SSU
Southern States Utilities

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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950495 - WS

APPLICATION FOR A GENERAL RATE INCREASE

VOLUME I
BOOK 8 OF 22

MINIMUM FILING REQUIREMENTS
PREFILED DIRECT TESTIMONY

Containing

MORRIS A. BENCINI

DIRECT TESTIMONY OF MORRIS A. BENCINI

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ON BEHALF OF

SOUTHERN STATES UTILITIES, INC.

DOCKET NO. 950495-WS

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

A. My name is Morris A. Bencini. My business address is 1000 Color Place, Apopka, Florida 32703.

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

A. I have been Controller of Southern States Utilities, Inc. ("Southern States") since being hired in October 1992.

Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

A. I graduated from the State University of New York at Buffalo in May 1983 with a Bachelor of Science Degree in Business Administration and a major in Accounting.

Q. **PLEASE DESCRIBE YOUR EXPERIENCE IN THE ACCOUNTING FIELD.**

A. Prior to my employment at Southern States, I spent five years in private industry as a cost accountant and assistant controller for several companies including Exolon-ESK, a Western New York manufacturing company.

I then spent approximately six years at Price Waterhouse, a big-six public accounting firm in the Buffalo, New York and Orlando, Florida offices. In April 1992, I was promoted to Audit Manager at Price Waterhouse. Southern States was a full-scope audit client under my supervision at Price Waterhouse throughout my three year tenure in the Orlando office. I have been a Certified Public Accountant since 1987.

Q. **DO YOU BELONG TO ANY TRADE AND/OR PROFESSIONAL ORGANIZATIONS?**

A. I am an active member of the American Institute of Certified Public Accountants and the Florida Institute of Certified Public Accountants, Mid-Florida Chapter. I am an inactive member of the New York State Society of Certified Public Accountants and a past member of the National Association of Accountants - Buffalo, New York Chapter.

Q. **PLEASE DESCRIBE YOUR RESPONSIBILITIES AS CONTROLLER OF SOUTHERN STATES.**

A. My responsibilities as Controller at Southern States include all aspects of financial reporting, including responsibility for the Company's audited financial statements and the implementation and maintenance of the Company's system of internal controls. My specific responsibilities include the processing and maintenance of the general ledger, accounts payable, payroll, operating and capital budgets, cash management and financial reporting. In addition, I have responsibility for the Company's Information Systems department, including systems design, implementation and maintenance.

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

A. The purpose of my testimony is to present the Company's rate design objectives and explain the development of Southern States' proposed final rate design based upon these objectives. I will present the proposed rate structure modifications and the resulting tariff changes in the rate schedules proposed by the Company.

I will also explain the calculation and compilation of the Company's 1996 capital and operating expense budgets, provide an overview of the variances reflected in our benchmark comparison to FPSC guidelines for O&M expenses, and discuss certain proforma adjustments made in this rate filing.

Q. ARE YOU SPONSORING ANY MINIMUM FILING REQUIREMENTS ("MFRs") SCHEDULES?

A. Yes. I am sponsoring the Rates and Rate Design Schedules ("E" schedules) and the billing analyses for all plants included in the MFRs. I am also sponsoring certain Revenue and Expense Schedules ("B" schedules) relating to revenues and taxes other than income.

Q. WERE THESE SCHEDULES PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes, they were.

Q. COULD YOU BRIEFLY DESCRIBE THESE SCHEDULES?

A. Yes. These schedules and Billing Analyses are found in the following volumes and books of the MFR's:

<u>Volume II - Summary of Minimum Filing Requirements (25-30.437)</u>

Book 3 of 4: Summary of O&M Expenses and Benchmark Analysis

<u>Volume III - Schedules A&B Minimum Filing Requirements (25-30.437)</u>

Book 1 of 6: 1996 Water Schedule B-4(W): Revenues

1996 Water Schedule B-15(W): Taxes Other than Income

Book 2 of 6: 1996 Wastewater Schedule B-4(S): Revenues

1996 Wastewater Schedule B-15(S): Taxes Other than Income

Book 3 of 6: 1995 Water Schedule B-4(W): Revenues

1995 Water Schedule B-15(W): Taxes Other than Income

Book 4 of 6: 1995 Wastewater Schedule B-4(S): Revenues

1995 Wastewater Schedule B-15(S): Taxes Other than Income

Book 5 of 6: 1994 Water Schedule B-4(W): Revenues

1994 Water Schedule B-15(W): Taxes Other than Income

Book 6 of 6: 1994 Wastewater Schedule B-4(S): Revenues

1994 Wastewater Schedule B-15(S): Taxes Other than Income

<u>Volume V - Schedule E Minimum Filing Requirements (25-30.437)</u>

Book 1 of 1: 1996, 1995 and 1994 Schedules E1 - E13: Rates and Rate Design

<u>Volume X - Schedule E14: Billing Analysis (25-30.427(4))</u>

Book 1 of 3: 1994 Water Billing Analysis by Plant and Class

Book 2 of 3: 1994 Water Billing Analysis by Meter Size

Book 3 of 3: 1994 Wastewater Billing Analysis by Plant, Class and

Meter Size

Q. WHY IS IT NECESSARY TO DEFINE THE OBJECTIVES OF A PROPOSED RATE DESIGN?

A. It is necessary to set forth rate design objectives in order to provide a framework for the Commission to evaluate the reasonableness of the Company's recommendations as compared to other potential alternatives.

Q. WHAT ARE SOUTHERN STATES' BASIC RATE DESIGN OBJECTIVES IN THE DEVELOPMENT OF THE PROPOSED FINAL AND INTERIM RATES?

A. There are four basic objectives the Company seeks to accomplish through its proposed rate design:

1. Rates should be designed to provide a reasonable opportunity for the Company to attract capital and maintain sound corporate credit. This is consistent with the basic principle that "rates as a whole should cover costs as a whole";
2. Rates should be set as close as is practical to reflect the allocated unit costs of the customer (base facility) and commodity (gallonage) components;
3. Rates should provide a reasonable continuity with past and future rates. This is to prevent unnecessary impact on existing and future customers; and
4. Rates should avoid unnecessary complexity and should be as

simple, understandable and easy to administer as practical.

Q. WHAT OTHER FACTORS WERE USED IN THE DEVELOPMENT OF SOUTHERN STATES' PROPOSED FINAL AND INTERIM RATE DESIGN?

A. The first factor is the concept of uniform rates being applied to all plants by treatment class. The Company has distinguished two separate water treatment classes for the purpose of determining rates: 1) Conventional Treatment and 2) Reverse Osmosis ("R.O.") Treatment.

Under this proposed "treatment type" distinction of customers, the Company's Burnt Store and Marco Island water customers are segregated into a separate class with a uniform R.O. rate. The Company's other customers are categorized into the Conventional Treatment class, also with one uniform rate.

For residential customers with the projected 1996 per customer usage at approximately 8,000 gallons per month, an average Conventional Treatment customer's monthly bill would total $26.45 compared to an average R.O. customers' monthly bill which would total $49.78.

Q. PLEASE BRIEFLY DESCRIBE SOUTHERN STATES' PROPOSED RATE CHANGE?

A. SSU is proposing the following rate changes for all systems included in this proceeding:

1. Uniform rates and monthly billing cycles for all previously non-

uniform plants.

2. Two classes of water treatment rates, as follows: a) a Reverse Osmosis Treatment rate for Burnt Store and Marco Island; and b) a Conventional Treatment rate for all other FPSC jurisdiction plants.

3. A water rate structure which allows the Company to collect 40% of its requested revenues in the base facility charge ("BFC") and 60% in the gallonage charge.

4. One uniform rate for all FPSC jurisdiction wastewater plants.

5. A wastewater gallonage cap of 6,000 gallons per residential customer.

Q. PLEASE DESCRIBE THE METHOD BY WHICH YOUR 1994 BILLING DETERMINANTS WERE CALCULATED.

A. The detailed calculations of the base 1994 and projected 1995 and 1996 billing determinants are included in the Growth Projection tab of Volume V, Book 1 of this filing. Historic 1991 through 1994 bills and gallons were used for water billing determinants. The 1994 base number of water bills was adjusted to reflect "zero bills", which relate to plant usage, zero rate code bills, etc. These bills were adjusted from the base to more accurately reflect the number of customer bills. Other adjustments to 1994 bills include a limit on number of available lots, trimming of start-up plants, zeroing-out negative growth rates, and recalculating the future compound growth rates for hyper-growth areas.

The base 1994 gallonage was based upon a simple four-year average of consumption by plant. This was done in an effort to normalize the variability in consumption due to weather patterns, elasticity of demand from rate increases, and the Company's conservation efforts. This methodology was reviewed and agreed to by Dr. John Whitcomb, who is testifying in this proceeding on conservation rate structure, price elasticity and a weather normalization clause.

Historic 1991 through 1994 bills were used for sewer determinants. Effluent and bulk wastewater determinants were omitted due to the material skewing effect these classes have on their respective plants. Growth rates for these classes were projected on a plant by plant basis using individual assumptions based upon the circumstances. Actual 1994 bills and gallonage were used as base determinants from which to project 1995 and 1996.

Q. **HOW WERE YOUR GROWTH RATES CALCULATED FOR THE PROJECTED 1995 AND 1996 TEST YEARS?**

A. The detail calculations and underlying assumptions supporting the compound growth calculations are included in the Growth Projection tab of Volume V, Book 1 of this filing.

The growth rates for water bills were calculated using the compound growth rate from 1991 through 1994 on a per plant basis.

These compound rates were adjusted for known variations, such as hyper-growth, start-up systems, negative growth, etc.

The compound growth rates for sewer bills were calculated using the compound growth rate from 1991 through 1994 for bills on a per plant basis. However, the Effluent and Bulk Wastewater classes were omitted from these calculations due to the material skewing effect on the gallonage calculation. The compound growth rate for sewer gallons were calculated consistent with sewer bills using the actual gallonage by plant from 1991 through 1994, excluding the Effluent and Bulk Wastewater classes.

Q. HOW WAS YOUR REQUESTED INTERIM RATE INCREASE APPLIED TO 1995 BILLING DETERMINANTS?

A. Since we could not change the rate structure for the interim test period, we applied the requested 30.88% water increase and the 27.90% wastewater increase pro-rata to the current rates in effect prior to the increase. This effectively increased both the BFC and gallonage components of the tariffs without a change in rate structure. This methodology was applied consistently to all previously uniform rate and non-uniform rate plants.

Q. HOW WAS YOUR REQUESTED FINAL RATE INCREASE APPLIED TO 1996 BILLING DETERMINANTS?

A. Individual class rates were calculated using a 40% BFC and a 60% gallonage component. The projected 1996 billing determinants, as I previously mentioned, were used to determine the appropriate rate schedules by rate class. In addition, the 1996 water revenues were classified as either uniform Conventional Treatment or uniform R.O. Treatment classes.

Q. WHAT OTHER ADJUSTMENTS HAVE YOU MADE TO THE WATER BILLING DETERMINANTS FOR FINAL RATES?

A. There are three water gallonage adjustments for the proposed final rates:

1. An adjustment was made to reflect overall 10.9% and 2.6% decreases in consumption related to the elasticity of demand of Conventional Treatment and R.O. Treatment customers, respectively, based upon the requested revenue increase and conservation rate structure. This net decrease in gallonage was applied to plants by class (excluding bulk water and fire protection), per the detail in Schedule E1-2 included in the 1996 Water - Conventional Treatment and 1996 Water - R.O. Treatment tabs of Volume V - Book 1 of this filing. These adjustments were calculated by Dr. John Whitcomb, who will testify in this proceeding as to their validity.

2. An annualized decrease of 62.1 million gallons was reflected in the consumption at Marco Island for multi-family and commercial customers related to the projected offset of reuse wastewater projected to be used at Hideaway Beach and the Tommie Barfield School beginning in 1996. The details of the adjustment are

included in Schedule E1-3, Column (7) in the 1996 Water - R.O. Treatment tab in Volume V - Book 1. The gallonage adjustment for Hideaway Beach is offset by the projected increase in reuse consumption included in the 1996 projected wastewater gallonage for Marco Island.

3. Adjustments have been made at six FPSC jurisdiction plants (excluding Valrico Hills) to reflect the effect of the Company's water conservation plan which totals a decrease of approximately 58.2 million gallons for Conventional Treatment plants and 79.0 million gallons for R.O. Treatment plants. These adjustments are reflected on Schedule E1-3, Column (4) in the 1996 Water Conventional Treatment tab and in Schedule E1-3, Column (5) in the 1996 Water - R.O. Treatment tab in Volume V - Book 1. These projected water gallonage savings have been calculated by Carlyn Kowalsky, who is testifying as to their accuracy in this proceeding.

Q. **IS THE COMPANY REQUESTING ANY OTHER ADJUSTMENTS OR CLAUSES WHICH WILL AFFECT THE COMPANY'S RATES OR RATE STRUCTURE?**

A. Yes. As discussed in the testimony of Dr. John Whitcomb, the Company is requesting a Weather Normalization Clause ("WNC"). This clause has been developed by Mr. Ludsen and Dr. Whitcomb who will testify as to its mechanics and validity.

Q. HOW ARE THE COMPANY'S 1995 BUDGETS USED IN THIS RATE FILING?

A. The Company used its 1995 Revenue and Expense and Capital Budgets as a basis for its requested interim revenue increase. The 1995 Capital Budget was used to reflect projects budgeted to be completed and in service in 1995 as a basis for additions to rate base. For interim rates, a simple average year rate base calculation was used, consistent with the Company's last rate proceeding (920655-WS). There were no significant adjustments made to the 1995 Capital Budget, other than allocations of blanket work orders to plant level and reclassifications of minor account coding errors.

For revenues and expenses, the Company used its 1995 Revenue and Expense Budget for its requested interim rate increase. This budget resides on the Company's general ledger system (Software 2000) and was downloaded into the rate filing database directly from the general ledger.

In order to compile a 1996 Capital Budget, the Company's Engineering, Operations, Environmental and Finance Departments used the 5-year forecast of known projects to determine the priorities of capital projects. Using this process, we compiled a list of 78 projects which resulted in a capital budget totaling approximately $17 million for 1996, which has been used to determine 1996 projected rate base additions.

Note that these additions were included using a 13-month weighted average, in accordance with Commission Rule 25-30.433(4) relating to computation of rate base.

To prepare the projected 1996 Revenue and Expense Budget, the Company used the actual 1995 O&M budget and applied the FPSC's attrition factor of 1.95% to reflect an increase in expenses due to inflation. Certain known and measurable differences are included as adjustments in lieu of the attrition rate in 1996 as follows:

1. As discussed in the direct testimony of Ms. Dale Lock, SSU Manager of Human Resources, the increase in salaries is expected to total 5.75%. Ms. Lock will testify to the components and merits of this increase.
2. As further discussed in the direct testimony of Ms. Dale Lock, the Company has requested an additional $740,000, approximately, in salaries as an adjustment to expenses in accordance with a market study of SSU salaries compared to the industry, as prepared by an independent consulting firm.
3. A $46,000 adjustment to reflect additional costs associated with additional lab testing in 1996, as I will discuss in more detail later in this testimony. Facts concerning the lab are discussed in the direct testimony of Mr. Anderson.
4. A $321,000 adjustment to reflect additional costs of SSU's water

conservation program, as discussed in the direct testimony of Ms. Kowalsky.

These adjustments are also discussed in detail in the direct testimony of Ms. Kimball.

Q. **CAN YOU BRIEFLY EXPLAIN THE COMPANY'S POLICY ON DETERMINING WHETHER EXPENDITURES SHOULD BE CAPITALIZED VERSUS EXPENSED?**

A. Yes. The Company adopted a formal policy in late 1993 which outlined the requirements which need to be met for capitalization. These criteria are broken down into four distinct categories: 1) Purchased Assets; 2.) Constructed Assets; 3) Repairs; and 4) Company Labor. These four categories are summarized as follows:

1. Purchased Assets:

For capitalized assets other than construction, the original cost includes freight, sales tax, and installation costs. In general, the cost of individual items of equipment of small value (i.e. less than $500) or of short life will be considered as an operating expense. Exceptions to this policy will be treated on an individual basis, and include the following:

a. All computer equipment will be capitalized.

b. All warranties and maintenance contracts are expensed.

c. Items consumed directly in construction will be considered as part of the cost of construction (i.e. building materials), regardless of the dollar amount.

d. Most replacements to existing water and sewer equipment, unless relatively minor, will be capitalized. The corresponding retirement must be recorded in accordance with Company policy.

2. Constructed Assets:

The costs of construction to be included in the plant accounts consist of direct costs, which are necessary and clearly related to the construction of a depreciable asset (such as material and labor), overhead relating to engineering and administrative costs, and an allowance for funds used during construction. All costs should be charged directly to the corresponding work order number.

3. Repairs:

As a general rule, if repairs or maintenance of plant or equipment do not in any way extend the life of the asset, then the repair is to be considered an operating expense. Examples of this include the following:

a. Pump impellor replacement, welding, painting, TV'ing and cleaning of lines.

b. New brakes or tires on vehicles.

c. Repairs/replacements of items not owned by SSU, with the exception of leasehold improvements.

d. Grouting to fill in cracks in pipes or manholes.

Repairs and maintenance items will not be deferred and amortized unless they meet both of the following criteria:

i. The maintenance performed is either not recurring in nature or it recurs over a period of three years or longer.

ii. The total amount of the project exceeds $10,000.

The only exceptions to the $10,000 minimum are for three year lab testing or any other expenses which are mandatorily deferred and amortized in accordance with FPSC guidelines.

4. Company Labor:

The Engineering Department (including the engineering, drafting and construction groups) is the only department that should charge labor directly to capital projects. All engineering labor directly attributable to a project should be charged to the respective work order. All other engineering labor is coded to engineering overhead.

All other Company personnel are included in the calculation of the Company's administrative overhead pool, which is discussed below.

Q. PLEASE EXPLAIN THE COMPANY'S METHODOLOGY FOR CALCULATING AND APPLYING OVERHEAD ON CAPITAL

PROJECTS.

A. The Company maintains two separate overhead pools: 1.) Engineering Overhead; and 2.) Administrative Overhead. These pools are comprised of the following:

1. The engineering overhead pool is comprised of all engineering labor (as defined above) not directly attributable to a work order (i.e. administration, master planning, etc.). In addition, all costs relating to engineering functions which are not attributable to work orders are included in this pool (i.e. engineering A&G expenses).

2. The administrative overhead pool is calculated by the accounting department annually and includes the capitalized portions of operations labor, A&G labor and A&G expenses. The capitalization rates are calculated annually based upon each employees' estimated capital-related labor (excluding engineering employees discussed above).

These pools are charged to individual projects on a monthly basis using the Company's overhead absorption rates applied to monthly direct cost (materials and labor). These rates are adjusted during the year to reflect any significant changes in estimated direct capital spending in order to properly match the overhead pools with annual capital spending.

Q. **PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S BENCHMARK ANALYSIS OF O&M EXPENSES COMPARED TO**

THE FPSC's GUIDELINES.

A. The benchmark analysis of O&M expenses to the FPSC's guidelines is contained and summarized in Volume II - Book 3 of 4. The Operating and Maintenance (O&M) expenses for this filing are shown for each period of the filing. The historical period compares expenses for the base period (12/31/91) for the plants included in Docket 920199-WS to the historical test year ended 12/31/94. The interim filing period compares the historical test year ended 12/31/94 to the projected test year ended 12/31/95. The final filing period compares the projected interim test year expenses for the year ended 12/31/95 to the final projected test year expenses for the year ended 12/31/96. All FPSC Uniform plants are summarized on one schedule. Schedules are provided by plant for each individual FPSC Jurisdiction - Non-Uniform plant. Summary schedules are also provided as follows: 1.) SSU - All Plants; 2.) SSU - FPSC Jurisdiction; 3.) SSU - FPSC Uniform Plants; 4.) SSU - FPSC Non-Uniform Plants.

The summary section of the benchmark volume includes comparison summaries of the four years (1991, 1994, 1995 and 1996). Also summarized are the deviations for total water and sewer O&M expenses from guidelines for the 1994, 1995 and 1996 test years.

The discussion includes a breakout of O&M expenses for 1994, 1995 and 1996 into the four major categories of expenses consistent with the NARUC account structure: Water O&M - Direct Expenses (.1 - .6), Sewer O&M - Direct Expenses (.1 - .6); Customer Accounts (.7), and Administrative & General (.8). These categories are also summarized into a total O&M category (.1 - .8).

Water and Sewer Direct O&M Expenses (.1 - .6) include expenses necessary for the day-to-day operation and maintenance of specific plants. These expenses are appropriately charged directly to the individual plants. Examples include labor for operation and maintenance personnel, chemicals, water testing and purchased power.

Customer Accounts expense (.7) consists primarily of expenses involved in servicing utility customers; primarily customer service, meter reading, billing expenses and bad debt expense. Customer Accounts expenses are accumulated for the total Company, then allocated to individual plants based on the average number of customers billed at each plant for each fiscal year, including gas customers. For comparative purposes, we have explained the Customer Accounts variances from the FPSC 1991 benchmark (Docket No. 920199-WS) to the year ended December 31, 1994 on a total Company basis.

A&G (.8) expenses include administrative expenses which are required to manage the overall operation of the Company and assure compliance with regulatory requirements. These expenses include the costs associated with the administrative areas of accounting, finance, legal, administrative services, rates, purchasing, payroll, human resources, environmental compliance, facilities analysis and operations. A&G expenses are allocated to plants based upon the total number of SSU customers billed each year, using the same methodology as the allocation of Customer Accounts expenses discussed above. For comparative purposes, we have explained the A&G expense variances from the FPSC 1991 benchmark (Docket No. 920199-WS) to the year ended December 31, 1994 on a total Company basis.

Q. **WHAT IS THE METHODOLOGY USED TO CALCULATE THE O&M EXPENSE VARIATIONS FROM THE FPSC'S GUIDELINES?**

A. An explanation of the deviation of O&M expenses from the calculation of the guideline as required by the Commission is provided for all four categories of O&M expenses for each comparison period. Direct O&M expenses are charged specifically to each plant; thus the deviations are explained at an individual plant level. FPSC Jurisdiction Uniform System plants are summarized by account, with significant variances explained by account at the plant level. FPSC Jurisdiction - Non-Uniform Plants are explained by plant by account, with all significant account variations explained for the individual plant at the account level.

The first comparison period exhibits the change in expenses from 1996 to 1995. The projected 1996 O&M expenses were derived by escalating the 1995 O&M expense budget by the FPSC's 1.95% attrition allowance for inflation. Adjustments have been made related to known 1996 increases in specific expense accounts, as discussed earlier in this testimony. O&M expenses for the Final Test Year Ended 12/31/96 and the Interim Test Year Ended 12/31/95 are compared in the 1996 summary and detail expense schedules.

The second comparison period exhibits the change in expenses from 1995 to 1994. All 1995 expenses were obtained from SSU's 1995 detailed budget. The 1994 O&M expenses were obtained from SSU's 1994 year-end general ledger. O&M expenses for the Interim Test Year Ended 12/31/95 and the Historical Base Year Ended 12/31/94 are compared in the 1995 summary and detail expense schedules.

The final comparison period exhibits the change in expenses from 1994 to the last rate case period for each respective grouping of plants. For the Uniform Rate plants, this comparison is 1994 to 1991 (per Docket No. 920199-WS). The 1991 expenses for the Uniform Rate systems were adjusted to include the FPSC's adjustments per the final rate order. For the Non-Uniform Rate plants, the benchmark was calculated from 1994 to the last respective rate case for each plant. In cases where no previous rate proceeding was available, the benchmark period was established over the previous five years, in accordance with the FPSC rules. The comparison period for the non-uniform rate systems varies for each plant. The beginning year for the comparison period is the test year used for a rate filing for each respective plant. The base period is compared to the O&M expenses from SSU's 1994 year-end general ledger.

Customer Accounts and A&G expenses for individual plants are dependent on the methodology used to allocate the total company Customer and A&G expenses to the individual plants. These costs are allocated based on the average number of customers billed at each plant. Therefore, the explanation of the O&M deviation from guideline for both Customer Accounts and A&G expenses is based on total company dollars and is explained at the total company level, rather than at plant level.

Due to the various components involved in labor, the Salaries and Wages and Fringe Benefits are explained at a total company level. The benchmark period for this comparison was based upon 1991 for comparative purposes.

Q. CAN YOU BRIEFLY DESCRIBE THE PROFORMA ADJUSTMENTS YOU ARE PROPOSING IN THIS RATE PROCEEDING?

A. Yes. I will discuss the proposal of three separate 1996 proforma adjustments to rate base and/or expenses in this proceeding. These adjustments are summarized as follows:

1. A gross-up of property taxes to reflect the effect of non-used and useful property on actual property taxes paid to the various counties;

2. An adjustment to reflect the effect of the Company's new Central Analytical Laboratory at the Deltona Lakes facility; and

3. Reclassifications of certain deferred debit projects from account 186.2 to an "Other" component of rate base.

Q. **LETS DISCUSS THESE ADJUSTMENTS ONE AT A TIME. CAN YOU EXPLAIN THE GROSS-UP OF PROPERTY TAXES FOR NON-USED AND USEFUL PROPERTY?**

A. Yes. We have performed a gross-up of the Company's Tangible Personal Property Taxes to reflect the credits that certain counties give the Company for taxes on "non-used and useful" property.

As shown on Exhibit _____ (MAB-1), there are seven counties in Florida that allow the Company a "discount" on non-used and useful property. These discounts range from 40% to 90% and are a treated as a reduction of the taxable value of the related non-used and useful assets in that county. For example, Marion County allows the Company a 50% discount on book non-used and useful mains. Therefore, the Company pays Tangible Personal Property Tax on all other personal property, but only on 50% of the value of its mains in Marion County.

The Commission's precedent in past rate proceedings has been to disallow a portion of property taxes from current rates and to allow the Company to recover these charges through its Allowance for Funds Prudently Invested ("AFPI") tariffs. In order to properly reflect the full amount of tax that this disallowance should be calculated upon, the Company must first gross-up the Tangible Personal Property Tax as if the counties had taxed all of the assets within their respective taxing authorities. This adjustment prohibits the Company from being double penalized by disallowing property taxes on assets that have not been taxed. This adjustment has been made by the Company in previous rate proceedings before this Commission (Docket Nos. 920199-WS and 920655-WS).

Q. CAN YOU DISCUSS THE ADJUSTMENT THE COMPANY IS MAKING RELATING TO THE NEW CENTRAL ANALYTICAL LAB?

A. Yes. In order to calculate its 1995 O&M expense budget, the Company assumed that all lab services would be performed by outside contractual services. The new Central Analytical Lab ("the Lab") is expected to be certified by the Florida Department of Environmental Protection ("DEP") and to be operational by mid-1995. However, in order to expedite the budgeting process for 1995, individual plant managers budgeted lab services level assuming outside contractors would be used for the entire year. In order to reflect the expected cost reduction due to bringing the lab in-house, a $100,000 credit was budgeted to an unallocated administrative cost center.

In preparing the rate filing for a projected 1996 test year, we noted that additional tests, which are required by DEP, are scheduled to cycle-in in 1996. In order to calculate a budget for 1996, lab expenses were budgeted by Craig Anderson, Central Lab Manager, which reflect the expected costs of providing these lab services. This true-up of expected costs resulted in an increase in Contractual Services for 1996 totaling approximately $46,000. Mr. Anderson will testify in this proceeding as to the types of testing to be performed in-house and the purpose and intent of the Lab project.

Q. CAN YOU BRIEFLY DESCRIBE THE RECLASSIFICATION OF CERTAIN DEFERRED DEBIT PROJECTS TO AN "OTHER RATE BASE" CATEGORY?

A. Yes. There are two reclassifications of deferred debits to an Other Rate Base category included in this filing as follows:

1. <u>Deferred Capacity Fees at University Shores:</u>

University Shores entered into an interconnect agreement for additional wastewater capacity in June 1993. The terms of the contract with Orange County, Florida include monthly capacity fee payments of $36,689 which began in September 1994 for a period of seven years (84 payments). This transaction resulted in a deferred debit balance on a present value basis totaling $2,420,805 which is being amortized over the contract life of twenty years beginning July 1994. The unamortized balance at December 31, 1994 totaled $2,370,160. Due to the contractual term of this deferred debit, the large balance of the transaction and the fact that this is specific to the University Shores plant, the Company reclassed this project as an Other Rate Base line item in the University Shores MFR's (see A Schedules) for 1994, 1995 and 1996.

2. <u>Deferred Marco Island Water Source of Supply Costs:</u>

Since SSU acquired Marco Island in 1989, the Company has had several ongoing efforts to obtain a water source necessary to serve the island. Included in these efforts are the following:

a. The Company tried to renegotiate the lease for its raw water source of supply with the Barron Collier Family, which expired on December 31, 1994. These efforts proved unsuccessful through early 1994, at which time the Company began a condemnation proceeding against the Collier Family for the rights to the land. The Company reached a settlement on the purchase price with the Colliers in April 1995, for a total of $8.0 million, inclusive of costs and attorney's fees. Through early 1994, the Company had deferred approximately $60,000 in consultant and legal fees in its efforts to renegotiate the lease.

b. The Company also negotiated for a new water source with the Dude Family for another inland surface water source. There were several legal issues over the Company's proposed purchase of this land, which land was subsequently bought by Southfield Farms. The consultant and legal fees deferred on this project totaled approximately $886,000.

c. The Company is involved in the design and permitting of a new wellfield on the Company's 160 acre land parcel, which is located approximately 3 miles southeast of the current inland water source. The Company has deferred approximately $30,000 relative to its efforts to permit and construct this wellfield.

d. The Company began negotiations with the City of Naples, Florida in 1993 in order to interconnect to the City's raw water source. In late 1994, the Company realized that this alternative was not economically feasible and abandoned negotiations with the City. Consultant and legal fees related to this project were deferred and totaled approximately $489,000.

Based upon the above four situations, the Company has deferred a total of $1,465,808 through December 31, 1994 and is requesting recovery of these expenses through amortization over a ten year period beginning January

1996. The Company has reclassed this balance to an Other Rate Base category in the Marco Island MFR's for 1994, 1995 and 1996.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT (MAB-1)

PAGE 1 OF 1

Southern States Utilities, Inc.
Summary of Counties Allowing
Non-Used and Useful Property Tax Credits
Docket No. 950499-WS

County	Plant	Non-Used and Useful Credit
Charlotte	Burnt Store	50%
Charlotte	Deep Creek	50%
Citrus	Citrus Springs	40%
Citrus	Pine Ridge	40%
Citrus	Sugar Mill Woods	40%
Collier	Marco Island	75%
Collier	Marco Shores	75%
Lee	Lehigh	50%
Marion	Marion Oaks	50%
Volusia	Deltona Lakes	90%
Washington	Sunny Hills	90%

Note: The above schedule is presented for comparative purposes and represents the applicable percentage credit to Tangible Personal Property Tax basis allowed to the respective SSU plants by each County in the calculation of annual property taxes.