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April 19, 1996

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 950495-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of the Third Supplemental Direct Testimony of Kimberly H. Dismukes on behalf on the Citizens of the State of Florida.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,

Charles J. Beck
Deputy Public Counsel

- ACK ✓
- ATA 3
- APP ---CJB:bsr
- QIF ---Enclosures
- QMG ---
- CTR ---
- EAG ---
- LEG 1
- LIN 5 Tony
- OPC ---
- RCH ---
- SEC 1
- WAS Willis
- OTH ---

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DOCUMENT NUMBER-DATE
04561 APR 19 96
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate increase)
and increase in service availability charges)
by Southern States Utilities, Inc.)
_____)

Docket No. 950495-WS
Filed: April 19, 1996

Third Supplemental Testimony

of

Kimberly H. Dismukes

On Behalf of the Citizens of the State of Florida

Jack Shreve
Public Counsel

Office of the Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, Florida 32399-1400

(904) 488-9330

Attorney for the Citizens
of the State of Florida

DOCUMENT NUMBER-DATE
04561 APR 19 96
FPSC-RECORDS/REPORTING

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THIRD SUPPLEMENTAL TESTIMONY
OF
KIMBERLY H. DISMUKES
On Behalf of the
Florida Office of the Public Counsel
Before the
FLORIDA PUBLIC SERVICE COMMISSION
Docket No. 950495-WS

- 13 Q. What is your name and address?
- 14 A. Kimberly H. Dismukes, 5688 Forsythia Avenue, Baton Rouge, Louisiana 70808.
- 15 Q. Are you the same Kimberly H. Dismukes that prefiled direct testimony in this
16 proceeding?
- 17 A. Yes.
- 18 Q. Do you have an exhibit in support of your testimony?
- 19 A. Yes. Exhibit __ (KHD-4) contains two Schedules that support my testimony.
- 20 Q. What is the purpose of your supplemental testimony?
- 21 A. The purpose of my supplemental testimony is to address recent information
22 concerning Minnesota Power & Light Company's (MPL) option to acquire Palm
23 Coast Utility Corporation (PCUC).
- 24
- 25 According to a news release issued by MPL on April 4, 1996, MPL acquired
26 northeast Florida coastal real estate assets from ITT Community Development

1 Corporation and other affiliates of ITT Industries, Inc. In addition to this acquisition,
2 MPL announced that PCUC has granted MPL (actually a newly formed subsidiary
3 called PCUC Acquisition Sub, Inc.) an option to purchase PCUC's water and
4 wastewater assets. I have included this news release in my exhibit as Schedule 1.
5 While the details of the plans are unknown at this time and will be further developed
6 during the hearing, the Commission should carefully consider the implications of this
7 potential acquisition on the customers of SSU.

8
9 In particular, if PCUC is acquired by MPL's subsidiary, it is likely that the assets will
10 be transferred to SSU, or PCUC will be merged with SSU. (This is what happened
11 with respect to Lehigh when TGI purchased that system. After the acquisition, Lehigh
12 was merged with SSU.) In addition, it is likely that after the acquisition, PCUC will
13 be operated by SSU, as was the case with the Lehigh acquisition. Accordingly, for
14 purposes of the instant case, the Commission should allocate administrative and
15 general expenses and customer accounts expenses (as well as other common costs
16 which SSU allocates to all systems) as if the acquisition had occurred. Otherwise,
17 SSU will reap the benefits of recovering these costs twice-once from SSU's current
18 customers and again from PCUC's customers. PCUC is currently before the
19 Commission with a pending rate application. There is roughly \$1,000,000 of expense
20 reductions that should be realized with the combined operations of SSU and PCUC.
21 Unless these reductions and changes in allocations are reflected in both the SSU rate
22 case and the PCUC rate case, SSU will be afforded the opportunity to recover more

1 costs than it may incur after the acquisition or combination of operations.

2 Q. If the acquisition is between a subsidiary of MPL and PCUC why should the
3 Commission make an adjustment to SSU's costs?

4 A. As I just mentioned, it is probable that PCUC will either be merged into SSU at some
5 point in the future or that SSU will operate the system. It would not be cost effective
6 for MPL's subsidiary to operate the system as if it were stand alone. It is not evident
7 at this stage why MPL has structured the potential acquisition as it has. Although the
8 Office of the Public Counsel attempted to obtain information concerning potential
9 acquisitions of SSU for the very reason of properly allocating costs, information
10 concerning the potential PCUC acquisition was not provided, although it is my
11 understanding that some information on this acquisition was in the possession of SSU.
12 Furthermore, it is highly unlikely that MPL would acquire a water and wastewater
13 utility in the State of Florida without the assistance of its largest water and
14 wastewater utility -- SSU.

15 Q. Have you estimated the change in administrative and general expenses and customer
16 expenses that should be reflected in the instant case due to the potential PCUC
17 acquisition?

18 A. Yes. These calculations are depicted on Schedule 2. As shown on this schedule, I
19 obtained information concerning PCUC's common administrative and general and
20 customer accounts costs from the PCUC rate application that is currently pending
21 before the Commission. From PCUC's total administrative and general and customer
22 accounts expenses, I subtracted certain expenses which should be reduced if the two

1 companies are combined. Since PCUC is using a 1995 test year, I inflated the net level
2 of post-acquisition costs to obtain a 1996 level of expenses. I also estimated the
3 number of 1996 PCUC customers based upon the actual number of 1995 customers
4 increased by the growth rates estimated by PCUC. Using this information, as well as
5 SSU's common expenses, I determined the appropriate adjustment that should be
6 made to SSU's common expenses. As shown on Schedule 2, the adjustment that I
7 recommend would reduce SSU's FPSC jurisdiction's common expenses by \$743,292.
8 I would note that there are a variety of other adjustments should be made consistent
9 with this adjustment, but time and data constraints prevent a complete analysis of the
10 impacts of the potential acquisition.

11 Q. Does this complete your third supplemental prefiled direct testimony?

12 A. Yes, it does.

13

CERTIFICATE OF SERVICE
DOCKET NO. 950495-WS

I HEREBY CERTIFY that a correct copy of the foregoing has been furnished by U.S. Mail or *hand-delivery to the following party representatives on this 19th day of April, 1996.

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Charles J. Beck
Deputy Public Counsel

EXHIBIT

Docket No. 950495-WS
Kimberly H. Dismukes
Exhibit No. ___ (KHD-4)
Schedule 1

Southern States Utilities, Inc.
News Release Cover Page

APPENDIX 434-APAGE 1 OF 1

MON 12:48

MN POWER CORP DEVELOP

FAX NO. 12187233941

P.02



For Release: April 4, 1996
 Contact: Warren F. Hudson
 218-723-3934

Ralph Allen
 ITT Industries
 914-641-2030

**MINNESOTA POWER AFFILIATE PURCHASES PALM COAST,
 FLORIDA PROPERTIES**

Palm Coast Holdings, Inc., an 80 percent-owned affiliate of Duluth-based Minnesota Power (NYSE:MPL), has acquired northeast Florida coastal real estate assets from ITT Community Development Corp. and other affiliates of ITT Industries, Inc., including developed residential lots, a real estate contract receivables portfolio and approximately 13,000 acres of commercial and other land.

Palm Coast is a planned community between St. Augustine and Daytona Beach. Sale price of the assets is approximately \$34 million, subject to certain adjustments.

"This acquisition is consistent with our strategic plan to replenish our Florida real estate portfolio for residential and commercial resale," said Dennis Crandell, president of MP Real Estate Holdings. Crandell noted that the Company has successfully conducted retail real estate sales in Florida since it acquired the Lehigh Corporation near Port Myers in 1991 and the Sugarhill Woods community development north of Tampa in 1995. Current inventories include both developed and undeveloped commercial and residential properties, he said.

The parties also announced that ITT's wholly-owned subsidiary, Palm Coast Utility Corporation (PCUC), has granted an option to a newly-formed Minnesota Power subsidiary to acquire PCUC's water and sewer utility assets in Palm Coast. PCUC provides services to approximately 12,000 customers in Flagler County, Florida. If the option is exercised, closing of the transaction is subject to various regulatory approvals.

Minnesota Power operates regulated utilities in five states, including electric companies in Minnesota and Wisconsin and diverse unregulated businesses. The Company's Southern States Utilities is Florida's largest investor-owned water and wastewater utility. ADESA auto auction network is the nation's third largest auto remarketer. Other interests include financial reinsurance, coal mining and a securities portfolio.

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Minnesota Power - 30 West Superior Street, Duluth, Minnesota 55802

Southern States Utilities, Inc.
Allocation of Administrative and General and Customer Expenses for the Addition of Palm Coast

	<u>Amount</u>	<u>Allocation Percentage</u>
1996 SSU Average Customers	164,801	86.12%
1996 Palm Coast Average Customers	26,550	13.88%
1996 Total SSU and Palm Coast Average Customers	191,351	100.00%
1996 SSU FPSC Average Number of Customers	125,152	65.40%
1996 SSU Customer Accounts Expense	\$3,089,576	
1996 SSU Administrative and General Expense	<u>9,101,798</u>	
1996 Total SSU	\$12,191,374	
1995 Palm Coast A&G and Customer Expenses	\$1,939,109	
Less:		
Non-Used and Useful	(174,914)	
Data Processing	(225,550)	
Personnel Services	(83,906)	
Community Affairs	(83,906)	
ITT Support	(21,201)	
Legal	(47,061)	
President's Salary	(145,722)	
Controllers @ 50%	(192,964)	
Customer Accounts @ 50%	<u>(152,043)</u>	
Net Palm Coast Expenses After Acquisition	\$811,842	
Inflate Expenses to 1996 @ 1.95%	1.95%	
1996 Net Palm Coast Expenses After Acquisition	\$827,673	
1996 Net SSU and Palm Coast Expenses	\$13,019,047	
Allocation of A&G and Customer Expenses to Palm Coast	\$1,691,581	
Allocation of Palm Coast A&G and Customer Expenses to SSU	<u>\$712,792</u>	
Net Reduction to A&G and Customers Expenses Due to Acquisition of Palm Coast	(\$978,789)	
Allocation of Reduction in A&G and Customers Expenses FPSC	<u>(\$743,292)</u>	
<u>Palm Coast 1995-96 Customers</u>		
1995 Water Customers	14,978	
1995 Wastewater Customers	10,206	
Growth to 1996		
Water	5.17%	
Wastewater	5.81%	
1996 Water Customers	15,752	
1996 Wastewater Customers	10,799	
Total 1996 Water and Wastewater Customers	26,550	

Source: Southern States Utilities, Inc., MFR Allocation Schedules; Palm Coast Utility Corporation, MFRs, Docket No. 951056-WS.