SSU
Southern States Utilities

ORIGINAL FILE COPY

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950495 - WS

APPLICATION FOR A GENERAL RATE INCREASE

VOLUME I
BOOK 7 OF 22

MINIMUM FILING REQUIREMENTS
PREFILED DIRECT TESTIMONY

Containing

JUDITH J. KIMBALL

DIRECT TESTIMONY OF JUDITH J. KIMBALL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ON BEHALF OF

SOUTHERN STATES UTILITIES, INC.

DOCKET NO. 950495-WS

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

A. My name is Judith J. Kimball and my business address is 1000 Color Place, Apopka, Florida 32703.

Q. **BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

A. I am employed by Southern States Utilities, Inc. ("Southern States") as Assistant Vice President - Finance and Administration.

Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.**

A. I received a Bachelor of Science degree in Business Administration with a major in Accounting from the University of Central Florida in 1983. I became licensed as a certified public accountant in the State of Florida in 1984. I am a member of the American Institute of Certified Public Accountants and the Florida Institute of Certified Public Accountants.

Q. **WOULD YOU PLEASE DESCRIBE YOUR EMPLOYMENT HISTORY IN THE FIELD OF PUBLIC UTILITY REGULATION.**

A. In May 1983, I was hired as a public utility auditor for the Florida Public Service Commission ("FPSC" or "Commission"), working out of the Orlando field office. I held that position until approximately October 1984, at which time I joined Southern States as Rate Director. I remained in that position until June 1987 when I was appointed to the position of Controller.

Q. WOULD YOU PLEASE DESCRIBE THE TYPE OF WORK YOU PERFORMED WHILE AN AUDITOR FOR THE FPSC?

A. Most of the audits I participated in involved small water and wastewater utilities located in central Florida. I also performed audit work at United Telephone in Apopka, Vista-United Telecommunications at Disney World, and Gulf Power in Pensacola. In addition to assisting on various portions of these audits, I was audit manager on several of them. I conducted staff assisted audits in those instances where the utility was very small and virtually created accounting records to support rate filings. I participated in several audits of Southern States during my tenure with the Commission. During these audits, I worked on rate base issues, establishing or verifying beginning balances, verifying plant and CIAC additions and reviewing tax returns. I also audited expenses for prudency and reasonableness.

Q. PLEASE DESCRIBE YOUR PAST AND CURRENT RESPONSIBILITIES AT SOUTHERN STATES.

A. During my first three years at Southern States, I was the Rate Director. In addition to filing rate cases, I was involved in the filing of pass-through and indexing applications.

In June 1987, I was appointed to the position of Controller. As Controller, my responsibilities included overseeing the Financial Accounting, Regulatory Accounting, Payroll, Accounts Payable and

Property Accounting Departments. The Accounting area provides support to the Rate Department in its filings and in the audit and discovery processes that result from these filings.

In October of 1992, I was promoted to the position of Assistant Vice President - Finance and Administration. Responsibilities in that position include Finance and Administration Department support of rate applications, synchronization of accounting records with regulatory documentation, research on regulatory accounting issues, preparation of FPSC annual reports and supervision of the Purchasing and Administrative Services Departments. I have spent the better part of 1994 reconciling the latest FPSC rate orders to the Company's books in order that they are in compliance and agreement with the Commission's records. At the beginning of 1995, I was temporarily assigned to the Rate Department under a Company executive loan program to coordinate and supervise preparation of the Company's revenue requirements in the current docket.

Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE A PUBLIC UTILITIES COMMISSION?**

A. Yes. I have submitted testimony and/or testified before the Florida Public Service Commission, the Hillsborough Board of County Commissioners and the Sarasota County hearing examiners.

Q. **PLEASE OUTLINE THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING.**

A. I will testify with respect to the Company's Cost of Service and sponsor the following documents filed in this case:

<u>Volume III - Water and Wastewater Minimum Filing Requirements (MFRs)</u>

Book 1 of 6	Schedules A & B: Water Rate Base and Operating Income for all FPSC Conventional and Reverse Osmosis Plants for projected test year 1996.
Book 2 of 6	Schedules A & B: Wastewater Rate Base and Operating Income for all FPSC jurisdictional plants for projected test year 1996.
Book 3 of 6	Schedules A & B: Water Rate Base and Operating Income for FPSC uniform and FPSC non-uniform plants for the interim 1995 period.
Book 4 of 6	Schedules A & B: Wastewater Rate Base and Operating Income for FPSC uniform plants and FPSC non-uniform plants for the interim 1995 period.
Book 5 of 6	Schedules A & B: Water Rate Base and Operating Income for FPSC uniform plants and FPSC non-uniform plants for the base period historic 1994.
Book 6 of 6	Schedules A & B: Wastewater Rate Base and Operating Income for FPSC uniform plants and

FPSC non-uniform plants for the base period historic 1994.

Q. WERE THESE DOCUMENTS PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, they were.

Q. PLEASE DESCRIBE THE PLANTS YOU HAVE FILED IN THIS CASE.

A. This filing includes 85 water and 36 wastewater plants that were previously filed in Docket No. 920199-WS and which, as an outcome of that docket, received uniform rate treatment. A & B schedules for those plants have been consolidated into one set of MFRs referred to as "FPSC Uniform Plants." Since SSU has interconnected four pairs of water plants which were not interconnected in Docket No. 920199-WS, these plants constitute only four plants in this filing. In addition, the filing includes 12 water and 8 wastewater plants characterized as "FPSC Non-Uniform Plants." This plant grouping consists of Lehigh and Marco Island (which do not have uniform rates), Southern States' plants that have come under FPSC jurisdiction since the last test year, and the recent acquisitions of Lakeside, Valencia Terrace and Spring Gardens. In addition, the pending acquisition of Buenaventura Lakes is included in this grouping. Individual plant A and B schedules are included for each FPSC non-uniform plant. This presentation is applicable for the 1994 base period and the 1995 interim period.

The presentation in 1996 is slightly different for water in that the Company is proposing a rate design structure for its two reverse osmosis plants separate and distinct from that for its conventional treatment plants. Thus, summary and detail schedules are filed for the two reverse osmosis plants (Burnt Store and Marco Island) as well as summary schedules for the FPSC uniform conventional plants and detail schedules for the FPSC "non-uniform" conventional plants, a carryover presentation from 1994 and 1995.

All filed plants are identified in Volume II, Book 1 of 4 of the MFRs. The combined plants represent all those currently operated by Southern States which indisputably are under Commission jurisdiction.

Q. WHAT TEST YEAR HAS BEEN USED AS A BASIS FOR DETERMINING COSTS IN THIS FILING?

A. The Company requested and the Commission approved the use of a projected test year ended December 31, 1996 with a base year ended December 31, 1994 and an interim test year ended December 31, 1995. The proposed final rates are based on budgeted 1995 costs adjusted for attrition (1.95%) and various pro forma adjustments reflecting known and certain events. The 1995 interim period includes Southern States' new acquisitions referred to earlier and Buenaventura Lakes is included in the application in the projected 1996 final period.

Q. **WHAT RETURN WILL SOUTHERN STATES EARN UNDER PRESENT RATES ON THE 141 JURISDICTIONAL WATER AND WASTEWATER PLANTS FILED IN THIS RATE CASE?**

A. The overall jurisdictional rate of return for the combined water and wastewater plants filed in this case under present rates in 1994 is 5.44%, which is equivalent to a .57% return on equity. Under present rates in 1995 and 1996, the combined rate of return is 4.26% and 3.58%, respectively. These rates of return equate to negative returns on equity of <1.94%> and <4.22%> for 1995 and 1996, respectively. A negative return on equity indicates that present revenues are severely deficient, that no return is available for investors, and that the Company is not able to fully cover interest costs on debt.

Q. **WHAT INCREASE IN REVENUES IS THE COMPANY PROPOSING?**

A. The Company is proposing an overall increase in sales revenues by the end of 1996 of $18,137,502 (or a 38.87% increase) as shown in Volume II, Book 1 of 4, "Overall FPSC Financial Summary." The proposed water increases for the conventional and reverse osmosis plants are $8,129,111 (45.99%) and $3,662,131 (45.86%), respectively. The proposed increase for the wastewater plants is $6,346,260 (30.21%). The 1996 overall jurisdictional revenue requirement for the water and wastewater plants filed in this case is $65,302,524. A jurisdictional summary of present revenues for 1994, 1995 and 1996 by plant is included in Volume II, Book 1 under "Operating Income Summary."

Q. WHAT RATES OF RETURN DO THE PROPOSED INCREASES PRODUCE?

A. As shown in the Summary, the Company's requested increase would produce an overall rate of return of 10.32% for combined water and wastewater service. The requested increase for water is $11,791,242 and the requested increase for wastewater is $6,346,260.

Q. HAS THE COMPANY DETERMINED ITS REQUIRED RETURN ON EQUITY BASED ON THE COMMISSION'S LEVERAGE GRAPH FORMULA APPROACH?

A. Yes. The Company is requesting an overall jurisdictional return on equity of 12.25% based on the Commission's leverage graph formula approach adjusted for certain known risk factors addressed at length in the testimony of Mr. Scott Vierima and Dr. Roger Morin. The capital structure proposed by the Company for each of the three years is shown in Volume IV, Book 1, Schedule D-1, as well as in Summary Volume II, book 1 of 4, "D Summary Schedules."

Q. WOULD YOU GENERALLY DESCRIBE THE DEVELOPMENT OF RATE BASE IN THIS FILING.

A. The Company developed rate base information according to the Commission's MFRs. The amounts shown for rate base for the 1994 and

1995 periods are average balances based on a simple average of the beginning and ending test year balances. For those same periods, working capital was determined according to past Commission precedent in SSU's last rate proceeding, Docket No. 920655-WS using the 1/8 of Operation and Maintenance ("O&M") expense methodology. The projected 1996 test year rate base is based on a 13 month average balance and working capital was developed based on the balance sheet approach. Volume II, Book 1, provides a summary of rate base for 1994 through 1996 as well as a plant by plant summary of water and wastewater rate base, respectively (FPSC Rate Base Summaries). The detailed development of water and wastewater rate base is shown in Volume III, Books 1 through 6.

Q. WHAT IS THE TOTAL RATE BASE REQUESTED IN THIS FILING?

A. The total rate base for the 141 plants filed in this case is $158,023,064 consisting of $55 million of conventional water rate base, $40.3 million of reverse osmosis rate base and $62.8 million of wastewater rate base.

Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO PER BOOK RATE BASE FOR PURPOSES OF FINAL RATES?

A. Yes, it has. Pro forma adjustments have been made over the three year period which increase total average jurisdictional water rate base by $2,247,082 and increase wastewater rate base by $1,692,364. These adjustments are summarized in Volume II, Book 1 "Summary of Utility

Adjustments to Rate Base Components".

Q. **WOULD YOU PLEASE DESCRIBE THE PRO FORMA ADJUSTMENTS MADE BY THE COMPANY TO RATE BASE COMPONENTS.**

A. In the 1994 and 1995 historic and interim test periods, the Company included an annual and average amount for the imputation of CIAC related to the FPSC margin reserve requirement. The average amount included in CIAC for 1994 is $461,214 and $169,947 for water and wastewater, respectively. In 1995, the average imputation totalled $420,481 and $152,991 for water and wastewater, respectively. These adjustments were made in order to comply with Commission policy for the historic base period and the interim rate period. However, the adjustment has not been made in the 1996 final period as the Company continues to disagree with this imputation. Mr. Forrest Ludsen and Mr. Hugh Gower address the reasons for not imputing CIAC in the 1996 test year.

The next rate base adjustment pertains to the Deep Creek wastewater plant, a non-uniform plant. The plant reflects a negative rate base in each of the three periods. In 1994 and 1995, this negative rate base is zeroed out by making a positive adjustment to the construction work in progress line item of rate base. The amount of this adjustment is $405,183 and $194,780 for 1994 and 1995, respectively. The Company should not be assessed a negative rate base since to do so would remove any incentive to operate the plant. This adjustment is consistent with the Commission's treatment of similar circumstances in Docket No. 920199-WS. Counsel has also advised me that the Florida courts have recognized that it would be unwise to remove a utility's incentive to operate a system by depriving it of the opportunity to produce earnings from "zero rate base" operations. The adjustment which would be required for 1996 for this plant if the Company's request for uniform rates was not granted is $40,116. This adjustment has not been made in 1996 as we believe that under uniform rates, the Company should not adjust any plant with a negative rate base up to zero because under uniform rates, rate base is viewed as a whole, not on a plant by plant basis.

The third adjustment made to rate base components is the addition to utility plant in service of the cost of constructing lines in the Lehigh water and wastewater service areas. In the case of these adjustments, a subsidiary of Minnesota Power, Lehigh Acquisition Corporation, pays the cost of constructing facilities and bills Southern States for this construction. The advance on SSU books is ultimately repaid out of future connection fees. The advances are reflected in the MFRs. However, the value of the facilities was not included in the 1995 and 1996 capital budget because they are not SSU funded projects. It must be included as an adjustment in the MFRs as the Company has included the offsetting advances for construction in its rate base calculations for each of these years. If we did not add the Lehigh facilities to the 1995 and 1996 budgeted numbers, the Company would be deducting an amount (through the advance for construction deduction) that is not offset by plant in the same year. The average amount of this adjustment is $801,000 and $452,500 for water and wastewater, respectively, in 1995 and is $93,077 and $191,019 for 1996 for water and wastewater, respectively.

The fourth adjustment to a rate base item pertains to the working capital allowance. In the 1994 and 1995 test period, the Company utilized a 1/8 of O&M approach to the working capital allowance to be consistent with the methodology followed in the Company's last rate proceeding, Docket No. 920655-WS. In each of those years, the Company included an adjustment to direct expenses of $24,387 which represents the cost of raw water purchased from Marco Island by Marco Shores. This expense was not reflected on the Company's books because of the inter-company nature of the transaction. As a result of that adjustment, the working capital allowance for water in each of those years was increased by $3,048. Although an expense adjustment also exists in 1996 ($65,225), it is not an issue for working capital allowance as the Company has used the balance sheet approach in the projected 1996 test period.

In the 1996 test year, several rate base adjustments were made over and above those already discussed. Following are those adjustments. First, there are several retirements including cost of removal which occurred during the 1993 and 1994 periods, but which had not been reflected in the MFRs in those years. These adjustments were detected after the build-up of plant and accumulated depreciation had already been done; thus the decision was made to hold off on the retirements until the projected test period. These retirements on an average basis amounted to credits to plant in service of $49,612 and $5,328 for water and wastewater, respectively. They also resulted in decreases to accumulated depreciation of $74,637 and $11,857 for water and wastewater, respectively. The depreciation adjustments are higher than the plant adjustments due to cost of removal treatment.

The second adjustment pertains to retirements that will be booked by the Company in 1995 due to plant interconnects which were not reflected in the 1995 budget. Because the Company elected to not adjust the interim period, this adjustment is reflected in 1996. Plant in service is decreased, on average, by $193,788 in water. This adjustment also decreases water accumulated depreciation by $158,241, contributions in aid of construction by $65,904 and accumulated amortization of CIAC by $42,290.

A final adjustment related to retirements decreases accumulated depreciation by $13,871 and $158,932 in conventional water and wastewater, respectively. This adjustment dates back to pre- 1992 where a retirement in the Company's last rate filing was not reflected properly as a debit to accumulated depreciation. The plant asset was retired but was not offset by a debit to the reserve. This adjustment corrects that mistake. Along the same line, accumulated depreciation in the reverse osmosis plants has been adjusted downward by $121,487. $116,084 of this adjustment is for cost of removal that occurred after 1992 but which has not been reflected in the MFRs until 1996. The remaining $5,403 is a retirement from the last rate proceeding which was not reflected properly in the MFRs.

Another rate base adjustment in 1996 reflects an increase to contributions in aid of construction as a result of FPSC Order No. 95-0465-FOF-WS dated 4/11/95. This adjustment transferred unclaimed refunds related to the gross-up on CIAC to contributions in aid of construction as ordered by the Commission. Again, this adjustment was left to the 1996 period in order to leave the 1995 interim period unaltered. Water CIAC was increased by $21,937 and wastewater by $20,877.

An additional rate base adjustment in 1996 adds $267,155 to water utility land. This land was removed from rate base as non-used and useful in the last rate case. These parcels are now being returned to rate base as used and useful in 1996. They are not newly acquired parcels but represent tracts that have been looked at before by the Commission in prior rate cases. These parcels and the reasons for including them in rate base are discussed by Mr. Terrero.

One final adjustment impacting accumulated depreciation amounts to $795,371 for conventional water, $161,544 for reverse osmosis water and $904,261 for wastewater. These dollars reduce the beginning balance of accumulated depreciation in 1996. It represents the cumulative effect of depreciation taken on non-useful assets through 1991 and 1992-1994 depreciation expense on non-useful water and wastewater mains at Deltona Lakes and Marco Island. The Company has not had the opportunity to recover the carrying cost of these assets as these plants do not have AFPI tariffs for mains. The Company was not recovering this expense in its AFPI factor through 1991, thus it was improper to recognize the expense in the rate case. When rates were established, any depreciation expense related to these non-useful assets was removed from expense in the revenue requirement calculation. As a result, it is also being removed from accumulated depreciation in the current docket.

Q. **WOULD YOU GENERALLY DESCRIBE THE DEVELOPMENT OF OPERATING INCOME IN THIS FILING?**

A. The Company developed income information according to the Commission's MFRs. Volume II, Book 1, "Operating Income Summaries" provide an overall jurisdictional summary of income as well as plant by plant summaries of water and wastewater income. The detailed development of water and wastewater income is shown in Volume III, Books 1 through 6, Schedule B.

Q. WHAT IS THE PRESENT TOTAL JURISDICTIONAL NET OPERATING INCOME AND THAT REQUESTED IN THIS FILING?

A. The total jurisdictional net operating income under present rates in 1994 is $6.1 million ($3.4 million for water and $2.7 million for wastewater). The Company is requesting total jurisdictional net operating income in 1996 of $16.3 million ($9.8 million for water and $6.5 million for wastewater).

Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO PER BOOK INCOME FOR RATEMAKING PURPOSES?

A. Yes, we have. The Company has made pro forma adjustments to water and wastewater revenue and expenses as shown in Volume II, Book I, Detailed Summaries of Utility Adjustments to Present Operating Income. The net effect of the pro forma adjustments on revenues and expenses in 1996 is an increase to the revenue requirement of water of $476,652 and a decrease to the revenue requirement in wastewater of $124,081.

Q. WOULD YOU PLEASE EXPLAIN THE ADJUSTMENTS TO OPERATING EXPENSES DURING THE THREE YEAR PERIOD.

A. In 1994, water and wastewater adjusted test year present revenues were increased by $246,353 and $633,737 respectively. This increase represents the annualized revenue effect of the Company's 1994 indexing application and the Marco Island rate reduction from Docket No. 920655-WS.

I previously explained the purchased raw water adjustment in this testimony. The only other adjustment to expenses in the 1994 and 1995 test periods other than fallout calculations resulting from other adjustments (revenue adjustment factor and income taxes) relates to property taxes. SSU owns property in numerous Florida Counties and many of them differ in how they arrive at net taxable value. Specifically concerning the taxation of non-useful assets, some Counties do not tax them and others may tax all non-useful assets. In rate proceedings, the Commission adjusts property tax expense downward in order that the customer only covers taxes on useful assets.

When the adjustment is made by the Commission to property taxes in Counties that already reduced the tax bill due to non-used and useful issues, the Company is not left whole in recovering this expense because the Commission has reduced expense to an amount lower than what the Company has paid taking non-used and useful into consideration.

In the current docket, the Company has incorporated adjustments to "add back" to the taxable value any non-useful assets deducted by the Counties, thereby grossing up property tax expense to a consistent level between Counties prior to making a non-used and useful adjustment.

In 1994, $270,764 and $204,625 was added back to property tax expense for water and wastewater, respectively. The amount of the adjustment in 1995 is the same as it was in 1994. The non-used and useful property tax adjustment reduces property tax expense in the amount of $426,281 and $422,666 for water and wastewater, respectively, in 1994 and $433,136 and $419,956 for water and wastewater, respectively, in 1995. This adjustment is also made in 1996 and totals $270,764 and $204,625 for the water and wastewater add back, respectively. After considering this gross-up, the non-used and useful adjustment reduces 1996 property tax expense by $336,198 and $410,783 for water and wastewater, respectively.

Also related to property tax expense are adjustments made in 1995 and 1996 to recognize property tax expense of new acquisitions. In 1995, this adjustment is $2,721 and $3,914 for water and wastewater, respectively. In 1996, the property tax adjustment for all acquisitions (including the 1995 acquisitions and Orange-Osceola Utilities, Inc.) is $85,470 for water and $198,087 for wastewater.

The remaining expense adjustments requiring explanation all occur in the projected test year 1996. There are seven adjustments which will be explained and quantified. The first adjustment brings the customer accounts and administrative and general expenses of Buenaventura Lakes into the 1996 test period and allocates these expenses to all plants based on average number of customers. Buenaventura Lakes' customer account and A&G expense was reported as $852,074 in their 1994 FPSC Annual Report. Southern States eliminated $190,077 of this expense due to synergies available from existing SSU departments. A 1.95% attrition factor was applied to this plant's 1994 expenses for 1995 and 1996 to bring it to a level comparable to the rest of the plants filed in this docket for 1996. There was also a reclassification of labor from what was presented in the Annual Report. SSU moved numerous positions from customer accounts and A&G to the operations division of the plants to be consistent with where these positions would be classified at SSU. The end result of these adjustments is that additional customer and administrative and general expense allocated to the FPSC water division amounted to $235,252 and the total allocated to the wastewater division is $119,410. The plants that are county regulated, as well as the gas division, received their pro rata share of the total Buenaventura Lakes costs. The addition of this new customer base (15,488) effectively replaces the Sarasota County Venice Gardens customer base (15,380) lost when those plants were purchased by the County in 1994.

The second adjustment relates to expenses associated with the Company's conservation program. This program and the related expenses are addressed in depth in Ms. Kowalsky's testimony. The allocation of these expenses results in the FPSC regulated water plants receiving additional expense of $164,272 and the wastewater division receiving expense of $83,382.

The third expense adjustment is an amount being requested by the

Company in order to purchase various incidental supplies which will prepare the Company for hurricanes and other natural disasters. The Hurricane Preparedness Program is discussed in more detail in Mr. Gagnon's testimony. The expense allocated to the FPSC water division totals $4,871. The amount allocated to the wastewater division is $2,472.

The fourth expense adjustment increases the cost of laboratory testing at the water division by $26,312 and increases expense at the wastewater division by $16,295. This increased expense is reflected within the Contractual Services--Other account and is explained in the testimony of Mr. Anderson and Mr. Bencini.

The fifth adjustment impacts the payroll accounts and is the result of a competitive labor market analysis conducted by Hewitt and Associates. The findings of this study and the causes for the increases are explained more fully in Ms. Lock's testimony. The additional expense dollars allocated to the FPSC water customers is $271,491. The amount allocated to the wastewater customers is $198,776.

The sixth adjustment for 1996 reduces certain water expenses due to the conservation rate and the elasticity of consumption. The direct expenses impacted are chemicals, purchased water, and purchased power. The total expense reduction is $287,585. Mr. Bencini will address these cost reductions in more detail in his testimony.

The final 1996 adjustment, other than fallout calculations, is for the amortization of the Marco Island raw water supply costs and totals $293,162. This is a direct expense to Marco Island and is not allocated to other plants. This amortization reflects one year's amortization impact over a five year write-off period. The amount being amortized represents the cumulative costs of the Company's efforts to resolve the Marco Island water supply needs which culminated in the ultimate acquisition of the Collier pits.

As indicated earlier, the other adjustments are fallout calculations resulting from the various adjustments described above. One such adjustment is an increase to payroll tax as a result of adjustments made for the Hewitt Study. The increased payroll taxes amounted to $30,893 for water customers and $20,558 for wastewater customers.

Q. **WOULD YOU PLEASE SUMMARIZE THE RESULTS OF ALL OF THESE ADJUSTMENTS FOR THE THREE PERIODS.**

A. Yes. In the 1994 historical period, the water expense adjustments increased expenses by $30,448. Coupled with that reduction is the increase to revenue of $246,353 resulting from the annualization of 1994 revenues for a net reduction to the revenue requirement of $215,905. On the wastewater side, the expense adjustments increased expenses by $123,351. However, the annualization increased revenue by $633,737 for a net reduction to the revenue requirement of $510,386.

In 1995, the adjustments resulted in a decrease to expenses of

$90,558 and $139,493 for water and wastewater customers, respectively. In the final projected test period 1996, the adjustments resulted in water expenses increasing by $476,652 and wastewater expenses decreasing by $124,081.

Q. IS THERE ANYTHING ELSE WHICH REQUIRES EXPLANATION RELATED TO THE FILING?

A. Yes, there is. As I mentioned earlier in my testimony, one of my major assignments during 1994 was to analyze the Commission orders that finalized Docket No. 920199-WS (127 plant filing), No. 911188-WS (Lehigh) and No. 920655-WS (Marco Island). For several years, the utility had not booked Commission rate order adjustments which continued to create problems for FPSC auditors in verifying beginning points at the time of each successive rate case. The analysis involved comparing final Commission ordered amounts to the Company's books, plant by plant and line item by line item to identify differences which would need to be booked. The research during 1994 took close to three man years to complete.

The analysis was complicated by a variety of factors. For example, it could not be assumed because the Commission ordered an adjustment, that the Company's books needed adjusting. Often times, MFR presentation was a problem and not the books. In many of these instances, past MFRs were incorrect due to various factors, including mathematical mistakes and double counting of items already included in MFR beginning points, but picked up again when the Company actually booked the item. Items of this nature increased year-end rate base by $1,176,924 over the rate base presented in the latest FPSC dockets. The main cause of the increase was the result of a mathematical mistake in Sugarmill Woods wastewater CIAC which caused a $1,116,283 overstatement of CIAC in Docket No. 920199-WS. The total increase in rate base from these adjustments consists of a reduction to plant in service of $378,650, a reduction in accumulated depreciation of $542,368, a reduction to contributions of $1,118,592, and a reduction of accumulated amortization of CIAC of $105,386. Exhibit ___(JJK-1) provides a tabular presentation of this information. Exhibit ___(JJK-1) also identifies adjustments to beginning points necessitated by the Commission's past orders which resulted in a reduction to rate base of $1,227,246. This amount consists of a reduction to plant in service of $906,562, a reduction to accumulated depreciation of $32,397, an increase to CIAC of $308,776 and a decrease to accumulated amortization of CIAC of $44,305.

Another factor complicating the analysis is that the Company had to compare all account balances in the MFRs to the books and research any differences, even if the Commission had not made an adjustment to the MFRs. That was due to the fact that the MFRs pick up the last Commission ordered balance and build rate base using that ordered balance. However, the fact that the Company had not booked prior rate orders resulted in significant differences between the MFR balances and the book balances. These differences also had to be researched to determine where the problems were and what needed to be done to resolve them. During this process, it was discovered that acquisitions that had been made as far back as the 1970's had not been booked properly at acquisition and had never been adjusted to agree with Commission balances. In fact, several of the Commission approved acquisition adjustments had never been reflected on the Company's books. The acquisition adjustment account on the Company's books has changed during 1994 mostly as a result of the correction of the original bookings of these acquisitions to agree with Commission balances. Most of the change in the acquisition adjustment account is not related to Commission approved acquisition adjustments and, as a result, does not impact the rate base presentation in the present docket.

Also found during the analysis is that the prior MFRs changed the depreciation rate utilized in the 1991 test year to the average life rates shown in Rule 25-30.140. Although this is proper treatment in the MFRs, it is not proper to reflect that life on the Company's books until such time as the revenue to recover the expense associated with those rates is generated. In the case of Docket No. 920199-WS, final rates were not effective until September 1993. In the current MFRs, the Company has restated the accumulated depreciation beginning points to reflect the 2.5% rate for 1991 and continued it through August 1993 in those plants that had not already fallen under Rule 25-30.140. In addition, for several of the Deltona plants, depreciation was restated for the years 1989 and 1990 as well due to the fact that accumulated depreciation work papers leading up to the MFR presentation for the 1991 test year adjusted depreciation rates for those plants in 1989 instead of waiting until 1991. This occurred due to the fact that work papers that were completed for Docket No. 900329-WS (which was subsequently dismissed by the Commission) were used as a basis for the beginning point and carried forward for the 1991 docket (No. 920199-WS). In the workpaper build-up, 1989, at that time, was the test year in question; thus the change in depreciation rates. However, that should have been changed to build-up for the following rate cases, but it never was. The net result of the changes due to depreciation lives is a decrease in accumulated depreciation of $717,262. This adjustment impacts water rate base by $199,086 and wastewater by $518,176.

All of the adjustments discussed in this section have been made to the last established balances by the Commission. They are not reflected in the 1994 historic test year. The reason for this treatment was to enable the Company to conduct its build-up of rate base starting with correct balances. To not do so would cause the continuing balances of accumulated depreciation and accumulated amortization of CIAC to be exponentially incorrect. The impact of the aforementioned adjustments is summarized in Exhibit ___(JJK-1) for water and sewer rate base in total with details by water and wastewater individually.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

SCHEDULE OF WATER & SEWER RATE BASE
BEGINNING RATE BASE ADJUSTMENTS

Company: SSU / FPSC Jurisdiction - All Plants
Docket No.: 950495 - WS
Schedule Year Ended: 12/31/94
Interim [ ] Final [ ]
Historical [x] Projected [ ]
Simple Ave. [x] 13 Month Ave. [ ]
FPSC Uniform [x] FPSC Non-uniform [x] Non FPSC [ ]

Line No.	(1) Description	(2) Last Established Rate Base	(3) FPSC Adjustments	(4) FPSC Adjusted Rate Base	(5) Utility Adjustments	(6) Depreciation Rate Change	(7) Utility Adjusted Rate Base
1	Utility Plant in Service	218,258,444	(906,562)	217,351,882	(378,650)	0	216,973,232
2	Accumulated Depreciation	(45,353,944)	32,397	(45,321,547)	542,368	717,262	(44,061,917)
3	CIAC	(78,686,488)	(308,776)	(78,995,264)	1,118,592	0	(77,876,672)
4	Accumulated Amortization of CIAC	14,293,566	(44,305)	14,249,261	(105,386)	0	14,143,875
5	TOTAL	108,511,579	(1,227,246)	107,284,332	1,176,924	717,262	109,178,518

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Note: May not cross foot due to rounding.

EXHIBIT (JTK-1)
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SCHEDULE OF WATER RATE BASE
BEGINNING RATE BASE ADJUSTMENTS

Company: SSU / FPSC Jurisdiction - All Plants
Docket No.: 950495 - WS
Schedule Year Ended: 12/31/94
Interim [ ] Final [ ]
Historical [x] Projected [ ]
Simple Ave [x] 13 Month Ave. [ ]
FPSC Uniform [x] FPSC Non-uniform [x] Non FPSC [ ]

Line No.	(1) Description	(2) Last Established Rate Base	(3) FPSC Adjustments	(4) FPSC Adjusted Rate Base	(5) Utility Adjustments	(6) Depreciation Rate Change	(7) Utility Adjusted Rate Base
1	Utility Plant in Service	119,823,939	(212,250)	119,611,689	(74,195)		119,537,494
2	Accumulated Depreciation	(23,904,087)	(3,888)	(23,907,975)	449,968	199,086	(23,258,921)
3	CIAC	(32,552,363)	(634,461)	(33,186,823)	7,962	0	(33,178,862)
4	Accumulated Amortization of CIAC	5,528,739	53,767	5,582,506	5,508		5,588,014
5	**TOTAL WATER**	68,896,229	(796,831)	68,099,397	389,243	199,086	68,687,726

EXHIBIT (JTK-1)
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Note: May not cross foot due to rounding.

SCHEDULE OF SEWER RATE BASE
BEGINNING RATE BASE ADJUSTMENTS

Company: SSU / FPSC Jurisdiction - All Plants
Docket No : 950495 - WS
Schedule Year Ended: 12/31/94
Interim [ ] Final [ ]
Historical [x] Projected [ ]
Simple Ave. [x] 13 Month Ave. [ ]
FPSC Uniform [x] FPSC Non-uniform [x] Non FPSC [ ]

Line No.	(1) Description	(2) Last Established Rate Base	(3) FPSC Adjustments	(4) FPSC Adjusted Rate Base	(5) Utility Adjustments	(6) Depreciation Rate Change	(7) Utility Adjusted Rate Base
1	Utility Plant in Service	98,434,505	(694,312)	97,740,193	(304,455)		97,435,738
2	Accumulated Depreciation	(21,449,857)	36,285	(21,413,572)	92,400	518,176	(20,802,996)
3	CIAC	(46,134,125)	325,684	(45,808,441)	1,110,630	0	(44,697,811)
4	Accumulated Amortization of CIAC	8,764,827	(98,072)	8,666,755	(110,894)		8,555,861
5	TOTAL SEWER	39,615,350	(430,415)	39,184,935	787,681	518,176	40,490,792

Note: May not cross foot due to rounding.

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