

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of St. George) Docket No. 940109-WU
Island Utility Company, Ltd.)
For increased Water Rates)
in Franklin County)

PROCEEDINGS: SPECIAL AGENDA CONFERENCE
BEFORE: CHAIRMAN J. TERRY DEASON
COMMISSIONER DIANE K. KIESLING
DATE: Friday, October 7, 1994
TIME: Commenced at 1:50 p.m.
PLACE: FPSC Hearing Room 106
101 East Gaines Street
Tallahassee, Florida
REPORTED BY: LISA GIROD JONES, RPR, CM

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3 Services.4 PETE LESTER, FPSC Division of Auditing and
5 Financial Analysis

6 JOHN STARLING, FPSC Engineer III

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8 KATHY WILLIAMS, FPSC Regulatory Analyst

9 SALLY MONIZ, FPSC Regulatory Analyst

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11 Analysis.12 TROY RENDELL, FPSC Regulatory Analyst
13 Supervisor.14 MARSHALL WILLIS, FPSC, Chief - Economic
15 Regulation

16 LEROY RASBERRY, FPSC Regulatory Analyst

17 PATRICIA MERCHANT, FPSC Analyst Supervisor

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19 Director.20 MARY BANE, FPSC Deputy Executive Director/
21 Technical.22 PRENTICE PRUITT, FPSC General Counsel's Office.
23
24
25

PROCEEDINGS

1
2 CHAIRMAN DEASON: Call the special agenda
3 conference to order. I believe there's no reason to have
4 the notice read. We can pursue and get right into the
5 matter at hand.

6 Mr. Pierson, do you have any introductory
7 comments?

8 MR. PIERSON: No, I don't, Commissioner, but I
9 believe that the other Staff does.

10 CHAIRMAN DEASON: Very well.

11 MR. RASBERRY: Commissioners, this proceeding
12 concerns the application of St. George Island Utility
13 Company in Franklin County for an increase in rates.
14 Staff is recommending approval of \$443,871 in revenues, or
15 an increase of \$94,922, which is a 27.12% increase.
16 Before we start, there are a few minor corrections to be
17 made to the recommendation.

18 Starting with Issue No. 7 on Page 62. The total
19 should be corrected by changing the 190,062 to 168,860.

20 The next correction is in the Issue No. 18, Page
21 90. In the second paragraph, the entire first sentence
22 starting with the words, "It is Staff's belief" should be
23 deleted.

24 Next is Issue No. 19, Page 95. In the next to
25 the last sentence, leave out the words, "A penalty should

1 be imposed on a utility's management fee. Therefore,
2 Staff recommends..." That sentence should read, "Based on
3 the past actions of the utility, Staff believes that a
4 reduction of \$10,000 should be made to the utility's
5 revised request of \$42,000."

6 On Issue No. 22, Page 103, in the recommendation
7 statement, in the first sentence, the words "the lack of"
8 should be changed to "insufficient."

9 Issue No. 26, Page 117, in the first complete
10 paragraph, delete the first sentence and the word
11 "However," in the next sentence.

12 In Issue No. 30, Page 131, in the last
13 paragraph, the entire second sentence beginning with the
14 words "For example" should be deleted.

15 Issue No. 33 on Page 138, in the Staff Analysis
16 section, the percentage should be changed from 33.67% to
17 136.15%.

18 Issue No. 38, Page 149, these words should be
19 added at the end of the recommendation statement: "The new
20 AFPI tariff effectively cancels the old AFPI tariff."

21 In Issue No. 39, Page 150, in the recommendation
22 section, delete the entire second sentence. And on Page
23 152, in the last paragraph, third sentence from the end,
24 take out the words "as a penalty." And delete the
25 sentence before that particular sentence which reads, "The

1 only other recourse the Commission could use would be a
2 penalty."

3 In Issue 43, Page 190, which is the closed
4 docket issue, we should exclude the words in that issue
5 that "The appropriate conditions in Issue 27, Issue 40 and
6 Issue 41 must be met before the docket is closed."

7 CHAIRMAN DEASON: Those issues were 27, 40 and
8 41?

9 MR. RASBERRY: Yes. Also the vote sheet needs
10 to be changed for Issues 22, 38, 39 and 43, and Staff is
11 prepared to proceed issue by issue at this time.

12 CHAIRMAN DEASON: And the vote sheet for Issues
13 22, 38, 39 and 43 --

14 MR. RASBERRY: And 43.

15 CHAIRMAN DEASON: When is the vote sheet going
16 to be changed to be consistent? In other words, when the
17 vote sheet gets to us it will be corrected?

18 MS. BAYO: Right.

19 CHAIRMAN DEASON: Very well.

20 Commissioner, do you have a preference as to any
21 specific order as to how to proceed? I'm flexible.

22 COMMISSIONER KIESLING: Since I'll be the one
23 who is making the motion, I might group them in some kind
24 of group, the ones that I have no problem with, rather
25 than just going simply issue by issue. I don't want to

1 take that much time. And if I make a motion on a group of
2 issues that you want to ask some questions about or you
3 have a problem with, then I'll modify my motion
4 accordingly.

5 CHAIRMAN DEASON: Very well. Sounds good to
6 me.

7 COMMISSIONER KIESLING: Okay. I move Staff on
8 Issue 1.

9 CHAIRMAN DEASON: Show Issue 1 is approved.

10 COMMISSIONER KIESLING: On Issue 2, I had a
11 question in the part 2 portion of the analysis. There was
12 no overt statement in there that rate base is always an
13 issue in a rate case. However, I know that we did take
14 official recognition of some cases here, and particularly
15 the Jasmine Lakes case, where that opinion or that
16 statement is included. And I just want to be sure that
17 when this is written up in final form, that we do
18 recognize in there that the express position of the
19 Commission all along is that rate base is always at issue
20 in a rate case. Is that -- whoever is going to draft it,
21 would --

22 MR. PIERSON: That's fine.

23 COMMISSIONER KIESLING: Then with that, Issue 2,
24 I move Staff.

25 CHAIRMAN DEASON: Let me ask kind of a

1 clarifying question. I guess it pertains to Section 3 of
2 Staff's recommendation describing the evidence. And I'm
3 looking at Page 26, the second paragraph there. And I
4 just want to make sure that I understand, is that this
5 exhibit, which supposedly contained the financial
6 statement of Leisure Properties, that that financial
7 statement was something that was their responsibility to
8 file and that all indications are that that was not ever
9 filed and incorporated into that exhibit and therefore it
10 technically was not part of the record of the previous
11 case?

12 MR. PIERSON: That's our understanding.

13 CHAIRMAN DEASON: And therefore to the extent it
14 is utilized in this case, it is new evidence; is that
15 correct?

16 MR. PIERSON: Yes, sir.

17 CHAIRMAN DEASON: And the motion then is to
18 approve Staff in entirety on Issue 2?

19 COMMISSIONER KIESLING: Yes.

20 CHAIRMAN DEASON: Show Staff's recommendation on
21 Issue 2 is approved.

22 COMMISSIONER KIESLING: I'm prepared to move
23 Staff on Issues 3 through 8, but if any of those are ones
24 that you have a question on or some discussion --

25 CHAIRMAN DEASON: 3 through 8. Let me -- I'm

1 checking my notes here. I may have a question on 6. What
2 page number is 6?

3 MS. MERCHANT: 56.

4 CHAIRMAN DEASON: What is the effect of
5 recognizing the \$65,000 as advances?

6 MS. MONIZ: It's just a reduction to rate base.

7 CHAIRMAN DEASON: Is it reflected as part of the
8 liability side of the balance sheet, or is it just going
9 to -- how is it reflected?

10 MR. WILLIS: It's reflected on the liability
11 side of the balance sheet at zero cost.

12 CHAIRMAN DEASON: And then, for simplicity,
13 we're just simply reducing rate base?

14 MR. WILLIS: The Commission has always
15 consistently applied it to rate base as a reduction.

16 CHAIRMAN DEASON: Now, that would essentially be
17 the same as if it were recognized as CIAC; is that
18 correct?

19 MR. WILLIS: Essentially it does the same thing.

20 CHAIRMAN DEASON: For the purposes of this case
21 and the bottom line effect on rates it would be the same?

22 MR. WILLIS: Yes.

23 CHAIRMAN DEASON: But we're recognizing that
24 it's advances, and to the extent that those funds are --
25 if they are indeed advances, and those funds are returned,

1 well then obviously they no longer would be available to
2 be recognized as advances in previous rate base.

3 MR. WILLIS: That's correct.

4 CHAIRMAN DEASON: That's essentially the
5 difference between advances and CIAC?

6 MR. WILLIS: Yes, the one difference is
7 contributions and construction are amortized over the life
8 of the asset, and advances would not be; they would just
9 remain there until paid back.

10 CHAIRMAN DEASON: So there would be a continuous
11 \$65,000 reduction in rate base, if and until they are ever
12 paid back?

13 MR. WILLIS: That's correct, or revert to
14 contributions. In many cases advances will, later on in
15 life, revert to contributions because they're not paid
16 back.

17 CHAIRMAN DEASON: Is there any type of standard
18 period of time, or whatever, that we look at that where --
19 before we make that conversion from advances to
20 contributions?

21 MR. WILLIS: Not unless the advance itself
22 actually states that in the document advancing the money.
23 In the past we've seen many documents where they usually
24 gave a seven-year period, but in this case it's a bit
25 different than your normal advance. So in this case there

1 is no set time frame.

2 CHAIRMAN DEASON: The essence of the issue is to
3 whether these funds that were part of a settlement of
4 another area of litigation, another case, is whether they
5 were submitted or given to the utility as -- from the
6 customers, as contributions, and I think Staff correctly
7 observes that the utility was not even a party to this
8 case. And it's for that reason then it's Staff's position
9 that the best we can do is recognize it as advances?

10 MR. WILLIS: That's correct, and I believe there
11 was testimony in the case from Mr. Seidman which indicated
12 that they were not a contribution but could only be listed
13 as an advance.

14 CHAIRMAN DEASON: But we are talking full
15 account and recognition of the entire \$65,000 in this
16 case?

17 MR. WILLIS: Yes.

18 CHAIRMAN DEASON: All right, and Commissioner,
19 you have moved Issues 3 through 8?

20 COMMISSIONER KIESLING: Correct.

21 CHAIRMAN DEASON: And I only had questions on
22 Issue 6. Show then that Issues 3 through 8, Staff's
23 recommendation is adopted for all those issues.

24 COMMISSIONER KIESLING: I separated it there
25 because the next group of issues relates to the cost of

1 capital, so I thought I would separate out 9 and 10, at
2 least for discussion purposes. And when I move them, I'll
3 move 9 and 10, but I guess -- I am looking to you,
4 Mr. Chairman, and particularly on 10, since I don't have
5 the accounting background or ability to fully understand
6 the kinds of calculations that go into arriving at a
7 weighted average cost of capital, as was done here. If
8 you tell me that this is done appropriately and
9 consistently with what the Commission does, then --

10 CHAIRMAN DEASON: I think that Issue 10 is
11 fairly straightforward. I just pose the question to
12 Staff: What we're doing here is essentially what we do
13 for all utility companies; there's nothing really
14 extraordinary involved in this calculation in Issue 10; is
15 that correct?

16 MR. LESTER: Correct.

17 CHAIRMAN DEASON: The only thing is there are
18 some adjustments made in Issue 9 concerning debt, and I
19 have reviewed those adjustments and I'm in agreement with
20 those adjustments. I think that they're reasonable and
21 there's a sound basis to make those adjustments, and the
22 resulting cost rates for long term and short term as
23 determined in Issue 10 are then carried over to -- I'm
24 sorry, in Issue 9, are carried over to Issue 10.

25 COMMISSIONER KIESLING: Thank you. In that case

1 I move 9 and 10.

2 CHAIRMAN DEASON: Show that Issues 9 and 10,
3 Staff's recommendation, is approved.

4 COMMISSIONER KIESLING: I'm going to break the
5 next group down a little bit and probably do them issue by
6 issue, since they all relate to the net operating income
7 and adjustments to that. I move Staff on Issue 11.

8 CHAIRMAN DEASON: Show Staff's recommendation is
9 approved on Issue 11.

10 COMMISSIONER KIESLING: I also move Staff on 12.

11 CHAIRMAN DEASON: Let me ask on 12, more of a
12 clarifying question, what you're saying -- you're not
13 saying that there could never be a comparison of this
14 nature, just that in this specific case there was not
15 enough evidence presented to make a reasoned comparison in
16 order to make any type of an adjustment?

17 MS. MONIZ: That's correct.

18 CHAIRMAN DEASON: Show Staff's recommendation on
19 Issue 12 is approved.

20 COMMISSIONER KIESLING: I would just indicate
21 one typographical that I think needs to be corrected. On
22 Page 71 in the first paragraph of Staff's analysis, you
23 called one utility Mad Hater instead of Mad Hatter, and I
24 realize that may be a Freudian slip.

25 MS. MONIZ: Spell check didn't catch that.

1 MR. WILLIS: Depends if you were involved in
2 that rate case.

3 COMMISSIONER KIESLING: I move Staff on 13.

4 CHAIRMAN DEASON: Show Staff's recommendation
5 approved on Issue 13.

6 COMMISSIONER KIESLING: And on 14.

7 CHAIRMAN DEASON: I would just like to make one
8 observation on Issue 14, and that has to do with the
9 salary for Mr. Garrett.

10 MS. WEBB: Yes, sir.

11 CHAIRMAN DEASON: I'm in agreement with Staff's
12 recommendation. Reviewing this case, and from my
13 recollection of the testimony, both I think from customers
14 and from others, is that Mr. Garrett has been doing an
15 outstanding job for this utility. And it seems to me that
16 to the extent that -- I know there are problems, and there
17 have been many problems in the past, but that there has
18 been progress made, and I think that Mr. Garrett has been
19 one of the individuals who has done much to address those
20 problems and restore a lot of the confidence that the
21 customers are beginning to have in this utility again, and
22 I think Staff fully recognizes that in this
23 recommendation, and I thought that was something that
24 needs to be kind of reemphasized. I think that obviously
25 there are problems and that there have been measures taken

1 to try to overcome some of those problems, and I think
2 Mr. Garrett has been one of the reasons that some of those
3 problems have been able to be addressed, to the extent
4 they have been.

5 Anyway, the motion is to approve Staff in its
6 entirety on 14?

7 COMMISSIONER KIESLING: Yes.

8 CHAIRMAN DEASON: Show Issue 14, Staff
9 recommendation is approved.

10 COMMISSIONER KIESLING: I guess I just want some
11 -- a little bit of discussion on Issue 15 to make sure
12 that I'm following what's happening here. And that is
13 that on the pension expense, because the -- there was not
14 a clear -- there wasn't clear evidence in the record about
15 the full extent and the benefits and the funding of the
16 new pension benefit that came into being in this year,
17 that's why we're not approving it in its entirety
18 prospectively; is that pretty much correct?

19 MR. LESTER: We weren't certain about the
20 funding. Normally a pension expense would be funded, put
21 into an externally managed trust fund, and there's no
22 evidence in this record that that would occur. So we
23 couldn't be assured on how the money would be spent. We
24 normally don't question or review benefits, although it
25 wasn't clear in this case, specifically -- or it wasn't

1 clear to me, specifically what those benefits would be.
2 So the expense wasn't a particularly large amount, and
3 would be reasonable assuming it bought a reasonable
4 package of benefits. But we would want it to be -- I
5 think it would be prudent to have it funded, put in an
6 externally managed trust fund, and there's not evidence
7 that that would have been done.

8 COMMISSIONER KIESLING: If I recall -- I'm
9 sorry.

10 CHAIRMAN DEASON: I think you were probably
11 about to say the same thing I was.

12 COMMISSIONER KIESLING: Yeah, I thought that
13 they came in with some kind of a letter that didn't
14 reflect the full benefits and premiums, or whatever, for
15 some kind of an investment thing to do with this -- the
16 pension money; that it hadn't been done until just very
17 recently, and there was no confirmation that that in fact
18 was where the money was. There was something in there
19 about some investment fund that --

20 MR. LESTER: They had an agreement with an
21 investment management, IDS Management or something. But
22 that's not a trust fund. That doesn't show it's going to
23 be taken and put into a fund where the only way the money
24 can come out would be to pay pension benefits. So -- and
25 the evidence in the past has been that -- or from the

1 previous case, that they had expenses -- expense
2 allowances, and the money was not -- and they did not
3 spend the money for those allowances. Then I think it --
4 to be conservative, I think it's appropriate to have the
5 expense funded so that you know for certain if you allow
6 it, the only way money can come out of that trust fund is
7 to pay pension benefits.

8 CHAIRMAN DEASON: Commissioner, let me -- go
9 ahead.

10 COMMISSIONER KIESLING: Well, I just wanted to
11 know, could there also be a condition in it that the
12 pension contributions could be paid back to the utility if
13 the employee terminated prior to a certain point, some
14 kind of a vesting concept?

15 MR. LESTER: Paid back to the utility? I'm not
16 sure what --

17 COMMISSIONER KIESLING: Yes, they made the
18 contribution on behalf of the employee, and if the
19 employee doesn't stay with the company long enough for
20 their to be to be any meaningful benefit there.

21 MR. LESTER: I think so, yes.

22 COMMISSIONER KIESLING: I'm sorry,
23 Mr. Chairman.

24 CHAIRMAN DEASON: I was just going to -- this is
25 a difficult issue for me because I think that if you get

1 good employees, you need to offer them some type of a
2 pension program. But then on the other hand, I have some
3 concerns that if we recognize such expenses in rates and
4 therefore have ratepayers basically pay the costs, which
5 are legitimate costs of providing service, but
6 nevertheless if we ask ratepayers to do that, to make sure
7 that the funds are utilized for that stated purpose.
8 Obviously, it is a prudent business expense to provide a
9 reasonable pension for your employees, especially if they
10 are employees that you hope to retain on a long-term
11 basis.

12 COMMISSIONER KIESLING: I completely agree.

13 CHAIRMAN DEASON: And that's the dilemma that
14 I'm in. In a previous issue I spoke that I thought that
15 Mr. Garrett has been doing an outstanding job for the
16 company. I would like to see him continue.

17 I think salary, pensions and other things are
18 some of the things that you use to entice valuable
19 employees to stay with you. So that's my concern. If I
20 had some assurance that a reasonable pension was going to
21 be utilized for that stated purpose, I would certainly
22 support it. And I guess my concern is that do we have any
23 tools here at the Commission to allow such an expense and
24 to have assurance that it's going to be utilized for that
25 purpose? If not, then perhaps we have no alternative but

1 not to recognize it. But if there is some type of
2 escrowing, on a temporary basis until we get some type of
3 an approved plan submitted to the utility showing that
4 there is some type of a contractual responsibility to make
5 contributions on behalf of the employees and that there is
6 some type of fiduciary responsibility on the person
7 managing those funds, and as Commissioner Kiesling was
8 saying, if there is some type of a restriction that it can
9 only be utilized for certain purposes, and then if an
10 employee does terminate his or her employment, that their
11 contributions would be forfeited and perhaps retained in
12 the fund to be used for future employees. I don't know.
13 I know there's different variations and different ways of
14 doing that. But the main concern is that the funds be
15 utilized for a pension purpose and not for other purposes,
16 and I guess that's my question.

17 Staff, do you have any --

18 MR. WILLIS: I think there's two ways you can
19 handle it. One, we do have the escrow provisions in the
20 Commission. It's not very often that we escrow expenses
21 to make sure that they are handled for appropriate
22 purposes. The normal escrowing that we have, that we've
23 done in the past, deals directly with construction of
24 utility facilities, and that we've done with St. George
25 Island. We've also had St. George Island escrow their

1 regulatory assessment fees to make sure those were paid.
2 We could go forward and have them escrow certain revenues
3 and set those aside for pensions, expenses, any other
4 expenses you might desire to do. But another method which
5 may be more appropriate is to deny it here and have the
6 utility come back when they're ready, and in a limited
7 proceeding, which they can do quite easily, and request
8 pension expense in a manner that Mr. Lester has set aside
9 or set out.

10 CHAIRMAN DEASON: Let me make one observation on
11 the limited proceeding approach. It seems to me that
12 there's a lot of red tape involved in making another
13 filing and basically opening another docket and basically
14 revising the billing schedule again, and then customers
15 receive that as another rate increase, even though it may
16 be extremely, extremely small. It seems to me, we've got
17 the company in now, perhaps we could escrow the funds with
18 the requirement that the utility company come with a
19 specific plan within whatever is a reasonable period of
20 time, 12 months or whatever, and if they do not, well then
21 those escrowed funds would have to be forfeited and they
22 would be either refunded to customers or applied to CIAC
23 or something. Have we done anything like that before in
24 the past? I know it's not something we normally do, but
25 sometimes to address specific concerns we have to get a

1 little innovative.

2 MR. WILLIS: We have set aside escrow
3 commissions for construction, and if the utility did not
4 complete the construction within a certain amount of time,
5 we have refunded those funds back to the customers and
6 reduced rates accordingly. The other thing you might want
7 to think of also is the amount of expense that goes along
8 with escrowing funds on the utility's part. Because we're
9 going to have to keep up with those separate funds because
10 I don't think you could commingle these funds in one
11 account. There are certain things that if you, for
12 instance, set aside in escrow for this provision here and
13 later on you might decide to do that for insurance, I
14 don't think you would want to commingle those in the same
15 escrow fund, although you probably could. And there's
16 another issue in here about escrowing service availability
17 charges, too, later on.

18 CHAIRMAN DEASON: And I'm glad you mentioned the
19 one on insurance because I had a similar question about
20 insurance. And I just want to be -- I want the employees
21 to have a reasonable pension benefit in whatever is the
22 least burdensome way, least expensive way to do that, and
23 still give the Commission the assurance that those funds
24 are going to be utilized for that purpose. That's what I
25 want to pursue, at least look at what the options are.

1 And if we can't do it, it won't be because we didn't try.
2 But I do want -- I think that the employees of this
3 utility certainly deserve a reasonable pension benefit. I
4 think it would do much to have this Commission -- this
5 utility retain some valuable employees, which I think is
6 in the long term best interest of the company and its
7 customers.

8 MR. WILLIS: If you desire to do it in this
9 case, I think you will have to escrow it and have the
10 utility come forward within probably 90 days, and
11 Mr. Lester can tell me if that's the appropriate amount of
12 time.

13 MR. LESTER: We can also follow it up with an
14 audit to ensure complete compliance and the funds will be
15 released from escrow. I would suggest that a funded
16 pension plan be the requirement.

17 CHAIRMAN DEASON: Funded pension plan.

18 MR. LESTER: Externally managed trust fund.

19 CHAIRMAN DEASON: Externally managed funded
20 pension plan?

21 MR. LESTER: Yes, sir.

22 MR. WILLIS: How long would you desire that fund
23 to be kept up, escrowed? Until the utility's next rate
24 case, file and suspend rate case, or for the next couple
25 years to make sure it's done, or would you like just to

1 be --

2 CHAIRMAN DEASON: If it's an externally managed
3 funded pension plan, whatever money is put into that, the
4 company -- it would remain in there. The only thing is
5 the company would have to continue the contributions each
6 year.

7 MR. WILLIS: We could do it until the fund is
8 established.

9 CHAIRMAN DEASON: Seems to me like once you get
10 the fund established, and whatever is in escrow, once you
11 release that out of escrow, the escrow can go away. The
12 only thing then is if the company were to choose to cease
13 making contributions -- and I guess the best thing that we
14 can do is just try to send a direct message to the company
15 that that would be looked upon very unfavorably and that I
16 think the company would be held accountable for taking
17 such an action, because if we make a decision to allow
18 this expense in customer rates for that stated purpose,
19 then we obviously think it's a high priority, and there's
20 almost a fiduciary relationship then established between
21 management and employees, and I think it's something the
22 Commission would frown on very much if those funds were
23 ceased to be contributed to the established pension plan.

24 MR. WILLIS: Mr. Pierson could probably add to
25 this, but I think what we could do is put an ordering

1 paragraph in the order that orders the utility to continue
2 funding the plan.

3 CHAIRMAN DEASON: And for them to cease funding,
4 they would have to come to the Commission to get
5 authorization to cease funding.

6 MR. WILLIS: That could be done.

7 MR. PIERSON: Another alternative, Mr. Chairman,
8 is the Commission has in the past approved expenses but
9 withheld that portion of the rate increase related to that
10 expense until the utility came forward with the proof that
11 something was in place, and you could audit whether -- in
12 this particular case you could require them to come
13 forward with proof of the pension plans and then audit to
14 make sure that the funds were -- that the fund was
15 properly funded.

16 CHAIRMAN DEASON: Seems to me if we set up an
17 escrow with the requirement that the company has to submit
18 a pension plan, an externally managed funded pension plan,
19 and presents that to the Commission -- and I would be
20 willing to let Staff have administrative approval over the
21 plan -- then the escrowed funds could be released and
22 there would be no need to continue that escrow, and that
23 may be the most expeditious way of handling it. And with
24 an ordering paragraph requiring the company to continue
25 making those contributions to the fund until the

1 Commission authorizes them to cease, and I think it would
2 be some extraordinary circumstance before the Commission
3 would authorize the company to cease making those
4 contributions.

5 MR. WILLIS: As in the past also, we would
6 probably like to have monthly reports also. That's what
7 we usually require on escrow accounts. They're filed with
8 the Commission stating the balance in the escrow
9 accounts.

10 COMMISSIONER KIESLING: Let me ask you two
11 things there that may avoid having to have that. One is
12 that after they are funding it, they wouldn't need to put
13 the money into escrow, they would just forward the money
14 directly to the fund whenever the -- on whatever cycle,
15 whether it's quarterly or whatever. And I know certainly
16 with car insurance, that when you've got a mortgage, if
17 you stop paying your car insurance premiums, the insurance
18 company notifies the bank who holds the note on your car.
19 I mean is there anyway -- I mean would it be just really
20 bizarre to include within this that once we approve -- or
21 once Staff approves the fund, the independently managed
22 fund, that whoever that fund manager is would notify the
23 Commission if at anytime the premiums were not timely
24 paid?

25 MR. PIERSON: We could do that, Commissioner,

1 but we don't have any jurisdiction over that manager.

2 COMMISSIONER KIESLING: I know that.

3 MR. PIERSON: We could suggest it, we could
4 request it, but we can't really order him to.

5 COMMISSIONER KIESLING: I understand that. I'm
6 just figuring, though, that rather than having Staff
7 having to look every month or every quarter at some kind
8 of report, that it would certainly be less paperwork for
9 everyone if we just got -- if we were in line to be
10 notified if a premium wasn't paid timely.

11 CHAIRMAN DEASON: I think that's probably
12 something that Staff could look at, and if the external
13 manager was willing to do that, I think that would just be
14 a plus.

15 MR. WILLIS: We could try that. There may be
16 one other way that might be less burdensome, too, and that
17 would be just to go ahead and order the utility, like we
18 were talking about before, to set up this pension fund the
19 way it was described, and by it being an ordering
20 paragraph, and requiring the utility to continue funding,
21 that unless you have Commission approval to cease funding,
22 the utility would be open for a show cause order and
23 substantial fine if they failed to do it, and therefore we
24 wouldn't have to escrow any of it at that point. We would
25 have the show cause provisions of the Commission to go

1 after the company for failure to fund it at that point.

2 CHAIRMAN DEASON: That's after the fund is
3 established and the company then is no longer in escrow;
4 there's just the requirement to make the monthly,
5 quarterly or semi-annual contributions to the fund.

6 MR. WILLIS: That's correct. I would suggest at
7 this point you wouldn't even have to escrow it. You could
8 basically grant the utility the increase; if they didn't
9 come forward within 90 days through Staff with the
10 appropriate plan, then we could come to the Commission to
11 have the rates reduced. If they did come forward with the
12 appropriate plan, then we have the provisions of the order
13 to go with a show cause against if they fail to keep it
14 funded.

15 CHAIRMAN DEASON: Here again, I'm just at the --
16 I want to do it, you know, the most expeditious, least
17 burdensome way on the Staff and on the utility, with a
18 reasonable assurance that it's going to be utilized for
19 that purpose. And if Staff is comfortable with that and
20 feels confident that that approach will work, I'm not
21 necessarily against it. I just -- I know escrow is
22 probably a little bit -- gives a little bit more assurance
23 that it will happen, but it is also a little bit more
24 burdensome, and I guess expensive, too. So I'm flexible
25 on that. And Commissioner, if you have any viewpoints on

1 that, I would be welcome to hear them.

2 COMMISSIONER KIESLING: I thought that the
3 scheme that Marshall just proposed would be adequate in my
4 mind, and I'm willing to at least make the assumption that
5 if we order that it be done that way, that the utility
6 will comply. I mean, I understand that there has been
7 some compliance problems in the past, but -- and I guess
8 that somehow I just feel like the employees who are going
9 to be -- to whose benefit this is going to be accruing,
10 will also kind of stay on top of it, and would express
11 some concern if their pensions weren't being funded.

12 MR. LOWE: Commissioners, I've just been
13 informed that it's fairly easy to write into -- since the
14 outside pension manager will actually have a contract with
15 the utility, it could be written into the contract that
16 they would notify us if the funds were not paid in there.
17 That would be a portion of the contract itself which would
18 be fairly simple to put into that contract. Then we would
19 get notified.

20 COMMISSIONER KIESLING: With that, I would find
21 that acceptable then. And at any point that the premiums
22 were not paid timely, we could bring a show cause based on
23 that notification.

24 CHAIRMAN DEASON: We've primarily been
25 discussing pension, but also part of this issue is health

1 benefits. And I would include health benefits, along with
2 the pension, as being something that is basically a
3 benefit that's necessary to be able to recruit and retain
4 qualified employees. Now, I don't know if Staff has had
5 the opportunity to review the \$10,000 -- \$10,800 of
6 expense that would be associated with a proposed health
7 benefit, if that's reasonable or not. I know that Staff's
8 concern was primarily with whether the funds would be
9 utilized for the stated purpose.

10 COMMISSIONER KIESLING: I believe that the
11 actual amount was 14,400.

12 CHAIRMAN DEASON: 10,000 is a disallowance, I'm
13 sorry.

14 Commissioner, is it your suggestion then that we
15 basically treat both pension expenses and the health
16 benefits in the same manner and that there be some type of
17 -- I'm not sure if there could be some type of
18 requirement for there to be reporting of whether health
19 benefit premiums are -- if there's a failure to pay those,
20 if there's some type of a reporting requirement that could
21 be imposed to the Commission, or what the status of that
22 may be.

23 MR. WILLIS: Commissioners, could I get
24 clarification here? The insurance expense you're talking
25 about is Issue 22.

1 MS. WEBB: No, no.

2 MR. WILLIS: Because the \$10,800 you're talking
3 about on pension deals with Mr. Brown's --

4 MS. WEBB: No, no, on Issue 15, the health
5 benefits expense addressed deal -- that reduction of
6 \$10,800 deals with the three employees above full time --
7 the three part-time employees. That's what I meant to
8 say. It deals with that reduction.

9 CHAIRMAN DEASON: Maybe I'm getting confused.

10 MS. MERCHANT: We left it in the full -- excuse
11 me.

12 CHAIRMAN DEASON: Just explain it to us how you
13 want us to understand it, because I may be getting a
14 little confused.

15 MS. WEBB: We left in the full-time employees to
16 receive health benefits, only.

17 CHAIRMAN DEASON: So the disallowance was
18 associated with the part-time employees?

19 MS. WEBB: Yes, sir, and Mr. Brown, his benefits
20 to be paid out of Armada Bay.

21 CHAIRMAN DEASON: So the full-time employees
22 would continue to have -- under Staff's recommendation,
23 would have health benefit coverage?

24 MS. WEBB: That is correct.

25 COMMISSIONER KIESLING: And that would cost

1 \$14,400 a year?

2 MS. WEBB: Yes. That's \$300 a month per
3 employee.

4 MR. PIERSON: Mr. Chairman, you suggested that
5 we might be able to do something similar with these health
6 benefits as with the pension benefits.

7 CHAIRMAN DEASON: I'm not sure that you can with
8 that. It seems to be a different situation, and I was
9 just raising the question, and it seems to me it would be
10 extremely unique to have a situation where we would be
11 notified of a failure to pay premiums for this. Maybe
12 Staff knows of some way to do that. I don't know.

13 MR. PIERSON: These benefits actually go to the
14 employees themselves.

15 COMMISSIONER KIESLING: And they're supposed to
16 buy their own insurance.

17 MR. PIERSON: There's no plan or anything like
18 that.

19 CHAIRMAN DEASON: Okay.

20 COMMISSIONER KIESLING: So I guess the employees
21 would let us know if they didn't get their money.

22 CHAIRMAN DEASON: Well, they would be placing
23 themselves in peril, I suppose.

24 Commissioner, do you have a motion?

25 COMMISSIONER KIESLING: Yes, I move 15, with the

1 modifications that we spoke about as to the pension plan,
2 and just leave the health insurance as it is.

3 CHAIRMAN DEASON: Show that motion then
4 approved. And that would be basically approving Staff in
5 part and modifying Staff in part.

6 COMMISSIONER KIESLING: And I move Staff on 16,
7 the engineering contractual services.

8 CHAIRMAN DEASON: Show Staff recommendation
9 approved on Issue 16.

10 COMMISSIONER KIESLING: And on 17 I move Staff.

11 CHAIRMAN DEASON: Show Staff approved on Issue
12 No. 17.

13 COMMISSIONER KIESLING: And I move Staff on
14 Issue 18.

15 CHAIRMAN DEASON: Show Staff approved on Issue
16 18.

17 COMMISSIONER KIESLING: I move Staff on 19. If
18 I understood this correctly, the bottom line is that the
19 management fee is reduced for these various reasons to
20 42,000; is that correct?

21 MS. MONIZ: No, it's reduced to 32,000. The
22 company reduced it from 48- to 42- and then --

23 COMMISSIONER KIESLING: I understand. But if I
24 understood correctly, if this utility goes out and hires
25 an unaffiliated manager, simply because that's -- then

1 that manager would be able to receive the 42,000? I mean
2 otherwise we're never going to be able to attract a
3 manager.

4 CHAIRMAN DEASON: That would just be another
5 issue for another time.

6 MS. MONIZ: Right, right.

7 COMMISSIONER KIESLING: But the \$10,000
8 reduction is not a reduction based on what is reasonable
9 for that position; it's a reduction based on previous
10 mismanagement.

11 MS. MONIZ: Exactly.

12 CHAIRMAN DEASON: Let me make one observation
13 that goes right along with those lines, and something I
14 wish to emphasize, and that is that I was particularly --
15 I particularly noted and agreed with the observations
16 Staff made with the paragraph beginning at the bottom of
17 Page 93 and continuing over to the top of Page 94,
18 considering this addressed the third well. From my own
19 personal experience as having been on this Commission when
20 a lot of that debate was going on and all those problems,
21 I just note that that to me was one of the problem areas,
22 and I'm glad that Staff included that in its analysis.

23 Show then that Issue No. 19 is approved.

24 COMMISSIONER KIESLING: And I move Staff on 20.

25 CHAIRMAN DEASON: Show Staff approved on Issue

1 20.

2 COMMISSIONER KIESLING: And I just wanted some
3 clarification here that while the recommendation, per se,
4 doesn't include it, that the conditions that Staff
5 recommended it in their Staff analysis about record
6 keeping of mileage should -- will be included in the final
7 requirements that are set out in the final order.

8 MR. WILLIS: Yes, it will. We'll make that
9 requirement that they start keeping accurate records as
10 part of the order.

11 COMMISSIONER KIESLING: With that, I move we
12 adopt Staff on Issue 21.

13 CHAIRMAN DEASON: Show Issue 21, Staff
14 recommendation, is approved.

15 COMMISSIONER KIESLING: I guess I have some
16 questions and problems on No. 22, and I don't know that
17 they're insurmountable, but I completely understood from
18 the evidence that we in the past had approved an expense
19 and recovery for insurance costs, and that that money
20 wasn't spent on insurance, and that that causes great
21 alarm for me, as well as Staff. And understanding that
22 it's not prudent business to operate without insurance, in
23 my mind anyway, I'm concerned about disallowing all
24 insurance expense when it really is a reasonable expense
25 of doing business, and the only question is whether

1 they'll spend the money for it or not if we give it to
2 them. It's the same kind of question as on the pension
3 fund.

4 I also understand that the estimates for what it
5 was going to cost that were in the record are not all that
6 reliable because there isn't actually insurance that's
7 been purchased so that we know how much it's really going
8 to cost. And I guess I'm just troubled by that. And I'm
9 wanting to see if there's some creative way to deal with
10 it, sort of as we dealt with the pension fund question, so
11 that this utility can get insurance, which it needs, and
12 we can also be assured that the money that they are given
13 to do that with is spent for that. And I guess maybe the
14 place to start is, is there some disagreement that this
15 utility should have insurance?

16 MR. WILLIS: I don't think you'll find
17 disagreement anywhere on the Staff that the utility should
18 maintain this type of insurance.

19 COMMISSIONER KIESLING: So is there something we
20 can do that will -- in the ordering language that will
21 require them to get these forms of insurance?

22 MR. WILLIS: I imagine the only way, besides
23 escrowing, which I think would be kind of difficult, like
24 we did for pension, is we could order the utility to
25 maintain these -- I think it's three types of insurance,

1 and go ahead and fund the insurance as they estimated it
2 to be, and also require that the utility come forward with
3 proof within 90 days that they have obtained such
4 insurance, which would be more than just a canceled
5 check. It would have to be policies.

6 COMMISSIONER KIESLING: I agree. I want to see
7 policies that have been paid for.

8 MR. WILLIS: Yes, policies that have been paid
9 for.

10 COMMISSIONER KIESLING: And not just estimates
11 of what it might be if they do decide to buy it.

12 MR. WILLIS: That way if you have ordered them
13 to maintain this type of insurance, then we do have the
14 show cause provisions to go back on again, like we do on
15 the pension account.

16 COMMISSIONER KIESLING: Anyone else from Staff
17 have any disagreement that that's a viable way of dealing
18 with it?

19 (No response)

20 MR. PIERSON: The only problem is we don't
21 really know the exact amounts of the policies.

22 CHAIRMAN DEASON: That's the question I was
23 going to ask. We have an amount, which is, Commissioner
24 Kiesling, as you correctly noted, is an estimate. There
25 are no policies that we have in front of us with a

1 specific amount, a premium for a reasonable coverage. I
2 don't know if this estimate is correct or not. That's
3 part of the problem that I have. But I do agree that --
4 and I think Staff even notes in the recommendation that
5 these are expenses that are associated with providing
6 quality utility service, and it is a necessary business
7 expense. The only problem we have is assuring ourselves
8 that the funds would be utilized for that stated purpose,
9 and that the premiums for a reasonable amount of coverage
10 are themselves reasonable and would be appropriate to
11 include in customer rates. Did we do any analysis at all
12 concerning the \$36,502 as to whether that even appeared to
13 be reasonable?

14 MR. WILLIS: Commissioner, we have not done any
15 analysis as far as the insurance requested. The burden of
16 proof is upon the utility to come forward and justify the
17 appropriate amounts, and therefore we have done no
18 analysis.

19 COMMISSIONER KIESLING: Let me ask you this: Is
20 this one of those areas that if the company gets the
21 insurance, they can come in for a limited proceeding to
22 get those expenses then --

23 MR. WILLIS: Yes, they could.

24 COMMISSIONER KIESLING: -- included in rates?
25 With that understanding, and recognizing that the burden

1 of proof is on the utility and they did not prove what
2 their insurance needs were and what the premiums would be,
3 I move Staff, with the understanding that they can come in
4 and try to prove it up at whatever point they actually get
5 these policies.

6 CHAIRMAN DEASON: I'm probably going to go along
7 with that, but let me raise just one question, and it's
8 something that I observed earlier, and that is, is the
9 perception of the customers if there's one increase
10 followed by another increase and there's these perpetual
11 increases. But I think most customers would understand
12 that if these costs are not included in the rates that are
13 approved in this case, and most customers probably would
14 understand that it is reasonable and prudent, not only for
15 the utility, but really for the customers too, to make
16 sure that they get the quality service that they deserve,
17 that a certain amount of insurance should be part of that
18 service and part of the cost of providing that service.

19 Is there anyway to give customers notice somehow
20 that these rates don't include anything for insurance and
21 that a subsequent request may be coming forward? Or is
22 that something we've never done before and really is not
23 something that would be advisable? I'm just really asking
24 for Staff's advice as to, first, whether we've ever done
25 anything like that, and if it would be something that

1 would be advisable to do.

2 MR. PIERSON: Well, the utility has to give
3 notice to its customers of the rate increase and the
4 reasons therefore. You could order the utility to also
5 inform the customers that these costs are not included and
6 that there may be a subsequent filing.

7 COMMISSIONER KIESLING: I would be comfortable
8 with that. I was concerned, too, about there seeming to
9 be no end to rate increases for these customers, that they
10 would perceive it that way.

11 MR. PIERSON: Alternatively, Commissioners, you
12 could approve a figure -- since the utility did not
13 support the costs that they've asked for, you could
14 approve a figure that essentially, since you want to give
15 it to them because it's a prudent business expense, you
16 could approve a figure that you in your discretion believe
17 is appropriate.

18 COMMISSIONER KIESLING: Let me ask you about
19 that. My understanding of how we can exercise our
20 discretion is that if there's something in the record to
21 support, you know, a high figure and something in the
22 record to support a low figure, that it's within our
23 discretion to pick either of those or anything in between,
24 but that we would not -- it would be an abuse of our
25 discretion to pick something that was not within that

1 range. In here we have a range of zero to -- I don't know
2 what the top end is, because this number of \$36,502 was
3 not proven up in the record. It was proven up to be an
4 estimate. And therefore that's not adequate to set a top
5 end for the range of discretion, to me. I mean I don't
6 want to just make up a number.

7 MR. PIERSON: There is some evidence in the
8 record, canceled checks that the utility gave us --

9 MR. WILLIS: Commissioners, there were no
10 canceled checks.

11 COMMISSIONER KIESLING: Yeah, not for
12 insurance.

13 MR. WILLIS: There was no proof of canceled
14 checks. There was the checks filed, they had the front of
15 the check; there was no picture of the back of the check.

16 CHAIRMAN DEASON: What did we allow in the
17 previous case? Was it 15,000 or something of that
18 nature?

19 MR. WILLIS: I can find that for you in just a
20 second.

21 MS. MERCHANT: I believe it was \$3,987.

22 COMMISSIONER KIESLING: For liability, workers'
23 comp and --

24 MS. MERCHANT: That was all listed in the
25 insurance account in the MFRs.

1 CHAIRMAN DEASON: No, what -- I think in the
2 previous rate case we allowed a certain expense level. In
3 fact, Staff made the observation that we allowed it and
4 the company apparently did not utilize the funds from that
5 because they didn't require the insurance. And for some
6 reason I thought it was somewhere in the neighborhood of
7 15,000, but you're saying it's 3,987 a year?

8 COMMISSIONER KIESLING: If that's all it was, I
9 can understand why they didn't utilize it to buy insurance
10 because it wouldn't have covered the premiums.

11 CHAIRMAN DEASON: We do have -- we took notice
12 of the order in the last case, and maybe we can find
13 that.

14 MR. PIERSON: The order doesn't exactly say. It
15 discusses the reduction the Commission made to the
16 request.

17 COMMISSIONER KIESLING: But there must be a
18 schedule in there somewhere, a final number.

19 MR. WILLIS: That's what I'm looking for right
20 now.

21 MR. PIERSON: The MFRs, in addition to some of
22 these schedules, would definitely have that.

23 MS. MERCHANT: The number I gave you is from the
24 MFRs, and it compares the prior test year to the current
25 test year. And it shows, for general liability, it shows

1 \$3,987.

2 COMMISSIONER KIESLING: What about for general
3 liability?

4 MS. MERCHANT: For liability, there was zero for
5 other insurance, workers' comp or vehicles. Those are the
6 four accounts in the Uniform System of Accounts. And that
7 agreed to the total expenses that you have allowed in the
8 last rate case.

9 COMMISSIONER KIESLING: So that's what they
10 asked for in the last rate case?

11 MS. MERCHANT: They requested -- about 14,000.

12 MR. WILLIS: The Commission in the last rate
13 case disallowed 9,211 of insurance expense because it was
14 unsupported and what was left was the 3,000 something, so
15 they requested the equivalent of about 14,000 of insurance
16 in the last rate case.

17 MS. MERCHANT: And we allowed them about 4,000.

18 MR. LOWE: And, Commissioners, there's been
19 substantial increases in the liability insurance to water
20 and wastewater utilities in that time period, since the
21 last rate case which was in '87.

22 COMMISSIONER KIESLING: And particularly for
23 coastal ones.

24 CHAIRMAN DEASON: That was just liability. That
25 was not property insurance.

1 COMMISSIONER KIESLING: Yeah, that didn't cover
2 the premises.

3 CHAIRMAN DEASON: Was there any allowance for
4 property insurance in the last case?

5 MS. MERCHANT: That was all the insurance.

6 CHAIRMAN DEASON: That was all the insurance.

7 COMMISSIONER KIESLING: Well, I regrettably am
8 going to stay with my motion that there just is -- there
9 just wasn't sufficient evidence in this record to tell me
10 what amount or even a ballpark figure of what amount,
11 other than some estimates that had been provided by
12 insurance providers, and that's not sufficient to
13 determine what the appropriate allowable expense is to
14 me.

15 CHAIRMAN DEASON: So --

16 COMMISSIONER KIESLING: I mean, I definitely
17 think they need it. I definitely think we're into a five
18 figure number, but what that five figure number is is --

19 CHAIRMAN DEASON: What costs do a company incur
20 associated with a limited filing, limited scope filing?

21 MR. WILLIS: They can file the limited filing as
22 a proposed agency action, and in that case it's just a
23 matter of putting together the actual documentation,
24 requesting the increase and the actual tariffs that go
25 along with it. I've seen limited filings come in for

1 anywhere between 2,000 to \$8,000 minimum.

2 COMMISSIONER KIESLING: That's a lot of money.

3 MR. WILLIS: It is a lot of money.

4 MR. PIERSON: I believe there's also a filing
5 fee.

6 MR. WILLIS: Yes, sir, there is, there's a
7 filing fee. That includes that.

8 COMMISSIONER KIESLING: Sure wish they would
9 have put something into the record on it besides
10 estimates.

11 MR. WILLIS: If you believe it's into a
12 five-digit number, you can pick the lowest five-digit
13 number, if you believe there's that much in the record to
14 support that.

15 MR. LOWE: Commissioners, it doesn't do a whole
16 lot of good to put -- the lowest figure is 10,000. It
17 doesn't do a whole lot of good to give the utility \$10,000
18 if the policy is going to cost them 25,000. They can't go
19 out and buy it.

20 COMMISSIONER KIESLING: I agree.

21 CHAIRMAN DEASON: My main concern is that --
22 first of all, is that the premiums paid be reasonable, in
23 other words from a reputable company, and that is -- and
24 it's a reasonable premium. And then second of all, that
25 the customers somehow understand that and realize that if

1 there's going to be a limited scope proceeding filed,
2 there's going to be an increase on top of an increase, the
3 reason for that, and that they get some type of a notice
4 that these rates don't include anything for insurance and
5 that the company is free to file a limited scope
6 proceeding.

7 The drawback of the limited scope proceeding is,
8 of course, that there's going to be costs associated with
9 that. I mean, what I would like to do is to -- I mean I
10 want the company to have insurance. I think the company
11 wants to have insurance, and I think, really, the
12 customers want the company to have insurance. But if
13 we're going to have to spend 8- or \$10,000 on a limited
14 scope proceeding and basically those costs be added on to
15 it, I just don't see where that makes a lot of sense
16 either.

17 MR. LOWE: Mr. Chairman, maybe the thing to do
18 would be to give them the amount they ask for, give them
19 90 to 120 days to give us three bids to prove up that
20 amount, with actual payments being made in that time
21 period. If they don't make it, we'll reduce the rates.
22 If they don't pay the funds or can't come up with that
23 amount, we'll reduce the rates back down to zero. That
24 way they're given an option in that length of time and the
25 customers don't get rate shock except in the appropriate

1 direction, downward.

2 COMMISSIONER KIESLING: That's a possibility? I
3 had no idea that that was within the range of
4 possibilities.

5 MR. LOWE: I don't know whether it is or not.
6 You have evidence in the record of 30,000 something
7 dollars, whether it's proven or not. Now you're giving
8 them an opportunity to prove it. If they don't prove it,
9 reduce it back down to zero.

10 MR. PIERSON: That unfortunately does not allow
11 Public Counsel or the Staff any opportunity to cross
12 examine those costs.

13 MR. LOWE: You may end up with having to go back
14 to hearing on that one issue. I don't know whether it's
15 worth it or not. You would be basing it on your 32,000
16 that the company had some little bit of testimony on that
17 was not worth a flip. That's about your only option of
18 giving it to them now.

19 MS. MERCHANT: We do have one other alternative
20 that is in the record that we could tell you about. In
21 Ms. Dismukes' exhibits attached to her testimony, she had
22 an average of all the O&M expenses for the Class B
23 utilities, and that averaged -- of course we already
24 decided that you couldn't use that, but if you decided
25 that you could use that --

1 CHAIRMAN DEASON: She doesn't have it broken out
2 by insurance?

3 MS. MERCHANT: Yes, she does. She has it by
4 primary account, and it ends up being, for each
5 category -- there's vehicle insurance, but you wouldn't
6 use vehicle insurance because they don't own -- utility
7 doesn't own the vehicles. So that would not be included.
8 It's \$2 for each category per customer, and that would be
9 \$2 for general liability insurance, workers' comp and
10 other, so that would be \$6 times the number of customers.

11 COMMISSIONER KIESLING: What does that end up
12 coming up to on a yearly basis?

13 MS. MERCHANT: I'm getting \$8,000. That sounds
14 low, but I don't have any --

15 COMMISSIONER KIESLING: That sounds low to me.

16 MR. PIERSON: Following up on what Mr. Lowe
17 discussed, we could reopen the record for the limited
18 purpose of dealing with insurance expense and taking
19 evidence into the record and cross examining witnesses.

20 MR. WILLIS: You'd come up with extra cost on
21 that, also, in rate case expense.

22 MR. PIERSON: That's true. And you actually
23 could approve the request and set that portion of the
24 rates that relate to that subject to refund.

25 COMMISSIONER KIESLING: Mr. Chairman, I am in a

1 quandary.

2 CHAIRMAN DEASON: I was looking to you for
3 guidance.

4 COMMISSIONER KIESLING: I think we're thinking
5 along the same lines. They need insurance. They really
6 need insurance. I just want to know what the right number
7 is.

8 MR. WILLIS: Commissioners, I think at one
9 point, because of the status that you're in as
10 commissioners, that you can use your own logic, after what
11 you've seen and know and heard, and along with that, what
12 little evidence we have in the record, you could set it
13 some level. And if that meets the utility's requirements,
14 fine. If it doesn't, then they're going to have to
15 struggle along until the next rate case with the extra
16 amount. And you could set something in between the 36 and
17 the zero for rate case expense. In that case you have
18 satisfied one part because you know that they do need it.
19 That's not debatable. You know they need the insurance.
20 What is debatable is how much it will cost.

21 COMMISSIONER KIESLING: Do you have readily
22 available a copy of the letters that they gave us that
23 showed what the estimates that they had gotten were?

24 MR. WILLIS: Yes.

25 COMMISSIONER KIESLING: I didn't bring all that

1 down here. I was hoping I didn't have to lug it down
2 here. (Pause)

3 Okay, let me see if I understand looking at
4 this. What we have as the confirmation of what that check
5 supposedly binds is that it's the annual premium for the
6 property and liability insurance, plus the first month's
7 -- however many months, it doesn't say -- premium for the
8 workers' comp. And that's what the letter says. So --
9 and the check was for \$8,089.98 and that was a year's
10 premium on property and liability. But we don't have
11 anything that tells us how much of it -- what portion of
12 it was work comp.

13 On the workers' compensation application, it
14 shows that the total estimated annual premium is 5,306.
15 So what is that a month?

16 MR. WILLIS: 5,306. Was that for a month?

17 CHAIRMAN DEASON: That was the annual. She
18 asked how much would that be per month.

19 MS. MERCHANT: \$442. For the 5,306?

20 COMMISSIONER KIESLING: Wait, wait. Here it
21 is. Add up these two numbers for me, if you could:
22 \$7,396.58 --

23 MS. MERCHANT: I missed that.

24 COMMISSIONER KIESLING: That's okay. \$7,396.58
25 plus \$693.40.

1 MS. MERCHANT: \$8,090.

2 COMMISSIONER KIESLING: That's that \$8,089.98?

3 Okay, I know where the numbers on the check came from.

4 Mr. Chairman, so you can look at this one too, this was
5 the invoice for the annual premium on the liability and
6 this is the invoice -- sorry. This is the invoice for the
7 monthly premium under work comp, and that equals the
8 amount of the check.

9 CHAIRMAN DEASON: So the monthly premium, then,
10 for workmen's comp is \$693.40.

11 COMMISSIONER KIESLING: Right.

12 CHAIRMAN DEASON: And the annual premium on
13 the -- is it property insurance?

14 COMMISSIONER KIESLING: Yes, property and
15 liability.

16 CHAIRMAN DEASON: -- is 7,396.

17 COMMISSIONER KIESLING: .58.

18 CHAIRMAN DEASON: So what would the annual
19 premium be on workmen's comp?

20 COMMISSIONER KIESLING: Be 12 times \$693.40.
21 Again, I don't have a calculator here with me.

22 MS. MERCHANT: \$8,320.80.

23 COMMISSIONER KIESLING: And add to that --

24 CHAIRMAN DEASON: \$7,396.58.

25 MS. MERCHANT: \$15,717.38.

1 COMMISSIONER KIESLING: There's your 15,000,
2 Mr. Chairman. 15,778.

3 MS. MERCHANT: 717. We'll round off the zeros.

4 COMMISSIONER KIESLING: Mr. Chairman, does
5 that -- in your mind, is that adequate support in the
6 record for a premium level for property, liability and
7 workers' comp?

8 CHAIRMAN DEASON: I think it's about the best
9 evidence we have.

10 MR. PIERSON: Commissioners, I'm sorry, I would
11 like to point out that the utility originally asked for
12 36,502, and in their position statements they stated that
13 total insurance costs would be reduced by 23,799, which
14 would be about a \$13,000 expense.

15 COMMISSIONER KIESLING: But their argument in
16 their brief isn't evidence we can rely on, is it?

17 MR. PIERSON: No, it's not really evidence. But
18 I still think that you're allowed to, within your
19 discretion, pick somewhere between the highest number and
20 the lowest number that you can go for, and if you're
21 considering 15- and they're asking for 13-.

22 COMMISSIONER KIESLING: Yes.

23 CHAIRMAN DEASON: Is that 13-, was that both for
24 workmen's comp and for property and liability?

25 MR. PIERSON: The statement is, "Total insurance

1 costs can be reduced by 23,799."

2 CHAIRMAN DEASON: And then that ends up with
3 that net figure of?

4 MR. PIERSON: \$12,713.

5 CHAIRMAN DEASON: Well, I could be inclined then
6 to accept that number and basically put it to the test and
7 in the order require the company to obtain the insurance.

8 MR. PIERSON: I'm sorry, that figure it was
9 12,703, not 13.

10 CHAIRMAN DEASON: 12,703?

11 MR. PIERSON: Yes, sir.

12 COMMISSIONER KIESLING: Okay, I'll go for that
13 one.

14 CHAIRMAN DEASON: And there would be -- if we
15 were to approve that amount for insurance, I assume that
16 there would be an ordering paragraph in the order
17 requiring the company to then, within a certain period of
18 time, to actually submit a copy of a --

19 MR. PIERSON: Yes, within 90 days.

20 CHAIRMAN DEASON: -- contract. I guess dealing
21 with insurance, it would be a policy -- indicating a paid
22 policy.

23 MR. WILLIS: Canceled checks and policies for
24 insurance within 90 days of the order.

25 CHAIRMAN DEASON: And for rate setting purposes,

1 we would just include the 12,703 in rates. Of course it
2 would be up to them to get adequate coverage, and if it
3 happened to cost more than 12,703, that's just their
4 problem. They represented to us that they could acquire
5 reasonable coverage at 12,703 per year.

6 MR. PIERSON: That's correct.

7 COMMISSIONER KIESLING: I tell you, I'm still
8 having a problem with that because that number is a number
9 that shows up in the brief and is not a number that we
10 find in the testimony or that we can glean from the
11 testimony.

12 CHAIRMAN DEASON: Well, but it's a reliance
13 that's detrimental to the person making the
14 representation. I mean, our other alternative would be
15 the next best evidence in the record is 15,717, and it's
16 the party making the representation that says that they
17 can acquire adequate insurance at 12,703. I feel
18 compelled to give that number a certain amount of
19 credibility because it's less than there's other evidence
20 in the record indicating that may be appropriate. I mean
21 I understand your position, and I guess I feel the
22 Commission has a little bit more flexibility and
23 latitude. I don't think that we would ever want to be
24 totally arbitrary, but I would think that there could be
25 times when the Commission, if there's total lack of

1 evidence, we could just use our judgment as to what would
2 be appropriate.

3 MR. WILLIS: I believe that's correct.

4 CHAIRMAN DEASON: I don't want to utilize that.
5 I mean, I think that there is evidence that would indicate
6 a figure of somewhere around 15,700. But I am more
7 confident because it's the party that would benefit from
8 the higher number is representing that it could be done
9 for 12,700, basically \$3,000 less. I think that even
10 gives me more assurance that it would be acceptable to
11 include \$12,700 in the expenses in this rate case for
12 insurance purposes.

13 MR. PIERSON: Commissioner Kiesling, you could
14 look at it as similar to an offer of settlement.

15 COMMISSIONER KIESLING: I understand that. I
16 just hope it doesn't turn out to be a typographical error
17 made in the attorney's office during the typing or
18 something. That's why I preferred to look at the invoices
19 that were in the record as opposed to a number that shows
20 up in a brief that they don't tell us where that number
21 came from. But, you know, rather than -- certainly rather
22 than have us be deadlocked, I'll give on this one and you
23 might get to give on one later.

24 CHAIRMAN DEASON: Okay, I'll look forward to
25 that.

1 COMMISSIONER KIESLING: Then I'll move that we
2 allow for insurance expense the 12,000 whatever it was
3 that was in the brief and to put in the ordering paragraph
4 the requirements that proof of purchase of these policies
5 be furnished to us and that the premiums be paid timely.

6 CHAIRMAN DEASON: I think then that that
7 adequately addresses Issue 22.

8 COMMISSIONER KIESLING: Do you concur in that?

9 CHAIRMAN DEASON: Absolutely. I agree with
10 that.

11 And let me just say, anytime you want to take a
12 break, let me know. There's just the two of us today and
13 I'm flexible on that regard as well.

14 COMMISSIONER KIESLING: I'm doing fine and I
15 think we're getting close to being through, so I'll let
16 you know.

17 CHAIRMAN DEASON: Okay. As far as I'm concerned
18 we can continue on.

19 COMMISSIONER KIESLING: I move Staff on Issue
20 23, the unaccounted for water.

21 CHAIRMAN DEASON: Show Staff recommendation is
22 approved on Issue 23.

23 COMMISSIONER KIESLING: And I move Staff on the
24 bad debt expense.

25 CHAIRMAN DEASON: Show Staff recommendation

1 approved on Issue 24.

2 COMMISSIONER KIESLING: I move Staff on the
3 miscellaneous expense.

4 CHAIRMAN DEASON: Show Staff recommendation
5 approved on Issue 25.

6 COMMISSIONER KIESLING: And on Issue 26 I had
7 one problem which is not that major, but it was a concern
8 to me, and that is the removal of the \$454 for copying
9 because exhibits that were copied and available were ruled
10 inadmissible. And I guess my view is that all I can do is
11 put myself in the place of counsel and say that I think it
12 would have been remiss on counsel's part to have not had
13 those exhibits available and copied and attempted to get
14 them in. So to that extent, just because they were ruled
15 inadmissible I don't think means that they should be not
16 allowed as rate case expense. And I realize that after
17 talking about thousands here, \$454 wouldn't even make one
18 cent difference in people's rates, but --

19 CHAIRMAN DEASON: I agree with you. I had the
20 same problem. I -- the fact that we ruled them
21 inadmissible I don't think should be dispositive of the
22 fact of whether the expenses associated were prudently
23 incurred or not. I guess in one regard you could look at
24 it as those exhibits were there and they could have been
25 utilized and that they were -- that we had that exhibit in

1 front of us and we just sustained an objection to not
2 having it admitted. And no one can reasonably predict
3 what those objections and those rulings are going to be
4 prior to trial. So I certainly would not quibble about
5 the \$454, and I would agree with you for the basis to have
6 that amount not excluded. In other words, you would
7 recognize the \$454 in rate case expense.

8 COMMISSIONER KIESLING: And before I make any
9 motion, I guess I just didn't understand the next part of
10 the miscellaneous charges about the \$1,700.15 cents for a
11 bond premium, where it says, "Staff does not believe the
12 ratepayers should be charged for something that was
13 exclusively the fault of the utility," and I don't even
14 know what that bond is for, let alone do I know why it's
15 the fault of the utility. So educate me.

16 MR. WILLIS: Commissioners, when this utility
17 came before us and asked for interim rates, the Commission
18 required that they get a bond to guarantee the refund of
19 those interim rates. They would not allow the utility to
20 do anything else but get a bond, which excluded escrowing
21 the funds or a corporate undertaking or any other
22 procedure for doing that. That was based solely upon the
23 past history of this company and how this company has been
24 managed, I believe, if you went back and look at the
25 interim agenda. And what Staff is saying is that the

1 reason the utility had to get the bond was because of
2 their past performance, and that's -- their past
3 performance was reflected in the fact the Commissioner
4 said, "You must get a bond. That's the only way you can
5 get interim rates. It's the only way we believe that the
6 customers can be assured of getting their money back is
7 through a bond."

8 COMMISSIONER KIESLING: Since they got the bond
9 pursuant to a Commission order that they do it, otherwise
10 they would not get any rate increase, why is that not
11 appropriate rate case expense?

12 MR. WILLIS: We don't believe it's appropriate
13 because if this utility had acted appropriately in the
14 past and hadn't put the Commission into such a state that
15 they thought the only means to protect interim rates was
16 with a bond, then a bond would not have been necessary.
17 And they could have either used a corporate undertaking or
18 escrowed the funds, which has a no cost or an immaterial
19 cost to it. The whole necessity for the bond, even though
20 the Commission required it, was due to the utility company
21 and their past.

22 COMMISSIONER KIESLING: Has there been any other
23 cases that you can recall where a similar situation arose
24 and we required a bond in order to guarantee the interim
25 rates? And how did we handle it in those cases?

1 MR. WILLIS: I can't remember any case where we
2 distinctly required a bond. I know of many cases where we
3 have required a letter of credit or escrowing or a bond.
4 Most utilities won't go get the bond because it costs
5 more. Most utilities would rather escrow the funds
6 because of the no cost or slight cost. In those cases,
7 those usually are not allowed as an expense of the rate
8 case.

9 CHAIRMAN DEASON: Commissioner, I understand the
10 difficulty, but the way I kind of look at it, it's very
11 similar to previous issue we addressed. We made an
12 adjustment to the maintenance fee that we recognized as
13 being prudent because of some prior decisions and prior
14 situations which disagree with --

15 COMMISSIONER KIESLING: You mean the management
16 fee?

17 CHAIRMAN DEASON: Yes, the management fee. And
18 I think this, in my mind, is very similar. It's not
19 identical. There were some situations with this company
20 in the past that made it necessary for this Commission,
21 before we would grant interim relief, that there be a
22 bond. And obviously there is a cost associated with the
23 bond. And I think Staff's position is that that's just
24 not a prudent cost to have ratepayers bear, because of
25 previous actions on the part of the management of the

1 company which made it necessary for the Commission to
2 impose the requirement of a bond. So that's the way I
3 look at it. I think that basically is what the Staff's
4 position is.

5 MR. WILLIS: That's correct.

6 COMMISSIONER KIESLING: All right. I'll move
7 Staff on Issue 26, except for the 545, which will be
8 included back into the rate case expense.

9 MR. WILLIS: \$454.

10 COMMISSIONER KIESLING: Isn't that what I just
11 said?

12 MR. WILLIS: 545.

13 COMMISSIONER KIESLING: Thank you. I thought
14 these glasses were going to fix that. That's what I
15 meant.

16 CHAIRMAN DEASON: Show that motion approved.
17 That disposes of Issue No. 26.

18 COMMISSIONER KIESLING: And I move Staff on 27.

19 CHAIRMAN DEASON: And obviously in that, part of
20 Staff's recommendation is to have the fire study filed
21 with the Commission.

22 COMMISSIONER KIESLING: Yes.

23 CHAIRMAN DEASON: Show Staff recommendation
24 approved on Issue No. 27.

25 COMMISSIONER KIESLING: I have one question on

1 28. We've made some other adjustments back here, and so
2 I'm wondering if the dollar amount on 28 will change in
3 anyway.

4 MS. MONIZ: If we made an adjustment to
5 salaries, it would. And we didn't.

6 COMMISSIONER KIESLING: No, we didn't make an
7 adjustment to salaries, but we made an adjustment to --

8 CHAIRMAN DEASON: Made an adjustment to pension
9 expense, insurance and rate case expense.

10 MR. WILLIS: I don't think there was any
11 adjustment that would affect this.

12 MS. MERCHANT: The only real impact it might
13 have would be regulatory assessment fees, but that's a
14 fallout number.

15 COMMISSIONER KIESLING: I just didn't want to
16 move it and realize that I had overlooked the impact of
17 something else. So if I move one that is impacted by the
18 decisions we've already made, just will you let me know?

19 MR. WILLIS: Yes.

20 COMMISSIONER KIESLING: Thank you. I move 28.

21 CHAIRMAN DEASON: Show Issue 28 approved.

22 COMMISSIONER KIESLING: And I move 29.

23 CHAIRMAN DEASON: Show Issue 29 approved.

24 COMMISSIONER KIESLING: Thirty is one, isn't it,
25 where the O&M expenses are going to change based on what

1 we did with the insurance? Isn't that an operations
2 expense?

3 MS. MERCHANT: No, it's not going to be a
4 fallout. The 30 is just matching --

5 COMMISSIONER KIESLING: I can't wait to go to
6 this rate class in two weeks.

7 MS. MERCHANT: Issue 30 basically stands by
8 itself. It's matching the other expenses, truing it up to
9 a '93 level.

10 CHAIRMAN DEASON: It's basically, as I
11 understand it, we have a '92 test year. We have
12 substantial pro forma adjustments. Some the Commission
13 has accepted or rejected or modified. I think -- and we
14 also have made a rate base adjustment recognizing a growth
15 adjustment. That was in Issue 7, right?

16 MS. MERCHANT: Right.

17 CHAIRMAN DEASON: And I think part of Public
18 Counsel's concern is that you're making all of these
19 adjustments, but you shouldn't slight the revenue side
20 either, and that there has been growth in revenues since
21 the '92 test year, and I think we're just trying to get
22 everything on a comparable basis.

23 MS. MERCHANT: That's correct, and it adjusted
24 some expenses and depreciation expense also, that weren't
25 incorporated by their pro forma adjustments.

1 COMMISSIONER KIESLING: Then I move Staff on 30.

2 CHAIRMAN DEASON: Show Staff recommendation
3 approved on Issue 30.

4 MS. MERCHANT: The next two are your fallout
5 issues.

6 COMMISSIONER KIESLING: I knew they were
7 coming. Then I move Staff on 31 and 32 to the extent
8 that -- in concept, and let you come up with the final
9 numbers after you make these other adjustments.

10 MR. WILLIS: Commissioner, I would point out
11 that there is one number that's going to change the rate
12 base, even though we've covered it, and that's the total
13 bottom line, and that's due to the working capital being
14 calculated at one-eighth of O&M. And adding in these
15 additional expenses you've just added in will change that
16 bottom line rate base total by that bottom line amount.
17 So you may have to go back and modify your rate base.

18 CHAIRMAN DEASON: But it all falls out.

19 MR. WILLIS: It is a fallout.

20 CHAIRMAN DEASON: My question is, is I
21 understand there's going to be some modifications to
22 Staff's numbers, when will we have those numbers?

23 MR. WILLIS: We can have them very quickly.
24 Depends on how quickly we get out today and how long you
25 want to wait around. I imagine we can have the numbers

1 rerun as far as revenue requirement within a short time,
2 20 minutes, 30 minutes, max.

3 COMMISSIONER KIESLING: Okay.

4 CHAIRMAN DEASON: Anyway, we're approving Staff
5 on Issues 31 and 32, realizing to the extent that there
6 are fallout ramifications that those will be taken into
7 the final calculations.

8 And Commissioner, what I hear Staff saying is
9 that they can bring back those final numbers to us today.

10 COMMISSIONER KIESLING: And I'm willing to take
11 a 20-minute break right now, if you want to.

12 MR. WILLIS: That's what I was going to
13 suggest. We can take a break and go through these.

14 COMMISSIONER KIESLING: Are there any other
15 decisions we have left to make in 33 -- I mean 35 -- 33,
16 34, 35 -- well, anyway, are there any left to make through
17 42 that would impact on those numbers, so we can take a
18 break now, you can redo those numbers and any others that
19 would fall into like the four-year rate reduction and all
20 of that?

21 MR. WILLIS: There are no other issues left that
22 would impact revenue.

23 COMMISSIONER KIESLING: In 20 minutes you can
24 have that?

25 MR. WILLIS: Rates may take slightly longer than

1 20 minutes. We can have the revenue requirement and be
2 working on the rates. I believe 20 minutes is more than
3 adequate to get the revenue requirement done. We can call
4 you if we get it done sooner.

5 COMMISSIONER KIESLING: I don't know. How do
6 you want to handle it, Mr. Chairman? I know you have some
7 social plans that you want to --

8 CHAIRMAN DEASON: I have no social life.

9 MR. WILLIS: If you like, we can keep moving,
10 and certain staff can go upstairs and start running the
11 figures and bring them back down.

12 CHAIRMAN DEASON: And we could look at the
13 policy questions concerning rates while the accounting
14 folks are running the numbers?

15 MR. WILLIS: Yes, sir.

16 CHAIRMAN DEASON: That's fine with me. Can we
17 just come back to 31 and 32 with the precise numbers?

18 COMMISSIONER KIESLING: And 33, then, rates and
19 charges.

20 MR. WILLIS: And you might want to go back to
21 the rate base issue, too, when they get the working
22 capital calculated. 33 you'll need to skip.

23 COMMISSIONER KIESLING: Right.

24 CHAIRMAN DEASON: We can go to 34?

25 COMMISSIONER KIESLING: Yes.

1 CHAIRMAN DEASON: We have three alternatives, or
2 three choices.

3 COMMISSIONER KIESLING: Actually, I -- maybe I
4 created a fourth choice. I don't know. I would like to
5 do 34 and 35 together, because what I would like to do in
6 this is to -- I would like to adopt the primary
7 recommendation to reduce it by \$400, but I would like to
8 see those funds escrowed pursuant to the modified --
9 pursuant to the modified 35 that we were given just as we
10 walked in.

11 CHAIRMAN DEASON: This is -- Staff provided me
12 with a wording of a recommendation for 35 which would call
13 for escrowing of plant capacity charges. Is that
14 correct?

15 MR. RENDELL: That's correct, Commissioners.

16 CHAIRMAN DEASON: Commissioner, on Issue 35, I
17 don't have a problem with the concept of requiring
18 escrowing. In fact, I was going to raise that question
19 and have it discussed here because I had that concern.

20 My concern is on Issue 34. And the way I
21 understand Staff's recommendation, at least the way it's
22 explained on what is labeled Alternative 2, is that there
23 is a concern that we really don't have sufficient
24 information in this case to make a decision concerning the
25 reduction in service availability charges and that should

1 be done at a later time when additional information is
2 sought and obtained. And I kind of thought that that, to
3 me, made some sense, that we wouldn't reduce it until we
4 were convinced, and the only way we could be convinced is
5 if we had additional information. That's the only way I
6 understand the essence of alternative 2.

7 COMMISSIONER KIESLING: What makes that
8 interesting, Mr. Chairman, is that alternative 2 was the
9 one that I completely rejected out of the 3. I felt like
10 they are overcontributed; there's no doubt about that, but
11 not by much. And in my discussions with Staff on
12 alternative 3, which was to just reduce it to zero, since
13 they're overcontributed, what Staff advised me was that
14 they could not think of any cases where we had reduced it
15 to zero based on that small of a level of
16 overcontribution.

17 And they also convinced me that we shouldn't
18 just leave it the way it is, though, because they are
19 overcontributed and at the levels of growth that have been
20 experienced on the island, that every service availability
21 charge that they received at the full amount would just
22 make them more overcontributed. So I was kind of looking
23 at the primary as being a way to slow down or stop the
24 overcontribution and hopefully bring it back within our
25 level, maximum level that is in our rules, without going

1 through the expense of having to come back in and prove up
2 something.

3 CHAIRMAN DEASON: Let me -- I understand that.
4 Alternative 3 would be the one that I would flatly reject
5 outright. That's not negotiable with me. So I think
6 we're still negotiating in between primary and alternative
7 2. My concern is I understand that it is over the 75%
8 level, slightly over. My question, I guess, is that
9 how -- if we did not make a change, how much would that
10 contribution level continue to grow and continue to become
11 in excess of 75% during the pendency of some type of
12 proceeding to take an in depth look at the appropriate
13 service availability?

14 MR. RENDELL: Commissioners, that would depend
15 on the information we received in Issue 40, 41. The
16 problem is we did not have that information. We base it
17 on a future ongoing basis of the appropriate charge. We
18 realize there should be some kind of reduction, if not to
19 zero, then something, to get them down to a level. But we
20 don't know what the appropriate ongoing charge is, and we
21 don't have the information yet in 40 and 41. We need
22 future ERCs and future capacity and what plant they are
23 going to be putting into service. So that was the
24 alternative No. 2, is once we've received that
25 information, we could either require them to come in for

1 modification at that time, or we could initiate one on our
2 own. We were still concerned that they were above the
3 contribution level pursuant to the rule, and that's why we
4 opted to present the primary the way we did.

5 COMMISSIONER KIESLING: Part of my thought
6 process, Mr. Chairman, was that according to Staff's
7 analysis, on this issue, the contribution level as of the
8 April of 1989, the last rate case, was 23.44%. And over
9 less than five years, it's gone up to over 75%. And if I
10 understood the evidence in the record adequately, it was
11 that the utility itself was not spending any of its
12 shareholders' money, wasn't making any investment in this
13 system over the last five years, and used money that came
14 from service availability charges to both pay operating
15 expenses and fund what little -- what has been changed or
16 added in the last five years. And that, to me, suggests
17 that that trend can only be interrupted by some fairly
18 strong action.

19 CHAIRMAN DEASON: Let me ask this question:
20 What are the anticipated requirements for new investment
21 in the foreseeable future and what impact is that going to
22 have on the rate base and their resulting CIAC level?

23 MS. AMAYA: In Issue 41 it addresses what
24 additional capacity the utility is going to need to add.
25 There are several options open to the utility at this

1 point. They're looking primarily at additional raw
2 water. Now whether they add another well, or whether they
3 parallel some of the transmission mains from the mainland
4 to the island, there's different options open. And in
5 Issue 41 we're asking the utility to come back to DEP and
6 this Commission with specific plans for additional
7 capacity. It ties in with No. 40. They're in the process
8 right now of looking at additional capacity, so we do not
9 know what that future number of ERCs is. And then on the
10 other hand, we don't know exactly what additional capacity
11 is going to be needed.

12 CHAIRMAN DEASON: We don't know exactly what,
13 but it's reasonable to expect the addition of additional
14 capacity. In fact, Staff made the observation that
15 basically the company is at full capacity now.

16 MS. AMAYA: The company is at capacity now, but
17 the island isn't even half built out, so there is a lot of
18 potential for growth.

19 CHAIRMAN DEASON: Well, explain that one to me.
20 There's potential for growth, but to meet that growth
21 you've got to add capacity to the system because the
22 system is already at capacity.

23 MS. AMAYA: Correct.

24 CHAIRMAN DEASON: And my concern is -- and I
25 think you're correct, Commissioner, that there probably

1 has not been an increase in equity investment because one
2 thing, the company has been operating at a loss. And the
3 other thing is is that it's probably difficult to get
4 capital from outside sources for this utility company;
5 that it appears to me that to find the capital to fund
6 these necessary improvements, that we are going to have to
7 look to get substantial contributions from customers, new
8 customers that are going to be putting the demands on the
9 system. What is Staff -- but I guess, Staff, what you're
10 saying is that you feel that with the service availability
11 fee even reduced by the \$400, that would still be
12 adequate? Is that the essence of the primary
13 recommendation?

14 MR. RENDELL: That's the bottom line of it.

15 COMMISSIONER KIESLING: And if I recall
16 correctly, there were at least some indications in the
17 evidence that we received through the hearing, that one
18 way that this happens is developer agreements where, you
19 know, the utility gets the whole lump sum for the
20 development up front. So I mean, it's not like they're
21 going to only be collecting it from one house here and one
22 house there, but that, you know, there's units out there
23 where they may get 30 of them through a developer
24 agreement all up front, to fund that capacity.

25 And that's where I was concerned on 35, that if

1 we don't require them to escrow that and then use it for
2 adding capacity and for the other kinds of appropriate
3 uses, that it will just be gone like it was the last time
4 and they will be even more overfunded with nothing to show
5 for it.

6 CHAIRMAN DEASON: Well, Commissioner, in the
7 spirit of cooperation I'm willing to compromise, and I can
8 accept the primary. I just -- I do have the concerns
9 about meeting the requirements in the future, and I think
10 escrowing, as we've addressed, or will be addressing in
11 Issue 35, that will go a long way towards that. And I do
12 note that there still is, even with a \$400 reduction,
13 there still is a substantial capacity charge. I believe
14 it would be what, \$845 for ERC?

15 MR. WILLIS: Yes, just for the plant capacity.
16 You still have charges for lines, meter installations,
17 services.

18 CHAIRMAN DEASON: So with that, I take it then
19 that, Commissioner, you would be moving primary
20 recommendation on Issue 34?

21 COMMISSIONER KIESLING: And the amended -- or
22 actually new recommendation on 35 regarding escrowing it
23 and what the standards were for releasing it.

24 CHAIRMAN DEASON: Very well. Show primary
25 recommendation approved for Issue 34 and the revised

1 recommendation concerning escrowing on Issue 35.

2 MR. RENDELL: Commissioners, Item No. 36 would
3 depend on the new rates that we'll be calculating.

4 CHAIRMAN DEASON: We'll come back to 36. 37.

5 MS. MERCHANT: I can assume since we're
6 increasing the expenses that this issue will not change?

7 CHAIRMAN DEASON: I would assume so. Your
8 recommendation is there's no basis for a refund, and I
9 think that the adjustments we've made here today would
10 only increase revenue requirements.

11 COMMISSIONER KIESLING: I move 37.

12 CHAIRMAN DEASON: Show 37 approved.

13 MS. MERCHANT: Issue 38 was amended earlier in
14 the corrections and the language for the recommendation.

15 COMMISSIONER KIESLING: And I move 38 as amended.

16 CHAIRMAN DEASON: Without objection, Issue 38 is
17 approved. 39?

18 COMMISSIONER KIESLING: I move Staff. And in
19 moving Staff, I would hope that we're sending a clear
20 message to the utility that this whole process would be a
21 whole lot easier and a whole lot cleaner if their books
22 and records were in substantial compliance with our rules
23 and requirements.

24 CHAIRMAN DEASON: Let me ask one question in
25 relation to Issue 39. I don't necessarily disagree with

1 the bottom line finding of this issue, but it seems to me
2 that there has been substantial improvement, has there
3 not?

4 MS. WILLIAMS: Yes, there has been.

5 CHAIRMAN DEASON: Was that recognized in your
6 analysis in this issue that there has been improvement in
7 the record keeping?

8 MS. WILLIAMS: There has been improvement, but
9 not enough to find the utility in compliance.

10 CHAIRMAN DEASON: All right. Show Staff
11 recommendation on Issue 39 is approved. Issue 40?

12 COMMISSIONER KIESLING: I move Staff on the ERC
13 issue, 40.

14 CHAIRMAN DEASON: Show Staff recommendation
15 approved on Issue 40. 41?

16 COMMISSIONER KIESLING: I move Staff on 41.

17 CHAIRMAN DEASON: And this is the issue where we
18 were going to look at improving the fire flow?

19 MS. AMAYA: Correct. Since the fire protection
20 study was allowed in Issue 27, the same engineer that the
21 utility has will be conducting both, the fire protection
22 and the system analysis, and they can go hand in hand.

23 CHAIRMAN DEASON: Show Staff recommendation on
24 Issue 41 approved.

25 COMMISSIONER KIESLING: Mr. Chairman, on Issue

1 42, I had a discussion with Staff prior to coming in here,
2 and we kind of redid the rulings on the proposed findings
3 of fact. And I had my assistant prepare it in typewritten
4 form since everyone else was in here, and so I would like
5 to at least let Mr. Willis pass that out. And it just
6 seemed to be a much more economical way of dealing with
7 the proposed findings of fact without going through and
8 having to do an explanation on each one.

9 CHAIRMAN DEASON: Let me ask this: What I have
10 in front of me here, is this just a reorganization of what
11 is contained in Staff's recommendation, or are there
12 changes to what Staff is recommending?

13 COMMISSIONER KIESLING: There are changes.
14 We've added both a category that -- No. 1 there, which is
15 that they're adopted in substance but will be modified,
16 and that was to take care of those proposed findings of
17 fact that at least the facts in it were related to the
18 record, but by the time you sorted through the -- I'll say
19 the adjectives, and in some cases the adverbs, that it
20 changed substantially what one would glean from that
21 proposed finding of fact. So it is allowing Staff in the
22 writing of the final order to use the facts that are in
23 there, but modify it so that it comports with the record
24 as opposed to just rejecting the whole thing over one word
25 or two words. And other than that, it is in -- it is

1 substantially the same as what Staff had there.

2 CHAIRMAN DEASON: Why don't we do this then, I
3 think we're going to need to take a break anyway. And I
4 can review those that are contained there in that section
5 1. And if I've got any questions about those, we can come
6 back and go over those. And we'll do that and come back.
7 Is there anything that we need to do now before we take a
8 break? I think we've done all the revenue requirement
9 issues, Staff is working on those. We've addressed
10 basically the rate structure issues to the extent we can.
11 I think we're going to have to come back to 36 also.
12 Anything else that we need to do at this time?

13 MR. WILLIS: The only issue left is 43 which is
14 closed docket. And we could go ahead and address that if
15 you wanted to.

16 COMMISSIONER KIESLING: Could I just throw in
17 one thing, just because I don't know that he actually got
18 to say it.

19 Mr. Pierson, since you are the attorney who
20 prepared Issue 42, and you also worked with me on
21 preparing my update, are you in agreement that that --
22 that our new updated one fairly reflects what you believe
23 are the appropriate rulings on those proposed findings of
24 fact?

25 MR. PIERSON: Absolutely.

1 COMMISSIONER KIESLING: Thanks.

2 CHAIRMAN DEASON: Staff, you made the
3 observation that for 43 there's some conditions that must
4 be met within some of the other issues before the docket
5 can be closed; is that correct?

6 MR. WILLIS: That's correct. Originally it was
7 with Issues 27, 40 and 41, but now we have to add Issues
8 15 and 22, but the docket will also have to remain open
9 while the CIAC is being escrowed. Issue 20 also, I was
10 reminded. At this point the docket cannot be closed.

11 COMMISSIONER KIESLING: And I would move Staff
12 on the -- as amended on 43.

13 CHAIRMAN DEASON: Show Staff as amended on 43
14 approved.

15 COMMISSIONER KIESLING: So we still are coming
16 32, 33, 34, 35 -- no, we did 35. We did 34.

17 CHAIRMAN DEASON: We have to come back for 31,
18 32, 33 and 36, and also the rate base effect on working
19 capital?

20 MS. MERCHANT: Right, that's No. 8.

21 CHAIRMAN DEASON: That's No. 8.

22 COMMISSIONER KIESLING: And 42 then.

23 CHAIRMAN DEASON: All right, if we were to come
24 back at 4:00, would that give Staff enough time to be
25 prepared?

1 MS. MERCHANT: I think they've been up there
2 about 15 minutes already, so I would think so.

3 MR. WILLIS: We should well be prepared.

4 CHAIRMAN DEASON: Mr. Pierson, I'm going to ask
5 you to come to my office and review these findings of fact
6 quickly with me and we'll reconvene at 4:00.

7 (Recess)

8 CHAIRMAN DEASON: Call the agenda conference
9 back to order. Okay, before we go looking at the final
10 calculations, what we hope are final calculations, let me
11 state that I discussed the proposed findings of fact with
12 Mr. Pierson, and I think it's going to be helpful to me,
13 and probably for this entire proceeding, if we discuss
14 each one that's in the first category, as to exactly what
15 the change is. I don't think there's any need whatsoever
16 to discuss those that are in Category 2 and Category 3,
17 but at some point we need to discuss those that are in
18 Category 1 so I have an understanding exactly what the
19 change is and that it's basically expressed for record
20 purposes as to what those changes are. We can do that now
21 or we can do it after we look at the final numbers. And
22 it doesn't make any difference to me.

23 COMMISSIONER KIESLING: Doesn't matter to me
24 either.

25 CHAIRMAN DEASON: Let's go ahead and do the

1 findings of fact and get those addressed, and then we can
2 go back and look at the final numbers. The ones in the
3 first category, let's begin with No. 1. Mr. Pierson?

4 MR. PIERSON: Yes, No. 1 will be adopted as
5 modified to show that the quality of service provided by
6 St. George is satisfactory and has improved in recent
7 years. Basically the rest of it is "spin," if I may use
8 that word.

9 CHAIRMAN DEASON: So we're just basically saying
10 that it has -- that the quality of service has improved?

11 MR. PIERSON: Yes.

12 CHAIRMAN DEASON: That will become the essence
13 of the finding of fact; is that correct?

14 MR. PIERSON: Yes, sir.

15 CHAIRMAN DEASON: All right, No. 3?

16 MR. PIERSON: Three is very much as in the
17 original Staff recommendation, that it will be adopted --
18 and Commissioner Kiesling, I hope you'll correct me if I
19 misstate anything -- adopted except for (D) and (H).

20 COMMISSIONER KIESLING: Correct. That's what we
21 talked about.

22 CHAIRMAN DEASON: Wait a minute. In your
23 original recommendation you were recommending that it be
24 adopted except for (D) and (H); is that correct?

25 MR. PIERSON: Yes, so this one hardly changed at

1 all.

2 CHAIRMAN DEASON: Okay, No. 4?

3 MR. PIERSON: I believe that No. 4 is adopted,
4 as modified, to state that the improvements referred to in
5 No. 3 have increased the capacity of the system and
6 improved its reliability.

7 CHAIRMAN DEASON: So there would be no
8 discussion, hydrogen sulfide or sulfur complaints in the
9 finding of fact? Nothing about the outages and those
10 caused by the testing of the fire hydrants?

11 COMMISSIONER KIESLING: I thought that the last
12 sentence we were going to leave in, but we were trying to
13 do something about the "dramatically increased" as opposed
14 to just "increased."

15 MR. PIERSON: And leaving the rest of it?

16 COMMISSIONER KIESLING: That's what I had
17 understood, that the only modification was going to be
18 that we were taking out the adverb.

19 MR. PIERSON: Taking out "dramatically."

20 CHAIRMAN DEASON: Taking out the term
21 "dramatically"?

22 COMMISSIONER KIESLING: Yes, and "virtually."
23 From "virtually eliminated," we had talked about another
24 word besides "eliminated."

25 CHAIRMAN DEASON: We could substitute

1 "reduced."

2 COMMISSIONER KIESLING: Put "greatly reduced"
3 or --

4 CHAIRMAN DEASON: Just say "have been reduced"
5 as opposed to "virtually eliminated." Okay.

6 MR. PIERSON: Commissioners, there were also
7 complaints, I believe, from customers.

8 COMMISSIONER KIESLING: But they were reduced
9 not eliminated, that was what we just --

10 MR. PIERSON: I'm sorry, I was listening out of
11 both ears.

12 CHAIRMAN DEASON: We decided to substitute the
13 terms "reduced" for the phrase "virtually eliminated," and
14 you're going to strike the word "dramatically."

15 MR. PIERSON: Yes.

16 CHAIRMAN DEASON: No. 5?

17 MR. PIERSON: No. 5 is to be modified to remove
18 the second sentence.

19 COMMISSIONER KIESLING: Well, it was -- yes, it
20 was -- the problem was that the record didn't support that
21 every single test had been taken in a timely manner.

22 MR. PIERSON: Particularly the third well.

23 COMMISSIONER KIESLING: And the problem was the
24 third well that was not timely filed.

25 MR. PIERSON: Do you want to say, then, "except

1 for the third well"?

2 COMMISSIONER KIESLING: Yes.

3 MR. PIERSON: "The Company has consistently
4 taken required samples"?

5 COMMISSIONER KIESLING: I wouldn't say
6 "consistently." Again, I don't like those kinds of
7 puffing, puffery, or whatever it is.

8 MR. PIERSON: "The Company has taken required
9 samples, except for the third well," or "in a timely
10 manner, except for the third well"?

11 COMMISSIONER KIESLING: Yes.

12 CHAIRMAN DEASON: What about the phrase "and has
13 passed all water quality tests"?

14 COMMISSIONER KIESLING: They have.

15 CHAIRMAN DEASON: Does that apply also to the
16 third well, that phrase, or does that not apply to the
17 third well in the finding?

18 MR. PIERSON: The third well now, I believe,
19 passes all water quality tests.

20 CHAIRMAN DEASON: Very well. That addresses
21 No. 5. No. 39?

22 COMMISSIONER KIESLING: That one was to be
23 accepted, and we were just talking about modifying it
24 again to take out the puffery.

25 MR. PIERSON: And I'm looking for the puffery.

COMMISSIONER KIESLING: Pardon?

MR. PIERSON: I was looking for that puffery.

3 COMMISSIONER KIESLING: Well, yeah, I mean the
4 "'Plant in service' should be reduced by 647" was a
5 stipulation.

6 CHAIRMAN DEASON: What's the specific
7 modification?

8 COMMISSIONER KIESLING: It's that last sentence,
9 "While it would be incorrect to allocate total leasehold
10 improvements to the utility, it would also be incorrect to
11 allocate less than 50 percent of it."

12 CHAIRMAN DEASON: Just want to strike that
13 sentence?

14 COMMISSIONER KIESLING: Yes.

15 CHAIRMAN DEASON: Okay, that last sentence would
16 be stricken then from 39. No. 40?

17 COMMISSIONER KIESLING: This one was going to
18 be -- the problem was "substantially all of the equipment
19 used by the utility belongs to the affiliate," and in fact
20 the evidence did not quite support that, and it would be
21 modified to reflect -- I believe it was the copier and --
22 it was the "substantially all" and certainly not "all"
23 was -- those two words were the problem.

24 MR. PIERSON: So we could strike out "all of"
25 and start with "the furniture" and strike "and

1 substantially all of the equipment"?

2 COMMISSIONER KIESLING: Wait a minute. I
3 thought that all the furniture -- we were in agreement
4 that all of the furniture belonged to the affiliate, but
5 it was the equipment that we were not in agreement that
6 the record supported. Mr. Willis?

7 MR. WILLIS: I thought you were going to
8 substitute "some of the equipment" in there.

9 COMMISSIONER KIESLING: Right.

10 MR. WILLIS: In other words, "and some equipment
11 used by SGIU belongs to an affiliate."

12 COMMISSIONER KIESLING: Yes. It was the
13 "substantially all" phrase that we had a problem with.

14 CHAIRMAN DEASON: Okay. No. 50?

15 COMMISSIONER KIESLING: Well, my problem with
16 that one was that it was supposed to be accepted, but,
17 again, just some rewording, and I don't know if I could be
18 absolutely specific right now, to take out, again, what
19 seemed to be fluff. And I mean that different than
20 puffery.

21 CHAIRMAN DEASON: It seems to me that middle
22 sentence probably could just be deleted.

23 MR. WILLIS: I think the last sentence was the
24 only thing we really felt should be left in, that
25 everything before that was basically what you call fluff.

1 CHAIRMAN DEASON: So would you just say "Pro
2 forma adjustments should be determined based upon the
3 merits of the programs they are designed to implement"?

4 MR. WILLIS: Correct.

5 COMMISSIONER KIESLING: The difficulty,
6 Mr. Chairman, was in these statements where part of it is
7 true and supported by the record and part of it isn't.
8 And rather than rejecting them all, we were trying to
9 figure out a way to save part.

10 CHAIRMAN DEASON: No. 51.

11 MR. PIERSON: This is a little more problematic
12 because it's a lot longer.

13 COMMISSIONER KIESLING: Yeah, I can probably
14 capture the gist more than I could the exact words,
15 Mr. Chairman.

16 CHAIRMAN DEASON: What is that?

17 COMMISSIONER KIESLING: The gist was that it's
18 not a unique utility with unique features, but it has some
19 unusual features that make it not easily comparable to
20 others. And then what those features actually were we
21 didn't have a problem with.

22 CHAIRMAN DEASON: So all of the enumerated (A)
23 through (F) would stand? Or there would be modifications
24 to that?

25 COMMISSIONER KIESLING: There might be

1 modifications if there were -- again, just in wording, not
2 in the concept.

3 MR. PIERSON: Such as "SGIU has an unusually
4 long distribution system."

5 COMMISSIONER KIESLING: Right, it has a long
6 one, but what is unusual, compared to what?

7 CHAIRMAN DEASON: No. 52?

8 MR. PIERSON: I believe the problem that we had
9 with this was "significantly."

10 COMMISSIONER KIESLING: "Significantly."

11 CHAIRMAN DEASON: Strike the term
12 "significantly."

13 COMMISSIONER KIESLING: And the term "unique."
14 If there are others that share it, it isn't unique. So --

15 CHAIRMAN DEASON: Strike "unique."

16 MR. PIERSON: I believe we also struck the last
17 sentence.

18 COMMISSIONER KIESLING: Yes, we did.

19 CHAIRMAN DEASON: I would agree with that.
20 No. 58.

21 COMMISSIONER KIESLING: I think it was the
22 "Indeed, virtually every witness with any familiarity of
23 the system has acknowledged" that we had a problem with,
24 and we simply were going to reword it such that -- to
25 reflect that Hank Garrett, as you indicated earlier, is

1 extremely important, but -- and is needed, as well as the
2 additional full time employees, or the present full time
3 employees, but that we didn't have to have the
4 argumentative type phrase of "virtually every witness"
5 says this.

6 MR. PIERSON: May I suggest "Many witnesses
7 acknowledge the importance of its operations manager," et
8 cetera, et cetera?

9 COMMISSIONER KIESLING: I could live with that
10 one.

11 CHAIRMAN DEASON: No. 60?

12 MR. PIERSON: The problem with this one was we
13 don't know whether they -- whether Mr. Garrett and his
14 assistant operated the utility without the second
15 assistant in recognition of cash flow problems.

16 COMMISSIONER KIESLING: We just know that they
17 did. We do not know the purported reason for it. I
18 was -- we were going to strike "In recognition of the
19 cash flow problems which SGIU was experiencing," and
20 simply say that Mr. Garrett and a single assistant
21 operated it for a period of time, and that these two are
22 now on call seven days a week for 24 hours a day.

23 CHAIRMAN DEASON: Okay, No. 61.

24 MR. PIERSON: The problem with this one was
25 basically the word "impressive" and the other words to

1 either side of it. I believe we could probably live with
2 "The list of duties of these employees has increased."

3 COMMISSIONER KIESLING: Yes.

4 CHAIRMAN DEASON: No. 67.

5 COMMISSIONER KIESLING: Oh, we were also going
6 to strike that last sentence, "It is difficult to
7 appreciate the suggestion that one less field assistant is
8 needed."

9 CHAIRMAN DEASON: That would be on 61?

10 COMMISSIONER KIESLING: Yes.

11 MR. PIERSON: Thank you.

12 CHAIRMAN DEASON: No. 67?

13 COMMISSIONER KIESLING: We were happy to say
14 just that "SGIU needs legal assistance to ensure that
15 legal matters and legal documents are adequately drafted,"
16 and we're going to -- let's see, on the sentence -- and
17 the last sentence would be all right.

18 CHAIRMAN DEASON: All right, No. 77?

19 MR. PIERSON: I think this was "unusual
20 length."

21 CHAIRMAN DEASON: Uh-huh. Strike "unusual."

22 MR. PIERSON: I believe that we could probably
23 strike that entire sentence.

24 COMMISSIONER KIESLING: Except for the first one
25 that says "The utility's unaccounted for water is not

1 excessive" because, in fact, we found it's not excessive.

2 MR. WILLIS: I think we agreed to strike the
3 second sentence, the entire second sentence.

4 MR. PIERSON: No, I meant the third, actually,
5 "Given the unusual length of the SGIU system, it is
6 noteworthy that the rate is not higher."

7 CHAIRMAN DEASON: And that's the third
8 sentence. No. 86?

9 COMMISSIONER KIESLING: Just -- that was more
10 just a rewording.

11 CHAIRMAN DEASON: For 86?

12 COMMISSIONER KIESLING: Yes. I would probably
13 say, "All of these studies are important to maintaining
14 and improving the service provided by SGIU," and strike
15 the last sentence.

16 CHAIRMAN DEASON: Okay. No. 87?

17 MR. PIERSON: I think we struck the last
18 sentence on this one.

19 COMMISSIONER KIESLING: Well, I think we struck
20 more than that. Let me see.

21 MR. PIERSON: Yes.

22 COMMISSIONER KIESLING: Yes, it was --

23 MR. PIERSON: Starting with, "Even though the
24 cost of the programs"?

25 COMMISSIONER KIESLING: Exactly.

1 CHAIRMAN DEASON: Strike the phrase beginning
2 with "Even though"?

3 MR. PIERSON: Yes, sir, and also strike --

4 COMMISSIONER KIESLING: The last sentence.

5 MR. PIERSON: Yes.

6 CHAIRMAN DEASON: No. 89.

7 COMMISSIONER KIESLING: The only thing we were
8 going to come out of that whole thing with was the
9 sentence, "Many SGIU customers are anxious that" -- SGIU,
10 I have a hard time saying that -- "provide a level of
11 service that would meet fire protection standards."

12 CHAIRMAN DEASON: That's what you're suggesting
13 would remain?

14 COMMISSIONER KIESLING: Yes.

15 MR. PIERSON: I would like to suggest doing away
16 with "anxious" and finding a better way to say that.

17 COMMISSIONER KIESLING: How about instead of
18 saying "are anxious," we could just say "Many utility
19 customers want SGIU to provide a level of service that
20 would meet the fire protection standards."

21 CHAIRMAN DEASON: Very well. No. 90.

22 COMMISSIONER KIESLING: Well, "clearly" was the
23 first word that I had a problem with. And again, the
24 essence of it was going to end up being that a study is
25 needed so that the utility can determine the most

1 effective means of meeting the objective. And striking
2 the last sentence.

3 MR. PIERSON: May I suggest, "The most effective
4 means of providing fire protection service"?

5 COMMISSIONER KIESLING: Yes.

6 CHAIRMAN DEASON: The most effective means of
7 what?

8 MR. PIERSON: Of "providing fire protection
9 service," rather than the "meeting the objective"?

10 COMMISSIONER KIESLING: Yes.

11 CHAIRMAN DEASON: Okay. I believe that
12 addresses then all of the proposed findings of fact in
13 that first category, and I believe that the disposition of
14 the remaining findings of fact in Categories 2 and 3 are
15 very clear and that we do not need to review those
16 individually.

17 COMMISSIONER KIESLING: I agree.

18 CHAIRMAN DEASON: And with that, then, we have
19 a -- I think we have a motion to approve the recommended
20 disposition of all findings of fact, as consistent with
21 what is contained on this revised sheet for Item 42.

22 COMMISSIONER KIESLING: As clarified in our
23 discussion. Yes, that's the motion.

24 CHAIRMAN DEASON: Show that motion approved.

25 And I think that addresses the findings of fact, and now

1 we can go back to the revenue requirement issues. And
2 would it be best to begin with Issue 8?

3 MS. MONIZ: Excuse me. Appropriate level of
4 water rate base should be \$247,876.

5 COMMISSIONER KIESLING: I'm trying to figure out
6 where we even are. Do you have a page number that that
7 crosses over to?

8 MS. MERCHANT: On the vote sheet or the
9 recommendation?

10 COMMISSIONER KIESLING: The recommendation,
11 okay, there we are. Now, yes, give me the new number.

12 MR. WILLIS: 63.

13 COMMISSIONER KIESLING: The new number was
14 what?

15 MS. MONIZ: 247,876.

16 COMMISSIONER KIESLING: I so move.

17 CHAIRMAN DEASON: That's basically the working
18 capital effect of the expense issues?

19 MR. WILLIS: That's correct.

20 MS. MONIZ: Issue 31.

21 CHAIRMAN DEASON: Show Issue 8 approved with the
22 number 247,876. The next issue is 31?

23 COMMISSIONER KIESLING: Do you happen to know
24 the page?

25 MS. MONIZ: 136.

1 COMMISSIONER KIESLING: Thank you.

2 MS. MONIZ: The amount is 91,590; operating loss
3 is 91,590.

4 CHAIRMAN DEASON: What schedule is that shown
5 upon?

6 MS. MERCHANT: 3(A). The NOI schedule.

7 MS. MONIZ: It's under Staff attested test year,
8 third column from the right, the bottom, operating
9 income.

10 CHAIRMAN DEASON: I see that. All right, do we
11 have a motion for that?

12 COMMISSIONER KIESLING: So move.

13 CHAIRMAN DEASON: Show that approved for Issue
14 31. Issue 32?

15 MS. MONIZ: That's on Page 12. I'm sorry, 137,
16 recommendation.

17 COMMISSIONER KIESLING: Which schedule do I need
18 to look at for this?

19 MS. MONIZ: The same set, 3(A).

20 CHAIRMAN DEASON: I believe you have that
21 highlighted in the last column.

22 MS. MONIZ: Right, 464,923 is the new amount.

23 COMMISSIONER KIESLING: 446 -- no, wait a
24 minute.

25 MS. MONIZ: 464,923.

1 CHAIRMAN DEASON: What is the new percentage
2 increase?

3 MS. MONIZ: Increase of 114,974. And the
4 percentage is 32.85%.

5 CHAIRMAN DEASON: 32.85?

6 MS. MONIZ: Right.

7 MS. MERCHANT: Those are also reflected on that
8 Schedule 3(A).

9 CHAIRMAN DEASON: Let me -- maybe I'm missing
10 something here. I thought that we recognized insurance
11 expense of over \$12,000, where before we had zero?

12 MS. MERCHANT: That's correct.

13 CHAIRMAN DEASON: And we also recognized pension
14 expense where before there was zero?

15 MS. MONIZ: Right.

16 CHAIRMAN DEASON: And we recognized almost \$500
17 of additional rate case expense?

18 MS. MONIZ: No, sir, it was only \$100 rate case
19 expense because that was the four-year amount.

20 MS. MONIZ: \$114.

21 CHAIRMAN DEASON: \$100 then. Still, the
22 increase above what was recommended --

23 MS. MONIZ: Probably regulatory assessment fees
24 is the difference.

25 CHAIRMAN DEASON: There's about a \$10,000

1 increase than what Staff was originally recommending, and
2 just the insurance is more than that.

3 MS. MERCHANT: 20,000.

4 CHAIRMAN DEASON: I thought you said the
5 increase was 104 now.

6 MS. MERCHANT: 114.

7 CHAIRMAN DEASON: I'm sorry. That accounts for
8 it. 114. Very well. I was going to say, I just couldn't
9 see how we could do all of those things for \$10,000.
10 Would have been nice. Okay, 114.

11 All right, do I have a motion?

12 COMMISSIONER KIESLING: Yes, I move the new
13 numbers on Issue 32.

14 CHAIRMAN DEASON: Show that approved for Issue
15 32.

16 Issue 33.

17 MR. RENDELL: Commissioners, the first sentence
18 should be changed to reflect the new revenue requirement,
19 464,923. I believe you have the schedule of rates.

20 COMMISSIONER KIESLING: I have a question. I
21 was just a little confused by the two sheets that I was
22 given. On Schedule 4, which is the new rates, including
23 rate case expense, it shows, like, for example \$21.49 for
24 the three-quarter inch meter, et cetera. Then when I look
25 at Schedule 5, which is the decrease after rate case

1 expense, the rates are the same.

2 MR. RENDELL: No, ma'am. What it shows is the
3 Staff recommended rates and then it shows what the rate
4 decrease will be --

5 COMMISSIONER KIESLING: It doesn't have a column
6 that shows me what the new rate will be after that
7 decrease?

8 MR. RENDELL: The reason being is that in that
9 four-year time they could come in for price indexes, they
10 could come in for limited proceedings, whatever. So we
11 don't know what the final rates will be. That's just the
12 decrease that will take effect.

13 COMMISSIONER KIESLING: Thank you.

14 CHAIRMAN DEASON: Let me ask a question. The
15 new recommended rates for a five-eighths inch meter is the
16 base facilities charge of 21.49, and gallonage charge per
17 thousand gallons of 2.03. And the -- what was the base
18 facility charge that was recommended before we made the
19 changes that we made today?

20 MR. WILLIS: \$20.54, shown on Page 201 of the
21 relation.

22 CHAIRMAN DEASON: It was \$20.54?

23 MR. WILLIS: That's correct, base facility
24 charge.

25 CHAIRMAN DEASON: And the gallonage was \$1.94?

1 MR. WILLIS: Correct.

2 CHAIRMAN DEASON: I guess my question is the
3 adjustments that we made, which was primarily driven by
4 recognition of insurance expenses and pension expenses,
5 were those -- how were those divided between base
6 facilities charge and gallonage charge?

7 MR. RENDELL: What we did was we weighted the
8 total revenue requirement more towards the base facility
9 and this came out in the evidence and in the record. What
10 we did was do more of a 70/30 split, recognizing the
11 seasonality of the customers on the island, so we took the
12 total revenue requirement and split it between the base
13 facility and the gallonage.

14 CHAIRMAN DEASON: I see. So what was weighted
15 70% and what was 30%?

16 MR. RENDELL: 70% of the total revenue
17 requirement went to base facility and 30% went to
18 gallonage. We did a comparison based on the analysis that
19 was provided in the MFRs and they come out virtually
20 identical. There was like small differences.

21 CHAIRMAN DEASON: Because it just appears to me
22 that the base facility charge seems high in relation to
23 other utilities, and you're saying that that is purposeful
24 in that the seasonality of the customer base?

25 MR. RENDELL: That is correct. Typically this

1 utility has problems in the winter months paying their
2 bills, and so it recognizes that fact.

3 COMMISSIONER KIESLING: And what's the shutoff,
4 voluntary shutoff fee? Is there one? And then turning it
5 back on?

6 MR. RENDELL: According to the rules, that they
7 will still be charged that base facility. If they are
8 gone for just an extended period, like three or four
9 months, the utility has the right to go back and collect
10 those for those months it was shut off. So they have a
11 right to collect those charges so that they have that
12 capacity available to those customers.

13 COMMISSIONER KIESLING: Mr. Chairman, certainly
14 in the short period of time that I've been here, this kind
15 of a split seems pretty unusual, but under the
16 circumstances in this case, I think that it's a reasonable
17 thing to do.

18 CHAIRMAN DEASON: Well, I don't object to it. I
19 would make one observation, and I'm sure Staff is already
20 aware of this, is that anytime you put more expenses and
21 more weighting on to the base facility charge you lose the
22 conservation effect of the gallonage charge.

23 MR. RENDELL: That is true.

24 CHAIRMAN DEASON: But there are other justified
25 reasons though, and that being the revenue stream to the

1 utility, the stability of the revenue stream and the fact
2 that there are fixed costs which need to be recovered,
3 regardless of whether a customer is actually residing
4 there at the time and consuming water. So --

5 MR. RENDELL: Also the typical high use for this
6 utility is during the holidays, like 4th of July, Labor
7 Day. So the majority of the places that are using the
8 water may be rented to renters, and they're not as
9 conservation minded as a year-round customer.

10 CHAIRMAN DEASON: Okay, do I have a motion then
11 for the rates?

12 COMMISSIONER KIESLING: Yes, I move 32 as
13 amended.

14 CHAIRMAN DEASON: That's 33.

15 COMMISSIONER KIESLING: 33?

16 CHAIRMAN DEASON: 33 as amended.

17 COMMISSIONER KIESLING: Yes, you're right.

18 CHAIRMAN DEASON: Show that approved. 36, I
19 believe?

20 MR. RENDELL: 36 should be revised to reflect
21 that the recommendation in rates should be reduced by
22 25,585 at the expiration of four-year recovery.

23 COMMISSIONER KIESLING: How much was the number
24 again?

25 MR. RENDELL: \$25,585 reflects the four-year

1 amortization of the increase.

2 CHAIRMAN DEASON: And then the actual decreases
3 are reflected on Schedule 5?

4 MR. RENDELL: That's correct.

5 COMMISSIONER KIESLING: And I move 36 as
6 amended.

7 CHAIRMAN DEASON: Show that approved, and I
8 believe 42 is the last issue?

9 COMMISSIONER KIESLING: We just took care of
10 that.

11 CHAIRMAN DEASON: Oh, that's correct. That was
12 the findings of fact. I made a note we needed to go back
13 to that and we've already done that. And we have already
14 addressed 43 as well?

15 MR. WILLIS: That's correct.

16 CHAIRMAN DEASON: Is there anything else then?

17 MR. WILLIS: Not at this time.

18 CHAIRMAN DEASON: Let me say that I appreciate
19 all of the hard work that was put in by Staff on this case
20 and the parties, Public Counsel's office and the utility
21 and the water district. I think, Staff, you did an
22 outstanding job on this case, and with that, this agenda
23 conference is adjourned. Thank you all.

24 COMMISSIONER KIESLING: I would just echo the
25 Chairman's comments on that. I thought that overall, this

1 recommendation was exceptionally good, easy to follow and
2 certainly made my job easier. I appreciate it.

3 MR. WILLIS: We appreciate that.

4 (Hearing concluded at 4:45 p.m.)

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CERTIFICATE

STATE OF FLORIDA
COUNTY OF LEON

I, LISA GIROD JONES, Registered Professional Reporter, certify that I was authorized to and did stenographically report the foregoing proceedings; and that the transcript is a true record.

I further certify that I am not a relative, employee, attorney, or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 14th DAY OF October, 1994.



LISA GIROD JONES, RPR, CM

STATE OF FLORIDA
COUNTY OF LEON

The foregoing certificate was acknowledged before me this 14th day of October 1994, by Lisa Girod Jones, who is personally known to me.



NOTARY PUBLIC, State of Florida
at Large



JUDY A. ELAM
MY COMMISSION # CC26375 EXPIRES
March 17, 1997
BONDED THROUGH WOLF PAIN INSURANCE, INC.