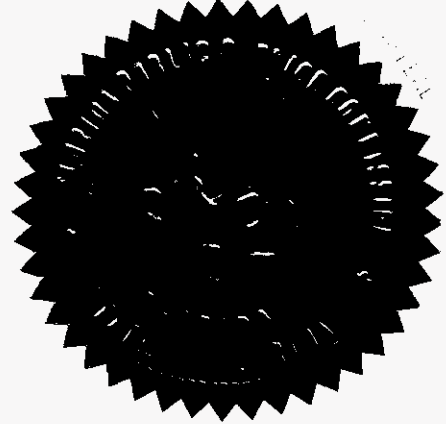


BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by Southern) Docket No. 950495-WS
 States Utilities Inc. for rate)
 increase and increase in service)
 availability charges for Orange-)
 Osceola Utilities, Inc. in)
 Osceola County, and in Bradford,)
 Brevard, Charlotte, Citrus,)
 Clay, Collier, Duval, Hernando,)
 Highlands, Hillsborough, Lake,)
 Lee, Marion, Martin, Nassau,)
 Orange, Osceola, Pasco, Polk,)
 Putnam, Seminole, St. Johns,)
 St. Lucie, Volusia and)
 Washington Counties.)



NINTH DAY - LATE AFTERNOON SESSION

VOLUME 37

PAGES 4378 through 4582

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN SUSAN F. CLARK
 COMMISSIONER J. TERRY DEASON
 COMMISSIONER JULIA L. JOHNSON
 COMMISSIONER DIANE K. KIESLING
 COMMISSIONER JOE GARCIA

DATE: Thursday, May 9, 1996

TIME: Commenced at 4:10 p.m.

PLACE: Betty Easley Conference Center
 Room 148
 4075 Esplanade Way
 Tallahassee, Florida

REPORTED BY: LISA GIROD JONES, RPR, RMR

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER-DATE

05316 MAY 10 8

FPSC-RECORDS/REPORTING

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4	213 - (Morin) RAM-12		4383
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PROCEEDINGS

1
2 (Transcript continues in sequence from
3 Volume 36.)

4 MR. FEIL: And Madam Chairman, I'm not sure if
5 you want to skip over to some other witnesses --

6 CHAIRMAN CLARK: Why don't we go ahead and do
7 that and get all the stipulated testimony in the record
8 at this time.

9 MR. FEIL: All right. My understanding is
10 that there is a stipulation with respect to
11 Mr. Vierima's rebuttal. We do have two corrections with
12 respect to his rebuttal testimony, however. And they
13 are both on Page 27. The first is on Page 27, Line 4,
14 after the word "dividend," insert "to Topeka." Again on
15 Line 4, after the word "then" insert the word "Topeka."

16 Again on Page 27, Line 13, after,
17 "nevertheless, a brief comment," insert "is warranted."
18 Then the sentence continues, and the sentence should end
19 on Line 15 after the word "payment." So that the
20 sentence now reads, "Nevertheless, a brief comment is
21 warranted on his second adjustment, the" -- insert
22 "'the' disallowance of the 7 million settlement
23 payment."

24 Mr. Vierima also had exhibits attached to his
25 testimony, SWV-3 through SWV-4.

1 CHAIRMAN CLARK: The prefiled rebuttal
2 testimony of Mr. Scott Vierima will be inserted in the
3 record as though read, with those changes noted, and
4 Exhibits SWV-3 and 4 will be marked as composite Exhibit
5 212 and will be admitted in the record.

6 (Exhibit No. 212 received into evidence.)

7 MR. FEIL: The final witness whose testimony
8 we have -- my understanding is we have a stipulation to
9 is Mr. Dilg.

10 CHAIRMAN CLARK: Mr. Feil, clarify for me, I
11 don't -- you have skipped over Morin, and I'm not sure
12 that we did that. Did we do his testimony?

13 MS. O'SULLIVAN: We did stip in his direct
14 testimony and I'm not sure whether we did both at the
15 same time. (Pause) I believe we did not enter his
16 rebuttal into the record when we did his direct.

17 CHAIRMAN CLARK: Mr. Feil, let's do
18 Mr. Morin's rebuttal testimony.

19 MR. FEIL: It appears that Dr. Morin had only
20 one exhibit attached to his prefiled testimony which was
21 RAM-12.

22 CHAIRMAN CLARK: And that's his rebuttal
23 testimony.

24 MR. FEIL: Yes, let me confirm that against
25 the -- that is correct. Just RAM-12.

1 Madam Chairman, I misspoke earlier with
2 respect to Mr. Vierima's rebuttal testimony. He had
3 additional exhibits, I believe through 7, SWV-7.

4 CHAIRMAN CLARK: Then -- so the record is
5 clear, Exhibit 212 will include as a composite exhibit,
6 SWV-3 through 7.

7 MR. FEIL: And the last witness that I believe
8 we have a stipulation as to is Mr. Dilg.

9 CHAIRMAN CLARK: We do need to do Dr. Morin.
10 His rebuttal testimony will be inserted in the record as
11 though read and does he have -- is the RAM-12 attached
12 to his rebuttal testimony?

13 MR. FEIL: Yes, ma'am.

14 CHAIRMAN CLARK: That will be marked as
15 Exhibit 213 and it will be admitted in the record
16 without objection.

17 (Exhibit No. 213 received into evidence.)

18 CHAIRMAN CLARK: The final witness is
19 Mr. Dilg?

20 MR. FEIL: Yes, ma'am. Did you assign an
21 exhibit number to Mr. Vierima's prefiled rebuttal
22 exhibits, Madam Chairman?

23 CHAIRMAN CLARK: 212.

24 MR. FEIL: Mr. Dilg, yes, he had one exhibit
25 attached to his prefiled rebuttal testimony. That was

1 DRG-1.

2 CHAIRMAN CLARK: Okay. The prefiled rebuttal
3 testimony of Robert Dilg will be inserted in the record
4 as though read and the attached Exhibit DRG-1 will be
5 labeled as Exhibit 214 and admitted in the record
6 without objection.

7 MR. FEEL: Thank you, Madam Chairman.

8 (Exhibit No. 214 received into evidence.)

9 CHAIRMAN CLARK: Which brings us to
10 Mr. Westrick.

11 While you're looking through and getting ready
12 to walk us through inserting the rebuttal testimony in
13 the record, let me ask the Utility to look into
14 something and report back to us. What I would like you
15 to do is just file a report with us, and I guess it
16 would be appropriate to label it as an exhibit. We have
17 had a complaint this morning concerning a break in a
18 water main line, as I understand it, in Altamonte
19 Springs, the Sanlando facility. It's my understanding
20 that a power company was digging and broke the line,
21 that it is back in service, but there is a concern about
22 whether or not it requires a boil water notice. I would
23 simply ask the Utility to investigate that and report
24 back to us about it.

25 MR. ARMSTRONG: Thank you, Madam Chair. We'll

1 do that. It's the Apple Valley facility.

2 CHAIRMAN CLARK: Okay. And we'll label that
3 as Exhibit 215. That will be a late-filed exhibit and
4 it is -- it will be admitted subject to objection.

5 (Late-filed Exhibit No. 215 identified.)

6 MR. HOFFMAN: Madam Chairman, just for the
7 record, I think the exhibit attached to Mr. Dilg's
8 testimony is GRD-1.

9 CHAIRMAN CLARK: I'm sorry. I got it
10 backwards, I guess.

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1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
2 **OCCUPATION FOR THE RECORD.**

3 A. My name is Scott W. Vierima. My business address
4 is 1000 Color Place, Apopka, FL. I am currently
5 employed as SSU's Vice President and Chief
6 Financial Officer.

7 **Q. ARE YOU THE SAME SCOTT VIERIMA WHO HAS PROVIDED**
8 **DIRECT TESTIMONY INCLUDING A STATEMENT OF**
9 **QUALIFICATIONS IN THIS CASE?**

10 A. Yes, I am.

11 **Q. WOULD YOU BRIEFLY DESCRIBE THE PURPOSE OF YOUR**
12 **REBUTTAL TESTIMONY?**

13 A. Yes. The purpose of my rebuttal testimony is to
14 controvert positions taken by the Office of Public
15 Counsel and the Marco Island Civic Association on
16 three general categories of service costs incurred
17 by SSU on behalf of its customers: 1) shareholder
18 service expenses, 2) original investment carrying
19 costs (exclusive of acquisition adjustments), and
20 3) the cost of invested/loaned funds. In their
21 direct testimony these intervenors have suggested
22 that SSU has requested recovery of amounts in
23 excess of those considered reasonable or necessary
24 to provide water/wastewater service; assertions I
25 will disprove. Additionally, I will discuss the

1 supplemental testimony of OPC's witness Kim
2 Dismukes in which she proposes imputation of CIAC
3 on assets acquired from Lehigh Corporation.
4 Finally, I will address concerns expressed by Marco
5 Island customers as to the price paid by SSU for
6 the Collier lakes.

7 **Q. REGARDING SHAREHOLDER SERVICE EXPENSES, MS.**
8 **DISMUKES CLAIMS THAT SSU HAS PROVIDED NO SUPPORT**
9 **FOR THESE COSTS OR HOW THEY BENEFIT RATEPAYERS. IS**
10 **THIS ACCURATE?**

11 A. No. As part of the minimum filing requirements,
12 SSU submitted line-item detail of the seventeen
13 components of shareholder costs including such
14 items as rating agency appraisal fees and stock
15 exchange registration fees. In addition, SSU filed
16 two discovery responses relating to apportionment
17 methodologies and parent company costs (OPC Nos.
18 42, 79 and 105), responded to deposition inquiries,
19 and provided late filed Exhibit No. 4 which again
20 detailed the make-up of shareholder related
21 expenses. Finally, in response to PSC Audit
22 Request No. 74, SSU gave a specific explanation of
23 the benefits realized by SSU customers from
24 Minnesota Power's equity investment in SSU. Copies
25 of each of these discovery responses are provided

1 in Exhibit 212 (SWV-3). Briefly, the customer
2 benefits include the attraction of debt capital at
3 lower rates and the maintenance of a balanced
4 capital structure.

5 **Q. MS. DISMUKES ALSO SUGGESTS THAT IT IS COMMISSION**
6 **POLICY TO DISALLOW EXPENSES RELATED TO IMAGE**
7 **BUILDING AND GOOD WILL. ARE ANY OF THE COSTS OF**
8 **THAT NATURE REIMBURSED TO SSU'S PARENT?**

9 A. No. It is important to recognize that the
10 shareholder costs apportioned to SSU are in many
11 ways the same type of costs incurred directly by
12 SSU in support of its debt capital. The Company
13 provides recurring financial reports, officer
14 certifications and other operating information to
15 its lenders. Staff and management hold regular
16 meetings with existing and prospective creditors
17 and frequently are required to negotiate and
18 process term amendments and/or covenant waivers.
19 All of these costs are recovered as necessary to a
20 successful capital program. Some of the equity
21 support costs charged to SSU by Minnesota Power are
22 undeniably "communication" related; however, a
23 distinction must be drawn between communication of
24 essential financial and operating data to existing
25 and prospective investors, and image enhancement

1 activities that do not improve the issuer's access
2 to capital at reasonable prices and under
3 acceptable terms. All of the apportioned parent
4 company communication costs are of the former type.
5 They represent costs associated with SEC filings,
6 production of annual and quarterly reports, conduct
7 of annual meetings, presentations to investor
8 groups/rating agencies/securities analysts,
9 responding to investor inquiries and so forth.
10 None of the costs were incurred with any objective
11 other than to attract and maintain equity capital.
12 Investors are unlikely to purchase equity in a firm
13 that does not communicate performance and results
14 after the initial investment. Consequently, as
15 recurring costs necessary for obtaining equity
16 financing, recovery of the full \$209,000 (which
17 represents 3/10ths of 1% of SSU's total equity)
18 should be allowed.

19 **Q. WITNESS MICHAEL WOELFFER ARGUES ON BEHALF OF THE**
20 **MARCO ISLAND CIVIC ASSOCIATION THAT SHAREHOLDER**
21 **COSTS SHOULD BE DISALLOWED FOR TWO REASONS: (1)**
22 **THAT SSU IS NOT A PUBLICLY TRADED COMPANY, AND (2)**
23 **THAT RECOVERY OF SHAREHOLDER COSTS INCREASES THE**
24 **RETURN EARNED BY INVESTORS BEYOND THAT PROVIDED**
25 **THROUGH DIVIDENDS AND SHARE VALUE APPRECIATION. DO**

1 **YOU AGREE?**

2 A. Clearly no. The fact that SSU's shares are not
3 publicly held, but instead are held by a firm that
4 in turn is publicly owned, does not eliminate the
5 cost of servicing equity capital providers. The
6 acid test of whether or not SSU ratepayers benefit
7 from the incurrence of these costs is to theorize
8 what would happen if MP decided to discontinue all
9 shareholder services. SEC violations, stock
10 exchange delisting, devaluation of share price and
11 the resulting flight of investors attempting to
12 sell their positions would require SSU to seek
13 other sources of equity capital at no doubt higher
14 cost and in lesser quantities. Debt costs would be
15 negatively effected and the Company would directly
16 incur shareholder service costs if SSU was forced
17 to access equity capital in the public markets,
18 both of which would have to be recovered from SSU
19 customers. There would be no assurance that
20 sufficient equity would be available in view of
21 SSU's inability to pay regular dividends.

22 Regarding the effect of shareholder cost
23 recovery on equity investors yield, recovery of
24 these expenses is not directly yield related, but a
25 legitimate cost of doing business. These costs are

1 a necessary and prudent element of a successful
2 utility financing program. If these costs were
3 disallowed, and the Company continued to require
4 equity capital for operations and plant
5 improvements, SSU investors would be denied the
6 opportunity to earn a fair and reasonable return as
7 defined by the Public Service Commission, since a
8 segment of costs necessary for the provision of
9 utility service would go unrecovered.

10 **Q. THE ISSUE OF RECOGNIZING ACQUISITION ADJUSTMENTS**
11 **SURFACES AGAIN IN THIS CASE THROUGH THE TESTIMONY**
12 **OF OPC WITNESSES LARKIN AND DERONNE. BEFORE**
13 **ADDRESSING THEIR SPECIFIC CONCERNS, WOULD YOU AGAIN**
14 **STATE THE COMPANY'S POSITION ON ACQUISITION**
15 **ADJUSTMENTS, AND STATE HOW ACQUISITION ADJUSTMENTS**
16 **IMPACT THIS CASE?**

17 **A.** Yes. The Company agrees with the Public Service
18 Commission's long standing policy since 1983 that
19 "..... absent extraordinary circumstances, the
20 purchase of a utility system at a premium or
21 discount shall not effect rate base", as quoted
22 from Order No. 25729 issued by the Commission on
23 February 17, 1992. As I see it, the Commission has
24 two main objectives in mind with its continuing
25 policy: (1) to provide a needed incentive for

1 larger, qualified utility operators to purchase
2 assets from less efficient and less capable owners,
3 thus allowing the effected customers to receive the
4 benefits of ownership transfer, and (2) to ensure
5 that under normal circumstances, neither the
6 acquiring company nor the customers are adversely
7 impacted by the numerous factors that can produce a
8 purchase price discount or premium in an arms
9 length transaction. SSU believes that the
10 incurrence of acquisition adjustments, both
11 negative and positive, is inevitable in any active
12 acquisition program. Rarely will utility assets
13 sell for exactly their original cost (depreciated),
14 and therefore a composite, long-term view of net
15 purchase price must be taken. The consolidated net
16 acquisition adjustment on SSU's books as of
17 December 31, 1995 was less than \$1 million, which
18 represents one third of one percent of SSU's total
19 assets and is the sum result of all acquisitions
20 made by SSU since its incorporation in 1961.
21 Included in this proceeding is a net \$350,000 in
22 negative acquisition adjustments that had been
23 imposed in prior rate proceedings. No new amounts
24 negative or positive have been requested in this
25 case.

1 **Q. WITNESS LARKIN CONCEDES THAT SSU'S ACQUISITIONS**
2 **WERE ARMS LENGTH TRANSACTIONS AND THAT THEY DO NOT**
3 **APPEAR TO BE ABUSIVE TRANSFERS. IN LIGHT OF PUBLIC**
4 **COUNSEL'S TESTIMONY, DO YOU BELIEVE THAT ANY**
5 **EXTRAORDINARY CIRCUMSTANCE EXISTS THAT WARRANTS A**
6 **REDUCED RATE BASE?**

7 A. No. Public Counsel witnesses do not provide
8 evidence of any such extraordinary circumstances
9 despite inferences to the contrary by OPC in
10 testimony and at customer hearings. The
11 overwhelming majority of the assets exhibiting
12 acquisition adjustments on SSU's books have already
13 withstood FPSC review of the issue without
14 Commission conclusion that rate base reductions are
15 warranted. In fact, in Order No. PSC-93-0423-FOF-
16 WS issued in 1993 which included 127 of SSU's
17 plants, the Commission stated that "No such
18 [extraordinary] circumstances were shown."
19 Similarly, in Order No. PSC-93-0301-FOF-WS, the
20 Commission stated that in the case of the Lehigh
21 Utilities acquisition, "Because this was a stock
22 transaction, there was no change in rate base.
23 Therefore no acquisition adjustment resulted."

24 **Q. CAN YOU ELABORATE ON THE DIFFERENCE BETWEEN A STOCK**
25 **TRANSFER AND AN ASSET PURCHASE, AND WHY THE**

1 **COMMISSION NOTED THE STOCK ASPECT OF THE LEHIGH**
2 **ACQUISITION IN THEIR ORDER?**

3 A. Yes. Just as the value of stock in publicly traded
4 firms varies daily on public exchanges due to a
5 wide variety of factors often not directly related
6 to the value of utility assets owned by the firm,
7 the value of stock in privately held utilities is
8 influenced by negotiated issues and buyer/seller
9 circumstances which cannot be quantified as a rate
10 base adjustment. For example, a large utility buys
11 the stock of a smaller utility which has a history
12 of environmental non-compliance, and the acquirer
13 is therefore able to negotiate a purchase discount
14 related to that history.

15 Since the discount represents the perceived
16 present value of recovery lag on needed plant
17 improvements and potential transitional fines,
18 imputation of a negative adjustment would create a
19 double penalty for the buyer and make the risk of
20 acquisition unacceptable. The stock can change
21 owners numerous times at varying values during the
22 life of the plant assets, without necessarily
23 effecting the cost or value of those original
24 assets to ratepayers.

25 **Q. WHICH OF SSU'S MAJOR PLANT ACQUISITIONS WERE STOCK**

1 **TRANSACTIONS?**

2 A. The purchases of Lehigh Utilities, Inc., Deltona
3 Utilities, Inc., and United Florida Utilities
4 Corporation were all stock acquisitions. These
5 acquisitions included the following facilities in
6 this docket: Marco Island, Marco Shores, Pine
7 Ridge, Lehigh, Citrus Springs, Deltona Lakes, Sunny
8 Hills and Marion Oaks.

9 **Q. WOULD YOU PLEASE COMMENT ON THE REASONS SUGGESTED**
10 **BY PUBLIC COUNSEL WITNESSES AS THE JUSTIFICATION**
11 **FOR NEGATIVE ACQUISITION ADJUSTMENTS?**

12 A. Yes. Mr. Larkin and Ms. Deronne argue that
13 negative acquisition adjustments are appropriate
14 because of the amount of rate increase being
15 requested in this application, and the assumption
16 that assets acquired at a discount typically have
17 been poorly maintained which they suggest results
18 in plant deterioration at a pace in excess of the
19 approved depreciation rate(s). These opinions are
20 inaccurate. First of all, the amount of the
21 overall revenue requirement increase, whether large
22 or small, cannot be tied back to any single issue.
23 Each factor must be assessed by the PSC on its own
24 merits and prudence. Then the Commission should
25 step back and evaluate the larger picture for less

1 tangible issues such as quality of service
2 provided, the financial health of the utility, the
3 period of time that ratepayers have been paying
4 less than the true cost of service, the appropriate
5 rate design and its impact on the Company and its
6 customers, and so forth. To argue that a sizable
7 rate request justifies negative acquisition
8 adjustments would suggest that a nominal increase
9 request is justification for positive acquisition
10 adjustments. Neither argument would have any
11 merit.

12 With respect to the position that a purchase
13 price discount evidences the purchase of facilities
14 that have been poorly maintained and therefore
15 original installed cost (depreciated) is no longer
16 a good measure of used and useful rate base, is
17 again a one-sided over-simplification. While it
18 may sometimes be true, as Mr. Larkin points out in
19 his testimony, that ".....previous owners were
20 motivated generally by the desire to market real
21 estate and did not maintain facilities in order to
22 provide reasonable and adequate service.....", it
23 does not automatically follow that such practices
24 resulted in a material devaluation of assets or
25 that the owner's maintenance record was the

1 principal consideration in pricing the purchase.
2 Inefficient operating and maintenance practices can
3 also lead to increased service costs and poor
4 customer service, both of which can be remedied by
5 a qualified acquirer. Pricing factors can range
6 from financial market conditions at the time of
7 negotiations to the seller's inability to comply
8 with increasing environmental and economic
9 regulations. The conclusion that can be drawn from
10 SSU's acquisition program over the years is that
11 SSU has acquired plants in varying condition, for
12 varying reasons and at differing prices. This is
13 evidenced by the low combined book acquisition
14 adjustment relative to net plant assets as shown on
15 the Company's audited financial statements; a
16 netting effect, if you will, between discounts and
17 premiums. The question of whether Mr. Larkin
18 extends his poor maintenance discount theory to a
19 superior maintenance premium for life extension
20 goes unanswered in his testimony. It also must be
21 noted that none of Public Counsel's witness
22 identify facts which would classify any of SSU's
23 plant or facilities in this category. To conclude,
24 the fundamental issue remains unchanged from the
25 Commission's original 1992 analysis: Is it

1 desirable for qualified, proven service providers
2 to acquire plants owned by individuals or firms who
3 are unwilling or unable to provide the level of
4 investment, compliance and service needed by the
5 various constituents of a water/wastewater utility?
6 The answer is yes, and imposition of a negative
7 acquisition adjustment in the absence of
8 extraordinary circumstances would discourage such
9 transfers.

10 **Q. WHAT ARE SOME OF THE EXPECTED CUSTOMER BENEFITS**
11 **THAT RESULT FROM ACQUISITION OF SMALL UTILITIES BY**
12 **LARGE UTILITIES?**

13 A. The FPSC has generally recognized, and SSU has
14 specifically demonstrated, the following benefits:
15 1) improved service;
16 2) ability to attract capital;
17 3) a lower cost of capital;
18 4) the ability to make improvements;
19 5) more professional and experienced managerial,
20 financial, technical and operational resources; and
21 6) compliance with regulatory requirements.

22 **Q. WOULD YOU FURTHER DESCRIBE THESE BENEFITS?**

23 A. Small utilities which are acquired by larger
24 utilities usually have some typical
25 characteristics, often traceable simply to the size

1 of the utility. They are unable to attract outside
2 capital on their own financial strength. Where
3 small utilities can attract capital, often because
4 of personal guarantees and other commitments of
5 the stockholders, the nominal cost rate for the
6 capital is high due to the associated risk of the
7 investment, and the effective cost of undertaking
8 the financing is high in relation to the amount of
9 the financing. A large utility, such as SSU, is
10 able to attract capital in economically efficient
11 quantities, and at a lower effective cost.

12 The cost of operations, in absolute dollars
13 and on a per customer basis, for small utilities is
14 high because they lack economies of scale. Large
15 utilities, such as SSU, are often able to operate
16 the smaller plants at a lower cost because they are
17 able to take advantage of economies of scale as
18 well as spread costs over a larger customer base.
19 These economies of scale also enable larger
20 utilities to employ highly trained and experienced
21 people, usually not available to smaller utilities.

22 It is obvious that small utilities find it
23 difficult and in many cases impossible to make
24 service improvements. The larger utilities, such as
25 SSU, have been able to make service improvements.

1 Moreover, to the extent that the larger utilities
2 are continually expanding their customer base, the
3 economies of scale continually improve to the
4 benefit of all of their customers.

5 **Q. HAS THE FPSC ACKNOWLEDGED THE ABOVE DESCRIBED**
6 **BENEFITS?**

7 A. I believe that it has. I believe it is fair to say
8 that every time the FPSC approves the acquisition
9 of a small utility by a large utility, it does so
10 because that acquisition was found in to be in the
11 public interest which we believe is in the best
12 interest of the utilities and customers involved
13 and, perhaps, the environment. In fact, in the
14 past the FPSC has specifically noted the
15 improvements the customers of small plants
16 experience from the acquisition of the facilities
17 serving them by SSU. This also applies to the
18 acquisition of larger facilities owned by
19 financially unstable entities. For example, in
20 FPSC's Order transferring control of Deltona
21 Corporation's utility subsidiaries to SSU's parent,
22 the Commission stated: "The Topeka Group, Inc. has
23 the technical and financial capability to operate
24 the Deltona Corporation's utility subsidiaries."
25 This was at a time when Deltona was under severe

1 financial pressures and its "financial capability"
2 was in serious question.

3 **Q. ARE YOU AWARE OF ANY ACTIVITIES OF OTHER STATE**
4 **REGULATORY COMMISSIONS RELATING TO ACQUISITION**
5 **ADJUSTMENTS?**

6 A. Yes. The New York Public Service Commission
7 ("NYPSC") concluded an investigation into
8 "Acquisition Incentive Mechanisms" ("AIMs") for the
9 acquisition of small utilities by larger utilities.
10 The NYPSC's "Order Instituting Proceeding and
11 Soliciting Comments" which I will refer to as the
12 "Order Instituting Proceeding" was issued on
13 November 10, 1993 as well as the NYPSC's Statement
14 of Policy on Acquisition Incentive Mechanisms For
15 Small Water Companies, which was issued on August
16 8, 1994 are attached hereto as Exhibit 212 (SWV-
17 4). Reference to the Order Instituting Proceeding
18 reveals that prior to the proceeding the NYPSC
19 policy was to impose negative acquisition
20 adjustments. The Staff memorandum supporting the
21 Order Instituting Proceeding indicates that the
22 result of such a policy is to discourage
23 acquisitions. I know that such a policy in Florida
24 would have a significantly adverse impact on SSU's
25 prospective acquisitions. With the changes

1 occurring in the water industry, i.e.,
2 privatization, large utility sales, regionalization
3 of water supplies, consolidation of small service
4 providers, etc., there are a number of
5 opportunities available to SSU and similarly
6 situated utilities, both inside and outside of
7 Florida, which offer SSU and our customers growth
8 and the benefits resulting therefrom. To date,
9 Southern States has acquired utilities of all
10 sizes. Our expertise with owning and operating
11 plants and maximizing efficiencies in such
12 operations has been proven.

13 **Q. ARE THERE ANY OTHER STATES THAT DISCOURAGE NEGATIVE**
14 **ACQUISITION ADJUSTMENTS?**

15 A. Yes. Attached as Exhibit 212 (SWV-5) is a copy
16 of an article entitled, "The PUC Role in Assuring
17 Viable Water Service In Small Communities" by John
18 E. Cromwell, III and Wade Miller Associates, Inc.
19 which discusses the broader issue of large utility
20 acquisitions of small utilities. Of particular
21 note in this article are the findings on page 13 of
22 17 of the exhibit, wherein the authors state:

23 "In many states, there are large investor-
24 owned water companies that own and operate a number
25 of large and small systems throughout the state or

1 within certain regions of the state. In some
2 cases, this takes the form of a privatized approach
3 to regionalization. In some cases, PUCs have
4 approved single tariff rates for such situations
5 which allows the company to incorporate systems
6 that might not be economically viable within a
7 regionalized scheme and which also reduces the
8 burden of rate case filings to one unified
9 application for the entire regional operation.

10 A final significant area of PUC involvement is
11 in regulating any transactions involving the
12 transfer of ownership between two private water
13 companies or between a private company and a
14 publicly owned company. Such ownership transfers
15 may be integral to the success of regionalization
16 schemes. There are many situations, such as the
17 municipal/suburban boundary case that we just
18 discussed, in which publicly owned and privately
19 owned systems exist in a contiguous polka-dot
20 pattern. The difference in ownership status can
21 present one of the most formidable barriers to
22 regionalization. Historically, PUCs have applied a
23 complicated set of iron-clad rules to the
24 evaluation of ownership transfers in an effort to
25 protect the public from being charged too much when

1 depreciated plant and equipment changes hands.
2 This is another area where PUC policies need to be
3 revisited in order to assess whether the benefits
4 of such regulatory protection outweigh the costs of
5 possibly missing the opportunity to put
6 regionalized solutions in-place that will provide a
7 more viable long-term approach to providing quality
8 service. Pennsylvania, Connecticut, and several
9 other states have enacted more liberal merger and
10 acquisition adjustment laws which enable progress
11 in the right direction. Connecticut has enacted
12 laws which permit the PUC to authorize slightly
13 higher rates of return on investments related to
14 certain acquisitions."

15 The proposal by Public Counsel that the
16 Commission impose negative acquisition adjustments
17 in this proceeding, particularly on the basis of
18 the arguments provided by Public Counsel's
19 witnesses, would make Florida's water services
20 environment a poor contrast to the states mentioned
21 above in matters relating to public benefit from
22 ownership transfers.

23 **Q. WILL SSU RECEIVE A WINDFALL IF RATE BASE IS NOT**
24 **REDUCED BY NEGATIVE ACQUISITION ADJUSTMENT, AS MR.**
25 **LARKIN AND MS. DERONNE SUGGEST?**

1 A. No, the perception that Public Counsel is
2 attempting to create that the Commission's policy
3 gives SSU something for nothing is a false
4 perception.

5 The complexities of the water industry cannot
6 be ignored. SSU is at risk each time that we
7 acquire a plant. The tightening of water quality
8 standards makes compliance with the myriad of water
9 quality rules and standards much more demanding.
10 The fines are at shareholder risk. Additional
11 operating costs and possible capital investment
12 from any violations also are at the expense of the
13 stockholder until a rate case can be prepared,
14 processed and a final order obtained. On the other
15 hand, SSU can offer our existing customers the
16 benefits I previously described.

17 **Q. PLEASE SUMMARIZE YOUR VIEW OF THE PROPOSAL TO**
18 **IMPOSE NEGATIVE ACQUISITION ADJUSTMENTS WHEN**
19 **ESTABLISHING RATE BASE.**

20 A. Utilities are entitled to a return on the net
21 investment of the property devoted to public
22 service. The cost of that property is, by
23 definition, the original cost to the person first
24 devoting the property to public service. The term
25 "original cost" is a term of art in the area of

1 public accounting. James Bonbright in his book on
2 utility ratemaking, Principles of Public Utility
3 Rates (1988), at page 237, defines original cost as
4 the cost of an asset when first devoted to the
5 public service rather than the cost to a transferee
6 utility. SSU agrees with Bonbright at page 240 of
7 his book that while the "purchase price may be
8 considered a cost, it does not represent a
9 contribution of capital to the public service.
10 Instead, it represents a mere purchase by the
11 present company of whatever legal interests in the
12 properties were possessed by the vendor." SSU also
13 agrees with the analysis performed for the
14 Commission by Ms. Denise N. Vandiver, Public
15 Utilities Supervisor, in a paper entitled
16 "Accounting for Acquisition Adjustments" dated
17 November, 1991 wherein Ms. Vandiver recognizes that
18 since many small facilities are purchased for
19 little or no capital investment, a large utility
20 like SSU would have little incentive to purchase
21 and operate the plant if allowed only a return on
22 the investment as limited by the purchase price.
23 In my opinion, ratesetting with respect to this
24 issue is a one-way street. The minimum the
25 acquiring utility is entitled to is a return on the

1 original cost of the property first devoted to
2 public use and if for the good of the public, in
3 terms of improved service, ultimately lower full-
4 recovery rates or other such circumstances, a
5 positive acquisition adjustment is warranted the
6 regulatory agency may allow that positive
7 acquisition adjustment. On the other hand, a
8 negative acquisition adjustment is simply
9 confiscatory.

10 Aside from my opinion about regulatory
11 restrictions against negative acquisition
12 adjustments, such adjustments are simply not in the
13 best interest of the customers. The signal to
14 utilities would clearly result in a disincentive
15 for large utilities to acquire small utilities.
16 The customers of small non-viable utilities would
17 continue to experience poorer service and higher
18 rates than would otherwise be the case. In
19 addition, negative acquisition adjustments would
20 continually increase the burden on regulatory
21 agencies including environmental regulators,
22 associated with the resources necessary to cope
23 with the problems caused by more and more aging
24 utilities.

25 **Q. GIVEN YOUR AGREEMENT WITH THE FPSC'S LONG STANDING**

1 POLICY TO EXCLUDE ACQUISITION ADJUSTMENTS FROM RATE
2 BASE DETERMINATION, ARE PUBLIC COUNSEL'S PROPOSED
3 ADJUSTMENTS TO ACCUMULATED AMORTIZATION OF
4 ACQUISITION ADJUSTMENTS AND ANNUAL AMORTIZATION OF
5 ACQUISITION ADJUSTMENTS APPROPRIATE?

6 A. No. Only the amounts shown in the MFRs as
7 previously approved by the FPSC should be
8 considered.

9 Q. IN EXHIBIT _____ (HL-1), MR. LARKIN FOCUSES ON TWO
10 OF SSU'S LARGER ACQUISITIONS AND FORMULATES HIS OWN
11 ACQUISITION ADJUSTMENT IN SHARP CONTRAST TO SSU'S
12 AUDITED FINANCIAL STATEMENTS. DO YOU HAVE ANY
13 OBSERVATIONS REGARDING HIS METHODOLOGIES AND
14 CONCLUSIONS?

15 A. Yes. Beginning with the proposed negative
16 acquisition adjustment to SSU's Lehigh assets, the
17 central premise of OPC witness Larkin, which is
18 later echoed by witness Dismukes, is that in this
19 transaction the purchase discount negotiated by
20 SSU's parent when it simultaneously acquired real
21 estate holdings should benefit utility ratepayers.
22 Raymond James and Associates (RJA), issued an
23 August 8th 1991 opinion concerning the purchase
24 price of the utilities, specifying why the utility
25 acquisition price is separate and distinct from the

1 real estate component values.

2 Because of the wide variation in business
3 character and risk existing between the assets
4 purchased from the Resolution Trust Corporation
5 (RTC), RJA was asked by the Board of Topeka Group,
6 Inc. to act as outside advisor on the allocation of
7 the purchase price between those assets. The
8 principal categories of acquired assets were lot
9 sales receivables, real estate related fixed
10 assets, two golf courses, buildings, land, and the
11 utility. Although Mr. Larkin provides no rationale
12 or evidence to support his presumption that all
13 assets acquired in the purchase would command
14 identical discounts or premiums if purchased
15 separately, his proposed negative acquisition
16 adjustment methodology relies solely on that
17 premise. In view of the facts that (1) an outside
18 investment bank opinion has been provided to the
19 contrary, (2) the identical issue was thoroughly
20 reviewed by the Commission in Docket 911188-WS
21 without adjustment in the final order, (3) the
22 assets in question are in totally different
23 industries -- real estate versus water utility --
24 which demonstrate drastically different risk
25 profiles, (4) the Commission's consistent policy

1 has been to value assets at original cost, (5) the
2 acquisition of Lehigh Utilities, Inc. was a stock
3 transaction, and (6) that no new evidence has been
4 offered by OPC that suggests the circumstances have
5 somehow changed, Public Counsel's proposed \$3.8
6 million negative adjustment to rate base must be
7 rejected. I also note that had Topeka paid a
8 premium for the Lehigh real estate assets, it is
9 questionable whether Mr. Larkin would be
10 recommending the same price allocation methodology.

11 Regarding Ms. Dismukes' related adjustment of
12 \$11,561 for a parcel of land acquired from Lehigh
13 by SSU subsequent to Topeka's acquisition of
14 Lehigh; just as SSU ensures that all inter-
15 affiliate transactions such as our purchase of
16 services from MP are at arms length and fair market
17 values, Lehigh Corporation is under no obligation
18 to sell real estate to SSU at any price other than
19 fair market. Prudent steps were taken by SSU at
20 the time of parcel acquisition to ensure that
21 prices were competitive.

22 **Q. TURNING TO THE DELTONA ACQUISITION, MR. LARKIN**
23 **STATES THAT ".....NON-CASH OUTLAYS AND THE**
24 **SETTLEMENT AMOUNTS SHOULD BE EXCLUDED FROM THE**
25 **PURCHASE PRICE PAID FOR THE PURPOSE OF CALCULATING**

1 **THE ACQUISITION ADJUSTMENT." SHOULD THEY BE**
2 **EXCLUDED?**

3 A. No. The non-cash outlay referred to in Mr.
4 Larkin's testimony relates to an accrued dividend
5 on convertible preferred stock which was the
6 vehicle for the utilities purchase. In 1985,
7 Topeka Group purchased \$22 million of cumulative
8 preferred stock which was convertible into stock
9 of either Deltona Corporation, or the stock of
10 Deltona's utility subsidiaries. The dividend was
11 to accrue between the time of stock issuance and
12 the time of conversion. The value of the original
13 investment, plus the liability of Deltona
14 Corporation for accrued dividends payable at the
15 time of stock conversion, was called the exchange
16 value. That value, along with the \$7 million
17 settlement payment and the assumption of \$30
18 million in utility debt made up the underlying
19 purchase price. The non-cash accrued dividend
20 represented the time value of money for the four
21 year period prior to purchase. An analogy would be
22 the accrued interest on a bank loan. If a borrower
23 makes annual interest payments, the bank accrues
24 and books the interest due until the next payment
25 is made. Just because the bank has not received

1 cash interest in the interim, does not mean that
2 the receivable has no value. Had Topeka structured
3 the transaction such that Deltona were required to
4 pay the dividend in cash at closing, and then had ^{to Topeka} ^{Topeka}
5 simultaneously turned around and used the cash to
6 purchase the utility stock, the end result would
7 have been the same. Such a structure was
8 unnecessary since conversion was required under the
9 purchase agreement.

10 Acceptance of the above, in and of itself,
11 totally eliminates the negative acquisition
12 adjustment according to the calculations exhibited
13 by Mr. Larkin. Nevertheless a brief comment on his ^{is warranted}
14 second adjustment, ^{the} disallowance of the \$7 million
15 settlement payment, ~~is warranted~~. When Topeka
16 exercised its conversion rights, the purchase was
17 challenged by Deltona Corporation. In dispute were
18 a number of issues including intercompany
19 obligations, real estate needed for future utility
20 expansion, and continuing line extension
21 responsibilities relative to outstanding lot sales
22 contracts. The settlement agreement, executed in
23 November of 1989, resolved these issues and others
24 through the payment to Deltona of \$7 million as
25 additional compensation for the utility purchase,

1 including the real estate received by the utilities
2 from the purchase. For these reasons, it would be
3 inappropriate to arbitrarily discount rate base by
4 an equivalent amount.

5 In both the Lehigh and Deltona cases, the
6 Commission found the transfers of ownership to be
7 in the public interest. In addition, both
8 acquisitions were subsequently viewed by the
9 Commission as including certain amounts of non-used
10 and useful assets. To the extent that these assets
11 are funded by cost capital, they can be viewed as
12 further premiums paid by Topeka for the utilities.
13 SSU has been audited annually by the public
14 accounting firm of Price Waterhouse every year
15 since the acquisition of the Lehigh and Deltona
16 facilities. No acquisition adjustments of the
17 nature proposed by Mr. Larkin have been required or
18 recommended. Finally, as I stated previously, both
19 of these acquisitions were accomplished as stock
20 purchases. For this reason alone, no negative
21 acquisition adjustment would be appropriate.

22 **Q. MS. DISMUKES RELIES ON A DEPOSITION OF SSU VICE**
23 **PRESIDENT CHARLES SWEAT TO SUPPORT HER PROPOSED**
24 **DISALLOWANCE OF \$186,652 OF EXPENSES INCURRED BY**
25 **MR. SWEAT'S DEPARTMENT. SHOULD THOSE EXPENSES BE**

1 **EXCLUDED FROM THIS CASE?**

2 A. No. Ms. Dismukes was apparently referring to the
3 following exchange from the deposition:

4 **Q. (PUBLIC COUNSEL): WHAT PERCENT**
5 **OF YOUR TIME WOULD YOU SAY IS**
6 **INVOLVED IN THE ACQUISITION AND**
7 **POSSIBLE DIVESTITURE OF SYSTEMS**
8 **FOR SERVICE AREAS?**

9 A. (Sweat): At the present time
10 about 90%.

11 From that statement, Ms. Dismukes concludes that
12 Mr. Sweat's department spends 90% of their
13 available time throughout the year on acquisitions
14 and divestitures. At the time of the deposition,
15 Mr. Sweat was actively involved in the Orange
16 Osceola Utilities acquisition. The commitment of
17 resources in his department varies significantly
18 over time, depending on prospective transactions
19 under consideration. As has been the Commission's
20 past practice, time sheets should remain the
21 principal determinant of historic time spent on
22 acquisition activities. It is reasonable to expect
23 that during 1996 Mr. Sweat, Mr. Devore and Ms.
24 Helcher would spend 50% of their time on
25 acquisition related activities.

1 Q. IN HIS TESTIMONY ON BEHALF OF THE MARCO ISLAND
2 CIVIC ASSOCIATION, MR. MICHAEL WOELFFER PROPOSES
3 THE CALCULATION OF A STAND-ALONE COST OF DEBT FOR
4 THE MARCO ISLAND CUSTOMERS. IS THIS PRACTICAL?

5 A. No. Mr. Woelffer accurately quotes my position on
6 stand-alone plant capital costs from MICA
7 Interrogatory No. 5, a copy of which is contained
8 in Exhibit 212 (SWV-6). It is not possible to
9 calculate a true stand-alone cost of debt for any
10 SSU service area. Mr. Woelffer's proposal stems
11 from the fact that private activity bonds, such as
12 those issued through the Collier County Industrial
13 Development Authority, are project related. In
14 order to qualify for State allocation of tax-exempt
15 issuing authority, SSU must commit the related
16 funds to site specific projects. What is not
17 understood by Mr. Woelffer is that SSU's ability to
18 secure those funds does not end with the granting
19 of issuance authority. In the case of the two
20 series of bonds referenced in Mr. Woelffer's
21 testimony, credit support was required to ensure
22 marketability through a strong credit rating. That
23 support was provided to SSU, not the Marco assets,
24 in the form of letters of credit from a large
25 regional lending institution. That institution

1 based its willingness to provide that letter on a
2 credit review of SSU in total, not on the
3 creditworthiness of the assets on Marco Island. In
4 addition, the bank required a guarantee from SSU's
5 parent company, Topeka Group, Inc. Topeka provided
6 that guarantee to SSU, not to assets on Marco. SSU
7 is the legal entity with which all parties to the
8 issuance, including the Collier County Industrial
9 Development Authority, executed documents. None of
10 the parties would enter into an agreement with an
11 asset as opposed to a legal obligor, yet this is
12 what Mr. Woelffer suggests. The parties'
13 willingness to contribute to the successful
14 issuance was predicated on SSU being the obligor.
15 If the Marco assets were to truly 'stand-alone',
16 none of the advantages of affiliation with SSU and
17 its combined operations and customer base could be
18 considered in evaluating what an appropriate debt
19 rate should be. The fundamental question is; if it
20 were possible to issue truly stand-alone debt for
21 the Marco Island assets, would the availability,
22 terms and rates have been the same as those
23 reflected in the 1990 and 1992 Collier Series? The
24 answer is clearly no. The assets owned by SSU on
25 Marco Island do not establish their own debt rates

1 any more than SSU's statewide vehicle fleet or its
2 Apopka general office facilities do. It should
3 also be noted that the customers on Marco Island
4 benefited from a system-wide capital structure
5 during the years that the 15.5% Deltona Utility
6 First Mortgage bonds were outstanding (1984 -
7 1994). Those bonds were issued by Deltona
8 Utilities, Inc., the original owner of the Marco
9 Island assets, and therefore, under Mr. Woelffer's
10 theory, should have been dedicated to Marco, Spring
11 Hill and Deltona only, as opposed to all SSU
12 customers, which thereby would have caused an
13 increased weighted debt cost for Marco.

14 **Q. IN HER SUPPLEMENTAL DIRECT TESTIMONY, MS. DISMUKES**
15 **REFERS TO A LETTER WRITTEN BY MS. LAURA HOLQUIST OF**
16 **LEHIGH CORPORATION TO THE LAW FIRM OF BRIGGS AND**
17 **MORGAN IN ST. PAUL, MINNESOTA. THIS LETTER**
18 **DISCUSSED LEHIGH CORPORATION'S EFFORTS TO ACCESS**
19 **ESCROWED FUNDS COLLECTED FROM LOT BUYERS IN NEW**
20 **YORK AND MICHIGAN. ARE THESE THE SAME ESCROW FUNDS**
21 **THAT WERE REVIEWED IN LEHIGH UTILITIES 1993 RATE**
22 **CASE?**

23 **A.** Yes. In that case, the Commission found the escrow
24 funds to be unrelated to rate base since Lehigh
25 Utilities was not a party to the escrow agreements

1 and did not receive money from the accounts.

2 Those facts remain unchanged today.

3 **Q. HAS ANYTHING CHANGED SINCE THE COMMISSION LAST**
4 **REVIEWED THIS ISSUE?**

5 A. Yes. Lehigh Utilities, Inc. was merged into
6 Southern States Utilities, Inc., with SSU as
7 successor to all LUI commitments. Second, SSU, as
8 successor, entered into a modification to the
9 original Lehigh Corporation developers agreement.

10 **Q. CAN YOU DESCRIBE THE TERMS OF THE MODIFICATION**
11 **AGREEMENT ADDRESSED BY MS. DISMUKES?**

12 A. Yes. The changes to the terms of the original
13 developers agreement addressed by Ms. Dismukes are
14 the segregation of major utility facilities
15 constructed with the use of escrowed funds by
16 Lehigh and the introduction of a utility fee credit
17 to be applied against service availability fees
18 paid by escrow contributors.

19 **Q. DO THESE MODIFICATIONS ALTER THE FACT THAT SSU IS**
20 **NOT A PARTY TO THE ESCROW AGREEMENTS?**

21 A. No.

22 **Q. CAN SSU NOW ACCESS THE ESCROW FUNDS?**

23 A. No.

24 **Q. WHY THEN IS MS. DISMUKES SUGGESTING THAT CIAC**
25 **SHOULD NOW BE IMPUTED ON ALL ASSETS CONSTRUCTED**

1 **WITH THESE ESCROWED FUNDS WHEN THE COMMISSION**
2 **DISAGREED IN THE LAST CASE?**

3 A. Ms. Dismukes' repeated premise is that funds drawn
4 from the escrow accounts by Lehigh and invested in
5 utility assets should be considered CIAC. She
6 fails to point out that these assets are already
7 offset in rate base calculations either as
8 refundable advances or, ultimately, as CIAC when
9 the service availability fees are received from the
10 customer and used to refund the developer
11 liability. In addition, at the end of the
12 recoupment period, the advances that remain
13 unfunded automatically revert to developer
14 contributions. The investment cycle is one where
15 the assets are originally transferred to SSU as
16 non-used and useful property funded by "no cost"
17 developer advances, which are then converted to
18 either in-service assets funded by customer
19 contributions, or remain unused assets funded by
20 developer contributions. At no point are the
21 assets included in rate base without the offsetting
22 no-cost funding, either CIAC or advances.

23 **Q. WHAT ABOUT THOSE CUSTOMERS FROM NEW YORK AND**
24 **MICHIGAN WHO CONTRIBUTED TO THE ESCROW ACCOUNTS,**
25 **AREN'T THEY PAYING TWICE FOR UTILITY EXTENSIONS?**

1 A. No. That's why the utility fee credit provision
2 was included in the modification to the developers
3 agreement. When a New York or Michigan customer
4 connects to assets funded by the escrow funds, SSU
5 has agreed to provide a credit against his normal
6 service availability fee equal to the amount of
7 money s/he paid into the escrow fund, along with
8 interest through March 31, 1994, the date of
9 execution by Lehigh Corporation of supplements to
10 the New York and Michigan Escrow Agreements. SSU
11 in turn will invoice Lehigh Corporation for the
12 credit amount. If Lehigh is unable to reimburse
13 SSU, SSU and Lehigh's common parent has agreed to
14 reimburse SSU. The credit attaches to and runs
15 with the title to the homesite, even though Lehigh
16 had obtained a legal opinion that no such credit
17 was required.

18 **Q. AT A FORT MYERS SERVICE HEARING, A CUSTOMERS**
19 **QUESTIONED WHETHER THE STATES OF NEW YORK AND**
20 **MICHIGAN APPROVED THESE ARRANGEMENTS. DID THEY?**

21 A. Yes. Lehigh Corporation was required to get the
22 approval of New York and Michigan and did so.

23 **Q. WHAT ARE THE CURRENT BALANCES IN THE ESCROW**
24 **ACCOUNTS, HOW MUCH HAS SSU REFUNDED TO LEHIGH, AND**
25 **HOW MUCH HAS SSU PROVIDED IN UTILITY FEE CREDITS AS**

1 **OF YEAR END 1995?**

2 A. As of December 31, 1995, the combined New York and
3 Michigan escrow balances were \$4,573,000. No
4 escrow funded assets had been transferred to SSU
5 and therefore no advance refunds or utility fee
6 credits had been issued. It is expected that
7 escrow asset transfers will begin in 1996.

8 **Q. MS. DISMUKES ALLEGES THAT THERE IS NO BENEFIT TO**
9 **SSU CUSTOMERS THROUGH UTILIZATION OF THE ESCROWED**
10 **FUNDS WHILE THERE IS A SIGNIFICANT BENEFIT TO**
11 **MINNESOTA POWER'S UNREGULATED OPERATIONS. IS THAT**
12 **TRUE?**

13 A. No. It is SSU's responsibility to ensure that in
14 the case of Lehigh Corporation's development
15 activities, customers are not harmed economically
16 or in quality of service, and that any assets
17 accepted from the developer as part of the original
18 developer agreement, as modified, meet required
19 engineering standards. The extent to which a
20 developer's plans and activities benefit lot and
21 home owners, or the development corporation for
22 that matter, through changes in real estate values,
23 community character, etc., is relevant to the
24 utility only with respect to the increased customer
25 base over which the cost(s) of service are spread,

1 helping keep per customer costs low.

2 **Q. MS. DISMUKES IMPLIES THAT AS THESE FUNDS ARE**
3 **INVESTED IN COLLECTION AND DISTRIBUTION FACILITIES,**
4 **SSU WILL CONSTRUCT OVERSIZED CENTRAL PLANT TO**
5 **SERVICE THESE NEW CUSTOMERS. CAN YOU COMMENT ON**
6 **THAT ASSERTION?**

7 A. The addition of new customers typically places
8 increased demands on central plant. The
9 appropriate sizing of plants and the amount of
10 those additions eligible for inclusion as used and
11 useful facilities is a question which is thoroughly
12 reviewed by qualified engineering experts in each
13 rate proceeding. Lehigh Corporation's use in the
14 future of escrow funds for utility construction has
15 minimal, if any, relevance to the issue.

16 **Q. DO YOU AGREE WITH THE CONCLUSIONS OF MS. DISMUKES**
17 **THAT THE ESCROW FUNDS SHOULD BE A CONSIDERATION IN**
18 **THE PSC'S DELIBERATIONS ON NEGATIVE ACQUISITION**
19 **ADJUSTMENTS?**

20 A. No. As stated earlier in my testimony, the
21 Commission policy that acquisition adjustments are
22 inappropriate unless extraordinary circumstances
23 exist still applies. Since the customers are not
24 harmed by Lehigh Corporation's use of escrow funds,
25 as confirmed by the fact that the States of New

1 York and Michigan approved the arrangement, and
2 customers may indeed benefit from customer growth
3 generated from the use of those funds, no
4 extraordinary circumstances exist.

5 **Q. WERE YOU INVOLVED ON BEHALF OF SSU IN THE PURCHASE**
6 **OF THE COLLIER LAKES LOCATED ON COLLIER COUNTY?**

7 A. Yes. At the time of the condemnation, I was the
8 acting President of SSU with primary responsibility
9 for the settlement of the condemnation action which
10 SSU was forced to initiate to secure the property.

11 **Q. COULD YOU DISCUSS THE TERMS OF THE SETTLEMENT OF**
12 **THE CONDEMNATION ACTION BETWEEN THE PROPERTY OWNER**
13 **AND SSU?**

14 A. Yes. SSU and the owners of the property, who I
15 will refer to as the Colliers, agreed that SSU
16 would purchase the property at a wrap around cost
17 of \$8 million. By wrap around cost I mean that the
18 \$8 million represented payment for a total
19 settlement of all issues relating to the
20 condemnation and use of the lakes, after
21 acquisition, as a source of public water supply.
22 As the commission may be aware, the condemnor in a
23 condemnation action, in this situation, SSU, is
24 obligated to pay court costs, witness fees and
25 attorneys fees of both the condemnee as well as its

1 own costs. The \$8 million represented payment in
2 full of all costs which could then or ever after be
3 claimed by the Colliers.

4 **Q. DOES SSU BELIEVE THAT IT PAID A FAIR AND REASONABLE**
5 **PRICE FOR THE COLLIER LAKES?**

6 A. Yes. Confusion over the price we paid for the
7 lakes may have arisen in part through unfamiliarity
8 with the process. In addition to SSU being
9 required to pay the Colliers' court costs,
10 interest, witness fees and attorneys fees, SSU had
11 to pay the Colliers a value equal to what a willing
12 buyer and a willing seller would pay for the
13 property at arms length if all pertinent facts were
14 known to the parties. SSU originally had to pay
15 the Colliers a good faith deposit of \$4.1 million
16 to continue using the property as a continued water
17 supply source after December 31, 1994 - the date
18 our water lease with the Colliers expired. SSU's
19 appraisers and experts did not have access at that
20 time to the property owned by the Colliers which
21 adjoins the property we condemned, known as the
22 parent tract, or to other information necessary for
23 the determination of severance value which the
24 Colliers and the market might place on the
25 property.

1 As is typical in condemnation actions, it was
2 only after the condemnation action was begun that
3 SSU's experts and appraisers obtained the
4 information necessary to determine the market value
5 of the property we were taking based on the
6 Collier's intended use.

7 **Q. COULD YOU DESCRIBE THE DIFFERENCES IN VALUE**
8 **ASSIGNED BETWEEN SSU'S EXPERTS AND APPRAISERS AND**
9 **THOSE USED BY THE COLLIER'S?**

10 A. For this purpose I refer primarily to the testimony
11 of SSU witnesses Robert Dilg, Esq. of the law firm
12 of Gray, Harris & Robinson, a condemnation expert
13 and SSU's legal expert in the case, and Gerald C.
14 Hartman, P.E., SSU's engineering expert in this
15 case with experience in numerous utility
16 condemnation actions in several states. Also,
17 attached as Exhibit 212 (SWV-7) is a copy of the
18 letter SSU received from our land appraiser, Hanson
19 Appraisal Company, Inc., which discusses the value
20 difference between the experts for both sides and
21 recommends that SSU settle the case for a wrap
22 around price of \$8 million. I also note that Mr.
23 Dilg and Mr. Hartman also are presenting the
24 Commission with copies of their respective analyses
25 of the case and their opinions and recommendations

1 to SSU with respect to price.

2 **Q. ARE YOU AWARE OF ANY CIRCUMSTANCES WHICH LEAD YOU**
3 **TO BELIEVE THAT A WRAPAROUND SETTLEMENT OF \$8**
4 **MILLION WAS PRUDENT AND REASONABLE?**

5 A. Yes. In addition to the independent expert
6 opinions mentioned above, SSU has been involved in
7 condemnation actions in the past as a condemnee.
8 Therefore, we have experience in these matters,
9 particularly regarding the magnitude of the court
10 costs, witness fees, attorneys fees, interest and
11 other costs which the condemnor has to reimburse to
12 the condemnee. We also are aware of the risks
13 involved in pursuing the case through trial. For
14 instance, in February 1996, a condemnation action
15 filed by Sarasota County against Atlantic
16 Utilities, Inc. went to jury trial. Sarasota
17 County, the condemnor, offered evidence that the
18 property was worth approximately \$9 million. The
19 utility presented evidence that the property was
20 worth at least \$22 million. The jury award was
21 \$17.5 million -- nearly twice the value suggested
22 by the County. Since the case was not settled and
23 went to trial, the utility/condemnee' fees and
24 costs, which must be paid by the condemnor/county,
25 are estimated to be in the neighborhood of \$2

1 million. The County's fees and costs have been
2 indicated to be more than \$2.0 million. Therefore,
3 the County's costs of pursuing the condemnation
4 through trial was at least \$21.5 million -- almost
5 2.5 times the County's believed value of the
6 property. Settlement of the case was available to
7 the County, but the County chose to go to trial.

8 SSU also keeps abreast of other condemnation
9 actions across the state and nation, such as the
10 price paid by Charlotte County to condemn the
11 General Development Utilities facilities in that
12 county. There, the County was forced to pay GDU
13 approximately twice the value the County originally
14 placed on the property.

15 Based on these facts, SSU's experience in
16 condemnation actions in the past, SSU's knowledge
17 of the facts and circumstances in this case, and
18 the opinions and recommendations of SSU's experts
19 and counsel, SSU determined that settling the case
20 at a wrap around price of \$8 million was prudent
21 and reasonable.

22 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?**

23 **A.** Yes it does.

1 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND OCCUPATION.**

2 A. My name is Dr. Roger A. Morin. My business address
3 is 1515 Old Riverside Rd., Roswell, Georgia, 30076.
4 I am Professor of Finance at the College of
5 Business Administration, Georgia State University
6 and Professor of Finance for Regulated Industry at
7 the Center for the Study of Regulated Industry at
8 Georgia State University.

9 **Q. ARE YOU THE SAME DR. R. A. MORIN WHO HAS FILED RATE**
10 **OF RETURN TESTIMONY IN THIS SAME PROCEEDING?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

13 A. This testimony is in rebuttal to Mr. Rothschild's
14 (Office of the Public Counsel), and Mr. Maurey's
15 (Florida Public Service Commission Staff) cost of
16 capital testimonies.

17 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

18 A. My testimony is organized in two parts, dealing
19 with Mrs. Rothschild's and Maurey's cost of capital
20 testimonies, respectively. The vast majority of my
21 comments are directed at Mr. Rothschild, as I am in
22 large agreement with the Commission's Leverage
23 Formula espoused by Mr. Maurey in determining
24 Southern States Utilities' (SSU) cost of equity. I
25 have attached an executive summary of my testimony

1 as Exhibit 213 (RAM-12).

2 **I. COMMENTS ON MR. ROTHSCHILD'S TESTIMONY.**

3 **Q. PLEASE SUMMARIZE MR. ROTHSCHILD'S RATE OF RETURN**
4 **RECOMMENDATION.**

5 A. In determining SSU's cost of equity applicable, Mr.
6 Rothschild applies DCF analysis to water and gas
7 distribution utilities and weighs the results
8 equally. As checks on the DCF results, he performs
9 a risk premium analysis and a CAPM analysis. No
10 weight is attached to the results of those two
11 checks. Based on the results of his DCF analysis
12 alone, he recommends a return of 10.10% on SSU's
13 common equity capital.

14 **Q. DO YOU HAVE ANY GENERAL COMMENTS ON MR.**
15 **ROTHSCHILD'S TESTIMONY?**

16 A. Yes. Before I engage in specific criticisms of Mr.
17 Rothschild's testimony, my general reaction to his
18 testimony is that it is extremely narrow in scope,
19 relying solely on the fragile retention growth DCF
20 model results applied to water and gas distribution
21 utilities. His recommendation of 10.10% rests
22 entirely on one particular variant of the DCF
23 approach, namely, the retention growth approach.
24 Using this one variant of the DCF method, Mr.
25 Rothschild was forced to assume the ROE answer

1 before he even began his determination of SSU's
2 equity costs using that method, as I demonstrate
3 later.

4 Mr. Rothschild has put all his eggs in the DCF
5 basket, and thereby has set a dangerous precedent
6 for the Commission. It is dangerous and
7 inappropriate to rely on only one method, namely
8 the DCF model, and to rely heavily on a particular
9 variant of that method, as Mr. Rothschild has done.
10 As I discuss later, this variant, namely the
11 retention growth method, is the most fragile
12 conceptually and the least valid empirically. By
13 relying heavily on a single variant of the DCF
14 model at a time when the fundamental assumptions
15 underlying the DCF model are tenuous, the
16 Commission would greatly limit its flexibility and
17 increase the risk of authorizing unreasonable rates
18 of return. The results from one method are likely
19 to contain a high degree of measurement error. The
20 Commission's hands should not be bound to one
21 methodology of estimating equity costs, nor should
22 the Commission ignore relevant evidence and back
23 itself into a corner. Moreover, Mr. Rothschild's
24 cost of equity recommendation of 10.10%, if ever
25 adopted, would result in one of the lowest rate of

1 return awards for water utilities in the country.

2 Moreover, I found Mr. Rothschild's testimony
3 very difficult to follow and his exhibits to be
4 very laborious to decipher. His testimony was very
5 ambiguous in places while he seemed to repeat the
6 same points on DCF analysis again at the end of his
7 testimony. As for his exhibits, I found some of
8 his analyses almost incomprehensible as the reader
9 is continuously being buffeted from schedule to
10 schedule in order to follow his figures, some of
11 which I could not replicate. In short, I found Mr.
12 Rothschild's computations and exhibits convoluted,
13 sloppy, and difficult to follow.

14 **Q. WHAT ARE THE BASIC CONCLUSIONS OF YOUR REBUTTAL TO**
15 **MR. ROTHSCHILD'S COST OF EQUITY TESTIMONY?**

16 A. Mr. Rothschild understates SSU's cost of equity
17 capital. A proper application of cost of capital
18 methodologies would give results substantially
19 higher, and much closer to my own original
20 recommendation and that of the Leverage Formula.

21 **Q. PLEASE SUMMARIZE YOUR SPECIFIC CRITICISMS OF MR.**
22 **ROTHSCHILD'S TESTIMONY.**

23 A. The specific criticisms which I discuss include:

24 1. **Mr. Rothschild's complete disregard for the**
25 **Commission's Leverage Formula.** Following lengthy

1 deliberations and proceedings over the years, the
2 Commission has constructed a valid methodology to
3 aid in the computation of the cost of equity for
4 the over 400 water utilities in its jurisdiction.
5 Mr. Rothschild is completely silent on the Leverage
6 Formula as if it did not exist.

7 2. **Unreliable estimate.** Mr. Rothschild's cost of
8 equity recommendation is unreasonably low, and is
9 not a reliable estimate of SSU's cost of equity
10 capital given his sole reliance on one particular
11 and fragile cost of equity methodology. Reliance
12 on one particular methodology violates the spirit
13 of the Commission's Leverage Formula.

14 3. **The expected growth rate for utilities in the**
15 **DCF model.** There are serious logical
16 inconsistencies in the retention growth method
17 employed by Mr. Rothschild. Moreover, this method
18 is the least empirically and theoretically valid.

19 4. **Flotation cost allowance.** Mr. Rothschild is
20 completely silent on the subject of flotation
21 costs, and his DCF estimates of equity costs are
22 therefore understated. Yet, his retention growth
23 term includes growth through external stock issues.

24 5. **Mr. Rothschild's disregard for the**
25 **business risks of SSU and the greater risks of the**

- 1 **water industry in general.** Mr. Rothschild
2 erroneously contends that the business risks faced
3 by SSU and the water utility industry have not
4 increased in recent years and that Florida water
5 utilities are not riskier than the national
6 average. This violates the precepts of the
7 Leverage Formula.
- 8 6. **Mr. Rothschild's view that company size is**
9 **unrelated to return** because it is an element of
10 diversifiable risk is wrong.
- 11 7. **Mr. Rothschild's contention that a liquidity**
12 **premium is unwarranted** because SSU's equity capital
13 is raised by its parent is wrong.
- 14 8. **Mr. Rothschild's view that gas distribution**
15 **stocks and water utility companies are equally**
16 **risky is inconsistent with the facts.** This view
17 violates the Commission's Leverage Formula.
- 18 9. **Mr. Rothschild's viewpoint that the used and**
19 **useful adjustment does not increase SSU's risk is**
20 **erroneous.**
- 21 10. **Mr. Rothschild's view that a weather**
22 **normalization clause does not reduce risk is**
23 **counterintuitive and inconsistent with financial**
24 **theory.**
- 25 11. **Mr. Rothschild's risk premium analysis is**

1 **stale and inapplicable to water utilities. Mr.**
2 **Rothschild's contention that the risk premium is**
3 **driven by taxation ignores the presence of tax-**
4 **exempt institutional investors.**

5 **12. Mr. Rothschild's views on the proper inputs to**
6 **the CAPM are unfounded.** Mr. Rothschild wrongly
7 argues that the yield on short-term Treasury
8 securities is the proper proxy for the risk-free
9 rate. Only long-term yields provide an appropriate
10 proxy for the risk-free rate when applying the CAPM
11 to common stocks. Mr. Rothschild also argues that
12 arithmetic means rather than geometric means should
13 be used when measuring the market risk premium. He
14 is also wrong on that score. Mr. Rothschild's
15 disregard for the CAPM and its results is totally
16 out of the mainstream of corporate finance and
17 corporate practice. Mr. Rothschild's views on the
18 CAPM violate the spirit of the Commission's
19 Leverage Formula.

20 **13. Market to Book ratios and regulation.** Mr.
21 Rothschild erroneously believes that market to book
22 ratios above 1.0 are a sign that the utility is
23 over-earning.

24 My comments will show that proper use of the
25 Capital Asset Pricing Model, risk premium analysis,

1 and recognition of realistic growth rates in his
2 DCF methodology will produce a cost of equity
3 recommendation which is substantially higher than
4 his recommended 10.10%. I also respond to several
5 of Mr. Rothschild's comments on my own testimony,
6 and show that they are unfounded. Several of Mr.
7 Rothschild's views and procedures are in
8 contradiction with the Commission's Leverage
9 Formula.

10 **1. THE LEVERAGE FORMULA**

11 **Q. WHAT IS THE COMMISSION'S LEVERAGE FORMULA?**

12 A. The leverage formula is a linear equation that
13 estimates the cost of equity capital for a given
14 degree of financial leverage. This formula is
15 recalibrated once a year to the change in financial
16 conditions in the marketplace. In sharp contrast
17 to Mr. Rothschild's approach, the leverage formula
18 takes into account results from three cost of
19 equity methodologies and allows for the differing
20 risk profile of Florida water companies as compared
21 to the national average.

22 **Q. WHY IS THE LEVERAGE FORMULA USED?**

23 A. There are nearly 400 water and/or wastewater
24 utilities in jurisdiction of the Commission. The
25 Leverage formula helps to ease the administrative

1 burden of the commission and the water utilities
2 alike.

3 **Q. DOES MR. ROTHSCHILD MAKE USE OF THIS FORMULA IN HIS**
4 **ANALYSIS?**

5 A. No, not at all. Mr. Rothschild has completely
6 ignored the Leverage Formula in his cost of equity
7 analysis. He refutes many of the methodologies and
8 principles included in the leverage formula
9 computation, choosing instead to rely solely on one
10 variant of one methodology, the retention growth
11 DCF model.

12 **Q. DO YOU, DR. MORIN, USE THE LEVERAGE FORMULA IN YOUR**
13 **COST OF EQUITY ANALYSIS?**

14 A. Yes, I do. From a methodological standpoint, my
15 recommendation is derived from the Commission's
16 Leverage Formula and from suggested modifications
17 and refinements which would improve the formula's
18 conceptual foundations and applicability to the
19 current circumstances of the water utility industry
20 in Florida. Many of my recommendations were
21 subsequently adopted in the most recent update of
22 the Leverage formula in August of 1995 in Order No.
23 PSC-95-0982-FOF-WS.

24 **2. UNRELIABLE RECOMMENDATION**

25 **Q. MR. ROTHSCHILD HAS LIMITED THE COST OF EQUITY**

1 ESTIMATION PROCESS TO ONE METHODOLOGY, NAMELY THE
2 DCF METHOD AND TO ONE PARTICULAR VARIANT OF THAT
3 METHODOLOGY, NAMELY, THE RETENTION GROWTH METHOD.
4 DOES THIS AFFECT THE RELIABILITY OF HIS RESULTS?

5 A. Yes, it does. The major problem in his testimony
6 is the lack of corroborating evidence. There is
7 simply no objective cross check on the result. The
8 10.10% cost of equity recommended by Mr. Rothschild
9 is unreasonably low, and is not a reliable estimate
10 of SSU's cost of equity capital. This is readily
11 apparent in a CAPM-based reasonableness check, as I
12 shall demonstrate later. Had Mr. Rothschild used
13 all the market data and financial theory available
14 to him, his estimate would be higher.

15 There are four broad generic methodologies
16 available to measure the cost of equity: DCF, Risk
17 Premium, Capital Asset Pricing Model (CAPM), which
18 are market-oriented, and Comparable Earnings, which
19 is accounting-oriented. Each generic market-based
20 methodology in turn contains several variants. Mr.
21 Rothschild has chosen to rely on one method, namely
22 the standard DCF method, and on one specific
23 variant of that methodology, the retention growth
24 method.

25 When measuring equity costs, which essentially

1 deals with the measurement of investor
2 expectations, no one single methodology provides a
3 foolproof panacea. Each methodology requires the
4 exercise of considerable judgment on the
5 reasonableness of the assumptions underlying the
6 methodology and on the reasonableness of the
7 proxies used to validate the theory. The failure
8 of the traditional infinite growth DCF model to
9 account for changes in relative market valuation,
10 and the practical difficulties of specifying the
11 expected growth component, discussed in my original
12 testimony are vivid examples of the potential
13 shortcomings of the DCF model. It follows that
14 more than one methodology should be employed in
15 arriving at a judgment on the cost of equity and
16 that these methodologies should be applied across a
17 series of comparable risk companies.

18 There is no single model that conclusively
19 determines or estimates the expected return for an
20 individual firm. Each methodology possesses its
21 own way of examining investor behavior, its own
22 premises, and its own set of simplifications of
23 reality. Each method proceeds from different
24 fundamental premises which cannot be validated
25 empirically. Investors do not necessarily

1 subscribe to any one method, nor does the stock
2 price reflect the application of any one single
3 method by the price-setting investor. There is no
4 monopoly as to which method is used by investors.
5 Absent any hard evidence as to which method outdoes
6 the other, all relevant evidence should be used and
7 weighted equally, in order to minimize judgmental
8 error, measurement error, and conceptual
9 infirmities. I submit that the Commission should
10 rely on the results of a variety of methods applied
11 to a variety of comparable groups, and not, as Mr.
12 Rothschild has done, on one particular generic
13 method. There is no guarantee that a single DCF
14 result is necessarily the ideal predictor of the
15 stock price and of the cost of equity reflected in
16 that price, just as there is no guarantee that a
17 single CAPM or Risk Premium result constitutes the
18 perfect explanation of that stock price.

19 **Q. DOES THE FINANCIAL LITERATURE SUPPORT THE USE OF**
20 **MORE THAN A SINGLE METHOD?**

21 A. Yes. The financial literature strongly supports
22 the use of multiple methods. Professor Brigham, a
23 widely respected finance scholar and author,
24 asserts:

25 *"In practical work, it is often best*

1 to use all three methods - CAPM,
2 bond yield plus risk premium, and
3 DCF - and then apply judgment when
4 the methods produce different
5 results. People experienced in
6 estimating capital costs recognize
7 that both careful analysis and some
8 very fine judgments are required.
9 It would be nice to pretend that
10 these judgments are unnecessary and
11 to specify an easy, precise way of
12 determining the exact cost of equity
13 capital. Unfortunately, this is not
14 possible." Eugene F. Brigham and
15 Louis C. Gapenski, Financial
16 Management Theory and Practice, 4th,
17 ed, Dryden Press, Chicago, 1985, p.
18 256.

19 Mr. Rothschild should have heeded to Professor
20 Brigham's admonitions in this regard. Another
21 prominent finance scholar, Professor Stewart Myers,
22 in his best selling corporate finance textbook,
23 cites:

24 "The constant growth formula and the capital
25 asset pricing model are two different ways of

1 getting a handle on the same problem." R. A.
2 Brealey and S. C. Myers, Principles of
3 Corporate Finance, 3rd ed, McGraw Hill, New
4 York, 1988, p. 182.

5 "Use more than one model when you can.
6 Because estimating the opportunity cost of
7 capital is difficult, only a fool throws away
8 useful information. That means you should not
9 use any one model or measure mechanically and
10 exclusively. Beta is helpful as one tool in a
11 kit, to be used in parallel with DCF models or
12 other techniques for interpreting capital
13 market data." S. C. Myers, "On the Use of
14 Modern Portfolio Theory in Public Utility Rate
15 Cases: Comment," Financial Management, Autumn
16 1978, p. 67.

17 **Q. DOES THE USAGE OF THE DCF METHODOLOGY IN PAST**
18 **REGULATORY PROCEEDINGS MAKE IT SUPERIOR TO OTHER**
19 **METHODS?**

20 A. No, it does not. While the DCF model was once upon
21 a time fashionable in financial theory and in
22 regulatory proceedings, its uncritical acceptance
23 vests the model with a degree of accuracy that
24 simply is not there. One of the leading experts on
25 regulation, Dr. C. Phillips discusses the dangers

1 of relying solely on the DCF model:
2 "Use of the DCF model for
3 regulatory purposes involves both
4 theoretical and practical
5 difficulties. The theoretical
6 issues include the assumption of a
7 constant retention ratio (i.e. a
8 fixed payout ratio) and the
9 assumption that dividends will
10 continue to grow at a rate 'g' in
11 perpetuity. Neither of these
12 assumptions has any validity,
13 particularly in recent years.
14 Further, the investors'
15 capitalization rate and the cost of
16 equity capital to a utility for
17 application to book value (i.e. an
18 original cost rate base) are
19 identical only when market price is
20 equal to book value. Indeed, DCF
21 advocates assume that if the market
22 price of a utility's common stock
23 exceeds its book value, the
24 allowable rate of return on common
25 equity is too high and should be

1 lowered; and vice versa. Many
2 question the assumption that market
3 price should equal book value,
4 believing that the earnings of
5 utilities should be sufficiently
6 high to achieve market-to-book
7 ratios which are consistent with
8 those prevailing for stocks of
9 unregulated companies.

10 ...[T]here remains the
11 circularity problem: Since
12 regulation establishes a level of
13 authorized earnings which, in turn,
14 implicitly influences dividends per
15 share, estimation of the growth rate
16 from such data is an inherently
17 circular process. For all of these
18 reasons, the DCF model suggests a
19 degree of precision which is in fact
20 not present and leaves wide room for
21 controversy about the level of k
22 [*cost of equity*]" C. F. Phillips,
23 *The Regulation of Public Utilities*
24 *Theory and Practice. Public*
25 *Utilities Reports, Inc. Arlington,*

1 Va, 1988, pp. 376-77. [Footnotes
2 omitted]

3 Sole reliance on the DCF model ignores the
4 capital market evidence and financial theory
5 formalized in the CAPM. The DCF model is one of
6 many tools to be employed in conjunction with other
7 methods to estimate the cost of equity. It is not
8 a superior methodology which supplants other
9 financial theory and market evidence.

10 **Q. DO YOU SHARE THESE RESERVATIONS CONCERNING THE**
11 **APPLICABILITY OF THE STANDARD DCF MODEL TO UTILITY**
12 **STOCKS AT THIS TIME?**

13 A. Yes. Notwithstanding the fundamental thesis that
14 several methods and/or variants of such methods
15 should be used in measuring equity costs, Mr.
16 Rothschild has selected a methodology which is
17 particularly fragile at this time. Moreover, one
18 particular variant of that methodology used by Mr.
19 Rothschild, namely the retention growth method, is
20 even more fragile, as I shall discuss later.

21 Caution must be exercised when implementing
22 the standard DCF model in a mechanistic fashion,
23 for it may fail to recognize changes in relative
24 market valuations. The traditional DCF model is
25 not equipped to deal with surges in market-to-book

1 and price-earnings ratios. I question Mr.
2 Rothschild's decision to adhere solely to the
3 standard DCF model when one of its fundamental
4 assumptions is violated. The standard infinite
5 growth DCF model assumes constancy in such ratios.

6 Several fundamental changes have recently
7 transformed the water utility industry from the
8 times when the standard DCF model and its
9 assumptions were developed. Environmental
10 concerns, conservation ethics, changes in customer
11 attitudes regarding water utility services, reduced
12 reliability of water supplies and corporate
13 restructurings have all influenced stock prices in
14 ways vastly different from the early assumptions of
15 the DCF model. These changes suggest that some of
16 the raw assumptions underlying the standard DCF
17 model, particularly that of constant growth, are of
18 questionable pertinence at this point in time for
19 water utility stocks, and that the DCF model should
20 be at least complemented by alternate methodologies
21 to estimate the cost of common equity. Clearly,
22 historical dividend and earnings per share growth
23 rates are not indicative of future trends in the
24 water utility industry. Near-term projections of
25 growth are downward-biased by the increased costs

1 of regulatory compliance.

2 An additional concern deals with the realism
3 of the constant growth rate assumption and with the
4 difficulty of finding an adequate proxy for that
5 growth rate. The standard DCF model assumes that a
6 single growth rate of dividends is applicable in
7 perpetuity. Not only is the constant growth rate
8 assumption somewhat unrealistic, but it is
9 difficult to proxy. Analysts' growth forecasts are
10 usually made for not more than two to five years in
11 time, or if they are made for more than a few
12 years, they are dominated by the near-term earnings
13 and dividends picture.

14 My sentiments on the DCF model were echoed in
15 a recent decision by the Indiana Utility Regulatory
16 Commission (IURC). The IURC recognized its
17 concerns with the DCF model and that the model
18 understates the cost of equity. In Cause No. 39871
19 Final Order, the IURC states on page 24:

20 *"....the DCF model, heavily relied*
21 *upon by the Public, understates the*
22 *cost of common equity. The*
23 *Commission has recognized this fact*
24 *before. In Indiana Mich. Power Co.*
25 *(IURC 8/24/90), Cause No. 38728, 116*

1 PUR4th 1, 17-18, we found:

2 [T]he unadjusted DCF result is
3 almost always well below what any
4 informed financial analyst would
5 regard as defensible, and therefore
6 requires an upward adjustment based
7 largely on the expert witness's
8 judgment."

9 The Commission also expressed its concern with a
10 witness relying solely on one methodology:

11 ".....the Commission has had
12 concerns in our past orders with a
13 witness relying solely on one
14 methodology in reaching an opinion
15 on a proper return on equity
16 figure." (page 25)

17 Mr. Rothschild should have heeded to this advice
18 from a regulator, given that his testimony is
19 entirely DCF-driven.

20 **Q. WHY SHOULD YOU USE MORE THAN ONE APPROACH FOR**
21 **ESTIMATING THE COST OF EQUITY?**

22 A. Mr. Rothschild relies heavily and almost
23 exclusively on the fragile "retention growth" DCF
24 model applied to water and gas distribution
25 utilities. This is a very dangerous procedure. As

1 I stated in my original testimony, no one
2 individual method provides an exclusive foolproof
3 formula for determining a fair return, but each
4 method provides useful evidence so as to facilitate
5 the exercise of an informed judgment. Reliance on
6 any single method or preset formula is
7 inappropriate when dealing with investor
8 expectations. Moreover, the advantage of using
9 several different approaches is that the results of
10 each one can be used to check the others.

11 **3. DCF GROWTH RATES**

12 **Q. CAN YOU COMMENT ON MR. ROTHSCHILD'S GROWTH**
13 **ESTIMATES IN THE DCF MODEL?**

14 A. There are three techniques to estimate expected
15 growth in the DCF model: (1) historical growth
16 rates in earnings per share, dividends per share,
17 and book value per share, (2) analysts' growth
18 forecasts, and (3) retention growth method, where
19 the growth rate is based on the equation $g = b \times$
20 ROE , where b is the percentage of earnings retained
21 and ROE is the expected earned rate of return on
22 book equity. In his DCF analysis of water and gas
23 distribution utilities, Mr. Rothschild estimates
24 the growth component using only the last method.
25 He rejects the customary alternatives of relying on

1 analysts' growth forecasts and on historical growth
2 rate in earnings, dividends, and book value.

3 By relying solely on a single growth-
4 estimating technique in the DCF model as Mr.
5 Rothschild has done, the Commission would set a
6 very dangerous precedent for future ratemaking
7 procedures. A single technique to estimate
8 investor growth expectations is likely to contain a
9 high degree of measurement error and may be
10 distorted by short-term aberrations. The
11 Commission's hands should not be bound to one
12 single estimate of growth in the DCF determination
13 of equity costs. The advantage of using several
14 different approaches in estimating growth is that
15 the results of each one can be used to check the
16 others.

17 **RETENTION GROWTH METHOD**

18 **Q. PLEASE DESCRIBE MR. ROTHSCHILD'S IMPLEMENTATION OF**
19 **THE RETENTION GROWTH METHOD.**

20 A. To apply the retention ratio growth method in his
21 DCF analysis, Mr. Rothschild multiplies the
22 utility's retention ratio by the return on equity.
23 The latter is proxied by Value Line's forecast of
24 ROE, historical ROEs in 1994 and 1995, and by an
25 implied ROE based on Zack's Consensus growth rates.

1 I was unable to replicate his 11.15% ROE on
2 Schedule JAR 4.1. To compute the retention ratio,
3 in a strange turnabout, rather than simply take the
4 actual retention ratio and the retention ratio
5 forecast by Value Line as he did for the ROE, Mr.
6 Rothschild computes the retention ratio indirectly,
7 as one minus the book dividend yield divided by the
8 ROE, that is, $(1 - D/rB)$. In other words, the two
9 components of growth, ROE and retention ratio, are
10 determined simultaneously and are functionally
11 interdependent. Thus, any error in one component
12 is inherently compounded when applied to the other
13 component.

14 Mr. Rothschild correctly recognizes and adds
15 to his retention growth estimate any growth
16 stemming from external financing through common
17 stock issues. The growth results are shown on Line
18 7 in his Schedule 4 pages 1 and 2 for Value Line
19 Water Companies and Value Line Gas Distribution
20 companies, respectively. The average growth rate
21 range is 3.20%-3.21% for the water companies and
22 4.04% - 4.36% for the gas distribution companies.

23 **Q. DO YOU HAVE ANY OBJECTIONS TO THE RETENTION GROWTH**
24 **ESTIMATES USED BY MR. ROTHSCHILD?**

25 **A.** Since Mr. Rothschild's entire testimony and his

1 10.10% cost of equity recommendation hinge on the
2 retention growth cornerstone, it is important to
3 point out the dangers and flaws of this method.
4 There are two fundamental problems with Mr.
5 Rothschild's retention growth methodology:

6 (1) Mr. Rothschild's retention growth method
7 contains a fatal logical flaw: the method requires
8 an estimate of ROE to be implemented. In other
9 words, his method requires him to assume the ROE
10 answer to start with. But if the ROE input
11 required by the model differs from the recommended
12 return on equity, a fundamental contradiction in
13 logic follows. Mr. Rothschild's recommended 10.10%
14 return on equity is far removed from the ROE's he
15 uses in the retention growth method, both
16 historically and prospectively. On his Schedule 4
17 pages 1 and 2, he uses an expected return of 11.25%
18 for water utilities, and 12.0% for the gas
19 distribution companies, which are all well above
20 Mr. Rothschild's recommended 10.10% range. The
21 vast majority of the historical ROEs, Value Line
22 prospective ROEs, and Zack's imputed ROEs for each
23 water company reported on Schedule 6 pages 2 and 3
24 and for the gas distribution utilities reported on
25 Schedule 7 pages 2 and 3 and used in Mr.

1 Rothschild's retention growth computation exceeds
2 his recommended 10.10% and average about 11.25%.

3 Mr. Rothschild is assuming in effect that the
4 companies will earn at a return rate exceeding his
5 recommended equity range forever, but he is
6 recommending that a different rate be granted by
7 the commission. While this scenario may be
8 imaginable for an unregulated company with
9 substantial market power, it is implausible for a
10 regulated company whose rates are set so that they
11 will earn a return equal to their cost of capital.
12 I consider this logical flaw extremely damaging and
13 sufficient to reject Mr. Rothschild's results
14 produced by the method, and hence the crux of his
15 testimony. In essence, Mr. Rothschild is using an
16 ROE that differs from his final recommended cost of
17 equity, and is requesting the Commission to adopt
18 two different returns.

19 Mr. Rothschild, however, contends that there
20 is no circularity in this methodology because "r"
21 is defined as the future return on book equity and
22 "k" is the cost of equity, or the return investors
23 expect on the market price of their investment.
24 What Mr. Rothschild has failed to realize is that
25 in a regulated environment, **the return on book**

1 equity is set equal to the cost of capital.
2 I am extremely perplexed as to why Mr. Rothschild
3 assumes that water utilities are expected to earn
4 11.25% forever, but yet he recommends 10.10%. The
5 only way that water utilities can earn 11.25% is
6 that rates be set so that they will in fact earn
7 11.25%. So, how can the cost of equity be any
8 different from 11.25%?

9 In a strange twist of irony, Mr. Rothschild
10 cites a passage from the landmark Hope Natural Gas
11 Decision which cautions against the use of circular...
12 logic:

13 *"The heart of the matter is that*
14 *rates cannot be made to depend upon*
15 *"fair value" when the value of the*
16 *going enterprise depends on earnings*
17 *under whatever rates may be*
18 *anticipated."*

19 Yet, this is exactly what Mr. Rothschild has done
20 by using an assumed ROE to recommend a different
21 ROE.

22 (2) The empirical finance literature
23 demonstrates that the retention growth method is a
24 poor explanatory variable of value, and is not
25 significantly correlated to measures of value, such

1 as stock price and price/earnings ratios. Mr.
2 Rothschild's rejection of the traditional use of
3 both historical growth rates and analysts' growth
4 forecasts in the DCF model is in flagrant
5 contradiction to the scholarly research and
6 academic literature on the subject.

7 **Q. DO INVESTORS RELY ON HISTORICAL GROWTH RATES?**

8 A. Yes, they do. I was surprised that Mr. Rothschild
9 did not examine historical growth rates in his DCF
10 analysis. Surely, investor growth expectations are
11 influenced to some extent by historical growth
12 rates in formulating their future growth
13 expectations. It is not perfectly clear as to why
14 Mr. Rothschild ignored this relevant data.
15 Ironically, his own estimates of expected ROE when
16 he implements the retention growth method are
17 partially driven by historical ROE's. Historical
18 indicators are widely used by analysts, investors,
19 and expert witnesses. Cohen, Zinbarg, and Zeikel
20 (Investment Analysis and Portfolio Management, 5th
21 edition, Irwin, 1987, Part 4 Security Analysis, pp.
22 537-538) which is a recommended textbook for CFA
23 (Chartered Financial Analyst) certification and
24 examination, suggest the calculation of historical
25 growth rates as a first step in security analysis.

1 Techniques of historical growth analysis for
2 individual companies are described in Chapter 12.
3 Professional certified financial analysts are
4 certainly well versed in the use of historical
5 growth indicators.

6 **ANALYSTS' GROWTH FORECASTS**

7 **Q. CAN YOU COMMENT ON MR. ROTHSCHILD'S GROWTH**
8 **FORECASTS?**

9 A. Yes. Mr. Rothschild's laborious and convoluted
10 procedure for computing retention ($b \times ROE$) growth
11 rates requires several subjective input forecasts:
12 expected ROE, market-to-book ratio, dividend yield
13 on book, and new financing growth. It would appear
14 far more economical and expeditious to use
15 available growth forecasts directly instead of
16 relying on four individual forecasts of the
17 determinants of such growth. It only seems logical
18 that the measurement and forecasting errors
19 inherent in using four different variables to
20 predict growth far exceed the forecasting error
21 inherent in a direct forecast of growth itself.

22 It is also paradoxical that Mr. Rothschild
23 employs analysts' growth forecasts from Zack's,
24 which he earlier dismissed as inadequate, in order
25 to derive his expected ROE estimate in the

1 retention growth method, which itself provides a
2 measure of expected growth. This procedure is
3 hopelessly circular: he uses "inadequate" analysts'
4 growth forecasts to obtain expected ROE to in turn
5 obtain growth. Why not simply use the growth
6 forecast outright?

7 On page 17 of his testimony, Mr. Rothschild
8 states that analyst growth rates are improper to
9 use in the DCF model. I disagree. Retention
10 growth rates are poor surrogates for the consensus
11 growth expectations of investors. As stated
12 earlier, the empirical finance literature
13 demonstrates that the retention growth method of
14 determining growth is a poor explanatory variable
15 of market value, and is not significantly
16 correlated to measures of value, such as stock
17 price and price/earnings ratios. Averages of
18 analysts' growth forecasts are more reliable
19 estimates of the investors' consensus expectations.
20 Studies in the academic literature also demonstrate
21 that the consensus growth forecast made by security
22 analysts is a reasonable indicator of investor
23 expectations, and that investors rely on such
24 analysts' forecasts. The consensus long-term
25 growth forecast of analysts provides a good proxy

1 for investors' growth expectations when applying
2 the DCF model. Mr. Rothschild has chosen not to
3 rely on analyst growth forecasts, in spite of the
4 superiority of such forecasts in representing
5 investor growth expectations.

6 Both empirical research and common sense
7 indicate that investors rely heavily on analysts'
8 growth rate forecasts. It stands to reason that
9 analysts make better forecasts than could be
10 obtained using only historical data, because
11 analysts have available not only past data but also
12 a knowledge of such crucial factors as current
13 economic trends, rate case decisions, construction
14 programs, new products, cost data, impending tax
15 law changes, and so on. The variations in
16 historical ROE's and payout ratios which concerned
17 Mr. Rothschild and caused him to question the
18 relevance of historical growth rates in the DCF
19 model are known to investors, and are reflected in
20 their growth forecasts.

21 Although historical information provides a
22 primary foundation for expectations, investors use
23 additional information to supplement past growth
24 rates in arriving at their forecasts. Not only do
25 analysts extrapolate past history, but they also

1 consider historical trends and anticipated economic
2 events before arriving at a growth forecast.

3 **Q. CAN YOU SUMMARIZE YOUR COMMENTS ON MR. ROTHSCHILD'S**
4 **DCF GROWTH RATES?**

5 A. In summary, Mr. Rothschild has disregarded both
6 historical growth rates and analysts growth
7 forecasts, two of the most widely used and
8 empirically validated sources of growth rates. He
9 has ignored the empirical findings of the finance
10 literature, pointing to the superiority of such
11 forecasts. His retention growth rate methodology
12 contains serious theoretical, conceptual,
13 empirical, and methodological flaws, and should be
14 disregarded by the Commission.

15 My own recommendation to the Commission with
16 regards to DCF growth rates, to the extent that the
17 Commission chooses to rely on his method, is that
18 equal weight should be accorded to DCF results
19 based on history and those based on analysts'
20 forecast. Very little weight should be accorded to
21 retention growth results, in view of the empirical
22 evidence and the conceptual infirmities discussed
23 above. Each proxy for expected growth brings
24 information to the judgment process from a
25 different light. Neither proxy is without blemish,

1 each has advantages and shortcomings. Historical
2 growth rates are available and easily verifiable,
3 but may no longer be applicable if structural
4 shifts have occurred. Analysts' growth forecasts
5 may be more relevant since they encompass both
6 history and current changes, but are nevertheless
7 imperfect proxies.

8 In view of the above, Exhibit _____ (RAM-3)
9 shows what I believe to be historical growth rates
10 for the water companies used by Mr. Rothschild in
11 his DCF analysis. The 4.2% average growth rate is
12 a full 100 basis points higher than that used by
13 Mr. Rothschild. If we average that result with the
14 3.9% analyst consensus growth forecast provided by
15 IBES, the proper growth rate to use in the DCF
16 analysis would be 4.059%. This growth figure
17 substantially exceeds Mr. Rothschild's average
18 retention growth estimates by approximately 70
19 basis points.

20 **Q. DO YOU SEE ANY DANGERS IN RELYING ON VALUE LINE AS**
21 **AN EXCLUSIVE SOURCE OF FORECASTS IN APPLYING THE**
22 **DCF MODEL?**

23 A. Yes. Mr. Rothschild's heavy reliance on Value Line
24 as a source of data in both his DCF and Risk
25 Premium analyses runs the risk of being

1 unrepresentative of investors' consensus
2 expectations. One would expect that averages of
3 analysts' growth forecasts such as those contained
4 in IBES or Zack's are more reliable estimates of
5 the investors' consensus expectations likely to be
6 impounded in stock prices. Moreover, the empirical
7 finance literature has shown that consensus
8 analysts' growth forecasts are reflected in stock
9 prices, possess a high explanatory power of equity
10 values, and are used by investors.

11 **4. FLOTATION COST**

12 **Q. WHAT FLOTATION COST TREATMENT DOES MR. ROTHSCHILD**
13 **RECOMMEND IN THIS CASE?**

14 **A.** Mr. Rothschild is completely silent on the subject
15 of flotation cost allowance. I can only surmise
16 that he believes that no such allowance is
17 warranted. Mr. Rothschild's testimony contains a
18 flagrant inconsistency with regard to flotation
19 costs, however. He employs a version of the DCF
20 model that explicitly accounts for continuous
21 external common stock issues over time. In
22 estimating the growth component of the DCF model,
23 he adds 50 basis points for external growth through
24 stock issues for the water utilities and
25 approximately 120 basis points for growth by the

1 gas distribution utilities. Yet, he completely
2 ignores the flotation costs that are associated
3 with such common stock issues.

4 **Q. PLEASE COMMENT ON FLOTATION COST ADJUSTMENTS.**

5 A. Flotation costs are very similar to the closing
6 costs on a home mortgage. In the case of issues of
7 new equity, flotation costs represent the discounts
8 that must be provided to place the new securities.
9 Flotation costs have a direct and an indirect
10 component. The direct component is a compensation
11 to the security underwriter for his
12 marketing/consulting services, for the risks
13 involved in distributing the issue, and for any
14 operating expenses associated with the issue
15 (printing, legal, prospectus, etc.). The indirect
16 component represents the downward pressure on the
17 stock price as a result of the increased supply of
18 stock from the new issue. The latter component is
19 frequently referred to as "market pressure".

20 Flotation costs for common stock is analogous
21 to the flotation costs associated with past bond
22 issues which, as a matter of routine regulatory
23 policy by the Commission, are amortized over the
24 life of the bond, even though no new bond issues
25 are contemplated. In the case of common stock,

1 which has no finite life, flotation costs are not
2 amortized. Therefore, the recovery of flotation
3 cost requires an upward adjustment to the allowed
4 return on equity. Flotation costs associated with
5 stock issues are exactly like the flotation costs
6 associated with bonds and preferred stocks.
7 Flotation costs are incurred, they are not expensed
8 at the time of issue, and, therefore, must be
9 recovered on a deferred basis in future years.

10 The flotation adjustment is made to the DCF
11 analysis by dividing the expected dividend yield
12 component of the DCF by $(1 - f)$, where f is the
13 underpricing allowance factor. This type of
14 flotation cost allowance to the cost of common
15 equity capital is routinely discussed and applied
16 in most corporate finance textbooks.

17 According to empirical studies, underwriting
18 costs and expenses average at least 4% of gross
19 proceeds for utility stock offerings. (See Logue &
20 Jarrow: "Negotiation vs Competitive Bidding in the
21 Sale of Securities by Public Utilities," Financial
22 Management, Fall 1978). A study of 641 common stock
23 issues by 95 electric utilities identified a
24 flotation cost allowance of 5.5% (see Borum &
25 Malley: "Total Flotation Cost for Electric Company

1 Equity Issues," Public Utilities Fortnightly, Feb.
2 20th, 1986).

3 As far as the market pressure effect is
4 concerned, empirical studies suggest an allowance of
5 1%. Logue and Jarrow found that the absolute
6 magnitude of the relative price decline due to
7 market pressure was less than 1.5%. Bower and Yawitz
8 examined 278 public utility stock issues and found
9 an average market pressure of 0.72% (see Bower &
10 Yawitz, "The Effect of New Equity Issues on Utility
11 Stock Prices," Public Utilities Fortnightly, May 22,
12 1980).

13 Eckbo & Masulis ("Rights vs. Underwritten Stock
14 Offerings: An Empirical Analysis," Univ. of British
15 Columbia, Working Paper No. 1208, Sept. 1987) found
16 an average flotation cost of 4.175% for utility
17 common stock offerings. As far as the market
18 pressure effect, they found that the relative price
19 decline due to market pressure in the days
20 surrounding the announcement amounted to slightly
21 more than 1.5%. Adding the two effects, the
22 indicated total flotation cost allowance is almost
23 5.7%, corroborating the results of earlier studies.
24 Therefore, based on empirical studies, total
25 flotation costs including market pressure

1 conservatively amount to 5% of gross proceeds.

2 **5. BUSINESS RISK OF THE WATER INDUSTRY**

3 **Q. PLEASE COMMENT ON MR. ROTHSCHILD'S ASSESSMENT OF**
4 **THE BUSINESS RISKS FACED BY THE WATER UTILITY**
5 **INDUSTRY.**

6 A. I was astonished by Mr. Rothschild's statement at
7 page 41 lines 1-5 of his testimony that the risks
8 of the water business have not increased
9 substantially in recent years. I refer Mr.
10 Rothschild to the overview of the relative
11 investment risks of the water and electric-gas
12 utility industry which I provided for the
13 Commission in a paper entitled Return on Common
14 Equity Determination for Florida Water & Wastewater
15 Utilities in a workshop held on February 23, 1995.
16 The paper was provided in my direct testimony as
17 Exhibit _____ (RAM-2). The paper described how
18 changes in the operating environment of Florida
19 Water and Wastewater Utilities and SSU have
20 increased their investment risk and their cost of
21 capital, both in absolute terms and relative to
22 other utilities. The changing investment risk of
23 water utilities status relative to other utilities
24 was analyzed by examining trends in key financial
25 variables. It defies understanding and credulity

1 as to how Mr. Rothschild could possibly have
2 concluded that the risks of water utility industry
3 have not increased substantially in recent years
4 following the passage of the Safe Drinking Water
5 Act.

6 **6. SIZE EFFECT**

7 **Q. DO YOU AGREE WITH MR. ROTHSCHILD THAT COMPANY SIZE**
8 **HAS NO EFFECT ON THE COST OF EQUITY?**

9 A. No, I do not. I was astounded by Mr. Rothschild's
10 position on page 39 of his testimony that company
11 size has no impact on the cost of equity because
12 size-related risk is diversifiable. There is
13 considerable research and empirical evidence to the
14 contrary. Most, if not all, college-level finance
15 textbooks contain a discussion of the effect of
16 size on return. I was surprised that Mr.
17 Rothschild was unaware of this vast literature on
18 the size effect.

19 Clearly, investment risk increases as company
20 size diminishes, all else remaining constant. Not
21 only is this intuitively transparent, but the size
22 phenomenon is well documented in the finance
23 literature. Stocks of small firms earn higher
24 risk-adjusted returns than those of large firms.
25 Small companies have very different returns than

1 large ones and on average those returns have been
2 higher. The greater risk of small stocks does not
3 fully account for their higher returns over many
4 historical periods. The average small stock
5 premium is in excess of 5% over the average stock,
6 more than could be expected by risk differences
7 alone, suggesting that the cost of equity for small
8 stocks is considerably larger than for large
9 capitalization stocks. The size effect is well
10 documented in Mr. Rothschild's own source of data,
11 Ibbotson Associates, and yet he chose to ignore it.

12 **7. LIQUIDITY EFFECT**

13 **Q. DO YOU AGREE WITH MR. ROTHSCHILD'S VIEWS ON**
14 **LIQUIDITY?**

15 **A.** No, I do not. On page 45, Mr. Rothschild argues
16 that it is inappropriate to add a liquidity premium
17 to SSU because it is SSU's parent, Minnesota Power
18 and Light (MP&L), that raises the equity capital
19 for SSU. This is nonsense. Here again, Mr.
20 Rothschild is guilty of a fatal conceptual error.

21 SSU must be treated as a separate stand-alone
22 entity, distinct from MP&L because it is the cost
23 of capital for SSU that we are attempting to
24 measure and not the cost of capital for MP&L's
25 consolidated overall activities. Financial theory

1 clearly establishes that the cost of equity is the
2 risk-adjusted opportunity cost to the investor, in
3 this case, MP&L. The true cost of capital depends
4 on the use to which the capital is put, in this
5 case SSU. The specific source of funding an
6 investment and the cost of the funds to the
7 investor are irrelevant considerations.

8 For example, if an individual investor borrows
9 money at the bank at an after-tax cost of 8% and
10 invests the funds in a speculative oil exploration
11 venture, the required return on the investment is
12 not the 8% cost but rather the return foregone in
13 speculative projects of similar risk, say 20%.
14 Similarly, the required return on SSU is the return
15 foregone in comparable risk investment, and is
16 unrelated to the parent's cost of capital. The
17 cost of capital is governed by the risk to which
18 the capital is exposed and not by the sources of
19 funds. The identity of the shareholders has no
20 bearing on the cost of equity or on the liquidity
21 of the investment because it is the risk to which
22 the equity funds are exposed which governs the cost
23 of equity.

24 Just as individual investors require different
25 returns from different assets in managing their

1 personal affairs, corporations should behave in the
2 same manner. A parent company normally invests
3 money in many operating companies of varying sizes
4 and varying risks. These operating subsidiaries
5 pay different rates for the use of investor
6 capital, such as long-term debt capital, because
7 investors recognize the differences in capital
8 structure, risk, and prospects between the
9 subsidiaries. Therefore, the cost of investing
10 funds in an operating utility subsidiary such as
11 SSU is the return foregone on investments of
12 similar risk and is unrelated to the identity of
13 the investor.

14 Besides, it is intuitively obvious that faced
15 with two identical risk investments, one being
16 liquid and easily marketable and the other highly
17 illiquid, the investor will require a higher return
18 from the illiquid investment.

19 **8. RELATIVE RISK OF WATER AND GAS UTILITIES**

20 **Q. DO YOU AGREE WITH MR. ROTHSCHILD THAT WATER**
21 **UTILITIES HAVE THE SAME DEGREE OF RISK AS GAS**
22 **DISTRIBUTION UTILITIES ?**

23 **A.** No, I do not. Contrary to his assertion, Mr.
24 Rothschild's group of gas distribution utilities is
25 less risky than water utilities as shown on Exhibit

1 _____ (RAM-2) in my direct testimony because
2 relative to the gas companies group, the water
3 companies have: a lower Value Line Safety Rank
4 index, a lower Value Line Financial Strength index,
5 a higher beta risk factor, smaller market
6 capitalization, a higher debt ratio, a lower M/B
7 ratio, lower P/E ratio, lower interest coverage
8 ratio, and higher volatility of earnings per share,
9 revenues, and operating profits. The comparative
10 risk measures of the water and gas companies
11 unanimously and unambiguously indicate that the
12 former are riskier than the latter. Thus, a cost
13 of equity estimate based in part on the gas
14 companies group understates the cost of equity of
15 water utilities.

16 **9. USED AND USEFUL ADJUSTMENT**

17 **Q. PLEASE RESPOND TO MR. ROTHSCHILD'S POSITION ON THE**
18 **COMMISSION'S USED AND USEFUL ADJUSTMENT.**

19 A. Mr. Rothschild argues on page 40 lines 10-11 that
20 the used and useful adjustment does not increase
21 SSU's risk because "*investors **eventually** receive*
22 ***much of** the compensation associated with what was*
23 *initially disallowed used and useful plant."* Of
24 course, the key words in that quote are
25 "**eventually**" and "**much**", which clearly point to the

1 futurity and riskiness of the recovery. As I
2 discussed in my direct testimony, the net results
3 of the used and useful adjustment are to disallow
4 some significant investment and to disincent
5 company management to pursue scale economies in its
6 multi-year construction program for fear of
7 incurring used and useful penalties.

8 **10. WEATHER NORMALIZATION CLAUSE**

9 **Q. DO YOU AGREE WITH MR. ROTHSCHILD'S POSITION THAT**
10 **WEATHER NORMALIZATION CLAUSES DO NOT INFLUENCE THE**
11 **COST OF EQUITY?**

12 **A.** No, I do not. In another shocking assertion, Mr.
13 Rothschild argues that a weather normalization
14 clause does not lower risk, hence the cost of
15 equity, because weather is a diversifiable risk.
16 Mr. Rothschild correctly points out that under the
17 precepts of modern financial theory as embodied in
18 the CAPM, investors are compensated only for non-
19 diversifiable (beta) risks, that is, for risks that
20 are part and parcel of beta. Incidentally, it is
21 ironic that Mr. Rothschild has suddenly relied on
22 the fundamental precepts of the CAPM to make his
23 point after earlier refuting the model as a full-
24 fledged method of estimating investor return. In
25 any event, what Mr. Rothschild has forgotten are

1 the basic determinants of beta. In my direct
2 testimony and more formally in Chapter 14 of my
3 book, Regulatory Finance, I show that beta has
4 three main components: demand risk, operating
5 leverage, and financial leverage. In other words,
6 a security's beta is a function of the firm's
7 demand beta, which measures the demand volatility
8 of the firm's revenues. The latter is clearly
9 influenced by the absence or presence of a weather
10 normalization clause. Thus, Mr. Rothschild is
11 incorrect in his assertion that a weather
12 normalization clause exerts no impact on risk, and
13 hence on cost of equity.

14 **11. RISK PREMIUM ANALYSIS**

15 **Q. PLEASE DISCUSS YOUR CONCERNS WITH MR. ROTHSCHILD'S**
16 **RISK PREMIUM ANALYSIS.**

17 **A.** My concerns with Mr. Rothschild's risk premium
18 analysis are three-fold: 1) the lack of current
19 data, 2) the use of electric utilities as a proxy
20 for water utilities and 3) that changes in tax laws
21 have altered the debt-equity risk premium
22 relationship.

23 With regard to the first argument, Mr.
24 Rothschild compares the costs of debt and equity
25 over a five year period ending in 1993. Five years

1 is hardly enough data to make an informed judgment
2 as to the risk premium common stocks have commanded
3 over debt. Secondly, Mr. Rothschild has chosen to
4 end his analysis in 1993 because he believes that
5 this particular five year time period was the least
6 volatile. A valid risk premium analysis should
7 encompass as much data as is reasonable and include
8 up-to-date information, particularly when applied
9 to an industry which is experiencing a rising risk
10 profile. My own risk premium analyses are month-
11 by-month studies over a 10-year horizon and include
12 data up to the time of regulatory filings.

13 My second criticism addresses Mr. Rothschild's
14 use of electric utilities as a proxy for the water
15 industry. If a proxy is to be used for the water
16 industry, then a risk adjustment must be made to
17 account for the different risk environments and
18 investor expectations of the two industries. No
19 such adjustment was made for this proxy group as
20 Mr. Rothschild states on page 23, "the difference
21 between my recommended cost of equity in this case
22 and the cost of equity indicated by the risk
23 premium method could be explained by the industry-
24 risk differential..."

25 Mr. Rothschild's third comment revolves around

1 the effect of tax law changes on the risk premium.
2 I have two problems with this argument. First, it
3 is important that the cost of equity not be
4 confused with the return to the equity investor.
5 Only from a return view is taxability a
6 consideration. From a utility cost of capital
7 viewpoint, the investor's tax bracket makes no
8 difference in the cost of capital. The cost of
9 equity is viewed correctly from the market place.
10 Second, if a regulatory commission were to seek to
11 enable the utility to compensate investors for
12 their after-tax returns, we could have as many
13 returns as there are tax bracket variations, and
14 they would defy analysis. Several institutional
15 investors such as pension funds are tax-exempt,
16 others are fully taxable. Even if tax adjustments
17 were warranted, it is impractical to determine the
18 constellation of tax brackets for all the company's
19 shareholders, and to determine the identity and tax
20 bracket of the marginal price-setting investor.

21 **Q. ARE MR. ROTHSCHILD'S RISK PREMIUM FINDINGS**
22 **CONSISTENT WITH THE EMPIRICAL FINANCE LITERATURE?**

23 A. No, not at all. Mr. Rothschild's risk premium test
24 produces a cost of equity of 9.76% for water
25 utilities and 10.17% for gas distribution

1 utilities. I find these estimates implausible,
2 since they are barely above SSU's borrowing rate.
3 Also, given that Treasury bonds are yielding about
4 6.5% currently, the risk premium between common
5 stocks and 30 year Treasury bonds implied in Mr.
6 Rothschild's risk premium results is about 3.5%.
7 The empirical risk premium literature indicates
8 much higher risk premiums.

9 Five published utility industry risk premium
10 studies are noteworthy:

11 Carleton, W.T., Chambers, W., and Lakonishok,
12 J. "Inflation Risk and Regulatory Lag." *Journal of*
13 *Finance*, May 1983. ("CCL")

14 Brigham, E.F., Shome, D.K., and Vinson, S. R.
15 "The Risk Premium Approach to Measuring a Utility's
16 Cost of Equity." *Financial Management*, Spring 1985,
17 33-45. ("BSV")

18 Harris, R.S. "Using Analysts' Growth Forecasts
19 to Estimate Shareholder Required Rates of Return."
20 *Financial Management*, Spring 1986, 58-67.

21 Harris, R.S. and Marston, F.C. "Estimating
22 Shareholder Risk Premia Using Analysts' Growth
23 Forecasts." *Financial Management*, Summer 1992, 63-
24 70. ("HM")

25 Maddox, F.M., Pippert, D. T., and Sullivan,

1 R.N. "An Empirical Study of Ex Ante Risk Premiums
2 for the Electric Utility Industry" *Financial*
3 *Management*, Autumn 1995, 89-95. ("MPS")

4 Over the period 1971-1980, and using DCF-style
5 measures of equity returns, CCL found risk premiums
6 of 6.15% and 7.08% over Treasury bond yields for
7 electric utilities with high and low bond ratings,
8 respectively. Using allowed ROE as a measure of
9 equity return, they found risk premiums between
10 6.2% and 6.7% for the 1972-1980 period. BSV found
11 an average equity risk premium of 5.13% for the Dow
12 Jones Utility Average electric utilities for the
13 period 1966-1984. Using an alternate measure of
14 expected growth for the DCF computation of equity
15 returns, they found a average risk premium of 4.75%
16 for the January 1980 - June 1984 period. For the
17 Standard & Poors Utility Index, Harris found an
18 average equity risk premium of 4.81%. Harris'
19 findings were consistent with the HM findings as
20 well. MPS found equity risk premiums of 3.4% for
21 the Value Line electric utilities. On the whole,
22 Mr. Rothschild's homemade risk premium is much
23 lower than that found in the empirical finance
24 literature.

25 **12. CAPITAL ASSET PRICING MODEL**

1 **Q. PLEASE COMMENT ON MR. ROTHSCHILD'S CRITICISMS OF**
2 **YOUR CAPM METHODOLOGY.**

3 A. Mr. Rothschild alleges two difficulties with my
4 implementation of the CAPM. First, he argues that
5 the yield on 90-day Treasury Bills provides an
6 adequate proxy for the risk-free rate rather than
7 the yield on long-term Treasury bonds. Second, he
8 argues that the geometric average historical return
9 should be used in calculating the historical market
10 risk premium rather than the arithmetic average.
11 He is incorrect on both counts. I demonstrate
12 below that the yield on long-term Treasury bonds is
13 the appropriate proxy for the risk-free rate in the
14 CAPM model and that the arithmetic mean is the only
15 correct measure of the market risk premium
16 component of the CAPM model.

17 **RISK-FREE RATE**

18 **Q. WOULD YOU COMMENT ON MR. ROTHSCHILD'S USE OF THE 3**
19 **MONTH TREASURY BILL AS A MEASURE OF THE RISK FREE**
20 **RATE?**

21 A. Mr. Rothschild believes that the risk-free rate is
22 best measured by the yield on three-month treasury
23 bills rather than the long term government
24 securities that I employ. I disagree. Only long-
25 term yields provide an appropriate proxy for the

1 risk-free rate. This is simply because common
2 stocks are long-term instruments more akin to long-
3 term bonds than to 90-day short-term securities.
4 Moreover, utility assets are very long-term in
5 nature.

6 Theoretically, the yield on 90-day Treasury
7 Bills is virtually riskless, devoid of default risk
8 and subject to a negligible amount of interest rate
9 risk. But as a practical matter, the T-Bill rate
10 fluctuates widely, leading to volatile and
11 unreliable equity return estimates. Moreover,
12 yields on 90-day Treasury Bills typically do not
13 match the equity investor's planning horizon.
14 Equity investors generally have an investment
15 horizon far in excess of 90 days.

16 More importantly, short-term Treasury Bill
17 yields reflect the impact of factors different from
18 those influencing long-term securities such as
19 common stock. The premium for expected inflation
20 embedded into 90-day Treasury Bills is likely to be
21 far different than the inflationary premium
22 embedded into long-term securities yields. On
23 grounds of stability and consistency, the yields on
24 long-term Treasury bonds match more closely with
25 common stock returns. In his best-selling

1 corporate finance textbook, Brigham cites (see
2 Brigham, E.F., Financial Management: Theory and
3 Practice, 5th ed., Dryden Press 1988):

4 "Treasury bill rates are subject to
5 more random disturbances than are
6 Treasury bond rates. For example,
7 bills are used by the Federal
8 Reserve System to control the money
9 supply, and bills are also used by
10 foreign governments, firms, and
11 individuals as a temporary safe-
12 house for money. Thus, if the Fed
13 decides to stimulate the economy, it
14 drives down the bill rate, and the
15 same thing happens if trouble erupts
16 somewhere in the world and money
17 flows into the United States seeking
18 a temporary haven." (Page 225)

19 Therefore, the 90-day Treasury Bill yield
20 advocated by Mr. Rothschild is an inappropriate
21 proxy for the risk-free rate in the CAPM model.
22 Mr. Rothschild contends that Treasury bonds are
23 risky because of interest rate risk. To that end,
24 he has calculated a beta of 0.40 for Treasury bonds
25 versus the market. This computation is

1 preposterous. While long-term Treasury bonds
2 possess a higher degree of interest rate risk than
3 Treasury bills, this is only true if the bonds are
4 sold prior to maturity. A substantial fraction of
5 bond market participants, usually institutional
6 investors with long-term liabilities (pension
7 funds, insurance companies), in fact hold bonds
8 until they mature, and therefore are not subject to
9 interest rate risk. Institutional bondholders
10 neutralize the impact of interest rate changes by
11 matching the maturity of a bond portfolio with the
12 investment planning period, or by engaging in
13 hedging transactions in the financial futures
14 markets. The merits and mechanics of such
15 immunization strategies are well documented by both
16 academicians and practitioners. Moreover, to
17 assign Treasury bonds a beta of 0.40 would put them
18 in the same risk class as gold mining stocks such
19 as Homestake Mining and Helmo Gold Mines, and close
20 to some utilities which have betas of 0.50. I
21 don't think any investor would believe that an
22 investment in a gold mine or utility stocks is
23 similar in risk to a bond backed by the U.S.
24 Treasury.

25 **ARITHMETIC VERSUS GEOMETRIC MEANS**

1 Q. PLEASE COMMENT ON THE USE OF ARITHMETIC AVERAGES
2 VERSUS GEOMETRIC AVERAGES IN IMPLEMENTING THE CAPM.

3 A. One major issue relating to the use of realized
4 returns is whether to use the ordinary average
5 (arithmetic mean) or the geometric mean return.
6 Mr. Rothschild erroneously argues for the use of
7 the geometric mean return. This is incorrect.
8 Only arithmetic means are correct for forecasting
9 purposes and for estimating the cost of capital.
10 This is formally shown in Brealey & Myers
11 ["Principles of Corporate Finance," Instructors'
12 Manual, Appendix C, McGraw Hill 1991], a widely
13 used and respected textbook on corporate finance.

14 This error is committed by Mr. Rothschild in
15 spite of the fact that the widely-cited Ibbotson &
16 Associates publication cited by Mr. Rothschild as a
17 data source on which he relies contains a detailed
18 and rigorous discussion of the impropriety of using
19 geometric averages in estimating the cost of
20 capital.

21 The net effect of Mr. Rothschild's use of
22 geometric means rather than arithmetic means is to
23 decrease his estimates of SSU's required return by
24 1.2% (120 basis points). The latter estimate is
25 derived by conservatively assuming that SSU's beta

1 is 0.60 and multiplying that beta by 2%, the
2 approximate difference between the arithmetic and
3 geometric mean risk premiums for stocks over
4 Treasury Bills.

5 There is no theoretical or empirical
6 justification for the use of geometric mean rates
7 of returns. I know of no textbook on finance or
8 scientific journal article which advocates the use
9 of the geometric mean as a measure of the
10 appropriate discount rate in computing the cost of
11 capital or in computing present values.

12 **Q. CAN YOU PROVIDE A BRIEF EXPLANATION AS TO WHY THE**
13 **ARITHMETIC MEAN IS PREFERABLE TO THE GEOMETRIC MEAN**
14 **WHEN ESTIMATING THE COST OF CAPITAL?**

15 A. The use of the arithmetic mean appears counter-
16 intuitive at first glance, because we commonly use
17 the geometric mean return to measure the average
18 annual achieved return over some time period, as
19 correctly pointed out by Mr. Rothschild. For
20 example, the long-term performance of a portfolio
21 is frequently assessed using the geometric mean
22 return.

23 But performance appraisal is one thing, and
24 cost of capital estimation is another matter
25 entirely. In estimating the cost of capital, the

1 goal is to obtain the rate of return that investors
2 expect, that is, a target rate of return. On
3 average, investors expect to achieve their target
4 return. This target expected return is in effect
5 an arithmetic average. The achieved or
6 retrospective return is the geometric average. In
7 statistical parlance, the arithmetic average is the
8 unbiased measure of the expected value of repeated
9 observations of a random variable, not the
10 geometric mean.

11 The geometric mean answers the question of
12 what constant return you would have had to achieve
13 in each year to have your investment growth match
14 the return achieved by the stock market. The
15 arithmetic mean answers the question of what growth
16 rate is the best estimate of the future amount of
17 money that will be produced by continually
18 reinvesting in the stock market. It is the rate of
19 return which, compounded over multiple periods,
20 gives the mean of the probability distribution of
21 ending wealth.

22 While the geometric mean is the best estimate
23 of performance over a long period of time, this
24 does not contradict the statement that the
25 arithmetic mean compounded over the number of years

1 that an investment is held provides the best
2 estimate of the ending wealth value of the
3 investment. The reason is that an investment with
4 uncertain returns will have a higher ending wealth
5 value than an investment which simply earns (with
6 certainty) its compound or geometric rate of return
7 every year. In other words, more money, or
8 terminal wealth, is gained by the occurrence of
9 higher than expected returns than is lost by lower
10 than expected returns.

11 In capital markets, where returns are a
12 probability distribution, the answer that takes
13 account of uncertainty, the arithmetic mean, is the
14 correct one for estimating discount rates and the
15 cost of capital.

16 In conclusion, Mr. Rothschild commits a
17 serious logical error by relying on geometric
18 averages rather than on the conceptually correct
19 arithmetic averages of historical returns. This
20 error invalidates his discussion and reestimation
21 of my CAPM estimate.

22 **13. MARKET-TO-BOOK RATIOS**

23 **Q. PLEASE COMMENT ON MR. ROTHSCHILD'S VIEWS REGARDING**
24 **MARKET-TO-BOOK RATIOS.**

25 A. On page 36 of his testimony, Mr. Rothschild asserts

1 that since current market-to-book (M/B) ratios for
2 water utilities are in excess of 1.00, this is an
3 indicator that the industry is earning returns
4 greater than their required returns and that the
5 regulating authority should lower the authorized
6 return. Mr. Rothschild would therefore find it
7 plausible that stock prices of the water utility
8 industry companies drop from the current 1.4 to the
9 desired M/B ratio range of 1.0.

10 There are several reasons why M/B ratios are
11 largely irrelevant and why I disagree with Mr.
12 Rothschild's view of the role of M/B in regulation.

13 1) Mr. Rothschild's inference that M/B
14 are relevant and that regulators should set an ROE
15 so as to produce a M/B of 1.0 is erroneous. The
16 stock price is set by the market, not by
17 regulators. The M/B ratio is the result of
18 regulation, not its starting point. The regime of
19 regulation envisioned by Mr. Rothschild, that is,
20 that the Commission will set an allowed rate of
21 return so as to produce a M/B of close to 1.0,
22 presumes that investors are congenital masochists;
23 they commit capital to a utility with a M/B in
24 excess of 1.0, knowing full well that they will be
25 inflicted a capital loss by regulators. This is

1 not a realistic or accurate view of regulation.

2 2) The condition that the M/B will gravitate
3 toward 1.00 if regulators set the allowed return
4 equal to capital costs will be met only if the
5 actual return expected to be earned by investors is
6 at least equal to the cost of capital on a
7 consistent long-term basis. The cost of capital of
8 a company refers to the expected long-run earnings
9 level of other firms with similar risk. If
10 investors expect a utility to earn an ROE equal to
11 its cost of equity in each period, then its M/B
12 ratio would be approximately 1.00, or about 1.05
13 with the proper allowance for flotation cost.

14 But a company's achieved earnings in any given
15 year are likely to exceed or be less than their
16 long-run average. Depressed or inflated M/B ratios
17 are to a considerable degree a function of forces
18 outside the control of regulators, such as the
19 general state of the economy, or general economic
20 or financial circumstances which may affect the
21 yields on securities of unregulated as well as
22 regulated enterprises. I regard the achievement of
23 a 1.05 M/B ratio as appropriate, but only in a
24 long-run sense. For utilities to exhibit a long-
25 run M/B ratio of 1.05, it is clear that during

1 economic upturns and more favorable capital market
2 conditions, the M/B ratio must exceed its long-run
3 average of 1.05 to compensate for the periods
4 during which the M/B ratio is less than its long-
5 run average under less favorable economic and
6 capital market conditions.

7 Historically, the M/B ratio for utilities has
8 fluctuated above and below 1.05. This indicates
9 that earnings below capital costs and M/B ratios
10 below 1.05 during less favorable economic and
11 capital market conditions must necessarily be
12 accompanied with earnings in excess of capital
13 costs and M/B ratios above 1.05 during more
14 favorable economic and capital market conditions.

15 3) M/B ratios are determined by the
16 marketplace, and utilities cannot be expected to
17 attract capital in an environment where industrials
18 are commanding M/B ratios well in excess of 1.00.
19 Moreover, if regulators were to currently set rates
20 so as to produce a M/B ratio of 1.05, not only
21 would the long-run target M/B ratio of 1.05 be
22 violated, but more importantly, the inevitable
23 consequence would be to inflict severe capital
24 losses on shareholders. Investors have not
25 committed capital to utilities with the expectation

1 of incurring capital losses from a misguided
2 regulatory process.

3 The fundamental goal of regulation should be
4 to set the expected economic profit for a public
5 utility equal to the level of profits expected to
6 be earned by firms of comparable risk, in short, to
7 emulate the competitive result. For unregulated
8 firms, the natural forces of competition will
9 ensure that in the long-run the ratio of the market
10 value of these firms' securities equals the
11 replacement cost of their assets. This suggests
12 that a fair and reasonable price for a public
13 utility's common stock is one that produces
14 equality between the market price of its common
15 equity and the replacement cost of its physical
16 assets. The latter circumstance will not
17 necessarily occur when the M/B ratio is 1.0; only
18 when the book value of the firm's common equity
19 equals the value of the firm's physical assets at
20 replacement cost will equality hold.

21 **CONCLUSIONS**

22 **Q. WHAT DO YOU CONCLUDE FROM MR. ROTHSCHILD'S DCF**
23 **ANALYSIS?**

24 **A.** My general conclusions are: (1) His DCF analysis
25 hinges solely on the "retention growth" method,

1 only one of several methods traditionally used in
2 regulatory proceedings, and certainly the most
3 fragile method. (2) His application of the method
4 is questionable and contains a serious logical
5 trap. (3) He has ignored historical
6 dividend/earnings growth rates and analysts growth
7 forecasts for dubious reasons. (4) I have already
8 alluded to the absence of a reasonable stock-bond
9 risk premium in his recommendation.

10 It is difficult not to conclude that Mr.
11 Rothschild's cost of capital testimony from which
12 CAPM, historical dividend/earnings growth DCF, and
13 analysts' growth forecasts DCF are absent is
14 grossly incomplete. It is also difficult to accept
15 Mr. Rothschild's claim that investors are expecting
16 10.10% when his own data indicates that investors
17 are expecting more.

18 My specific conclusions are that Mr.
19 Rothschild has committed several serious conceptual
20 and methodological errors in his DCF analysis: 1)
21 no flotation cost adjustment whatsoever, implying a
22 30 basis points deficiency, 2) exclusive reliance
23 on the retention method of specifying the DCF
24 growth rate, which is the most fragile and
25 empirically reprehensible approach to growth

1 estimation, 3) failure to consider historical
2 dividends/earnings growth rates and the analysts'
3 consensus growth forecasts, and 4) the misuse and
4 rejection of the CAPM. Any reasonable conservative
5 quantification of these errors and omissions easily
6 increases his cost of equity estimate to the same
7 level as suggested by the Commission's Leverage
8 Formula and my own recommendation.

9 In a nutshell, Mr. Rothschild's 10.10% cost of
10 equity recommendation is well below a credible
11 level, and there are serious problems with his
12 methods and his concepts.

13 **II. COMMENTS ON MR. MAUREY'S TESTIMONY**

14 **Q. PLEASE SUMMARIZE MR. MAUREY'S RATE OF RETURN**
15 **RECOMMENDATION.**

16 A. In determining the cost of equity applicable to
17 SSU, Mr. Maurey bases his recommendation on the
18 leverage formula approved in Order No. PSC-95-0982-
19 FOF-WS on August 10. Use of the leverage formula
20 results in a cost of equity recommendation of
21 11.83%.

22 **Q. DO YOU HAVE ANY COMMENTS REGARDING MR. MAUREY'S**
23 **TESTIMONY?**

24 A. Yes, I do. As I have stated earlier in this
25 rebuttal, I endorse the use of the leverage formula

1 in this case. Several of the changes I suggested
2 to the Commission to improve the formula were
3 adopted in the August 1995 revision of the leverage
4 formula, thereby removing most of my concerns with
5 the original formula, as I explained in my original
6 testimony. I would, however, like to reiterate two
7 of my concerns that were not adopted: 1) the use of
8 a flat cost of debt over the full range of equity
9 ratios used in the formula and 2) the practice of
10 limiting the allowed return to the return indicated
11 by a 40% common equity ratio. I shall address each
12 of these concerns in turn.

13 First, the leverage formula assumes that the
14 cost of debt remains invariant over a common equity
15 ratio ranging from 100% all the way up to 40%. I
16 disagree. The cost of debt is higher for a company
17 with 40% equity than for a company which has no
18 debt. I recommend that the leverage formula allow
19 for the rising cost of debt as leverage rises.

20 Secondly, I also believe that there is nothing
21 magical about the 40% common equity floor imposed
22 by the formula. While I sympathize with the
23 Commission's desire to discourage the employment of
24 high leverage, there is nothing imprudent or
25 unusual about higher dosages of debt. As I

1 discussed in my original testimony, the very small
2 private Florida water utilities do not have access
3 to the equity markets, generate limited internal
4 funds, and therefore must resort to the private
5 debt markets for funding. I reiterate my
6 recommendation that the 40% -100% common equity
7 constraint be relaxed to 30%-100%.

8 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

9 A. Yes, it does.

1 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is G. Robertson Dilg and my business
3 address is 201 E. Pine Street, P.O. Box 3068,
4 Orlando, Florida 32802-3068.

5 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK
6 EXPERIENCE?**

7 A. My degrees include the following: B.A. Dartmouth
8 College - 1965; M.A. University of California -
9 1966; Ph.D. Indiana University - 1975; and J.D.
10 Stetson University - 1982.

11 **Q. WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

12 A. I am a member of the following associations:
13 American Bar Association; Florida Bar Association;
14 and Orange County Bar Association.

15 **Q. HAVE YOU EVER TESTIFIED BEFORE A REGULATORY AGENCY?**

16 A. No.

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

18 A. Exception No. 2 of the staff audit report suggests
19 that approximately 85 acres of the total 212 acres
20 condemned by SSU from the Baron Collier Group
21 should be treated as non-utility property --
22 capable of future development -- and, thus, the
23 associated costs should not be included in rate
24 base in this proceeding. This proposal should be
25 rejected by the Commission. There is no basis for

1 the assertion that the property can, much less ever
2 will, be used for commercial or residential
3 development by SSU or any other party. The 212
4 acres condemned by SSU was the minimum acreage that
5 SSU could condemn in order to protect the water
6 source for Marco Island. It is inconceivable that
7 any permitting authority would permit residential
8 or commercial development in proximity to the
9 Collier Lakes, and, I am informed, if attempted,
10 such an action would be opposed by SSU using all of
11 its resources.

12 **Q. ARE YOU SUGGESTING THAT THERE ARE RULES AND**
13 **REGULATIONS WHICH REQUIRED SSU TO CONDEMN THE**
14 **ENTIRE 212 ACRES?**

15 A. No, there are no specific laws or regulations which
16 require that size parcel to be condemned. However,
17 SSU's engineers and consultants determined that
18 this was the minimum acreage necessary to protect
19 the water source. In addition, SSU's valuation
20 experts, John Calhoun and Woody Hanson, informed
21 SSU that there would have been no appreciable
22 savings to SSU, even had it attempted to condemn
23 less of the property.

24 **Q. COULD YOU PLEASE EXPLAIN WHY THE CONDEMNATION OF A**
25 **SMALLER PARCEL WOULD NOT HAVE APPRECIABLY DECREASED**

1 **THE COST OF THE COLLIER LAKES TO SSU?**

2 A. Yes. To protect the quality of water being
3 withdrawn by SSU from the lakes, development of
4 adjoining property will have to be prohibited.
5 When that occurs, the adjoining land, which is
6 zoned for commercial or high density residential
7 use, will be reduced to a nominal value. Under
8 Florida's condemnation laws, the property owners
9 are entitled to recover all losses occasioned by
10 the diminution in value of the adjoining land. As
11 a result, if SSU did not take the adjoining land,
12 it would, nevertheless, effectively be required to
13 pay for it but would not own it. To make matters
14 worse, the property owners, after the taking, could
15 then have sought to develop the land, which would
16 probably have forced SSU to incur the cost of
17 contesting any proposed development in both
18 administrative and, perhaps, judicial proceedings.
19 Thus, failing to take the entire 212 acres would
20 not have saved money and ultimately could have cost
21 far more than the actual amount SSU paid.

22 **Q. IT HAS BEEN SUGGESTED DURING CUSTOMER SERVICE**
23 **HEARINGS THAT THE APPRAISAL PERFORMED IN NOVEMBER**
24 **1992 WHICH VALUES THE CONDEMNED PROPERTY AT**
25 **APPROXIMATELY \$4 MILLION REPRESENTS THE TRUE VALUE**

1 **OF THE PROPERTY. DO YOU AGREE WITH THIS ASSERTION?**

2 A. No. That appraisal, which was prepared by Calhoun,
3 was nothing more than his original good faith
4 estimate of the value of the property. There are
5 several facts which must be understood to
6 appreciate the basis for the original appraisal.
7 First, the total property consists of approximately
8 1914 acres. Calhoun's appraisal does not include
9 any severance damages to the almost 1700 acre
10 remainder parcel east of the area taken. At the
11 time Calhoun prepared his appraisal, he had very
12 little knowledge of the eastern property and did
13 not include it in his appraisal. Instead, he
14 valued just the triangular portion of property west
15 of Henderson Creek Canal as what is termed by
16 appraisers "a larger parcel."

17 The property owners responded by presenting
18 appraisals of two valuation experts, both of whom
19 included very substantial claims for severance
20 damages, which are damages to any portion of the
21 property remaining after the taking. The
22 condemnation values of the Collier's appraisers
23 were approximately \$12.5 million and \$13.5 million,
24 respectively. Exhibit 214 (GRD-1) provides a
25 copy of the letter from my firm analyzing the

1 potential evidence to be introduced at trial by the
2 parties' witnesses and recommending that SSU settle
3 the case for a "wrap around" price of \$8 million.
4 The exhibit also provides a breakdown of the
5 experts' respective valuations. SSU, for its part,
6 retained Hanson as a second appraiser. Please note
7 that although SSU's appraisers Calhoun and Hanson
8 ultimately considered the property as a single
9 large tract, neither treated severance damages to
10 the eastern property. Also, please note that the
11 severance damages claimed by the Colliers' experts
12 represents the vast majority of the difference
13 between the valuations presented by the two sides.

14 **Q. WHAT IS THE STANDARD APPLIED BY A JURY IN**
15 **DETERMINING THE CONDEMNATION VALUE OF PROPERTY?**

16 A. It is critical for the Commission to understand
17 that the standard for establishing value in a
18 condemnation proceeding is the price at which a
19 willing seller would be able to sell the property
20 to a willing buyer, both knowing all relevant
21 factors. In this case, there were many factors
22 that might have affected value. For instance, as
23 the Staff Audit Exception No. 2 points out, the
24 condemned parcel was zoned for commercial and
25 residential development. Therefore, the value of

1 the property for commercial and residential use is
2 the beginning point of valuation. In addition, it
3 should be noted that the property was one of the
4 last remaining undeveloped properties of its size
5 in the Collier County area. Also, the property is
6 contiguous to State Road 951 and Highway 41, both
7 of which are undergoing increasing levels of
8 development along their paths. When SSU's water
9 lease expired on December 31, 1994, the property
10 would have been well suited for rapid development.
11 Development for commercial or residential purposes
12 could not take place, however, if the Collier Lakes
13 were to continue to be used as a source for a
14 public water supply.

15 **Q. WERE THERE DIFFERENCES OF OPINION AS TO THE VALUE**
16 **OF THE PROPERTY TAKEN EXCLUSIVE OF SEVERANCE**
17 **DAMAGES AND OTHER CONSIDERATIONS?**

18 A. Yes. One of the property owners' appraisers valued
19 the property taken at \$6,400,000, while the other
20 valued it at \$4,800,000. Both of the property
21 owners' appraisers contended that there would be an
22 interim period during which the property would be
23 held before development was initiated. During this
24 time, according to those appraisers, water could be
25 sold to a potential purchaser, such as the City of

1 Naples, or even SSU. By condemning the property
2 rather than continuing the lease, SSU was taking
3 not only the land but also the additional revenue
4 that could be derived from the sale of water. The
5 property owners' appraisers valued that lost
6 revenue at between \$1,500,000 and \$2,400,000.

7 **Q. ARE SEVERANCE DAMAGES ROUTINELY AWARDED BY JURIES**
8 **IN CONDEMNATION PROCEEDINGS?**

9 A. Yes. Severance damages are routinely sought and
10 recovered by landowners in condemnation actions any
11 time that less than the landowner's entire property
12 is taken and the remaining property is affected by
13 the taking.

14 **Q. COULD YOU PLEASE DESCRIBE THE SEVERANCE DAMAGES**
15 **IDENTIFIED BY THE COLLIERS' EXPERTS?**

16 A. Whereas SSU's appraisers focused their attention on
17 the 223 acres to the west of Henderson Creek canal,
18 the landowners' appraisers, Richard Klusza and J.
19 E. Carroll, both looked at the property as an
20 integrated 1900 acre tract. They argued that
21 because this was the last large tract suitable for
22 golf course development in the area, it would not
23 suffer a diminution in per acre value, despite its
24 size. Since the land was worth so much in their
25 opinion, even small reductions in the use of that

1 land would result in substantial severance damages.
2 Both of the Colliers' appraisers believed that
3 taking water from the lakes would adversely impact
4 a large portion of the property to the east of the
5 canal. They argued that: (1) extracting water from
6 the lakes would reduce the supply of water
7 available for a golf course and would make it more
8 difficult to obtain a water permit for that
9 purpose; (2) using the lakes as a water source
10 would inhibit development of portions of the
11 eastern property that drained into the canal, since
12 the canal, which replenishes water in the lakes,
13 would itself be regarded as a water source; (3)
14 taking highlands near the lakes would eliminate
15 lands whose high densities could otherwise have
16 been available for transfer to the eastern
17 property; (4) the taking would eliminate a "front
18 door" to the eastern property that could have been
19 developed in such a way as to promote more rapid
20 development of the remaining property; and (5) the
21 location of the taking combined with existing
22 wetlands would make it more difficult to develop
23 the remaining property in a logical and efficient
24 pattern. Based on those arguments, the property
25 owners' appraisers estimated that the density of

1 development in the east would be reduced by between
2 15 and 23 percent. According to their estimates,
3 this would result in damages of from \$4,450,000 to
4 \$4,600,00.

5 **Q. COULD YOU EXPLAIN SSU'S RATIONALE FOR SETTLING THE**
6 **CONDEMNATION ACTION AT A COST OF \$8 MILLION?**

7 A. Yes. As I previously mentioned, my Exhibit 214
8 (GRD-1) contains a copy of my firm's opinion to SSU
9 recommending the settlement to SSU at a price of \$8
10 million. I am informed that the engineering expert
11 and land appraiser similarly recommended settlement
12 to SSU at this price and that copies of their
13 recommendations also are being provided as
14 exhibits. These letters provide a detailed
15 explanation of SSU's rationale for settling the
16 litigation at a "wrap around" cost of \$8 million.
17 Summarized, that rationale is as follows:

18 SSU made every effort to purchase this and
19 other properties capable of satisfying the water
20 needs of its Marco Island facilities.
21 Unfortunately, those efforts did not prove
22 successful and it was necessary to condemn the
23 property. In a condemnation proceeding, the
24 condemnor must pay not only full compensation for
25 the land taken and any severance damages, but it

1 must also pay all reasonable legal fees, expert
2 fees and costs incurred by the landowner. The
3 condemnor must also pay interest on any difference
4 between the amount it estimates as the value of the
5 property when it acquires the property under a
6 quick take proceeding and the final value
7 determined by settlement or a jury. The only way
8 to cut short interest, expert costs and legal fees
9 is to agree on a settlement.

10 It is also true that a jury tends to value
11 property somewhere midway between the opinions
12 given by the parties' experts. In the instant
13 case, the values for the property taken range from
14 \$3,606,500 to \$6,400,000. Given that range, a jury
15 verdict of \$5 million dollars would have been
16 likely. If the jury accepted the concept of
17 interim sales of the water, it could have awarded
18 an additional \$1.5 to \$2.4 million for that loss.
19 On the question of severance damages, estimates
20 ranged from \$117,000 to \$4,600,000. If the jury
21 felt that even less than 10% of the remainder
22 property had been damaged, such an apparently
23 inconsequential reduction would have translated
24 into an additional award of as much as \$2 million
25 which SSU would have had to pay.

1 Given the above considerations, a jury could
2 easily, and I mean "easily", have entered a verdict
3 of \$7 million. If such an award were entered, SSU
4 would also be required to pay, at a minimum,
5 interest of \$300,000, as well as expert and legal
6 fees and costs well in excess of \$1,000,000 thus
7 far exceeding the \$8 million paid, without even
8 including the fees SSU would have to pay for its
9 own experts and attorneys to continue the case
10 through trial.

11 Should the jury have awarded \$8.5 million,
12 which we as SSU's counsel believed possible, costs
13 would have exceeded \$11 million exclusive of the
14 Company's overhead or other costs associated with
15 continuing the action. By settling the case at \$8
16 million, SSU eliminated the risk of so excessive a
17 jury verdict, resolved all questions of fees and
18 costs without the need for further litigation, and
19 provided a basis for future cooperation with the
20 property owners. SSU thus acted prudently and in
21 the best interest of its customers.

22 **Q. TO CONCLUDE, IN YOUR EXPERT OPINION, WAS THE PRICE**
23 **PAID BY SSU FOR THE COLLIER LAKES PROPERTY**
24 **REASONABLE AND PRUDENT?**

25 A. Yes, it was.

1 Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?

2 A. Yes, it does.

1 CHAIRMAN CLARK: All right. Mr. Armstrong.

2 MR. ARMSTRONG: Mr. Westrick, have you been
3 sworn?

4 WITNESS WESTRICK: Yes, ma'am, I have.

5 J. DENNIS WESTRICK, P.E.
6 was called as a witness on behalf of Southern States
7 Utilities, Inc., and having been duly sworn, testified
8 as follows:

9 DIRECT EXAMINATION

10 BY MR. ARMSTRONG:

11 Q Mr. Westrick, do you have before you 14 pages
12 of testimony which was rebuttal testimony prefiled in
13 this docket?

14 A Yes.

15 Q Do you have any changes to that prefiled
16 testimony?

17 A Yes, I do.

18 Q Could you please provide those changes?

19 A Yes, on Page 13, Line 16, strike the word --
20 or excuse me, change the word "witnesses" to "witness,"
21 singular, strike the word "Bertram," and strike the word
22 "and." And on Line 18, same page, strike the words
23 "the witnesses are" and change it to "he is."

24 Q With those changes, Mr. Westrick, if I asked
25 you the questions contained in this 14 pages, would your

1 answers be the same?

2 A Yes.

3 MR. ARMSTRONG: Madam Chair, we request that
4 the 14 pages of rebuttal testimony of Mr. Westrick be
5 incorporated into the record as though read.

6 CHAIRMAN CLARK: The prefiled rebuttal
7 testimony of Mr. Dennis Westrick will be inserted in the
8 record as though read.

9 MR. ARMSTRONG: Thank you.

10 Q (By Mr. Armstrong) Mr. Westrick, you're
11 sponsoring rebuttal Exhibits JDW-5 through JDW-10; is
12 that correct?

13 A That's correct.

14 Q And you have no changes to those exhibits?

15 A No changes.

16 MR. ARMSTRONG: Madam Chair, we request those
17 exhibits be identified with the next available exhibit
18 number.

19 CHAIRMAN CLARK: Those exhibits will be
20 labeled as 216.

21 (Exhibit No. 216 marked for identification.)

22

23

24

25

1 **Q. ARE YOU THE SAME J. DENNIS WESTRICK WHO PREVIOUSLY**
2 **PRESENTED PRE-FILED DIRECT TESTIMONY IN THIS**
3 **PROCEEDING?**

4 A. Yes, I am.

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

6 A. Primarily, I will provide facts that refute
7 customer and Sugarmill Woods testimony that
8 suggests that SSU's plant in service projects are
9 not required for safety reasons or under regulatory
10 mandate. I also will rebut customer testimony and
11 allegations of intervenor counsel that SSU's
12 projections are suspect by demonstrating that
13 Southern States' projections of plant in service
14 for the years 1995 and 1996 are credible and should
15 be used for rate setting purposes in this
16 proceeding.

17 **Q. WHY DO YOU BELIEVE THAT CUSTOMERS HAVE PLACED THE**
18 **CREDIBILITY OF SSU'S PLANT IN SERVICE PROJECTIONS**
19 **IN QUESTION?**

20 A. A number of customers who testified during the
21 customer service hearings, as well as their
22 counsel, suggested that SSU's projections of plant
23 in service were inflated and otherwise subject to
24 serious doubt. I believe the customers' concerns
25 were not justified for a number of reasons which I

1 will soon relate.

2 I also have read the prefiled testimony of
3 Public Counsel witnesses Larkin and DeRonne which
4 draws the Commission's attention to Public
5 Counsel's analysis of the number of 1995 projects
6 completed as of October 31, 1995. When SSU
7 provided Public Counsel with the plant in service
8 information as of October 31, which is referred to
9 by Public Counsel's witnesses, we informed the
10 Public Counsel that the projects not completed at
11 that time were "primarily Operations projects, not
12 time critical, and are intended to be completed by
13 the end of 1995". Clearly, the number of projects
14 completed as of October 31 which Public Counsel
15 focuses on are of relatively little significance
16 since, as we indicated in our response, the total
17 cost of the delayed projects totalled only \$638,657
18 or 2% of total budget. Based on the facts and
19 circumstances I present and those presented by
20 other SSU engineers, I believe the credibility of
21 SSU's projected plant in service for 1996 are
22 reasonable and credible and should be considered by
23 the Commission when establishing rates in this
24 proceeding.

25 **Q. COULD YOU PLEASE PROVIDE THE REASONS WHY YOU**

1 **BELIEVE THE COMPANY'S 1995 AND 1996 PROJECTIONS OF**
2 **PLANT IN SERVICE IN THE MFRS ARE REASONABLE AND**
3 **CREDIBLE?**

4 A. Yes. First, Exhibit 216 (JJK-5) introduced by
5 SSU witness Kimball evaluates the status of the
6 1995 projects previously identified in Volume II,
7 Book 4 of 4 of the MFRs as projects to be completed
8 in 1995. This exhibit confirms that in 1995, SSU
9 placed \$22,933,549 of water, wastewater and general
10 plant into service. The projected 1995 plant in
11 service, as adjusted by Ms. Kimball, was
12 \$24,508,827 for water, wastewater and general
13 plant. Therefore, in 1995, SSU placed in excess of
14 93% of the total plant investment projected in the
15 MFRS into service.

16 Second, Exhibit 216 (JJK-5) also confirms
17 that 209 of the total of 240 projects or more than
18 87% of the projects SSU projected would be
19 completed actually were placed into service by year
20 end 1995. Exhibit 216 (JDW-5) provides the total
21 company project by project breakdown for 1995 MFR
22 projected plant in service, with the exception that
23 general plant projects are excluded. Exhibit 216
24 (JDW-6) identifies the projects in service areas
25 under my responsibility. SSU witnesses Bailey,

1 Goucher and Paster will provide more specific
2 testimony concerning the projects placed into
3 service in the service areas under their respective
4 responsibility.

5 Third, SSU has used projected test years in
6 two recent rate proceedings, Marco Island - Docket
7 No. 920655-WS, and Lehigh - Docket No. 911188-WS.
8 SSU completed and the Commission authorized for
9 inclusion in rate base, 98.58% and 100%,
10 respectively, of the plant in service projections
11 made in those cases. In fact, in the Marco Island
12 case, all projects were completed and the final
13 plant in service amount exceeded the projected
14 amount by over \$365,000. In the Lehigh case, all
15 projects were completed as projected but the
16 projected total cost exceeded the actual in service
17 amount by approximately \$304,000.

18 Fourth, as we informed the parties in our
19 response to Public Counsel's Interrogatory No. 180
20 on October 18, 1995, SSU's projected plant in
21 service historically has been consistent with its
22 actual in service investments. Our response
23 included data from the years 1992 to 1994. Now
24 that 1995 is over, we have updated that information
25 to include 1995. In each year from 1992 through

1 1995, SSU's actual plant in service additions
2 compared favorably with the budgeted in service
3 amount. Exhibit 216 (JDW-7) provides the
4 budgeted versus actual plant in service additions
5 for these years. It is noteworthy that
6 cumulatively for the entire four year period, SSU
7 placed more plant into service than SSU projected.
8 The variance of actual plant in service additions
9 to budgeted in service amounts was 4.25%.

10 Fifth, SSU's projected expenditures for so-
11 called blanket capital expenditures, which include
12 new and replacement meters, repair and replacement
13 items and service line installations, are close to
14 the budgeted amounts. As SSU's witness Dave Denny
15 describes, SSU's 1995 projections for these items
16 were premised on actual experience during the
17 period 1992 through 1994. The accuracy of the 1995
18 projection presents considerable confirmation of
19 the validity of SSU's projections for 1996
20 investments in these items.

21 Sixth, the Commission should understand that
22 96 of the total 157 projects included in the 1996
23 projections are operations projects which, when
24 viewed individually, are not material in cost and
25 generally do not require extensive permitting,

1 detailed design, etc., but which collectively total
2 \$3,603,469. SSU completed and placed into service
3 91% of these types of projects in 1995 and expects
4 at least similar results in 1996.

5 Seventh, of the 157 capital projects projected
6 for completion in 1996, 39 are carryover projects
7 from 1995 which SSU remains confident will be
8 completed in 1996.

9 **Q. PLEASE IDENTIFY THE CURRENT STATUS OF THOSE**
10 **PROJECTS WHICH WERE INCLUDED IN THE MFRS FOR 1995**
11 **BUT NOT PLACED INTO SERVICE AS OF DECEMBER 31,**
12 **1995.**

13 A. There are only 14 projects company-wide which were
14 projected in the MFRs for completion in 1995 but
15 which have or will be completed in 1996. These
16 projects, as well as the date in 1996 that they
17 were placed into service or are expected to be
18 placed into service, are identified in Exhibit 216
19 (JDW-8). Only two of the 14 projects which were not
20 completed company-wide were under my
21 responsibility. Those projects are the Deep Creek
22 In-Line Booster Pump and the Marco Island Aquifer
23 Storage Recovery. The other SSU engineers providing
24 rebuttal testimony will discuss the current status
25 of projects identified in Exhibit 216 (JDW-8) which

1 were under their responsibility.

2 The Deep Creek In-Line Booster Pump project
3 was not implemented because of continuing
4 negotiations with Charlotte County Utilities for
5 alternative methods to correct continued low
6 pressure problems in the Deep Creek water
7 distribution system during peak demand periods.
8 Results of a preliminary survey and investigation
9 completed during the last quarter of 1995
10 determined that upsizing the existing interconnect
11 would be as beneficial as the proposed in-line
12 booster pump. Negotiations with the County have
13 resulted in their acceptance of the installation of
14 an upsized 10-inch interconnect. The project has
15 been designed and bid. Permits for the project
16 have not been released by the County pending final
17 resolution of easement issues. The project is
18 expected to be completed in the second quarter of
19 1996.

20 The Marco Island Aquifer Storage and Recovery
21 project is a multi-phase project with several
22 construction components scheduled to be phased into
23 service. During the permitting process in 1995,
24 objections were raised by a local interest which
25 delayed the project. SSU has resolved the

1 objections and they have been withdrawn. An
2 exploratory well is under construction and a
3 prototype production well and monitoring well are
4 projected to be in service during the last quarter
5 of 1996.

6 More importantly, the total cost of these two
7 projects combined was only \$282,214, or 2.3% of
8 the projected plant in service total of \$11,991,544
9 projected in the MFRs under my responsibility.

10 The other SSU engineers will provide similar
11 information for projects under their
12 responsibility.

13 **Q. LOOKING AT EXHIBIT 216 (JDW-6), ONE NOTES THE**
14 **REFERENCE TO A PROJECT WHICH WAS EXPENSED. COULD**
15 **YOU EXPLAIN THIS DESIGNATION?**

16 **A.** Yes. This Marco Shores project was completed in
17 1995. However, when SSU's expense/capitalization
18 criteria were applied, the people responsible for
19 booking SSU's investment in the Marco Shores lead
20 and copper control project, which totalled only
21 \$1,973, determined that the investment should be
22 expensed, not capitalized.

23 **Q. COULD YOU DESCRIBE WHY THE PROJECTS UNDER YOUR**
24 **RESPONSIBILITY IDENTIFIED IN EXHIBIT 216 (JDW-6)**
25 **AS "CANCELLED" UNDER THE COLUMN HEADING "SCHEDULE"**

1 **WERE CANCELLED?**

2 A. There were a total of 11 water and wastewater
3 projects cancelled by SSU during 1995. The 11
4 projects that were cancelled had a total projected
5 cost of only \$688,804 with \$607,980 of this amount
6 related to only one project.

7 The two projects under my responsibility that
8 were cancelled in 1995 included the water main
9 extensions originally planned for the Lehigh
10 service area for a projected amount of \$607,940.
11 This project was cancelled due to the lack of
12 growth within the service area from levels
13 projected by Lehigh Corporation.

14 The second cancelled project under my
15 responsibility was the Burnt Store lift station
16 access door replacement project which was cancelled
17 because it was found that the existing traffic
18 bearing-type hatches for the lift stations located
19 in roadway areas could be repaired by replacing the
20 hardware, including hinges, pins, etc. This repair
21 work enabled the existing hatches to meet current
22 standards for traffic bearing hatches.

23 Q. **LOOKING AT EXHIBIT 216 (JDW-6), ONE NOTES A**
24 **PROJECTED COST FOR THE INJECTION WELL AT BURNT**
25 **STORE OF \$1,419,341. HOWEVER, THE ACTUAL COST OF**

1 **THE PROJECT INDICATED IN THE EXHIBIT WAS**
2 **\$2,742,986. CAN YOU EXPLAIN WHY THE PROJECT COST**
3 **NEARLY DOUBLED?**

4 A. Yes. The projected plant in service cost submitted
5 in the MFRs for the Burnt Store injection well was
6 based upon a cost developed during preliminary
7 design efforts. SSU submitted a construction
8 permit application to the Florida Department of
9 Environmental Protection, which I will refer to as
10 the DEP, based upon the preliminary design
11 configuration for a small diameter well. During
12 the permit review process, the DEP Technical
13 Advisory Committee (TAC) would not recommend the
14 size well which SSU included in the application.
15 Therefore, to satisfy the permitting constraints,
16 the size (diameter) of the well was increased
17 accordingly. Additionally, the TAC recommended an
18 intermediate casing not included in the preliminary
19 design. Finally, the TAC required additional
20 testing for this well since it was the smallest
21 diameter injection well submitted at that time for
22 the TAC's review.

23 Therefore, the significant increase in project
24 cost was attributed to the additional testing
25 requirements and material and labor costs for

1 installing a larger diameter well.

2 **Q. PLEASE IDENTIFY THE PROJECTS WHICH YOU PREVIOUSLY**
3 **INDICATED WERE PLACED INTO SERVICE BY SSU IN 1995**
4 **WHICH WERE NOT PROJECTED TO BE PERFORMED AND**
5 **COMPLETED AND THUS WERE NOT INCLUDED IN THE MFRS.**

6 A. SSU completed and placed into service 8 projects in
7 1995 which were not included in the MFRs. The cost
8 of these projects totalled \$1,770,284. The
9 individual projects are identified in Exhibit 216
10 (JDW-9). For the service areas under my
11 responsibility, we completed and placed into
12 service three projects which were not included in
13 the MFRs. These projects are referred to as the
14 Marco Island Injection Well Hydro Tank (95 CS 73),
15 the Marco Island Raw Water Main Replacement on
16 County Road 951 (95 CS 739) and the Marco Island
17 Well Remediation (95 CS 747). The in-service
18 amounts for these three projects were \$25,444,
19 \$240,274 and \$59,291 respectively.

20 It is not unusual and in fact is to be
21 expected that the necessity to complete projects
22 not budgeted will arise during the course of the
23 year as a result of inspections by environmental
24 regulators, the imposition of new and unexpected
25 permit conditions at permit renewal time, equipment

1 failures or other similar circumstances. Due to
2 the limitations on capital available to SSU, when
3 projects like this arise, we typically review other
4 projects under our responsibility, such as the
5 projects which I identified earlier, which can be
6 cancelled or delayed so that we can remain within
7 the capital budget. Of course, if projects are
8 mandated by public health or environmental concerns
9 there might be no room for compromise on such
10 projects.

11 SSU requests that the actual 1995 cost of
12 these additional projects be considered by the
13 Commission to the extent that including such
14 additional investment in rate base would offset
15 reductions to, but not increase, SSU's revenue
16 requirements set forth in the MFRs.

17 **Q. IS THERE ANYTHING SIGNIFICANT ABOUT THE LEHIGH**
18 **WATER DISTRIBUTION AND WASTEWATER COLLECTION LINE**
19 **PROJECT THAT WAS NOT COMPLETED BY SSU IN 1995?**

20 **A.** Yes. The installation of water transmission and
21 distribution and wastewater collection lines in the
22 Lehigh service area was the most significant
23 project that was not completed in 1995. SSU
24 projected a cost of \$1,602,000 associated with the
25 water lines and \$905,000 for the wastewater

1 collection lines for a total of \$2,507,000. Only
2 \$204,128 and \$355,276 of water and wastewater
3 lines, respectively, were placed into service. Ms.
4 Judy Kimball explains why it is appropriate to
5 exclude these projects when determining the
6 variance of filed to actual 1995 plant in service
7 for ratemaking purposes.

8 **Q. PLEASE PROVIDE YOUR REBUTTAL CONCERNING ALLEGATIONS**
9 **THAT THE PLANT PLACED INTO SERVICE BY SSU SINCE**
10 **RATES LAST WERE ESTABLISHED WAS OR IS NOT REQUIRED**
11 **TO SATISFY REGULATORY MANDATES.**

12 A. During customer service hearings, several customers
13 and their counsel expressed doubt that the majority
14 of plant being placed into service by SSU was to
15 fulfill safety or regulatory mandates. Sugarmill
16 Woods ^{Witness} ~~witnesses~~ ~~Bertram~~ and Hansen also submitted
17 prefiled testimony raising similar questions. It
18 appears from this testimony that ^{he is} ~~the witnesses are~~
19 assuming the "regulatory mandate" is synonymous
20 with "environmental justification." Although a
21 regulatory mandate may have an environmental
22 justification, it is not always the case. Attached
23 as Exhibit 216 (JDW-10) is a schedule identifying
24 the projects placed into service for the service
25 areas under my responsibility which were required

1 by regulatory mandate.

2 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

3 A. Yes, it does.

1 Q (By Mr. Armstrong) Mr. Westrick, do you have
2 a brief summary of your testimony?

3 A Yes, I do.

4 Q Could you please provide that now?

5 A Throughout this rate proceeding, customers and
6 intervenor witnesses have suggested that Southern States
7 may have overstated the plant-in-service investments
8 necessary to comply with safety and regulatory
9 mandates. In addition, a number of customers who
10 testified at the customer service hearings have
11 suggested that SSU's projections of plant in service
12 were inflated and lack credibility.

13 As evidenced by the facts provided in my
14 rebuttal testimony, and those by other SS engineers,
15 SSU's projections for 1995 and 1996 are credible and
16 should be used for rate setting purposes in this
17 proceeding.

18 SSU has provided documentation which validates
19 the plant-in-service investments related to safety
20 issues and regulatory mandates. In fact, I believe that
21 SSU has understated the total plant in service necessary
22 for these safety issues and regulatory mandates in the
23 MFRs.

24 The reasons why SSU's 1995 and 1996
25 projections of plant in service in the MFRs are

1 reasonable and credible are as follows:

2 First, facts presented by SSU Witness Kimball
3 confirm that SSU placed \$23,107,707 of water, wastewater
4 and general plant into service compared to the 1995
5 projected amount of \$24,508,827. Thus, SSU placed in
6 excess of 94 percent of the projected plant investment
7 into service.

8 Second, SSU completed 209 out of a total of
9 240 engineering and operations projects scheduled to be
10 placed in service in 1995, or more than 87 percent.

11 Third, SSU's use of a projected test year is
12 supported by its success in two recent rate proceedings,
13 one for Marco Island, the other for Lehigh. The
14 Commission authorized for inclusion in rate base
15 98.58 percent and 100 percent, respectively, of the
16 plant-in-service projections made in those cases.
17 Combined, the actual plant-in-service comparison to the
18 total rate order projection represents a difference of
19 less than 61,000 on a total investment of 25 million
20 considered in those cases.

21 Fourth, SSU's historical projected
22 plant-in-service investments have been consistent with
23 the actual investments. For the period from 1992
24 through 1995, SSU cumulatively placed plant into service
25 totaling 104.25 percent of the total projected plant in

1 service over that four-year period.

2 Fifth, in the MFRs, for 1996, 96 of the total
3 of 157 projects projected for completion are operations
4 projects, which historically SSU has been successful in
5 placing in service, as evidenced by the 91 percent
6 completion rate in 1995.

7 For 1995, on a Company-wide basis, only 14
8 projects projected to be completed in 1995 were not
9 completed. Through May 8th, 1996, eight of those 14
10 projects are already in service. Of the remaining six
11 projects, three are expected to be placed in service
12 during the next few weeks.

13 On a total-Company basis, in addition to those
14 14 projects carried over from 1995 to 1996, 11 projects
15 of the total of 240 scheduled were completed, but
16 expensed, and 11 capital water and wastewater projects
17 were canceled. The canceled projects had a total
18 projected cost of \$688,804, or less than 3 percent of
19 the total 1995 projected plant-in-service amount filed
20 in the MFRs.

21 On the other hand, in addition to those
22 projects included in the MFRs to be placed in service in
23 1995, SSU also completed and placed into service nine
24 additional projects, representing a total investment of
25 \$1,942,443. For the service areas under my

1 responsibility, only two projects in the MFRs were not
2 completed in 1995. These two projects represent just
3 2.3 percent of the total of \$11,991,554 of plant in
4 service projected for completion in the MFRs.

5 The bottom line is, SSU completed and placed
6 in service in excess of 94 percent of the projected
7 plant investments filed in the MFRs for 1995, and fully
8 expects to place in service 100 percent of the projected
9 investment for 1996.

10 Q That concludes your summary?

11 A Yes, it does.

12 MR. ARMSTRONG: The witness is available for
13 cross.

14 CHAIRMAN CLARK: Mr. Beck.

15 MR. BECK: Thank you, Madam Chairman.

16 CROSS EXAMINATION

17 BY MR. BECK:

18 Q Good afternoon, Mr. Westrick.

19 A Good afternoon.

20 Q We've received some inquiries from the
21 Imperial Terrace Homeowner's Association about a well
22 that's projected to be in service in 1996. Would you be
23 the appropriate witness, or would one of your witnesses
24 following you be more appropriate?

25 A I believe --

1 MR. ARMSTRONG: Objection. Objection. There
2 is no issue stated in the prehearing order that says
3 anything about the projections of an Imperial Terrace
4 well.

5 MR. BECK: It's projected plant for 1996.

6 MR. ARMSTRONG: There is no issue in the
7 prehearing order that says was it prudent or is it going
8 to be constructed in 1996.

9 MR. BECK: Sure there is. Your projected
10 plant in service for 1996 is an issue, and I'm going to
11 ask him whether this is going to be put in service or
12 not.

13 MR. ARMSTRONG: Madam Chair, we made it clear
14 each time in two pre-prehearing conferences, as well as,
15 I believe, at the prehearing conference, that Southern
16 States and our witnesses were entitled to due process,
17 which means if there's an issue about any of the plant
18 that we project to place in service or have placed in
19 service, that issue should be identified. And it's my
20 recollection that Mr. McLean, at least, agreed when I
21 was there specifically making that statement, that that
22 would be due process. And it goes both ways for the
23 Company and Public Counsel. Now if -- I do not believe
24 it would be proper due process to allow Public Counsel
25 to now bring up 240 projects and start asking about each

1 individual project in the MFRs. I just don't believe
2 that's due process, and that's specifically why I raised
3 that twice -- or I raised it and then co-counsel has
4 raised it in the past.

5 CHAIRMAN CLARK: Mr. Armstrong, the
6 projected -- there's a projected test year and a
7 projected budget in that test year. To that extent I
8 think this is fair cross examination.

9 MR. ARMSTRONG: I just want to note my
10 objection for the record, Your Honor, because we did
11 mention it.

12 CHAIRMAN CLARK: That's fine, Mr. Armstrong.
13 Go ahead, Mr. Beck.

14 Q (By Mr. Beck) Mr. Westrick, my question to
15 you was, would you be the more appropriate witness or
16 would one of the three witnesses following you be
17 appropriate to answer that?

18 A That question would best be served of
19 Mr. Paster.

20 Q Mr. Westrick, could you turn to your
21 Exhibit JDW-5. That's part the Exhibit 216.

22 A Yes.

23 Q Would you accept, subject to check, that if
24 you exclude the canceled then expensed projects, that
25 you list 164 projects in your exhibit?

1 A I don't know the exact total without subject
2 to check again.

3 Q Would you accept that, subject to check,
4 there's 164 listed there?

5 A If you say so.

6 Q And would you accept, subject to check, that
7 of those 164 projects, 117 were completed after the
8 projected in-service date?

9 A Again, I have not run that total, but if you
10 say so.

11 Q If you turn to your Exhibit JDW-6. Would you
12 accept that you list 47 projects in your Exhibit JDW-6,
13 excluding expense and canceled projects?

14 A Again, I have not totalled them.

15 Q Would you accept it, subject to check, that
16 there's 47 there?

17 A Yes.

18 Q And would you accept that 32 of them are
19 placed in service behind schedule?

20 A Again, subject to check, yes.

21 Q Was the period after -- between Christmas and
22 New Year a very busy period at Southern States?

23 A I don't understand your question.

24 Q Well, there's a number of projects that are
25 listed as completed in December or toward the end of

1 December, and I'm just generally wondering if that was a
2 busy period for Southern States. Were people actually
3 out in the field completing projects between Christmas
4 and New Year's?

5 A We have projects going on all the time, and
6 going into service all the time.

7 Q Well, let me refer you to JDW-6, Page 1 of 2.
8 For example, if you look under the Lehigh area, you'll
9 see quite a few where the completion date is listed as
10 December 31st, 1995, and I'm wondering what that
11 actually means. Does that mean on that date the project
12 was actually physically completed? People were out
13 there on New Year's Eve Day completing those projects?

14 A That's the date it was actually booked into
15 service.

16 Q What does that mean with respect to actual
17 physical completion? That's what I'm trying to
18 understand.

19 A When the paperwork was done.

20 Q Is that what the December 31st date means?

21 A Well, on a project -- I can't answer that
22 collectively on a project-by-project basis. Some
23 projects require a DEP clearance, for example, and once
24 we receive that clearance and the paperwork is
25 completed, then that would be the in-service date.

1 However on an operations project, if they're going out
2 and buying a piece of equipment, once that's booked
3 into -- by our accounting system, then that's the date
4 it goes into service, so to speak.

5 Q Okay. Could you turn to your Exhibit JDW-10,
6 Page 2 of 11?

7 A Okay.

8 Q Do you see that there are a number of projects
9 where the regulatory mandate is listed as either
10 17-604.130, 400, 500?

11 A Yes, sir.

12 Q Or the 62?

13 A Yes.

14 Q And the 62 is just a renumbering of those
15 regulations, was it not?

16 A Yes, sir. Yes, sir.

17 Q And on your next page, 3 of 11, you cite that
18 for rebuilding pumps and even for a manhole
19 rehabilitation; is that right?

20 A Yes, sir.

21 Q What generally is the regulations that you're
22 citing there, that you say that makes them required by
23 regulation?

24 A That is the DEP regulation for maintaining,
25 operation and maintenance, of a wastewater collection

1 and transmission system.

2 Q And do those regulations generally say that
3 you have to -- your system has to be in good operating
4 condition?

5 A Give me a moment. (Pause) If you so wish, if
6 you would look at DEP Rule 62-604.500, under Operation
7 and Maintenance, and this is in the chapter dealing with
8 collection systems and transmission facilities, Article
9 2 says, "All collection transmission systems shall be
10 operated and maintained so as to provide uninterrupted
11 service as required by this rule."

12 Q So when you put down, for example, manhole
13 rehabilitation as being a regulatory requirement, that's
14 the regulatory requirement you're referring to?

15 A Well, it's covered under more than one part of
16 this chapter.

17 Q Will you agree that those regulations are
18 rather broad that simply talk about having to provide
19 uninterrupted service? I mean, are you claiming that
20 regulatory requirements are what require you to provide
21 uninterrupted service?

22 A If that manhole, for example, should be in
23 danger of collapse, you would interrupt the service.
24 Would you agree to that?

25 Q Let me ask you this, would you do it even if

1 you weren't required to?

2 A As a responsible utility?

3 Q Yes.

4 A It would depend on the situation.

5 Q Generally your claim is if anything you do is
6 to provide uninterrupted service, you're claiming that
7 that's required by regulatory mandate; is that right?

8 A As I interpret this rule, yes.

9 MR. BECK: Thank you. That's all I have.

10 CHAIRMAN CLARK: I know Mr. Twomey has
11 questions. I mean I have that as -- on my list that he
12 has questions of this witness.

13 MR. HANSEN: I'll have to get the fire brigade
14 out for him.

15 MR. JACOBS: Madam Chairman, I don't have any
16 questions. I didn't mean to hold you up.

17 CHAIRMAN CLARK: I know you don't have any
18 questions. We're waiting for Mr. Twomey.

19 MR. JACOBS: I would not venture to speak for
20 Mr. Twomey.

21 MR. TWOMEY: I apologize. I have just a
22 couple questions. I assume it's my turn.

23 CHAIRMAN CLARK: Yes.

24 MR. TWOMEY: The --

25 CHAIRMAN CLARK: Take a minute to catch your

1 breath.

2 CROSS EXAMINATION

3 BY MR. TWOMEY:

4 Q (By Mr. Twomey) Just a couple questions,
5 Mr. Westrick. Would you turn to Page 10 of your
6 testimony, please?

7 A What page was that?

8 Q 10, 1-0. You have on that page a discussion
9 of why the cost of -- the project cost of the Burnt
10 Store injection well nearly doubled, right?

11 A Yes, sir.

12 Q Now, what I want to know is, if you can tell
13 me, is were you required to do the Burnt Store injection
14 well by regulatory requirements?

15 A We were -- we were under a consent order to
16 cease discharge to Charlotte Harbor for the current
17 method of concentrate disposal for that facility, yes.

18 Q The concentrated brine, or whatever it's
19 called, you had a consent order to stop putting in
20 Charlotte Harbor?

21 A Yes.

22 Q So obviously you still had to get -- that's a
23 by-product of the reverse osmosis product?

24 A Yes, it is.

25 Q So you had to get rid of it. This solution

1 puts it down deep in the ground, right?

2 A Yes, sir.

3 Q Is it the -- is it the only solution or is it
4 the most cost-effective solution for getting rid of the
5 brine, of the concentrate?

6 A We performed a detailed cost-effective
7 analysis for this project for that particular -- to
8 evaluate the alternatives for concentrate disposal, and
9 the deep well injection was the cost-effective solution.

10 Q Okay, sir, so as I understand it, it's your
11 testimony that the increased cost due to the sizing of
12 the well and so forth means that the -- approximately
13 the \$2.7 million was spent in a cost-effective,
14 necessary manner to allow the continued operation of the
15 Burnt Store reverse osmosis water plant, right?

16 A Could you repeat that?

17 Q Do you follow that?

18 A No.

19 Q I'm sorry. I'm sorry. The cost jumped up to
20 about \$2.7 million for reasons you think are logical and
21 necessary, correct?

22 A For the reasons that I stated in my rebuttal.

23 Q Right. But the total project was necessary
24 for the continued operation of the Burnt Store reverse
25 osmosis plant?

1 A And also to be in compliance with a consent
2 order deadline.

3 Q Right. Right. Now, if you can, Mr. Westrick,
4 tell me what value the \$2.7 million deep injection well
5 at Burnt Store has to the operation of the reverse
6 osmosis plant at Marco Island?

7 A I don't know.

8 Q Well, okay. Can you name any benefit that the
9 deep injection well at Burnt Store has to the operation
10 of the reverse osmosis plant in Marco Island?

11 A Not that I'm aware of.

12 MR. TWOMEY: Thank you. That's all I have.

13 CHAIRMAN CLARK: Staff.

14 CROSS EXAMINATION

15 BY MR. PELLEGRINI:

16 Q Good afternoon, Mr. Westrick.

17 A Good afternoon.

18 Q It's been the purpose of your rebuttal
19 testimony to counter certain allegations relative to
20 SSU's capital project projections; has it not been?

21 A Yes, sir.

22 Q And on Page 2 of your rebuttal testimony, you
23 make the statement that you believe the credibility of
24 SSU's projected plant in service for 1996 are reasonable
25 and credible; is that not true?

1 A Yes, sir.

2 Q With that in mind, Mr. Westrick, Witness
3 Terrero testified previously in this proceeding that if
4 uniform rates were not authorized, that some of the 1996
5 capital addition projects may not be completed as
6 projected. Are you aware of that testimony?

7 A I may recall that.

8 Q Do you subscribe to that notion?

9 A What specifically is your question?

10 Q Do you subscribe to the notion that if uniform
11 rates are not authorized in this proceeding, some of the
12 1996 capital addition projects will not be completed?

13 A We will complete those projects that are
14 identified in the MFRs to be completed in 1996. There
15 are additional projects in SSU's 1996 budget, okay, in
16 excess of what we've identified in the MFRs. And we may
17 have to take a look at that as a utility that's -- that
18 may not be making the return that we want, and we may
19 have to take a hard look at some of those other
20 projects. Okay, but what we included in the MFRs were
21 only those top priority projects, and it also includes
22 only the 1995 projects that carried over and were
23 scheduled to be in service in 1996. And it also
24 includes only those blanket type projects which were
25 where we have a historical basis for knowing what would

1 go in service.

2 Q I'm not sure. Are you saying that those
3 projects will go forward regardless of whether the
4 ultimate rate structure in this proceeding is uniform or
5 standalone?

6 A In my opinion.

7 COMMISSIONER KIESLING: In your opinion what,
8 yes?

9 WITNESS WESTRICK: Yes.

10 MR. PELLEGRINI: We have no further questions,
11 Chairman Clark.

12 CHAIRMAN CLARK: Commissioners? Redirect?

13 MR. ARMSTRONG: No redirect.

14 CHAIRMAN CLARK: Thank you, Mr. Westrick.
15 Exhibits.

16 MR. ARMSTRONG: The Company moves Exhibit
17 216.

18 CHAIRMAN CLARK: 216 will be admitted in the
19 record without objection. Mr. Goucher.

20 (Exhibit No. 216 received into evidence.)

21 (Witness Westrick excused.)

22 * * *

23 MR. ARMSTRONG: You haven't been sworn,
24 Mr. Goucher, is that why you're standing? Anybody
25 else?

1 CHAIRMAN CLARK: Thank you. Mr. Goucher would
2 you raise your right hand?

3 (Witnesses collectively sworn.)

4 WILLIAM C. GOUCHER
5 was called as a witness on behalf of Southern States
6 Utilities, Inc., and having been duly sworn, testified
7 as follows:

8 CHAIRMAN CLARK: You may be seated.

9 DIRECT EXAMINATION

10 BY MR. ARMSTRONG:

11 Q Good afternoon, Mr. Goucher.

12 A Good afternoon.

13 Q Do you have before you 13 pages of prefiled
14 rebuttal testimony that was submitted in this
15 proceeding?

16 A Yes, I do.

17 Q Do you have any changes to that prefiled
18 testimony?

19 A Yes, I do.

20 Q Could you please provide that?

21 A Yes. On Page 3, on Line 19, change the word
22 "witnesses" to "witness." On Line 20, strike the words
23 "Bertram and." And on Line 22, change the word "their
24 to "his." Strike the words "the witnesses are," and
25 substitute the words "he is."

1 Additionally, on -- or beginning on Page 9,
2 Line 19, and ending on Page 10, Line 20, strike in its
3 entirety. That's the changes.

4 Q (By Mr. Armstrong) With those changes,
5 Mr. Goucher, if I were to ask you the questions
6 contained in those 13 pages, would your answers be the
7 same?

8 A Yes, they would.

9 MR. ARMSTRONG: Madam Chair, we request the
10 that the prefiled rebuttal testimony, which consists of
11 13 pages, of William C. Goucher be incorporated into the
12 record as though read.

13 CHAIRMAN CLARK: It will be inserted in the
14 record as though read.

15 Q (By Mr. Armstrong) Mr. Goucher, you're
16 sponsoring two exhibits, WCG-1 and WCG-2; is that
17 correct?

18 A Correct.

19 MR. ARMSTRONG: Madam Chair, we request that
20 those exhibits be identified with the next available
21 exhibit number.

22 CHAIRMAN CLARK: The next exhibit number is
23 217.

24 (Exhibit No. 217 marked for identification.)
25

1 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is William C. Goucher, P.E., and my
3 business address is 1000 Color Place, Apopka,
4 Florida 32703.

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

7 A. I am a Senior Project Engineer in the Operations
8 and Engineering Department.

9 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK**
10 **EXPERIENCE?**

11 A. I received a Bachelor of Science in Engineering
12 degree from the University of South Florida in 1972
13 with a major in Structures, Materials and Fluids.
14 In 1976, I received a Master of Science degree from
15 Florida Technological University (now the
16 University of Central Florida) in Environmental
17 Engineering.

18 Following the receipt of my Master's degree, I
19 was employed in a consulting engineering capacity
20 for the better part of the next 15 years. I began
21 as a project engineer with Dawkins & Associates,
22 Inc. on various 201 Facility Planning efforts,
23 involving gathering and evaluating data and
24 providing environmental and economic analyses of
25 feasible design alternatives, plus preliminary

1 engineering. Later I advanced into a design
2 engineering role for various wastewater pumping
3 station/force main systems, rehabilitation of
4 various gravity interceptors and pumping stations,
5 and wastewater treatment plant designs. At Boyle
6 Engineering Corporation, I was the design engineer
7 for the Water Conserv II distribution network for
8 citrus irrigation of reclaimed water and for
9 treatment plant upgrade and expansion. With both
10 Boyle and with Post, Buckley, Schuh & Jernigan, I
11 was a project manager for various treatment plant
12 upgrading and expansions, effluent storage and
13 pumping facilities, transmission pipelines, and
14 various effluent disposal systems.

15 From 1992 to 1994, as City Engineer/Assistant
16 the Public Works Director for the City of
17 Casselberry, Florida, I managed the Engineering
18 Division of Public Works Department. As such, I
19 was responsible for the engineering design of
20 various lift stations, sanitary sewers, water
21 mains, and drainage systems; for technical review
22 of water and wastewater design work by outside
23 consultants; for the operating and capital
24 improvements budget; as well as the day-to-day
25 engineering input for all phases of city government.

1 As the West Region Engineer for Southern
2 States Utilities since August 1994, I manage the
3 engineering capital projects in a seven-county
4 region containing 27 water and 15 wastewater
5 systems. As such, I am responsible for preparing
6 and managing capital budgets and schedules,
7 overseeing consulting engineering firms and their
8 designs, and continuing that project management
9 through construction and start-up.

10 **Q. WHAT ARE YOUR PROFESSIONAL AFFILIATIONS?**

11 A. I am a member of the Water Environment Federation
12 and the Florida Pollution Control Association.

13 **Q. HAVE YOU EVER TESTIFIED BEFORE A REGULATORY AGENCY?**

14 A. No, I have not.

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

16 A. During customer service hearings, several customers
17 expressed doubt that the majority of plant being
18 placed into service by SSU was to fulfill safety or
19 regulatory mandates. Sugarmill Woods ^{witness} ~~witnesses~~
20 ~~Bertram and~~ Hansen also submitted pre-filed
21 testimony raising similar questions. It appears
22 from ^{his} ~~their~~ testimony that the ^{he} ~~witnesses~~ ^{is} ~~are~~
23 assuming that "regulatory mandate" is synonymous
24 with "environmental justification". Although a
25 regulatory mandate may have an environmental

1 justification, it is not always the case. Attached
2 as Exhibit 217 (WCG-1) is a schedule identifying
3 the regulatory mandate projects placed into service
4 for the service areas under my responsibility.
5 This exhibit also identifies the reasons each
6 project was performed and the safety or regulatory
7 mandate for the project. The only specific projects
8 which any outside witness have taken exception to
9 are the potable water ground storage tank to be
10 completed for the Sugarmill Woods service area, and
11 the Sugarmill Woods wastewater treatment plant
12 improvements.

13 Sugarmill Woods' witness Buddy L. Hansen has
14 pre-filed testimony which, on the one hand suggests
15 that there should be no margin reserve because
16 SSU's investments are for growth (page 15, line 20)
17 but on the other hand suggests that the ground
18 storage tank should be a 1 MG tank instead of a .5
19 MG tank because, (1) a 0.5 MG tank is "probably"
20 inadequate to meet the County fire flow
21 requirements (page 16, line 22), and (2) because of
22 "economies of scale" (page 17, line 3). While SSU
23 agrees that economies of scale would justify
24 construction of the larger tank, present FPSC
25 policies regarding "used and useful" percentages

1 discourage this practice. Although the April 1992
2 Five Year Capital Requirements Plan indicated a 1.0
3 MG tank to be designed and constructed in 1995 and
4 1996, a hydraulic analysis performed as part of the
5 master planning effort later that year recommended
6 a 0.5 MG tank at the water treatment plant No. 2
7 location. The construction was proposed for 1993-
8 94 but was later delayed because the rate of growth
9 in Sugarmill Woods (and thus the need for the
10 project) had slowed. The regulatory mandate for
11 this project is the Citrus County fire flow
12 ordinance, which is based on the numbers of
13 residences in the service area. Because the three
14 wells placed in service in 1991 pump directly into
15 the water distribution system, fire flow and peak
16 demand flows were able to be met by the well pumps.
17 The ability to meet these demands with existing
18 facilities is the reason that SSU did not install
19 those additional wells in 1993, 1995, and 1997 as
20 referred to by Mr. Hansen at page 16, line 6 of his
21 pre-filed testimony. As DEP witness Ms. Sandra
22 Sequeira confirms at page 11, line 21 of her pre-
23 filed testimony, the Sugarmill Woods treatment
24 facilities and distribution system are sufficient
25 to serve its present customers. The assumption is

1 that Ms. Sequeira's conclusion is based on meeting
2 maximum day and peak hour demands (FDEP criteria
3 only, without considering fireflows per se.)

4 Witness Hansen is nearly correct that strict
5 adherence with the Citrus County fire flow
6 ordinance (86-10) would dictate a tank size of
7 approximately 600,000 gallons. Actually 700,000
8 gallons would be required by that ordinance. The
9 closest standard size is 750,000 gallons. However,
10 the Citrus County requirement is based on a storage
11 volume equal to 50 percent of the sum of the 2500
12 gpm fire flow, coincident with a calculated peak
13 hour demand of 2075 gpm for 5 hours. This
14 requirement does not take into consideration the
15 pumping capacities of the existing wells (3000 gpm
16 firm capacity) which are also on line with the
17 distribution system. Also, a fire flow duration of
18 5 hours may be reasonable for an urban or
19 industrial area, but not for an almost exclusively
20 residential area such as Sugarmill Woods. The high
21 service pumping facilities are designed for the
22 2500 gpm fire flow demand (using the well pump
23 capacities to provide coincident draft), but
24 storage was designed to provide a more reasonable
25 duration of two hours, minimum. The size of this

1 tank, however, was dictated more by the hydraulic
2 analysis.

3 The reason for the tank project identified in
4 the MFRs is regulatory mandate. As indicated in
5 Exhibit 217 (WCG-1), SSU is required to construct
6 the tank to meet the Citrus County fire flow
7 regulations, and FDEP Rules 62-555.320(4) and (7).
8 FDEP Rule 62-555.320(4) requires that all public
9 water systems provide for a minimum chlorine
10 contact time and maintain a chlorine residual
11 throughout the system, while FDEP Rule 62-
12 555.320(7) requires that high service pumping
13 facilities be provided to maintain a minimum
14 pressure of 20 psi at maximum hourly demand.
15 Growth within the service area, without
16 compensating increases in plant capacity, can cause
17 capacity shortcomings, and the existence of those
18 shortcomings would result in the potential for
19 those water systems being out of compliance with
20 the regulations, thus the justification as
21 "regulatory mandate" is correct. If one considers
22 that inadequate fire flow capacity may result, a
23 justification of "safety" would also be valid.

24 In regard to the Sugarmill Woods wastewater
25 treatment plant, the capacity of the treatment

1 plant is 0.5 MGD. Although the oxidation ditch
2 portion of the treatment facilities could be rated
3 at 0.7 MGD, the limiting process is the final
4 clarifier. Its permitted capacity is 0.5 MGD,
5 although there has been some discussion that the
6 permitted capacity should be only 0.4 MGD. It was
7 originally proposed to add a second clarifier,
8 which would allow for a capacity change to the 0.7
9 MGD as permitted. However, because the influent
10 flows were only approximately 0.25 MGD at the time
11 final design and permitting were completed, the
12 second clarifier and resulting higher capacity were
13 not required, and not constructed. Similarly, the
14 expansion of the spray irrigation site was also not
15 required at this time. The following components
16 were constructed, for the following reasons:

- 17 1. Sludge digester modifications and lime
18 stabilization - EPA 40 CFR Part 503
19 regulations to meet Class "B" requirements for
20 pathogen reduction and vector attraction
21 reduction.
- 22 2. Pretreatment headworks modifications -
23 Wastewater transmission system surges have
24 resulted in raw sewage spills at this
25 structure. FDEP Rule 62-600.740(2) prohibits

1 such spills.

2 3. Chlorine Contact Chamber - FDEP Rule
3 62.600.440(4)(b) requires a minimum chlorine
4 detention time of 15 minutes at peak hour
5 flow. The former practice of injection at the
6 effluent manhole, with detention in the
7 effluent pipeline did not assure continuous
8 compliance with this rule.

9 4. Auxiliary power - Although not specifically
10 required by rule for this facility, letters
11 from FDEP strongly suggested inclusion of
12 standby power to insure continuous treatment
13 to the required levels.

14 Witness Hansen questions SSU's attempts to be pro-
15 active in terms of construction of facilities to be
16 prepared for growth, and yet complains about SSU
17 continuously being as close to 100% used and useful
18 as possible.

~~19 Sugarmill Woods Witness Bertram has suggested
20 that the reason for iron problems at many of SSU's
21 water plants in Citrus County is that either the
22 wells are too shallow, or not adequately sealed
23 from the shallow, iron-bearing aquifer. While both
24 of these conditions could cause iron (or other
25 contamination) of wells, this is not necessarily~~

1 ~~the case. Older wells were drilled to shallower~~
2 ~~depths, but even the more recently drilled, deeper~~
3 ~~wells in these areas have contained iron near, or~~
4 ~~above the MCL. In SSU's statewide experience, and~~
5 ~~through discussions with local well drillers and~~
6 ~~hydrologists, we have noted that a deeper well may~~
7 ~~yield somewhat lower iron levels, but may contain~~
8 ~~higher sulfides, or chlorides. Local well drillers~~
9 ~~have shared this experience. The subsurface~~
10 ~~geology varies considerably in the state, as does~~
11 ~~the depth to the Floridan Aquifer. These facts and~~
12 ~~the direct and indirect connections to surface~~
13 ~~waters dictate water quality. There are simply~~
14 ~~areas in the state that have poor groundwater~~
15 ~~quality. As a former employee of Hillsborough~~
16 ~~County, I would expect that Witness Bertram would~~
17 ~~be aware of that fact, since Hillsborough County is~~
18 ~~importing a great deal of their water from Pasco~~
19 ~~County due to the poor quality of local water~~
20 ~~sources.~~

21 **Q. HAS SSU PRESENTED COMMISSION STAFF, PUBLIC COUNSEL**
22 **AND THE OTHER PARTIES WITH PLANT IN SERVICE**
23 **INFORMATION AS OF DECEMBER 31, 1995?**

24 A. Yes. Exhibit 217 (WCG-2) provides a schedule
25 identifying the actual plant placed in service by

1 SSU in 1995 in the service areas under my
2 responsibility. Only five (5) of the twenty-one
3 1995 projects show no in-service amounts -- of
4 these, 2 were expensed, 2 were carried over to 1996
5 and 1 was cancelled. The total cost of these five
6 projects was only \$136,423 or only 4.4% of the
7 total cost of \$3,083,518 projected in the MFRs.
8 The remainder of the projected investments were in
9 fact made in projects placed into service.

10 **Q. COULD YOU EXPLAIN WHY TWO PROJECTS WERE EXPENSED?**

11 A. Yes, the two Lead and Copper projects totaling
12 \$3,946 were completed but expensed under SSU's
13 expense/capitalization procedures. These two
14 projects are part of the five 1995 projects showing
15 no in-service amount referred to earlier.

16 **Q. CAN YOU EXPLAIN WHY ONE OF THE PROJECTS UNDER YOUR
17 RESPONSIBILITY WAS CANCELLED?**

18 A. Yes, one project under my responsibility in the
19 MFRs for \$2857 was cancelled because of an ability
20 to reuse existing dual chlorine scales from another
21 plant that was converted to hypochlorination. For
22 project 95CW430 in SugarMill Woods, SSU reused the
23 scales to save the Company and its customers money.
24 In fact, equipment, including entire package
25 plants, have been reused by SSU to save money.

1 **Q. WERE THERE ANY PROJECTS COMPLETED IN 1995 UNDER**
2 **YOUR RESPONSIBILITY WHICH WERE NOT PROJECTED TO BE**
3 **COMPLETED IN THE MFR PROJECTIONS FOR 1995?**

4 A. Yes. We completed and placed into service two
5 projects which were not included in the MFRs but
6 were placed into service in 1995. These projects
7 are referred to as the Pine Ridge Booster Station
8 (94CW036) and the State Road 19 Utility Relocations
9 for Salt Springs (95CW733). The in service amounts
10 for these two projects were \$166,803 and \$26,829,
11 respectively. It is not unusual and in fact is to
12 be expected that the necessity to complete projects
13 not budgeted will arise during the course of the
14 year as a result of inspections by environmental
15 regulators, the imposition of new and unexpected
16 permit conditions at permit renewal time, equipment
17 failures or other similar circumstances. Due to
18 the limitations on capital available to SSU, when
19 projects like these arise, we typically review
20 other projects under our responsibility to
21 determine whether they can be cancelled or delayed
22 so that we can remain within the capital budget.
23 Of course, if projects are mandated by public
24 health or environmental concerns there might be no
25 room for compromise on such projects. SSU requests

1 that the actual cost of these projects be
2 considered by the Commission as an offset to any
3 reduction that the Commission would make to rate
4 base so long as total revenue requirements are not
5 increased.

6 **Q. COULD YOU PLEASE IDENTIFY THE CURRENT STATUS OF THE**
7 **PROJECT UNDER YOUR RESPONSIBILITY WHICH WAS**
8 **INCLUDED IN THE MFRS FOR 1995 BUT NOT PLACED INTO**
9 **SERVICE.**

10 A. The one project identified in Exhibit 217 (WCG-2)
11 which was under my responsibility and which was not
12 placed into service in 1995 was the wastewater
13 treatment plant improvements to the Point O'Woods
14 facilities (94W062). These facilities were
15 substantially complete on September 15, 1995, but
16 were not placed in service until January 23, 1996.
17 Booking of the project as "in service" was delayed
18 solely due to delays in obtaining DEP clearance for
19 use.

20 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 A. Yes, it does.

1 Q (By Mr. Armstrong) Mr. Goucher, do you have a
2 summary?

3 A Yes, I do.

4 Q Could you please provide that now?

5 A My name is William Goucher, and I'm the west
6 region engineer for Southern States Utilities. The
7 purpose of my testimony is to, one, rebut allegations of
8 overstatement of regulatory mandate and safety as
9 reasons for projects within my area of responsibility;
10 and secondly, to substantiate SSU's claims that it is
11 reasonable to include the 1996 projected in-service
12 amounts in this rate case.

13 Within the west region, only three of the 21
14 engineering projects were not placed in service in 1995
15 as projected. Two projects were completed, but
16 expensed, and one project was canceled. As shown in
17 Exhibit WCG-2, these projects were small projects which
18 equated to \$136,423, or only 4.4 percent of the
19 projected 1995 plant-in-service amount.

20 Additionally, two projects at a cost of
21 \$193,632 were not included in the MFRs but actually were
22 completed in 1995. These two projects more than offset
23 the cost of the projects included in the MFRs but not
24 completed. SSU attempts to place all budgeted projects
25 in service as planned. However, there are two basic

1 reasons why some projects, such as the Sugarmill Woods
2 ground storage tank, are delayed: One, we only have so
3 much money to spend each year; and secondly, during the
4 year, events may occur that cause us to spend money on
5 unanticipated projects that take on a higher priority.

6 As evidenced by Exhibit JDW-7, now numbered as
7 part of Exhibit 216, the total cumulative variance of
8 budgeted plant in service versus actual plant placed in
9 service from 1992 through 1995 was in exceedence of
10 actual to budget of only 4.25 percent. We have
11 confidence that the 1996 projected in-service amounts
12 will be accurate because the 1996 projects included in
13 the MFRs are projects that, one, are 1995 carryover
14 projects now underway; secondly, are high priority
15 projects; and lastly, include statewide blanket projects
16 with an established historical trend.

17 Regarding the justification of regulatory
18 mandate, as defined in the filing regulatory mandated
19 projects are those projects initiated to comply with
20 standards set by governmental agencies that oversee
21 plant operations in order to ensure the protection of
22 public safety, health and welfare, in addition to the
23 conservation and preservation of water resources.
24 Exhibit WCG-1 of my rebuttal testimony was the
25 engineering projects in the MFRs within the west region

1 whose justification is regulatory mandate, and a
2 specific regulation, rule or code which mandates it. In
3 fact, when I reviewed the list of plant-in-service
4 additions for operations projects indicated in Volume 2,
5 Book 404 of the MFRs, and their CAR forms, I determined
6 that many of the projects shown as quality of service,
7 general improvement or growth, are mislabeled. I
8 believe that many of these operations projects should
9 have been identified as regulatory mandate projects.
10 Thus I believe that SSU has understated the use of the
11 regulatory mandate justification in the MFRs. We did
12 not overstate it.

13 SSU has -- or will spend over \$100 million
14 since 1991 to ensure: One, the protection of public
15 safety, health and welfare; two, the conservation and
16 preservation of Water Resources; and third, to meet
17 growth requirements. We believe that we have spent it
18 wisely and equally among our service areas. I urge the
19 Commission to grant this well deserved rate increase.

20 Q Does that conclude your summary?

21 A Yes.

22 MR. ARMSTRONG: The witness is available for
23 cross.

24 CHAIRMAN CLARK: Mr. Beck?

25 MR. BECK: Thank you, Madam Chairman. I would

1 like to ask that an exhibit be identified.

2 CHAIRMAN CLARK: Okay. Are you going to give
3 us a copy?

4 MR. BECK: Yes.

5 CHAIRMAN CLARK: The next available exhibit
6 number is 218.

7 (Exhibit No. 218 marked for identification.)

8 CHAIRMAN CLARK: And the exhibit title is the
9 April 9th, 1996 Capital Budget Report.

10 MR. BECK: I'm sorry, Madam Chairman, you
11 identified this as 219?

12 CHAIRMAN CLARK: 218. Yeah, I have 218.

13 CROSS EXAMINATION

14 BY MR. BECK:

15 Q Mr. Goucher, do you recognize Exhibit 218?

16 A Yes.

17 Q Is that a regular report that comes out of
18 Southern States?

19 A Yes, it is.

20 Q Do you receive these on a monthly basis?

21 A Yes, we do.

22 Q And are you the Bill Goucher that's listed on
23 the first page of the document?

24 A I assume so, yes.

25 Q Now I've numbered these pages with little red

1 numbers up in the upper right-hand corner. Could you
2 turn to Page 6, please? Got a red six up in the upper
3 right-hand corner. Do you have that page in front of
4 you?

5 A Yes.

6 Q Are these projects that are under your
7 responsibility?

8 A Yes, they are.

9 Q Now, could you tell us what the meaning is of
10 the column where it says 1996 Direct Spending, both
11 current authorization and actual?

12 A Those are the direct dollars without the
13 overheads and AFUDCs.

14 Q And is that the amount that's authorized for
15 the entire year for each project?

16 A Yes, it is.

17 Q How about the actuals, what does that
18 represent?

19 A I believe that would represent the year to
20 date.

21 Q So is that the actual amount spent for the
22 first -- for the year to date through the first three
23 months of the year, under the actual column?

24 A Yes, being the March '96 variance report, that
25 would be the actual direct dollars for the first three

1 months.

2 Q Now am I reading this correctly that out of
3 all of your projects, which are engineering in the west
4 region, through the end of March of 1996, the actual
5 dollars spent are \$354,974, out of a total for the year
6 of \$4,459,724?

7 A That's correct.

8 Q And through the end of March is 25 percent of
9 the year; is it not?

10 A That's correct?

11 Q Would you accept that the arithmetic
12 calculating the percent that's actually done through the
13 end of March is 7.2 percent?

14 A Approximately, yes.

15 Q You're aware that rate base is calculated on a
16 13-month average basis?

17 A Correct.

18 Q And so that if projects are completed late,
19 that would affect the projected rate base; would it not?

20 A That's correct.

21 MR. BECK: Thank you. That's all I have.

22 CHAIRMAN CLARK: Mr. Jacobs.

23 MR. JACOBS: No questions.

24 CHAIRMAN CLARK: Mr. Twomey.

25

CROSS EXAMINATION

1
2 BY MR. TWOMEY:

3 Q Good afternoon, sir.

4 A Good afternoon.

5 Q Let me ask you to turn to Page 7 of your
6 rebuttal testimony. You say, beginning at Line 15,
7 that -- essentially that growth can turn into regulatory
8 mandate classifications. Isn't that some of it?

9 MR. ARMSTRONG: I'm sorry, could you refer to
10 where -- the exhibit you're referring to?

11 MR. TWOMEY: Yeah, read the sentence that
12 starts on Line 15. I'll read it. It says, "Growth
13 within the service area, without compensating increases
14 in plant capacity, can cause capacity shortcomings, and
15 the existence of those shortcomings would result in the
16 potential for those water systems being out of
17 compliance with the regulations, thus the justification
18 as 'regulatory mandate' is correct." And that's your
19 statement, right?

20 A Yes, it is.

21 Q So let me ask you first, this -- the
22 Commission, if you know, in its regulatory capacity for
23 approving expenses, looks at whether expenses are
24 necessary and reasonable in amount; isn't that generally
25 correct?

1 A I believe so, yes.

2 Q Now, this business of the five priority
3 classification is something that was established by SSU;
4 isn't that correct?

5 A I did not know that to be a fact. I believe
6 that is the case, but --

7 Q Okay, but --

8 A They were in place when I began working for
9 the Company.

10 Q Do you know why -- do you know to what end
11 assignments are made to the different classifications?

12 A They are basically priorities. That's what
13 they are called, and it's essentially that, the ones
14 with the Priority 1 are those projects that are more in
15 need than Priority 5.

16 Q So it helps you decide which work to do first,
17 right? Helps you decide which projects to do first?

18 A It can, yes.

19 Q Which priority is number one?

20 A Safety.

21 Q Okay, and number two?

22 A Regulatory mandate.

23 Q And three?

24 A I would have to look.

25 Q I apologize.

1 A I don't have that.

2 Q Sir?

3 A I don't have that in front of me. I'm not
4 sure exactly which one it is.

5 Q Well, wouldn't you agree with me, Mr. Goucher,
6 that if you accepted your statement that begins at Line
7 15, Page 7, that any project that might be properly
8 labeled with a priority of growth could just as easily
9 be labeled as a regulatory mandate?

10 A I don't think it says that specifically, no.

11 Q No, but my question to you is, don't you think
12 that if you accept your statement there, that there is
13 virtually no distinction, that all projects that one
14 could consider as growth could just as easily be
15 considered to be the regulatory mandate priority?

16 A In most cases I would say that's probably
17 true, if not all.

18 Q Okay, well, for example, give me -- if you
19 would, give me an example of a shortcoming, capacity
20 shortcoming, caused by growth that would in turn cause
21 the system to come out of compliance with regulations.
22 What would be the first one you would think of?

23 A If a -- if the demand in the water system
24 increased to the point where the well capacity or
25 pumping capacity could not -- and storage capacity could

1 not provide the minimum of 20 PSI within the system.

2 MR. TWOMEY: Okay. Thank you. That's all I
3 have.

4 CHAIRMAN CLARK: Staff?

5 MS. CAPELESS: Thank you.

6 CROSS EXAMINATION

7 BY MS. CAPELESS:

8 Q Good afternoon, Mr. Goucher.

9 A Good afternoon.

10 Q We have some questions for you relating to the
11 storage tank proposed at Sugarmill Woods. We have one
12 exhibit to hand out, which Staff will hand out now.
13 It's a copy the DEP permit for Sugarmill Woods
14 wastewater treatment plant.

15 CHAIRMAN CLARK: That will be marked as
16 Exhibit 219.

17 MS. CAPELESS: Thank you.

18 (Exhibit No. 219 marked for identification.)

19 Q (By Ms. Capeless) Would you take a look at
20 that document, please, Mr. Goucher and let us know if it
21 appears to be a true and correct copy of what it
22 purports to be?

23 A I believe so, yes.

24 Q Thank you. Now, on Page 4 of your rebuttal
25 testimony, beginning at Line 13, you discuss the sizing

1 of the water storage tank to be completed in Sugarmill
2 Woods, correct?

3 A Correct.

4 Q And you indicate, starting at Line 22 of Page
5 4, that economies of scale would justify construction of
6 a 1 million gallon tank instead of a .5 million gallon
7 tank, right?

8 A I said that it could, yes.

9 Q You also state that present Commission
10 policies regarding used and useful percentages
11 discouraged the construction of the larger tank, right?

12 A Not -- I don't believe I said "discouraged,"
13 but I said -- or implied -- meant that it could
14 discourage the construction of the larger tank, yes.

15 Q Thank you. Are you aware that the Commission
16 has recognized economies of scale in the past?

17 A No, I am not.

18 Q Do you know whether SSU has requested
19 recognition for economies of scale for the construction
20 of a 1.0 million gallon tank for Sugarmill Woods?

21 A Not that I'm aware of.

22 Q Okay. Thank you. On Page 5, now, at Lines 1
23 through 7 of your rebuttal testimony, here you explain
24 that although the April 1992 capital requirements plan
25 indicated a 1.0 million gallon tank to be constructed, a

1 hydraulic analysis performed later that year showed that
2 a .5 million gallon tank was needed, correct?

3 A Correct.

4 Q Can you tell us, please, on what basis did SSU
5 originally determine that the 1.0 million gallon tank
6 was needed?

7 A I cannot answer that. I was not with the
8 Company in 1992.

9 Q Is there anything in the records that you've
10 seen?

11 A Not that I can recall.

12 Q Do you know what the hydraulic analysis
13 showed, that was not known before, to cause the change
14 in the number?

15 A I do not know why the number was changed, but
16 only from the standpoint that I do not know why the
17 1 million gallon was originally -- that number was
18 originally proposed. I know, at least in theory, why
19 the .5 was proposed following the hydraulic analysis.

20 Q Thank you. Moving on to the bottom of Page 6
21 of your rebuttal testimony, and it continues on to Page
22 7, here you state that the size of the tank was dictated
23 more by the hydraulic analysis than by the flow
24 duration, correct?

25 A Correct.

1 Q Can you explain what the difference is between
2 these two guidelines?

3 A The hydraulic analysis, or it's my
4 understanding of the hydraulic analysis, that that
5 looked at flows, demands and pressures, not necessarily
6 the duration of those flows.

7 Q Thank you. Back on Page 5 of your testimony,
8 Lines 10 through 12, you state that the Citrus County
9 fire flow ordinance is the basis for this Sugarmill
10 Woods storage tank project, correct?

11 A Yes, I stated that, but it's truly only -- as
12 I stated later in my rebuttal, it's one of the reasons
13 for it, yes.

14 Q Do you know when that current county ordinance
15 was enacted?

16 A I would -- I can look it up. I assume from
17 the date that it was 1986.

18 Q And would you agree then subject to check that
19 it is indeed 1986?

20 A That ordinance itself?

21 Q Yes, sir, the current one.

22 A I have that with me if --

23 Q If you don't mind checking, please.

24 A It was done and adopted on November 4th, 1986.

25 Q Thank you. Was Sugarmill Woods exempt from

1 this ordinance?

2 A Not that I'm aware of.

3 Q Okay. You indicate on Page 6 of your
4 testimony, at Lines 24 and 25, that two hours of storage
5 is a more reasonable duration, correct?

6 A Correct.

7 Q Has the design of that more reasonable
8 duration of storage been approved by the Citrus County
9 Fire Marshal?

10 A It has not.

11 Q Is it your opinion that .5 million gallons of
12 storage will satisfy the needs of Sugarmill Woods for
13 fire flow?

14 A Combined with a high service pumping, the high
15 service pumping will provide the 2500 GPM, which is the
16 fire flow. Our wells which pump directly into the
17 system will provide the coincident draft, and the two
18 hours of storage at the 2500 should provide adequate
19 fire protection for the types of structures that are
20 within Sugarmill Woods.

21 Q Would this amount of storage still comply with
22 the Citrus County ordinance?

23 A It does not comply with the specific
24 requirements of it, however, I believe there are some --
25 there is something within the ordinance that says that

1 certain portions of it may be waived or other things may
2 be considered.

3 Q Has the Utility requested any waiver, or that
4 other considerations be considered in this instance?

5 A Not that I'm aware of.

6 Q Is the reason for the noncompliance with the
7 ordinance because the tanks should be sized at least
8 700,000 gallons?

9 A To be in strict conformance with the
10 methodology for sizing that is within that ordinance,
11 yes.

12 Q What, if anything, does SSU intend to do to
13 comply with the ordinance?

14 A SSU would essentially, with submittal of the
15 construction of this, construction drawings of this to
16 the county for review, would at that time request
17 approval.

18 Q Would you agree that fire flow is generally
19 met from storage and not plant through-put?

20 A It depends on the water distribution system,
21 the pumps, the number of pumps and the sizes of the
22 pumps, both high service and wells.

23 Q Thank you. Mr. Goucher, why did SSU wait
24 until 1992 to budget for a storage tank at this facility
25 and then not begin construction before 1996?

1 A I'm not aware of why it was budgeted in 1992,
2 or what the -- I'm not aware that it was.

3 Q Are you aware of any delay in construction?

4 A I beg your pardon?

5 Q Are you aware that there was a delay in the
6 construction?

7 A It's not under construction, so there's no
8 delay at this point.

9 Q Will the storage tank be complete by the end
10 of 1996?

11 A We anticipate that it will, yes.

12 Q Okay, on Page 7 of your testimony, beginning
13 on Line 24, you state that the plant capacity of the
14 Sugarmill Woods wastewater treatment plant is .5 MGD,
15 limited by the final clarifier, but that the oxidation
16 ditch could be rated at .7 MGD, correct?

17 A I've since learned that it is possible that it
18 could be rated at the .7 MGD, but that would only be
19 with the addition of a third rotor, an aerator.

20 Q Okay, on Page 8, Lines 11 through 13, you
21 state that a second clarifier was not constructed,
22 right?

23 A That's correct.

24 Q And if you would please take a look at what
25 was marked as Exhibit No. 219, the DEP permit. Would

1 you agree that the DEP construction permit for Sugarmill
2 Woods approves the installation of a new clarifier?

3 A Yes.

4 Q Will this new clarifier, and other additions
5 permitted in paragraph 2 of the permit, which is marked
6 Exhibit 219, make this plant's capacity .7 MGD?

7 A Again, with the addition -- with the addition
8 of the clarifier, with the addition of the -- another
9 rotor in the oxidation ditch, and I believe also the
10 addition of a -- where the construction of a new RASWAS
11 pump station, that it could be rated at .7.

12 Q When you say that there will be an
13 installation of another -- or a third clarifier, are you
14 saying that the clarifier then has not been constructed
15 as of yet?

16 A I said -- well, it would be a second
17 clarifier. There's only one clarifier there now. The
18 permit allows for the construction of a second
19 clarifier.

20 Q And that second clarifier has not been
21 constructed as of yet?

22 A That's correct.

23 Q Do you anticipate that it will be constructed
24 by the end of 1996?

25 A No, I do not. It is not planned to be

1 constructed. Our flows at this point in time, our
2 maximum three-month ADF is approximately .4 MGD. The
3 plant capacity is .5 MGD. There is no need and there
4 are no plans. It is not budgeted to construct that
5 clarifier.

6 Q Do you know what the estimated cost is of the
7 second clarifier?

8 A Not offhand, no.

9 Q Okay, can I just take a few moments off the
10 record, please? Thank you. (Pause)

11 Thank you for your patience, Mr. Goucher. On
12 Exhibit No. 217, which is attached to your testimony as
13 WCG-2, under Sugarmill Woods?

14 A Yes.

15 Q It's the very last page, and your exhibit
16 shows note B, that indicates completion of a phase but
17 not the entire project; is that correct?

18 A That's correct.

19 Q What other work is expected?

20 A What was placed in service and -- on December
21 5th, 1995 encompassed -- essentially it was substantial
22 completion of the project. The dollars are less because
23 there were some deducts. We deleted fencing from --
24 fencing now of the spray field -- from this project.
25 And although we did not delete it, we had it done by an

1 outside party at a much lower price. That's the primary
2 reason for this -- for the difference here. And -- but
3 there were -- so at that point in time the contractor
4 had only billed us for what he had put in. There were
5 some additions -- some additional things that -- some
6 positive change orders that would be added. That's why
7 the note is there, those additional projects, but that's
8 all been completed to date.

9 Q Okay, thank you. Is construction of the
10 wastewater treatment plant addition complete?

11 A Yes, it is.

12 Q Has the engineer's certificate of completion
13 of construction been filed with DEP?

14 A Yes. It was filed as of December 5th, 1995.
15 That's why the -- that is the in-service date.

16 Q What is the capacity of the plant and/or its
17 components as rated by the DEP today?

18 A At this point in time it is .5 MGD.

19 Q What are the limiting factors of this plant?

20 A The clarifier appears to be the limiting
21 factor.

22 Q Is that the only one?

23 A I believe so. The oxidation ditch, as I
24 mentioned, would need another rotor to be rated at the
25 .7. I'm not sure if that's a limiting factor or not, or

1 .5.

2 Q Okay, let me refer you again to Exhibit
3 No. 219, which is the DEP permit, and here it references
4 the oxidation ditch, but there is nothing about the
5 rotor, in the second paragraph. Do you know why the
6 rotor is not referenced in the permit?

7 A No, I do not.

8 Q Okay, thank you. On Page 8 of your testimony,
9 at Lines 5 and 6 you state that there has been some
10 discussion that the permitted capacity should be only .4
11 MGD, correct?

12 A Yes.

13 Q Can you explain that?

14 A Again, that is based on the clarifier, the
15 dimensions, the diameter, the side water depth. And the
16 resulting overflow rates are -- if you look at the
17 design standards, Ten State Standards and et cetera, the
18 .5 MGD, at that size clarifier, exceeds those -- is out
19 of those ranges on the high side. So even -- you know,
20 so that is why there is -- it's a possibility, but
21 again, those are just ranges, and it is very
22 site-specific as to whether or not it could actually
23 function above those ranges or beyond those ranges.

24 Q Thank you. Is the Sugarmill Woods wastewater
25 treatment plant hydraulically capable of handling

1 greater than .4 MGD and still meet DEP standards?

2 A Yes.

3 Q Why would SSU request a capacity rating from
4 the DEP at a flow less than what the plant can handle?

5 A That was never requested.

6 Q Just one moment, please. (Pause)

7 Again, thank you for your patience,

8 Mr. Goucher. Has SSU requested a rerating of this water
9 treatment plant at .4 MGD by the DEP -- wastewater
10 treatment plant, rather?

11 A Not to my knowledge.

12 Q Is it still the intent of SSU to request a
13 downward rerating?

14 A Not to my knowledge.

15 Q Do you know whether it's common to build a
16 plant for a particular capacity and then request that
17 the DEP issue an operating permit for that plant at some
18 lesser capacity?

19 A I do not believe that to be the case.

20 Q On Page 9 of your testimony, starting at Line
21 9, you discuss auxiliary power at the wastewater
22 treatment plant, right?

23 A Correct.

24 Q Does this wastewater treatment plant
25 experience many power outages?

1 A There have been some, I believe. I don't know
2 the exact frequency.

3 Q What has SSU done historically when an outage
4 occurred?

5 MR. ARMSTRONG: Objection. Madam Chair, what
6 is the issue that we're referring to here?

7 MS. CAPELESS: Can we just take a moment,
8 please, Madam Chairman? Thank you. (Pause)

9 Madam Chairman, what we're trying to find out
10 here is why SSU constructed auxiliary power when it
11 wasn't required by rule, when they -- they didn't
12 construct the fire flow according to the ordinance, but
13 here they've constructed more than what was required.
14 So we're just trying to clarify what's in the
15 testimony.

16 MR. ARMSTRONG: I would like to know what
17 issue we're talking about. There's no issue in the
18 prehearing order that has anything to do with that.

19 MS. CAPELESS: I would refer you to Page 9 of
20 the testimony where Mr. Goucher discusses auxiliary
21 power at the wastewater treatment plant.

22 MR. ARMSTRONG: Madam Chair, it's the same
23 point. There's no issue that's been identified.
24 Doesn't matter if it says it in the testimony; if they
25 didn't raise it as an issue before now, it is not

1 appropriate.

2 MR. TWOMEY: Just as an interested party,
3 Madam Chairman, may I say that --

4 CHAIRMAN CLARK: Mr. Twomey, I appreciate it,
5 but let me let Staff respond to the objection.

6 MR. TWOMEY: Okay, before but before you
7 decide, may I make a comment?

8 MR. ARMSTRONG: No.

9 CHAIRMAN CLARK: Mr. Armstrong, I will conduct
10 this hearing.

11 MR. ARMSTRONG: I'm sorry.

12 CHAIRMAN CLARK: Go ahead.

13 MS. CAPELESS: The question is not outside the
14 scope of the testimony. Maybe SSU would like to request
15 that that portion of the testimony be stricken then, if
16 they don't want us asking questions about it.

17 CHAIRMAN CLARK: Mr. Armstrong?

18 MR. ARMSTRONG: Madam Chair, that's way out,
19 way out of line.

20 CHAIRMAN CLARK: Mr. Armstrong, I -- let me
21 hear the question again.

22 MS. CAPELESS: Let me find the question
23 again. (Pause) What we would like to know is why SSU
24 installed auxiliary power at the Sugarmill Woods
25 wastewater treatment plant when it's not required by

1 rule, yet ignored the installation of the water storage
2 tank that we discussed earlier when that tank was
3 required by the Citrus County fire regulations and by
4 DEP rules.

5 CHAIRMAN CLARK: I'll allow the question.

6 MS. CAPELESS: Thank you.

7 WITNESS GOUCHER: As stated in the rebuttal,
8 DEP strongly suggested the inclusion of the standby
9 power to ensure a continuous treatment to the required
10 levels. Although I said that it was not specifically
11 required by rule -- Rule 62-600.410(1) requires that
12 "All domestic wastewater treatment plants shall be
13 operated and maintained in accordance with the
14 applicable provisions of this chapter and so as to
15 attain at a minimum the reclaimed water or effluent
16 quality required by the operational criteria specified
17 in this chapter." It was to maintain the effluent
18 quality.

19 Now also in that same section, under (6), it
20 says that, "All facilities and equipment necessary for
21 the treatment, reuse and disposal of domestic wastewater
22 and domestic wastewater residuals shall be maintained at
23 a minimum so as to function as intended." Obviously
24 without power it cannot function as intended.

25 Q (By Ms. Capeless) Thank you. I have just a

1 few more questions. Concerning the headworks
2 modification discussed on Pages 8 and 9 of your
3 testimony, you state that wastewater surges had caused
4 some spills at the Sugarmill Woods wastewater plant,
5 right?

6 A That's right.

7 Q Were other alternatives considered before
8 modifying the headworks?

9 A Not -- I'm not aware of any.

10 Q You don't know -- pardon me?

11 A It was really -- the design essentially was
12 complete when I began with the Company. So I really
13 can't answer that question.

14 Q You don't know whether lift station pump
15 throttling was considered as an alternative?

16 MR. ARMSTRONG: I'm going to object to the
17 question again, Madam Chair, because we've gotten into
18 issues that aren't issues in the case, and I think this
19 is blind siding, which we're not supposed to have happen
20 in a case.

21 MS. CAPELESS: May I respond?

22 CHAIRMAN CLARK: Yes.

23 MS. CAPELESS: This has to do with Pages 8 and
24 9 of the rebuttal testimony. It's got nothing to do
25 with blind siding.

1 MR. ARMSTRONG: Madam Chair, if there was an
2 issue in the case as to the alternatives that were
3 looked at for those projects, the witness could have
4 been prepared to address that question, but it was not
5 an issue in the case.

6 MS. CAPELESS: I would refer Mr. Armstrong to
7 Issue 14 of the prehearing order, and whatever other
8 issue their testimony may go to.

9 MR. ARMSTRONG: Are SSU's classifications of
10 expenditures as to growth regulatorily well founded and
11 reasonable, that issue? That's what this question is
12 about?

13 MS. CAPELESS: Mr. Armstrong, why would
14 prefiled testimony be in there if it doesn't go to any
15 particular issue?

16 MR. ARMSTRONG: I don't have to --

17 CHAIRMAN CLARK: I understand your objection
18 and I'm going to allow the question. Go ahead.

19 Q (By Ms. Capeless) We simply -- and this is
20 the last question, Mr. Goucher. We simply would like to
21 know whether you are aware of whether lift station pump
22 throttling was considered as an alternative to the
23 headworks modification.

24 A I am not aware of it, no.

25 MS. CAPELESS: Thank you. That's all we have.

1 CHAIRMAN CLARK: Commissioners? Redirect?

2 MR. ARMSTRONG: Thank you, Madam Chairman,
3 just a couple.

4 REDIRECT EXAMINATION

5 BY MR. ARMSTRONG:

6 Q Mr. Goucher, if I can refer you to what's been
7 identified as Exhibit 218. Do you have that?

8 A Yes.

9 Q This -- does this schedule reflect the
10 plant-in-service projections made in the MFRs?

11 A Which schedule?

12 Q This -- I'm sorry, the page that was referred
13 to by --

14 A Page 6?

15 Q -- by Mr. Beck. Well, I'm looking at Page 5
16 of 13, 6 of 13, and I think you can go from any of those
17 pages. Where the numbers are.

18 MR. BECK: I questioned him about Page 6 of
19 13.

20 Q (By Mr. Armstrong) Let me draw your attention
21 to Page 5, Mr. Goucher, Page 5 of 13.

22 A Yes.

23 Q Do you see a reference there to Spring Hill?

24 A Yes, I do.

25 Q Is Spring Hill included in this proceeding?

1 A No, it is not.

2 Q So those numbers wouldn't appear in the MFRs
3 in this case, would they?

4 A That's correct.

5 Q If you look at the Line -- the column 1996
6 Direct Spending, Current Authorization, see that column
7 on the --

8 A Yes.

9 Q See next to Spring Hill?

10 A Correct.

11 Q Will you add up those numbers pretty quickly,
12 just round them for me?

13 A A little over 3 million.

14 Q And the total number at the bottom of the page
15 is?

16 A Just under 5 million.

17 Q Can you tell me, Mr. Westrick, do you believe
18 that Southern States will place into service the plant
19 projected for in service in 1996?

20 A I do, yes.

21 Q And why do you believe that?

22 A Because the projects identified herein are all
23 carryover projects, all underway, and they're all high
24 priority projects.

25 Q Mr. Goucher, regarding the Sugarmill Woods

1 tank, you refer to other considerations that might exist
2 which would permit deviation from ordinances such as
3 that which would require the tank. Can you describe in
4 this case what other considerations might exist?

5 A The fact that all -- currently all of our
6 wells pump directly into the system and we have
7 approximately 3000 GPM firm capacity and 4200 GPM
8 overall capacity.

9 Q And what type of customers are served at the
10 Sugarmill Woods facility?

11 A Predominantly single-family residential.

12 Q And the Citrus County ordinance is based on
13 a -- what type of storage requirement is required by the
14 Citrus County ordinance?

15 A I'm sorry, what type?

16 Q What is the storage requirement, capacity
17 requirement, for fire flow at the Sugarmill Woods
18 facility?

19 A Essentially it would be 700,000, in strict
20 accordance with that.

21 Q In strict accordance. How much -- what is the
22 duration of a typical residential fire, Mr. Goucher?

23 A I couldn't answer that. I would suspect
24 probably an hour.

25 Q And what kind -- how much capacity is -- would

1 the Citrus County ordinance require in terms of fire
2 flow gallonage?

3 A For one hour?

4 Q No, no, how much is required of the ordinance,
5 Mr. Goucher?

6 A 700,000 gallons. Are you talking about
7 storage or gallons per minute?

8 Q In the tank, in the tank. Okay. Mr. Goucher,
9 in reference to Page 9, Line 9 of your testimony.

10 A Yes.

11 Q Actually, on Line 11 you refer to the fact
12 that "FDEP strongly suggested." Do you see that?

13 A Yes.

14 Q If Southern States does not do something that
15 is strongly suggested by DEP, what is the next action
16 DEP would generally take?

17 A There is a potential for a consent order.

18 Q Thank you. And do you believe it would be
19 prudent for Southern States not to take the action and
20 to incur a consent order?

21 A No, I do not.

22 Q Thank you. Mr. Goucher, I think I haven't
23 been clear and I've been enlightened. Could you tell me
24 what is the duration and amount of the required fire
25 flow under the Citrus County ordinance?

1 A For the present -- or the --

2 Q Under the Citrus County ordinance, what's the
3 duration and amount of the fire flow?

4 A The duration is five hours. The amount is
5 approximately 700,000 gallons.

6 Q So in terms of other considerations which
7 might exist as to why Southern States would build a .5
8 MGD instead of a .7 MGD tank, would that have anything
9 to do with the duration requirements of the ordinance?

10 A No, the other considerations that I would be
11 referring to are the fact that the calculation of that
12 is based on a peak hour demand plus a fire flow, and
13 with the wells included in that, the well pumping
14 capacity included with that storage capacity and that
15 high service capacity, that it -- there is the potential
16 to meet the required flow for that duration.

17 Q Okay. Thanks, Mr. Goucher. That's it,
18 Madam Chair.

19 CHAIRMAN CLARK: Thank you, Mr. Goucher.
20 Exhibits?

21 MR. ARMSTRONG: The Company moves Exhibit --

22 CHAIRMAN CLARK: 217?

23 MR. ARMSTRONG: -- 217.

24 CHAIRMAN CLARK: Without objection 217 will be
25 admitted in the record.

1 MR. BECK: Citizens move 218.

2 CHAIRMAN CLARK: Without objection, 218 will
3 be admitted in the record.

4 MS. CAPELESS: Staff moves Exhibit 219.

5 CHAIRMAN CLARK: Without objection, Exhibit
6 219 will be admitted in the record.

7 (Exhibit Nos. 217, 218 and 219 received into
8 evidence.)

9 CHAIRMAN CLARK: Thank you, Mr. Goucher.

10 (Witness Goucher excused.)

11 * * *

12 CHAIRMAN CLARK: We will go ahead and take
13 a -- 15, 20 minutes. What do you need? We'll go ahead
14 and take a break until five minutes till six. We will
15 come back at that time and start with -- Mr. Bailey?

16 MR. ARMSTRONG: Right.

17 (Recess at 4:35 p.m.)

18 (Transcript continues in sequence in
19 Volume 38.)

20

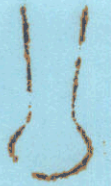
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DOCKET 950495-W5
EXHIBIT NO. 212
CASE NO. 96-04227

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950495-W5 EXHIBIT NO. 212
COMPANY/
WITNESS:
DATE 4-29-97

Docket No.: 950495-WS
Test Years Ended: 1994, 1995, 1996

Explanation: In addition to costs reported on Schedule B-12, provide information on costs allocated or charged to the Company from a parent, affiliate, or related party.

Line No.	Account No.	Description	Charging Entity	Direct or Apportioned	Apportionment Method	Total Cost if Apport. (1995)	> 1% of Revenues	Actual 1994	Budgeted 1995	Projected 1996
1	1620-2000	Prepaid Insurance	TG (2)	Apportioned	Broker Assigned	992,774	No	120,408	106,956	109,042 (1)
2	6328-0000	Contractual Services - Acctng	TG (2)	Direct	////	////	No	47,237	77,940	79,460 (1)
3	6358-0000	Contractual Services - Other	TG (2)	Direct	////	////	No	313,124	33,671	34,328 (1)
4	6358-0000	Shareholder Services	TG (2)	Apportioned	Invested Equity	995,892	No	232,379	204,783	208,776 (1)
5		Subtotal (6358)						545,503	238,454	243,104
6	1861-0000	Deferred Rate Case Costs	TG (2)	Direct	////	////	No	16,224	30,000	30,000 (3)
7	4280-0000	Credit Support Fees	TG (2)	Direct	////	////	No	92,753	136,450	121,931
								822,125	589,800	583,536
								546,619	557,642	////

One percent (1%) of audited budgeted total Company revenues :

- (1) All affiliate charges for 1996 indexed from 1995 budget at the rate of 1.95%, the general index rate approved by the FPSC in Order No. PSC-95-0202-FOF-WS (Issued 2-10-95).
- (2) TG = Topeka Group Incorporated, owner of 100% of Southern States Utilities, Inc. common stock.
- (3) Estimate for instant docket spread between 1995 and 1996.

- Attachments per FAC 25-30.436 (4)(h):
- h4) apportionment method workpapers
 - h5) direct charge workpapers
 - h6) organizational chart
 - h7) copies of existing interaffiliate agreements

1003

DOCUMENT NUMBER-DATE
 03407 MAR 21 96
 FPSC-RECORDS/REPORTING

EXHIBIT _____ (SW-3)
 PAGE 1 OF 16

SOUTHERN STATES UTILITIES, INC.
DOCKET NO.: 950495-WS
RESPONSE TO INTERROGATORIES

REQUESTED BY: OPC
SET NO: 1
INTERROGATORY NO: 42
ISSUE DATE: 07/18/95
WITNESS: SCOTT W. VIERIMA
RESPONDENT: Scott Vierima

INTERROGATORY NO: 42

For costs from MPL which are charged or allocated costs to the Company, state the annual amount of such costs charged to the Company, by account, for each of the past four years and as budgeted for 1995 and 1996.

RESPONSE: 42

Attached as Appendix 42-A is Supplemental Schedule PC-1, reproduced from Volume II, Book 2 of 4 in the MFR's for Docket #950495-WS. This schedule shows amounts billed to SSU by its parent(s) Minnesota Power and Topeka for services rendered during 1994, and projected billings for 1995 and 1996. Also attached as Appendix 42-B is a listing of total annual billings from MP/Topeka for the retrospective years of 1991, 1992 and 1993, sorted by account to which the billings were charged.

PARENT COMPANY CHARGES - Summary

FPSC

Company: Southern States Utilities, Inc.

Supplemental Schedule PC-1

Page 1 of 2

Docket No.: 950495-WS

Explanation: In addition to costs reported on Schedule B-12, provide information on costs allocated or charged to the Company from a parent, affiliate, or related party.

Preparer: Scott W. Vierlma

Test Years Ended: 1994, 1995, 1996

Line No.	Account No.	Description	Charging Entity	Direct or Apportioned	Apportionment Method	Total Cost if Apport (1995)	> 1% of Revenues	Actual 1994	Budgeted 1995	Projected 1996	
1	1620-2000	Prepaid Insurance	TG (2)	Apportioned	Broker Assigned	992,774	No	120,408	106,956	109,042 (1)	
2	6328-0000	Contractual Services - Acctng	TG (2)	Direct	//////////	//////////	No	47,237	77,940	79,460 (1)	
3	6358-0000	Contractual Services - Other	TG (2)	Direct	//////////	//////////	No	313,124	33,871	34,328 (1)	
4	6358-0000	Shareholder Services	TG (2)	Apportioned	Invested Equity	995,892	No	232,379	204,783	208,776 (1)	
5		Subtotal (6358)						545,503	238,454	243,104	
6	1861-0000	Deferred Rate Case Costs	TG (2)	Direct	//////////	//////////	No	16,224	30,000	30,000 (3)	
7	4280-0000	Credit Support Fees	TG (2)	Direct	//////////	//////////	No	92,753	136,450	121,931	
								822,125	589,800	583,536	
								One percent (1%) of audited/budgeted total Company revenues :	546,619	557,642	//////////

(1) All affiliate charges for 1996 indexed from 1995 budget at the rate of 1.95%, the general index rate approved by the FPSC in Order No. PSC-95-0202-FOF-WS (Issued 2-10-95).

(2) TG = Topeka Group Incorporated, owner of 100% of Southern States Utilities, Inc. common stock.

(3) Estimate for instant docket spread between 1995 and 1996.

Attachments per FAC 25-30.436 (4)(h):

- h4) apportionment method workpapers
- h5) direct charge workpapers
- h6) organizational chart
- h7) copies of existing interaffiliate agreements

Parent Company Charges - Detail
 Company: Southern States Utilities, Inc.
 Docket No.: 950495-WS

FPSC

Supplemental Schedule PC-1
 Page 2 of 2

<u>Incurted Cost</u>	<u>Actual 1994</u>	<u>Budget 1995</u>	<u>Projected 1996</u>	<u>Comments</u>
Board & Officer Costs	177,418	20,000	20,390	Labor and benefits for SSU CEO billed by MP in 1994.
Investment & Analysis	9,194	0	0	Budgeted in 1995 as offset to yield on MP portfolio.
Corporate Finance & Admin.	5,380	6,000	6,117	Forecasting, financing and credit support work.
Corporate Accounting	11,051	10,997	11,211	Recurring services for budgeting, general and property accounting.
Internal Audit	16,303	49,169	50,128	Two operational audits rescheduled from 1994 to 1995.
Tax	19,883	17,774	18,121	Includes Federal and State return preparation.
Environmental Services	15,887	7,671	7,821	Reduced needs due to improved on site audit/lab capabilities
Organizational Development	5,541	0	0	No OD projects scheduled for 1995, 1996.
Corporate Development	87,845	0	0	Acquisition related costs, normally capitalized, inestimable.
Shareholder Services	232,379	204,783	208,776	Changed allocation factors as a function of equity invested.
Prepaid Insurance	120,408	106,956	109,042	Improved market conditions and modified primary coverage.
Rate Case Assistance	16,224	30,000	30,000	Cost estimate for 1995 consolidated filing divided 95-96.
Other (IS, Legal, HR)	11,859	0	0	Reduced needs due to improving internal capabilities.
SUBTOTAL	729,372	453,350	461,605	
Credit Support Fees	92,753	136,450	121,931	Increase due to LOC guaranty for \$10.3MM Volusia Cty Bond.
TOTAL BILLINGS	822,125	589,800	583,536	

EXHIBIT
 (SCU-3)
 PAGE 4 OF 16

SOUTHERN STATES UTILITIES, INC.
RESPONSE TO REQUEST FOR PRODUCTION OF DOCUMENTS
DOCKET NO.: 950495-WS

REQUESTED BY: OPC
SET NO: 1
DOCUMENT REQUEST NO: 79
ISSUE DATE: 07/18/95
WITNESS: SCOTT W. VIERIMA
RESPONDENT: Scott Vierima

DOCUMENT REQUEST: 79

Provide a copy of any documentation and/or policy and procedures manual which addresses how costs are allocated between the Company and its parent companies, affiliates, and/or subsidiaries.

RESPONSE: 79

In compliance with FAC 25-30.435 (Revised), SSU included in its Application for Rate Increase the following information:

- 1) Apportionment workpapers for parent company insurance charges.
- 2) Apportionment workpapers for parent shareholder services charges.
- 3) Corporate organizational chart.
- 4) Tax Sharing agreement.
- 5) Credit support agreements.
- 6) Sample invoice summary.
- 7) Parent company payroll overhead rate schedule.

This information is included in Book 2 of 4, Volume II, of SSU's application, and details all charges from the parent company for calendar year 1994, as well as projected charges for test years 1995 and 1996. The methods used for apportioning service related charges are described therein.

SOUTHERN STATES UTILITIES, INC.
RESPONSE TO REQUEST FOR PRODUCTION OF DOCUMENTS
DOCKET NO.: 950495-WS

REQUESTED BY: OPC
SET NO: 1
DOCUMENT REQUEST NO: 105
ISSUE DATE: 07/18/95
WITNESS: SCOTT W. VIERIMA
RESPONDENT: Scott Vierima

DOCUMENT REQUEST: 105

Provide a copy of workpapers and source documents that show how MPL's costs were allocated or charged to the Company for the budget years 1995 and 1996.

RESPONSE: 105

Please refer to the response to Office of Public Counsel's Document Request No. 79, First Set, for explanations and workpapers concerning parent company charges. Only insurance and shareholder expenses are apportioned to SSU based on the formulas described in Document Request No. 79. Direct costs for 1995 reflects amounts agreed to by SSU for services required from TGI parent. 1996 projections are 1995 budgeted amounts, escalated by 1.95%.

Docket No.:
Deposition Of
Taken:

950495-WS
Scott W. Vierima
Wednesday, November 8, 1995

EXHIBIT (SWV-3)
PAGE 7 OF 16

**Late Filed Exhibit
Number 4**

Schedule Reflecting What is Included in the \$209,000 for Communication Costs for 1996.

Attached are MP supporting budget schedules for shareholder costs which could be considered 'communication' related. SSU was apportioned 9.5% of the charges shown for the budget year (1995), therefore the corresponding amounts escalated into the 1996 test year, and included in the total of \$209,000 equal \$78,170.

	<u>1995</u>	<u>x .095</u>	<u>x 1.0195</u>
	<u>MP Amount</u>	<u>(SSU Amount)</u>	<u>(SSU 1996)</u>
<i>Financial Mailing List</i>	\$67,900	\$6,451	\$6,576
<i>Annual Shareholder Meeting</i>	\$103,400	\$9,823	\$10,015
<i>Investor Relations</i>	\$166,500	\$15,818	\$16,126
<i>SEC Financial Reports</i>	\$154,800	\$14,706	\$14,993
<i>Corp. Communications - Financial</i>	\$260,300	\$24,729	\$25,211
<i>Utility Investors Group</i>	\$54,200	\$5,149	\$5,249
	<u>\$807,100</u>	<u>\$76,675</u>	<u>\$78,170</u>

01/20/95 MAINTENANCE OPERATION REQUISITION
 RESPONSIBILITY CENTER - 966 YEAR - 95

TITLE - FINANCIAL MAILING LIST

EXPECTED START DATE - 01/01/95 EXPECTED COMPLETION DATE - 12/31/95
 TRANSFER CHARGES TO ACCOUNT(S) - ALL CC11 53.5% - 92000000 46.5% - NON-UTIL
 ALL OTE- 53.5% - 93020000 46.5% - NON-UTIL
 PROJECT OR NONPROJECT (P OR N) - N

	(IN THOUSANDS)		
	PRIOR YEARS	BUDGET YEAR	AFTER YEARS
COMPANY LABOR	3.1	3.2	0.0
COSTS OTHER THAN LABOR	70.1	64.7	0.0
TOTAL COST	73.2	67.9	0.0

DESCRIPTION

ACCUMULATE COSTS ASSOCIATED WITH COORDINATING THE MAILING OF REPORTS AND PERIODIC INFORMATION TO THE FINANCIAL COMMUNITY.

PURPOSE & NECESSITY

TO ACCUMULATE COSTS OF FINANCIAL COMMUNITY CORRESPONDENCE, I.E., FINANCIAL FORECAST, ANNUAL REPORTS, REGULATORY ACTIONS, ETC. IT IS NECESSARY TO INFORM THE FINANCIAL COMMUNITY (INVESTMENT BANKS, COMMERCIAL BANKS, RATING AGENCIES, SECURITY ANALYSTS, AND OTHER INTERESTED PARTIES) OF THE COMPANY'S FINANCIAL CONDITION. IT IS EXPECTED THAT THE DEVELOPMENT OF THE INVESTOR RELATIONS FUNCTION WILL IMPACT THIS PROJECT.

BASIS OF ALLOCATION TO NONUTILITY

46.5% OF THIS M/OR IS ALLOCATED TO NONUTILITY. THIS PERCENTAGE IS BASED ON THE CORPORATE UTILITY/NONUTILITY ALLOCATION DEVELOPED BY THE RATE DEPARTMENT.

PREPARED BY - T. J. THORP

01/20/95 MAINTENANCE OPERATION REQUISITION
 RESPONSIBILITY CENTER - 731 YEAR - 95

TITLE - ANNUAL SHAREHOLDER MEETING

EXPECTED START DATE - 01/01/95 EXPECTED COMPLETION DATE - 12/31/95
 TRANSFER CHARGES TO ACCOUNT(S) - ALL CC11 53.5% - 92000000 46.5% - NON-UTIL
 ALL OTH- 53.5% - 93020000 46.5% - NON-UTIL
 PROJECT OR NONPROJECT (P OR N) - N

	(IN THOUSANDS)		
	PRIOR YEARS	BUDGET YEAR	AFTER YEARS
COMPANY LABOR	16.6	24.7	0.0
COSTS OTHER THAN LABOR	62.6	67.7	0.0
TOTAL COST	79.2	92.4	0.0

DESCRIPTION

ACCUMULATE ALL CHARGES ASSOCIATED WITH THE ANNUAL MEETING, TOURS AND LUNCHEON.

PURPOSE & NECESSITY

THE ANNUAL MEETING OF SHAREHOLDERS IS SCHEDULED FOR THE SECOND TUESDAY IN MAY. SHAREHOLDER PARTICIPATION HAS BEEN INCREASING ANNUALLY AND IS EXPECTED TO INCREASE BASED ON REGIONAL MEETING DISCUSSIONS AND EMPHASIS PLACED ON SHAREHOLDER SATISFACTION IN KRA GOALS.

BASIS OF ALLOCATION TO NONUTILITY

46.5% OF THIS M/OR IS ALLOCATED TO NONUTILITY. THIS PERCENTAGE IS BASED ON THE CORPORATE UTILITY/NONUTILITY ALLOCATION AS DEVELOPED BY THE RATE DEPARTMENT. THE NONUTILITY PORTION OF LABOR CHARGES IS FULLY OVERHEADED.

PREPARED BY - V. M. HANSEN

01/20/95 MAINTENANCE OPERATION REQUISITION M,
 RESPONSIBILITY CENTER - 190 YEAR - 95

TITLE - COST OF ANNUAL SHAREHOLDERS MTG-OPERATIONS

EXPECTED START DATE - 01/01/95 EXPECTED COMPLETION DATE - 12/31/95
 TRANSFER CHARGES TO ACCOUNT(S) - ALL CC11 53.5% - 92000000 46.5% - NON-UTIL
 ALL OTH- 53.5% - 93020000 46.5% - NON-UTIL
 PROJECT OR NONPROJECT (P OR N) - N

	(IN TEOUSANDS)		
	PRIOR YEARS	BUDGET YEAR	AFTER YEARS
COMPANY LABOR	8.7	8.4	0.0
COSTS OTHER THAN LABOR	1.2	2.6	0.0
TOTAL COST	9.9	11.0	0.0

DESCRIPTION

PROVIDE 3 EACH CLASS 6 VEHICLES, 3 EACH CLASS 3 VEHICLES AND THE COMPANY HELICOPTER FOR VIEWING AT THE MAY 1995 ANNUAL SHAREHOLDERS' MEETING.

PURPOSE & NECESSITY

PARTICIPATE IN THE MAY 1995 SHAREHOLDERS' MEETING.

BASIS FOR ALLOCATION TO NONUTILITY

46.5% OF THIS M/OR IS ALLOCATED TO NONUTILITY. THIS PERCENTAGE IS BASED ON THE CORPORATE UTILITY/NONUTILITY ALLOCATION AS DEVELOPED BY THE RATE DEPARTMENT.

PREPARED BY - K. R. MICKELSON

01/20/95 MAINTENANCE OPERATION REQUISITION
 RESPONSIBILITY CENTER - 966 YEAR - 95

M/OR NO. 18629611

TITLE - INVESTOR RELATIONS

EXPECTED START DATE - 01/01/95 EXPECTED COMPLETION DATE - 12/31/95
 TRANSFER CHARGES TO ACCOUNT(S) - ALL CC11 53.5% - 92000000 46.5% - NON-UTIL
 ALL OTH- 53.5% - 93020000 46.5% - NON-UTIL
 PROJECT OR NONPROJECT (P OR N) - N

	(IN THOUSANDS)		
	PRIOR YEARS	BUDGET YEAR	AFTER YEARS
COMPANY LABOR	78.0	109.7	0.0
COSTS OTHER THAN LABOR	35.7	56.8	0.0
TOTAL COST	113.7	166.5	0.0

DESCRIPTION

MEETINGS WITH ANALYSTS, RATING AGENCIES, INVESTMENT BANKERS,
 TRUST OFFICERS, INSTITUTIONAL INVESTORS, ETC.

PURPOSE & NECESSITY

THE COMPANY MEETS ANNUALLY WITH THE VARIOUS RATING AGENCIES
 TO KEEP THEM CURRENT REGARDING THE FINANCIAL POSITION OF THE COM-
 PANY AS WELL AS OTHER COMPANY ACTIVITIES. ALSO, PERIODIC MEET-
 INGS WITH OTHER INVESTOR GROUPS ARE REQUIRED TO MAINTAIN A WELL-
 INFORMED FINANCIAL COMMUNITY.

BASIS OF ALLOCATION TO NONUTILITY

46.5% OF THIS M/OR IS ALLOCATED TO NONUTILITY. THIS PER-
 CENTAGE IS BASED ON THE CORPORATE UTILITY/NONUTILITY ALLOCATION
 DEVELOPED BY THE RATE DEPARTMENT.

PREPARED BY - T. J. THORP

01/20/95 MAINTENANCE OPERATION REQUISITION
 RESPONSIBILITY CENTER - 900 YEAR - 95

M/OR NO. 19629536

TITLE - SEC FINANCIAL REPORTS

EXPECTED START DATE - 01/01/95 EXPECTED COMPLETION DATE - 12/31/95
 TRANSFER CHARGES TO ACCOUNT(S) - ALL CC11 53.5% - 92000000 46.5% - NON-UTIL
 ALL OTE- 53.5% - 92100000 46.5% - NON-UTIL
 PROJECT OR NONPROJECT (P OR N) - N

	(IN THOUSANDS)		
	PRIOR YEARS	BUDGET YEAR	AFTER YEARS
COMPANY LABOR	103.7	94.5	0.0
COSTS OTHER THAN LABOR	66.9	60.3	0.0
TOTAL COST	170.6	154.8	0.0

DESCRIPTION

- . PREPARE, EDGARIZE, PRINT AND FILE THE ANNUAL REPORT ON FORM 10-K WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC), INCLUDING THE FINANCIAL SECTION OF THE ANNUAL REPORT TO SHAREHOLDERS. PREPARE, EDGARIZE, PRINT AND FILE FORMS 10-Q, 11-K, 8-K AND OTHER MISCELLANEOUS FILINGS (U-3A-2 AND 13-D) PERIODICALLY OR AS REQUIRED WITH THE SEC. COORDINATE THE REVIEW OF THE ABOVE DOCUMENTS WITH OUTSIDE LEGAL COUNSEL AND INDEPENDENT ACCOUNTANTS. MAINTAIN EXPERTISE THROUGH PROFESSIONAL DEVELOPMENT.

PURPOSE & NECESSITY

AS A PUBLICLY TRADED COMPANY LISTED ON THE NEW YORK AND AMERICAN STOCK EXCHANGES, MINNESOTA POWER IS REQUIRED TO FILE CERTAIN PERIODIC REPORTS WITH THE SEC. THIS PROJECT IS SET UP TO ACCUMULATE INTERNAL AND EXTERNAL COSTS ASSOCIATED WITH THESE FILINGS AND THEN ALLOCATE TO ALL BUSINESS UNITS.

- ASSUMPTIONS:
- . TYPING DONE IN OFFICE SYSTEMS & SUPPORT.
 - . PRINTING AND EDGARIZING DONE IN OFFICE SERVICES.
 - . FILING FEES
 - . LABOR ESTIMATE BASED ON HISTORICAL HOURS

BASIS OF ALLOCATION TO NONUTILITY

46.5% OF THIS M/OR IS ALLOCATED TO NONUTILITY. THIS PER-

01/20/95 MAINTENANCE OPERATION REQUISITION
 RESPONSIBILITY CENTER - 731 YEAR - 95

M/OR NO. 18628006

TITLE - CORPORATE COMMUNICATION - FINANCIAL

EXPECTED START DATE - 01/01/95 EXPECTED COMPLETION DATE - 12/31/95
 TRANSFER CHARGES TO ACCOUNT(S) - 53.5% 93020000 46.5% NON-UTIL

PROJECT OR NONPROJECT (P OR N) - N

(IN THOUSANDS)

	PRIOR YEARS	BUDGET YEAR	AFTER YEARS
COMPANY LABOR	0.0	67.1	0.0
COSTS OTHER THAN LABOR	0.0	193.2	0.0
TOTAL COST	0.0	260.3	0.0

DESCRIPTION:

PREPARE THE FOLLOWING COMMUNICATIONS:

- * QUARTERLY SHAREHOLDER REPORTS
- * ANNUAL REPORT
- * FINANCIAL ADVERTISING
- * OTHER SHAREHOLDER INFORMATION

PROJECTS INCLUDE PLANNING, WRITING, DESIGNING, TYPESETTING, PHOTOGRAPHY, PRINTING AND/OR VIDEOGRAPHY, EDITING, POSTING AND DUPLICATING.

PREPARE AND PRESENT FINANCIAL PUBLIC INFORMATION WHICH INCLUDES NEWS RELEASES AND DISTRIBUTION.

PURCHASING FREELANCE WRITING AND ART-RELATED SERVICES ON AN AS NEEDED BASIS.

PURPOSE & NECESSITY:

TO PRODUCE AND/OR PRESENT INFORMATION ABOUT THE CORPORATION THAT PROVIDES A REGULAR FORUM TO COMMUNICATE WITH SHAREHOLDERS.

BASIS OF ALLOCATION TO NON-UTILITY

46.5% OF THIS M/OR IS ALLOCATED TO NON-UTILITY. THIS PERCENTAGE IS BASED ON THE CORPORATE UTILITY/NON-UTILITY ALLOCATION AS DEVELOPED BY THE RATE DEPARTMENT.

PREPARED BY - COMMUNICATION TEAM

01/20/95 MAINTENANCE OPERATION REQUISITION
 RESPONSIBILITY CENTER - 966 YEAR - 95

M/OR NO. 18620402

TITLE - MINNESOTA UTILITIES INVESTORS GROUP

EXPECTED START DATE - 01/01/95 EXPECTED COMPLETION DATE - 12/31/95
 TRANSFER CHARGES TO ACCOUNT(S) - 53.5% - 93020000 46.5% - NON-UTIL

PROJECT OR NONPROJECT (P OR N) - N

	(IN THOUSANDS)		
	PRIOR YEARS	BUDGET YEAR	AFTER YEARS
COMPANY LABOR	0.4	0.0	0.0
COSTS OTHER THAN LABOR	66.2	54.2	0.0
TOTAL COST	66.6	54.2	0.0

DESCRIPTION

ACCUMULATE COSTS AND ASSESSMENTS ASSOCIATED WITH MINNESOTA POWER'S SPONSORSHIP OF MINNESOTA UTILITY INVESTORS INC.

PURPOSE & NECESSITY

WORKING WITH OTHER MINNESOTA UTILITIES, AN AD HOC COMMITTEE HAS BEEN FORMED TO DEVELOP A UTILITY INVESTOR GROUP WITHIN THE STATE. ITS MISSION INCLUDES PROVIDING AN INDEPENDENT VOICE FOR UTILITY INVESTORS, REPRESENTATION WITH REGULATORY AUTHORITIES, AND PROMOTION AND PROTECTION OF THE FREE ENTERPRISE SYSTEM. THE COMPANY HAS MADE A COMMITMENT TO THIS EFFORT.

BASIS OF ALLOCATION TO NONUTILITY

46.5% OF THIS M/OR IS ALLOCATED TO NONUTILITY. THIS PERCENTAGE IS BASED ON THE CORPORATE UTILITY/NONUTILITY ALLOCATION DEVELOPED BY THE RATE DEPARTMENT.

PREPARED BY - T. J. THORP

FPSC AUDIT REQUEST #74

SHAREHOLDER SERVICES

1. The sources of SSU's equity capital are twofold: 1) retained earnings and 2) paid-in capital from its first tier parent Minnesota Power (MP). In order for MP to attract and retain equity capital for reinvestment in subsidiary corporations, it must incur continuing expenses associated with the issuance of securities, payment of dividends, compliance with SEC regulations, payment of registration and rating agency fees and shareholder communications. These costs are apportioned to recipient subsidiaries as a function of their equity balance relative to MP's consolidated equity.
2. The following types of services are included:
 - 1) Labor and payroll overheads for operation of a shareholder services department, 2) proxy and annual meeting noticing, 3) utility investor group assessment, 4) annual stockholder meetings, 5) annual and quarterly shareholder reports, 6) DRIP and stock purchase plans, 7) NY and AMEX assessments, 8) rating agency fees, 9) SEC financial reports (10-K, 8-K, etc.), 10) registrar and transfer agent services, 11) meetings with trust officers and institutional investors, 12) certificate printing, 13) board fees and 14) mailings to the financial community.
3. All privately held utilities endeavor to maintain a balanced capital structure which typically includes some form of equity capital. In addition to directly funding a utilities operations and capital improvements, the presence of equity capital promotes the attraction of debt capital at lower rates and under reasonable covenants.
4. See attached Schedule PE-1.
5. See attached Schedule PE-1.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 93-W-0962 - Proceeding on Motion of the Commission to
establish a Policy to Provide Incentives for the
Acquisition and Merger of Small Water Utilities.

NOTICE

(Issued November 10, 1993)

The Commission's Order Instituting Proceeding invites
interested persons to submit comments and/or consider proposals
regarding a possible Commission policy concerning acquisition
incentive mechanisms (AIMs).

NOTICE is hereby given that any interested person may
submit comments in response to the issues set forth in the Order
by filing 15 copies of such comments or proposals with John J.
Kelliher, Secretary, State of New York Public Service Commission,
Three Empire State Plaza, Albany, New York 12223, by February 21,
1994. Persons with substantially similar interests are invited
to submit jointly-filed comments.


JOHN J. KELLIHER
Secretary

Talked to Jim Perry
-NAUC- activity
N.Y.
Spring Valley
NY Water
Long Island

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held in the City of
New York on October 20, 1993

COMMISSIONERS PRESENT:

Peter Bradford, Chairman
Lisa Rosenblum
Harold A. Jerry, Jr.
William D. Cotter
Raymond J. O'Connor

CASE 93-W-0962 - Proceeding on Motion of the Commission to
establish a Policy to Provide Incentives for the
Acquisition and Merger of Small Water Utilities.

ORDER INSTITUTING PROCEEDING
AND SOLICITING COMMENTS

(Issued and Effective November 10, 1993)

BY THE COMMISSION:

This Order institutes a proceeding to solicit comments and consider proposals regarding a possible Commission policy concerning acquisition incentive mechanisms (AIMs) intended to foster acquisition of small water companies. The concept of an AIM was developed as part of an initiative to design regulatory/rate making procedures and state-wide initiatives to deal with small water company problems.¹

¹ Other initiatives arising out of that collaborative process are being developed separately.

CASE 93-W-0962

have less than 100 customers. Approximately 200 companies have 50 customers or less.

Any policy concerning AIMS must satisfy broad economic goals while maintaining a proper balance between ratepayers and investors. As a starting point for a dialogue with interested parties, staff has identified several broad goals and factors for consideration in establishing an AIM policy.¹ Also, parties are invited to comment on the following proposed guidelines for development of any AIM policy that have been proposed by staff:

1. The proposal must be in the general public interest.
2. The acquiring company should demonstrate that it will have the capacity to serve and manage the acquired company efficiently and adequately, and has the ability to achieve compliance with the SDWA and other regulatory requirements, including the ability to finance improvements.
3. The level of any incentives provided should be reasonable and commensurate with the magnitude of overall benefits to customers in terms of improved service quality, rate stability and long term ability to repair and replace equipment and meet SDWA mandates as economically as possible.
4. The terms of an acquisition should not preclude the occurrence of beneficial future alternatives for system ownership and management, such as municipal or water authority take over.
5. The impacts on the acquired company customers should be measured against the

¹ The specific goals and factors are set forth in the attached memorandum.

CASE 93-W-0962

2. Initial comments and reply comments of interested persons shall be submitted in accordance with a schedule to be issued by the Secretary of the Public Service Commission.

3. This proceeding is continued.

By the Commission,

(SIGNED)

JOHN J. KELLIHER
Secretary

FILED-SESSION OF OCT 20 1993

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

October 12, 1993

TO: THE COMMISSION

FROM: ENERGY AND WATER DIVISION
CONSUMER SERVICES DIVISION
OFFICE OF ACCOUNTING AND UTILITY FINANCE

SUBJECT: CASE 93-W-0962
Proceeding on Motion of the Commission to establish a
Policy to Provide Incentives for the Acquisition and
Merger of Small Water Utilities.

SUMMARY OF PROPOSED ACTION: It is proposed that -
A proceeding be instituted to establish a policy for
Acquisition Incentive Mechanisms (AIM), and that this
memorandum and its concepts be issued for comment and
become the subject for discussions with industry,
consumers, other state agencies, municipalities, and
other interested parties. Comments and the results of
discussions should be submitted by February 21, 1994,
and then used in formulating a Commission policy.

** *** **

Summary

The Department has recently identified three initiatives to
improve regulation in the water industry:

- (1) development of long-term planning processes for the
seven largest water companies;
- (2) design of regulatory/ratemaking procedures and
statewide initiatives to deal with small water
company problems; and
- (3) increase our activity at national levels and
improve our presence with the federal government on
water industry matters, and communicate positions
on the Safe Drinking Water Act (SDWA).

This memorandum recommends that a proceeding be instituted
to establish a Commission policy for acquisition incentive
mechanisms (AIM) to foster acquisition of small water companies.

a long-term basis. The problems that occur in finance, service, and management (including poor records) stem from a fundamental cause: the company is simply too small to function efficiently as a public utility.¹ The new financial and operating demands created by the SDWA are expected to be beyond small company capabilities in many cases.

Historically, the amount of staff and Commission time spent on the service and rates of small water companies has been disproportionate to the revenues and number of people involved. Looking to the future, this disproportionate effort could become worse in light of the new SDWA mandates. In New York State there are approximately 350 investor owned waterworks subject to Commission regulation. Of these, about 300 have less than 100 customers. Approximately 200 companies have 50 customers or less.

Because of the many public benefits to be derived from acquisition/mergers, especially the absorption of small water utilities into larger entities, staff believes the Commission should actively engage the private water industry and other interested parties in achieving this goal. To this end we believe that a clearly articulated policy on mergers and acquisitions should be developed. By developing such a policy statement it is hoped that more applications will be brought to the Commission for consideration and approval. Safe and

1/ supra p. 26

original cost less depreciation unless the applicant will amortize immediately said excess through charges to surplus. That is, the purchase price that exceeds book value (or the "purchase premium") may not be recouped or be added to the acquiring company's rate base. In addition, the Commission in past decisions has often allowed a rate base no more than the purchase price, where the book value has been greater than the purchase price.

Staff believes these past decisions, while not stated policy, were designed to protect the ratepayers from excessive charges, but may have had the effect of acting as a significant disincentive to small water company acquisitions. Over the four year period 1989-1992, there were 23 transfers of utility water systems or property approved by the Commission. Over half of these were system transfers to municipalities, and only three could be termed consolidations/mergers. Given New York's large number of water companies, it would appear there is significant room for improvement in this activity and that an effective Commission incentives policy would provide that improvement.

Elements of an Acquisition Incentive Mechanisms Policy (AIM)

To be effective, an AIM policy should satisfy broad economic goals while maintaining a proper balance between ratepayers and investors, and use a few well understood implementation guidelines to foster mergers and acquisitions that provide maximum customer benefit. In regulating utilities, the Commission is constantly balancing consumer and investor

- * Moderate the rate impacts of the costs¹ facing the water industry, specifically those imposed by the SDWA.
- * Promote small water company acquisitions/mergers.
- * Improve the economic efficiency of small water companies.
- * Provide regulatory flexibility and openness to a wide range of alternatives, thereby stimulating creative and economic solutions.
- * Fairly balance acquisition incentives with service and rate impacts to promote acquisitions/mergers that are in the public interest.
- * Provide meaningful and clear guidelines which encourage exploration of acquisition opportunities and facilitate the development and approval of acceptable proposals.
- * Ensure public participation.

Factors for Consideration

Staff has identified a number of factors that should be considered in the evaluation of any AIM proposal. They include the following:

- * Purchase price
- * Realized economies
- * Rate impact on customers of both systems
- * Service history
- * Rate equalization considerations
- * Customer service
- * Long term benefits² to customers
- * Customer satisfaction with the proposal
- * Access to capital
- * Operational and capital improvement
- * Economic viability
- * Management

1/ Aging infrastructure replacement, and the monitoring, treatment and plant addition requirements of the SDWA.

2/ Lower rates and better service resulting from economies of scale, better operation and management, and access to financing for improvements.

- Operating ratios in lieu of rate base treatment
Where rate base of the acquired company is very low relative to construction cost, relate net income and revenue requirement to a ratio of operating costs.
- * Incentive returns
Allow a higher than normal rate of return for certain acquisition and improvement costs.
- Depreciation allowances
Reflecting increased annual depreciation in rates provides additional cash flow and incentive. This can be accomplished by allowing depreciation on contributed plant where little or no rate base exists, or by allowing accelerated depreciation where rate base does exist.
- Amortization of acquisition costs
Where there is a purchase premium, reflect all or part of the premium in rates.
- Delayed recovery of costs
In some cases, the use of certain economic incentives may be initially unacceptable for various reasons, such as rate shock; however, their use may be necessary to attain the acquisition. A possible mechanism in this situation would be to delay the recovery of any of the above mechanism costs to mitigate customer impact.
- Lease buyout plans
Where companies, the Commission, or customers are uncertain about the benefits of an acquisition, the acquiring company may lease a system before acquisition, allowing time to evaluate the acquisition benefits.

As discussed in the Staff Guidelines section that follows, staff believes that, in general, rates should be equalized between the two merging companies. Rate equalization can also be an incentive for acquisition, and the speed at which rates are equalized relevant to how great this incentive is.

Staff Guidelines

Staff's views on some important issues are as follows:

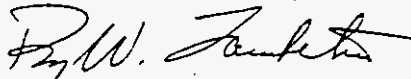
- * The proposal must be in the general public interest.

be issued for comment, with special focus on the questions set forth in Appendix A. Notice of the proceeding should be served on a broad range of potentially interested parties, and the Commission should direct that all comments be submitted by February 21, 1994. It is further recommended that staff, industry, concerned consumers, and other interested parties be encouraged to immediately establish dialog and convene focused groups, as well as use other means of communication to explore the concepts contained in this memorandum. The results of these discussions and comments would then be used in formulating the policy.

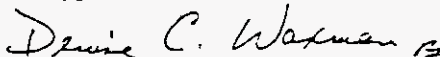
Respectfully submitted,



BRIAN M. SUMMERS
Associate Utility Financial Analyst
Office of Accounting and Finance

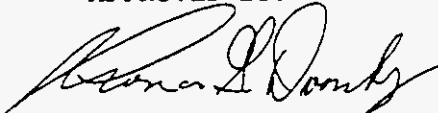


ROY W. LAMBERTSON
Associate Hydraulic Engineer
Energy & Water Division

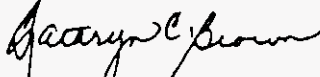


DENISE C. WAXMAN
Supervisor of Utility Hearings
Consumer Services Division

APPROVED BY:



THOMAS G. DVORSKY
Deputy Director, Cost Performance
Energy and Water Division



KATHRYN C. BROWN
Director, Consumer Services Division



FRANCIS M. HERBERT
Director, Office of Accounting & Finance

APPENDIX A

QUESTIONS FOR PUBLIC COMMENT

1. Are the policy goals articulated correct? Are there others? If so, identify and elaborate.
2. Are the factors identified for consideration all relevant? Are there other factors that should be considered? What relative weight should be given to the different factors?
3. Are the incentive mechanisms identified complete, or are there others that should be considered for inclusion? Should any of the identified incentives be rejected? Are any of the incentives to be preferred over others? Generally? In particular situations? Elaborate on any guidelines that might be appropriate for weighing or prioritizing the use of different incentives, informing the use of multiple incentives, etc.
4. Are the guidelines set forth reasonable? If not, explain how they should be modified or why they should be rejected. Are there other guidelines that should be applied?
 - a. Purchase price
Comment on the guidelines set forth in Appendix D. Are there alternative ways of determining a fair purchase price? Other information that should be considered? How should the need for objective evidence of a fair price be balanced against the desire for a streamlined process? To what extent, if at all should the standards of valuation in eminent domain law be used? To what extent should the estimated costs of immediately needed capital improvements be a factor in evaluating the fair purchase price?
 - b. Application of incentives
Is it possible to articulate more concrete guidelines for the application of incentives in a particular case, that is, to evaluating the magnitude of the benefits that will result from the transfer and in determining the commensurate incentive? If so, explain and provide details.
 - c. Rate equalization
Are the guidelines described in appendix E proper? If not, explain how they should be modified or why they should be rejected. Are there other guidelines or factors that should be considered in the context of setting forth a rate equalization plan? If so, identify them and describe their applicability. Are there any circumstances where rates should not be equalized? If so, explain.

APPENDIX B

ESSENTIAL ELEMENTS OF AN AIM PETITION

Existing Requirements of 16 NYCRR, Part 31

- o Copy of Certificate of Incorporation and any modifications. (17.2)
- o Copy of the proposed contract [31.1 (d)]
- o Description of the property to be transferred. [31.1(b)]
- o Copy of franchises, consents, and rights to be transferred, with details (31.1 (c)) (including DEC Certificate of Convenience and Necessity and any modifications).
- o Municipal approvals, if required [31.1 (d)]
- o Inventory of Water Plant being transferred [31.3 (f)], in accordance with applicable system of accounts [31.1 (g)].
- o Accrued depreciation in property to be transferred with methodology [31.1 (h)]
- o Cost of property to be transferred, per books [31.1(i)].
- o Depreciation and amortization reserves applicable to the property to be transferred. [31.1 (j)]
- o Statement of contribution toward construction of property, showing those subject to refund. [31.1 (k)]
- o Statement of operating revenue, expenses, and taxes for each of the 3 preceding years. [31.1 (l)]
- o Most recent balance sheet for both transferee and transferor. [31.1 (l)]
- o The company's proposal for financing the acquisition, and if this involves the issuance of stocks, bonds, notes or other evidences of indebtedness, details as required in Part 37.

APPENDIX D

PURCHASE PRICE EVALUATION

As stated in the Staff Guidelines section of this memo, the AIM policy, by its very nature could affect the negotiated purchase price. If sellers and buyers can reasonably expect that the price paid will be recouped, that fact may encourage a price higher than might be attained otherwise. That said, we should recognize that most of the small water companies that might be acquisition targets have no rate base or one that represents a very small amount of the utility assets. Since the market may value some of these properties differently, any acquisition policy that desires to encourage economic transfers conflicts with the present policy, which has been that when one utility purchases another for a price higher than book value, only the book value of the purchased entity may be recouped.

It is also clear that any acquisition policy should not discourage purchases below book value, where appropriate. From a public benefit standpoint, encouraging a purchase price below net book value through an AIM policy would be desirable. The incentive in this instance could be to allow all or a portion of the difference between the lower price and book value to be reflected in rates. This would be in contrast to current policy which has replaced the existing rate base with the lower purchase price for ratemaking.

The AIM policy should endeavor to allow economic forces and each unique situation set the price. The Commission can best do this by retaining its discretion and its position as an economic arbiter, subjecting each transaction to serious economic review. That review would evaluate the transaction with respect to the Commission's broad goals, its guidelines, and to the peculiar economic circumstances presented.

Staff would offer the following proposed broad guidelines relating to the purchase price:

- * The purchase price should be determined to represent an exchange value that, in the totality of the circumstances, is fair and reasonable.
- * The burden of demonstrating that the proposed purchase price is fair and reasonable is on the petitioners.

7. Delayed recovery of cost.
While not strictly an incentive, delayed recovery is a tool that could be used in creating an acceptable acquisition proposal. For any of the above mechanisms, where a cost is to be allowed as an incentive, its effect on ratepayers may be mitigated by delaying its inclusion in rates.
8. Lease buyout plans.
These plans generally provide that the acquiring company will lease the system for some specified period, with an option to buy at the end of that time. This mechanism can allow the companies, customers, and Commission to observe the advantages and disadvantages of the acquisition before it becomes irreversible.

As previously indicated, the amount of incentives to induce an acquisition is likely to be related to the viability and liabilities associated with the acquired company. Other possible factors are the proximity of the acquirer, system age, quality of system installation and design, number of customers, RB/customer, construction cost/customer, cost of needed improvements, viability of acquirer, volatility of O & M and earnings, and ability of customers to pay.

APPENDIX E

RATE EQUALIZATION

Staff believes that in a merger or acquisition, except where there are very unusual circumstances, the rates of the merged companies should be equalized. While it is impossible to lay down specific rules for how rate equalization should be handled in each case, staff believes that it is important to have some principled basis for judging the rate equalization proposals that are presented to assure that, on a statewide basis, customers are being treated fairly. Accordingly, we have endeavored to articulate several general guidelines or principles that we believe should guide the rate equalization proposal that is put forth in a petition.

An AIM petition should contain a proposal for the equalization of rates, including a schedule for a planned phase-in, if applicable, and an estimate of the rate impacts for typical customers. Where the engineer's report indicates that the acquired company will require a major infusion of capital expenditures in the near term, and/or other causes make it likely that a rate increase will result from the acquisition, the petition should include projections of the increase, and any phase-in of equalization. The petition should justify the plan proposed in the light of these guidelines.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 93-W-0962 - Proceeding on Motion of the Commission to
Establish a Policy to Provide Incentives for the
Acquisition and Merger of Small Water Utilities.

STATEMENT OF POLICY ON
ACQUISITION INCENTIVE MECHANISMS
FOR SMALL WATER COMPANIES

Issued and Effective: August 8, 1994

Case 93-W-0962

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EXHIBIT _____

(SWV-4)

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

COMMISSIONERS:

Peter Bradford, Chairman
Lisa Rosenblum
Harold A. Jerry, Jr.
William D. Cotter

CASE 93-W-0962 - Proceeding on Motion of the Commission to
Establish a Policy to Provide Incentives for
Acquisition and Merger of Small Water Utilit

STATEMENT OF POLICY ON ACQUISITION INCENTIVE
MECHANISMS FOR SMALL WATER COMPANIES

(Issued and Effective August 6, 1994)

BY THE COMMISSION:

GUIDELINES FOR WATER COMPANY ACQUISITIONS

PREAMBLE

On October 20, 1993, we instituted Case 93-W-0962 to consider the provision of incentives for the acquisition of small water companies by, and therein merger into, larger entities. Public comment was invited, and on the basis of that comment and the recommendations of Department staff, we are establishing goals and guidelines that will apply to proposals to consolidate small water companies through acquisitions and mergers.

Small water companies typically cannot attract capital and often have small cash reserves, or none at all. Frequently, these companies are run by part-time managers possessing little technical training. In addition, their small customer base

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limits their ability to incur significant expenditures for regulatory compliance and other purposes. As a result, these small companies frequently fail to comply with new, or even existing, health and safety regulations. In particular, the requirements of the Safe Drinking Water Act are expected to impose requirements that many systems will be unable to meet. Consolidation of water companies through acquisition or merger may serve as a solution in these situations.

GOALS

This policy is intended to foster acquisitions and mergers that will: (1) improve the ability of small water companies to provide service; (2) improve customer service; (3) make it easier to comply with current and future regulations; (4) avoid drastic rate increases; (5) bring the rates of merged systems into parity; (6) improve and consolidate management and operation; and (7) promote conservation.

GUIDELINES

The guiding principal in granting acquisition incentives will be to increase customer benefit. An acquirer must be able to show that it can continue to exist in the long term and will be able to provide its customers with safe and adequate service at just and reasonable rates. To foster a

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transformation of small non-viable water companies into entities better able to serve, acquisition incentives may be provided in certain cases, where the following factors so suggest:

1. Whether the acquiring company has the ability to adequately manage the business, serve customers, comply with regulations, and finance capital improvements.
2. Whether the impact on customers resulting from the acquisition is at least as beneficial as the impact of realistic alternatives.
3. Whether the terms of the acquisition will permit future beneficial solutions, such as municipalization.
4. Whether benefits to customers are expected to be commensurate with the cost of the incentives for the acquisition or merger.
5. Whether meaningful customer participation has been obtained through effective public involvement.

We will also consider additional incentives where proposals are made to consolidate several water systems at once.

INCENTIVES

Because each small water company will present unique circumstances, incentive plans will have to be tailored case-by-case. The following incentive mechanisms are provided as examples of those that may be considered. They will not be appropriate in each instance, nor do they constitute an

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exhaustive list of measures that can be entertained. As a general matter, however, any significant rate increases that may be needed should be phased in, in order to avoid unduly harsh effects on customers.

1. Rate Base

- a. Where the purchase price is less than the rate base of the company being acquired, rates may nevertheless reflect the full rate base of the acquired company.
- b. Where the purchase price is greater than rate base, rates may reflect the purchase price premium if warranted. For example, a premium might be justified by improved service, realized cost efficiencies, or economies of scale.
- c. Where capital expenditures are required for service improvements or to comply with health and safety regulations, projected improvement costs may be reflected in rates immediately, subject to verification that the expenditures are made.
- d. Where the company being acquired has little or no rate base, a proxy rate base may be allowed, equivalent to the rate base per customer of the acquiring company.

2. Depreciation

Where circumstances warrant, depreciation may be allowed at accelerated rates, or depreciation on projected improvement costs may be allowed subject to subsequent adjustment.

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3. Amortization

The reasonable costs of acquisition may be recovered by amortization. Under certain conditions, amortization may also be considered for recovery of a purchase price premium. The term of an amortization should be chosen to minimize adverse effects on customers.

The four incentives described below will be considered only in special cases for good cause shown. They represent a departure from traditional rate-making practice and are meant to facilitate consolidation that may otherwise not be possible.

4. Operating Ratio

Where rate base incentive mechanisms are less practicable, a ratio of revenues to operation and maintenance costs may be used to determine revenue requirement.

5. Rate of Return

Where it can be shown to benefit customers, a premium on the overall rate of return may be allowed.

6. Delayed Recovery

Where the costs of acquisition or improvements, or the effects of rate equalization, would cause unduly harsh effects on customers, proposals to delay or phase in

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recovery of costs, rather than lose the opportunity for consolidation, may be considered.

7. Lease/Buyout

Where there is uncertainty regarding the overall benefit of an acquisition, and it would appear beneficial for ownership, management, and operation to occur for a trial period, operation of the company under a lease with an option to buy may be considered as a mechanism for providing incentives.

REQUIRED INFORMATION

The following information should be submitted with any request for our approval of an acquisition or merger.

- o With respect to both companies involved in the merger or acquisition:
 - The current extent of compliance with regulatory agency requirements and directives (Departments of Health, Environmental Conservation, and Public Service, and local authorities).
 - The prospects for future compliance with regulatory requirements.
 - The number of customers.
 - Comparative income statements for the three most recent years.
 - A current balance sheet.
 - Estimate of rates needed to comply with SDWA or other service requirements.

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- Evaluation of customer benefits and economies of scale.
 - Information and data on the rate impact on all customers (acquiring and acquired companies), and the rate plan to achieve parity.
 - A report on the public involvement effort and customer input. ✓
- o With respect to the acquired company:
- Identification of ownership of all transferred water plant.
 - Inventory of plant being transferred.
 - The location of the acquired company relative to the acquiring company and to nearby systems, both municipal and private.
- o With respect to the acquiring company:
- A copy of the proposed purchase contract.
 - Identification of municipal approvals, if required.
 - The proposal for financing the acquisition, if appropriate, including applicable information in compliance with 16 NYCRR Part 37.

By the Commission.

(Signed)

JOHN J. KELLIHER
Secretary

✓In reviewing any acquisitions, we will focus on the results of the company's public involvement and information efforts.

The PUC Role in Assuring Viable Water Service In Small Communities

John E. Cromwell, III
Richard F. Albani
Wade Miller Associates, Inc.

Introduction/Overview

Regulation of water systems in small communities has been a long-standing problem for both state public utility commissions and state public health regulators. Though many potential solutions have been suggested, progress has been very slow due to a lack of stimulus. The inertia of the status quo may finally be broken by the catalytic effect of tougher new compliance requirements under the Safe Drinking Water Act (SDWA). However, a significant restructuring of the small community segment of the water supply industry is needed if SDWA compliance requirements are to be met in a manner which is sustainable.

The inherent incrementalism of the SDWA regulatory program could introduce tremendous inefficiencies into the restructuring process. Restructuring should be approached within the context of a long-term planning horizon. A process resembling *integrated resource planning* is required in order to provide assurance that the restructuring process will reflect *least cost* principles. If the motive force provided by near-term SDWA compliance pressures is allowed to be the only force at work, the result will most certainly not be *least cost* and the problem of assuring reliable water service to small communities will grow worse.

The threat runs deeper than a mere concern for economic efficiency. The concern for *viability* stems from a growing concern over *non-viable* small water systems. There are presently many thousands of small water systems that are regarded by regulators as "basket cases." These are cases where the institution responsible for providing water service is essentially in default; where the utility management has effectively failed, as manifest in violations of current SDWA standards which represent very genuine public health problems. These are systems which cannot respond to an order. They are unable to cope with problems such as pollution of wells, maintenance and replacement of deteriorated infrastructure and equipment, inadequate pumping, poor water quality, and even breakdowns and wells running dry.

The threat is that there are many thousands of additional "marginal systems" that will become "basket cases" under pressure of SDWA compliance. In addition, many potentially viable solutions may be by-passed due to SDWA-induced incremental decisionmaking, undertaken in the absence of a long-term planning process.

Ultimately, state government will have to intervene to impose a planning discipline and promote efficient restructuring, or to take over and direct restructuring after failure has occurred. The issue is not SDWA compliance; the issue is the long-term reliability and cost of the water supply infrastructure systems serving small communities. If the broader public interest is to be served, there is a clear mandate here for broader forms of intervention by state public utility commissions (PUCs).

Several states have begun to lead the way. This paper draws examples from the experiences in Pennsylvania¹ and Connecticut² where the authors have had substantial experience in the development of coordinated interagency strategies to once-and-for-all confront the small water system problem. The Pennsylvania example is more modest, illustrating key first steps towards broader intervention. Connecticut is an example of sweeping reform. The paper uses these two examples to define and characterize the generic components of a coordinated state strategy to enhance the viability of water service in small communities and to highlight the major elements of the PUC role.

The Need for Restructuring

Although large urban water systems serve 90 percent of the population, they account for only 10 percent of the total number of community water supplies. The overwhelming majority of water systems nation-wide are very small systems serving less than 3300 persons.

These proportions result in some very unfavorable economics. While having only 10 percent of the total customer base, small water systems will account for roughly half of the total capital demands imposed by the SDWA and over half of the total annualized cost of compliance.³ Moreover, infrastructure rehabilitation and replacement requirements exposed by tougher SDWA performance levels will likely entail a comparable level of capital investment needs merely to maintain the existing facilities serving small systems.

Historically, the major cost element in water system construction was the distribution system. Source development and treatment costs were trivially small; all that was required in many circumstances was a well, a pump, a tank, and a chlorinator. The result was a vast proliferation of small independent water systems, often operated by a developer or by a homeowner's association. This configuration evolved in the historical cost environment in-part because it was the *least cost* solution within that environment.

Small water systems are thus a product of the low-cost environment in which they were created. With the capital and operating costs of water service being historically very low, and the effects of inadequate maintenance and replacement being so lagged as to be invisible in the short run, there were no significant cost pressures in the environment in which many small systems were formed. In the absence of significant cost pressures, the institutions originally devised for the purpose of running small water systems evolved without the types of management and financial mechanisms needed to cope with more demanding economic realities becoming apparent today. In the face of the SDWA-induced changes in the cost environment, it is becoming clear that the current configuration involving thousands of small systems is no longer the *least cost* solution.

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- ¹ Cromwell, J., Harner, W. Africa, J. and Schmidt, J.S., "Small Water Systems At A Crossroads," *Journal of The American Water Works Association*, May 1992.
 - ² Albani, R., "Connecticut Legislation And Experience In Acquiring Small Systems," Annual Conference of the American Water Works Association, Philadelphia, PA, 1991.
 - ³ Schnare, D. and Cromwell, J., "Capital Requirements for Drinking Water Infrastructure." Sunday Seminar on Capital Financing, Annual Conference of the American Water Works Association, Cincinnati, OH. June 1990.

The small system problem has been described for much of the past two decades. A fundamental theme repeated in many of the prescriptions that have been written is the simple notion that small communities will have to adapt to paying much higher water rates. While it is true that higher rates will have to be a part of any solution, a more fundamental requirement is that institutional mechanisms be put in place that are capable of responding more broadly to the challenges of today's cost environment in the water supply industry -- capable, for example, of raising additional capital, of prudent husbandry of the capital stock over the long term, and of sustaining a much more demanding O&M regime on a daily basis. Raising rates is an insufficient solution if it is unaccompanied by other institutional reforms.

The Imperative Need for Planning

SDWA regulatory requirements are a source of significant change in the small system segment of the water supply industry just as they are for the industry as a whole. But the resulting changes in financial risk characteristics could have much more ominous consequences for some small systems, involving more pain than that embodied in a higher water bill.

Without deliberate efforts to the contrary, a well-intentioned approach to meeting SDWA compliance requirements could become a trap for some systems. SDWA regulations will be phased-in incrementally the next decade. As a result, systems may be lured into thinking they are capable of meeting all the new performance requirements when they, in fact, are not. The realization of the true extent of SDWA compliance and infrastructure rehabilitation liabilities could become apparent only after taking on substantial new debt and passing up better options. Satisfaction of SDWA capital demands could also result in further deferral of infrastructure maintenance and rehabilitation needs, creating additional liabilities.

Ironically, as a "break" to small systems, they are allowed more time to comply than larger systems. As a result, however, the larger systems that might be the keystone of a regionalization strategy are making commitments, sizing facilities, and putting concrete in the ground already. Many logical opportunities may be lost forever (e.g., main extension possibilities for the 50 percent of small systems located within suburban areas).

The financial risks involved extend past the owners of the water system to the individual residential customers. If the water system serving a residence becomes incapable of meeting either its financial or its SDWA compliance liabilities, the default could have a negative effect on the values of properties connected to the system. Thus, there is an imperative need for risk management through a planning process.

The fact that there is risk which could convey to individual homeowners provides a potentially strong motivation that can be used to build support for a planning process and for plan recommendations. Under the status quo, there may be no desire to become entangled in a purchased water arrangement with the town down the road, for example. But, a planning process may reveal that doing business with the town down the road is the least objectionable alternative available.

Another equally compelling reason to plan is that there are many thousands of situations where the results will be quite positive. Water supplies are not, for the most part, heavily contaminated; SDWA compliance burdens will therefore be relatively light in many instances. Documentation of compliance liabilities in a plan can help a small system obtain more attractive financing by distinguishing such relatively light burdens from those of other riskier systems. Moreover, a planning process provides a

means of assuring that even more attractive possibilities are not missed. For example, it may be advantageous to expand the customer base by becoming "the town down the road" and selling water to the neighbors.

Viability and Restructuring

In nature, environmental change induces animal and plant species to adapt in order to survive. A parallel exists in economic institutions. Changes in the business environment must be met with appropriate *restructuring* of economic institutions in order to assure the long-term *viability* of the enterprise.

A viable water system is one which has a sustainable ability to meet performance requirements over the long-term. An alternative, and simpler, definition of viability is: *the ability to cope with change.*

There are many different strategies that can be adopted in approaching the restructuring of institutional arrangements for providing water service. They are classified here into two categories: external and internal.

- o *External* strategies involve active collaboration with other adjacent water systems to attain the advantages of operating at a larger scale-- this amounts to various different forms of regionalization.
- o *Hard* regionalization implies structural consolidation -- extending a main to enable hooking up to, or purchasing water from, the town down the road. This is often infeasible in remote rural areas, but approximately half of all small water systems are within the Census Bureau's Standard Metropolitan Statistical Areas; i.e., within suburban rings of major metropolitan areas.
- o *Soft* regionalization encompasses an array of strategies for obtaining large scale economies in management, operations, and finance through various sharing arrangements. A popular model is contract provision of operation and maintenance services on a rotating, circuit-rider basis. Another successful example is formation of a county or regional authority to provide not only circuit-rider operation and maintenance services, but also centralized management and pooled access to the capital markets. Finally, there is also an array of "soft" soft regionalization strategies, involving such loose linkages as equipment sharing and joint procurement to pool buying power.
- o *Internal* restructuring strategies involve changes in management and finance sufficient to produce a "turnaround" in the likely fate of the small system. Not all small systems are basket cases. There are many that may be able to handle the changes ahead if they make the right management and financial adjustments. In some cases, such changes might be accomplished through a simple change of ownership.

There will always be some areas where remoteness or other aspects of geography dictate the provision of water service independently at small scale. It may not be possible to involve every small system in *hard* or *soft* regionalization schemes. Moreover, there are many small systems that are presently viable, and that can continue to be viable. There is, however, a danger that in undertaking measures to assist small systems in maintaining their independence, the state would inevitably become involved, to some degree, in supporting, or propping up, systems that would not be viable in the absence of state assistance. Neither forcing regionalization and consolidation nor sustaining non-viable systems through

subsidies should be objectives of state viability policy. Rather, the objective of state viability policy should be to help owners and customers of small water systems identify the most viable strategies for provision of water service while, at the same time, adjusting state-controlled barriers and incentives in a manner that will promote the widest possible range of choices.

Framework for A State Viability Initiative

The comprehensive state viability initiatives launched in Pennsylvania and Connecticut have two major parts. The first part is a systematic *viability screening process* to generate and review the information needed to assess the viability status of both *newly proposed* and existing small water systems. The screening process is intended to directly involve water system owners, managers, customers, homeowners, tenants, creditors, and local public officials in confronting the issue of institutional capability in the context of two main strategic questions: 1) is the present system configuration viable over the long-term; and 2) are there any better options available for providing service at larger scale?

To enable individual water systems to make a complete assessment of the most viable strategies for provision of water service, there must be complementary state action to adjust barriers and incentives that affect the range of options available. The existing legal and regulatory setting at the state level has co-evolved with small water system institutions in the historical low-cost environment. There are, as a result, many types of inadvertent barriers to efficient restructuring which have developed over time in the absence of any opposing influences. The objective of the second half of a state viability program, therefore, is the launching of a number of *sympathetic initiatives* designed to remove barriers to viability enhancement and/or provide additional incentives and assistance to systems striving to attain viability, including provision of a safety net to handle restructuring of failed systems.

Viability Screening Processes

In its simplest form a viability screening process consists of measures to get small systems engaged in taking *The viability test*. *The viability test* is intended to promote a grass-roots awareness of the changes that are coming and of the full range of options that may be available for coping with change. In the viability test, the intent is to engage small system owners, managers, and customers in confronting the facts of their situation in enough depth to answer these three questions:

1. Is the current system configuration viable?
2. Are there better options available at larger scale?
3. What is the best option?

The hope is that by confronting the realities of the situation and making comparisons to the obvious alternatives, the potential benefits of either internal or external restructuring will become evident. Where these options make sense to people, they will be more likely to pursue them.

In applying *the viability test*, it is important to address the three questions in the proper context - with a focus on the long-term prospects of the water system. Focusing on the immediate situation is likely to lead to an incorrect conclusion. There are many small systems who would rate themselves as viable, given the operating conditions they are faced with today. But the real question, as implied by our definition of viability, is can they cope as well with the changes that will be upon them over the next few years? If a system bases decisions about the future on the conditions that exist today, it not only runs the

risk of selecting an option that will turn out to be non-viable, but it may also be foreclosing opportunities to adopt other, more viable options.

A common conclusion in the states that have pushed forward with viability screening initiatives is that strategies for intervention can be most effective when they are viewed as a coordinated, interagency effort undertaken on a statewide basis. Several state agencies have means of administering *the viability test* through their unique channels of access to small systems. Implementation of many potential solutions requires legal authority that lies outside the reach of the SDWA, but within (or, conceivably within) the reach of other agencies such as, especially, the PUC.

There are three different types of planning initiatives that have been conceived as means of administering *the viability test*. These are;

- 1) new system viability screening -- controlling the growth in the number of potentially non-viable small systems by making them pass a version of *the viability test* as a condition of getting a permit.
- 2) development of system-level business plans -- applying *the viability test* directly to existing small systems through various means.
- 3) comprehensive regional water supply planning -- incorporating *the viability test* into broader comprehensive planning processes.

Viability Screening of New Small Systems

Viability screening of new small systems is an attempt to thrust back upon real estate developers the responsibility for demonstrating that the system will be viable over the long-term before granting the permit to the system. Viability research performed in Pennsylvania produced a useful tool for conducting this type of analysis called, PAWATER.⁴ PAWATER is a user-friendly, menu-driven PC-program that enables the user to develop a rough estimate of the *full cost* of building and properly operating and maintaining a water system. It also summarizes results in terms of the capital cost per dwelling unit and the annual household water bill to give the developer a realistic picture of the true cost that will have to be borne.

An additional approach to new system screening is to require financially-backed assurances or guarantees of viability. The concepts being considered include: escrow accounts, an irrevocable letter of credit from a bank, reputable co-signers, and a contract with a reputable contract O&M organization.

Both viability screening tests and assurances and guarantees require specific legal authority which does not always exist. There are a number of different strategies for implementing these measures.

Some states have successfully modified their state SDWA statutes to enable both viability screening of new systems and requiring assurances. Authority for viability screening can be accomplished by simply inserting the word viability at the right place in the law. Viability screening can then be further

⁴ Gannett Fleming, Inc. and Wade Miller Associates, Inc., PAWATER: Financial Planning Model for New Small Community Water Systems, Prepared for the Pennsylvania Department of Environmental Resources, July, 1992.

defined through rulemaking. Authority to require assurances might have to be more specifically defined in the statute, but the details can still be left to the rulemaking process. The major drawback of modifying the state SDWA statute to provide authority for viability screening or assurances is that state SDWA primacy agencies are staffed with engineers who are not equipped to implement such authority.

In many places state Public Utility Commissions may already have sufficient authority to perform viability screening and to require assurances for companies within their jurisdiction. However, the exercise of such authority by PUCs tends to promote formation of non-profit cooperative homeowners associations as a means of escaping PUC scrutiny. The California PUC adopted strict screening criteria over a decade ago. They have not approved a single new system since, but the number of cooperatives has mushroomed.

Connecticut has solved this problem by expanding the reach of the PUC's certification authority to include all types of water systems, regardless of ownership. In applying for a certificate, the proposed owners/operators must pass thirty discrete viability tests to the satisfaction of the state health department and the PUC. Notably, the permitting and certification authorities of the two agencies were formally fused by statutory changes. Joint approval is required. This integration of regulatory authority affords the advantages of the health department's engineering expertise and the PUCs financial expertise. Pennsylvania is attempting to achieve some of the same benefits through closer coordination of SDWA permitting and PUC certification authority, as documented in a formal Memorandum of Understanding (MOU).

The wish of many state regulators is to transfer the responsibility for assuring viability of new systems to the local level. It is reasoned the local authorities responsible for land use decisions should be made to accept the responsibility for taking over any new systems they approve if these systems should later prove to be non-viable. While there is a ring of justice in this idea, it is difficult to accomplish politically. Connecticut has done it by passing a law that holds the municipality responsible if a water system is allowed to be constructed without first being certified by the PUC and the health department.⁵

A final means of accomplishing new system viability screening is to incorporate it into a comprehensive water supply planning process. The essence of such a process is that it attempts to define logical service area boundaries, including logical main extensions to serve new development. This may provide a less threatening way of enlisting the cooperation of local governments responsible for land use decisions.

A non-regulatory means of disciplining developers of new water systems is through education of the home-buying public. If, through newspaper stories or other means, it is possible to elevate SDWA compliance status to the same level of visibility as testing of indoor air for radon, a market pressure to assure viability might be established.

Viability Screening for Existing Small Systems

The development of system-level *business plans* for existing systems is the grass-roots approach to applying *the viability test*. Developing a business plan may sound too sophisticated for many small systems, especially for the basket cases, but the components of the system-level business plan can be quite simple. The key is a simple comparison of the costs of different alternatives. The business plan covers three areas.

⁵ Section 8-25a of the General Statutes of Connecticut.

in any type of financial analysis; all that is involved is an assessment of the *full costs* of operation on the basis of engineering cost analysis.

In Pennsylvania, a viability criterion was included in the state SDWA regulations implementing the filtration requirement for surface water systems. This provided the state SDWA primacy agency with authority to require the essential elements of a business plan. In Connecticut, the integrated exercise of authority between the PUC and the health department was mandated in the context of a deliberate viability initiative, providing complete authority to require and evaluate a complete range of information. In another expansion of the PUC domain, this process in Connecticut provides a requirement for annual reports from all water systems, regardless of ownership status.

State Public Utility Commissions usually have the authority to explore the full range of viability concerns in the course of routine proceedings such as overall rate hearings or advisory ruling hearings required for approval of SDWA-induced treatment expenditures. PUCs generally have a responsibility to assure that the service being provided is least-cost, safe, adequate and reliable. These principles fit squarely within the concept of long-term viability. Historically, PUCs have been unable to pay much attention to water issues due to their preoccupation with other much larger utilities. That situation is changing, however, as SDWA rate cases begin to appear more frequently on the docket.

A potentially very effective means of administering a business plan requirement is through the application process for attaining financial assistance. This is a remarkably effective strategy that has been employed in-part by the Farmers Home Administration for many years; they have used the quid pro quo of financial assistance in exchange for financial discipline to help turnaround the fate of many many small rural systems. The key to expanding this strategy is to get other lenders to recognize what the Farmers Home Administration has known for many years -- that the long-term viability of the system is critical to determining whether they will be paid back for their loans. Two avenues of expansion of this mechanism are available:

- o State revolving loan funds, bond pools, or other financial assistance mechanisms can be encouraged to incorporate elements of the business plan in their application requirements as a means of assessing their own financial risk.
- o The local banking community can be educated to better understand the long-term threats to viability, causing them to require the same type of long-term viability planning in their application requirements.

In Pennsylvania, the existence of PENNVEST, a state revolving loan fund which encompasses water supply as well as wastewater, provided an excellent means of focusing this leverage. The SDWA primacy agency and the PUC are presently negotiating a three-way MOU intended to fully coordinate information and analysis relevant to the viability initiative.

A more direct means of encouraging the development of system-level business plans is through the auspices of technical assistance providers who are in continuous contact with the systems, know the situation, and have the trust of small system owners, managers, and customers. This may present a dilemma for technical assistance providers. If the system may be better off as part of a consolidation or regionalization scheme, technical assistance providers could view this as working themselves out of a job. But, in the final analysis, technical assistance providers must confront this issue and ask whether they are really helping to find long-term solutions, or are they just propping the system up to last a little longer. All their hard work is to no ones' benefit if the system is not viable over the long term.

A final strategy for encouraging the type of system level business planning that is needed to assure viability over the long term is to create a pressure for such planning by educating homeowners/customers regarding the implicit risks to the value of their properties if the system is not viable. The wrong decisions regarding viability choices could result in much higher water bills than might have been possible under potentially available alternative arrangements. At worst, a default on SDWA compliance could become a negative factor in real property transactions. There are cases where this worst case scenario has indeed happened.

Comprehensive Water Supply Planning

All of the strategies discussed above for applying *the viability test* have been based on taking a case-by-case approach, developing individual business plans for one water system at a time. An obvious shortcoming of that approach is that these individual planning efforts may or may not be optimally synchronized with those of neighboring systems, presenting an obstacle to consideration of potential strategies for collaboration within the region.

This disjointedness is made worse by the staggered implementation pattern of SDWA regulations. A large or medium-size system that might be the logical hub of a *hard* or *soft* regionalization scheme may be faced with the need to make compliance decisions several years sooner than the surrounding small systems. Similarly, a surface water system may have to make tough decisions regarding compliance with the Surface Water Treatment Rule years before a neighboring groundwater system will have to face decisions under the Groundwater Disinfection Rule.

Without some process for bringing things together within a region, many opportunities to improve the viability of water service through regionalization may be passed by. Human nature suggests that once individual water systems begin to sink money into compliance expenditures, there will be ever greater resistance to giving up on the old system, even if it is not the most rational alternative. Thus, not only will opportunities be lost, but new barriers will be created.

Happily, there is a cure for this that has been demonstrated in a few states that have put regional Comprehensive Water Supply Planning programs in place. Washington and Connecticut have implemented a program of comprehensive planning through the authority of explicit new statutory mandates requiring such planning. The comprehensive planning process achieves considerable economies in that *hard* and *soft* regionalization alternatives can be assessed jointly for all systems within the planning region. The planning process promotes the same type of grass-roots understanding as the business plan process because it implicitly involves all the same steps as the business plan. Moreover, it convenes a formal consensus building process among the systems in the region through which the feasibility of alternatives is jointly discussed and evaluated.

The regional comprehensive planning process is particularly valuable because -- by virtue of its regional scope -- it inherently catches the basket cases that might otherwise have difficulty mounting a planning effort and it automatically encompasses the issue of new system development within the region. The Comprehensive Planning Framework is also ideal for incorporating significant collateral issues such as questions of water allocation and water rights. Water quantity issues were in fact the primary impetus behind the statutory mandates for comprehensive planning in both Washington and Connecticut. With the quantity issue included, the planning framework is essentially identical to that defined in the utility field as *integrated resource planning*.

There are two major obstacles to establishing a regional comprehensive planning approach: 1) politics, and 2) money.

There are many places where planning is either regarded as an exclusively local responsibility or as nobody's business. It is typical to expect lots of resistance to any type of planning mandate handed down from the state level. In both the Washington and the Connecticut programs, final plan approval authority rests with the state and both states intend to use the process in unpopular ways, such as making local officials responsible for guaranteeing the viability of new small systems. In Washington, the establishment of such a strong state planning mandate required persistent, repeated assaults on the legislature over a period of many years. In Connecticut, the unique experience of a severe drought provided the uncommon political momentum sufficient to implement such a program.

The best approach to sweetening the appeal of a planning initiative is to allow significant local control of the planning process and to provide funding to cover the costs of planning. In deference to political and budgetary realities, Pennsylvania has adopted an incentive-based approach. Three demonstration programs have been launched. One offers regionalization feasibility planning grants to any group of two or more municipalities in rural areas. Another provides demonstration grant funding to study the feasibility of establishing county-wide authorities. The third provides demonstration grants to counties interested in launching comprehensive water supply planning initiatives. Such a voluntary approach to initiating comprehensive water supply planning will probably not provide coverage to all parts of the state, but it will encourage planning to go forward in areas where this approach is acceptable and where there is a demonstrated interest expressed by local officials, as manifest by their interest in obtaining the grant funds. These may be just the areas where a planning approach has the greatest chances of success in any case.

Sympathetic Initiatives to Facilitate Restructuring

As stated above, it is not enough to get small systems involved in long-run planning -- in seriously looking at all their options. The second part of a state viability initiative has to consist of a wide range of what have been called, *sympathetic initiatives*. These are coordinated efforts by different state agencies intended to make the widest possible range of choices available to small systems. This is accomplished by taking a sweeping look at all the ways in which the various agencies of state government can facilitate the possibilities for beneficial restructuring. There are three generic ways in which the state can do this:

- 1) removing barriers to restructuring solutions;
- 2) providing incentives to restructuring solutions; and,
- 3) providing a *last resort* means of accomplishing restructuring under the direction of the state.

Adjusting State Barriers and Incentives to Restructuring

One of the most important things that must be recognized in undertaking measures to promote viability is the need for restructuring not just of small water system institutions, but of various institutions of state government as well.

Just like small system institutions were shaped by the historical low cost environment, institutions of state government are also a product of this historical environment in which small water systems were not a recognized problem. As a result, the pattern of incentives presented by state government programs and policies is in many ways insensitive to concerns over viability and restructuring. There are many instances in which the actions or policies of state agencies present inadvertent barriers to regionalization. There are many ways in which actions or policies of state agencies inadvertently create incentives that work against consideration of long-term viability.

The solution to this problem is to undertake a comprehensive review of barriers and incentives related to the activities of each relevant state agency to explore possibilities for removing barriers and adjusting incentives in a way that will favor the most viable outcomes. The objective is to achieve a coordinated state program wherein all agencies are pulling together in the same direction.⁶

The SDWA primacy agency provides an important incentive in the form of regulatory pressure to comply with SDWA regulations. But it is important to be sensitive to the difference in incentives that may result depending upon how this pressure is applied.

If the primacy agency implements the regulatory program in a strictly incremental -- i.e., one-rule-at-a-time -- fashion, this may encourage incremental thinking rather than long-term planning within the individual water systems. As discussed earlier, this can be combated by finding a means of making systems think through the long-term implications for SDWA compliance before they commit to incremental decisions.

A second area where the SDWA primacy agency has an important role in structuring incentives is in the area of exemption policy. As a general rule, the perception of strong enforcement pressure creates strong incentives to evaluate prospects for long-term viability and to entertain notions of regionalization. The hope of relief through granting of an exemption can take the steam out the enforcement incentive, however. The best approach is to emphasize the temporary nature of exemptions - that they are merely a time-extension, not a waiver. In keeping with the statutory provisions, the extra time can be granted in exchange for a plan and a schedule to eventually achieve compliance. An acceptable basis for a time extension is time required to pursue regionalization strategies or to obtain financing. This could conceivably be tied into a business plan requirement.

The SDWA primacy agency can also present a barrier to viability and restructuring in the manner in which it approaches the engineering plan review process in considering approval of innovative technologies. In many cases, engineering conservatism and the mere cost of the review process have presented a barrier to the introduction of potential small-scale technological fixes. This area of policy should be reviewed in light of the overall problem of finding lasting solutions to the small system problem. In the operating arena, the SDWA primacy agency determines the stringency of operator certification requirements, within statutory limits. In states where these requirements are strongest, the effect is to create strong market incentives for circuit rider O&M strategies.

Public utility commission procedures and protocols represent another area where the state can exercise its authority in a manner which either helps or hinders progress towards long-term viable solutions. With regard to investor-owned water systems, state public utility commissions can exert regulatory pressure bearing directly on the issue of viability as it relates to the quality of service provided to customers.

⁶ USEPA, Restructuring Manual, EPA570/9-91-085, December 1991.

But, PUCs also have a significant role in structuring barriers and ~~incentives affecting the feasibility~~ of regionalization and restructuring options involving both publicly and privately owned water systems. PUC regulatory involvement is generally invoked in any situation involving a transaction between public and private entities.

When a municipal system extends service to a suburban area outside the city limits, the PUC often intervenes to regulate rates charged to the suburban customers. In many cases, this has been a significant barrier to logical extensions of service to contiguous suburban areas and the creation of regional water systems. In light of the concern for the long-term viability of the approach to providing water service to such suburban customers, this is one area of PUC policy that might be revisited in the context of a broader concept of the public interest that the PUC is attempting to protect.

In many states, there are large investor-owned water companies that own and operate a number of large and small systems throughout the state or within certain regions of the state. In some cases, this takes the form of a privatized approach to regionalization. In some cases, PUCs have approved *single tariff rates* for such situations which allows the company to incorporate systems that might not be economically viable within a regionalized scheme and which also reduces the burden of rate case filings to one unified application for the entire regional operation.

A final significant area of PUC involvement is in regulating any transactions involving the transfer of ownership between two private water companies or between a private company and a publicly owned company. Such ownership transfers may be integral to the success of regionalization schemes. There are many situations, such as the municipal/suburban boundary case that we just discussed, in which publicly owned and privately owned systems exist in a contiguous polka-dot pattern. The difference in ownership status can present one of the most formidable barriers to regionalization. Historically, PUCs have applied a complicated set of iron-clad rules to the evaluation of ownership transfers in an effort to protect the public from being charged too much when depreciated plant and equipment changes hands. This is another area where PUC policies need to be revisited in order to assess whether the benefits of such regulatory protection outweigh the costs of possibly missing the opportunity to put regionalized solutions in-place that will provide a more viable long-term approach to providing quality service. Pennsylvania, Connecticut, and several other states have enacted more liberal *merger and acquisition adjustment* laws which enable progress in the right direction. Connecticut has enacted laws which permit the PUC to authorize slightly higher rates of return on investments related to certain acquisitions.⁷

Water resources agencies in states afflicted with chronic water resource shortages, may be an extremely significant factor in the incentive structure. A potential regionalization scheme that might make compelling economic sense in light of the burden of SDWA compliance and long-term viability, may be totally pre-empted from consideration due to the ramifications that consolidation may have in causing water allocation formulas to be adjusted. As with PUC regulation, water resource allocation policies need to be revisited in light of the broader objective of providing water supply in a manner that will be sustainable over the long-term.

State technical and financial assistance programs are another category of state initiatives that needs to be revisited. The most important change that is needed is to redirect the focus of these initiatives to the long-term. If technical and financial assistance are provided to small systems on an incremental basis, the effect may be simply to prop them up -- get them by today's SDWA requirement -- and preserve them until some inevitable future day of reckoning. The net effect could be quite perverse (i.e., "Pick 'em

⁷ Section 16-262r of the General Statutes of Connecticut.

up, so I can hit 'em again.") in contrast to the original good intentions. This can be especially perverse in the case of state-supported financing, such as from a state revolving loan fund -- once the state has invested in a small system, it has a vested interest that may become a barrier to regionalization.

The simple solution to this dilemma is to redirect all technical and financial assistance initiatives to operate on a "strings-attached" basis. In this approach, the provision of technical and financial assistance is provided in a manner that promotes progress towards viable long-term strategies. In the financial assistance area, a simple measure adopted by some states, for example, is to give funding priority to applications which involve regionalized solutions. In both Pennsylvania and Connecticut, the state financial assistance programs have been fully incorporated in the state viability initiative in order to achieve this strings-attached feature.

State Takeover Authority And Directed Restructuring

The final essential element of a state strategy to facilitate restructuring is takeover authority -- the ability to direct the restructuring of the "basket case" systems that have defaulted under regulatory pressure. This is a very misunderstood concept. In many people's minds, this should be one of the first instruments of policy. Some believe that states should get substantial new authority and begin to mandate restructuring of the small system segment of the water industry from the start. There is also another school of thought which suggests that this should be the last instrument of policy.

Ultimately, the need for state exercise of takeover authority is inescapable. Such authority can be very expensive to exercise, however, and, on general principles, forced restructuring is likely to be much more troublesome than a restructuring process driven by incentives. Under the incentive-driven approach, the number of basket cases that ultimately have to be restructured by the state is minimized through a process of: 1) incentivizing grass-roots long-term planning to identify options, 2) removing barriers and creating incentives to maximize the range of options available, and 3) applying firm SDWA enforcement pressure to drive the process.

Under this approach the takeover authority is used as a means of following through on SDWA enforcement pressure -- when a system defaults and has no option left but to hand over the keys, the state has to be able to move into the driver's seat in order to sustain the credibility of enforcement. Keeping the pressure on, while opening as many doors to viable restructuring options as possible is the surest means of minimizing the number of basket cases that might have to be taken over in the end.

In the end, the exercise of state takeover authority represents an excursion into a much broader area of public policy than that of the SDWA policy arena. This is important to recognize because takeover of basket case systems will inevitably involve a subsidy from the state. In this respect, the takeover mechanism is a *safety net* -- a reflection of state policy regarding rural poverty, rural infrastructure, and economic development. Development of an effective takeover mechanism must draw on these broader constituencies.

The unavoidable need for a subsidy to deal with the basket cases provides another over-arching reason for adopting an incentive-based approach to the overall restructuring process; it provides a means of minimizing the total amount of subsidy required and a means of assuring that subsidies are directed to the true basket case situations where this type of assistance is truly needed.

The need for a takeover mechanism also provides another compelling reason for expanded involvement by the PUC. The PUC is the only state agency that is staffed and equipped to provide the relevant type of administrative process with protection of rights to due process. The PUC has the staff expertise required to evaluate all aspects of a default situation and a charter to weigh all the broader public interests. In Connecticut, the takeover law permits the commission to order takeovers regardless of the ownership of the utilities involved. This expansion of PUC authority beyond the normal realm results in a very complete mechanism for resolving defaults. By Contrast, the takeover law in Pennsylvania is narrower, enabling the commission only to order takeovers of investor owned companies by investor owned companies.

Conclusions

Researchers of the National Regulatory Research Institute have proposed a framework for consideration of alternative approaches to regulation in the water supply field.⁸ It is grounded in the recognition that commission regulation need not be viewed as an all-or-nothing monolith. State public utility commissions typically have six discrete types of authority, as follows:

- o issuance of certificates,
- o establishment of rates,
- o approval of short and long-term financing,
- o approval of ownership transfers,
- o resolution of customer complaints, and
- o establishment of reporting requirements.

The NRRI researchers offer the insight that regulation may be made more efficient through the development of strategies that adjust the degree and form of intervention within these discrete areas. The coordinated state viability initiatives launched in Pennsylvania and Connecticut, discussed in this paper, illustrate a number of ways in which the exercise of commission authority in these six areas can be modified to allow the natural expertise and ability of the PUC to be more fully brought to bear on the development of sustainable solutions to small system problems.

In the area of certification, for example, commissions can probably determine that assessment of new system viability is already under their authority for investor owned systems. The Connecticut program illustrates how PUC certification authority can be expanded to encompass all new systems without expanding the other five dimensions of commission regulation. Only one of the six areas of PUC authority needs to be expanded in order to address this aspect of the small system problem. Certification of public convenience and necessity is a fundamental PUC function performed to protect the public interest in the configuration of utility service areas. Expansion of the PUC role to protect the broader public interest, as in Connecticut, is a logical step.

The natural role of the PUC in certification can also be relied upon as a source of authority to promote stronger forms of intervention when the inevitable need arises for the state to direct the takeover of basket case systems in default. Again, the Connecticut example leads the way in pointing to logical reforms. Rather than leave the PUC hobbled in this area by traditional constraints of jurisdiction, the Connecticut legislature expanded the reach of the PUC to permit it to direct takeovers regardless of the

⁸ Beecher, J. and Mann, P., Deregulation And Regulatory Alternatives for Water Utilities, National Regulatory Research Institute, Columbus, OH, February 1990, NRRI 89-16.

ownership status of the entities involved. Again, the Connecticut PUC is empowered to protect the broader public interest. Over forty takeover orders have been issued so far.

With the right reforms in regulatory practices, the PUC can also play a more active role in promoting healthful forms of restructuring through incentives. In the area of mergers and acquisitions, Pennsylvania and Connecticut have enacted enlightened adjustment mechanisms that can permit variations from rigid accounting rules when the broader public interest favors making some compromises in order to promote efficient restructuring. PUCs can draw on both their certification and rate making authority in this area.

An issue for consideration in the area of rate reform pertains to the rate case treatment of inside-the-city versus outside-the-city transactions. It may be worthwhile to re-evaluate the benefits and costs of traditional regulatory approaches. Is the airtight protection against the evils of monopoly worth the social cost it imposes in the resulting balkanization of nearby suburbs into an inefficient and potentially non-viable patchwork of small entities? One approach, adopted in Connecticut, is to expand the reach of PUC reporting requirements to cover municipals. In this strategy there is the implied threat of expanded PUC rate regulation if municipals stray to far from reasonableness. Conceivably, a commission could also determine to keep the complaint window open as a check on municipals. The threat of PUC regulation of municipals may be as effective as the reality.

As also highlighted in recent NRRI research, the PUC can play a significant role in sponsoring a process of integrated resource planning in the water supply field.⁹ Such planning processes are an extremely beneficial means of mobilizing support for efficient restructuring. The Connecticut case represents an example where the PUC is actually the lead entity in spearheading such planning efforts. The substance of the planning process goes to the heart of commission responsibilities for certification and encouragement of *least cost* configurations. The Pennsylvania example illustrates an approach to mobilizing a planning process even in a situation where planning is less widely accepted.

We offer the following conclusions regarding the role of the PUC in assuring viable water service to small communities:

- 1) Without more significant intervention by state government, the restructuring of the small system segment of the water industry will proceed, under SDWA compliance pressure, in a very inefficient manner. The result is likely to be an increase in the number of "basket cases." That situation will ultimately require a different form of state intervention.
- 2) It must be recognized that the issue is not SDWA compliance. The issue is state infrastructure policy relevant to water supply. The problem calls for a coordinated interagency approach. The problem calls for legislative expansion of the traditional scope of intervention by the participating agencies and for efficient restructuring of certain institutions of state government.
- 3) Within the six discrete areas of PUC authority defined by NRRI, there is enormous potential for commissions to selectively expand the reach of the state to take control of the restructuring process. Yet, this can be accomplished without expanding commission regulation as an all-or-nothing monolith.

⁹ Beecher, J., Landers, J. and Mann, P., Integrated Resource Planning for Water Utilities, National Regulatory Research Institute, Columbus, OH, October 1991, NRRI 91-18.

- 4) With regard to the broader public interest at stake in the restructuring of this category of infrastructure, the PUC has all the natural types of regulatory authority that are applicable to guiding the process. They require only selective expansion in order to support a very complete framework for attaining sustainable, least cost solutions.
- 5) The PUC also has the specific expertise and administrative apparatus necessary to the task of restructuring. Unique among state agencies in the water field, commissions have the financial and legal expertise as well as the administrative processes relevant to the types of transactions which may be required. PUCs can usher restructuring solutions into place while maintaining adequate safeguards to assure due process.
- 6) In sum, there is a clear mandate for broader and more active intervention by state PUCs. PUCs have precisely the forms of authority and the unique expertise that is required. Moreover, without such capable leadership, the outcome will probably be a water supply infrastructure in small communities that is less safe, adequate and reliable. PUCs should not stand by to let this happen, but should seek the legislative authority to fulfill their natural mandate to intervene on behalf of the public interest at stake.

SOUTHERN STATES UTILITIES, INC.
DOCKET NO.: 950495-WS
RESPONSE TO INTERROGATORIES

REQUESTED BY: Marco Island Civ Assoc
SET NO: 1
INTERROGATORY NO: 5-R
ISSUE DATE: 12/12/95
WITNESS: Scott W. Vierima
RESPONDENT: Scott W. Vierima

INTERROGATORY NO: 5-R

If the two Collier County tax exempt bond interest rates were applied directly and solely to the facilities for which they were intended to finance, what would be the weighted cost of debt for SSU's Marco Island facilities on a stand alone basis?

RESPONSE: 5-R

In December the two Collier County tax-exempt bonds were floating rate issues with weekly remarketing. The effective rate on those bonds at year-end 1995, including amortization of debt closing costs, remarketing fees, interest and credit support fees was just over 7%. It is not possible to calculate a true stand alone cost of debt because no stand alone credit analysis or rating exists for the Marco Island plant.

The two Collier issues were sold with a Aa3 Moody's rating on the basis of credit support given to SSU in total, and therefore do not reflect the rates and terms that would be available if the Marco facilities were financed without SSU ownership.



**HANSON
APPRAISAL
COMPANY, INC.**

2233 SECOND STREET
FORT MYERS, FLORIDA
33901-3025
941 - 334 - 4430
FAX: 941 - 334 - 0403

W. Stanley Hanson, Jr., MAI
Woodward S. Hanson, MAI
St. Cert. Gen. REA RZ 0001003
Real Estate Appraisers - Realtors

ASSOCIATES:
R. Alan Wilcox, MAI
State Cert. Gen. REA RZ 0000306
Michael D. Doyle
State Cert. Gen. REA RZ 0002048
Kenneth F. Swartz
State Cert. Gen. REA RZ 0001297
Robert A. Kump II
State Reg. REA RI 0000791
Caroline D. Edwards
State Reg. REA RI 0008032

03 May 1995

Via Telefax No. (407) 880-1395
and Regular Mail

CONFIDENTIAL WORK PRODUCT

Brian Armstrong, Esquire
General Counsel
SOUTHERN STATES UTILITIES
1000 Color Place
Apopka, FL 32703

Re: Evaluation of Proposed Settlement Offer
Case Style: SSU, Inc. v. Lynton, et al.
Case No.: 94-0793-CA-01-CTC

Dear Mr. Armstrong:

Pursuant to your request, I submit this correspondence for the purpose of providing you my evaluation of the proposed settlement offer currently being considered by Southern States Utilities, Inc. in regards to the above-referenced matter.

In summary, the compensation estimates in this matter have ranged from \$3,723,500 (Hanson) to \$12,500,000 (Klusza). The following table is presented as a summary of the compensation estimates as prepared by each of the valuation experts and allocated between the contributing elements of their analysis:

	<u>Land Taken</u>	<u>Interim Benefits</u>	<u>Damages</u>		<u>Total</u>
CALHOUN:	\$4,241,000	---	\$157,100	=	\$4,398,100
HANSON:	\$3,606,500	---	\$117,000	=	\$3,723,500
KLUSZA:	\$6,400,000	\$1,500,000	\$4,600,000	=	\$12,500,000
CARROLL:	\$4,800,000	\$2,400,000	\$4,450,000	=	\$11,650,000

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In evaluating the proposed settlement offer, the appraiser will provide the reader with an analysis and overview of each of the contributing elements to the compensation estimates summarized above. This analysis will lead to a conclusion by the appraiser in regards to the merits of the proposed settlement offer. The following analysis and overview is presented:

1. Value of Land Taken: In summary, the compensation estimates for the value of the land taken range from \$3,606,500 to \$6,400,000.

The condemnor's experts estimated the value of the land taken to range from \$3,606,500 to \$4,241,000. The lower end of the value range resulted from a valuation theory which gave less contributory value from the bodies of water associated with the part taken, although Collier County allows residential density credits to be derived from these contributing areas. Each of the value estimates above included contributory values from that portion of the parent tract identified as "Activity Center" on the Collier County Future Land Use Map. This portion of the parent tract was recognized as having a commercial type potential and resulting value estimate.

The condemnee's experts provided value estimates for the land taken ranging from \$4,800,000 to \$6,400,000. The higher end of the range was arrived at through an analysis which was based on an \$8,000 per dwelling unit unit of comparison. The weakness of this approach relates to the physical capacity of the part taken to accommodate 800 residential dwelling units in a product mix consistent with similarly situated residential projects within the Collier County market area. The lower end of the value range was arrived at through an analysis of six sales of large unimproved residential properties which were analyzed in a methodology considered consistent to the valuation analyses presented by John Calhoun (condemnor's expert).

In my experience, I would not expect a jury verdict in regards to the value of the land taken to be less than the higher end of the condemnor's value range (\$4,241,000). In all probability, I would expect the jury to reach a decision in this regards midway between Calhoun's value estimate (\$4,241,000) and Carroll's estimate (\$4,800,000), or approximately \$4,500,000. However, there is substantial risk in regards to this issue due to the fact that the condemnee's other expert will testify to a compensation estimate of \$6,400,000.

2. Interim Benefits: An additional element of compensation considered by the condemnee's experts related to the valuation of the interim benefits associated with the sale of water rights at the subject property during an interim period of time until which mixed-use residential development of the site would occur.

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In summary, the condemnee's experts included compensation estimates for this element of compensation ranging from \$1,500,000 to \$2,400,000. I have no knowledge as to the admissibility of a claim based upon this type of analysis but I am aware of interim use valuation methodologies as presented by the Appraisal Institute in its various publications (e.g., The Appraisal of Real Estate - Tenth Edition). If this component of the compensation estimate is admissible and is attacked based upon a factual basis (e.g., retail prices versus wholesale prices), it is likely that the jury would include a portion of this compensation estimate in their final verdict. I would expect a jury verdict in regards to this matter between \$500,000 and \$1,000,000. In any event, this element of compensation presents significant risk to SSU and must be considered in regards to the evaluation of the settlement offer.

3. Severance Damages: In summary, the severance damages were estimated by the four experts to range from \$117,000 to \$4,600,000.

The condemnor's experts estimated severance damages ranging from \$117,000 to \$157,100. In general concept, these severance damages were estimated based upon impacts resulting from the partial acquisition to the westerly remainder (e.g., west of Henderson Creek). Neither of the condemnor's experts included a severance damage estimate based upon increased regulatory pressures expected to occur at the remainder property by reason of the proposed use of the partial acquisition area (e.g., public water resource facility).

The condemnee's experts have provided severance damage estimates ranging from \$4,450,000 to \$4,600,000. In general theory, these damage estimates were predicated upon the belief that significant discounts and penalties would be imposed on the remainder property by the market place as a result of increased regulatory constraints and pressures which would occur as a result of the proximity of the remainder property to the public water resource facility. It is my understanding that Mr. Klusza has considered similar surface water resource facilities throughout the Southwest Florida market area including, but not necessarily limited to the Hillsborough River facility, North Port facility and Lake Manatee, and has reached the conclusion that significant evidence exists in the market to support the deep discount penalty discussed herein.

This single element of compensation presents more risk to SSU than any of the other elements of compensation discussed thus far. The nature of the damage estimates presented herein present the jury with an "either or" decision. The condemnor's experts believe no impact is demonstrative in regards to the increased regulatory

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pressures, whereas, the condemnee's experts believe significant impacts can be demonstrated in this regard.

The risk in this regard is so substantial that great consideration must be given thereto. In my best estimate, I feel as though a jury would likely conclude that the severance damages in this regard would total \$2,500,000. Keep in mind that there is still \$2,000,000 added exposure to this issue in the event the jury completely believes this element of the condemnee's theory of valuation.

4. Fees and Costs: It is my understanding that the condemnee's experts currently have incurred costs totaling \$424,000. Furthermore, it is my belief that an additional \$250,000 would be incurred by these experts in preparation for and testimony at trial. Therefore, the total budget for condemnee's cost should approximate \$675,000. In regards to attorney fees, I would expect the fee to be based upon a reasonable hourly rate together with a 15.0% to 20.0% premium for any benefit produced by opposing counsel for its client. In this regard, I would expect an hourly rate for the attorneys to approximate \$350 per hour and a total amount of time and preparation for this trial to support a probable fee on this basis of \$200,000. I have outlined above a probable jury verdict which totals \$8,000,000. On this basis, the attorneys fee would be increased to reflect a betterment of approximately \$3,800,000 for an additional fee of \$760,000, for a total attorneys fee of \$960,000.

5. Summary and Conclusion: The following summary is presented for the reader's review in regards to the various elements which have been considered in the evaluation settlement offer:

Value of Land Taken:	\$4,500,000
Interim Benefits:	1,000,000
Damages:	2,500,000
Fee and Costs:	<u>1,635,000</u>
Total	\$9,635,000

In summary, I have delineated what I consider to be a probable verdict in regards to the issues summarized above, which is a probable jury verdict of \$8,000,000, with an additional \$1,635,000 associated with fees and costs resulting in a total economic impact to SSU of \$9,635,000.

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EXHIBIT NO. 213
CASE NO. 96-04227

EXHIBIT _____ (RAM-13)

PAGE 1 OF 3

EXECUTIVE SUMMARY

1. It is dangerous and inappropriate to rely on only methodology to estimate the cost of equity capital, let alone on one particular variant of that methodology, as Mr. Rothschild has done. Mr. Rothschild has chosen to rely on only one variant of one method, namely the retention ratio version of the DCF method, although he does perform a perfunctory risk premium check on his DCF result while he completely ignores the results he obtained from the CAPM. Moreover, his sole methodology contains a serious circular logical trap whereby Mr. Rothschild was forced to assume the ROE answer in order to produce the cost of equity. Therefore, since Mr. Rothschild's entire testimony rests on one particular methodology and since that methodology is logically circular, his cost of equity recommendation should be dismissed entirely.

2. Mr. Rothschild is completely silent on the Commission's Leverage Formula used to estimate the cost of equity of Florida water utilities, as if it did not exist. I can only presume that he is in disagreement with the Commission's established methodology.

3. Mr. Rothschild's cost of equity recommendation is unreasonably low, and is not a reliable estimate of SSU's cost of equity capital given his sole reliance on one particular and fragile cost of equity methodology. Reliance on one particular methodology violates corporate practice, financial theory, and the Commission's Leverage Formula.

4. There are serious logical inconsistencies in the retention growth method employed by Mr. Rothschild. Moreover, this method is the least empirically and theoretically valid.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495-WIS **EXHIBIT NO.** 213
COMPANY/
WITNESS: _____
DATE: 4-29-97

DOCUMENT NUMBER-DATE
03401 MAR 21 98
FPSC-RECORDS/REPORTING

5. Mr. Rothschild is completely silent on the subject of flotation costs, and his DCF estimates of equity costs are therefore understated. Yet, his retention growth term includes growth through external stock issues.

6. Mr. Rothschild erroneously contends that the business risks faced by SSU and the water utility industry have not increased in recent years and that Florida water utilities are not riskier than the national average.

7. Mr. Rothschild's view that company size is unrelated to return because it is an element of diversifiable risk is wrong.

8. Mr. Rothschild's contention that a liquidity premium is unwarranted because SSU's equity capital is raised by its parent is wrong.

9. Mr. Rothschild's view that gas distribution stocks and water utility companies are equally risky is inconsistent with the facts and with the Commission's Leverage Formula.

10. Mr. Rothschild's viewpoint that the used and useful adjustment does not increase SSU's risk is erroneous.

11. Mr. Rothschild's view that a weather normalization clause does not reduce risk is counterintuitive and inconsistent with financial theory.

12. Mr. Rothschild's risk premium analysis applied to electric utilities is stale and inapplicable to water utilities. Mr. Rothschild's contention that the risk premium is driven by changes in taxation ignores the presence of tax-exempt institutional investors.

13. Mr. Rothschild wrongly argues that the yield on short-term Treasury securities is the proper proxy for the risk-free rate in the CAPM. Only long-term yields provide an appropriate proxy for the risk-free rate when applying the CAPM to common stocks.

14. Mr. Rothschild wrongly argues that arithmetic means rather than geometric means should be used when measuring the market risk premium.

15. Mr. Rothschild's disregard for the CAPM and its results is totally out of the mainstream of corporate finance and corporate practice and violates the spirit of the Commission's Leverage Formula.

16. Market to Book ratios and regulation. Mr. Rothschild erroneously believes that market to book ratios above 1.0 are a sign that the utility is over-earning.

17. Mr. Rothschild's 10.10% cost of equity recommendation is well below a credible level, and there are serious problems with his methods and his concepts.

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EXHIBIT NO. 214
CASE NO. 96-04227

EXHIBIT (GRD-1)
PAGE 1 OF 6

GRAY, HARRIS & ROBINSON
PROFESSIONAL ASSOCIATION
ATTORNEYS AT LAW

RECEIVED
JUN 16 1995
LEGAL DEPT

J. CHARLES GRAY
GORDON H. HARRIS
RICHARD M. ROBINSON
PHILLIP R. FINCH
PAMELA O. PRICE
JAMES F. PAGE, JR.
WILLIAM A. BOYLES
THOMAS A. CLOUD
BYRO F. MARSHALL, JR.
J. MASON WILLIAMS III
LEO P. ROCK, JR.
G. ROBERTSON DILG
CHARLES W. SELL
JACK A. KIRSCHENBAUM
JAMES W. PEEPLES III
RICHARD E. BURKE
GUT S. HAGGARD
FREDERICK W. LEONHAROT
BORRON J. OWEN, JR.
MICHAEL K. WILSON

SUITE 1200
201 EAST PINE STREET
POST OFFICE BOX 3068
ORLANDO, FL 32802-3068
TELEPHONE (407) 843-8880
FAX (407) 244-5690

GLASS BANK BUILDING
505 NORTH ORLANDO AVENUE
POST OFFICE BOX 320757
COCOA BEACH, FL 32932-0757
TELEPHONE (407) 783-2218
FAX (407) 783-2287

PAUL S. QUINN, JR.
PAUL L. SCHICK
JAMES M. MULLEN
SUSAN T. SPRADLEY
TRACY A. BORGERT
LILA INGATE MCHENRT
KENT L. HIPPI
MICHAEL E. NEUKAMM
ROBERT L. BEALS
DONALD H. GIBSON
KIMBERLY L. NOWORYTA
MICHELE R. PLANTE
N. SCOTT NOVELL
CHRISTOPHER J. COLEMAN
PEGGY R. HOYT
RUSSELL S. KENT

OF COUNSEL
MALCOLM R. KIRSCHENBAUM
SYD JACKOWITZ
WILLIAM G. BOLTIN, III, P. A.

WRITER'S DIRECT DIAL

PLEASE REPLY TO:

Orlando

May 3, 1995

Brian Armstrong, Esquire
General Counsel
Southern States Utilities, Inc.
1000 Color Place
Apopka, Florida 32703

RE: Southern States Utilities, Inc. v.
Harold S. Lynton, et al.
Case No. 94-0793-CA-01-CTC

Dear Brian:

You have requested our settlement evaluation of this case. In order to set the stage for this evaluation, it is appropriate to outline the developments both before and after the mediation held all day on Saturday, April 22, 1995.

After we obtained the initial appraisal of John Calhoun in November, 1992, for \$4,070,000 and before we had an appraisal from the other side, we predicted that the case was not likely to settle for less than \$6 to \$6.5 million, and that we felt that it might go as high as \$8 million. We also pointed out that the trial of such a large case would be expensive. We did not predict that we would be given Collier appraisals for \$11,650,000 and \$12,500,000.

At the mediation, SSU offered to settle for \$7 million plus attorney fees and costs. Collier made what we were told was a "take it or leave it" offer of \$8 million plus fees and costs. We "left it" and told them "no thank you".

After the mediation, Bill Earle indicated that \$8 million was not a "take it or leave it" number and talked about \$7,750,000 with some "extras" which we had discussed at mediation. On Sunday he called me at home and "floated" \$7,750,000 plus attorney fees and costs, or an \$8,750,000 wrap plus the "extras". On Tuesday he made this a firm offer.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495 EXHIBIT NO 214
COMPANY/ SSU DILG
WITNESS: SSU DILG
DATE:

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All this was much discussed between you and I and our team. We held a conference in our office on Monday, May 1, 1995 to consider our response to this offer. Our response was to offer an \$8 million wrap plus the "extras" which was transmitted immediately. (I was recommending \$7,500,000 plus fees and costs plus the "extras" or an \$8,250,000 wrap plus the "extras"). In response Bill Earle "floated" \$7,250,000 plus attorney fees and costs, or an \$8 million wrap, both without any of the "extras". His client had no interest in the "extras" because of our reluctance to provide a long term commitment for raw water service and because it was so complicated and appeared to be somewhat "one-sided" in our favor. The "extras" (which included mutual non-intervention on permit applications and additional easements, among other things) were clearly to our benefit when we would not include the new water.

Both of the Collier family's appraisers, Richard Klusza and J. E. Carroll, argue that the Collier property represents one of the last large tracts available for a golf course/resort community. Both argue that the property enjoyed a particularly advantageous location proximate to the interchange of C.R. 951 and the Tamiami Trail. This is an interchange where shopping centers and the Barefoot Bay, Eagle Creek, Lely Resort, River Bend and Woodfield Lakes developments are now being constructed or planned.

Klusza relies primarily on five comparable sales. Two of those are on the west side of C.R. 951, north of the subject property. The other three, the Livingston property, the Westinghouse Communities property and the NJ Development property are located north of Naples between the Tamiami Trail and I-75. In analyzing the prices of those sales, Klusza finds a range of from \$6,722 per dwelling unit to \$14,677. These prices were for gross densities ranging from 1.05 to 2.8 dwelling units per acre. From those figures he concludes that the subject property, which was estimated to have 1.6 dwelling units per acre, would have a value of \$8,000 per dwelling unit. Klusza then applies that figure to a development plan prepared by Tony Wiles, which indicates that the property being taken could support from 800 to 1100 dwelling units. Using the 800 figure, Klusza reaches a value of \$6,400,00 for the property taken. The weakness in Klusza's approach is his assumption that there could, in fact, be 800 units on the property taken and that units at that density would actually sell for \$8,000 per unit. In cross examination we will raise serious questions about these assumptions, though we probably will not persuade the court to strike Klusza's testimony. As a result, the jury will probably be given a value of \$6,400,000 for the property taken.

Carroll adopts a methodology almost identical to that employed by John Calhoun. As comparables, Carroll uses six sales, two

Westinghouse Communities properties, Quail West, and the Livingston property, all of which are north of Naples, as well as an Elba Development property to the west of the Naples airport and the Arete Golf Club property on C.R. 951. Those sales range in price from \$15,656 to \$54,952 per acre. They range in size from 216 to 780 acres. From those figures, Carroll reaches a value of \$24,000 per gross acre. For the property taken, he adds a premium of \$2,500 per acre, presumably for the existence of the lakes and the commercial potential of a part of the property, to reach a value of \$26,500. That gives the property taken a value of approximately \$4.8 million dollars. Because his comparables and methodology is so close to John Calhoun's, Carroll will be difficult to impeach, though we can raise questions about some of the conclusions drawn from his comparables and his failure to credit the Colliers with the value of the easement. Carroll, however, could respond by adding additional value for the commercial property taken (which he did not value separately) and perhaps by increasing his wetland values from \$1,000 to \$2,500, the figure used by our appraiser, Woody Hanson.

The real difficulty of this case is not in the comparable sales used by Klusza and Carroll. Even if Klusza's figures are entirely disregarded, the jury can still find a value of the taking somewhere between Calhoun's figure of \$4,241,000 and Carroll's figure of \$4,800,000, or approximately \$4,500,000. If Klusza's figures are not disregarded, the likely value will be between Hanson's figure of \$3,600,000 and Klusza's of \$6,400,000, or approximately \$5,000,000.

Both Klusza and Carroll give a value to the interim use of the property for supplying water. Klusza places that value at \$1,500,000, while Carroll placed it at \$2,400,000, based on the retail rates in the market, including those proposed by the City of Naples to provide water to Marco Island. This is the most difficult portion of their appraisals to assess. We are prepared to make legal arguments that it was inappropriate to ascribe any value to such interim use. You should understand, however, that the Appraisal of Real Estate prepared by the Appraisal Institute, which is akin to the Bible for appraisers, recognizes interim uses and specifically discusses such interim uses as farming operations, parking lots and golf courses. Such uses give the properties on which they are located higher values than would be indicated by otherwise comparable properties lacking such interim uses. If Klusza and Carroll are able to introduce evidence of an interim water use, even after extensive attack on our part, it is likely a jury will find damages of \$750,000 to compensate for the loss of up to three years of water.

The most difficult area for us to attack is Klusza and Carroll's severance damages. SSU's appraisers recognize only between \$117,000 and \$157,400 in severance damages, which was due to the impact of the taking on a triangular piece of property just north of the taking (this area was not specifically dealt with by Klusza and Carroll). Klusza and Carroll are prepared to argue that the taking and its use as a source of fresh water for SSU will make it more difficult to develop the remaining property. According to Klusza and Carroll, the Colliers might have restrictions imposed on the kind of development that could take place within the entire area that provides water for the pits. They are also prepared to contend that there might be less water available for the remaining property to use, particularly for golf courses.

Once again, we will be able to attack the assumptions made by Klusza and Carroll. It is likely, however, that they will be able to point to other situations in which the existence of a fresh water source impeded the development of surrounding properties. They might even be able to find instances in which Southern States opposed the development of property adjoining some of its water supplies. Klusza indicates in his appraisal that such difficulties might result in a reduction of as much as 38% of the number of units that could be constructed on the remainder property. Rather than use that high figure, he uses a figure of approximately 23% (\$4,600,000). Carroll uses a figure of 15% (\$4,450,000). I do not believe there is any way to strike such testimony. Accordingly, I think it is likely that the jury, even if it disbelieves much of what Klusza and Carroll say, will still find some severance damage, perhaps in the range of from 5 to 7 1/2 percent of the value of the entire remainder property. If this is true, it will result in a severance damage award of from \$1.5 million to in excess of \$2 million dollars.

In view of the above, we recommend that you now respond and offer to settle for \$8,000,000, inclusive of seller's legal and expert costs. The reasons are as follows:

1. The certainty of a resolution is preferable to the significant exposure to trial awards and costs in excess of \$8,000,000.
2. The likely verdict on the value component of the case is \$5,000,000

Hanson	\$3,606,500
Calhoun	\$4,241,000
Carroll	\$4,800,000 (They may not call)
Klusza	\$6,400,000

The jury will see them at \$6.4 million and us at \$4.3 million and probably will find \$5 million.

3. The likely verdict on the interim use component is \$750,000. We are at zero and they are at \$1.5 million and \$2.4 million. The jury will likely find \$750,000. We have a twenty percent chance of knocking out the interim use entirely but the Court is likely to rule that testimony on the interim use goes to the weight of the evidence and not exclude it.
4. A severance award in the magnitude given above (\$1.5 million to in excess of \$2 million) is likely given the possibility of development restrictions which would be placed on the remainder property due to proximity to a public water supply source. The values of the respective appraisers are as follows:

Hanson	\$ 117,000
Calhoun	\$ 157,100
Carroll	\$4,450,000
Klusza	\$4,600,000

The jury will probably not give them all they want but the jury will likely feel that the property is somewhat harder to develop in the after condition than in the before. (I think this is a fact).

5. I believe that the most probable jury award, before fees and assuming a "best case" trial, will be in excess of \$7,000,000, with a chance that the award could be significantly higher.
6. Their eight experts' bills total \$424,000 at present. If we cut out the fluff we might get it down to \$350,000. This will increase by at least \$250,000 for trial.
7. The Collier's legal fees (Earle and Patchen) will be reasonable hours at the rate of \$350 per hour plus 15% to 20% of the benefit. The time component will be at least \$200,000 more for trial. For pre-trial settlement, 20% of betterment is a good figure and a likely one.
8. Let's assume we get a best case verdict of \$7,000,000. Interest will be about \$300,000 (say 10% of betterment). Their costs will be \$600,000

Brian Armstrong, Esquire
May 3, 1995
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EXHIBIT (GRD-1)
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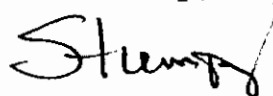
plus their legal fees of \$750,000. Our fees and costs will be a minimum of \$500,000 and could be more. This equals a sum of \$9,150,000.

9. Seller's "best case" verdict of \$8,500,000 would result in at least \$11 million total cost. An excessive award could, of course, be appealed, but at significant further cost without any assurance of success.
10. By floating the \$8 million wrap figure they are in effect accepting our \$7 million mediation offer plus \$350,000 for experts and \$650,000 for Earle and Patchen's fee. These are fair figures and likely to be awarded by the court.
11. It is my belief that SSU, on balance, would be exposing its customers to significant risk of increased costs and awards by proceeding to trial given the merits of all evidence provided to date.

I look forward to your call.

With kind regards, I am

Cordially,



Gordon H. Harris

GHH:cm

DOCKET 950495-WS
EXHIBIT NO. 215
CASE NO. 96-04227

Ralph Terrero's

Late Filed Exhibit No. 215

Docket No. 950495-WS

May 8, 1996

Line Break at Apple Valley

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950495-WS EXHIBIT NO. LF 215
COMPANY/ Dial
WITNESS: _____
DATE: 4/29/96

**Late File Hearing Exhibit 215
(Requested by Chairman Clark)**

Summary of Events Surrounding the issuance of a Boiled Water Notice at Apple Valley

At approximately 5:00 PM on May 8, 1996, SSU's Operations Department was notified of a main line break at Oakhurst & Willow Grove in the Apple Valley service area. A 6" main was broken by Florida Power personnel who were attempting to set a pole. (It is unknown if the personnel were contractors or FPC employees) This water main is a main feed line for this area. Approximately 800 connections were without water.

SSU Operations personnel were called out to repair the main and worked on site until water was restored at approximately 11:00 PM. Lines were then flushed throughout the system. A copy of the Malfunction Report is included in the attached Appendix 215-A.

The next Morning, May 9, 1996, at approximately 8:00 AM FDEP was notified by SSU's Don Corder of the situation which had occurred the previous evening. A copy of the Telephone Response Record is also included in the attached Appendix.

On May 9, 1996, Mr. Corder also notified Dave Denny (Reg. Manager), Mary Ann Glennon (Env. Comp.) & Tracy Smith (Communications) of the situation. It was determined that a boiled water notice should be issued as a precautionary measure, even though FDEP did not require the notice. Due to the number of services which were affected, it was decided that the most expedient way of informing our customers was through the media.

A Media Bulletin (copy attached) was issued to WFTV-CH 9, WCPX-Ch 6, WESH-Ch 2, WDBO-Radio, WNZ-Radio & The Orlando Sentinel. All of these were faxed with a phone call follow up (with the exception of WNZ-Radio, which was notified by telephone only).

On May 9, 1996, Operation Personnel again flushed the water mains in the area affected and collected 4 samples to be analyzed for Total Coliform Bacteria.

On May 10, 1996, Operation Personnel again collected 4 samples to be analyzed for Total Coliform Bacteria.

All of the samples collected on May 9, 1996 and May 10, 1996 tested satisfactory, i.e. they were absent of any Total Coliform Bacteria.

SOUTHERN STATES UTILITIES, INC. MALFUNCTION REPORT

Appendix C

Facility Name: Apple Valley Phone: _____
 County: Seminole PWS ID Number: 3590039
 Date and Time of Failure or Planned Outage: Date 5-8-96 Time 500 PM
 Time water system was back in service: Date 5-8-96 Time 1100 PM

Situation was reported to:
 D.E.P. Date: 5-9-96 Time: 0800 Person Contacted: Trudy Wilkes
Bhanna Engineer
 Health Dept. _____ Date: _____ Time: _____ Person Contacted: _____
 Other: _____ Date: _____ Time: _____ Person Contacted: _____

Location of Trouble: Oakhurst & W. How Grove (Sawondo Estate)

Statement of Trouble: Broken 6" Main - F/A. Power did not
call for locates - Attempting to install light pole

Corrective Action: Crew Repaired

Number of Customers Affected: 800 connections
 Were Customers Notified? Yes _____ No Explain: Notified by Radio
or TV on 5-9-96

Was Water line Flushed and Superchlorinated prior to placing back into service? Yes
 Number of Bacteriological Samples required: 4 ~~2~~ Samples Samples taken by: Tim Johnson

*Copies of Bacteriological Sample Results shall be forwarded to Env. Svc. Dept. upon receipt.
 Also to DEP (Bhanna Eng.)

If material failure, give (complete as possible) a description of the material including size, type, an available manufacturing information shown on the failed product. If known, include cause of failure:

Additional remarks: _____

Reported By Donald B. Corder Donald B. Corder
 Print Name Signature

**Southern States Utilities, Inc.
Telephone Regulatory Response Record**

Date: 5-9-96Time: 0800System Name: Apple Valley (Sanlondo Estates)Person Calling: DON CorderSSU Department Being Represented: OperationsPerson Being Called: Trudy Wilkes + Bhanu EngineerOrganization Being Called: DEPReason For Call: Report 6" water main break -
Water off from 1700 hrs. To 2300 hrs.
800 connections - ON East side of I-4Items Discussed: Need for Boiled water noticeAction Required (By Whom/When): Bhanu Engineer called - left it to our
decision as to a Boil Water Notice -Reported to: Dave Denny & Mary Glennon,Also Note: Spoke with Tracy Smith about Public NotificationAdditional Comments: Main broken by Fla. Power - customer
told them before they started that a water main
was there. ~~Donald B. Corder~~ (257-8472)John White - Fla. PowerSignature: Donald B. Corder



Southern States Utilities • 1000 Color Place • Apopka, FL 32703 • 407/880-0058

Contact Tracy Smith -- 880-0058 ext. 137

MEDIA BULLETIN

MAY 9, 1996

Southern States Utilities has issued a boil water notice to its customers in the Sanlando Estates area of Seminole County near Altamonte Springs (east of I-4, west of 17-92 and north of 436). As a precaution, customers should boil their water used for drinking or cooking for the next 72 hours due to a water main break caused by electrical construction work. The rupture occurred Wednesday at approximately 5 p.m. and repairs were completed by 11 p.m. Approximately 800 homes have been effected.

This is a precautionary measure while water samples are being analyzed to ensure that the water meets all safe drinking water standards. Southern States Utilities is continuing to flush the system to remove any loose sediments.

This notice will end in 72 hours unless otherwise notified. Customer cooperation is appreciated at this time.

Contacts to:

WFTU - Ch 9
WCPX - Ch 6
WESH - Ch 2

WBBO - Radio
WNZ - Radio (no fax)
Orlando Sentinel

WATER FOR FLORIDA'S **FUTURE**





FACSIMILE TRANSMISSION

1000 Color Place, Apopka, FL 32703

Date: May 9, 1996
To: News Director
WFTU-CH9
From: Tracy Smith
Fax Number: ~~244-8302~~ 244-8372
Telephone: (407) 880-0058 ext 137
Fax Number: (407) 880-1395

SUBJECT: Boil Water Notice

Number Of Pages Including Cover ____

IMPORTANT
PLEASE
DELIVER THE
ATTACHED BULLETIN
TO THE NEWS DESK
IMMEDIATELY

11:35am →
Follow-up with
Phone call by
TRACY Smith



FACSIMILE TRANSMISSION

1000 Color Place, Apopka, FL 32703

Date: May 9, 1996

To: News Director
WESH-TV2

Fax Number: 539-7948

From: Tracy Smith

Telephone: (407) 880-0058 ext 137

Fax Number: (407) 880-1395

SUBJECT: Boil Water Notice

Number Of Pages Including Cover 2

IMPORTANT
PLEASE
DELIVER THE
ATTACHED BULLETIN
TO THE NEWS DESK
IMMEDIATELY

11:35 am →
Follow-up with
phone call by
~~Tracy Smith~~
Nancy Cook



FACSIMILE TRANSMISSION

1000 Color Place, Apopka, Fl. 32703

Date: May 9, 1996
To: News Director
WCPX-Ch 6
From: Tracy Smith
Fax Number: 298-2122
Telephone: (407) 880-0058 ext 137
Fax Number: (407) 880-1395
SUBJECT: Boil Water Notice

Number Of Pages Including Cover ____

IMPORTANT
PLEASE
DELIVER THE
ATTACHED BULLETIN
TO THE NEWS DESK
IMMEDIATELY

11:40 am →
Follow-up
Phone Call to
News Room
Tracy Smith



FACSIMILE TRANSMISSION

1000 Color Place, Apopka, Fl. 32703

Date: May 9, 1996
To: News Director
WDBO RADIO
From: Tracy Smith

Fax Number: 290-1076
Telephone: (407) 880-0058 ext 137
Fax Number: (407) 880-1395

SUBJECT: Boil Water Notice

Number Of Pages Including Cover 2

IMPORTANT
PLEASE
DELIVER THE
ATTACHED BULLETIN
TO THE NEWS DESK
IMMEDIATELY

11:35 am
Follow-up
phone call
to news room by
Nancy Cook



FACSIMILE TRANSMISSION

1000 Color Place, Apopka, Fl. 32703

Date: May 9, 1996

To: **MARY BROOKS**
ORLANDO SENTINEL

Fax Number:

From: Tracy Smith

Telephone: (407) 880-0058 ext 137

Fax Number: (407) 880-1395

SUBJECT: **Boil Water Notice**

Number Of Pages Including Cover 2

IMPORTANT

BULLETIN ATTACHED

6 pm →
Judy Sweet

DOCKET 950495-WS
EXHIBIT NO. 216
CASE NO. 96-04227

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495-WS EXHIBIT NO. 216
COMPANY/
WITNESS: _____
DATE: 4-29-97

Southern States Utilities, Inc.

1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)

As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
AMELIA ISLAND					
95CN303	REPLACE WELL PUMP #1	03/31/95	06/16/95	11,310	10,861
	Total Water			11,310	10,861
94CN035	WWTP RERATING/EXPANSION	11/22/95	11/21/95	403,693	513,794
95CN700	SUMMER BEACH EFF LINE	06/26/95	06/15/95	106,163	81,611
95CN305	LS/MANHOLE REPLACEMENT	12/31/95	11/27/95	87,383	92,252
94CN088	LS REHAB & MANHOLE REPL	03/31/95	07/28/94	48,915	49,164
95CN304	CATWALK ON CLARIFIER	05/31/95	12/27/95	11,905	25,663
	Total Wastewater			658,058	762,485
	Total Amelia Island			669,368	773,347
APPLE VALLEY					
95CC701	LEAD AND COPPER CONTROL	Expensed		6,578	0 (a)
95CC306	REPLACE MAIN ELEC BREAKER	04/30/95	12/20/95	1,429	1,142
	Total Apple Valley - Water			8,006	1,142
BAY LAKE ESTATES					
95CC307	WTP BUILDING	Cancelled		1,786	0
	Total Bay Lake Estates - Water			1,786	0
BEACON HILLS					
94CN040	WTP EXPANSION & IMPROVE	05/30/95	06/09/95	796,393	733,259 (b)
93CN056	COBBLESTONE WELL #2	06/20/95	06/09/95	203,513	168,111
93CN064	COBBLESTONE CHEMICAL FEED	12/12/95		182,078	0
94CN037	DUVAL COUNTY UTILITY RELO	11/07/95		121,498	0
95CN702	HIDDEN HILLS WATER MAIN	07/11/95	11/21/95	86,521	95,854
95CN309	CHLORINE ANALYZERS(2)	05/31/95	03/01/95	7,381	7,451
	Total Water			1,397,383	1,004,676
93CN061	WW COLL SYS IMPROVE	07/25/95	12/28/95	283,785	388,797
95CN314	TROUGH REPLACEMENT	04/30/95	12/21/95	29,763	21,723
95CN313	MANHOLE REFURBISHMENTS	06/01/95	11/28/95	23,810	22,923
95CN312	REPLACE LS PUMPS	12/31/95	11/28/95	14,286	7,291
95CN310	REPLACE AIR DIFFUSERS	03/31/95	07/28/95	8,572	8,231
95CN308	SHOWER/EYEWASH STATIONS	02/28/95	03/02/95	3,095	2,079
	Total Wastewater			363,311	451,043
	Total Beacon Hills			1,760,694	1,455,719
BEECHER'S POINT					
95CN316	INSTALL 5,000 GAL TANK	03/31/95	11/15/95	8,929	10,357
95CN315	INSTALL FLOW METER AT WW	Cancelled		4,167	0
	Total Beecher's Point - Wastewater			13,096	10,357
BURNT STORE					
95CS703	INJECTION WELL PHASE II	12/26/95	11/29/95	1,419,341	2,742,986
	Total Water			1,419,341	2,742,986
95CS325	COLLECTION LINE REHAB.	06/30/95	12/08/95	52,977	51,535
95CS324	INFLUENT TROUGH WWTP	06/30/95	06/16/95	23,970	23,019
95CS323	INSTALL BLOWER & MOTORS	11/30/95	12/13/95	15,048	9,357
95CS320	LIFT STATION ACCESS DOORS	Cancelled		11,191	0
95CS319	LIFT STATION CNTRL PANEL	03/30/95	06/26/95	10,715	7,393
95CS318	L/S EMERGENCY CONNECTIONS	03/30/95	11/22/95	1,691	1,616
	Total Wastewater			115,590	92,920
	Total Burnt Store			1,534,931	2,835,906
CARLTON VILLAGE					
(a) 95CC017	HYDRO TANK & NEW WELL	08/15/95		117,469	0

- (a) Completed and expensed fully, but not in service.
 (b) Reflects completion of a phase, but not entire project.
 (c) Not required because gov't authority did not perform it's project.
 (d) Refers to Refundable Advance, with zero rate base impact.

DOCUMENT NUMBER - DATE

03408 MAR 21 88

FPSC-RECORDS/REPORTING

Southern States Utilities, Inc.

1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)

As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
Total Deltona Lakes				3,139,402	758,969
EAST LAKE HARRIS EST.					
94CC022	DISTRIBUTION SYSTEM UPGRADE	06/13/95	06/16/95	262,782	248,010
94CC023	PLANT IMPROVEMENTS	04/10/95	06/09/95	226,744	247,327 (b)
Total East Lake Harris Est. - Water				489,526	495,337
FERN PARK					
94CC457	REPLACE HYDRO TANK	03/31/95	01/19/95	24,830	24,107
Total Fern Park - Water				24,830	24,107
FISHERMAN'S HAVEN					
95CC354	CHLORINE BUILDING & PAD	04/30/95	04/01/95	1,786	1,712
Total Water				1,786	1,712
94CC025	DIGESTER UPGRADE	08/22/95	12/21/95	71,331	38,634
94CC438	FLOW METER	01/31/95	03/20/95	4,133	4,009
Total Wastewater				75,464	42,642
Total Fisherman's Haven				77,250	44,355
FOUNTAINS					
95CC706	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
Total Fountains - Water				1,973	0
FOX RUN					
95CC707	LEAD AND COPPER CONTROL	11/15/95	12/26/95	1,973	4,223
Total Fox Run - Water				1,973	4,223
GRAND TERRACE					
95CC708	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
Total Grand Terrace - Water				1,973	0
HARMONY HOMES					
94CC027	DISTRIBUTION SYS UPGRADE	02/27/95	02/14/95	35,619	29,064
Total Harmony Homes - Water				35,619	29,064
INTERLACHEN LAKE EST.					
95CN355	REPLACE ROOF	03/31/95	06/23/95	5,357	5,488
Total Interlachen Lake Est. - Water				5,357	5,488
KEYSTONE HEIGHTS					
93CN075	CLAY CTY/DOT UTILITY RELO	12/18/95	07/24/95	50,816	42,694
Total Keystone Heights - Water				50,816	42,694
LAKE AJAY					
95CC356	FENCE PROPERTY	04/30/95	12/29/95	4,762	841
Total Lake Ajay - Water				4,762	841
LAKE BRANTLEY					
94CC030	HYDRO TANK AND AERATOR	04/24/95	05/31/95	123,371	120,584
Total Lake Brantley - Water				123,371	120,584
LAKE HARRIET					
95CC358	REPLACE AERATOR TRAYS	07/31/95	10/12/95	17,262	14,994
95CC357	ELECTRIC PANEL UPGRADE	07/31/95	12/06/95	4,762	4,998
Total Lake Harriet - Water				22,024	19,992

(a) Completed and expensed rather than capitalized.

(b) Reflects completion of a phase, but not entire project.

(c) Not required because gov't authority did not perform it's project.

(d) Refers to Refundable Advance, with zero rate base impact.

Southern States Utilities, Inc.

1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)
As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
MARCO SHORES					
95CS713	LEAD AND COPPER CONTROL		Expensed	1,973	0 (a)
	Total Water			1,973	0
95CS387	WASHWATER BOOSTER	04/01/95	09/29/95	833	721
	Total Wastewater			833	721
	Total Marco Shores			2,807	721
MARION OAKS					
95CW389	HYDRANTS	10/31/95	11/28/95	19,643	4,399
	Total Water			19,643	4,399
93CW256	WWTP EXPANSION	07/19/95	07/24/95	559,609	524,942
95CW388	RETURN SLUDGE PUMP	03/31/95	02/08/95	3,572	2,115
	Total Wastewater			563,181	527,057
	Total Marion Oaks			582,824	531,456
MEREDITH MANOR					
95CC391	STORAGE TANK DOME		Cancelled	23,810	0
95CC390	REPLACE ROOF	06/30/95	05/24/95	3,572	1,122
	Total Meredith Manor- Water			27,382	1,122
NORTH REGION PLANT					
95CN209	NEW METERS/CHANGE OUT PRG	12/31/95	12/29/95	186,906	83,579
95CN210	WATER SERVICES	12/31/95	12/29/95	60,849	42,418
95CN207	HYDRANTS	10/31/95	12/01/95	16,905	8,274
	Total North Region- Water			264,660	134,271
OAK FOREST					
93CW662	WTP UPGRADE	08/03/95	07/27/95	125,591	143,379
	Total Oak Forest - Water			125,591	143,379
OPERATIONS ADMIN					
95CO211	LG WATER METER RETROFIT	12/31/95	12/20/95	157,217	177,566
95CO101	METER TEST/INSTALL EQUIP	01/31/95	12/20/95	3,692	2,164
	Total Operations Admin - Water			160,909	179,730
PALM PORT					
95CN399	REPLACE AERATOR ON GST	03/31/95	08/01/95	11,905	12,085
95CN714	LEAD AND COPPER CONTROL		Expensed	1,973	0 (a)
	Total Water			13,878	12,085
95CN397	CULVERT & IMPRV DRIVEWAY	02/28/95	04/07/95	4,167	2,973
95CN398	INSTALL FLOW METER/WW PLT		Cancelled	4,167	0
	Total Wastewater			8,334	2,973
	Total Palm Port			22,212	15,057
PALM TERRACE					
95CW715	LEAD AND COPPER CONTROL		Expensed	1,973	0 (a)
	Total Water			1,973	0
95CW401	LIFT STATION CNTRL PANEL	05/01/95	12/01/95	3,929	3,660
94CW516	MONITORING WELLS	02/28/95	12/29/94	2,171	2,120
	Total Wastewater			6,099	5,780
	Total Palm Terrace			8,073	5,780

(a) Completed and expensed rather than capitalized.

(b) Reflects completion of a phase, but not entire project.

(c) Not required because gov't authority did not perform it's project.

(d) Refers to Refundable Advance, with zero rate base impact.

Southern States Utilities, Inc.

1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)
As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
PARK MANOR					
95CN403	INSTALL 5,000 GAL TANK	02/28/95	12/19/95	8,929	32
95CN402	INSTALL FLOW METER/WW PLT	Cancelled		4,167	0
	Total Park Manor - Wastewater			13,096	32
PINE RIDGE					
95CW404	FIRE HYDRANTS	12/31/95	11/28/95	21,429	19,617
	Total Pine Ridge - Water			21,429	19,617
PINE RIDGE ESTATES					
94CC414	WELL PUMP UPGRADE	02/27/95	03/07/95	14,323	12,465
95CC716	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
	Total Pine Ridge Estates - Water			16,296	12,465
POINT O'WOODS					
95CW718	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
	Total Water			1,973	0
94CW062	WWTP IMPROVEMENTS	07/19/95		103,310	0
	Total Wastewater			103,310	0
	Total Point O'Woods			105,284	0
POMONA PARK					
95CN405	INSTALL AIR RITE COMPRESS	03/31/95	06/12/95	2,083	1,058
	Total Pomona Park - Water			2,083	1,058
POSTMASTER VILLAGE					
94CN480	W DIST SYS IMPRV/PHASE I	11/09/95	11/14/95	116,296	98,076
	Total Postmaster Village - Water			116,296	98,076
REMINGTON FOREST					
95CN406	CHLORINE ANALYZERS	05/31/95	03/01/95	3,691	3,790
	Total Remington Forest - Water			3,691	3,790
RIVER GROVE					
95CN410	REPLACE AERATOR ON GST	02/28/95	08/04/95	5,953	6,058
95CN409	REPIPE PUMP ROOM	04/30/95	06/12/95	4,167	2,437
95CN408	REPLACE ROOF	04/30/95	06/12/95	2,381	2,137
95CN407	INSTALL AIR RITE COMPRESS	03/31/95	06/12/95	2,083	974
95CN719	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
	Total River Grove - Water			16,557	11,606
SILVER LAKE EST./W. SHORES					
94CC032	WTP & DIST. IMPROVEMENT	11/09/95		862,100	0
	Total Silver Lake/W. Shores - Water			862,100	0
SILVER LAKE OAKS					
95CN414	INSTALL FLOW METER/WW PLT	03/31/95	03/22/95	4,167	723
	Total Silver Lake Oaks - Wastewater			4,167	723
SOUTH FORTY					
94CW502	HOLDING POND LINING	04/10/95	04/29/95	33,220	13,342
95CW415	CHAIN LINK FENCE	03/31/95	08/23/95	2,976	2,333
	Total South Forty - Wastewater			36,196	15,675
SOUTH REGION PLANT					
(a) 95CN414	INSTALL FLOW METER/WW PLT PRG	12/31/95	12/29/95	225,874	113,188

- (a) Completed and in-service.
 (b) Reflects completion of a phase, but not entire project.
 (c) Not required because gov't authority did not perform it's project.
 (d) Refers to Refundable Advance, with zero rate base impact.

Southern States Utilities, Inc.

1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)

As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
WELAKA					
95CN434	INSTALL AIR RITE COMPRESS	03/31/95	06/12/95	2,083	2,327
95CN411	INSTALL AIR RITE COMPRESS	03/31/95	06/12/95	2,083	974
	Total Welaka - Water			4,167	3,301
WEST REGION PLANT					
95CW726	LINE EXTENSIONS - WATER	12/15/95	12/29/95	894,540	433,479
95CW220	NEW METERS/CHANGE OUT PRG	12/31/95	12/29/95	178,575	151,332
95CW219	WATER SERVICES	12/31/95	12/29/95	154,765	53,261
	Total Water			1,227,880	638,071
95CW725	LINE EXTENSIONS - SEWER	12/15/95	12/29/95	26,310	0
	Total Wastewater			26,310	0
	Total West Region			1,254,190	638,071
WINDSONG					
95CCT27	LEAD AND COPPER CONTROL		Expensed	1,973	0 (a)
	Total Windsong - Water			1,973	0
WOODMERE					
95CN441	WELL #2 CONTROL PANEL	06/30/95	10/01/95	11,905	9,638
95CN439	CHLORINE ANALYZERS	05/31/95	03/01/95	3,691	3,790
	Total Water			15,596	13,428
94CN497	REFURBISH LEFT STATION	02/28/95	11/28/95	26,886	25,819
95CN442	PUMP REPLACEMENTS	12/31/95	11/28/95	14,286	4,979
95CN438	SHOWER/EYEWASH STATIONS	02/28/95	11/28/95	3,095	2,079
	Total Wastewater			44,268	32,876
	Total Woodmere			59,863	46,305
WOOTEN					
93CN053	WTP IMPROVEMENTS	06/26/95		23,672	0
	Total Wooten - Water			23,672	0
ZEPHYR SHORES					
93CW663	WWTP SITE IMPROVEMENTS	03/20/95		19,893	5,632 (b)
	Total Zephyr Shores - Wastewater			19,893	5,632
	Total 1995 Plant In-Service Additions - As Filed in MFR's			24,472,305	18,843,006
	Less: Non-FPSC Plants Project Allocation Adjustments			(408,765)	
	Total Per MFR's			24,063,540	

- (a) Completed and expensed rather than capitalized.
(b) Reflects completion of a phase, but not entire project.
(c) Not required because gov't authority did not perform it's project.
(d) Refers to Refundable Advance, with zero rate base impact.

Southern States Utilities

Summary of 1995 FPSC Filed and Actual Plant In Service Additions
As of December 31, 1995

	Schedule Reference	1995 Plant In Service			
		Filed	Actual	Actual vs Filed	
				Amount	%
Plant In Service (Excl. General Plant)	A	24,063,540	18,843,006	(5,220,534)	(21.69)
General Plant	B	2,952,285	2,879,662	(72,623)	(2.46)
New Projects Added and Completed	C	-	1,770,284	1,770,284	-
		<u>27,015,825</u>	<u>23,492,952</u>	<u>(3,522,873)</u>	<u>(13.04)</u>
Refundable Advances - Lehigh Lines (1)	A	(2,507,000)	(559,404)	1,947,596	-
		<u>24,508,825</u>	<u>22,933,548</u>	<u>(1,575,277)</u>	<u>(6.43)</u>

(1) The Lehigh lines are funded by refundable advances which are deducted from rate base, and therefore have zero rate base impact.

Southern States Utilities, Inc. - South Region
1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)
As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
MARCO ISLAND					
94CS056	COLLIER CONDEMNATION	12/29/95	06/25/95	4,799,919	5,863,100
94CS054	RO WTP IMPROVEMENTS	05/22/95	09/28/95	257,891	282,973
95CS710	ACQUIFER STORAGE RECOVERY	12/15/95		233,269	0
95CS386	METERING PUMPS/DC DRIVERS	06/01/95	10/02/95	40,894	40,296
95CS385	1 WET WELL PUMP & MOTOR	09/15/95	11/17/95	40,084	42,891
95CS382	1 NEW WELL PUMP & MOTOR	04/01/95	05/17/95	16,667	16,361
95CS381	THICKENED SLUDGE PUMPS	04/30/95	06/21/95	14,250	15,018
95CS378	CHLORINE SCALE	02/28/95	05/17/95	5,310	5,704
	Total Water			<u>5,408,284</u>	<u>6,266,342</u>
95CS384	EMERGENCY GENERATOR	02/01/95	07/27/95	35,227	34,075
95CS383	LIFT STATION CNTRL PANELS	06/01/95	12/07/95	28,870	27,780
95CS380	LAG PUMP FOR LS #5 & #6C	07/07/95	12/07/95	12,619	6,707
95CS379	LIFT STATION TELEMETERING	02/01/95	12/26/95	5,953	5,585
95CS376	ULTRASONIC FLOW METER	02/01/95	12/07/95	4,262	1,893
95CS372	CL2 CHART RECORDER	09/01/95	12/07/95	2,571	2,544
95CS371	PH CONTROLLER	04/01/95	06/12/95	2,024	1,944
95CS370	INCR. CAPACITY L/S#4 & 4A	02/01/95	06/14/95	1,905	1,949
95CS367	INCREASE IN-PLANT REUSE	08/01/95	09/29/95	1,191	1,030
	Total Wastewater			<u>94,621</u>	<u>83,507</u>
	Total Marco Island			<u>5,502,905</u>	<u>6,349,849</u>
MARCO SHORES					
95CS713	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
	Total Water			<u>1,973</u>	<u>0</u>
95CS387	WASHWATER BOOSTER	04/01/95	09/29/95	833	721
	Total Wastewater			<u>833</u>	<u>721</u>
	Total Marco Shores			<u>2,807</u>	<u>721</u>
SOUTH REGION PLANT					
95CS215	NEW METER/CHANGE OUT PRG	12/31/95	12/29/95	225,874	113,188
95CS213	WATER SERVICES	12/30/95	12/29/95	136,384	56,433
	Total Water			<u>362,257</u>	<u>169,641</u>
95CS212	SEWER SERVICES	12/31/95	12/29/95	12,500	2,366
	Total Wastewater			<u>12,500</u>	<u>2,366</u>
	Total South Region Plant			<u>374,757</u>	<u>172,008</u>
Total 1995 Plant In-Service Additions - As Filed in MFR's				12,195,244	11,431,150
Less: Non-FPSC Plants Project Allocation Adjustments				(203,699)	
Total Per MFR's				<u>11,991,544</u>	

- (a) Completed and expensed rather than capitalized.
(b) Reflects completion of a phase, but not entire project.
(c) Not required because gov't authority did not perform it's project.
(d) Refers to Refundable Advance, with zero rate base impact.

PLANT IN SERVICE ADDITIONS

<u>Year</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
1992	\$ 6,724,106	\$ 5,429,092	\$ 1,295,014
1993	17,221,430	14,135,266	3,086,164
1994	32,056,951	31,641,937	415,014
1995	<u>\$22,933,548</u>	<u>\$24,508,825</u>	<u>\$(1,575,277)</u>
TOTALS	\$78,938,035	\$75,715,120	\$ 3,220,915

Cumulative variance of actual to budgeted plant in service 1992 through 1995: 4.25%

Southern States Utilities, Inc.**New FPSC Projects Added and Completed During the Year - Plant In Service Additions
As of December 31,1995**

Project #	Project Description	In-Service Date	In-Service Amount
ADMINISTRATIVE			
95CA910	AUTOMATED MAPPING	12/29/95	899,476
BEACON HILLS			
92CN305	WWTP OUTFALL	12/20/95	302,949
DELTONA LAKES			
95CC742	FORCE MAIN UPGRADE	08/16/95	49,219
MARCO ISLAND			
95CS730	INJECTION WELL HYDRO TANK	10/10/95	25,444
95CS739	RAW WATER MAIN REPL/CR951	10/27/95	240,274
95CS747	WELL REMEDIATION	12/13/95	59,291
PINE RIDGE			
94CW036	BOOSTER STATION	03/07/95	166,803
SALT SPRINGS			
95CW733	FDOT S.R. 19 UTILITY RELO	09/14/95	26,829
TOTAL PROJECTS ADDED AND COMPLETED IN 1995			<u>1,770,284</u>

SOUTHERN STATES UTILITIES, INC.
PLANT ADDITIONS & REGULATORY REQUIREMENT(S)
 South Region

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
Burnt Store - Water				
1993	92CS484	REBUILD INJECTOR PUMP AND RADIATOR	2,943.81	17-555.320(6), 17-555.350(1)
1994	94CS455	METER INSTALLATIONS	5,787.40	SWFWMD 40D-2
1994	93CS473	FILTER CARTRIDGE HOUSING	2,905.28	17-555.350(1)
1994	93CS548	AUTO SWITCHOVER CHLORINATOR SYSTEM	2,414.68	17-555.320(5)
1994	91CS273	REBUILD FUEL INJECT PUMP	2,168.66	17-555.320(6), 17-555.350(1)
1994	93CS474	CLEARWELL CONTROL PROBE	2,058.66	17-555.350(1)
1994	93CS549	CHLORINE ALARMS	2,022.54	17-555.320(5)
1994	94CS454	FENCE AROUND WELL #6	1,203.60	17-555.310, 315
1994	91CS460	REBUILD TRANSFER PUMP & WELL	867.81	17-555.350(1)
1994	92CS148	MONITORING OF R.O. PLANT	785.91	17-555.320(5),350(1)
1995	95CS703	INJECTION WELL PHASE II	1,419,341.05	62-302, C.O. 92-0446
1995	95CO211	LG WATER METER RETROFIT	584.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	45.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	14.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	815.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	1,443,957.40	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Burnt Store - Wastewater				
1993	92CS489	REBUILD CONTROL PANEL	2,741.06	17-604.130,400,500
1994	93CS173	BLOWER & MOTORS IN EDUCTOR STATIONS	9,101.51	17-604.130,400,500
1994	93CS550	COMPOSITE SAMPLING	4,676.10	17-601.500(3)
1994	92CS145	REFURBISH WASTEWATER PLANT	3,493.55	17-600.410(6)
1994	92CS598	REBUILD PUMPS AT L/S #16-16 & 7-22	3,326.05	17-604.130,400,500
1994	93CS446	REBUILD 4 HP PUMP L/S #7-22	1,921.97	17-604.130,400,500
1994	90CS375	MONITOR WELLS CASING PROTECTORS- WELLS 1-6	1,753.60	17-522, 610.424
1994	92CS144	VALVE INSTALLATION	1,543.82	17-604.130,400,500
1994	94CS323	BLOWER #2 SILENCER	1,336.74	17-600.410(6)(8)
1995	95CS325	COLLECTION LINE REHAB.	52,977.25	62-604.130,400,500
1995	95CS324	INFLUENT TROUGH WWTP	23,969.53	62-600.410(6)
1995	95CS323	INSTALL BLOWER & MOTORS	15,047.92	62-604.130,400,500
1995	95CS319	LIFT STATION CNTRL PANEL	10,714.50	62-604.130,400,500
1996	96RO016	COLLECTION SYSTEM REHABIL	35,700.00	27-604.5001* 62-604.130,400,500
1996	96RO015	LIFT ST. CONTROL PANEL	14,280.00	62-604.130,400,500
1996	96RO013	REVAMP LIFT STATION #1	12,852.00	62-604.130,400,500
1996	96RO014	REVAMP LIFT STATION #2	12,852.00	62-604.130,400,500
		Subtotal	208,287.60	
Deep Creek - Water				
1995	95CO211	LG WATER METER RETROFIT	4,498.00	62-555.320(6)(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	344.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	106.00	62-555.320(6)(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	6,286.00	62-555.320(6)(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	11,234.00	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Deep Creek - Wastewater				
1993	92CS140	LIFT STATION UPGRADE	12,746.48	17-604.130,400,500
1993	92CS137	REHAB OF COLLECTION LINES AND MANHOLES	12,574.10	17-604.130,400,500
1994	92CS139	ROAD RESURFACING/RAISE MANHOLES	47,906.01	17-604.400
1994	93CS168	REHAB OF MANHOLES & WETWELLS	34,388.31	17-604.400
1994	94CS136	REHAB LIFT STATION WET WELLS	15,338.80	17-640.130\ *17-604.130,400,500
1994	94CS137	RAIL SYSTEMS	6,772.08	17-640.130\ *17-604.130,400,500
1994	93CS393	REBUILD 20 HP PUMP & MOTOR	5,365.44	17-604.130,400,500
1994	92CS395	REBUILD 2 PUMPS AT L/S #6-23	4,303.80	17-604.130,400,500
1994	94CS524	REBUILD 20 HP SEWAGE PUMP	4,151.33	17-604.130(5)\ *17-604.130,400,500
1994	93CS447	REBUILD 20 HP PUMP L/S #6-23	3,836.55	17-604.130,400,500
1994	91CS458	REBUILD L/S PUMP #6-23	3,810.99	17-604.130,400,500
1994	93CS361	REBUILD L/S PUMP AT #3-20	2,012.07	17-604.130,400,500
1994	93CS675	MANHOLE REHABILITATION	1,905.94	17-604.130,400,500
1994	91CS272	REBUILD L/S #13 PUMP	1,711.28	17-604.130,400,500
1994	91CS291	REBUILD SUBMERSIBLE L/S PUMP #2	1,485.13	17-604.130,400,500
1994	92CS448	REBUILD L/S PUMP #9-23	1,319.39	17-604.130,400,500
1994	91CS333	REBUILD LIFT STATION SEWAGE PUMP	984.66	17-604.130,400,500
1994	91CS247	REBUILD SUBMERSIBLE L/S PUMP	946.70	17-604.130,400,500
1995	95CS337	UPGRADE L/S 4-23 & 6-20	38,524.58	62-604.130,400,500
1995	95CS335	MANHOLE REHABILITATION	9,547.81	62-604.130,400,500
1996	96RO024	MANHOLE AND WETWELL REHAB	20,230.00	62-604.130,400,500
1996	96RO023	LIFT STATION UPGRADES	16,660.00	62-604.130,400,500
1996	96RO022	REHAB. COLL. LINES	14,518.00	62-604.130,400,500
		Subtotal	261,039.45	
Fisherman's Haven - Water				
1995	95CO211	LG WATER METER RETROFIT	212.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	16.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	5.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	296.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
		Subtotal	529.00	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Fisherman's Haven - Wastewater				
1993	88CC004	REHAB OF DRAINFIELD	170,531.79	17-610.320, 550
1993	92CC286	BLOWER MOTOR	614.97	17-600.410(6)
1995	94CC025	DIGESTER UPGRADE*12,000 GAL. SLUDGE HOLDING TANK	71,331.00	TOP DT 43-236192, DO43-097334
1995	94CC488	FLOW METER	4,133.42	62-601.300
		Subtotal	246,611.18	
Fox Run - Water				
1993	90CC183	WATER TREATMENT PLANT	323,698.07	17-555, C.O.88-0722
1995	95CC707	LEAD AND COPPER CONTROL	1,973.25	62-551
1995	95CO211	LG WATER METER RETROFIT	152.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	12.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	4.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	213.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
		Subtotal	326,052.32	
Fox Run - Wastewater				
1993	91CC022	EFFLUENT DISPOSAL SYSTEM IMPROVEMENTS	160,436.48	17-610.550
1993	92CC353	PROVIDE EMERGENCY POWER CAPABILITY	715.36	17-600.400
1994	91CC022	EFFLUENT DISPOSAL SYSTEM IMPROVEMENTS	13,201.93	17-610.550
1994	88CC005	SANDFILTERS	5,771.48	17-600.410
1994	92CC026	CHLORINE SCALES (SINGLE)	271.86	17-600.440
		Subtotal	180,397.11	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Lehigh - Water				
1993	92CS158	WATER AMMONIA SYSTEM	85,011.70	17-550.310, 17-555.320(1),(4)
1994	93CS229	LINE EXTENSION - WATER & SEWER	22,879.84	Lee Co. Density Agmt.
1994	93CS227	HYDRANTS	9,634.80	Lehigh Acres Fire Control & Rescue District
1994	93CS389	WELL PUMP	8,069.92	17-555.350(1)
1994	92CS588	CATHODIC PROTECTION	2,845.80	17-555.350(1)
1995	95CO211	LG WATER METER RETROFIT	13,082.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	1,000.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	307.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1996	96RO037	WTP GENERATOR REPLACEMENT	119,000.00	17-555.320(6)
1996	96RO057	LARGE METER RETROFIT	18,280.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
		Subtotal	280,111.06	
Lehigh - Wastewater				
1993	88CS009	PLANT EXPANSION - SEWER	1,448,260.41	C.O. 90-1858, 17-600.440, 740
1993	92CS433	REBUILD BLOWER	12,683.75	17-600.410
1994	92CS230	TREATMENT & DISPOSAL EQUIPMENT	34,523.03	17-600.410
1994	90CS431	REBUILD LIFT STATIONS	9,434.33	17-604.130,400,500
1994	92CS296	EFFLUENT DISPOSAL	3,626.35	17-610.840
1994	92CS651	PUMP REBUILD L/S #6	2,834.11	17-604.130,400,500
1994	92CS336	ELAPSED TIME INDICATOR & INSTALL	2,299.74	17-604.130,400,500
1994	93CS229	LINE EXTENSION - WATER & SEWER	86.56	Lee Co. Density Agmt.
1996	96RO035	COLLECTION SYSTEM REHAB.	77,350.00	17-604.130,400,500
		Subtotal	1,591,098.28	
Leilani Heights - Water				
1994	93CC032	AUXILIARY POWER GENERATOR	28,135.27	FDEF NNC 092092, 17-555.320(6)
1994	93CC416	WELL PUMP	5,144.12	17-555.315
1994	92CC026	CHLORINE SCALES (SINGLE)	543.69	17-555.320(5)
1995	95CO211	LG WATER METER RETROFIT	596.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	46.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	14.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	833.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
		Subtotal	35,312.08	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Leilani Heights - Wastewater				
1993	92CC423	REBUILD # 2 PROCESS BLOWER	3,215.25	17-600.410(6)
1993	92CC630	# 2 BLOWER	3,008.83	17-600.410(6)
1994	91CC383	CHLORINE CHAMBER SCALE & BUILDING UPGRADE	1,945.28	17-600.440
1996	96RO041	REFURBISH DRAINFIELD	59,500.00	62-600.410,62-610.410*62-610.320,550
		Subtotal	67,669.36	
Leisure Lakes - Water				
1993	92CS464	STARTER & BATTERY CHARGER	994.25	17-555.320(6)
1994	90CS361	AUTOMATIC TRANSFER SWITCH	4,031.69	17-555.320(6)
1994	92CS154	CHLORINE SCALES	1,250.78	17-555.320(5)
1995	95CO211	LG WATER METER RETROFIT	370.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	28.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	9.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	517.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	7,200.72	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Marco Island - Water				
1992	89CS122	4.0 MGD R.O. PLANT	540,835.22	17-555.350(1), 555.320
1992	90CS050	24" RAW WATER TRANSMISSION LINE (SR 951)	128,567.72	FS 337.403
1993	90CS050	24" RAW WATER TRANSMISSION LINE (SR 951)	179,487.35	FS 337.403
1993	89CS119	24" RAW WATER MAIN	120,269.25	FS 337.403
1993	93CS399	R.O. CHLORINATION BLDG IMPROVEMENTS	99,416.40	FDEP Sanitary Survey 10/6/92, 17-555.320(5)
1993	92CS411	TRANSFER MOTOR #2	4,253.19	17-555.350(1)
1994	94ZZ777	MARCO ISLAND WATER SUPPLY	4,400,000.00	17-555.310, 320, 350(1)
1994	93CS666	REPIPING FOR SURFACE WATER TREATMENT	295,070.34	17-555.600-630, C.O. 93-3673
1994	93CS508	REACTOR-WEIR	86,178.17	17-555.350(1)
1994	89CS122	4.0 MGD R.O. PLANT	30,896.04	17-555.320,350(1)
1994	92CS487	REBUILD ROTATING ELEMENT #4 HIGH SERVICE	16,000.86	17-555.350(1)
1994	92CS203	REFURBISH 2 MOYNO SLUDGE PUMPS	15,780.74	17-555.350(1)
1994	92CS205	REFURBISH 2 LIME SLUDGE VACUUM MACHINE	7,085.99	17-555.350(1)
1994	90CS048	STAND BY POWER	6,758.95	17-555.320(6)
1994	92CS206	3 CHEMICAL PUMPS	6,710.24	17-555.350(1)
1994	92CS202	REFURBISH 2 LIME SLUDGE TRANSFER PUMPS	6,029.27	17-555.350(1)
1994	93CS399	R.O. CHLORINATION BLDG IMPROVEMENTS	5,813.18	FDEP Sanitary Survey 10/6/92, 17-555.320(5)
1994	93CS481	STRIP CHART RECORDER W/ TURBIDITY METER	4,964.58	17-550.560.(3)
1994	93CS482	CL ANALYZER FOR TOTAL CHLORINE	3,399.03	17-550.560(3)
1994	93CS211	CHLORINATORS W/ AUTO CHANGEOVER	3,377.57	17-555.320(5)
1994	94CS490	STRIP RECORDER MODEL 396	2,248.70	17-550.560(3)
1994	91CS486	IMPROVEMENTS TO #7 TRANSFER MOTOR	1,645.05	17-555.350(1)
1994	91CS485	REBUILD LIME SLUDGE TRANSFER PUMP	997.67	17-555.350(1)

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
1995	95CO211	LG WATER METER RETROFIT	8,843.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1995	95CS378	CHLORINE SCALE	5,309.63	62-555.320(5)
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	676.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	208.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
1996	96RO047	TRANSMITTER & ANNUBARS	35,700.00	62-555.350(1)
1996	96RO044	WELL PUMPS AND MOTORS	16,660.00	62-555.350(1)
1996	96RO057	LARGE METER RETROFIT	12,357.00	62-555.320(6)*(8), SFWMD 40E-2, 25-30.262,263,264
		Subtotal	6,045,539.14	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Marco Island - Wastewater				
1992	91CS015	OFF-SITE PERC PONDS ¹	4,333,994.00	17-28, 17-610.462
1992	89CS122	DEEP INJECTION WELL	814,575.00	17-302, 520
1993	91CS021	WWTP PRETREATMENT STRUCTURE	426,657.90	17-610.462
1993	92CS265	INCREASE AERATION CAPACITY	146,824.23	17-610.462
1993	89CS122	DEEP INJECTION WELL	135,764.78	17-302, 520
1993	89CS122	DEEP INJECTION WELL	5,547.87	17-302, 520
1993	91CS015	OFF-SITE PERC PONDS	4,063.92	17-28, 610.462
1993	92CS569	CHLORINE ANALYZER	2,893.61	17-610.463
1993	93CS498	REBUILD FLOW METER @ M.I. GOLF COURSE	1,699.31	Effluent/Raw Water Agreement, 17-610.320
1993	93CS234	AUTO SWITCHOVER VACUUM REGULATORS	1,228.00	17-610.460, 463
1994	89CS122	DEEP INJECTION WELL	22,868.73	17-302, 520
1994	89CS123	CLEARING 1 MGD WWTP EXPANSION	18,466.73	17-610.462
1994	89CS121	SCRUBBER FOR EQ TANK	2,468.26	17-600.410(B)
1994	92CS441	STRIP CHART RECORDER	1,684.02	17-610.463, 17-601.320
1994	91CS371	REBUILD SLUDGE RETURN PUMP	1,659.79	17-600.410
1994	93CS234	AUTO SWITCHOVER VACUUM REGULATORS	1,600.23	17-610.460, 463
1994	93CS680	RECORDER FOR EFFLUENT FLOWMETER	1,517.15	17-601.300
1994	91CS487	CHLORINE EMERGENCY KIT A	1,408.36	17-600.300(4)(b)
1994	90CS049	EFFLUENT DISPOSAL	450.00	C.O.06C88-0458
1995	95CS380	LAG PUMP FOR LS #6 & #6C	12,619.30	TEN STATES STANDARDS *17-604.130, 400, 500
1995	95CS376	ULTRASONIC FLOW METER	4,261.99	62-601.300
1995	95CS372	CL2 CHART RECORDER	2,571.48	DO11-221557, 62-600.300(4)(b), 610.463
1995	95CS371	PH CONTROLLER	2,023.85	62-601.500*62-600.445
		Subtotal	5,946,848.51	

¹ Actual costs of projects projected in docket #920655-WS.

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
Marco Shores - Water				
1994	93CS213	BOOSTER PUMP REPIPING	27,669.47	17-610.320
1994	93CS480	STRIP CHART RECORDER / TURBIDITY METER	4,964.58	17-550.560
1994	93CS483	CL ANALYZER FOR FREE CHLORINE	3,399.03	17-550.560
1994	92CS217	CHLORINE SCALES	2,188.17	17-555.320(5)
1994	92CS219	LIGHTIN MIXERS (2)	1,787.55	17-555.350(1)
1995	95CS713	LEAD AND COPPER CONTROL	1,973.25	62-551
1995	95CO211	LG WATER METER RETROFIT	442.00	62-555.320(6)* (8), SFWMD 40E-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	34.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	10.00	62-555.320(6)* (8), SFWMD 40E-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	618.00	62-555.320(6)* (8), SFWMD 40E-2, 25-30.262,263,264
		Subtotal	43,086.05	
Marco Shores - Wastewater				
1993	92CS523	REPIPE SLUDGE LINES AND WWTP	25,007.15	17-600.410(8)
1993	93CS234	AUTO SWITCHOVER VACUUM REGULATORS	994.61	17-610.460, 463
1994	93CS521	E.Q. PIPING & EQUIPMENT	176,385.73	17-600.740, (*410(8)
1994	92CS523	REPIPE SLUDGE LINES & WWTP	1,319.71	17-600.410(8)
1994	93CS234	AUTO SWITCHOVER VACUUM REGULATORS	1,296.10	17-610.460, 463
1996	96RO048	RESTORE METAL AND AIR SYS	11,900.00	17-600.410(8)
		Subtotal	216,903.30	
Tropical Isle - Wastewater				
1993	92CC587	INSTALL SECURITY FENCE	1,839.08	17-600.400(2)(b), 17-610.518
1994	93CC382	FLOW METER	3,537.91	17-601.300
1994	92CC026	CHLORINE SCALES	271.85	17-600.440
		Subtotal	5,648.84	
		Total	\$16,917,525.40	

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Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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C.O. - Consent Order
 Char. Co. Agmt. - Charlotte County Agreement
 DO - Domestic Operating
 DT - Domestic Temporary
 FS - Florida Statutes
 NNC - Notice of Non-Compliance
 NWWMD - Northwest Florida Water Management District
 OGC - Office of General Counsel
 SFWMD - South Florida Water Management District
 SJRWMD - St. Johns River Water Management District
 SWFWMD - Southwest Florida Water Management District
 TOP - Temporary Domestic Operating
 WL - Warning Letter

DOCKET # 950978-MS
 EXHIBIT NO. 217
 CASE NO. 96-04227

EXHIBIT (WCG-1)
 PAGE 1 OF 12

SOUTHERN STATES UTILITIES, INC.
PLANT ADDITIONS & REGULATORY REQUIREMENT(S)
 West Region

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
Apache Shores - Water				
1995	95CO211	LG WATER METER RETROFIT	232.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	18.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	5.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	323.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	578.00	
Citrus Park - Water				
1994	93CW598	WATER METER ADDITION	1,530.00	17-555.320(8)
1995	95CO211	LG WATER METER RETROFIT	535.00	62-555.320(6)*(8), SJRWMD 40C-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	41.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	13.00	62-555.320(6)*(8), SJRWMD 40C-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	747.00	62-555.320(6)*(8), SJRWMD 40C-2, 25-30.262,263,264
		Subtotal	2,866.00	

DOCUMENT NUMBER - DATE
 03393 MAR 21 96

FPSC-RECORDS/REPORTING

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET # 950445

COMPANY/ EXHIBIT NO. 217

WITNESS: SSA Gordon

DATE: 4/29/96

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Citrus Springs - Water				
1993	91CW388	PORTABLE GENERATORS	28,445.15	17-55.320(6),350(1)
1993	93CW507	CHLORINE BOOSTER PUMP	925.08	17-555.320(5)
1994	92CW477	CHLORINE ALARMS	745.16	FDEP Inspection letter 4/24/92, 17-555.320(5)
1995	95CO211	LG WATER METER RETROFIT	2,735.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	209.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	64.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	95CWzzz	0.5 GST/HIGH SERV PUMP	715,903.00	62-555.320(7), 350(1)
1996	96RO057	LARGE METER RETROFIT	3,822.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	752,848.39	
Citrus Springs - Wastewater				
1993	91CW341	MONITORING WELL PUMP	202.50	17-160.300(1)
1994	93CW665	WWTP UPGRADE	127,634.42	17-600.410, 600.440, 640.600
		Subtotal	127,836.92	
Crystal River Highlands - Water				
1995	93CW247	WTP IMPROVEMENT	64,346.09	17-550,17-555.315, 350
1995	95CO211	LG WATER METER RETROFIT	113.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	9.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	3.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	157.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	64,628.09	
Gibsonia Estates - Water				
1995	92CW010	AUXILIARY POWER	37,210.30	62-555.320(6)
1995	95CO211	LG WATER METER RETROFIT	248.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	19.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	6.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	347.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	37,830.30	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Golden Terrace - Water				
1994	92CW565	INTERCONNECT WITH CITY OF INVERNESS	84,447.35	17-550.320, 350, C.O. 92-2012
1995	95CO211	LG WATER METER RETROFIT	162.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	12.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	4.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	226.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	84,851.35	
Gospel Island Estates - Water				
1995	95CO211	LG WATER METER RETROFIT	12.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	1.00	62-555.320(5)a
1996	96RO057	LARGE METER RETROFIT	17.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	30.00	
Hershel Heights - Water				
1995	95CO211	LG WATER METER RETROFIT	486.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	37.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	11.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	679.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	1,213.00	
Lake Gibson - Water				
1994	92CW326	WTP FENCE	1,498.39	17-555.310,315
1995	95CO211	LG WATER METER RETROFIT	1,178.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	90.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	28.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	1,646.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	4,440.39	
Lake Gibson - Wastewater				
1993	91CW002	WWTP EXPANSION/IMPROVEMENTS/PH METERS	497,666.62	17-600.405, 410
1994	91CW367	FLOW METER	3,478.12	17-601.300
		Subtotal	501,144.74	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Lakeside - Water				
1995	95CO211	LG WATER METER RETROFIT	133.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	10.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	3.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	185.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	331.00	
Marion Oaks - Water				
1994	92CW109	LAB EQUIPMENT	3,215.30	17-550.500,550
1995	95CO211	LG WATER METER RETROFIT	3,831.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	293.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	90.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	5,353.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	12,782.30	
Marion Oaks - Wastewater				
1995	93CW256	WWTP EXPANSION	559,609.25	62-600.405, 740, 610.510, C.O. 93-4503
1995	95CW388	RETURN SLUDGE PUMP	3,571.50	62-600.410(1),*(6)
1996	96RO049	REPLACE ELECTRIC BOX (5)	17,850.00	62-604.130, 400, 500
		Subtotal	581,030.75	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Point O' Woods - Water				
1994	91CW365	WTP IRON FILTERS	456,005.11	17-550.320 & C.O. 92-1613
1995	95CW718	LEAD AND COPPER CONTROL	1,973.25	62-551.500
1995	95CO211	LG WATER METER RETROFIT	524.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	40.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	12.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	732.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	459,286.36	
Point O' Woods - Wastewater				
1994	93CW525	LIFT STATION CONTROL PANEL	6,957.39	17-604.130, 400, 500
1995	94CW062	WWTP IMPROVEMENTS	103,310.30	62-610.462, 464
		Subtotal	110,267.69	
Rosemont/Rolling Green - Water				
1993	89CW018	CONSTRUCT PLANT	23,091.10	Citrus Co. Ord. 86-10,17-555.315, 320, 350(1)
1994	94CW367	CHLORINE BOOSTER PUMP	698.87	17-555.320(4)(5)
1995	95CO211	LG WATER METER RETROFIT	183.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	14.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	4.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	256.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	24,246.97	
Samira Villas - Water				
1995	95CO211	LG WATER METER RETROFIT	3.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	4.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	7.00	
Seaboard - Water				
1994	94CW219	WTP TANK	52,616.52	17-555.350(1)
1995	95CO211	LG WATER METER RETROFIT	3,921.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	300.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	92.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	5,479.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	62,408.52	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Seaboard - Wastewater				
1992	91CW248	WELLS	2,749.60	17-522, 17-610.424
1993	92CW198	LIFT STATION 4 & 5 UPGRADE	44,916.42	17-604.130, 400, 500
1993	93CW366	FORCE MAIN RELOCATION	11,682.93	FS 337.403
1994	90CW042	WWTP IMPROVEMENTS	1,684,112.43	Hillsborough Co. C.O. EPC5552DW, 17-302, 410, 600.410(7)
1994	93CW439	REBUILD SPRAY FIELD FLOW METER	858.70	17-601.300, 610.320, NPDES Permit FLO041220
1994	93CW366	FORCE MAIN RELOCATION	630.35	FS 337.403
		Subtotal	1,744,950.43	
South Forty - Wastewater				
1992	N/A	SERVICE INSTALLATIONS	597.00	17-600
1993	92CW360	PUMP REBUILD	927.82	17-604.130,400, 500
1993	92CW456	REBUILD MOTOR - LIFT STATION	858.20	17-604.130,400, 500
1993	92CW413	15HP MOTOR & STARTER	802.55	17-600.410(6)
1994	94CW418	POND IMPROVEMENTS	2,043.30	17-610.415, DO42-174196
1994	92CW402	REBUILD BLOWER & SILENCER	1,128.94	17-600.410(6)
1995	94CW502	HOLDING POND LINING	33,219.84	17-610.415, DO42-174196
1995	95CW415	CHAIN LINK FENCE	2,976.25	62-610.418
		Subtotal	42,553.90	
Spring Gardens - Water				
1995	95C0211	LG WATER METER RETROFIT	186.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	14.00	62-555.320(5)a
1995	95C0101	METER TEST/INSTALL EQUIP	4.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96R0057	LARGE METER RETROFIT	260.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	464.00	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Spring Hill - Water				
1993	93CW506	FLOW METERS FOR WELL # 26, # 27, # 28	17,863.98	SWFWMD 40D-2
1993	93ZZ777	WATER SERVICES	4,734.64	SWFWMD 40D-2
1994	94CW064	US 19 FDOT UTILITY RELOCATIONS	77,930.26	17-500 & 600, *FS 337.403
1994	92CW389	REBUILD 3 ONAN GENERATORS	6,132.34	17-555.320(6)
1994	91CW490	PUMP & WELL REBUILD #6	6,062.59	FDEP Inspection letter 10/8/93, 17-555.320, 350(1)
1994	93CW594	CHLORINE ALARMS	4,416.19	17-555.320(5)
1994	90CW123	CHLORINE ALARM SYSTEM	3,582.73	17-555.320(5)
1994	92CW230	CHLORINATOR TANK UNITS	2,358.85	17-555.320(5)
1994	92CW313	OVERHAUL MOTOR WELL #20	1,710.76	FDEP Inspection letter 10/8/93, 17-555.320, 350(1)
1994	92CW324	REBUILD MOTOR - WELL # 19	1,426.88	FDEP Inspection letter 10/8/93, 17-555.320, 350(1)
1994	94CW374	FLOW TOTALIZER METER	1,383.70	SWFWMD 40D-2
1994	92CW508	REBUILD WELL MOTOR #11	1,196.01	17-555.320, 350(1)
1994	93CW506	FLOW METERS FOR WELLS #26, 27 & 28	957.48	FDEP Inspection letter 10/8/93, 17-555.320(8), SWFWMD 40D-2
1994	94CW353	BACKFLOW TEST KIT	742.59	17-555.360
1995	94CW464	DRIVE WIDENING	42,651.50	FS 337.403
1995	95CO211	LG WATER METER RETROFIT	37,094.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	2,835.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	871.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	95CWttt	1.0 MG GST/HIGH SERV PUMP	1,011,153.00	62-555.320, 350(1)
1996	95CWvvv	WELLS #30 & 31	587,356.00	62-555.320, 350(1)
1996	96RO057	LARGE METER RETROFIT	51,834.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	1,864,293.50	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Spring Hill - Wastewater				
1993	91CW084	WALLS AND PIPING PROJECT AT WWTP	252,071.98	17-600.410
1993	92CW259	LIFT STATION PUMP	7,845.26	17-604.130, 400, 500
1993	92CW223	LIFT STATION 25-F REHABILITATION	4,853.87	17-604.130, 400, 500
1993	93CW479	FLOW METER	3,843.93	17-601.300
1993	92CW355	REBUILD PUMP & MOTOR L/S 25-1	719.29	17-604.130, 400, 500
1993	93CW430	5 HP SUBMERSIBLE PUMP	570.00	17-600.440
1994	92CW222	WWTP EFFLUENT DISPOSAL IMPROVEMENT	877,422.42	17-610.423
1994	94CW064	US 19 FDOT UTILITY RELOCATIONS	107,617.98	17-500 & 600, \^FS 337.403
1994	92CW468	PH CL2 ANALYZERS/COMPOSITE SAMPLER	6,303.54	17-600.440, 445, 601.500
1994	92CW330	OVERHAUL AERATOR AT STP	6,197.02	17-600.410
1994	89CW099	1 MG STORAGE TANK - UNIT 13	3,672.27	17-600, 610
1994	92CW509	REBUILD 2 EMU SUBMERSIBLE PUMPS	2,161.39	17-604.130, 400, 500
1994	94CW343	ODOR CONTROL - BLACK HAWK TOGGER	2,038.64	17-600.410(8)
1994	92CW401	REBUILD 30 HP AERATOR MOTOR	2,015.01	17-600.410
1994	91CW491	REBUILD PUMP & MOTOR FOR L/S #25	876.37	17-604.130, 400, 500
1995	94CW479	LIME STABILIZATION	850,073.03	40CFR503
1996	94CW476	CLASS I MODIFICATIONS	2,759,150.11	62-600.405, 610.462
1996	95CW720	REUSE TO TIMBER PINES	1,369,427.26	62-610.423, 462
		Subtotal	6,256,859.37	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Sugar Mill Woods - Water				
1994	90CW368	PLANT EXPANSION	27,062.28	17-555.320, 350(1)
1994	94CW325	FLOW RECORDERS & RATE INDICATORS WTP 1 & 3	5,297.80	17-555.320(8)
1994	90CW215	GAS CHLORINATORS (3)	3,397.60	17-555.320(5)
1994	92CW457	CL2 ALARMS	2,033.74	17-555.320(5)
1995	95CO211	LG WATER METER RETROFIT	3,422.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	262.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	80.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	95CWeee	0.5 MG GST/HIGH SERV PUMP	715,903.00	62-555.320(7), 350(1)
1996	96RO057	LARGE METER RETROFIT	4,782.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	762,240.42	
Sugar Mill Woods - Wastewater				
1993	92CW098	MONITORING WELL PUMPS	3,626.54	17-522, 610.424
1995	93CW255	WWTP IMPROVEMENTS	875,037.53	17-600.405
		Subtotal	878,664.07	
Sunny Hills - Water				
1993	93CW410	EMERGENCY GENERATOR & GST FOR WELL #4	99,378.26	17-555.320(6) & 350(1)
1993	92CW304	HYDRO TANK WELL #1	15,462.12	17-555.350(1)
1993	92CW540	CHLORINE ALARMS	1,644.54	17-555.320(5)
1994	93CW410	EMERGENCY GENERATOR & GST FOR WELL #4	24,118.20	17-555.320(6) & 350(1)
1994	91CW242	CHLORINATION SYSTEM	6,490.12	17-555.320(5)
1995	95CO211	LG WATER METER RETROFIT	649.00	62-555.320(6)*(8), NWWFMD 40A-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	50.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	15.00	62-555.320(6)*(8), NWWFMD 40A-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	907.00	62-555.320(6)*(8), NWWFMD 40A-2, 25-30.262,263,264
		Subtotal	148,714.24	

Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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Sunny Hills - Wastewater				
1994	89CW063	INSTALL IRRIGATION EFFLUENT PUMP	1,200.60	17-610.320
		Subtotal	1,200.60	
Valrico Hills - Water				
1993	91CW398	STORAGE TANK & GENERATOR	52,432.35	17-555.320(6) & 350(1)
1994	92CW645	MAIN WELL PUMP REBUILD	681.42	17-555.320, 350
1995	95CO211	LG WATER METER RETROFIT	539.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	41.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	13.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	754.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	54,460.77	
Valrico Hills - Wastewater				
1994	90CW433	WWTP GROUNDWATER	21,610.26	17-522.600, 610.424
1994	92CW293	CHLORINE BUILDING	1,531.93	17-600.440
		Subtotal	23,142.19	
Zephyr Shores - Water				
1994	91CW359	CHLORINE ALARMS	1,076.62	17-555.320(5)
1994	91CW346	CHLORINATOR IMPROVEMENTS	1,040.50	17-555.320(5)
1995	95CO211	LG WATER METER RETROFIT	738.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1995	95CC331	CHLORINATR/BSTR PMP/EJETR	56.00	62-555.320(5)a
1995	95CO101	METER TEST/INSTALL EQUIP	17.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
1996	96RO057	LARGE METER RETROFIT	1,031.00	62-555.320(6)*(8), SWFWMD 40D-2, 25-30.262,263,264
		Subtotal	3,959.12	
		TOTAL	\$14,884,814.63	

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Year	Project	Description	Plant In Service Amount	Regulatory Mandate
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C.O. - Consent Order
 Char. Co. Agmt. - Charlotte County Agreement
 DO - Domestic Operating
 DT - Domestic Temporary
 FS - Florida Statutes
 NNC - Notice of Non-Compliance
 NWWMD - Northwest Florida Water Management District
 OGC - Office of General Counsel
 SFWMD - South Florida Water Management District
 SJRWMD - St. Johns River Water Management District
 SWFWMD - Southwest Florida Water Management District
 TOP - Temporary Domestic Operating
 WL - Warning Letter

Southern States Utilities, Inc. - West Region
1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)
As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
CRYSTAL RIVER					
93CW247	WTP IMPROVEMENT	09/13/95	12/05/95	64,346	46,584 (b)
	Total Crystal River - Water			64,346	46,584
MARION OAKS					
95CW389	HYDRANTS	10/31/95	11/28/95	19,643	4,399
	Total Water			19,643	4,399
93CW256	WWTP EXPANSION	07/19/95	07/24/95	559,609	524,942
95CW388	RETURN SLUDGE PUMP	03/31/95	02/08/95	3,572	2,115
	Total Wastewater			563,181	527,057
	Total Marion Oaks			582,824	531,456
OAK FOREST					
93CW662	WTP UPGRADE	08/03/95	07/27/95	125,591	143,379
	Total Oak Forest - Water			125,591	143,379
PALM TERRACE					
95CW715	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
	Total Water			1,973	0
95CW401	LIFT STATION CNTRL PANEL	05/01/95	12/01/95	3,929	3,660
94CW516	MONITORING WELLS	02/28/95	12/29/94	2,171	2,120
	Total Wastewater			6,099	5,780
	Total Palm Terrace			8,073	5,780
PINE RIDGE					
95CW404	FIRE HYDRANTS	12/31/95	11/28/95	21,429	19,617
	Total Pine Ridge - Water			21,429	19,617
POINT O' WOODS					
95CW718	LEAD AND COPPER CONTROL	Expensed		1,973	0 (a)
	Total Water			1,973	0
94CW062	WWTP IMPROVEMENTS	07/19/95		103,310	0
	Total Wastewater			103,310	0
	Total Point O' Woods			105,284	0
SOUTH FORTY					
94CW502	HOLDING POND LINING	04/10/95	04/29/95	33,220	13,342
95CW415	CHAIN LINK FENCE	03/31/95	08/23/95	2,976	2,333
	Total South Forty - Wastewater			36,196	15,675
SUGAR MILL WOODS					
95CW430	DUAL 150# CL2 SCALES(2)	Cancelled		2,857	0
	Total Water			2,857	0
93CW255	WWTP IMPROVEMENTS	09/14/95	12/05/95	875,038	846,717 (b)
	Total Wastewater			875,038	846,717
	Total Sugar Mill Woods			877,895	846,717
SUNNY HILLS					
95CW432	UPGRADE LIFT STATION #4A	04/30/95	12/18/95	40,178	30,773
	Total Sunny Hills - Wastewater			40,178	30,773

(a) Completed and expensed rather than capitalized.
 (b) Reflects completion of a phase, but not entire project.
 (c) Not required because gov't authority did not perform it's project.
 (d) Refers to Refundable Advance, with zero rate base impact.

Southern States Utilities, Inc. - West Region
1995 Filed and Actual FPSC Plant in Service Additions (w/o General Plant)
As of December 31, 1995

Project #	Project Description	In-Service Date		In-Service Amount	
		Filed	Actual	Filed	Actual
WEST REGION PLANT					
95CW726	LINE EXTENSIONS - WATER	12/15/95	12/29/95	894,540	433,479
95CW220	NEW METERS/CHANGE OUT PRG	12/31/95	12/29/95	178,575	151,332
95CW219	WATER SERVICES	12/31/95	12/29/95	154,765	53,261
	Total Water			<u>1,227,880</u>	<u>638,071</u>
95CW725	LINE EXTENSIONS - SEWER	12/15/95	12/29/95	26,310	0
	Total Wastewater			<u>26,310</u>	<u>0</u>
	Total West Region			<u>1,254,190</u>	<u>638,071</u>
ZEPHYR SHORES					
93CW663	WWTP SITE IMPROVEMENTS	03/20/95		19,893	5,632 (b)
	Total Zephyr Shores - Wastewater			<u>19,893</u>	<u>5,632</u>
Total 1995 Plant In-Service Additions - As Filed in MFR's				3,135,897	2,283,684
Less: Non-FPSC Plants Project Allocation Adjustments				(52,379)	
Total Per MFR's				<u>3,083,518</u>	

(a) Completed and expensed rather than capitalized.
 (b) Reflects completion of a phase, but not entire project.
 (c) Not required because gov't authority did not perform it's project.
 (d) Refers to Refundable Advance, with zero rate base impact.

DOCKET 950495-WS
EXHIBIT NO. 218
CASE NO. 96-04227

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate)
increase for Orange-Osceola)
Utilities, Inc. in Osceola County,)
and in Bradford, Brevard, Charlotte,)
Citrus, Clay, Collier, Duval,)
Highlands, Lake, Lee, Marion,)
Martin, Nassau, Orange, Osceola,)
Pasco, Putnam, Seminole, St. Johns,)
St. Lucie, Volusia, and Washington)
Counties by Southern States)
Utilities, Inc.)
_____)

Docket No. 950495-WS

Cross Examination Exhibit 218

April 9, 1996 Capital Budget Report

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950495 EXHIBIT NO. 218
COMPANY/
WITNESS:
DATE: 4/29/96

BUDGET INTRA-COMPANY CORRESPONDENCE

Date: April 9, 1996
To: Distribution
From: Budget Department
Re: Capital Budget Report -- March 1996

Attached is the Capital Budget Report for the reporting period ending March 31, 1996. This report reflects the direct and total pending for 1996.

Reminder: If your project is completed but not noted as such in this report, please fill-out a in-service completion/retirement form and forward to the Budget department or contact Ron Smith at ext. 447. Thanks.

cc:

Eric Teittinen
Bruce Pastor
Frank Sanderson
Rodney Henderson

Bill Goucher
Dave Denny
Ginger Clark

John Losch
Mel Fisher
Scott Vierima

Reporting Terminology

Original Budget - The January 1 approved and published original capital budget for the current budget year.

Current Authorization - The original budget plus or minus any budget revision, additions, or cancellation approved by way of an Ecar or Rcar for the current budget year.

Actual - The year-to-date charges to capital projects that have been paid or accrued through the reporting period.

Total Project Budget - The total project budget for a capital project which includes any prior year charges, plus the current year budget/authorization, and after years estimates, including overhead allocation and afudc charges.

Total Project Actual - This amount reflects all charges to a project which includes prior year expenditures, overhead allocation, and afudc charges.

Other Terminology

In-Service Date:

- **Scheduled** - The estimated date that a project will be placed in-service.
- **Actual** - The date at which a project is placed into service; but minor work is remaining before it can be classified as totally completed. Some of the larger Engineering projects are segregated into phases; at different stages portions of a project will go into service resulting in a project being partially in-service.

Capital Authorization Request (CAR) - The form used for authorizing budgeted capital expenditures in the original capital budget.

Emergency Capital Authorization Request (Ecar) - The form used for authorizing capital expenditures for unanticipated emergencies that were not originally budgeted.

Revised Capital Authorization Request (Rcar) - The form used for authorizing revisions to capital projects due to unforeseen budget deviations. Examples of these deviations include a significant change in a project's estimated in-service or completion date or a 10% over or under budget variance. These forms are also used to carry projects over into the upcoming budget year.

In-Service/Completion Report (ISCR) - The form used to record a capital project that is in-service and/or completed. This form is also used to record asset retirements and transfers.

Preliminary Survey & Investigation (PSI) - The form used for authorizing a study, master plan, investigation, prior to authorization of a capital expenditures.

Renewal and Replacement - Unallocated budget funds that are later allocated to unanticipated emergency projects, budget revisions or unbudgeted project carryovers that occur during the budget year.

Reason or Priority - Five pre-defined reasons why a project is being initiated and considered a prudent investment. These reasons, which are required on all capital authorization request forms, are used to prioritize capital expenditures. The reason classifications are as follows:

1. Safety - projects initiated to correct conditions that may directly or indirectly place employees, customers or citizens at risk of injury.

2. Regulatory Mandate - project initiated to comply with standards set by governmental agencies that oversee plant operations in order to ensure the protection of public safety, health and welfare in addition to the conservation and preservation of water resources.

3. Quality of Service - projects initiated to ensure quality service to the customers we serve.

4. Growth - project initiated to meet the future water and wastewater demands of the communities we serve.

5. General Improvement - projects initiated to enhance operational efficiency.

Division - Refers to the capital expenditure type. Division classification types are as follows:
Water, Sewer, Water and Sewer, General Plant and Gas.

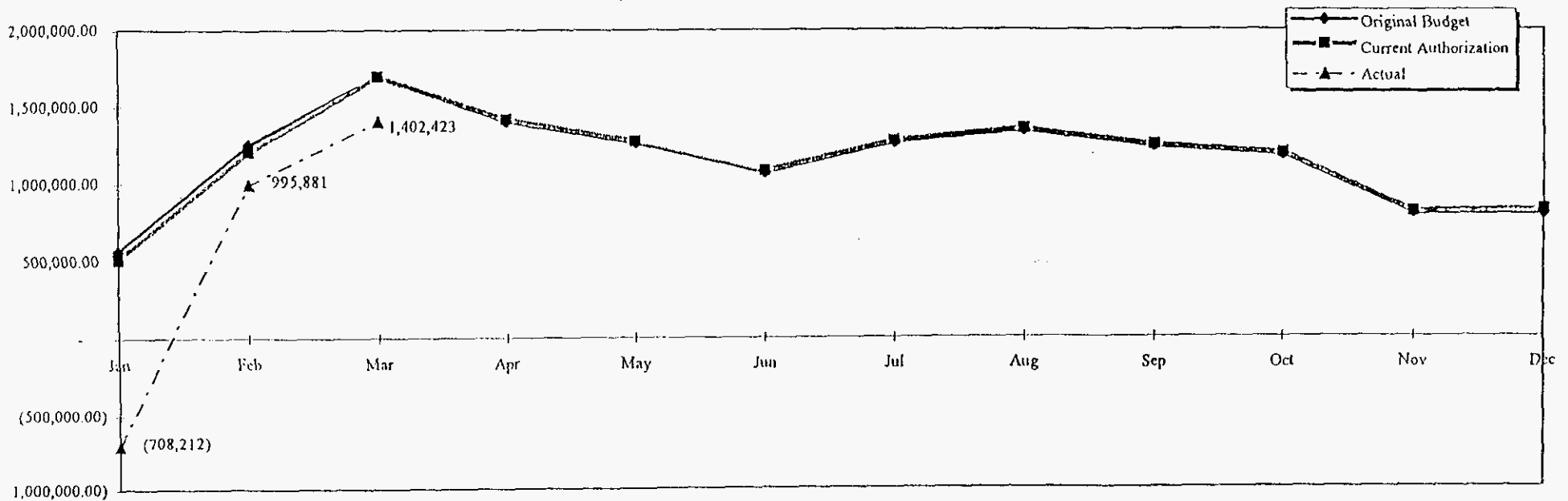
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MONTHLY CAPITAL VARIANCE SCHEDULE

Direct Capital Budget Schedule
of March 31, 1996

Department/Region	Current Authorization	Y-T-D Actual	Variance Over/(Under)	Current Authorization	Original Budget	Variance Over/(Under)
Total Administration	599,573	72,116	(527,457)	599,573	599,573	0
Central Region	2,039,098	253,735	(1,785,363)	2,039,098	2,020,207	18,891
South Region	3,276,599	808,091	(2,468,508)	3,276,599	3,276,599	0
West Region	4,959,724	354,974	(4,604,750)	4,959,724	4,959,724	0
Total Engineering	10,275,421	1,416,799	(8,858,622)	10,275,421	10,256,530	18,891
Administrative	1,522,388	118,532	(1,403,855)	1,522,388	1,653,630	(131,242)
Central Region	580,309	15,956	(564,354)	580,309	536,141	44,169
South Region	525,537	45,021	(480,516)	525,537	457,259	68,278
West Region	358,727	21,668	(337,059)	358,727	339,931	18,796
Total Operations	2,986,961	201,176	(2,785,784)	2,986,961	2,986,961	0
Grand Total	13,861,955	1,690,091	(12,171,864)	13,861,955	13,843,064	18,891

Capital spending in January is negative because construction invoices accrued at 12/95 were not processed in 1/96. Therefore the net effect of the 1/96 accrual reversal resulted in negative activity for the month.

1996 Capital Trend Analysis



Department: ADMINISTRATION Region: ALL	Report: Monthly Capital Variance Report
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Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>ADMINISTRATIVE</i>								
96CA901	OFFICE FURNITURE & EQUIP.	J KIMBALL	13,600	14,209	16,407	17,142	1/31/96	1/9/96
96CA902	AS/400 UPGRADE	J BUSH	46,625	466	56,248	562	6/30/96	
96CA903	RADIO SYSTEM ADDITIONS	J BUSH	65,000	451	78,416	543	6/30/96	
96CA904	APPLICATIONS PROGRAMMING	J BUSH	100,000	29,149	120,640	35,165	6/30/96	
96CA905	PC & NETWORK ADDITIONS	J BUSH	126,978	23,339	153,186	28,156	6/30/96	
96CA906	TELEMETRY	J BUSH	247,370	4,503	298,427	5,433	6/30/96	
TOTAL ADMINISTRATIVE			599,573	72,116				

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Department: ENGINEERING Region: CENTRAL			Report: Monthly Capital Variance Report					
Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>BEACON HILLS</i>								
93CN064	- COBBLESTONE CHEM. FEED	B PASTER	64,275	36,171	280,703	240,487	3/25/96	
94CN037	- DUVAL COUNTY UTIL. RELO	B PASTER	50,581	41,437	206,302	192,721	2/22/96	2/22/96
94CN040	- WTP EXPANSION & IMPROVE	B PASTER	8,500	4,436	744,662	750,643	6/19/95	
96CN702	- BAY HARBOR SEWER REHAB	B PASTER	303,954	209	416,456	3,153	11/30/96	
96CN703	- COBBLESTONE WTP IMPRVMTS	B PASTER	70,840	-2,000	333,467	9,945	4/17/97	
<i>BUENAVENTURA LAKES</i>								
96CC706	- RAPID EXFILTRATION BASIN	B PASTER	251,917	444	337,946	596	3/1/96	
<i>CARLTON VILLAGE</i>								
94CC017	- HYDRO TANK & NEW WELL PMP	B PASTER	12,580	207	229,301	215,328	2/12/96	3/15/96
<i>CHULUOTA</i>								
94CC020	- DISTRIBUTION SYSTEM UPGRD	B PASTER	85,209	74,163	426,501	407,975	2/12/96	1/16/96
94CC021	- WATER TREATMENT PLANT #2	B PASTER	97,839	34,466	672,764	585,887	3/18/96	
<i>DELTONA LAKES</i>								
93CN659	- SAGAMORE DR WTP DIST SYS	B PASTER	1,000	-906	290,389	292,123	1/16/96	
93CN660	- WELLINGTON WTP EXPANSION	B PASTER	1,000	4,652	1,365,404	1,388,105	1/29/96	2/16/96
93CN661	- AGATHA/SAXON WTP IMPRV	B PASTER	51,520	42,971	271,577	262,186	2/26/96	
94CN043	- LOMBARDY DR WTP IMPRV	B PASTER	9,245	396	82,403	70,824	2/19/96	
95CC743	- COURTLAND BLVD GST	B PASTER	251,155	-8,980	370,902	11,887	12/16/96	
95CC744	- DISTRIBUTION SYSTEM UPGRD	B PASTER	107,000	0	158,842	15,225	11/4/96	
96CC707	- NEW WTP,WELLS #36 AND #37	B PASTER	240,250	1,800	1,606,545	49,190	1/16/98	
<i>EAST LAKE HARRIS EST.</i>								
94CC023	- PLANT IMPROVEMENTS	B PASTER	500	314	251,902	255,963	2/22/96	3/6/96
95CC748	- HYDRO-TANK FOUNDATION	B PASTER	250	0	17,074	16,739	3/1/96	3/6/96
<i>FERN PARK</i>								
94CC024	- DISTRIBUTION SYSTEM UPGRD	B PASTER	2,356	-1,676	175,320	174,134	12/22/95	
<i>KEYSTONE HEIGHTS</i>								
95CN740	- UTILITY RELOCATION	B PASTER	32,226	0	45,328	1,674	4/8/96	
<i>MEREDITH MANOR</i>								
94CC031	- DISTRIBUTION SYSTEM UPGRD	B PASTER	500	-11,756	398,762	387,690	1/29/96	1/25/96
<i>PALISADES</i>								
95CC749	- WATER MAIN EXTENSION	B PASTER	250	63	26,346	26,089	1/15/96	1/19/96
<i>PINEY WOODS</i>								
95CC717	- 5,000 GALLON HYDRO TANK	B PASTER	58,820	58,799	97,788	97,537	4/3/96	3/15/96

Department: ENGINEERING

Region: CENTRAL

Report: Monthly Capital Variance Report

Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>REMINGTON FOREST</i>								
95CN741	- WELL #2	B PASTER	72,363	169	100,577	2,456	5/6/96	
<i>SILVER LAKES ESTATES</i>								
94CC032	- WTP & DIST. IMPROVEMENT	B PASTER	500	19,795	976,528	1,002,148	1/22/96	1/29/96
<i>TROPICAL PARK</i>								
93CC038	- DISTRIBUTION SYSTEM UPGRD	B PASTER	250	-40,787	401,648	348,504	1/29/96	1/10/96
94CC034	- HYRO TANK REPLACEMENT	B PASTER	56,866	857	92,894	16,422	5/6/96	
<i>UNIVERSITY SHORES</i>								
95CC724	- LEAD AND COPPER CONTROL	B PASTER	39,070	736	57,718	5,856	2/12/96	
<i>WOODMERE</i>								
96CN714	- WWTP REPLACE/EXPANSION	B PASTER	160,775	-2,247	1,743,778	39,932	10/15/97	
<i>WOOTEN</i>								
93CN053	- WTP IMPROVEMENTS	B PASTER	7,509	0	35,824	24,188	10/11/96	
TOTAL CENTRAL REGION			2,039,098	253,735				

12.4%

Department: ENGINEERING Region: SOUTH			Report: Monthly Capital Variance Report					
Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>BURNT STORE</i>								
95CS731	- RO WTP IMPRV - PHASE III	J LOSCH	533,431	19,847	803,593	103,542	5/20/96	
<i>DEEP CREEK</i>								
95CS704	- INTERCONNECT/CHARLOTTE	J LOSCH	56,557	4,226	84,489	15,103	8/21/96	
<i>LEHIGH</i>								
94CS052	- SEWAGE SYS IMPROVEMENTS	J LOSCH	283,701	45,950	566,973	242,011	4/8/96	
<i>MARCO ISLAND</i>								
95CS710	- AQUIFER STORAGE & RECOVER	J LOSCH	553,565	-17,609	1,379,315	554,378	10/21/96	
95CS711	- RAW WATER COLLECTION SYS	J LOSCH	277,909	116,988	1,005,403	791,300	4/1/96	
95CS712	- NEW RO WELLS (5)	J LOSCH	753,689	202,458	1,520,867	763,943	4/29/96	
95CS732	- RO WTP - 1.0 MGD EXPAN.	J LOSCH	517,747	436,231	1,500,946	1,369,171	5/10/96	
96CS709	- MEMBRANE REPLACEMENT	J LOSCH	300,000	0	410,202	0	10/25/96	
TOTAL SOUTH REGION			3,276,599	808,091				

Department: ENGINEERING
 Region: WEST
 Report: Monthly Capital Variance Report

Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>APACHE SHORES</i>								
95CW750	- INTERCONNECT WI CITRUS	B GOUCHER	30,200	0	41,134	0	10/14/96	
<i>CITRUS SPRINGS</i>								
95CW734	- 0.5 GST/HIGH SERV PUMP	B GOUCHER	538,137	4,622	763,823	33,598	10/10/96	
95CW738	- WTP #2 - HYDRO TANK	B GOUCHER	55,000	377	105,189	30,712	5/20/96	
<i>CRYSTAL RIVER</i>								
93CW247	- WTP IMPROVEMENTS	B GOUCHER	2,000	27	49,267	46,627	12/8/95	12/5/95
<i>GIBSONIA ESTATES</i>								
92CW010	- AUXILIARY POWER	B GOUCHER	23,263	1,788	63,656	35,268	2/26/96	
<i>MARION OAKS</i>								
95CW746	- WATER SUPPLY WELL NO.5A	B GOUCHER	242,698	591	337,648	3,229	10/14/96	
<i>POINT O'WOODS</i>								
94CW062	- WWTP IMPROVEMENTS	B GOUCHER	500	0	110,842	110,111	1/15/96	1/23/96
<i>SPRING HILL</i>								
94CW464	- DRIVE WIDENING	B GOUCHER	3,821	-5,483	110,080	97,598	12/28/95	
94CW476	- CLASS I MODIFICATIONS	B GOUCHER	1,545,566	2,564	4,043,436	203,214	2/21/97	
95CW720	- REUSE TO TIMBER PINES	B GOUCHER	893,009	282,924	1,784,356	500,206	3/28/97	
95CW735	- 1.0 MG GST/HIGH SERV PUMP	B GOUCHER	4,620	4,362	1,133,464	65,115	7/18/97	
95CW737	- WELLS #30 & 31	B GOUCHER	459,402	5,112	681,243	55,682	8/12/96	
96CW711	- COUNTY LINE WATER MAIN	B GOUCHER	138,200	20	189,288	27	12/15/96	
<i>SUGAR MILL WOODS</i>								
93CW255	- WWTP IMPROVEMENTS	B GOUCHER	23,000	4,282	877,571	852,461	12/5/95	
95CW736	- 0.5 MG GST/HIGH SERV PUMP	B GOUCHER	660,309	4,533	973,103	82,697	10/9/96	
<i>WEST REGION PLANT</i>								
96CW712	- LINE EXTENSIONS - SEWER	B GOUCHER	30,000	40	40,245	40	12/15/96	
96CW713	- LINE EXTENSIONS - WATER	B GOUCHER	300,000	49,365	402,450	66,223	12/15/96	
<i>ZEPHYR SHORES</i>								
93CW663	- WWTP SITE IMPROVEMENTS	B GOUCHER	10,000	-150	19,306	5,551	5/31/96	
TOTAL WEST REGION			4,959,724	354,974				

7.2%

Department: OPERATIONS

Region: ALL

Report: Monthly Capital Variance Report

Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>OPERATIONS ADMIN</i>								
96CO155	- BACKFLOW DEVICES	D DENNY	35,000	0	42,224	0	10/1/96	
96CO156	- HANDRAIL BLANKET	D DENNY	63,700	0	76,848	0	11/15/96	
96CO157	- RENEWAL & REPLACEMENT	E TEITTINEN	283,758	0	342,325	0	12/1/96	
96CO158	- SERVICES BLANKET	D DENNY	425,000	39,841	512,720	48,064	11/30/96	
96CO159	- METER BLANKET	E TEITTINEN	534,930	67,085	645,340	80,931	11/30/96	
<i>TECHNICAL SERVICES</i>								
96CO185	- SURGE PROTECTION	D DENNY	12,000	170	14,477	205	11/30/96	
96CO186	- LG. WATER METERS RETROFIT	D DENNY	168,000	11,437	202,675	13,797	11/30/96	
TOTAL ADMINISTRATIVE			1,522,388	118,532				

Department: OPERATIONS Region: CENTRAL			Report: Monthly Capital Variance Report					
Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>AMELIA ISLAND</i>								
96CN101	- MANHOLE REFURBISHMENT	J WRIGHT	20,000	0	24,128	0	3/1/96	
96CN102	- L/S UPGRADE (2)	J WRIGHT	35,000	1,005	42,224	1,212	5/1/96	
96CN103	- CLARIFER REHAB	J WRIGHT	60,000	0	72,384	0	2/1/96	
96CN104	- COLLECTION IMPROVEMENTS	J WRIGHT	60,000	0	72,384	0	4/1/96	
<i>BEACON HILLS</i>								
96CC224	- US PUMPS (2)	G MANNING	1,704	0	2,056	0	3/15/96	
96CN105	- MANHOLE REFURBISHMENT	D HOLCOMB	20,000	0	24,128	0	4/1/96	
96CN106	- REFURBISH HYDRO TANK	D HOLCOMB	50,000	300	60,320	362	5/1/96	
96CN213	- REFURBISH GRAVITY MAIN	G. MANNING	14,513	0	17,508	0	3/30/96	
<i>BEECHER'S POINT</i>								
96CN107	- REBUILD LIFT STATIONS	P THOMPSON	20,000	0	24,128	0	6/1/96	
<i>BUENAVENTURA LAKES</i>								
96CC203	- REFURBISH WELL PUMP #1	G TURNER	2,314	2,314	2,792	2,792	1/5/96	1/5/96
96CC210	- PUMP INSTALLATION	M JOHNSON	1,798	1,832	2,169	2,210	2/1/96	
<i>CENTRAL REGION PLANT</i>								
96CC113	- HYDRANTS	F BRUCE	3,000	0	3,619	0	12/1/96	
96CC114	- ELECTRICAL CONNECTIONS	D DENNY	3,990	797	4,814	961	4/30/96	
96CC115	- CHLORINATION EQUIPMENT	B HEATH	10,000	0	12,064	0	4/1/96	
96CC116	- WATER MAIN EXTENSIONS	D. DEBACA	14,000	2,864	16,890	3,456	12/1/96	
96CC218	- GAS MONITOR	D SWEAT	2,595	0	3,131	0	3/15/96	
96CN153	- HIGH SERVICE PUMPS	K KERLIN	11,000	0	13,270	0	1/31/96	
96CN154	- REFURBISH WELL PUMPS	K KERLIN	11,000	0	13,270	0	2/1/96	
<i>CHIULUOTA</i>								
96CC117	- HIGH SERVICE PUMP	K BURGESS	4,680	0	5,646	0	3/15/96	
96CC118	- WELL PUMP	K BURGESS	15,000	300	18,096	362	6/1/96	
96CC119	- HYDRO TANK	K BURGESS	35,000	0	42,224	0	6/1/96	

Department: OPERATIONS			Report: Monthly Capital Variance Report					
Region: CENTRAL			1996 Direct Spending		Total Project Spending		In-Service Dates	
Project #	Description	Project Manager	Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>DELTONA LAKES</i>								
95CC611	- HIGH SERVICE PUMP/MOTOR	D DEBACA	1,631	1,543	1,968	1,862	12/31/95	
95CC612	- 40 HP WELL TURBIN MOTOR	D DEBACA	1,253	1,186	1,512	1,431	12/31/95	
96CC124	- UPGRADE WELL 25 AND 27	D LOVELL	1,302	0	1,571	0	1/31/96	
96CC125	- REPLACE ROOF (3)	D LOVELL	3,855	0	4,650	0	1/31/96	
96CC126	- CL2 SCALE - COURTLAND WTP	D LOVELL	4,269	0	5,150	0	3/1/96	
96CC127	- REFURBISH CHLORINATOR	D LOVELL	6,825	0	8,234	0	1/31/96	
96CC128	- CHLORINE ALARMS	D LOVELL	7,420	0	8,951	0	1/31/96	
96CC129	- LS UPGRADE (5)	D LOVELL	15,000	550	18,096	664	7/1/96	
96CC219	- TURBIDITY METER	D LOVELL	1,400	0	1,689	0	3/15/96	
96CC229	- REPLACE PIPE	D LOVELL	7,700	0	9,289	0	3/29/96	
<i>HERMITS COVE</i>								
96CN130	- DRIVEWAY AND CULVERT	B WARD	6,000	0	7,238	0	3/1/96	
<i>PALM PORT</i>								
96CN160	- BLOWERS AND MOTORS	P THOMPSON	4,000	0	4,826	0	3/1/96	
96CN161	- INSTALL MANHOLE (3)	P THOMPSON	10,000	0	12,064	0	4/1/96	
96CN162	- REBUILD LIFT STATIONS	P THOMPSON	15,000	0	18,096	0	3/1/96	
<i>PARK MANOR</i>								
96CN166	- REBUILD LIFT STATION	P THOMPSON	10,000	0	12,064	0	4/1/96	
<i>SALT SPRINGS</i>								
96CN168	- REPLACE LS PUMPS & PANELS	B YOCUM	10,600	0	12,788	0	8/1/96	
96CN214	- BROKEN CHECK VALVE	P THOMPSON	1,575	1,575	1,900	1,900	2/15/96	
<i>SILVER LAKE OAKS</i>								
96CN171	- REBUILD LIFT STATION	P THOMPSON	10,000	0	12,064	0	5/1/96	
<i>SUGAR MILL CC</i>								
96CC179	- LS PUMPS AND RAILS	D LOVELL	4,200	0	5,067	0	2/28/96	
<i>TROPICAL PARK</i>								
96CC228	- REFURBSIH WELL PUMP	M JOHNSON	2,756	0	3,325	0	3/29/96	
<i>UNIVERSITY SHORES</i>								
96CC187	- HYDRO TANK REPLACEMENT	K BURGESS	35,000	0	42,224	0	6/1/96	
96CC216	- FLYGT ELBOWS (2)	K BURGESS	1,745	0	2,105	0	3/31/96	
96CC221	- CHEMICAL FEED PUMP	K BURGESS	1,494	0	1,802	0	4/8/96	
<i>VENETIAN VILLAGE</i>								
96CC206	- LIFT STATION PUMPS	B HEATH	1,690	1,689	2,039	2,038	2/15/96	3/15/96

Department: OPERATIONS
 Region: CENTRAL

Report: Monthly Capital Variance Report

Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>WOODMERE</i>								
96CN189	MANHOLE REFURBISHMENT	D HOLCOMB	20,000	0	24,128	0	4/1/96	
TOTAL CENTRAL REGION			580,309	15,956				

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Department: OPERATIONS Region: SOUTH			Report: Monthly Capital Variance Report					
Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>BURNT STORE</i>								
96CC222	- L/S PUMP #22-6	R D'AIUTO	1,975	0	2,383	0	2/26/96	
96CS108	- LS CONTROL PANELS(2)	R D'AIUTO	12,000	0	14,477	0	3/1/96	
96CS109	- REVAMP L/S #22-1	R D'AIUTO	22,410	0	27,035	0	2/29/96	
96CS110	- REVAMP L/S #22-2	R D'AIUTO	22,410	0	27,035	0	3/31/96	
96CS111	- WWTP IMPROVEMENTS	R D'AIUTO	25,000	0	30,160	0	3/31/96	
96CS112	- COLLECTION SYSTEM REHAB	R D'AIUTO	30,000	0	36,192	0	6/1/96	
96CS212	- WWTP COMPOSITE SAMPLER	R D'AIUTO	2,440	2,586	2,944	3,120	2/15/96	3/26/96
96CS230	- L/S PUMP #22-6	R D'AIUTO	1,064	0	1,284	0	3/15/96	
<i>DEEP CREEK</i>								
96CS123	- LS UPGRADES - PANELS	T HENNELLY	14,000	0	16,890	0	8/1/96	
96CS227	- REPLACE HYDRANT	T HENNELLY	718	0	866	0	3/5/96	
<i>LEHIGH</i>								
95CS616	- LABORATORY RENOVATION	G FERNBERG	4,900	4,855	5,911	5,857	12/31/95	
96CS001	- HIGH PRESSURE REG. (24)	C. SWEAT	1,389	0	1,676	0	9/30/96	
96CS133	- HYDRAULIC SHORING EQUIP	T POUND	10,000	0	12,064	0	6/1/96	
96CS134	- HYDRANTS	T POUND	10,000	303	12,064	366	9/1/96	
96CS135	- REPLACE WWTP GENERATOR	B STEPHENSON	100,000	0	120,640	0	4/1/96	
96CS209	- REPLACE L/S PUMPS (2)	T POUND	5,000	0	6,032	0	2/10/96	
96CS211	- REPLACE PUMP/MOTOR	G FERNBERG	3,551	3,551	4,284	4,284	2/19/96	
96CS226	- CHLORINE EJECTORS	G FERNBERG	2,286	1,519	2,758	1,832	3/25/96	3/22/96
<i>LEILANI HEIGHTS</i>								
96CS136	- PORTABLE GENERATOR	T VANASDALE	29,000	0	34,986	0	6/30/96	

Department: OPERATIONS Region: SOUTH	Report: Monthly Capital Variance Report
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Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>MARCO ISLAND</i>								
95CS619	- REFURBISH PUMP #1-EQ#1	G BOYCE	1,650	1,750	1,991	2,111	12/31/95	
95CS626	- CONSUMER PUMP #2	R WEIS	4,218	3,879	5,089	4,680	12/31/95	
96CS002	- NEW GAS SERVICES	C. SWEAT	3,000	970	3,619	1,170	11/1/96	
96CS003	- PROPANE TANKS	C. SWEAT	4,500	0	5,429	0	11/30/96	
96CS004	- GAS METERS	C. SWEAT	6,000	835	7,238	1,007	10/31/96	
96CS005	- REPLACE REGULATORS	C. SWEAT	9,000	0	10,858	0	10/30/96	
96CS137	- 6 TON FLOOR JACK	M QUIGLEY	750	689	905	831	4/30/96	2/6/96
96CS138	- PLATE COMPACTOR	M QUIGLEY	1,450	1,373	1,749	1,656	4/30/96	2/17/96
96CS139	- CONTROL PANEL L/S #6	G BOYCE	3,250	0	3,921	0	8/1/96	
96CS140	- CONTROL PANEL L/S #22-A	G BOYCE	3,400	0	4,102	0	8/1/96	
96CS141	- AERATOR REPLACEMENT	G BOYCE	10,000	0	12,064	0	7/1/96	
96CS142	- LS 7-B 25 HP PUMPS (2)	G BOYCE	10,000	0	12,064	0	6/1/96	
96CS143	- UPGRADE L/S #6-A	G BOYCE	26,700	0	32,211	0	9/1/96	
96CS144	- UPGRADE L/S #7	G BOYCE	26,700	0	32,211	0	7/1/96	
96CS145	- TRANSMITTER & ANNUBARS	R WEIS	30,000	0	36,192	0	5/1/96	
96CS201	- REPLACE PUMPS/MOTORS (2)	R WEIS	23,373	0	28,197	0	3/1/96	
96CS215	- REPLACE WATER SERVICE	M QUIGLEY	7,940	13,437	9,579	16,210	2/29/96	
96CS225	- REFURBISH 600 HP MOTOR	R WEIS	7,274	7,274	8,775	8,776	3/22/96	
<i>MARCO SHORES</i>								
95CS618	- REFURBISH PUMP#2-LS #MS2	G BOYCE	690	731	832	882	12/31/95	
96CS146	- BACKWASH CP AND SWITCHES	R WEIS	3,000	0	3,619	0	3/31/96	
96CS147	- CONTROL PANEL L/S #27-B	G BOYCE	3,300	0	3,981	0	8/1/96	
96CS148	- RESTORE METAL TANKS	G BOYCE	10,000	0	12,064	0	8/1/96	
96CS204	- PUMP #2 AT L/S #MS2	G BOYCE	674	714	813	862	2/10/96	2/5/96
<i>SOUTH REGION PLANT</i>								
96CS172	- L/S UPGRADES	T VANASDALE	30,000	0	36,192	0	10/1/96	
<i>TROPICAL ISLES</i>								
96CS205	- REPLACE SURGE PUMP	T VANASDALE	525	554	633	668	2/8/96	
TOTAL SOUTH REGION			525,537	45,021				

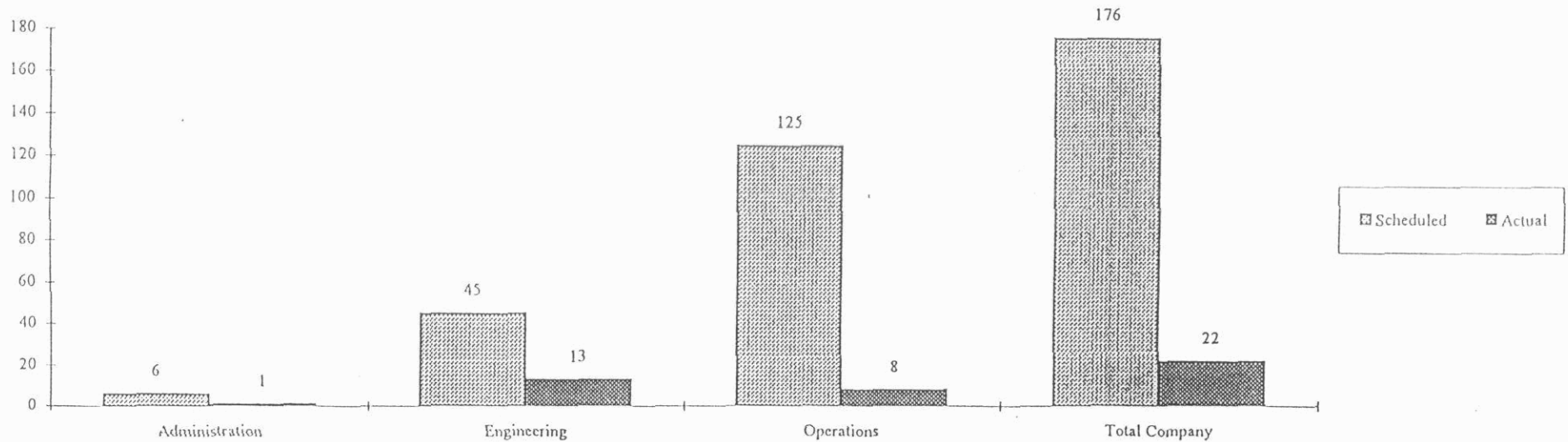
Department: OPERATIONS Region: WEST			Report: Monthly Capital Variance Report					
Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>CITRUS SPRINGS</i>								
96CW120	- EMERGENCY "A" KIT	F SANDERSON	1,555	0	1,876	0	4/30/96	
96CW121	- EGRESS SYSTEM	F SANDERSON	1,820	0	2,196	0	2/28/96	
96CW122	- PORTABLE GENERATOR	F SANDERSON	28,000	0	33,779	0	1/31/96	
96CW220	- BACKHOE TRAILER	F SANDERSON	5,700	0	6,876	0	3/15/96	
<i>LAKE GIBSON</i>								
96CW131	- ABANDON WELL	D. DEBACA	930	800	1,122	965		
96CW132	- TRASH PUMP	J MACK	3,020	0	3,643	0	6/30/96	
<i>MARION OAKS</i>								
96CW149	- HOIST	B YOCUM	5,440	0	6,563	0	6/1/96	
96CW150	- BLOWER/CLARIFIER MOTOR	B YOCUM	7,300	6,042	8,807	7,289	3/1/96	
96CW151	- HYDRANTS	B YOCUM	13,200	0	15,924	0	12/1/96	
96CW152	- LS ELECTRICAL BOXES (5)	B YOCUM	18,500	0	22,318	0	8/1/96	
<i>PALM TERRACE</i>								
96CW163	- EMERGENCY REPAIR KIT	R LEACH	1,590	0	1,918	0	5/1/96	
96CW164	- SCBA (MSA)	R LEACH	2,260	0	2,726	0	5/1/96	
96CW165	- L/S PUMP REPLACEMT (2)	R LEACH	13,077	0	15,776	0	5/1/96	
<i>PINE RIDGE</i>								
96CW167	- HYDRANTS	F SANDERSON	25,440	0	30,691	0	12/1/96	
<i>POINT O'WOODS</i>								
96CW202	- DISCONNECT SWITCH	F SANDERSON	1,200	0	1,448	0	2/29/96	
96CW208	- STARTER COIL	F SANDERSON	2,011	2,011	2,426	2,426	2/15/96	1/5/96
<i>SEABOARD</i>								
96CW169	- REPLACE ROOF	D DENNY	2,920	0	3,523	0	5/15/96	
96CW170	- CRANE HOIST	D DENNY	5,440	0	6,563	0	4/15/96	
<i>SPRING HILL</i>								
96CW173	- UPGRADE L/S #22A AND #22B	R LEACH	5,300	0	6,394	0	8/31/96	
96CW174	- LS UPGRADE #25F	R LEACH	9,955	0	12,010	0	10/15/96	
96CW175	- UPGRADE L/S #25I	R LEACH	17,667	4,844	21,313	5,844	8/15/96	
96CW176	- UPGRADE L/S #19A	R LEACH	18,000	4,811	21,715	5,804	5/1/96	
96CW177	- UPGRADE L/S #15A	R LEACH	22,279	0	26,877	0	8/15/96	
96CW178	- UPGRADE L/S #25C	R LEACH	22,967	0	27,707	0	11/30/96	
96CW207	- PRECISION METER	R LEACH	2,067	0	2,494	0	2/1/96	

Department: OPERATIONS Region: WEST			Report: Monthly Capital Variance Report					
Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		In-Service Dates	
			Current Authorization	Actual	Project Budget	Actual	Schedule	Actual
<i>SUGAR MILL WOODS</i>								
96CW180	- PRESSURE SUSTAINING VALVE	J LEVESQUE	6,480	0	7,817	0	5/15/96	
96CW181	- LIFT STATION PANELS (6)	J LEVESQUE	23,850	0	28,773	0	8/31/96	
96CW182	- PORTABLE GENERATOR	J LEVESQUE	35,000	0	42,224	0	5/24/96	
96CW217	- REPLACE WELL MOTOR	J LEVESQUE	5,182	0	6,252	0	3/15/96	
96CW223	- JET TRUCK ENGINE	J LEVESQUE	2,636	0	3,180	0	3/25/96	
<i>SUNNY HILLS</i>								
96CW183	- ECONO 2 CRANE	H REGISTER	5,440	3,160	6,563	3,812	2/1/96	
96CW184	- UPGRADE L/S #4-B	H REGISTER	26,435	0	31,891	0	4/30/96	
<i>WEST REGION PLANT</i>								
96CW188	- SCBA (MSA)	R LEACH	13,426	0	16,197	0	3/8/96	
<i>ZEPHYR SHORES</i>								
96CW190	- REPLACE FENCE	D. DEBACA	1,000	0	1,206	0	6/10/96	
96CW191	- PRESSURE VALVE	D. DEBACA	1,640	0	1,978	0	6/10/96	
TOTAL WEST REGION			358,727	21,668				

1996
MONTHLY CAPITAL AUTHORIZATION UPDATE SCHEDULE

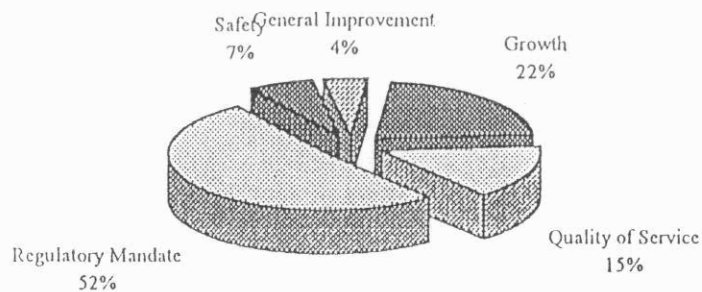
Department	Original Budget	Current Authorization	Change	1996 Plant In-Service		Remaining
				Scheduled	Actual	
Total Administration	6	6	0	6	1	5
Central Region	29	30	1	25	11	14
South Region	8	8	0	8	0	8
West Region	18	18	0	12	2	10
Total Engineering	55	56	1	45	13	32
Administrative	7	7	0	7	0	7
Central Region	32	46	14	44	2	42
South Region	28	44	16	40	5	35
West Region	29	35	6	34	1	33
Total Operations	96	132	36	125	8	117
Grand Total	157	194	37	176	22	154

1996 Capital Plant In-Service Additions



16
MONTHLY CAPITAL VARIANCE SCHEDULE

Priority/Department	Current Authorization	Y-T-D Actual	Variance Over/(Under)	Percentage of Current Authorization
Administration	0	0	0	
Engineering	612,606	1,690,091	1,077,486	
Operations	299,270	(1,637,338)	(1,936,608)	
Total Safety	911,876	52,754	(859,122)	6.58%
Administration	0	(0)	(0)	
Engineering	5,921,941	540,612	(5,381,329)	
Operations	1,263,542	63,131	(1,200,411)	
Total Regulatory Mandate	7,185,483	603,743	(6,581,740)	51.84%
Administration	0	0	0	
Engineering	2,480,583	801,973	(1,678,610)	
Operations	580,530	76,609	(503,921)	
Total Growth	3,061,113	878,582	(2,182,531)	22.08%
Administration	13,600	14,209	609	
Engineering	1,250,291	39,500	(1,210,792)	
Operations	823,724	43,547	(780,177)	
Total Quality of Service	2,087,615	97,256	(1,990,359)	15.06%
Administration	585,973	57,906	(528,067)	
Engineering	10,000	(150)	(10,150)	
Operations	19,895	0	(19,895)	
Total General Improvement	615,868	57,756	(558,111)	4.44%
Total Capital	13,861,955	1,690,091	(12,171,864)	100.00%



Preliminary Survey and Investigation Report

Project #	Description	Project Manager	1996 Direct Spending		Total Project Spending		
			Current Authorization	Actual	Project Budget	Actual	
<i>AMELIA ISLAND</i>							
95PN700	- WATER SYSTEM ANALYSIS	B PASTER	15,000	0	20,123	0	
<i>DELTONA LAKES</i>							
95PC718	- WET WEATHER SYSTEM IMPRV	B PASTER	25,000	-1,529	85,188	49,598	
96PC002	- SAGAMORE HIGH SVC PUMP	B PASTER	4,000	0	5,366	0	
96PC003	- AGATHA/SAXON ELECTRICAL	B PASTER	8,000	0	10,732	0	
<i>SUGAR HILL CC</i>							
96PC008	- WTP GENERATOR	B PASTER	5,000	0	6,708	0	
<i>SUNSHINE PARKWAY</i>							
96PC009	- GENERATOR	B PASTER	5,000	0	6,708	0	
96PC010	- PERC POND RERATE	B PASTER	6,000	0	8,049	0	
TOTAL CENTRAL REGION			68,000	-1,529			
<i>BURNT STORE</i>							
96PS001	- RO WTP PHASE IV EXP STUDY	J LOSCH	35,000	0	46,953	0	
<i>LEHIGH</i>							
94PS014	- WTP EXPANSION	J LOSCH	85,000	-500	153,504	38,806	
95PS724	- WTP STANDBY POWER	J LOSCH	4,000	0	5,453	87	
<i>MARCO ISLAND</i>							
94PS015	- 160 ACRE SITE	J LOSCH	170,000	7,783	533,241	315,628	
94PS338	- COLLIER RECLAIM H2O LINE	J LOSCH	160,000	1,079	312,352	99,160	
95PS731	- SWTR RULE COMPLIANCE	J LOSCH	24,000	0	36,098	3,902	
96PS004	- RO WTP RAW WTR STUDY	J LOSCH	45,000	0	60,368	0	
96PS005	- PERC POND INVESTIGATION	J LOSCH	65,000	0	87,198	0	
TOTAL SOUTH REGION			588,000	8,363			
<i>GIBSONIA ESTATES</i>							
95PW722	- HWY 98 FDOT UTILITY RELO	B GOUCHER	3,000	179	4,214	430	
<i>LAKE GIBSON</i>							
95PW723	- EFF DISP INVESTIGATION	B GOUCHER	12,745	9,257	23,624	18,945	
<i>MARION OAKS</i>							
95PW737	- COLL SYS INVESTIGATION	B GOUCHER	8,000	27	11,020	324	
<i>SPRING HILL</i>							
96PW007	- WATER MAIN EXT-- US 19	B GOUCHER	2,000	0	2,683	0	
TOTAL WEST REGION			25,745	9,463			

DOCKET 950495-WS
EXHIBIT NO. 219
CASE NO. 96-04227

EXHIBIT NO. 219

WITNESS: GOUCHER

DOCKET NO. 950495-WS

Application for rate increase by
SOUTHERN STATES UTILITIES, INC.

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DESCRIPTION:

DEP construction permit for Sugarmill Woods WWTP

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET 950495 **EXHIBIT NO** 219
COMPANY/
WITNESS:
DATE: 4/29/96



Lawton Chiles
Governor

Florida Department of Environmental Protection

Southwest District
3804 Coconut Palm Drive
Tampa, Florida 33619
813-744-6100

Virginia B. Wetherell
Secretary

PERMITTEE:

Southern States Utilities, Inc.
1000 Color Place
Apopka, FL 32703

PERMIT/CERTIFICATION

GMS ID No: 4009P05400
Permit No: DC09-242735
Date of Issue: 06/23/94
Expiration Date: 04/01/95
County: Citrus
Lat/Long: 28°43'05"
82°30'50"
Sec/Town/Range: 28/20S/18E
Project: Sugarmill Woods
WWTP Expansion
Processor: A.D. McLaurin

Attention:

Mr. Rafael A. Terrero, P.E.
Environmental Service Manager

This permit is issued under the provisions of Chapter 403, Florida Statutes, and Florida Administrative Code Rule(s) 17-3, 17-4, 17-300, 17-500 and 17-600 Series. The above named permittee is hereby authorized to perform the work or operate the facility shown on the application and approved drawing(s), plans, and other documents, attached thereto or on file with the Department and made a part thereof and specifically described as follows:

Expansion of a 0.500 MGD Type I oxidation ditch by re-rating the existing oxidation ditch to a permitted capacity of 0.700 MGD and the addition of a new clarifier, dual chlorine contact chambers and sludge processing and handling system with chlorinated effluent to a 1.5 mg holding pond and then to a 53.35 acre restricted access spray irrigation site.

Location: South of C.R. 480 and North of U.S. 98 in Citrus County, Florida

Replaces Permit No: N/A

Expired: N/A

SPECIFIC CONDITIONS:

1. Drawings, plans, documents or specifications submitted by the permittee, not attached hereto, but retained on file at the Southwest District Office, are made a part hereof.
2. The zone of discharge boundary shall extend horizontally 100 feet from the site boundary or to the installation's property boundary, whichever is less, and vertically to the base of the shallow water table aquifer. (Rule 17-522.410, F.A.C.)



Department of Environmental Protection

Lawton Chiles
Governor

Southwest District
3804 Coconut Palm Drive
Tampa, Florida 33619

Virginia B. Wetherell
Secretary

March 21, 1995

Mr. Rafael A. Terrero, P.E.,
Manager of Environmental
Services
Southern States Utilities, Inc.
1000 Color Place
Apopka, Florida 32703

Citrus County
Sugarmill Woods WWTP
GMS ID No. 4009P05400

Modification of Conditions
Permit No. DC09-242735

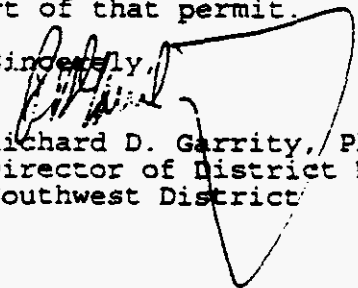
Dear Mr. Terrero:

The Department received your request, application 265903, for a modification of the permit conditions of the above construction permit originally issued on June 23, 1994. The conditions are hereby changed as follows:

<u>Condition</u>	<u>From</u>	<u>To</u>
Expiration Date	April 1, 1995	December 31, 1995

This permit modification, DC09-242735A, authorizing the above changes must be attached to your original permit and, together with any other preceding modification(s), becomes a part of that permit.

Sincerely,


Richard D. Garrity, Ph.D.
Director of District Management
Southwest District

RDG/rhl

c: Citrus County Public Health Unit
Phyllis James, DEP
Robert Lear, DEP

Received

MAR 23 1995

Environmental Services

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