. George?

5 A I'm sorry, I still don't -- I'm having a hard time
6 hearing.

7 Q I'm sorry. Are you aware of any grant application
8 filed by St. George to clean the supply mains?

9 A To clean the supply mains?

10 Q Yes.

11 A Yes. We got involved in a program with Tri-County
12 Community Council about a year ago, and we were successful
13 in getting some grant funds to do some work, some energy
14 efficient work, including a valve and a high speed pump.
15 And as part of that, we were trying to get them to give us
16 some funds for some line cleaning, and that has not been
17 approved at this point in time. The only way it can be
18 approved is if they determine that it will -- it is energy
19 conscious, and will save some money from an energy
20 standpoint.

21 Q Did you prepare this grant application for St.
22 George?

23 A Yes.

24 Q Did you get any funds for the high speed pumps?

25 A Yes, they did allow us 50 percent of the cost of

1 those items.

2 Q Do you know how much that turned out to be?

3 A It was a little over \$7,000.

4 MR. NASH: Thank you very much. No further
5 questions.

6 CHAIRMAN DEASON: Redirect.

7 MR. PFEIFFER: No questions.

8 CHAIRMAN DEASON: Thank you, Ms. Chase.

9 You may call your next witness.

10 MR. PFEIFFER: We would call Frank Seidman.

11 MS. SANDERS: If I could, I would like to ask
12 about the order of witnesses since this is different from
13 what we talked about the last time we met for Mr. Pfeiffer.

14 MR. PFEIFFER: Mr. Bidy and Mr. Baltzley aren't
15 here, otherwise, we would have called them. But as soon as
16 they are here, we'd assume they would follow Mr. Seidman.

17 MS. SANDERS: Okay. And Ms. Withers?

18 MR. PFEIFFER: She will follow Mr. Brown, if we
19 call her.

20 MS. SANDERS: Thank you, Mr. Pfeiffer. Thank you
21 Commissioner.

22 CHAIRMAN DEASON: Yes.

23 FRANK SEIDMAN

24 was called as a rebuttal witness on behalf of St. George
25 Island Utility Company, Ltd., and having been first duly

1 sworn, was examined and testified as follows:

2 DIRECT EXAMINATION

3 BY MR. PFEIFFER:

4 Q Mr. Seidman, you have previously identified
5 yourself, and your occupation, and where you were employed
6 for the record, is that correct?

7 A That's correct.

8 Q Have you prepared and filed prefiled rebuttal
9 testimony in this proceeding?

10 A Yes, I have.

11 Q Do you have any additions, corrections or changes
12 to make in your prefiled testimony?

13 A No, but in my prefiled rebuttal testimony, I did
14 indicate that I would have available at the hearing an
15 update of rate case expense and an estimate of the expenses
16 to complete the case. And I have prepared that exhibit and
17 have it with me. I would note that in addition to updating
18 the expenses, it has a pretty good tracking summary added to
19 it that helps you follow all of the expenses, including the
20 expenses that were included in the rebuttal testimony
21 prefiled.

22 Q And in your rebuttal testimony did you indicate
23 that you would be preparing and submitting this exhibit?

24 A Yes, I said I would have it with me.

25 Q All right. Do you have any other additions or

1 corrections to make in your testimony?

2 A No.

3 Q Did you sponsor any exhibits with your testimony?

4 A Yes, I did.

5 Q Please identify them.

6 A They are part of the volume of my rebuttal
7 testimony. They are identified as Schedules 1 through 5,
8 following Page 97 of the testimony. Do you want me to
9 indicate what is in them?

10 Q No, sir. I think that counsel will have an
11 opportunity to cross with regard to them if they wish to.

12 MR. PFEIFFER: Mr. Chairman, we would ask that
13 Schedules 1 through 5 be marked sequentially as the --

14 CHAIRMAN DEASON: They will be identified as
15 Exhibit No. 29.

16 MR. PFEIFFER: Composite Exhibit 29?

17 THE WITNESS: If I could indicate that the rate
18 case exhibit that we just handed out is identified as
19 Schedule 6, to stay in order with those.

20 MR. PFEIFFER: All right. And, sir, we would ask
21 that the rate case expense, Schedule 6, be marked as the
22 next numbered exhibit.

23 CHAIRMAN DEASON: That will be identified as
24 Exhibit Number 30.

25 (Exhibit Nos. 29 and 30 marked for

1 identification.)

2 BY MR. PFEIFFER:

3 Q Mr. Seidman, please summarize your rebuttal
4 testimony.

5 A Very briefly, my rebuttal testimony responds to
6 the direct testimony of Public Counsel and Staff witnesses.
7 It basically has two major points in it. One is that the
8 adjusted level of O&M expenses recommended by Public
9 Counsel, in my opinion, are inadequate for the Utility to
10 continue to provide satisfactory service. And, two, with
11 regard to the comments of Public Counsel regarding original
12 cost as was established in the last rate case at
13 December 31st, 1987, that there is no new information
14 provided in that testimony that would give any aid to the
15 Commission in determining the cost, original cost to plant
16 at December 31st, 1987.

17 MR. PFEIFFER: Your Honor, we would ask that the
18 prefiled rebuttal testimony of Frank Seidman be inserted.

19 CHAIRMAN DEASON: Without objection, it will be so
20 inserted.

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1 REBUTTAL TESTIMONY OF FRANK SEIDMAN
2 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
3 REGARDING THE APPLICATION FOR INCREASED RATES FOR
4 ST. GEORGE ISLAND UTILITY COMPANY, LTD
5 IN FRANKLIN COUNTY
6 DOCKET NO. 940109-WU

7

8 **Q. Please state your name, profession and address.**

9 A. My name is Frank Seidman. I am President of
10 Management and Regulatory Consultants, Inc.,
11 consultants in the utility regulatory field. My
12 office is located at 11380 Prosperity Farms Road,
13 Suite 211, Palm Beach Gardens, Fl 33410.

14

15 **Q. Have you previously filed direct testimony in this**
16 **proceeding?**

17 A. Yes I have.

18

19 **Q. What is the purpose of your rebuttal testimony?**

20 A. The purpose of my rebuttal testimony is to respond
21 to the direct testimony of OPC witness Dismukes and
22 PSC Staff witnesses Gaffney and Abbott.

23

24

25

1 DISMUKES - COMPARISON OF PRESENT CASE TO
2 DISMISSED CASE

3 Q. Would you please proceed with your response to the
4 testimony of OPC witness Dismukes?

5 A. Yes. My responses will follow issues in the same
6 order they appear in Ms. Dismuke's testimony. At
7 page 3 of her prefiled testimony, she makes a
8 comparison of the instant rate case to the one
9 requested in Docket No. 930770-WU.

10

11 Q. What is Docket No. 930770-WU?

12 A. That is the docket in which the utility filed for
13 a rate increase in September, 1993 and which was
14 subsequently dismissed by the Commission for
15 procedural errors. The test year in that filing was
16 the 12 months ended December 31, 1992 - the same as
17 in this case.

18

19 Q. Did that docket ever go to hearing?

20 A. No.

21

22 Q. Was any part of that filing presented as evidence
23 before this Commission?

24 A. No.

25

1 Q. Were interim rates granted and/or collected from
2 customers under that docket?

3 A. No.

4

5 Q. Have any schedules from Docket No. 930770-WU been
6 presented as evidence in this proceeding?

7 A. No.

8

9 Q. From your reading of Ms. Dismukes's testimony, what
10 do you discern as her reason for comparing the
11 filings in the two cases?

12 A. Apparently to show, that although both filings used
13 the same test year, the increase requested in the
14 instant case is significantly greater than that
15 requested in the dismissed case, and therefore,
16 must be suspect.

17

18 Q. Do you consider the comparison to be relevant?

19 A. No. It is interesting, it is easily explained, but
20 it is not relevant. This is especially true when
21 one considers that the information in Docket No.
22 930770-WU was never presented to this Commission as
23 evidence and therefore has never been determined by
24 the Commission to be a valid basis for comparison.

25

1 Q. Did you prepare the Minimum Filing Requirement
2 schedules for both of the dockets that Ms. Dismukes
3 is comparing?

4 A. Yes.

5

6 Q. You stated that the differences are easily
7 explained. Has anyone from OPC asked you to
8 explain the differences?

9 A. No.

10

11 Q. Were you deposed by OPC prior to the time that Ms.
12 Dismukes filed her testimony?

13 A. Yes.

14

15 Q. And you were not asked to explain the differences
16 discussed by her in her testimony?

17 A. No.

18

19 Q. If you had been asked would you have provided an
20 explanation?

21 A. Of course.

22

23 Q. I understand that you believe that comparing this
24 case to one that never was presented to the
25 Commission is not relevant, but since the

1 Commission only has Ms. Dismukes's inferences
2 regarding those differences before it, would you
3 please explain the differences to which she has
4 made reference?

5 A. Yes. Ms. Dismukes points out that in comparing the
6 two cases, rate base decreased by a small amount,
7 test year revenues remained unchanged, and the
8 requested operation and maintenance expenses
9 increased significantly.

10

11 Q. Please describe the changes in rate base.

12 A. The decrease in rate base is the net result of
13 several minor increases and decreases in rate base
14 components. The increases were primarily related to
15 (1) the cost of a new generator to replace one that
16 was knocked out by lightning after the MFR for
17 Docket No. 930770-WU was filed; (2) capitalization
18 of some engineering fees related to the elevated
19 tank that had not been previously accounted for;
20 (3) revisions in the cost of well no. 3; (4) a
21 decrease in accumulated depreciation, primarily
22 resulting from the retirement of the generator; and
23 (5) an increase in working capital related to the
24 increase in proposed proforma O&M expenses.

25

1 The decreases were primarily related to (1) a
2 decision not to capitalize some test year labor
3 costs in response to concerns expressed by the
4 audit staff to Mr. Brown during the audit under
5 Docket No. 930770-WU; (2) a correction of a
6 typographical error in the beginning balance of one
7 of the plant accounts; (3) and the most significant
8 change - removing deferred debits from rate base in
9 compliance with the rule revisions in Order No.
10 931704, which did not become effective until
11 December, 1993.

12

13 Q. Please explain why test year revenues remained
14 unchanged.

15 A. Test year revenues remained unchanged because they
16 correctly reflect 1992 revenues - the common test
17 year in both filings.

18

19 Q. Please explain why the operation and maintenance
20 (O&M) expenses requested in this case are
21 significantly higher than requested in the
22 dismissed case.

23 A. The requested O&M expenses are significantly higher
24 simply because, in the additional time made
25 available to the utility to refile its case, Mr.

1 Brown was able to more fully evaluate and consider
2 the ongoing expenses associated with providing the
3 quality of service which this Commission and the
4 utility have been striving to attain since 1989
5 when the Commission set forth 19 areas of
6 compliance in its last rate order. As both I and
7 Mr. Brown have discussed in our direct testimony,
8 it is no secret that when the last rate order was
9 issued in 1989, additional plant was needed,
10 additional and better qualified personnel were
11 needed, additional maintenance was needed, and
12 improvements in accounting and record keeping were
13 needed. The expenses requested in Docket No.
14 930770-WU captured some of the costs associated
15 with maintaining quality service on an ongoing
16 basis, but not all of them. It was not that Mr.
17 Brown was not aware, during preparation of the
18 first filing, of all of the costs brought into this
19 filing, but he was constrained as to his time and
20 some of those costs just did not get addressed.
21
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23

1 Q. Had Docket No. 930770-WU not been dismissed, would
2 you have amended the filing to capture those
3 additional costs?

4 A. No. That would not have been acceptable to the
5 Commission. The Commission has considered even
6 small changes made to the revenue requirement after
7 a filing has been officially accepted, as
8 tantamount to a filing a new case. However, since
9 that docket was dismissed, the utility exercised
10 its prerogative to revise the filing as it believed
11 was necessary to get all of the facts before the
12 Commission related to providing quality service on
13 an ongoing basis.

14
15 Q. Could we return to the issue of relevancy? Why is
16 any change from the dismissed docket not relevant?

17 A. Because the expenses requested in that docket were
18 never established as being reasonable. If they had
19 been, then it would be relevant to ask why expenses
20 in excess of that established reasonable level
21 would still be reasonable. Of course, if OPC is
22 stipulating that the \$344,684 requested in the
23 dismissed docket is reasonable, than indeed, a
24 comparison becomes relevant.

25

1 Q. Ms. Dismukes concludes that the differences between
2 the instant request and the dismissed request is
3 largely, if not entirely, related to additional
4 proforma adjustments. Is that a correct conclusion?

5 A. Yes. The proforma adjustments in this case are
6 critical. Gaining recognition of those adjustments
7 by the Commission is the whole point of this case.
8 There has been no shortage of criticism of the
9 operation of this utility over the years, and not
10 without cause. But if one is objective, it must
11 also be recognized that significant strides have
12 been made. It is now time to recognize that there
13 is a cost associated with maintaining quality
14 service on an ongoing basis; and that there is a
15 cost associated with preventing the backsliding
16 that has become an all too frequent a criticism of
17 the mode of operation of this utility. The
18 proforma adjustments in this case present those
19 costs to the Commission for its evaluation, and
20 hopefully for its recognition.

21

22 DISMUKES - COMPARISON OF PRESENT CASE TO JASMINE
23 LAKES CASE

24 Q. At page 5 of her prefiled testimony, Ms. Dismukes
25 compares SGI's requested O&M expenses to those

1 allowed by the Commission in two recent Class B
2 rate cases - Jasmine Lakes Utilities Corp. and Mad
3 Hatter Utility, Inc. Is there any validity to the
4 comparison with Jasmine Lakes?

5 A. I have no idea. I am not familiar with the manner
6 in which Jasmine Lakes is operated nor if there are
7 any similarities between the systems. Although Ms.
8 Dismukes apparently testified in that case, she has
9 not shared any information regarding the number of
10 employees, scope of work, salary levels, size of
11 service area, etc. that would need to be
12 considered.

13

14 DISMUKES - COMPARISON OF PRESENT CASE TO MAD HATTER
15 CASE

16 Q. Is there any validity to the comparison with Mad
17 Hatter Utility, Inc.?

18 A. Based on the discussion in the final order of that
19 case, there may be some basis for comparing
20 employee salaries, in general. For example the
21 final order (PSC-93-0295-FOF-WS) says that Ms.
22 Dismukes, a witness in that case, agrees that a
23 salary provision of \$108,457 for four employees was
24 reasonable. That is an average of \$27,114 per
25 employee, based on a 1990 test year. In this case,

1 SGI requested proforma salary for six employees -
2 three field and three administrative - in the
3 amount of \$123,120 or an average of \$20,520 per
4 employee, based on a 1992 test year. Without any
5 further information as to the employee positions or
6 duties, the comparison does suggest that the salary
7 ranges requested by SGI are in line with those
8 found reasonable by Ms. Dismukes in the Mad Hatter
9 case. The final order in the Mad Hatter case also
10 discusses an allowable amount for a resident
11 engineer. The Commission determined that an
12 allocated portion of his salary, \$6,842, would be
13 appropriate. SGI has requested an allowance of
14 \$6,000 for a contract engineer to provide ongoing
15 assistance and advise on operating matters -
16 matters not relating to the engineering of a
17 specific project. That appears to be in line with
18 the amount the Commission found reasonable in the
19 Mad Hatter case.

20

21 Other than the above comparisons of salary levels,
22 there is not sufficient information to compare the
23 overall expenses of SGI and Mad Hatter.

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DISMUKES - COMPARISON OF PRESENT CASE TO CLASS B

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UTILITIES

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Q. At page 5 of her prefiled testimony, Ms. Dismukes provides a comparison of this utility's requested expense level to those of other Class B utilities in Florida. Do these comparisons provide any useful information to the Commission in evaluating the reasonableness of the requested expense of SGI?

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A. No they do not. It is tempting to use comparative statistics to support or refute the reasonableness of expenses, but in reality, raw data provides absolutely no information from which to make valid comparison of the costs to operate various systems. The data provides no information regarding salary levels, job descriptions, or the similarities or dissimilarities of any other factors regarding these utilities. All we know is that they are all Class B water utilities, which means their annual water revenues fall in the very wide range between \$150,000 per year and \$750,000 per year. We don't know if any of them have service characteristics similar to those of SGI. We don't know if any of them serve a barrier island necessitating the location of the well some seven miles away on the

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1 mainland. We don't know if any of them have a
2 service area with a length to width ratio
3 approaching 40 to 1. We don't know if any of them
4 have a high proliferation of uncontrolled private
5 well construction necessitating constant vigilance
6 for cross connection violations. We don't know if
7 any of these utilities have large segments of
8 customers that only use service during weekends or
9 holidays or on a relatively short term basis. We
10 don't know if any of these utilities are part of a
11 group from which they receive allocation economies.
12 These are all examples of factors that effect the
13 costs of providing service and that make each
14 utility unique. Without some knowledge of these
15 types of factors, it is difficult, if not
16 impossible, to make any valid comparisons of
17 relative costs.

18

19 **Q. Are you personally familiar with any of the**
20 **utilities on Ms. Dismuke's list?**

21 **A. Yes. I am familiar with Sailfish Point Utility**
22 **Company (SPUC). I prepared their last rate case. I**
23 **still provide some consulting services and I have**
24 **some knowledge of their service circumstances and**
25 **their personnel costs.**

1

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Q. Can you share information regarding the expenses of SPUC that might be helpful to the Commission in evaluating the reasonableness of the requested expenses of SGI?

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6

A. Yes. Sailfish Point Utility provides both water and wastewater services to a self contained developer related community in Martin County. The service area is approximately one mile square and has a build out customer base of less than 600 customers. Many of the customers are concentrated in condominium apartments. It has water and wastewater treatment plants that are adjacent to each other and the water source is in close proximity to the plants. The field staff consists of three persons - an operations manager, an assistant plant operator and a field person. If the utility served water only or wastewater only, I doubt that it would have much effect on the size of the field staff. Perhaps one of the operators could be part time, if competent personnel can be found to work on a part time basis. But, if for no other reason than to be able cover weekends, evenings and vacations, it would take 2 1/2 - 3 persons to operate this utility. Logistically, Sailfish Point is much

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1 simpler to operate. There are no great distances to
 2 be covered. There are no private wells. There is no
 3 uncontrolled or unplanned growth. There are few
 4 dead ends or low usage mains that require flushing
 5 on a daily basis. Therefore, Sailfish is less
 6 labor intensive than SGI on a day by day, field
 7 operation basis.

8
 9 Q. How do the salaries of SGI field personnel compare
 10 to those of Sailfish Point personnel?

11 A. The salaries of SGI field personnel, at the
 12 requested level, are lower than current salaries at
 13 Sailfish Point. They generally compare as follows:

	<u>Annual Salaries</u>	
	<u>SGI</u>	<u>SPUC</u>
16 Op. Manager	\$32,500	\$46,000
17 Asst. #1	17,500	36,000
18 Asst. #2	16,640	22,000

19
 20
 21 There are several things that can explain the
 22 differences in salary levels. First is location.
 23 Salaries on the southeast coast of Florida tend to
 24 be higher than for the panhandle. That would
 25 explain most of the difference in salaries for

1 Asst. #2, since the job requirement for both
2 utilities requires similar levels of skill. The
3 lower salaries for the SGI manager and Asst. #1
4 more than likely reflect the fact that SGI
5 personnel are operating a water facility only
6 rather than a combined facility. However, it must
7 be considered that although the salary level for
8 SGI personnel are lower, its three person staff is
9 covering substantially more territory and more
10 customers than the three person staff at Sailfish
11 Point, and substantially more flushing and testing.
12 And Sailfish Point is considered by many, to be an
13 efficiently run and well maintained utility plant.

14
15 Q. Can you similarly compare the managerial and
16 administrative salaries for SGI to those of SPUC?

17 A. No. Whereas the salary levels for field personnel
18 can be compared one for one, managerial and
19 administrative costs cannot. That is because SPUC
20 benefits from being a subsidiary of the Mobil Land
21 Development group of companies. SPUC does not have
22 an administrative staff. It does not have to hire
23 a full time manager just for the utility, nor does
24 it have to hire full time clerical personnel and
25 bookkeepers, nor contract for accountants,

1 attorneys or engineers for day to day services.
2 The functions performed by all of those personnel
3 are made available through Mobil's staffing for
4 which SPUC pays a minimal allocation of the total
5 cost. Obviously, a stand alone single area utility
6 like SGI does not have access to the economies of
7 that type of pooling of personnel. Therefore the
8 salaries paid by SGI for administrative personnel
9 cannot be directly compared to the allocated
10 amounts paid by SPUC.

11

12 Q. How should the Commission judge whether the costs
13 proposed by SGI for operational, managerial and
14 administrative personnel are reasonable?

15 A. The Commission really needs to look at two things -
16 the necessity of the positions and the salary
17 levels for those positions.

18

19 DISMUKES - AFFILIATED TRANSACTIONS

20 Q. Beginning at page 8 of her prefiled testimony, Ms.
21 Dismukes addresses what she refers to as affiliated
22 transactions. Has she properly described the
23 transactions at issue?

24 A. Yes. SGI shares office space with Mr. Brown's law
25 office. As Ms. Dismukes points out, Mr. Brown is

1 affiliated with eight entities, however, as a
2 practical matter, and as indicated on the doors to
3 the offices, the functioning entities are the
4 utility and the law office. With regard to SGI
5 personnel, all of the employees at this office work
6 100% of the time for the utility, with the
7 exception of Mr. Brown's administrative assistant.
8 Her time is allocated and a portion of her salary
9 is paid by the law firm.

10

11 Q. At page 13 of her prefiled testimony, Ms. Dismukes
12 has allocated a 25% portion of the health benefits
13 of Mr. Brown's assistant to non-affiliates. Do you
14 take exception to that recommendation?

15 A. No. I agree with Ms. Dismukes that personnel
16 benefits should follow salaries, and SGI pays only
17 75% of the salary of Mr. Brown's assistant.

18

19 Q. At page 13 of her prefiled testimony, Ms. Dismukes
20 allocates 50%, or \$5,400, of what she refers to as
21 office rent to Mr. Brown's affiliates and 50% to
22 SGI. Do you agree with that recommendation?

23 A. No. I disagree because Ms. Dismukes is not
24 allocating office rent. She is allocating the out
25 of pocket costs under a third party lease/purchase

1 agreement as if that were the rental rate to the
2 occupants. The third party in this case is Armada
3 Bay Company, an affiliate. Because it is an
4 affiliate, the rent charged to SGI is certainly
5 subject to close scrutiny to ensure that SGI is not
6 being charged more than the market rate - the rate
7 it would have to pay to a non-affiliate. SGI is
8 paying \$750 per month rent for 750 sq. ft. of
9 space. That equates to \$12.00 per sq. ft. Rental
10 rates for comparable office space in the
11 Tallahassee area is \$10.00 to \$12.00 per sq. ft,
12 without any other considerations. In this case,
13 there are other considerations, which Mr. Brown
14 will address. If Ms. Dismukes recommendation is
15 accepted, it will result in a rental rate of \$7.20
16 per sq. ft., far below the market rate and low
17 enough to encourage Armada Bay to begin looking for
18 another tenant. The rental rate paid by SGI is
19 reasonable and should not be adjusted.

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1 Q. At page 14 of her prefiled testimony, Ms. Dismukes
2 recommends allocating 10% of the salaries and
3 benefits of the utility bookkeeper and office staff
4 assistant to the affiliates. Do you agree with that
5 allocation?

6 A. No. I understand that these personnel answer the
7 non-utility telephone line or send a fax or run an
8 errand from time to time. Ms. Dismukes has
9 characterized these activities as "assisting with
10 the management and operations of Mr. Brown's other
11 companies." But in fact, these activities are
12 incidental events, at most. In their depositions by
13 OPC, the referenced personnel indicated that such
14 actions as answering the non-utility phone were
15 done as a courtesy, not as a part of the job. And
16 even in those cases, they indicate that such calls
17 are usually utility connected. With regard to
18 errands, these employees indicate that special
19 trips are not made for non-utility purposes, but
20 may be part of a trip already being made for the
21 utility. These two employees are truly utility
22 employees and it is just reaching, to allocate any
23 portion of their time to non-utility entities.

24

1 Q. Also, at page 14 of her prefiled testimony, Ms.
2 Dismukes recommends that 10% of the cost of SGI's
3 office furniture, and related depreciation costs,
4 be allocated to affiliates. Do you agree?

5 A. No. Account 340.5, Office Furniture and Equipment,
6 for the test year, includes four items, a utility
7 computer, the utility financial software package,
8 leasehold equipment, and a new copier. Only 10% of
9 the copier should be allocated to affiliates. The
10 leasehold equipment is allocated on a 50/50 basis.
11 The remaining equipment is used only by the
12 utility. The adjusted average balance for this
13 account is \$8,285. The portion allocated to
14 affiliates is \$562 or 6.8 %.

15

16 DISMUKES - GROWTH ADJUSTMENTS

17 Q. At page 14 of her prefiled testimony, Ms. Dismukes
18 recommends adjusting test year revenues and
19 expenses for growth. Do you agree with this
20 recommendation?

21 A. No. Adjustments for growth would be appropriate if
22 SGI had filed for a projected test year. However,
23 SGI requested, and was granted, permission to file
24 for a historic test year. SGI elected to use a
25 historic test year with proforma adjustments for

1 very specific reasons. Since 1989, SGI has been
2 subject to Commission directives to make additions
3 to plant serving existing customers, to upgrade its
4 operations in order to improve the quality of
5 service to existing customers, to improve its
6 records and to bring about an overall improvement
7 in its operations for existing customers. Slowly,
8 but surely it has been doing that, but SGI contends
9 it has not had and does not have sufficient
10 revenues to maintain the quality of service for its
11 existing customers. It has presented a historic
12 test year to show the deficiency in funds for
13 existing customers. It has also made non-revenue
14 producing proforma adjustments to investment and
15 expenses to show the level of costs necessary to
16 provide quality service to existing customers. Ms.
17 Dismukes has assumed that the purpose of the
18 utility's proforma adjustments is to bring 1992
19 expenses up to the 1993 or 1994 level. That is not
20 the purpose. With the exception of salary increase,
21 the purpose of the proforma adjustments is to bring
22 1992 expenses up to the level necessary to serve
23 1992 customers properly. A small portion of the
24 salary adjustments do reflect annual cost of living
25 increases. The major increase is for much needed

1 additional personnel and to adjust the salaries of
2 some individuals to a level commensurate with their
3 job responsibilities.

4
5 Ms. Dismukes would like to see the test year
6 updated to 1993, and states at page 15 of her
7 testimony, "I believe the Commission should update
8 the Company's test year level of revenue, expenses
9 and rate base to be more consistent with a 1993
10 test year." The ability to revise the test year
11 after the rate application is noticed is a luxury
12 not available to the applicant, even when the
13 results may reduce the revenue requirement. As both
14 the Commission and OPC know, such an action is
15 considered by them to be a revision of the rate
16 case application, and subjects the case to
17 dismissal because it prejudice parties by
18 introducing material not subject to the audit or to
19 timely discovery. The adjustments recommended by
20 Ms. Dismukes introduce substantial revenues
21 associated with growth, and inconsequential
22 expenses associated with growth on top of an
23 average test period, with no concern that
24 additional plant investment and expenses may also
25 have to be incurred to serve growth. But with all

1 her posturing with regard to matching revenues and
2 expenses because of growth, further into her
3 testimony, and as shown on Schedule 27 of her
4 Exhibit 18, Ms. Dismukes will finally match her
5 growth revenue with a level of expenses below the
6 actual level of expenses incurred in 1992. This may
7 play well to the audience at the hearing, but if
8 the Commissioners are concerned with the ability of
9 the utility to provide quality service under
10 present rates, they should well consider the
11 consequences to customers of OPC's recommendations,
12 after the excitement of the hearing has faded.

13
14
15 DISMUKES - SALARY ADJUSTMENTS

16 Q. At page 18 of her prefiled testimony, Ms. Dismukes
17 holds the level of pay increases to 5% annually.
18 She states that is the level allowed by the
19 Commission in recent cases. Do you agree with her
20 adjustment?

21 A. No. I don't disagree with holding the line on pay
22 increases to approximately the cost of living if
23 the base pay of an individual is already at an
24 appropriate level. However, in this case, for two
25 individuals the current level is not commensurate

1 with their responsibilities or their value to the
2 company. The test year pay levels of the operations
3 manager and administrative assistant do not
4 reflect the level of their responsibilities, their
5 longevity of service or their knowledge of the
6 system. With regard to the operations manager, Mr.
7 McKeown, a drinking water inspector for FDEP has
8 testified in this proceeding that "the treatment
9 plant in the time since Mr. Hank Garrett
10 [operations manager] has been the lead certified
11 operator has been very well maintained. I hope this
12 situation will continue." It would be irresponsible
13 not to do what is reasonably necessary to assure
14 that this situation will continue. Restricting
15 their salary increases to a cost of living level
16 will perpetuate an inequitable situation. Ms.
17 Dismukes also states that such increases are
18 "unnecessary given today's economic environment."
19 By that I assume she means that the utility should
20 take advantage of people because of high
21 unemployment rates, since they will not be able to
22 find employment at comparable pay elsewhere. Even
23 if the utility were so inclined, that is not the
24 situation. The individuals in question can find
25 employment elsewhere and the utility cannot replace

1 them at any price with persons that have their
2 knowledge of the system and the company.

3

4 **Q.** At page 15 of her prefiled testimony, Ms. Dismukes
5 has recommended that the field assistant be
6 included only on a part time basis. Do you agree
7 with her recommendation?

8 **A.** No. Ms. Dismukes's recommendation is not based on
9 the facts in this situation. She states that prior
10 to the rate case the utility was operating with
11 1.75 to persons. But she does not correlate the
12 number of workers to the utility's ability to
13 provide a satisfactory level of operation. Nor does
14 she consider that with 1.75 persons, the manager
15 must work seven days a week on a regular basis and
16 cannot take the vacation time to which he is
17 entitled. Throughout her testimony, Ms. Dismukes
18 makes it clear that she thinks the utility has been
19 poorly managed and operated in the past. Yet here
20 is a cost effective means to improve the level of
21 operations and she recommends that the Commission
22 reject it. Surveys by FDEP during the last year
23 give credence to the fact that with the complement
24 of employees available during the test year, the
25 utility is having difficulty maintaining its

1 maintenance and inspection logs in a timely manner,
2 keeping up with its flushing program, monitoring
3 for cross connection violations and sampling for
4 hydrogen sulfide.

5
6 Ms. Dismukes also says that an additional assistant
7 isn't needed at all during the off-peak system. But
8 that is not true. It during the off-peak season,
9 when flows in many lines are minimal, that water
10 quality is the most difficult to maintain. It is
11 during that period that the need for main flushing
12 is the greatest. It is a time consuming, labor
13 intensive activity and it will require a full time
14 person to accomplish it.

15
16 I must express concern with the recommendations of
17 OPC to cut the utility staff to a bare bones level
18 or reduce salaries to levels that insure frequent
19 turnover. SGI comes into this hearing with a
20 reputation for not being responsive to directives
21 to improve service. Such a reputation is difficult
22 to turn around. This utility is trying, and as I
23 have previously pointed out, the improvements have
24 been significant. But the utility is not going to
25 be able to maintain quality service or move forward

1 without the necessary personnel. OPC's
2 recommendation ignore this reality.

3

4 Q. Beginning at page 19 of her prefiled testimony, Ms.
5 Dismukes discusses adjustments that she claims
6 effectively reduce the management fee for the
7 services provided by Mr. Brown. Do you agree with
8 her comments?

9 A. No. First, Ms. Dismukes states that she has
10 effectively reduced the management fee by
11 disallowing a portion of Ms. Chase's pay increase.
12 Ms. Chase is paid by SGI and her salary level has
13 nothing to do with the level of the management fee.
14 As previously pointed out, we believe her salary
15 level is fair. In addition, Ms. Chase is not a
16 manager and a significant amount of her time is now
17 required just to administer the cross connect
18 control program for the utility. I do not consider
19 that to be a function covered under a management
20 fee. Ms. Dismukes's proposal is a back door
21 approach to adjusting the management fee that
22 unfairly penalizes Ms. Chase. Should the
23 Commission determine that an adjustment to the
24 management fee is warranted, it should be a direct
25 adjustment. If Ms. Chase's allowed salary is

1 reduced for that purpose it impacts future rate
2 cases by establishing an artificially low salary
3 level as the benchmark against which the
4 reasonableness of future increases will be
5 measured. One of the difficulties we are
6 encountering in this case is justifying the
7 reasonableness of current wage levels against
8 inadequate or understated wages in the prior case.

9
10 Second, Ms. Dismukes states that the management fee
11 should be reduced because Mr. Brown should not be
12 compensated for dealing with past problems. She
13 believes the stockholders should absorb these
14 costs. I fail to understand her logic. If a manager
15 isn't paid to deal with problems or to prevent
16 problems from occurring or reoccurring, then what
17 is he paid for? The only difference between
18 solving problems and preventing problems is the
19 timing. Management is an ongoing process. A manager
20 is paid for his management ability, both preventive
21 and corrective. A manager is not paid on a "per
22 incident" basis. In any case, the customers of the
23 utility have not paid Mr. Brown or any other
24 manager for what has occurred in the past, except
25 to the extent such costs were minimally included in

1 the expenses of the last case. During the years
2 since the last rate case, the utility has operated
3 at a deficit, and to the extent of that deficit,
4 stockholders have absorbed the cost.

5

6 DISMUKES - MANAGEMENT FEES

7 Q. At page 21, Ms. Dismukes states that Mr. Brown's
8 total compensation package is excessive for a
9 utility the size of SGI. Do you agree?

10 A. I don't agree or disagree because I don't think it
11 is a function of the size of the utility. But I
12 understand her concern. It is difficult when you
13 are dealing with a small utility to recognize
14 adequate management compensation because of its
15 impact on rates. Nevertheless, the Commission must
16 recognize a level of compensation commensurate with
17 the job to be performed and not base it solely on
18 the size of the utility or the impact on rates.

19

20 Incidentally, in the two cases which Ms. Dismukes
21 previously cited (Mad Hatter and Jasmine Lakes) as
22 being somewhat comparable to SGI, the Commission
23 allowed salaries for the presidents of those
24 company's of approximately \$50,000 compared to Mr.
25 Brown's management fee of \$48,000. The actual

1 salaries for those officers were in the \$65,000 to
2 \$75,000 range. Although those two companies
3 provide both water and wastewater service, the
4 numbers of customers served are similar.

5
6 Finally, in SGI's last case, based on a 1987 test
7 year, the Commission found \$29,765 to be a
8 reasonable salary for a manager of a utility the
9 size of SGI. If that salary were to be increased by
10 the combined growth - CPI factor utilized in the
11 MFR benchmark analysis, the equivalent salary in
12 1992 would be \$66,352 compared to the \$48,000
13 management fee paid by SGI and the combined fee of
14 \$72,000 for management and legal services.

15

16 Q. Ms. Dismukes also considers the management
17 compensation excessive because the utility has
18 "consistently" been in violation of PSC and FDEP
19 rules and regulations. Do you agree with her
20 evaluation?

21 A. No. First, Ms. Dismukes's remarks regarding
22 violations are allegations and not conclusions. SGI
23 is not presently operating under any show cause
24 order of this Commission. And, since Mr. Brown
25 assumed management of SGI, it has not been found

1 guilty of nor fined for violating any rule or
2 regulation of this Commission. SGI was ordered to
3 comply with certain directives of this Commission
4 under Docket No. 871177-WU. It has done so and that
5 docket has been closed. SGI has been operating
6 under a consent order of the FDEP to which it
7 agreed as a resolution of certain allegations of
8 violations. As Ms. Dismukes knows or should know,
9 a consent order is a mutual resolution of
10 differences, not a finding of violations. SGI has
11 complied with and continues to comply with the
12 terms of that Consent Order. The net result of all
13 of this is the utility and its customers are in
14 better shape now than they have been for years.
15 That does not seem like a basis to penalize this
16 utility any further than is has already been
17 penalized indirectly through inadequate income.

18

19 DISMUKES - LEGAL FEES

20 Q. At page 21 of her prefiled testimony, Ms. Dismukes
21 refers to \$20,000 which she assumes will be
22 additional compensation to Mr. Brown for legal fees
23 for this rate case. Is that a correct conclusion?

24 A. No. Schedule B-10 of the MFR, the analysis of rate
25 case expense, includes \$20,000 for a rate attorney,

1 yet to be determined. The schedule does not
2 designate Mr. Brown. The amount was an estimate for
3 an outside rate attorney, who had not been hired at
4 the time the MFR was filed. Mr. Brown was initially
5 the attorney of record, but since he is also a
6 witness in this proceeding, an outside attorney is
7 also necessary. Regardless of whether the legal
8 expenses incurred for this case are attributed to
9 Mr. Brown or an outside attorney, they represent
10 rate case expense subject to recovery through rates
11 over a four year period.

12

13 Q. Ms. Dismukes takes issue with the retainer fee paid
14 to Mr. Brown for ongoing legal services in the
15 amount of \$24,000 per year? Do you consider this an
16 extraordinary amount?

17 A. No. This represents two days or less of
18 consultation time per month at Mr. Brown's fee
19 level or at any competitive fee level. This is not
20 an extraordinary amount of time for a business that
21 is subject to the oversight of several regulatory
22 agencies and for one engaged in contractual
23 negotiations with developers and vendors on a
24 regular basis.

25

1 Q. Ms. Dismukes asserts that some of the time spent by
2 Mr. Brown on legal matters did not require the
3 expertise of a lawyer. Do you agree?

4 A. I am not in a position to agree or disagree. I do
5 think she has made a dangerous assertion. As a non-
6 lawyer consultant, I am very hesitant to advise a
7 client not to seek legal expertise. Even though I
8 feel very competent in regulatory matters because
9 of my experience, I almost always advise a client
10 to seek legal advise in any regulatory or contract
11 matter.

12

13 Q. At page 24 of her prefiled testimony, Ms. Dismukes
14 expresses the opinion that customers should not
15 have to pay for legal matters related to the
16 settlement of FDEP problems or PSC show cause
17 responses. Do you agree?

18 A. No. The legal expenses incurred by a utility to
19 defend itself in show cause proceedings,
20 proceedings resulting from notices of violations,
21 or even proceedings resulting from customer
22 complaints are all legitimate costs of doing
23 business and are subject to recovery through rates.
24 To deny all legal expenses of this nature requires
25 the assumption that an accusation equates to guilt

1 and that all issues emanating from these types of
2 proceedings are black and white. That is just not
3 the case. If it were, there would no show cause or
4 similar proceedings - there would just be
5 accusations and penalties, without recourse. It is
6 the nature of regulation that issues of importance
7 are handled through the formality of a show cause
8 and response. To deny recovery of the related
9 expenses is to deny the protection afforded by the
10 law.

11

12 Q. On page 25 of her prefiled testimony, Ms. Dismukes
13 argues that the level of legal expense requested is
14 not reasonable. Do you agree with her argument?

15 A. No. She argues that Mr. Brown's hourly fee equates
16 to \$312,000 annually. She argues that the
17 equivalent salary is considerably more than the
18 salary of in-house legal counsel, and that is how
19 he should be viewed. I might agree with the
20 argument if SGI were requesting \$312,000 for legal
21 fees. It is not. It is requesting \$24,000.

22

23 It is misleading to multiply the hourly fee of an
24 attorney times the hours in a year and say that it
25 equates to an annual salary. As Ms. Dismukes knows

1 from her own experience as a consultant, fees
2 charged cover more than salaries. They hopefully
3 cover all expenses of operating a business. And
4 fees are collected only for hours billed, which may
5 or may not equal the hours in a year. It is
6 irrelevant that a fee of \$150 per hour equates to
7 \$325,000 per year.

8
9 What is relevant is how the total amount charged to
10 the utility would compare to what SGI would have to
11 pay an independent outside counsel for like
12 services or what it would pay if Mr. Brown's legal
13 services should be viewed as in-house counsel as
14 argued by Ms. Dismukes. On that basis I would have
15 to conclude that Mr. Brown's hourly rate is in line
16 with that of other independent attorneys and the
17 \$24,000 annual charge is in line with the annual
18 salary of an in-house counsel at the entry level.

19
20 However, after arguing that Mr. Brown should be
21 considered as in-house legal counsel, Ms. Dismukes
22 then argues that only \$3,000 should be allowed for
23 legal services. So apparently the in-house argument
24 is spurious. Apparently, what is really important
25 to Ms. Dismukes is that the charge is too high,

1 regardless of whether it is fair. Well since you
2 can't hire an in-house counsel for \$3,000, we are
3 back to determining the equivalent of a reasonable
4 amount of time required by an outside attorney at
5 prevailing rates. On that basis, and as previously
6 discussed, the \$24,000 charge appears reasonable.

7

8 **Q. At page 21 of her prefiled testimony, Ms. Dismukes**
9 **talks about Mr. Brown's total compensation plus**
10 **benefits. Is that a fair approach for evaluating**
11 **his salary?**

12 **A. No. Just like the attorney fee/annual salary**
13 **analogy, it is misleading. This "loaded cost"**
14 **approach has not been applied to employees nor have**
15 **I seen it applied to officers or managers of any**
16 **other water or wastewater utility in a rate case**
17 **before this Commission. Ms. Dismukes states that**
18 **the Mr. Brown's total package is \$80,700. I think**
19 **that number is overstated. Nevertheless without the**
20 **loading, the requested annual fees for management**
21 **and legal services are \$72,000. This compares to**
22 **the salaries of approximately \$65,000 to \$75,000,**
23 **without loading, paid to the presidents of Jasmine**
24 **Lakes and Mad Hatter, as previously discussed.**

1 Those salaries are for management only and do not
2 include legal services.

3

4 DISMUKES - PENSIONS & BENEFITS

5 Q. At page 27 of her prefiled testimony, Ms. Dismukes
6 points out that SGI's MFR includes a health benefit
7 expense for the four salaried employees, the two
8 hourly employees and the manager. She also says,
9 "It is interesting to note" the workpapers do not
10 include the hourly employees. Can you explain this
11 "interesting" disparity?

12 A. Yes. I prepared the MFR's and I had assumed that
13 all employees would be covered, including hourly
14 employees. That was a misunderstanding on my part.
15 Ms. Dismukes is correct in removing the expense for
16 benefits for the hourly employees.

17

18 Q. Ms. Dismukes also removes the health benefit for
19 Mr. Brown because he is not an employee of SGI. Do
20 you agree with that adjustment?

21 A. Yes. I agree that any benefits for Mr. Brown are
22 the responsibility of Armada Bay Company.

23

1 Q. At page 28 of her prefiled testimony, Ms. Dismukes
2 disallows any expense for pension benefits for
3 several reasons. Do you agree with that adjustment?

4 A. No. Ms. Dismukes gives four reasons for
5 disallowing the expense: 1) the plan didn't become
6 effective until January, 1994; 2) although the
7 company has committed to the plan in writing, it
8 has no contractual obligation to make the
9 contribution; 3) the company has been operating for
10 years without a plan; and 4) one of the employees
11 had little knowledge of the plan.

12

13 It is difficult to know which reason to respond to
14 first, they are all so disingenuous. Look for
15 example at reason no. 3 - the expense should be
16 disallowed because the utility got along without it
17 before. But did it? How many of the people employed
18 in 1987 are still with the company? None. Was the
19 quality of the employees in the last case
20 satisfactory? Apparently not -in the last case, the
21 Commission cited everything from quality of records
22 to quality of service as being unsatisfactory. It
23 is only since 1991 that there has been any
24 continuity of employment, and, coincidentally,
25 improvements in all of the factors cited by the

1 Commission. There certainly is no law requiring
2 this company to offer pension benefits to its
3 employees, but aside from being the right thing to
4 do, it seems like a cost effective means of
5 enticing good employees to stay on.

6
7 Then there is reasons no. 1 - the plan didn't
8 become effective until January, 1994. This would
9 lead one to think that maybe this plan was
10 instituted to coincide with this rate application.
11 And that is correct. But what is wrong with that?
12 The company has been operating at a loss. Its
13 revenues are inadequate to cover current expenses,
14 never mind a pension plan. Why not initiate the
15 plan in the same year that rate relief might be
16 expected? I understand that OPC may consider that
17 providing all services in a satisfactory manner
18 while operating at a loss is an act of good faith,
19 but it is a poor business decision. As I indicated
20 earlier in my rebuttal testimony, proforma
21 adjustments such as the cost of a pension plan were
22 included just so the Commission can be aware of the
23 full cost of providing satisfactory service to
24 existing customers.

25

1 Then there is reason no. 2 - the company has
2 committed to its employees in writing that it will
3 contribute to a plan but there is no legal or
4 contractual obligation to contribute. There is
5 something wrong with that statement. The Random
6 House dictionary defines "commitment" as "a pledge
7 or promise; an obligation." I think SGI does have
8 an obligation. The question is, whether it can or
9 will fulfill that obligation. A legal or
10 contractual obligation, as preferred by Ms.
11 Dismukes, does not guarantee that the plan will be
12 funded any more than a written memo does. And a
13 guarantee of that funding is really what is what
14 she is looking for. At page 30 of her testimony,
15 she says, "... I am concerned that the Commission
16 will allow recovery of this pension expense through
17 customer rates but the Company will never make the
18 contributions." That is a legitimate concern for
19 SGI or any other utility. This utility has no
20 history for funding its plan. However, SGI has now
21 instituted a qualified investment plan and has made
22 the initial contribution. Additional contributions
23 are to be made every six months. If the Commission
24 recognizes this expense for ratemaking purposes, it
25 has every right to expect and require continued

1 funding. If the expense is not recognized, however,
2 than continued funding should not be assumed.

3
4 Finally, there is reason no. 4 - an employee had
5 little knowledge of the plan. That is hardly
6 surprising when a plan is first initiated. A
7 pension plan is not usually discussed with
8 employees until it is fully formulated and an
9 action on their part is necessary. In fact, the
10 initial notice to employees of the plan indicated
11 that details would be provided at a later date. In
12 any case, it is not a reason to disallow the
13 expense. I suspect Ms. Dismukes considered the
14 employee's lack of knowledge as just another
15 indicator that SGI will not fund the plan.

16
17 **Q. Did Ms. Dismukes take issue in her testimony with**
18 **the cost of the plan?**

19 **A. No. None of the reasons she gave for disallowance**
20 **addressed the real issues of whether it is**
21 **reasonable and proper to provide a pension plan**
22 **and, is the cost reasonable. She disallowed it**
23 **merely on the supposition that the company might**
24 **not actually fund it. I dare say that it would be**
25 **difficult to take issue with the cost, because the**

1 plan is only set up to be funded at 5% of base
2 salary.

3

4 DISMUKES - CONTRACTUAL SERVICES, ACCOUNTING

5 Q. At page 31 of her prefiled testimony, Ms. Dismukes
6 recommends that the proforma expense of \$6,000 per
7 year for tax and other accounting services
8 performed by Ms. Barbara Withers, CPA, be
9 disallowed. Do you agree with her recommendation?

10 A. No. This expense is fully justified on a continuing
11 basis. It is based on Ms. Withers providing 5 hours
12 of service per month at \$100.00 per hour. Ms.
13 Withers has performed work for the utility from
14 time to time since its inception. Because of this
15 she is more familiar with the organization of the
16 utility, its tax matters and its general accounting
17 matters than any other accountant working with the
18 utility. Her services provide some continuity to
19 its accounting procedures.

20

21 Q. Why has Ms. Dismukes recommended that the expense
22 for Ms. Withers' services be disallowed?

23 A. If I understand her testimony correctly, it is
24 primarily because SGI allegedly did not use her
25 services in 1992 or 1993 and that allegedly Ms.

1 Withers used a retainer payment toward other
2 outstanding bills for services she had rendered to
3 the utility in earlier periods.
4

5 Q. Is it relevant whether Ms. Withers perform services
6 for SGI in 1992 or 1993?

7 A. No. What is relevant is that Ms. Withers' services
8 have been and continue to be available and used by
9 utility on a regular basis.
10

11 As I previously stated, Ms. Withers has performed
12 work for this utility on an as needed basis since
13 its inception, is knowledgeable of the utility and
14 is in a good position to render informed advise.
15 According to Ms. Withers, she did all of the
16 paperwork to get the utility's initial franchise in
17 1978 and 1979 [Withers Deposition, p. 28], has
18 worked with the utility as-needed, on a constant
19 basis since that time [Withers Deposition, p. 28],
20 participated in the IRS tax audit of the utility's
21 books [Withers Deposition, p. 24], participated as
22 a witness for the utility in 1989 in the last rate
23 case [PSC Order No. 21122], prepared and filed the
24 monthly reports required by the Commission in 1990
25 [Withers Deposition, p. 8], provided advice on

1 reorganization and capitalization [Withers
2 Deposition, p.12], testified for the utility
3 regarding NARUC accounting procedures in December,
4 1991 [PSC Order 92-0487], provided services to the
5 utility in 1993 (although she did not submit any
6 bills) [Withers Deposition, p. 9] and has performed
7 34 1/2 hours of work for the utility in the first
8 quarter of 1994 [Withers Deposition p. 10].

9
10 Clearly Ms. Withers has provided valuable ongoing
11 services to this utility and continues to do so.
12 The question is, whether this Commission will
13 recognize the cost of these services as an ongoing
14 expense, or let each separate expense fall through
15 the cracks by treating each of them as a non-
16 recurring event. Obviously, we believe the expense
17 should be recognized as ongoing. And for that
18 purpose, SGI has memorialized what had been a
19 verbal arrangement regarding availability for
20 ongoing services, through a retainer agreement. And
21 apparently, Ms. Withers understood that to be the
22 preference of the Commission staff [Withers
23 Deposition, p.30].

24

1 Q. Would you respond to the allegation that Ms.
2 Withers performed no services in 1993 and instead
3 used the 1993 retainer payment against other
4 outstanding bills?

5 A. Yes. Ms. Dismukes makes the following statement at
6 page 31 of her testimony: "Ms. Withers testified in
7 her deposition that the 1993 retainer was used to
8 pay old outstanding bills of the Utility that had
9 never been paid--she actually rendered no services
10 to the utility in 1993."

11
12 This is the actual exchange in Ms. Withers'
13 deposition upon which Ms. Dismukes bases her
14 allegation:

15
16 Q. Okay. You were on retainer for 1993,
17 right?

18 A. That's correct.

19 Q. How many times did you exceed the five
20 hours, do you know?

21 A. I don't. I didn't actually submit any
22 bills. I had a lot of old outstanding
23 bills that had never been paid, so I just
24 didn't bill it.

25 [Withers Deposition, 4/6/94. p.9]

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It is clear that Ms. Dismukes either misinterpreted or misquoted Ms. Withers. Ms. Withers did not say she did not perform any services in 1993. She says she didn't bill for them and therefore did not know how many times she exceeded the five hour per month retainer allowance. In fact, if we turn to an exchange from Ms. Withers' deposition that preceded the one relied on by Ms. Dismukes, we find that Ms. Withers did indeed perform services for the utility in 1993:

Q. During the year 1993, I gather that the advice that you provided to the utility is primarily matters of tax, is that correct?

A. Primarily tax, but also accounting, assisting with reviewing the -- not reviewing in the technical sense of performing a review, but helping them to be sure that their accounting records are being kept properly.

[Withers Deposition, 4/6/94, p. 8]

1 With the benefit of hindsight, we may conclude that
2 not billing was a poor way to handle it, but we
3 can't conclude that services were not performed. As
4 Ms. Withers indicates at page 10 of her deposition,
5 she is keeping track of her time and billing for it
6 in 1994.

7
8 Q. At pages 31 and 32 of her prefiled testimony, Ms.
9 Dismukes implies that the retainer may be designed
10 to recover prior period expenses. Do you agree with
11 that interpretation?

12 A. No. Ms. Withers indicated in her deposition that
13 the utility owed her \$22,000 for service from prior
14 years. In order for the retainer agreement to be
15 used to recover prior period expenses, Ms. Withers
16 would have to accept the \$6,000 annual retainer
17 payment and perform no additional services for the
18 utility for 3 1/2 years. She has already billed
19 over \$3,400 for services performed in the first
20 quarter of 1994. There is no indication that the
21 retainer is anything but what it is purported to
22 be.

23
24 What is critical in this case is that the utility
25 has a need for continuing accounting services.

1 Whether those services are provided in part by Ms.
2 Withers, in part by Ms. Drawdy or in part or in
3 whole by any other competent accountant, is not as
4 important as the fact that the Commission
5 recognizes an adequate accounting expense so that
6 the utility has the means to meet the requirements
7 of the Commission with regard to accounting.

8

9 DISMUKES - PROFORMA MAINTENANCE & TESTING EXPENSES

10 Q. At page 33 of her prefiled testimony, Ms. Dismukes
11 proposes to disallow a portion of the proforma
12 expense for ground storage maintenance because some
13 of the cost is remedial. Do you agree?

14 A. No. It is Ms. Dismukes' opinion that remedial work
15 is necessary because of poor management and
16 maintenance and therefore should not be charged to
17 the customer. This is a common theme running
18 through many of her proposed adjustments. It may
19 sound good, but it only makes sense if you assume
20 that timely maintenance is free.

21

22 Assume that a utility carries out some level of
23 maintenance on a regular basis, such that
24 "remedial" work is not necessary. That regular
25 maintenance has a cost associated with it. Assume

1 also that the cost of regular maintenance has been
2 properly recognized in a rate case. It is a
3 recurring annual expense recovered from the
4 customers through rates.

5
6 Now assume regular maintenance has not been carried
7 out. There is no recurring annual expense passed on
8 to the customers and recovered through rates.
9 During the period when regular maintenance is not
10 carried on, the customers gets nothing and pays
11 nothing.

12
13 Now assume that we come along with some remedial
14 work. The maintenance that would have been carried
15 out year to year in small amounts is now done in
16 one large amount. If the Commission were to allow
17 recovery of the total cost of that remedial work as
18 a single year recurring expense, the customer would
19 of course be penalized by paying an annual expense
20 equal to the one time, higher remedial cost. But
21 that is not what happens. What happens is, the
22 higher cost is amortized over several years, so
23 that on an annual basis all that is expensed and
24 recovered through rates is an amount similar to the
25 cost of regular annual maintenance. From a customer

1 perspective the effect on future rates is no
2 different than if maintenance were being performed
3 every year on a regular basis. One way or another,
4 the maintenance has to be performed at some cost.
5 On a historical basis, the rates were lower than
6 otherwise would have been the case if regular
7 maintenance had been occurring.

8
9 There is no basis for disallowing the cost of
10 remedial work, as long as it is recovered on an
11 amortized basis. The amortization of deferred
12 maintenance is a recognized ratemaking and
13 accounting principle. As far as Ms. Dismukes'
14 desire to see some cost passed on the stockholder
15 for deferring maintenance, that does in fact happen
16 to Class B utilities under the present Commission
17 rules. The unamortized portion of the deferred
18 maintenance is not recognized in rate base.
19 Therefore the cost to carry that portion of the
20 expense over the amortization period is borne by
21 the stockholder.

22

23 Q. Ms. Dismukes has recommended that if the expense is
24 approved, the monies collected should be placed in

1 an escrow account and disbursed as the expense is
2 incurred. Is that a practical solution?

3 A. No. If the funds are escrowed, it will take 12
4 months to build up sufficient funds to cover the
5 expense. That almost certainly assures that there
6 will be a year delay in implementing this
7 maintenance program. This will be true for any of
8 the programs for which the escrowing of funds would
9 be required.

10

11 Q. At page 35 of her prefiled testimony, Ms. Dismukes
12 recommends that the cost of the distribution system
13 cleaning program not be allowed because there was
14 only one bid and no signed contract. Do you agree?

15 A. No. In principle, I have no problem with the
16 Commission requiring assurances that the proposed
17 programs are actually done and at a reasonable
18 cost. But disallowing the expense does not
19 accomplish that goal. All it does is assure that
20 the programs are not done because there is no money
21 for them. I realize that we are essentially
22 requesting that the Commission pre-approve these
23 programs by allowing the associated expense to be
24 recovered in rates. But the utility does not have
25 much choice. These programs are expenses; they are

1 not investments which the utility can pre-fund,
2 accrue AFUDC for, and recover the total cost of, in
3 future rates. There is no mechanism to
4 retroactively recover expenses. If they are not
5 included in this case, they will either not be
6 incurred or will be incurred by the utility without
7 compensation.

8
9 Q. At page 36 of her prefiled testimony, Ms. Dismukes
10 makes a similar argument for disallowing the cost
11 of the testing program. Are your comments the same
12 as for the distribution system cleaning program?

13 A. Yes.

14
15 Q. With regard to the testing program, Ms. Dismukes
16 points out that the cost estimate included some
17 triennial testing costs on an annual basis, and an
18 adjustment should be made to correct this. Do you
19 agree?

20 A. Yes. Her observation is correct. Some triennial
21 testing requirements were inadvertently costed on
22 an annual basis. Her proposed adjustment is proper.

23

24

25

1 DISMUKES - INSURANCE EXPENSE

2 Q. At page 36 of her prefiled testimony, Ms. Dismukes
3 has recommended all proforma expense for insurance
4 be disallowed because SGI got only one bid and
5 because it has not maintained any insurance since
6 the last case. Do you agree that this expense
7 should be disallowed?

8 A. No. The fact that SGI has not been carrying
9 insurance does not mean that it should not be
10 carrying it. It has been fortunate for company and
11 customer alike that there have been no liability
12 claims or property losses. SGI needs insurance. It
13 should be required to carry it. Admittedly, the
14 company got only one bid and that was fairly
15 generic. But the company has now pursued a full
16 insurance package from a reputable agent, familiar
17 with the specific needs of water utilities. SGI has
18 contracted for that package and paid the initial
19 premium. Mr. Brown has addressed that in his
20 rebuttal testimony. The cost of that insurance
21 package should be included in this case.

22

23 DISMUKES - TRANSPORTATION ALLOWANCES

24 Q. At page 37 and Schedule 13 of her prefiled
25 testimony, Ms. Dismukes reduces the requested

1 transportation allowance from \$15,600 to only
2 \$3,900. Do you agree with that adjustment?

3 A. No. That allowance is totally unrealistic.
4 Apparently, Ms. Dismukes is so upset because
5 employees have not been keeping mileage records,
6 that she has lost all perspective. In the last rate
7 case, with a 1987 test year, the company owned its
8 vehicles and did not have a Tallahassee office. Yet
9 the allowed transportation expense was \$7,800. If
10 the carrying costs of the vehicles on the book in
11 that year are included, the allowed transportation
12 cost to the utility was \$10,300. Ms. Dismukes
13 would only allow one-third of that.

14
15 SGI no longer owns any vehicles. It depends on its
16 employees to provide their vehicles, even in the
17 field. This puts a burden on the employees but
18 saves the company the initial investment in
19 transportation equipment and the costs associated
20 with operating and insuring the equipment. The
21 transportation allowance is intended to compensate
22 employees for the burden they incur in using their
23 own vehicles. In the MFR, I outlined the monthly
24 allowances being paid by SGI and tested those
25 allowances based on equivalent mileage. From my

1 observation of the activities of employees, the
2 allowances, overall, seemed reasonable. However,
3 that is not the only test of whether the
4 transportation allowance is reasonable. A more
5 direct test is to measure the allowance against the
6 costs the utility would incur if it owned its own
7 vehicles instead of paying an allowance. As a
8 minimum, SGI would need two trucks in the field and
9 one administrative vehicle. On Schedule 1 of my
10 Exhibit 29, I have estimated, very
11 conservatively, the cost the company would incur to
12 own and operate its own vehicles. Based on Ms.
13 Dismukes's concerns regarding the mileage used for
14 the allowance, I cut the estimated mileage back
15 considerably for the equivalent mileage associated
16 with the allowances. Even with that capitulation,
17 and with only the most minimum maintenance, the
18 cost to the company would be about \$18,100, or
19 about \$2,500 more than the amount requested. Also
20 note, that on Schedule 1 of Exhibit 29, I have
21 detailed the components of the \$10,316 the
22 Commission allowed for transportation costs in the
23 1987 test year.

24

1 As I said, Schedule 1 of Exhibit 29 is the
2 minimum cost the company would incur if it owned
3 its own vehicles instead of paying a transportation
4 allowance. If it owned the vehicles, it have to pay
5 for any maintenance over and above oil change and
6 minor repairs. Under the allowance alternative,
7 that is the employee's responsibility. Also, if
8 the company owned the vehicles and only had one
9 administrative vehicle available, it would probably
10 still end up paying some mileage expenses for
11 employees, as only one employee could be using the
12 vehicle at a time.

13

14 Clearly the Commission should allow the requested
15 transportation allowance.

16

17 DISMUKES - MISC. EXPENSES

18 Q. Beginning at page 41 of her prefiled testimony, Ms.
19 Dismukes suggests several adjustments to
20 miscellaneous expenses. Would you please address
21 those suggestions?

22 A. Her first suggested adjustment is to disallow any
23 expense for a cellular phone for Mr. Brown because
24 it is not necessary for him "to function in a
25 (sic) effective and efficient manner." And,

1 necessary or not, it should be paid for by Armada
2 Bay Company. I don't know the basis for Ms.
3 Dismukes's conclusion that the use of a cellular
4 phone does not improve efficiency and
5 effectiveness, but I must disagree. I have
6 personally discussed utility business several times
7 with Mr. Brown via his cellular phone. I found that
8 to be effective and an efficient use of time. I
9 have ridden with him when it was advantageous for
10 him to make utility related calls from the car and
11 to receive utility related messages which he was
12 able to return in a timely manner. On the basis of
13 effectiveness and efficiency, I believe the need
14 for the cellular phone is well supported. Whether
15 the cost for utility related costs should be paid
16 for by SGI or be included in the management fee is
17 debatable. Personally, I do not believe that the
18 management fee was meant to, or should, include
19 this expense. The level of the management fee, as
20 previously discussed, is equivalent to a manager's
21 salary. Only 50% of the phone expense has been
22 allocated to the utility. I think that is too small
23 an allocation, as it has been pretty well
24 established that Mr. Brown now spends nearly all of
25 his time managing the utility.

1
2 Next Ms. Dismukes disallows the annual report fee
3 for the general partner, Leisure Properties, LTD
4 because she doesn't see where the organizational
5 structure benefits the customer. I am not sure what
6 that means. In each rate case, are we now going to
7 evaluate whether the customer is best served by a
8 utility that is organized as a partnership or a "C"
9 corporation or a sub "S" corporation and then make
10 a determination as to whether the expense for
11 filing annual reports with the state should be
12 allowed? What are the criteria? There are certainly
13 no statutory limitations. I would think that Ms.
14 Dismukes would find the \$576.00 fee a good trade
15 off against the 34% income tax that would be passed
16 on the customers if SGI was organized as a "C"
17 corporation.

18
19 Next, Ms. Dismukes has adjusted miscellaneous
20 expense by the amount of \$3,544 for a mix of
21 expenses that the PSC staff identified in its audit
22 as being non-recurring, non-utility or non-
23 supported. In its response to the Staff audit, SGI
24 did not take issue with the adjustment. It will not
25 take issue with it here.

1

2

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11

Finally, Ms. Dismukes has suggested that a non-recurring telephone installation charge be amortized and that charges related to the law office telephone be disallowed. We will not take issue with those adjustments, even though the law office telephone line has probably been used more for utility business than law business in the past couple of years.

DISMUKES - AMORTIZED EXPENSES

12

13

14

15

16

Q. Beginning at page 43 of her prefiled testimony, Ms. Dismukes discusses proposed proforma adjustments for various studies being performed by or about to be performed by SGI. Do you have any remarks on her comments?

17

18

19

A. No. Mr. Brown will address the comments in this area.

20

21

22

23

Q. At page 47 of her prefiled testimony, Ms. Dismukes discusses an adjustment for unaccounted for water. Do you agree with her adjustment?

24

25

A. No. I don't agree with her adjustment or with her understanding of the measurement of unaccounted for

1 water or of her understanding of Commission policy
2 with regard to unaccounted for water.

3
4 First Ms. Dismukes makes a statement that it is her
5 understanding that the Commission usually finds
6 that unaccounted for water in excess of 10% is
7 unacceptable. That is simply not true. In fact, the
8 Commission stated its policy in Order No. 21122,
9 the rate order for this utility's last rate case,
10 as follows: "However, our past decisions in
11 previous cases indicate that a fair average for
12 unaccounted for water might range from 10-20
13 percent." The Commission then allowed a level of
14 15% unaccounted for water for this utility.

15
16 Ms. Dismukes then takes out of context, a single
17 month water audit performed for SGI, to establish
18 the average annual unaccounted for water level for
19 SGI as only 2%. This water audit performed in
20 August, 1993 for SGI by the Florida Rural Water
21 Association (FRWA), was referred to by Mr. Brown in
22 a response to a Staff Interrogatory as king why SGI
23 had an unaccounted for water level of 15% for the
24 1992 test year. That audit showed a corrected,
25 unaccounted for water level of only 2% for the

1 month of July, 1993. Ms. Dismukes apparently chose
2 to assume that the average annual unaccounted for
3 water level for SGI was also 2%. That assumption is
4 incorrect. It was also incorrect to assume that the
5 FRWA format for determining unaccounted for water
6 is compatible with the format used the Commission
7 to evaluate average annual unaccounted for water.

8
9 The Commission looks at the average annual
10 unaccounted water level rather than the level for
11 any single month. One primary reason is that
12 customer billing periods don't coincide with
13 monthly pumping periods. This tends to distort
14 single month readings causing some to be either
15 high or sometimes negative. Although the test year
16 average annual unaccounted was 15%, some months
17 were as low as 2% or as high as 42% The annual
18 average tends to even out monthly disparities.

19
20 As I previously indicated the FRWA method of
21 auditing water loss is not compatible with the
22 Commission reporting method. The format used by the
23 Association includes corrections for errors in flow
24 and customer meters. The Commission format does not
25 consider those corrections or errors. This can

1 make a difference of about 4% when compared to
2 calculations using the Commission format.

3

4 Q. Do you know what the annual unaccounted for water
5 level is for SGI in 1993 as compared to the 1992
6 test year?

7 A. Yes. It is 9.54%

8

9 Q. Should any adjustment be made to chemical and
10 electric expense because unaccounted for water is
11 less in 1993 than in 1992?

12 A. No. As long as the loss stays in the 10-20% range,
13 no adjustments should be made. An adjustment is
14 necessary only if the test year losses were
15 determined to be excessive.

16

17 DISMUKES - RATE CASE EXPENSE

18 Q. Beginning at page 49 of her prefiled testimony, Ms.
19 Dismukes discusses proposed adjustments to
20 estimated rate case expense. Do you agree with her
21 proposed adjustments?

22 A. No.

23

1 Q. Ms. Dismukes proposes that recovery of the
2 consulting fee for your firm be limited to \$25,000
3 rather than \$50,000. Do you agree?

4 A. No. There is no valid basis to limit the fees of my
5 firm to anything other than what the actual cost
6 is. Schedule B-10 of the MFR shows my estimate of
7 fees to be \$50,000. Ms. Dismukes compares this to
8 my estimate of costs in the dismissed Docket No.
9 930770-WU, which was \$25,000 and concludes that we
10 should be held to the first estimate and alleges
11 that their have been no unusual circumstances
12 warranting the change.

13

14 First, the Commission does not authorize recovery
15 simply on the basis of the estimate of cost. It
16 bases recovery on the actual costs reasonably
17 incurred to the hearing plus an estimate of
18 reasonable hearing and post hearing costs.

19

20 Secondly, I revised the estimate of my fees
21 because, based on the intensity of the audit and
22 discovery phase of the dismissed case, it was
23 evident that the case was becoming significantly
24 more complex and would require more of my time. My
25 estimate in Docket No. 930770-WU reflected my

1 expectations of that case at the time of filing of
2 that case. And my estimate in Docket No. 940109-WU
3 reflected my expectations of the case at the time
4 of the filing of this case. These were separate
5 dockets. The second docket is in evidence; the
6 first is not.

7

8 Q. Given that observation, will you please explain the
9 basis for your estimate in dismissed Docket No.
10 930770-WU?

11 A. When I first contracted for this assignment, the
12 intent was to keep my participation at a minimum in
13 order to put as little strain as possible on SGI's
14 cash flow. I therefore anticipated that preparing
15 the MFR and direct testimony would represent the
16 bulk of my participation. Therefore my original
17 estimate left little room for hearing and post-
18 hearing activities. Rate base had been established
19 in the last case. Additions to plant since the last
20 case were fairly well documented. Very few
21 adjustments were made to the book numbers. I had
22 expected that the only real issues would be the
23 proforma adjustments to expenses. In preparing the
24 MFR's I was able to utilize a substantial amount of
25 work already done, but I also took the time

1 necessary to feel knowledgeable about the utility,
2 its operations and books. The initial MFR was
3 prepared quickly and economically.

4

5 **Q. What caused you to increase your estimate for**
6 **Docket No. 940109-WU?**

7 **A. During the audit and discovery phase of Docket No.**
8 **930770-WU, it became evident that both the**
9 **Commission staff and the OPC were dedicating**
10 **enormous blocks of time to reviewing even the**
11 **smallest expenditures of this utility. Apparently,**
12 **because of the controversy surrounding this utility**
13 **since the last case, the parties were exercising**
14 **extreme caution and making sure there were no**
15 **surprises. It became apparent to me that**
16 **substantially more time was going to be necessary**
17 **on my part, to prepare rebuttal and to work with**
18 **S&I in helping them prepare for the hearing. I**
19 **therefore revised my estimate of fees to**
20 **conservatively reflect this increased**
21 **participation.**

22

23

1 Q. Ms. Dismukes states that she believes the utility
2 should have obtained a firm bid. Would you have
3 provide a firm bid for a rate case?

4 A. No. And I don't know of any other consultant that
5 would work under a firm bid for an applicant in a
6 matter requiring litigation before this Commission
7 and in which the OPC is an intervenor.

8
9 Q. Why would you not work under a firm bid in a case
10 being litigated?

11 A. Because the applicant has no control over the
12 circumstances that cause costs to increase. A firm
13 bid may be workable with regard to preparing the
14 MFR and direct testimony. But that is all. The
15 costs for the rest of the case are controlled by
16 intervenors. The applicant cannot control the
17 amount and intensity of discovery, the depth of
18 intervenor testimony or the need for rebuttal.
19 These are all factors requiring a response.

20
21
22
23
24

1 Q. Ms. Dismukes says that the failure of a utility to
2 obtain firm bids does nothing to encourage
3 consultants to hold down their fees. Is that
4 correct?

5 A. No. It sounds as if Ms. Dismukes assumes that
6 clients give their consultants a free reign to just
7 run up costs. Maybe that is how she operated when
8 she was a consultant. That is not what I do. I am
9 very conscious of the client's costs and make every
10 effort to keep them down. In this particular case,
11 I have kept travel to a minimum, and where travel
12 is necessary I have tried to time it to coincide
13 with other work so costs can be shared. I am well
14 aware of my client's ability to pay, or lack
15 thereof. But there is only so much you can do,
16 without jeopardizing the client's rights.

17
18 Q. At page 52 of her prefiled testimony, Ms. Dismukes
19 recommends that 3/4th's of the fees for Rhema
20 Business Services be disallowed because they are
21 duplicative. Do you agree?

22 A. No. Ms. Dismukes estimates that 75% of the Rhema
23 fees were duplicative. I estimate that 25% were
24 duplicative or not pertinent. My estimate is based
25 on an examination of the bills. I include \$14,402

1 of Rhema's fees in this case. That is the portion
2 that is pertinent and not duplicative. I have
3 prepared Schedule 2 of Exhibit 29, which
4 includes a summary of the Rhema charges included in
5 this case, which were incurred prior to filing, and
6 copies of Rhema's bills with the charges related to
7 the rate case and/or included in this case,
8 separately identified.

9
10 Q. At page 53 of her prefiled testimony, in support of
11 her charge of duplicated work, Ms. Dismukes says
12 you obtained an electronic version of Rhema's MFR
13 but did not use it because you preferred your own
14 format and style. Is she correct?

15 A. Yes. I did obtain a diskette with the MFR
16 schedules. The diskette had been prepared by Rhema
17 for a 9/30/92 test period. It had been updated by
18 SGI through 12/31/92. She is also correct in that
19 I chose not to use it, or at least not to use
20 portions of it. But it was not just because I
21 preferred my own style. I told OPC that I did not
22 use some of the schedules because they were not
23 interactive. My format is set up for interactive
24 schedules.

25

1 Q. What do you mean by interactive and why does it
2 matter?

3 A. Many of the MFR schedules are interdependent. A
4 change made in one schedule will effect numbers in
5 several other schedules. For example, if you
6 change the dollar amount of a plant item in a Plant
7 in Service schedule, it effects the rate base
8 summary, depreciation expense, accumulated
9 depreciation, used and useful, return and capital
10 reconciliation, taxes, net income, the revenue
11 requirement and the rate design. If the MFR
12 spreadsheet is designed to tie all of these
13 schedules together electronically, then any change
14 in one schedules flows through to the others.
15 Therefore, additions, changes and corrections can
16 be made without a large investment in time. And
17 many changes may be made before the final MFR is
18 prepared. If the schedules are not interactive,
19 then calculations between schedules must be done
20 separately each time a change is made. This is time
21 consuming and prone to error. The diskette
22 provided to me used the schedule format created by
23 the PSC but the schedules were not tied together.
24 It was basically useless. The minimal time I spent
25 copying numbers to my format paid for itself ten

1 times over compared to having used the original
2 format and calculating the change in each schedule
3 every time a change was made in one schedule. That
4 truly would have been a waste of time and money.
5

6 Q. Did you have to copy the numbers for every
7 schedule?

8 A. No. Only for the interactive schedules. The
9 historic schedules, such as those listing plant
10 additions since the last case, were used as is, as
11 were some of the capital, engineering and rate
12 schedules. I made good use of the work previously
13 done by Rhema and updated by SGI.
14

15 Q. Was there any duplication in your work in going
16 from the dismissed docket to the present one.

17 A. There was some. After all both the dismissed docket
18 and the present one had the same test year. The
19 primary work that was done for this case was to
20 update the proforma expenses to reflect all of the
21 costs necessary to provide service to current
22 customers. Other than that, a few corrections
23 resulting from the original audit were made. Also,
24 the direct testimony had to be expanded. My total
25 cost to make all of those changes was \$5,329.

1 Probably no more than 40% of that cost was related
2 to chores that I would consider duplicative.

3

4 **Q.** At page 55 of her prefiled testimony, Ms. Dismukes
5 states that some of the legal services for this
6 case provided by Mr. Brown should be disallowed. It
7 should be considered as part of the expertise that
8 he brings to the utility as a manager/owner. Do you
9 agree?

10 **A.** No. Ms. Dismukes' proposal implies that an owner
11 should be willing to work for nothing or below
12 market. But why? An owner brings capital. He is
13 compensated through return on that capital. If he
14 also brings time and expertise, but is not
15 compensated, the effective rate of return on
16 capital is reduced by the loss of pay for services.
17 Perhaps what Ms. Dismukes says would make sense in
18 a non-regulated market where there is an
19 opportunity to earn a higher rate of return that
20 substitutes for compensation for lost pay. But no
21 such opportunity exists here. If an owner performs
22 a service that would have had to have been
23 performed by someone else, he is entitled to
24 equivalent pay.

25

1 Q. Have you prepared an exhibit of the actual rate
2 case expenses incurred to date?

3 A. Yes. Schedule 3 of Exhibit 29 includes a summary
4 sheet and copies of all invoices available through
5 the date I prepared this rebuttal testimony. The
6 expenses incurred to date are \$ 83,575. An update
7 of actual expenses and an estimate of expenses
8 remaining through the conclusion of this case will
9 be provided at the hearing.

10

11 DISMUKES - GENERATOR REPAIR

12 Q. Next, at page 56, Ms. Dismukes recommends
13 disallowing a generator repair cost because the
14 generator was replaced. Do you agree with that
15 adjustment?

16 A No. The repair had nothing to do with the
17 replacement of the generator. The generator was
18 replaced because it was struck by lightning. The
19 repair had nothing to do with the lightning damage.
20 It was a normal repair, the type of which can be
21 expected to recur, regardless of whether the
22 generator is new.

23

24

25

1 DISMUKES - ORIGINAL COST

2 Q. Beginning at page 56 of her prefiled testimony, Ms.
3 Dismukes addresses the issue of the original cost
4 of the water system as determined in Docket No.
5 871177-WU. Are you familiar with the premise for
6 her position?

7 A. Yes. She points out the Commission determined the
8 original cost of the system as of December 31,
9 1987, based on an original cost study, because of
10 the lack of detailed records. She also points out
11 that the Commission left the door open to
12 reconsider its conclusions. The Commission, in
13 Order No. 21122 stated, "Further, if at any time in
14 the future, evidence is produced which reflects
15 that our analysis of SGI's investment is incorrect,
16 we may, of course, readdress the issue of SGI's
17 level of investment."

18

19 Q. Does Ms. Dismukes claim to have evidence to support
20 a lower investment in rate base than that
21 previously determined by the Commission?

22 A. Yes, she does.

23 Q. Have you reviewed the "evidence" to which she
24 refers?

25 A. Yes, I have.

1 Q. Would you please comment on that "evidence"?

2 A. Yes. Ms. Dismukes reviewed several documents which
3 she claims indicate that the cost of the water
4 system is less than previously determined. She has
5 examined a 1979 financial statement of Leisure
6 Properties, LTD, the entity from which SGI
7 purchased the system. She also examined an
8 affidavit of Ms. Barbara Withers, including
9 attachments, from Docket No. 871177-WU. That
10 affidavit was a reaffirmation of the testimony she
11 had given in the hearing and a reconciliation of
12 the financial statements and federal tax returns of
13 SGI and Leisure Properties. Ms. Dismukes also
14 examined an engineers appraisal of the water system
15 as July, 1978, prepared by William Bishop, P.E.

16

17 Q. Is the first document, the Leisure Properties 1979
18 financial statement a new source which the
19 commission has never considered?

20 A. No. OPC requested the Commission take judicial
21 notice of that statement and of related income tax
22 returns in Docket No. 871177-WU. The Commission
23 acted upon OPC's motion and took administrative
24 notice of the documents. In so doing, the
25 Commission specifically stated that "administrative

1 notice does not include recognition of the truth of
2 the statements in the copies of the 1979 Federal
3 Income Tax Return and Financial Statements of the
4 Leisure Properties, LTD."

5

6 Q. Ms. Dismukes is asking the Commission to accept
7 certain numbers from that financial statement as a
8 basis for part of the original cost of the water
9 plant. Should the Commission accept those numbers?

10 A. No. The Commission should reaffirm its decision not
11 to rely on numbers from this statement, as it has
12 not recognized the truth of the financial
13 statement.

14

15 Q. So this is not new evidence?

16 A. No. In its Motion for Reconsideration, filed May 9,
17 1989, in Docket No. 871177-WU, OPC appealed to the
18 Commission to accept numbers from this very same
19 Leisure Properties financial statement as a basis
20 for the cost of the water system. The Commission,
21 in Order No. 21741 reaffirmed its opinion from
22 Order No. 20913 that administrative notice "does
23 not include recognition of the truth of the
24 statements." The Commission then stated that the
25 truth of the statements cannot be relied on to

1 support OPC's position. Nothing has changed. OPC
2 is just making the same argument to a different
3 panel of commissioners.
4

5 Q. Does the second document, the affidavit of Ms.
6 Withers, provide any information not formerly
7 considered by the Commission?

8 A. No. The second document is an affidavit of Ms.
9 Barbara Withers, an accounting witness for SGI,
10 given after the close of the hearings in the last
11 case. During the hearing, Ms. Withers provided a
12 reconciliation of the financial statements and tax
13 returns of SGI. After the hearing, OPC presented
14 Ms. Withers with copies of the financial statements
15 and tax returns of Leisure Properties. These are
16 the same documents for which judicial notice was
17 sought and administrative notice granted. Ms.
18 Withers' affidavit reconciled the tax returns of
19 SGI and Leisure Properties for the purposes of
20 affirming that the cost of the water system was not
21 written off for tax purposes. All of the numbers
22 used by Ms. Withers in her affidavit were either
23 made part of the record during the hearing or were
24 administratively noticed, but not recognized as
25 true statements. Again, Ms. Dismukes is rearguing

1 the very same facts and information that the
2 Commission considered in Docket No. 871177-WU.

3

4 Q. Does Ms. Dismukes's argument have merit?

5 A. No. Ms. Dismukes is arguing that numbers from a
6 financial statement, unsupported by detailed
7 records, be allowed as the basis for original cost.
8 Not only that, she is arguing that numbers from a
9 financial statement of an entity other than the
10 utility be accepted as the basis for part of the
11 original cost of the plant of the utility. In
12 Docket No. 871177-WU, the Commission would not
13 accept the utility's book plant balance without
14 detailed support. Why should it accept the book
15 balance of a different entity without support? SGI
16 would have been willing, and is still willing, to
17 accept the book balance on SGI's books at December
18 31, 1987, of \$2,820,891. In fact, that is what Ms.
19 Withers' affidavit supports. But Ms. Dismukes very
20 cleverly "lifts" one number from Ms. Withers'
21 affidavit, takes it out of context, as pointed out
22 by Ms. Withers in her rebuttal testimony, and
23 attaches it to another unsupported number from the
24 financial statement of a totally different entity.

1 She then tries to sell the Commission on the
2 proposition that $2 + 2 = 3$.

3

4 Q. If the Commission accepts Ms. Dismukes' premise
5 that when underlying documents are not available,
6 it should rely on contemporaneous financial
7 statements, do you have any suggestions as to how
8 the Commission should implement that policy?

9 A. Yes. First it should increase the plant in service
10 at 1987 from the \$2.2 million allowed in Docket No.
11 871177-WU, to \$2.8 million, the book value on SGI's
12 books which were reconciled by Ms. Withers.
13 Second, it should recognize as plant in service in
14 the test year, all of the amounts which the Staff
15 Audit Report claims to be unsupported by detailed
16 checks or invoices. These amounts are included on
17 the contemporaneous books of the utility.

18

19 Q. What is the third document introduced by Ms.
20 Dismukes?

21 A. The third document is an engineering appraisal of
22 the replacement cost of the water system, as of
23 July, 1978. It was prepared by firm of William M.
24 Bishop, Consulting Engineers, Inc. for Leisure
25 Properties, LTD a year and a half before the

1 utility assets were sold to St. George Island
2 Utility Company, LTD.

3

4 Q. Has this appraisal been presented as evidence in
5 any other proceeding?

6 A. No. It has not.

7

8 Q. Has Mr. Bishop, or any member of his firm sponsored
9 this appraisal in this proceeding or any other
10 proceeding?

11 A. No. The only entry of this document into the record
12 of any formal proceeding is as an exhibit of Ms.
13 Dismukes.

14

15 Q. What is the significance of this appraisal?

16 A. It doesn't have any. As I pointed out, it was
17 prepared for Leisure Properties, LTD. It was
18 prepared a year and a half before the utility was
19 sold. It has never been subjected to cross
20 examination. The first valuation against which it
21 can be checked was that performed at the time of
22 sale, a year and a half later. According to the
23 IRS, the depreciable tax basis at that time, as
24 confirmed by Ms. Withers, was \$2.2 million.

25

1 DISMUKES - RATE BASE GROWTH ADJUSTMENTS

2 Q. At page 66 of her prefiled testimony, Ms. Dismukes
3 recommends some adjustments to rate base to change
4 the 1992 test year to a 1993 test year. Do you
5 agree that the rate base should be adjusted for
6 that reason?

7 A. No. I previously discussed this matter at page 17
8 of my rebuttal testimony in response to Ms.
9 Dismukes' proposal to adjust test year revenues and
10 expense to 1993 levels. This case was filed with a
11 1992 test year. The Commission approved a 1992 test
12 year. OPC is ignoring that fact and is proposing a
13 1993 test year. As previously stated, changing the
14 test year in the middle of a proceeding is a
15 procedure that would never be allowed if proposed
16 by the applicant. It should not be allowed when
17 proposed by OPC.

18

19 Q. Ms. Dismukes recommends \$10,875 associated with a
20 future storage tank be removed from plant in
21 service. Do you agree?

22 A. Yes. As Ms. Dismukes indicated this amount has
23 already be moved to CWIP. PSC Staff made this
24 recommendation in Exception No. 12 of the Staff
25 audit and we did not take exception to it.

1 Q. Ms. Dismukes recommends adjusting accumulated
2 depreciation to reflect the Commission depreciation
3 rates. Do you agree?

4 A. Yes. As pointed out in Exception No. 15 of the PSC
5 Staff audit, in the last case the Commission
6 approved the use of guideline depreciation rates
7 for a Class B utility. We take no exception to
8 adjusting accumulated depreciation to reflect those
9 rates.

10

11 It should be noted that neither of these
12 adjustments have anything to do with shifting test
13 years. They are corrections to the 1992 test year.

14

15 Q. Ms. Dismukes proposed to include 1993 CIAC
16 additions do you agree?

17 A. No. For reasons previously discussed, I do not
18 agree to any adjustments to change test years. 1993
19 CIAC additions should not be recognized in 1992.

20

21 DISMUKES - CIAC ADJUSTMENTS

22 Q. At page 69 of her prefiled testimony, Ms. Dismukes
23 proposes that \$65,000 received by Mr. Brown and
24 affiliates other than the utility, and advanced to

1 SGI for construction purposes, be considered as
2 CIAC. Do you agree with that proposal?

3 A. Definitely not. Ms. Dismukes' interpretation of a
4 law suit settlement agreement that resulted in the
5 availability of those funds is just wrong. SGI
6 disagrees that the \$65,000 advanced under the
7 referenced agreement can in any way be construed as
8 a contribution to the utility.

9
10 In her prefiled testimony at page 68, Ms. Dismukes
11 quotes part of Paragraph 6 of the settlement
12 agreement. Paragraph 6 in its entirety, states:

13
14 6. The Association will pay Brown and
15 affiliates the sum of \$100,000.00 as follows:
16 \$20,000 upon the closing of this agreement;
17 \$10,000 on November 1, 1992; \$10,000 on
18 December 1, 1992; \$10,000 on January 1, 1993;
19 \$20,000 on March 1, 1993; \$5,000 on April 1,
20 1993; \$5,000 on May 1, 1993; \$5,000 on June 1,
21 1993; \$5,000 on July 1, 1993; \$5,000 on August
22 1, 1993; and \$5,000 on September 1, 1993.
23 These funds will be used as follows: (a)
24 \$35,000 will be paid to Stanley Bruce Powell
25 for his legal fee in representing Brown and

1 affiliates in the above referenced litigation;
2 and (b) \$65,000 will be advanced to the St.
3 George Island Utility Company, Ltd. to be used
4 strictly for capital improvements to enhance
5 and increase the flow and pressure of the St.
6 George Island water system, including the
7 installation of a new altitude valve and high
8 speed turbine pump pursuant to the
9 recommendations of Baskerville-Donovan, the
10 utility's engineers.

11

12 Reading the paragraphs referenced by Ms. Dismukes,
13 in the context of the entire Agreement, it is clear
14 that the Agreement intends the \$65,000 to be
15 advanced and not contributed by Brown and
16 Affiliates to the utility so that it may move
17 forward with capital improvements that will
18 alleviate flow and pressure problems. There is no
19 implication that the money be given to SGI.
20 Certainly, if the intention was to give money to
21 the utility, the agreement would have said \$65,000
22 will be "given" or "donated" or "contributed". The
23 parties to this agreement had knowledge of the
24 terms available for their use in formulating the
25 agreement. Further, Mr. Brown, a signatory of the

1 referenced Agreement avers that the intent of the
2 Agreement was for Brown and Affiliates to advance
3 and not donate funds to the utility, so that it
4 could move forward with capital improvements. By
5 any stretch of the imagination, an advance is not
6 a contribution.

7
8 Both the common and legal definitions of the term
9 "advance" support SGI's contention that an advance
10 is not a contribution. Please note the following
11 definitions:

12
13 advance - to furnish or supply (money or goods) on
14 credit. a sum of money or quantity of
15 goods furnished on credit. The Random
16 House Dictionary of the English Language,
17 College Edition, 1968.

18
19 advance - to loan; to furnish capital in aid of a
20 projected enterprise, in expectation of
21 return from it; to furnish money for a
22 specific purpose understood between the
23 parties, the money or sum equivalent to
24 be returned; furnishing money or goods
25 for others in expectation of

1 reimbursement. Black's Law Dictionary,
2 Revised Fourth Edition, 1968.

3
4 advances for construction - This account shall
5 include advances by or in behalf of
6 customers for construction which are to be
7 refunded either wholly or in part. 1984
8 Uniform System of Accounts for Class
9 B Water Utilities.

10

11 It should also be noted that the flow of funds
12 outlined in the Agreement would result in no more
13 than \$5,000 being available during the 1992 test
14 period. That is because only \$40,000 was to be
15 received by the end of 1992, and of that amount,
16 the first \$35,000 appears committed to payment of
17 Stanley Bruce Powell. According to the Agreement,
18 the utility did not have access to the full \$65,000
19 advance until September 1, 1993. Based on the flow
20 of funds outlined in the Agreement, and recognizing
21 that we are using a beginning/ending balance
22 average test year, the impact would be to reduce
23 the 1992 test year rate base by \$2,500 if the funds
24 now shown as part of loans from G. Brown are

1 separated out and treated as a repayable non-
2 interest bearing advance.

3

4 Q. Ms. Dismukes proposes a \$44,440 adjustment to CIAC
5 for fees received in 1991 but not booked until
6 1993. Do you agree with that adjustment?

7 A. Yes. That is a proper adjustment. That CIAC should
8 be reflected for the full 12 months of the test
9 year.

10

11 Q. Do you have any further comments regarding the
12 direct testimony of Ms. Dismukes?

13 A. Yes. I have a comment regarding an error in her
14 Schedule 27, which is a summary of her adjustments
15 and the impact on revenue requirements. In the OPC
16 Adjustment Column she shows an adjustment to
17 Operation & Maintenance Expense of \$238,440. On
18 her Schedule 25 she details the components of the
19 adjustments to expense. The total of adjustments
20 related only to O&M is \$210,695. The difference
21 between the amounts on Schedules 25 and 27 is
22 \$27,745 which, as shown on Schedule 27, is the
23 amount of her adjustment to amortization of
24 extended studies and maintenance projects. The
25 adjustment for amortization has been double counted

1 and her adjustments to O&M are therefore overstated
2 by \$27,745.

3
4 Finally, I have a general comment regarding the her
5 overall approach to adjusting the expenses for this
6 utility that shows a lack of sensitivity to the
7 real world situation. SGI came out of its last rate
8 case severely reprimanded with regard to the status
9 of construction, the status of maintenance, the
10 status of record keeping and reporting. The
11 Commission and FDEP mandated a flushing program, a
12 leak detection program, specific maintenance
13 programs, a cross connect control program and
14 additional testing. There was recognition at that
15 time that management and staffing was inadequate in
16 quantity and quality. SGI has substantially
17 complied with these mandates, but as the Commission
18 knows, it has taken a long time to do it. The
19 reason is very simply that the staffing and funds
20 necessary to accomplish this is in a timely manner
21 have not been available. If one examines the change
22 in expenses from 1987 to the test year, they will
23 see that unadjusted expenses increased 124% since
24 1987. This compares to an increase in the combined
25 customer - CPI index of 123% for the same period.

1 In other words, SGI has maintained the status quo
2 since 1987. And the status quo was and is
3 inadequate. The status quo means SGI will continue
4 to be inadequately staffed and inadequately funded
5 and will most likely continue to have a borderline
6 operation. The proforma level of expenses, if
7 granted, will allow SGI to climb out of a hole,
8 hire and retain a competent staff, and initiate
9 maintenance programs as needed rather than in
10 response to citations. The percent increase of the
11 requested expenses is high compared to the 1987
12 level, but it are necessary if the utility is to
13 operate better than it did in 1987.

14
15 What has this to do with the OPC adjustments? OPC
16 has recommended O&M expenses for a 1993 growth
17 adjusted test year, of \$300,328. This is only 139%
18 higher than the 1987 level of expenses and compares
19 to a 141% increase in the combined customer - CPI
20 index between 1993 and 1987. So, in addition to
21 ignoring SGI's plea to dig itself out of a hole,
22 OPC's recommended level of expenses do not even
23 allow SGI to keep up with the status quo. OPC has
24 expressed several times in its testimony, its
25 concern that SGI will fail to perform. The level of

1 expenses it has recommended will result in a self
2 fulfilling prophecy.

3

4 GAFFNEY - STAFF AUDIT

5 Q. I would now like you to direct your attention to
6 the prefiled testimony of the Commission staff
7 witness Nancy Gaffney. Have you reviewed her
8 testimony?

9 A. Yes I have.

10

11 Q. Do you have any comments regarding Ms. Gaffney's
12 testimony?

13 A. Yes. Miss Gaffney's testimony sponsors the staff
14 audit report. However, I believe the report she has
15 attached to her testimony is incomplete.

16

17 Q. Why is that?

18 A. The report does not contain the timely filed
19 response of the utility. When the staff completes
20 an audit report, the utility is formally notified.
21 Commission procedure is for the Division of Records
22 and Reporting to forward the report to the utility
23 for comment. The utility is told that any responses
24 filed with the office of Records and Reporting will
25 be forwarded to the staff analyst for consideration

1 in the preparation of a recommendation. In this
2 case, the audit was so detailed that SGI requested,
3 and was granted, an extension for the time to
4 respond. Schedule 4 of Exhibit 29 contains
5 copies of the notice from the Division of Records
6 and Reporting, the request for an extension and the
7 letter granting the extension.

8
9 I consider the utility's response to be an integral
10 part of the audit report. I have therefore included
11 a copy of the utility response to the audit as
12 Schedule 5 of Exhibit 29. The response speaks for
13 itself.

14
15 SGI responded to all of the audit exceptions. In
16 many cases it agreed with the exceptions. But more
17 importantly, it provides a positive response to
18 many of the exceptions that Ms. Gaffney has
19 summarized in her testimony. Our response includes
20 copies of supporting documents for many of the
21 instances which Ms. Gaffney says support was not
22 available. Our response includes rebuttal to the
23 allegations regarding the condition and maintenance
24 of records.

25

1 The staff spent an extraordinary amount of time
2 compiling this audit. The exceptions it compiled
3 significant and warrant a review of the utility's
4 response.

5

6 Q. You stated that the staff spent an extraordinary
7 amount of time compiling its audit. How much time
8 did it spend?

9 A. According to its time records, over 1200 hours.
10 That equates to over seven months at 40 hours per
11 week. And I would guess that additional time was
12 spent that may not have been recorded. During all
13 of that time, SGI staff had to be available to
14 provide information and responses to staff
15 inquiries, to provide information and responses to
16 OPC personnel who were auditing at the same time,
17 and to carry out the day to day business of the
18 utility, as well as reasonably possible under the
19 circumstances. I know that the staff of SGI
20 sometimes spent nights and weekends compiling
21 information for staff so that it could carry on
22 normal business during the day.

23

24

1 Q. I note that Ms. Gaffney commented several times
2 about the lack of support for plant on the
3 utility's books. Just how much "lack of support"
4 was there?

5 A. Not a great deal. The staff audited 100% of plant
6 additions since 1987, the test year for the last
7 case. SGI books show approximately \$592,000 in
8 plant additions, including proforma plant, during
9 that period. The Staff audit shows that some, but
10 not all, of the documentation was lacking on about
11 13% of plant additions, or about \$75,000. In SGI's
12 response to the audit report, it provides support
13 for all but \$13,000. Despite all of the allegations
14 about SGI's poor record keeping, it has documented
15 98% of its plant additions.

16
17 Q. What about test year expenses? Did the staff find
18 much wrong with those?

19 A. No. SGI had \$280,000 in per book O&M expenses. The
20 audit report proposes adjustments of \$14,000 or 5%.
21 Most of these are for lack of adequate support or
22 because they are non-recurring.

23

1 Q. Do you have any other specific comments that are
2 not covered in Schedule 5 of Exhibit 29, SGI's
3 response to the audit report?

4 A. I think it is noteworthy that at page 7 of her
5 prefiled testimony, Ms Gaffney says that SGI is in
6 violation of the Limited Partnership Agreement
7 because it does not have insurance, Ms. Dismukes at
8 page 37 of her prefiled testimony, recommends
9 disallowing all proforma insurance expense.

10

11 Q. I note that you are sponsoring SGI's response to
12 the Staff audit. Are you the author of all of the
13 responses?

14 A. No. The responses were prepared by me, Mr. Brown,
15 Ms. Drawdy and Ms. Withers. All are witnesses in
16 this case, are co-sponsors of Schedule 5 of Exhibit
17 29, and are available to answer questions.

18

19 ABBOTT - CONTRIBUTIONS FOR HYDRANT ADDITIONS

20 Q. Please turn now to the testimony of staff witness
21 Abbott. At page 3 of his prefiled testimony, Mr.
22 Abbott provides support for all of the
23 contributions made to SGI for hydrant additions
24 requested by the St. George Island Volunteer Fire

1 Department (SGIVFD). Do you take issue with that
2 accounting?

3 A. No. We are in agreement with Mr. Abbott's
4 accounting for contributions from 1988 forward. And
5 we do not dispute the contributions paid in 1986
6 and 1987. Based on the information obtained by SGI,
7 staff auditors and Mr. Abbott, we recognize
8 \$29,758.59 in contributions which should be
9 reflected as CIAC.

10

11 Q. Do you propose any other adjustments?

12 A. Yes. These contributions, when collected, were
13 recorded as misc. revenue and the cost of
14 installing the hydrants was expensed. If these
15 contributions are to be recorded as CIAC, then
16 offsetting adjustments must be made to plant in
17 service, otherwise rate base will be understated.
18 I have determined that an adjustment of \$13,423.00
19 should be made to plant to recognize hydrant
20 additions for which contributions have been
21 received, but for which plant was not debited. This
22 takes into consideration the facts that (1)
23 hydrants installed prior to 1988 are already
24 recorded as plant via the original cost study; (2)

1 and only \$2,400 in hydrant additions are reflected
2 on the books since 1987.

3

4 ABBOTT - FIRE FLOWS

5 Q. At page 5 of his prefiled testimony, Mr. Abbott
6 states that 1000 gpm of fire flow, on a continuous
7 basis, would be necessary in order to achieve
8 adequate fire protection. Is a reasonable
9 requirement?

10 A. No. No utility could afford the investment
11 necessary to provide fire flows of 1000 gpm on a
12 continuous basis, and I am not aware of any
13 governmental agency or any ISO standard requiring
14 such flows.

15

16 This Commission has typically recognized flows of
17 500 gpm for two hours as adequate for single family
18 housing. Proposals for the used and useful rules
19 now being considered by the Commission recognize
20 flows of 500 gpm for single family housing and 1500
21 gpm for multifamily and commercial areas, again, to
22 be sustained for two hours. It is also considering
23 the need to meet flows for three hours in those
24 special cases requiring flows of 3000 gpm or
25 higher. I am not arguing with Mr. Abbott's opinion

1 as what he believes is necessary. I only want to
2 point out that it is not economically feasible to
3 provide continuous flows and that the Commission
4 has neither required nor approved the costs
5 associated with such a requirement.

6

7 Q. Does that conclude your rebuttal testimony?

8 A. Yes it does.

1 MR. PFEIFFER: We would offer Mr. Seidman for
2 cross.

3 CHAIRMAN DEASON: Ms. Sanders?

4 MS. SANDERS: No questions, Commissioner.

5 CHAIRMAN DEASON: Mr. McLean?

6 MR. McLEAN: Mr. Commissioner, with respect to
7 Exhibit 30, I think it's customary to allow us some time to
8 examine that exhibit before we cross on it. Of course, we
9 just got it this morning, and that's the nature of the
10 process. We don't object to that, but we would like to
11 reserve the right to cross Mr. Seidman, if he is, indeed,
12 sponsoring that exhibit a little later in the case when we
13 have had a chance to read it and digest it.

14 MR. PFEIFFER: And we would not object to that,
15 Mr. Chairman.

16 CHAIRMAN DEASON: Very well. You will be given
17 that latitude.

18 MR. McLEAN: Thank you, sir.

19 CROSS EXAMINATION

20 BY MR. McLEAN:

21 Q Good morning, Mr. Seidman.

22 A Good morning, Mr. McLean.

23 Q Item 6 sets out a point of disagreement between
24 our office and the Utility as to the \$64,000 advance CIAC.
25 The point of this agreement, in fact, is that we think its

1 CIAC and you all don't, is that correct?

2 A That's correct.

3 Q It's also Audit Exception No. 19, is that right?

4 Let me refer you, to refresh your memory, to Page 29 of
5 Exhibit 5 of your -- oops. I'm sorry, that is not the one.
6 I'm sorry. Don't let me refer you to that just yet. That
7 is the next line of questions.

8 With respect to that -- it's in your rebuttal
9 testimony, Mr. Seidman?

10 A Yes.

11 Q You responded to audit number -- Exception 19 on
12 Page 29 and 30 of Schedule 5. Now, the easy way to find
13 that, for those who might want to have a look, is to take
14 Mr. Seidman's testimony and count from the back, and pretty
15 soon you will find some numbered pages in the 30s and 40s,
16 and so forth, and there is Page 29 and 30. At the top of
17 Page 29 it says, "Response to Audit exception No. 19, and I
18 believe Mr. Seidman has that.

19 A I have it.

20 Q Now, this is some money, \$65,000 -- I said 64, in
21 fact, it's \$65,000 -- that resulted from some sort of
22 settlement in a lawsuit between the -- some sort of
23 association of customers, the property owners association,
24 or whatever, and Mr. Brown and some of his entities, is that
25 correct?

1 A That's correct.

2 Q Do you know who the parties were with any
3 precision?

4 A Not without looking back at the document.

5 Q Okay. You understand then, or do you understand,
6 that the property owners association was either plaintiff,
7 or cross-plaintiff, or defendant, and cross-defendant,
8 right?

9 A Yes.

10 Q And that Mr. Brown and his affiliates were on the
11 other side as plaintiffs, or cross-plaintiffs, and
12 defendants, or they each sued each other, is that right?

13 A Yes.

14 Q Okay. Now, in this settlement, I am interested to
15 know, if you know whether there were any representations
16 made by Mr. Brown or any of his affiliates with respect to
17 improvements that would be made by the utility to benefit
18 the customers. Do you know whether there were such
19 representations?

20 A I know only of what was mentioned in the document
21 itself.

22 Q Well, do you know what it says?

23 A It says that \$65,000 would be advanced to the
24 Utility to be used strictly for capital improvements to
25 enhance and increase the flow and pressure of the St. George

1 Island water system, including installation of new altitude
2 valve, high speed turbine pump, pursuant to recommendations
3 of their engineer.

4 Q Okay. Now, what document are you reading from,
5 Mr. Seidman?

6 A I'm reading a quote from the settlement.

7 Q Is that in your testimony?

8 A Yes. I'm looking at Page 84 of my testimony,
9 beginning at Line 2, where I have it quoted.

10 Q Okay. Now, the term "strictly" there, to be used
11 strictly, upon whom, if anyone, does that impose any
12 restriction?

13 A It's restrictions on the Utility.

14 Q Well, it says that the money will be used strictly
15 for that purpose, right? Now, my impression is that's a
16 representation from the Brown and affiliate side of the
17 table to the other side of the table. Do you think that's a
18 fair characterization?

19 A Well, it is a settlement, and it represents what I
20 believe would be the conditions acceptable to both parties.

21 Q Okay. And the customers would get specific
22 utility assets according to the settlement, is that right?

23 A They would get improvements to the system.

24 Q Yes, sir. And the Brown and affiliate side would
25 get \$100,000, right?

1 A They got \$100,000 from the settlement.

2 Q Yes, sir. Now, 35 of that is not particularly at
3 issue here because that was used to pay Mr. Powell, is that
4 right?

5 A That's correct.

6 Q Okay. Now, reading from the audit response -- did
7 you prepare the audit response, by the way?

8 A Yes, I did.

9 Q Okay. Let's look to the audit response. It is
10 your position here that it was a loan, or an advance, and
11 should not be treated as contributions?

12 A That's correct.

13 Q Okay. Down at the bottom you say, just out of
14 curiosity, the last paragraph you say, "Both Brown and
15 affiliates have all stated." Do you see that line? It's
16 the second sentence in the last paragraph.

17 A Yes, I see that.

18 Q Okay. Now, when you say, "Both Brown and
19 affiliates have all stated," I'm curious to know how many
20 voices there were?

21 A I have no idea. I'm using the terminology, I
22 thought, from the agreement.

23 Q Okay. Is it reasonable to believe that that was
24 Mr. Brown's voice speaking through one of his various
25 affiliations or affiliates?

1 A I don't know.

2 Q Well, you are testifying here. You advance the
3 Audit Exception No. 19, and that is your company's or your
4 client's view of the audit exception, isn't that right?

5 A Could you repeat that?

6 Q Sure. You're speaking for the Utility here when
7 you say, "Both Brown and affiliates have all stated that the
8 intent was for a loan or advance, not as a gift or a
9 contribution," right?

10 A I'm speaking for the Utility, interpreting this
11 agreement that I have read. That does not have the Utility
12 as a party.

13 Q I understand that, but it says, "Both Brown and
14 affiliates have all stated." Well, it is pretty important
15 to know which affiliates might have made that statement,
16 because I think you have already testified that the Utility
17 was bound by that term "restriction" or "strictly," rather.
18 And I have the impression that the Utility was one of those
19 affiliates which was doing the speaking, and I would like to
20 know if you know something to the contrary?

21 A I would not have intended the Utility to be one of
22 those speaking, looking at the agreement, since the Utility
23 is not one of the parties to the agreement. When I talk
24 about Brown and affiliates here, it's Brown and affiliates
25 as defined in the agreement.

1 Q I see. But the affiliates are Brown, and Brown is
2 Brown, isn't that right?

3 A Well, I really don't know. I mean, it lists the
4 affiliates, and it talks about Gene D. Brown, and in
5 quotation it identifies that as Brown. It talks about
6 Leisure Properties. It talks about that as Leisure.
7 Whoever are the owners of those entities would be the
8 parties that were being represented.

9 Q You listed, when you read from the agreement, a
10 number of physical plant assets that the agreement
11 guaranteed would be placed there, right?

12 A Are you asking me to answer that?

13 Q Yes, sir.

14 A I'm sorry. Yes, I read from the document a list
15 of capital improvements.

16 Q Are you saying that the customers should have
17 known that someone other than the Utility would put those
18 utility assets in place?

19 A I don't think the Utility customers knew anything
20 about this.

21 Q I'm sorry, the property owners association.

22 A Oh, the property owners association as a party to
23 the agreement?

24 Q Yes, sir.

25 A I don't think it identifies who puts it in. It

1 merely indicates that there will be \$65,000 advanced for
2 that purpose.

3 Q But someone on the Brown side of the table was
4 restricted to the use of those \$65,000 funds to place plant
5 assets in place, is that correct?

6 A Well, I don't know that, either. The \$65,000 was
7 restricted to be used by the Utility.

8 Q Uh-huh.

9 A The Utility was not at the table.

10 Q True enough. You say it's a loan, right?

11 A I say it's an advance. That is what it says.

12 Q Okay.

13 A I don't say it; it says it here.

14 Q I see. Do you think that an advance is the same
15 as a loan?

16 A In the definitions I've looked at, yes.

17 Q Well, let me ask you this, and consult, if you
18 will, your years of regulatory experience. Take this
19 hypothetical that a utility -- that a parent of a utility,
20 and I'm asking this hypothetically, I remind you. A parent
21 of a utility makes a deal with a customer association, or
22 receives contributions, or receives money from any source.
23 Strike all of that, and let me tell you the hypothetical I'm
24 trying to set up.

25 A parent of a utility company receives money from

1 customers in exchange for the obligation to build utility
2 assets, okay. And the money is loaned to the Utility so the
3 Utility can accomplish that purpose. Do you believe that
4 that scenario describes receipt of contributions, or the
5 receipt of a loan?

6 A To the tell you the truth, I don't know. The
7 parent company and developers sometimes enter into
8 agreements to receive funds towards improvements. If those
9 funds flow through, they probably would be treated as
10 contributions, yes.

11 Q Sure. Otherwise, here is what could happen. Any
12 utility who wanted to receive contributions and didn't want
13 to count them as contributions and wanted to count them,
14 instead, as perhaps equity or debt, all they would have to
15 do is set up a conduit to run those funds through the parent
16 and give the money to the utility. And there you go, no
17 contributions, you have interest-free debt, perhaps, or
18 maybe you have contributions -- or you could look at them as
19 contributions if you wanted to. In other words, it would
20 give you a number of options, right?

21 A Yes.

22 Q How does that situation differ from the one here?
23 Let me tell you what my question is. The utility affiliate
24 guarantees the customer association that it will make some
25 improvements. The customer association sends the money to

1 the utility parent, and it advances it to the utility. And
2 we have not contributions, but some other thing. Now, how
3 is that different from the scenario we just talked about?

4 A Well, the way I look at this is, this was not an
5 arrangement to receive money by a parent, or an affiliate
6 for the purpose, for the specific purpose of making
7 improvements to the Utility. There was funds received here
8 as a settlement. There were terms placed on the settlement,
9 but the settlement settled some type of legal action between
10 these parties. The purpose of the settlement was to settle
11 these legal actions. The purpose of the settlement wasn't
12 for the purpose of financing utility improvements. It looks
13 to me like what the party said was, "Well, we are willing to
14 settle this thing out, out of court for some amount, if you
15 will go ahead and tell us that you will get the Utility to
16 make some improvements," and you'll advance them the money
17 to do it. I don't get the impression from this that they
18 intended for -- that they were saying to, I guess, Brown and
19 affiliates, who received the money, "We'll settle this if
20 you will give this money to the Utility for the purpose of
21 financing improvements." They said, "Here is some money.
22 Do us a favor and get things started over there." You know,
23 advance them the money so they can go ahead and do what they
24 need to do, because they have cash flow problems, or
25 whatever. I see that's -- that's a major difference.

1 Q And the way that they encouraged them to do that
2 favor that you just spoke of was to write into the agreement
3 that the funds could be used strictly for that purpose?

4 A Yes.

5 Q Okay. Let's move on a little bit to Page 30 of
6 your rebuttal testimony, if you would, please.

7 MR. McLEAN: Pardon me just a moment, Mr. Seidman.

8 BY MR. McLEAN:

9 Q Okay. I'm sorry, I gave you the incorrect
10 reference.

11 A Okay.

12 Q I'm embarrassed to say we have to go back to
13 Page 30 of your Schedule No. 5. I do apologize.

14 A Okay.

15 Q Second paragraph from the bottom, I read from your
16 audit response, "SGI would consider as reasonable an
17 adjustment to rate base to recognize the impact of a \$5,000
18 advance for construction in December, 1992. Since we are
19 using a beginning-ending balance average test year, the
20 impact would be to reduce rate base by \$2,500." So, you're
21 recognizing \$2,500 of CIAC because they received only 5,000
22 of the \$65,000 and, of course, you're dealing with average
23 test year, is that correct?

24 A I'm recognizing \$2,500 of an advance not CIAC.

25 Q You're not recognizing that as CIAC?

1 A No, as an advance, as a reduction to rate base.

2 Q Is the impact exactly the same?

3 A No. An advance is subject to depreciation,
4 accumulated depreciation. An advance can become a
5 contribution. If there are terms in the contracts for an
6 advance to do so, if it were a refundable advance. For
7 instance, if it was not refunded within a certain period of
8 time, but that doesn't apply in this case. So, all that
9 really applies here, it is basically a reduction in the
10 capital, excuse me, in the rate base.

11 Q Well, how does --

12 A It's depreciated.

13 Q I see. How does it figure in the capital
14 structure. Is it shown as a --

15 A No, it's not in capital structure. It is a
16 reduction to rate base. That is the way the Commission
17 handles it. I think, probably, it could be handled either
18 way; either put it in at zero cost in capital, or just
19 reduce rate base by the same amount.

20 Q Why didn't you do that to the entire 65,000?

21 A Because it's not received during the test year.
22 It's not there.

23 CHAIRMAN DEASON: Let me see if I understand.
24 You're making a distinction between CIAC and an advance in
25 the sense that assets funded through an advance are the

1 property of the Utility and are depreciated?

2 THE WITNESS: That's correct, yes.

3 CHAIRMAN DEASON: And with CIAC property there is
4 no depreciation?

5 THE WITNESS: There is no depreciation, right, and
6 there is no capital owned by the Utility.

7 MR. McLEAN: Mr. Chairman, I've arranged for a
8 number of exhibits to be passed out. This might be a good
9 time to address them all. I think there is a total of 12.
10 And each has a number up at the right-hand corner, FS, which
11 I think are Mr. Seidman's initials, and the number. And I
12 would like to have all of those marked for identification,
13 if you please.

14 CHAIRMAN DEASON: Okay. If you will identify them
15 one-by-one, I'll identify them.

16 MR. McLEAN: All right, sir. FS-1R.

17 CHAIRMAN DEASON: That will be Exhibit 31.

18 MR. McLEAN: FS-2R.

19 CHAIRMAN DEASON: That will be 33 -- I'm sorry,
20 32.

21 MR. McLEAN: FS-3R.

22 CHAIRMAN DEASON: 33.

23 MR. McLEAN: FS-4R.

24 CHAIRMAN DEASON: 34.

25 MR. McLEAN: FS-5R.

1 CHAIRMAN DEASON: 35.

2 MR. McLEAN: And 6R, FS-6R.

3 CHAIRMAN DEASON: 36.

4 MR. McLEAN: 7.

5 CHAIRMAN DEASON: 37.

6 MR. McLEAN: 8.

7 CHAIRMAN DEASON: 38.

8 MR. McLEAN: And FS-R9.

9 CHAIRMAN DEASON: 39.

10 MR. McLEAN: FS-R10.

11 CHAIRMAN DEASON: 40.

12 MR. McLEAN: FS-11R.

13 CHAIRMAN DEASON: 41.

14 MR. McLEAN: That's it. I misspoke. There are
15 11.

16 (Exhibit Nos. 32 through 41 marked for
17 identification.)

18 BY MR. McLEAN:

19 Q Okay. Mr. Seidman, please look at the -- let's
20 see where are we at here.

21 You testified that you didn't treat the \$60,000 in
22 the same way that you treated the 5,000, because the \$60,000
23 had not been received by the Utility during the test year,
24 is that right?

25 A That's right.

1 Q Okay. Would you examine FS-1R, and let me invite
2 your attention to Page 244. First of all, Mr. Seidman, this
3 purports to be a deposition of Mr. Brown, do you accept
4 that?

5 MR. PFEIFFER: Could you tell me what page you're
6 referring to?

7 MR. McLEAN: I'm sorry. 244, the front page, 110,
8 the first page of the exhibit is what says what the exhibit
9 is.

10 THE WITNESS: Yes. This purpose to be excerpts
11 from a deposition of Mr. Brown.

12 BY MR. McLEAN:

13 Q Okay. Do you know whether Mr. Brown ever
14 addressed the topic of when that \$60,000 might have been
15 received by the Utility?

16 A No, I don't.

17 Q Well, then, refer to Page 244 and see if that
18 gives you any information on the point. And if you would,
19 please, you might wish to begin on Page 243, Line 20.

20 Now, my reading of the deposition is that Mr.
21 Brown received or gave an assignment of the funds due from
22 the property owners association, and, in fact, received the
23 money from that person to whom he assigned that obligation.
24 Is that your impression as well?

25 A Please repeat that. I'm sorry.

1 Q Sure. Is it true, does Mr. Brown indicate there
2 that he asked a George --

3 MR. PFEIFFER: I object to the question. Counsel
4 is asking questions of the witness from a deposition that is
5 not a deposition of the witness. And he's asking him simply
6 whether this document says what it says. And certainly we
7 will concede that the document says what it says, but it's
8 improper cross examination.

9 CHAIRMAN DEASON: Mr. McLean?

10 MR. McLEAN: I think that I'm not trying to nail
11 Mr. Seidman to this deposition. More, I'm trying to find
12 out whether he knows or was advised by Mr. Brown what the
13 status of the \$65,000 was.

14 MR. PFEIFFER: My suggestion would be that he
15 simply ask that question.

16 MR. McLEAN: I did, and he said he didn't know.
17 So I will move to the next exhibit.

18 CHAIRMAN DEASON: Please proceed.

19 MR. McLEAN: Sure.

20 (Transcript follows in sequence in Volume 8.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)

COUNTY OF LEON)

I, JANE FAUROT, Court Reporter, do hereby certify that the foregoing proceedings was taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages are a true and correct record of the proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 5th day of August, 1994.



JANE FAUROT
100 Salem Court
Tallahassee, Florida 32301
(904) 878-2221

SWORN TO AND SUBSCRIBED TO BEFORE ME THIS 5th day of AUGUST, 1994, IN THE CITY OF TALLAHASSEE, COUNTY OF LEON,

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STATE OF FLORIDA, BY THE ABOVE PERSON WHO IS PERSONALLY KNOWN BY ME.



Melanie Y Strubble
NOTARY PUBLIC
STATE OF FLORIDA