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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : DOCKET NO.

Application for a rate increase and : 950495-WS

increase in service availability charges:

by SOUTHERN STATES UTILITIES, INC. for :

Orange-Osceola Utilities, Inc. in :

Osceola County, and in Bradford, Brevard:

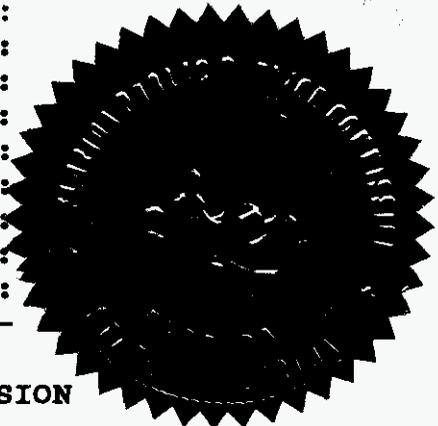
Charlotte, Citrus, Clay, Collier, Duval, :

Highlands, Lake, Lee, Marion, Martin, :

Nassau, Orange, Osceola, Pasco, Putnam, :

Seminole, St. Johns, St. Lucie, Volusia :

and Washington Counties. :



TENTH DAY - EARLY AFTERNOON SESSION

VOLUME 40

Pages 4831 through 4948

PROCEEDINGS: HEARING

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

DATE: Friday, May 10, 1996

TIME: Reconvened at 12:35 p.m.

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

REPORTED BY: SYDNEY C. SILVA, CSR, RPR
 Official Commission Reporter

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER - DATE

05362 MAY 10 96

FPSC-RECORDS/REPORTING

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P R O C E E D I N G S

(Hearing reconvened at 12:40 p.m.)

(Transcript follows in sequence from
Volume 39.)

CHAIRMAN CLARK: We are back on the record,
go ahead, Mr. Feil.

- - - - -

RAFAEL A. TERRERO

resumed the stand as a rebuttal witness on behalf of
Southern States Utilities, Inc. and, having been
previously sworn, testified as follows:

CONTINUED REDIRECT EXAMINATION

BY MR. FEIL:

Q Mr. Terrero, just before the break, I asked
you a few questions regarding prospective well sites
and how used and useful was calculated on the
hydraulic analysis.

The proposed well sites you refer to as
being plugged into the model and having resulted in a
higher used and useful percentage, were those the same
proposed well sites under a master plan?

A Yes, sir.

Q You testified about comparing ERCs to lots
as a better method for calculating used and useful
versus a lots-to-lots method. Does the ERCs-to-lots

1 method account for different hydraulic demands more so
2 than the lots-to-lots comparison?

3 A Yes, it does.

4 MR. PELLEGRINI: Objection, Chairman Clark.
5 I don't recall that Mr. Terrero made that testimony,
6 that is, comparing the ERCs to --

7 MR. FEIL: I thought I asked him a question
8 regarding that just before the break. As I recall, I
9 asked him whether or not the numbers that Mr. Twomey
10 asked him to compare were the hydraulic analysis
11 figure and a lots-to-lots comparison? And then --

12 CHAIRMAN CLARK: I'll allow the question.
13 Go ahead, Mr. Feil.

14 MR. FEIL: I think he already answered the
15 question, actually, but I'll ask it again.

16 MR. TWOMEY: In which case I'll --

17 (Laughter)

18 CHAIRMAN CLARK: Go ahead, Mr. Feil.

19 Q (By Mr. Feil) Could you tell me whether or
20 not the ERCs-to-lots comparison takes account for a
21 different hydraulic demand more so than the
22 lots-to-lots comparison?

23 A Yes, it does. But still, I would go with my
24 Cybernet modeling.

25 Q Mr. Reilly, I believe it was, asked you a

1 number -- excuse me. Mr. Pellegrini asked you
2 questions regarding setback requirements for the 212
3 acres. As I recall, you stated that there was no
4 Collier County setback requirement for surface water;
5 is that your testimony?

6 A That's correct. Collier County.

7 Q Okay. Could you explain to me what the
8 significance is of the drawdown of the water level on
9 the size of the acreage condemned for the Collier
10 Lakes?

11 A The drawdown is based on having one foot
12 under the wetlands, and that's what it is based on.

13 Q Okay. And what's the relationship between
14 the drawdown you're referring to and the rationale of
15 why SSU condemned 212 acres as opposed to some
16 different acreage?

17 A The reason being we would like to keep or we
18 have to keep a small impact on anything that is not
19 our property and also have a one-foot impact on the
20 wetlands which are adjacent to the creek. So that's
21 why we have taken the position that we wanted to
22 condemn the whole 12 -- 212 acres.

23 Q Was it your testimony that SSU condemned the
24 minimum amount of acreage that was necessary in order
25 to make withdrawals from the lakes?

1 A That was my testimony, yes.

2 Q Do you think any responsible engineer would
3 have recommended condemning less in order to utilize
4 the withdrawal from the Collier Lakes?

5 A No, sir.

6 Q I'd like to ask you a few questions about
7 the now infamous Composite Exhibit No. 227 and the
8 two, four-page letters and the one, two-page letter.
9 Do you have that exhibit? It's 227. The first page
10 is SSU's January 23 response to Mark Halverstadt?

11 A I don't have it handy.

12 Q I'll bring it over to you.

13 (Witness provided document.)

14 My questions are as follows, Mr. Terrero:
15 SSU's response refers to a December dated letter from
16 the Public Health Unit, doesn't it?

17 A That's correct.

18 Q Okay. The December dated letter was one of
19 the four-page letters, or was it the two-page letter?

20 A The four-page letter.

21 Q And that was one of four-page letters that
22 was unsigned?

23 A Correct.

24 Q In SSU's response, which I believe was a
25 two-page response, was SSU responding to the two-page

1 letter that was signed from the Public Health Unit or
2 to the four-page letter?

3 A It was to the four-page letter.

4 Q And what leads you to believe that? Excuse
5 me -- did you say to the four-page letter?

6 A Yes. December.

7 Q Okay. And why -- well, let me ask you this.
8 SSU's response, does it address --

9 A I beg your pardon, it is to the two-page.
10 To the two-page.

11 Q Could you clarify just what you said? I
12 couldn't hear it very well.

13 A It is in response to the two-page letter.

14 Q So SSU's response was in response to the
15 two-page letter.

16 A Correct.

17 Q And what leads you to believe it was in
18 response to the two-page letter?

19 A Because of the way we responded to in our
20 letter.

21 Q So not all of the items listed in any of the
22 four-page letters -- excuse me, let me rerephrase
23 that. Not all of the items addressed in either one of
24 the four-page letters were responded to in SSU's
25 response?

1 A That's correct.

2 Q So do you think it is reasonable to conclude
3 that the reference in SSU's response to the December
4 four-page letter was in error?

5 A Yes.

6 Q Thank you. Sorry to drag you through that,
7 Mr. Terrero.

8 One additional question regarding the
9 Collier pits. Do you believe that the pits or the
10 condemned 212 acres, excuse me, should be considered
11 100% used and useful notwithstanding the location of
12 the ASR well?

13 A Yes, I believe they should be considered
14 100% used and useful.

15 There is also an exhibit that I prepared in
16 reference to the travel time of the groundwater travel
17 time that I would like to see if I can pass it.

18 MR. FEIL: If you wouldn't mind, please?

19 Madam Chairman, may I have this exhibit
20 identified with the next identification number?

21 CHAIRMAN CLARK: The next number is 232.

22 MR. FEIL: 232?

23 CHAIRMAN CLARK: Correct.

24 MR. FEIL: And this short description would
25 be -- Mr. Terrero, do you have a short description?

1 "Travel Time for Pollution Source"?

2 WITNESS TERRERO: Correct, correct.

3 MR. FEIL: "Travel Time for Pollution
4 Source-Collier Lakes."

5 CHAIRMAN CLARK: Okay, Mr. Feil.

6 (Exhibit No. 232 marked for identification.)

7 Q (By Mr. Feil) Could you tell me what this
8 exhibit describes, Mr. Terrero?

9 A It describes the travel time of the
10 groundwater, like from the 365 days will be from the
11 groundwater to our intake structure, which is located
12 in the L portion perpendicular to 951.

13 The 90 days means that in three months any
14 spillage that occur there could reach our lakes; and
15 the 30 days is if it goes there in 30 days, it could
16 be in our water supply.

17 Q Two questions about this. If there was a
18 contamination source that arose outside of this circle
19 that's labeled "365 days," are you saying that it
20 would take 365 days for the contamination source to
21 affect the water quality in the lakes?

22 A That's correct.

23 Q If there was such a situation, what
24 corrective measures would SSU take?

25 A We would have to take remedial measures. We

1 would have to make sure that it doesn't get to the
2 lakes either by trenching, hiring an environmental
3 firm to do remediation.

4 Q What about with respect to the ASR water
5 that may have been injected into the ground, would you
6 take similar remedial action?

7 A Yes. If we have a case like that, no water
8 would be injected into the ASR well.

9 Q Did you say earlier that the ASR well was
10 going to have water injected into the ground or into
11 the bubble only at certain times of the year?

12 A That's correct. It's going to be injected
13 in the rainy season estimated to be from June through
14 September.

15 Q Thank you. Mr. Reilly asked you several
16 questions regarding a AWWA reference or AWWA manual
17 reference on Pages 11 and 12 of your prefiled
18 testimony. During the evening last night, did you
19 have the opportunity to look at that apparent
20 disparity or possible misquote?

21 A Yes. I went back and searched for the book.
22 And, first of all, like I said, it was a different
23 edition.

24 Q What was a different edition? Excuse me.

25 A Yes, he had the first edition.

1 Q He?

2 A My publication is the second edition.

3 Q The "he" you are referring to is Mr. Biddy?

4 A Mr. --

5 Q Mr. Reilly?

6 A Reilly.

7 Q Okay.

8 A Also, on Page 33 of my --

9 Q Page 33 of the manual?

10 A Page 33 of the one I'm using is where we
11 start the statement that I have; and it goes all the
12 way on Page 12 to Line 15, "planned for." Stops
13 there. What happened is I went back to Page 33 and
14 make another statement on Page 33 which adds,
15 "However, the system should be designed to provide
16 some water at 20 PSI." Which is the minimum anyhow
17 that you are supposed to have by the DER regulations,
18 or the HRS.

19 Q So you are saying that the sentence that
20 begins on Page 12, Line 15, of your prefiled rebuttal
21 testimony, beginning with the word, "However," is in
22 the AWWA manual you were referring to but it was in a
23 place different from where you have quoted it here?

24 A Right. It is a different place. It is
25 about three paragraphs before, but it is in the same

1 Chapter, "Adequacy and Reliability of Distribution
2 Systems."

3 Q Okay. So it should have been identified as
4 being a separate quote?

5 A Correct. My mistake.

6 Q Okay, thank you.

7 With respect to the questions Mr. Pellegrini
8 asked you on the Marco Island perc ponds with the
9 off-site perc ponds, does SSU's permit for Marco
10 Island require SSU to have those percolation ponds?

11 A Yes.

12 Q And what does it require SSU to have the
13 percolation ponds for?

14 A It is backup for the irrigation system and
15 also backup for the injection well.

16 Q Do you believe SSU's permits for its reuse
17 facilities would have been issued if SSU did not have
18 those percolation ponds as a backup?

19 A Would not have been issued.

20 Q That's the question.

21 A Yes.

22 Q Now, Mr. Pellegrini asked you a number of
23 questions about how the percolation ponds are used.
24 Mr. Pellegrini asked you questions on how SSU disposes
25 of some effluent from Marco Shores in those

1 percolation ponds; is that correct?

2 A That's correct.

3 Q And SSU also is required to have those
4 percolation ponds as a backup for the Marco Island
5 reuse?

6 A That's correct.

7 Q Okay. Do you believe that if the Commission
8 made any sort of allocation of the costs for those
9 percolation ponds between Marco Island and Marco
10 Shores, that that allocation should in any way affect
11 the 100% used and useful assignment SSU has given
12 those percolation ponds for Marco Island?

13 A No, it should not.

14 Q Why is that? Does it have to do with the
15 fact that those percolation ponds are needed for a
16 backup for reuse?

17 A Yes, sir.

18 Q So if the Commission was to make an
19 allocation of the cost for those percolation ponds --
20 recognizing again that it would only matter in the
21 event that uniform rates were not approved, as you
22 have said. But if the Commission were to make an
23 allocation, would it be reasonable to allocate costs
24 based on an average daily flow of the maximum month
25 for Marco Shores? In other words, the average daily

1 flow for the maximum month disposal from Marco Shores
2 going to the ponds?

3 A Yes.

4 Q You stated in response to a question from
5 Mr. Pellegrini, I believe it was, that you had some
6 maps for the Deltona service areas for which SSU has
7 requested a hydraulic analysis. I don't want you to
8 bring those maps out, but what was your testimony with
9 respect to how those maps pertained to Deltona's or
10 Deltona Corporation's selling lots?

11 A Those maps show the orderly way that those
12 maps were -- I mean those lots were sold. It shows
13 that they have different phases, like they have cache
14 areas, which is all concentrated; then it goes to a
15 two-year phase, three-year, five-year, ten-year.
16 Those are the different phases that Deltona had.
17 Those are easily looked at in a colored what they call
18 a sales map.

19 Q So you are saying the lots were sold in an
20 orderly sequence?

21 A That's correct.

22 Q Okay. Did you also say that the lots have
23 not been built on in the order in which they were
24 sold?

25 A Definitely not.

1 Q Okay. And would it be -- strike that.

2 Mr. Pellegrini asked you some questions
3 regarding this order on the approving the transfer --
4 excuse me, approving a majority organizational
5 control. Are you aware of a dispute that arose
6 between Topeka and Deltona at the time or about the
7 time of this transfer?

8 A A little bit familiar. Not, not too
9 familiar.

10 Q Let me, if I may, just ask you this. Was
11 part of the dispute between those two parties
12 pertained to line extensions?

13 A Yes.

14 Q And that's indicated in this order that
15 Mr. Pellegrini handed you?

16 A Yes.

17 Q Okay. Was that -- was the issue regarding
18 line extensions resolved?

19 A I believe it was.

20 MR. FEIL: Okay. Commissioner, I'm going to
21 ask that the Commission take administrative notice of
22 the order by which the Commission approved the, for
23 want of a better description, settlement between
24 Topeka and Deltona regarding the line extensions. It
25 was an order approving the service --

1 CHAIRMAN CLARK: All right, give me the
2 order number.

3 MR. FEIL: I don't have the order number
4 with me but I can have it to you by the end of the
5 day.

6 CHAIRMAN CLARK: Sounds good.

7 MR. FEIL: Thank you.

8 Q (By Mr. Feil) Mr. Pellegrini also asked you
9 a number of questions regarding infiltration and
10 inflow. And he suggested through some of his
11 questions that the Commission may want to explore
12 using an 80% water return formula for determining
13 whether or not infiltration and inflow is excessive.

14 Can you tell me whether or not such a
15 formula is workable in this case?

16 A I don't think so. We have a lot of system
17 by where we have water, we serve the customers with
18 water, we don't serve them with sewers. So I don't
19 think it's workable. Also, we have multifamily areas,
20 and I don't think it's workable.

21 Q Can you think of a single SSU service area
22 where every wastewater customer is a water customer?

23 A No.

24 Q And in order to use that formula, was it
25 your testimony that there would have to be some sort

1 of correlation or at least a -- that there would have
2 to be a correlation of that data?

3 A Yes.

4 Q And you have said that in this case you are
5 not aware of any such correlation of data?

6 A That's correct.

7 Q Mr. Pellegrini asked you a question
8 regarding the EPA formula that SSU had used on that
9 response to OPC Document Request 279, which I believe
10 was Exhibit 81. And he asked you whether or not that
11 formula, I think he used the term "ignored" the length
12 of the collection lines involved. Is it correct that
13 that formula ignores the length of the lines?

14 A Well, I think that it doesn't ignore it, it
15 just goes on a per capita basis. If you have a per
16 capita basis, you have a frontage and a lot. So in a
17 way it does; it doesn't say so in the report, but it
18 does include it.

19 Q So it doesn't say so because it is just not
20 a factor in the calculation?

21 A That's correct.

22 Q But it is in your view taken into
23 consideration?

24 A I would say yes.

25 Q Okay. Mr. Pellegrini also asked you a

1 question regarding the amount of infiltration one
2 would expect from a large collection system versus a
3 small collection system, assuming the same age of
4 those two collection systems. And I believe he asked
5 you whether or not one would expect more infiltration
6 and inflow for the larger of the two. Do you remember
7 that?

8 A Yes.

9 Q What other conditions would one have to
10 explore in order to truly state that the larger
11 collection system would have greater infiltration and
12 inflow than the smaller?

13 A Materials, construction.

14 Q Materials and construction?

15 A Right.

16 Q So those two other things would also play a
17 role, right?

18 A Definitely.

19 Q What about the type of connections served?

20 A Also would have a role in it.

21 Q Okay. Are you aware of any evidence on the
22 record in this case which supports the view that any
23 of SSU's service areas have excessive infiltration and
24 inflow?

25 A No.

1 Q Mr. Pellegrini also asked you some questions
2 regarding Page 73 of your testimony. And he asked you
3 whether or not some equipment that had been installed
4 was installed and whether or not tests were run after
5 the equipment was installed. Do you recall that?

6 A Yes.

7 Q And I believe your testimony was that there
8 were some lead exceedances revealed by subsequent
9 tests?

10 A That's correct.

11 Q Can you tell me whether or not SSU was still
12 within the time frame allowed by the DEP rules for
13 correcting any problems?

14 A Yes.

15 Q Okay. Does the optimal treatment necessary
16 for correcting lead and copper problems take time?

17 A Yes. Like I said before, the corrosion
18 control is more an art than a science. It takes time
19 to correct, and that's why EPA has given you such a
20 lead in complying.

21 Q So you are saying that the DEP/EPA rules
22 allow for a lead time for correcting the problem
23 because they recognize that it takes time to fix?

24 A That's correct.

25 Q All right. Regarding some more questions

1 Mr. Pellegrini asked, can you tell me what is the
2 source of the blend water at the Marco Island R.O.
3 plant?

4 A It is the Hawthorne Aquifer.

5 Q Does SSU use any lime softening water to
6 blend water at the R.O. plant?

7 A After it is treated, yes.

8 Q After it is treated?

9 A That's correct.

10 Q So is all the blend water used at the R.O.
11 plant from the lime softening plant?

12 A Yes.

13 Q Okay. What's the source of the blend water
14 at the Burnt Store R.O. plant?

15 A R.O. -- I mean aquifer water.

16 Q So it's raw water?

17 A Raw water, correct.

18 Q What is the range of blend water used at
19 Burnt Store?

20 A Up to about 10%.

21 Q So it will be up to about 10% but it may
22 vary being less than 10%?

23 A That's correct.

24 Q And that's going -- what factors is the
25 range going to depend on?

1 A Depends on the quality of the water of the
2 production.

3 Q Is this the reason for the -- are these
4 blending characteristics between the Burnt Store plant
5 and the Marco Island R.O. plant the reason why you
6 reduced the Burnt Store R.O. plant capacity by 10% but
7 not the Marco Island R.O. plant --

8 A Yes.

9 Q Thank you. How many R.O. skids will be in
10 service at the Burnt Store at the end of 1996?

11 A Two.

12 Q How many R.O. skids will the existing
13 building at Burnt Store contain?

14 A I cannot tell you that.

15 Q Okay. One question Mr. Pellegrini asked
16 you, I think that either he or you confused some
17 terms. But a deep injection well is not the same as
18 an ASR well?

19 A No. In Marco Island, a deep injection well
20 is at the wastewater treatment plant site; ASR would
21 be at the R.O. water supply site.

22 Q And do both types of wells have a completely
23 different purpose?

24 A Yes.

25 Q What would be the capacity in Marco Island

1 at the end of 1996?

2 A 5 million gallons per day.

3 Q What would be the capacity of the Marco
4 Island wells or well fields at the end of 1996?

5 A The R.O. water capacity is 8.4 and probably
6 will produce about 6 million gallons per day. But
7 that's supposed to be rotated due to the high
8 concentration of TDS we have on the groundwater. So
9 it, I would say, will be 5 million gallons per day.

10 Q But it may be as much as 6?

11 A That's correct.

12 Q So there is not -- is there or is there not
13 a one-to-one correlation between what the well fields
14 will produce and what the R.O. plant can treat?

15 A Yes.

16 Q And did you testify earlier that the wells
17 used to serve the R.O. plant will be rotated?

18 A Yes. The reason of being rotated is because
19 the quality in some of the existing wells exceeds the
20 original amount that we estimated and so we have to
21 blend it in order to make the membranes work and be as
22 productive as we want it to be.

23 Q So the well field production has no impact
24 on the R.O. plant capacity?

25 A No.

1 Q When Mr. Faircloth was testifying, he
2 indicated -- and I believe you addressed in your
3 testimony also that auxiliary power -- he testified
4 about auxiliary power at Deltona Lakes. And Mr. Bidy
5 proposes a nonused and useful adjustment for the
6 auxiliary power at Deltona Lakes. Do you recall
7 Mr. Faircloth's testimony?

8 A Yes. Mr. Faircloth claimed that we did not
9 have sufficient standby power at Deltona, that we
10 recently met the -- their requirement by the addition
11 of generators. And by Mr. Bidy's testimony, the
12 auxiliary power is 63%; so that's very inconsistent
13 with the regulatory agency.

14 Q So Mr. Bidy is saying we have too much
15 auxiliary power, Mr. Faircloth is saying we don't have
16 enough?

17 A That's correct.

18 MR. FEIL: Okay. No further redirect.

19 CHAIRMAN CLARK: Exhibits?

20 MR. FEIL: SSU moves 82, which was the
21 Mr. Mynatt bill from long ago.

22 CHAIRMAN CLARK: Okay, without objection,
23 that will be admitted in the record.

24 MR. FEIL: 222, which was Mr. Terrero's
25 prefiled exhibits.

1 CHAIRMAN CLARK: That will be admitted in
2 the record without objection.

3 MR. FEIL: And I suppose we should also move
4 a number of exhibits that Mr. Terrero brought with
5 him. Those were 227, 228, 230, and 232.

6 CHAIRMAN CLARK: All right, 227, 228, 230
7 and 232 will be admitted in the record without
8 objection. Mr. Pellegrini?

9 MR. PELLEGRINI: Yes, Staff would move
10 Exhibits 223, 224, 225, 226, 229,

11 CHAIRMAN CLARK: And 231?

12 MR. PELLEGRINI: And 231.

13 CHAIRMAN CLARK: Those will be admitted in
14 the record without objection.

15 MR. FEIL: Commissioner, I do have one
16 objection on 229. Mr. Terrero was -- never mind, I
17 withdraw the objection.

18 CHAIRMAN CLARK: Thank you very much.

19 (Exhibit Nos. 82 and 222 through 232
20 received in evidence.)

21 CHAIRMAN CLARK: Mr. Gower is next?

22 MR. PELLEGRINI: Chairman Clark, there was a
23 pending matter from last evening concerning the lead
24 exceedance test that Chairman Deason ruled that we
25 would take that matter up on the conclusion of cross

1 examination?

2 CHAIRMAN CLARK: Is that a Staff exhibit?

3 MR. FEIL: Commissioner or Madam Chairman?

4 MR. PELLEGRINI: This was a request by

5 Mr. Twomey for certain data submissions.

6 MR. FEIL: Mr. Twomey last night made a very
7 broad-brush request for a late-filed hearing exhibit
8 concerning lead and copper issues in all of SSU's
9 service areas. Commissioner Deason instructed Staff
10 that at the conclusion of Mr. Terrero's examination
11 for Staff to determine whether or not they thought
12 such an exhibit was necessary. I don't think at this
13 point that it is.

14 MR. PELLEGRINI: Staff, in fact, would
15 support Mr. Twomey's request. Staff has had the same
16 concern expressed by Mr. Twomey, that is, it has been
17 unable to be certain that the Utility is in full
18 compliance --

19 CHAIRMAN CLARK: I'll tell you what. I'm
20 going to stop this right now. I want SSU, Mr. Twomey
21 and Staff to get together and decide what you need and
22 then come back and tell me.

23 MR. FEIL: I'm agreeable to that.

24 CHAIRMAN CLARK: Mr. Kaufman?

25 MR. BECK: Madam Chairman, Mr. Lee McEachern

1 from the Chuluota area had asked if he could testify
2 for a few minutes before the Commission? I was led to
3 believe you were going to let him testify after
4 Mr. Terrero.

5 CHAIRMAN CLARK: I was waiting if you were
6 going to let me know if he wanted to testify.

7 MR. BECK: Yes. He's here and wants to
8 testify.

9 CHAIRMAN CLARK: All right.

10 Mr. Gower, would you vacate the witness
11 chair for just a few moments? We are going to have --
12 Mr. Beck, give me the me the customer's name again.

13 MR. BECK: Lee McEachern, M-C-E-A-C-H-E-R-N.

14 CHAIRMAN CLARK: Lee McEachern.

15 (Witness sworn.)

16 - - - - -

17 **LEE MCEACHERN**

18 was called as a witness on behalf of the Citizens of
19 the State of Florida and, having been duly sworn,
20 testified as follows:

21 WITNESS MCEACHERN: Thank you, Madam
22 Chairman, members of the Commission. I know that it
23 has been a long hearing and I intend to be very, very,
24 very brief.

25 I represent the Southeast Seminole County

1 Voters Association, which is predominantly the
2 Chuluota area. The vast majority of our members are
3 customers of Southern States Utilities.

4 A little over two years ago, I addressed
5 this Commission on approximately the same subject and
6 I presented for you then -- since most of my adult
7 life I have been in law enforcement, I'm a former
8 undersheriff of Orange County -- I presented, if you
9 remember, an analogy on the inequity of the Sheriff of
10 Orange County attempting to request the county
11 commission to impose a stand-alone rate for certain
12 outlying areas of Orange County to whom he delivers
13 law enforcement services. And how inequitable it
14 would be to impose such a rate on those citizens for
15 specialized law enforcement services like crime scene
16 processing, helicopters and so forth.

17 Today, though, remembering that one picture
18 is worth a thousand words, I wanted to present for the
19 Commission just before you go into your deliberations
20 three word pictures -- and maybe a direct visual
21 picture with permission of both counsel -- of three of
22 the customers of Southern States Utilities, members of
23 our organization, and the dramatic impact that the
24 interim rate increase has had upon their individual
25 lives.

1 It's been almost 34 years since I took the
2 oath to protect and serve; and of all the causes that
3 I have pled before all the tribunals, from quadruple
4 homicide to traffic citations, this is probably one of
5 the most vital, fundamental, basic causes.

6 As government moves more and more to
7 consider privatizing in the name of economy and
8 efficiency our prison systems, our solid waste
9 management, our landfill operations, even our
10 emergency ambulance service, we have to look at what
11 we have done in privatizing our natural resource of
12 water and ask ourselves, has it resulted in efficiency
13 and economy?

14 So I present to the Commission for your
15 consideration a single mother, Mrs. Phyllis Block, who
16 lives at 461 East Sixth Street. She has been a
17 customer since July of 1984. Without any significant
18 variation up or down in water usage, her bill went
19 from the December/January billing period it was \$50.87
20 and for the immediate next month her bill was \$89.09
21 with fundamentally the same usage rate.

22 This is a single mother with a teenaged
23 daughter. She is not on welfare, doesn't draw food
24 stamps or AFDC, and attempts valiantly to maintain her
25 economic independence; but she finds it threatened by

1 her water and sewer bill. I don't really know where
2 the husband is, if he is playing golf or just
3 emotionally out to lunch.

4 I present for your consideration another
5 lady, Ms. Toshica Breen, who lives at 471 East Sixth
6 Street. She is approximately 70 years old; she is a
7 widow; she is on a very limited fixed income. She has
8 been on this system since August of 1950. With no
9 significant variation in her water usage rate, her
10 bill for the last billing period prior to the interim
11 rate increase was \$34.20 and the first bill
12 immediately after the rate increase was \$68.93.
13 Approximately a 100% increase.

14 The third case that I ask you to consider --
15 and there are really hundreds of them and, I would
16 suspect if I knew the state better, thousands of
17 them -- who have the same impact.

18 Another lady, Mrs. Gerrie Raulerson, who
19 lives at 470 East Sixth Street. She is not only a
20 widow but she also is on a very limited fixed income,
21 who mows lawns to supplement that income.

22 But she has two physically and mentally
23 retarded sons for whom she is the sole provider. One
24 is an 18-year-old boy, Downs Syndrome, who has the
25 intellectual capacity of about a 6-year-old; The other

1 one is a 26-year-old man who is totally physically and
2 mentally incapacitated.

3 This lady has since the rate increase taken
4 to putting five-gallon buckets of water outside the
5 back of her house to gather rainwater so she can use
6 that to put in her washing machine and to wash her son
7 with. She only uses her system water for critical
8 things such as drinking and so forth.

9 Her bill for the last billing period in
10 December 20th to January 22nd, 1996, was \$35.98. For
11 the billing period January to February 21, her bill
12 went to \$72.06. Fundamentally the identical water
13 usage rate.

14 I don't remember the judge's name, but he
15 presided in the case of United States v. L. Patrick
16 Gray, former Director of the FBI, a U.S. District
17 Judge for Washington, DC. And he made an observation
18 in that case that I think -- because I've tried to
19 monitor these hearings vicariously from down in the
20 Sanford area -- I think his observation in that has
21 application here.

22 He said to all the counsel and the parties
23 involved: "What we are seeking here is justice. Not
24 just in loading the record. And every party here has
25 an equal interest in that justice. And not just the

1 appearance of justice, but a firm conviction in the
2 minds of all involved that justice has been done."

3 Minnesota Power executive asked, and fairly
4 so, that he would like the Commission to grant a fair
5 return on their investment. I plead that the
6 Commission consider a fair impact upon the customers
7 of SSU.

8 Thank you.

9 CHAIRMAN CLARK: Thank you. Any questions?

10 MS. O'SULLIVAN: Staff has no questions.

11 MR. REILLY: No, ma'am.

12 CHAIRMAN CLARK: Thank you very much for
13 coming up.

14 WITNESS McEACHERN: Thank you for your
15 courtesy.

16 (Witness McEachern excused.)

17 - - - - -

18 CHAIRMAN CLARK: Mr. Gower?

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HUGH GOWER

1
2 was called as a rebuttal witness on behalf of Southern
3 States Utilities, Inc. and, having been duly sworn,
4 testified as follows:

DIRECT EXAMINATION

5
6 BY MR. ARMSTRONG:

7 Q Mr. Gower, do you have before you 17 pages
8 which constitutes the prefiled rebuttal testimony in
9 this case?

10 A Yes, I do.

11 Q Do you have any changes you would like to
12 make to the testimony?

13 A Yes, I have two small corrections.

14 Q Could you please provide them.

15 A On Page 3, Line 9, following the word
16 "confirmed," the word "by," B-Y, should be inserted.

17 Q And the other change?

18 A Page 7, Line 23, the reference to the
19 Florida Administrative Code should be 25-30.434,
20 instead of 343.

21 Q With those changes, if I asked you the
22 questions contained in those 17 pages, would your
23 answers be the same?

24 A Yes, they would.

25 MR. ARMSTRONG: Thank you. Madam Chair, we

1 requested that the 17 pages of rebuttal testimony be
2 entered into the record as though read.

3 CHAIRMAN CLARK: The prefiled rebuttal
4 testimony of Mr. Gower will be inserted into the
5 record as though read.

6 MR. ARMSTRONG: Mr. Gower has no exhibits,
7 Madam Chair.

8 CHAIRMAN CLARK: Okay.

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

2 A. My name is Hugh Gower, and I am self-employed. My
3 address is 195 Edgemere Way South, Naples, Florida
4 33999.

5 Q. ARE YOU THE SAME HUGH GOWER WHO PROVIDED DIRECT
6 TESTIMONY IN THIS PROCEEDING?

7 A. Yes.

8 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

9 A. The purpose of my rebuttal testimony is to show
10 that:

11 1) The imputation of potential future post-test
12 period CIAC collections to offset margin reserve
13 plant investment proposed by OPC witness Hugh
14 Larkin, Jr. and SMWCA witness Buddy L. Hansen is
15 inappropriate and should be rejected; and

16 2) The amortization of gains on sales of utility
17 properties and/or other related ratemaking
18 adjustments proposed by OPC witnesses Kimberly H.
19 Dismukes and Hugh Larkin, Jr. are improper and
20 should be rejected by the Commission.

21 Both proposals are based upon incorrect and
22 unfounded assertions as well as a profound
23 confusion of the cost of service and capital
24 transactions.

25 Q. ON PAGE 12 OF HIS TESTIMONY MR. LARKIN ASSERTS THAT

1 **THE REASON SSU IMPUTES NO CIAC AGAINST ITS MARGIN**
2 **RESERVE PLANT IS THAT SSU WANTS TO "RECEIVE A FULL**
3 **BENEFIT, WITHOUT RISK, BY INCLUDING A MARGIN**
4 **RESERVE IN ITS USED AND USEFUL CALCULATIONS"**
5 **WITHOUT ACCEPTING "THE RISK THAT ITS ESTIMATED**
6 **FUTURE ERC'S ARE OVERSTATED." IS THIS**
7 **CHARACTERIZATION OF SSU'S INTENTION CORRECT?**

8 A. No, it is not. Apparently Mr. Larkin missed the
9 point that what SSU seeks is the opportunity to
10 earn a fair return on investors' capital until that
11 investment has been recovered. Not imputing
12 potential post - test period CIAC collections
13 provides that opportunity insofar as the margin
14 reserve plant investment is concerned. By
15 contrast, imputing potential post - test period
16 CIAC collections as an offset to the margin reserve
17 plant investment denies that opportunity.

18 **Q. ISN'T IT TRUE THAT POST-TEST PERIOD CIAC**
19 **COLLECTIONS FROM NEW CUSTOMER CONNECTIONS WILL**
20 **DECREASE THE COMPANY'S RATE BASE RESULTING IN OVER-**
21 **EARNINGS IN THE FUTURE?**

22 A. No, future post-test period CIAC collections from
23 new customer connections will result in neither
24 decreases to rate base nor over-earnings in the
25 future for two reasons.

1 First, as my direct testimony demonstrated,
2 post-test period CIAC collections for the margin
3 reserve period do not equal the amount obtained by
4 multiplying margin reserve ERC's times the service
5 availability charges. This is due, in part, to the
6 fact that a portion of the margin reserve is to
7 meet increased demands of present customers, which
8 generate no CIAC collections. This prospect is
9 confirmed ^{by} OPC witness Dismukes' increase to test
10 year consumption levels based upon her belief that
11 consumption levels of existing customers were lower
12 than normal due to rainfall.

13 Second, while new customer connections do
14 result in future CIAC collections, it does not
15 follow that a reduction in rate base is the
16 consequence. Anticipation of future rate base
17 reductions assumes that the amount of needed margin
18 reserve plant decreases when new customers connect
19 to the system, but this is not the case.

20 **Q. WHY?**

21 A. Because when a portion of margin reserve plant held
22 ready to meet customers' demands is "committed" to
23 serving new customers who connect to the system, it
24 does not decrease the amount of needed margin
25 reserve plant. On the contrary, the amount of

1 margin reserve plant previously available but
2 committed to serving new customers would need to be
3 replaced, all other things being equal.

4 **Q. HOW WOULD THE MARGIN RESERVE PLANT BE REPLACED?**

5 A. An equivalent amount of plant either completed, but
6 held for future use or under construction would
7 become "used and useful" as margin reserve plant.
8 Inasmuch as the investment in construction work-in-
9 progress and plant held for future use exceeds
10 \$30,000,000 at the end of 1995 and the company has
11 a large construction program, as described in Mr.
12 Ludsen's testimony, it seems clear that there are
13 substantial amounts of capital already invested and
14 "waiting" to become "used and useful" as margin
15 reserve plant or otherwise.

16 It is equally clear that new customer
17 connections and related CIAC collections will cause
18 neither a reduction in rate base nor over earnings
19 in the future.

20 **Q. MR. LARKIN STATES ON PAGE 10, LINES 14 THROUGH 17,**
21 **THAT MARGIN RESERVE PLANT INCLUDED IN RATE BASE**
22 **"REPRESENTS INVESTMENT THAT WILL NOT BE USED AND**
23 **USEFUL IN SERVING THE CURRENT CUSTOMERS." IS THIS**
24 **TRUE?**

25 A. No, margin reserve plant has consistently been

1 determined to be "used and useful." SSU, just as
2 other utilities obligated to serve the public, must
3 have capacity to meet future increases in the needs
4 of both present and future customers. Present
5 customers benefit when the utility serving them has
6 capacity to meet demands from new customers without
7 overloading existing facilities and degrading the
8 service to existing customers.

9 **Q. DOES THE USE OF A FUTURE TEST PERIOD PROVIDE SOME**
10 **ADVANTAGE TO THE UTILITY WHICH MAKES IT UNNECESSARY**
11 **FOR THE COMMISSION TO INCLUDE ALL ELEMENTS OF**
12 **INVESTOR-SUPPLIED CAPITAL IN RATE BASE?**

13 A. No, contrary to Mr. Larkin's implication on page
14 10, lines 10 through 12, it does not. While the
15 use of future test periods tends to reduce
16 regulatory lag, neither the utility nor its
17 customers should be advantaged or disadvantaged as
18 a result of that practice.

19 **Q. WHEN SSU DEVELOPED ITS FUTURE TEST PERIOD DATA, DID**
20 **IT INCLUDE ALL REVENUE AND EXPENSE TRANSACTIONS**
21 **WHICH SHOULD BE THE RESULT OF SERVING INCREASED**
22 **NUMBERS OF CUSTOMERS?**

23 A. Yes, it did.

24 **Q. AND DID SSU'S FUTURE TEST PERIOD DATA INCLUDE**
25 **EXPECTED NEW PLANT INVESTMENTS AND CIAC COLLECTIONS**

1 FROM NEW CUSTOMERS THROUGH THE END OF THE TEST
2 PERIOD?

3 A. Yes, it did.

4 Q. HOW MANY ADDITIONAL CUSTOMERS OVER THE NUMBER
5 SERVED IN THE 1994 BASE HISTORICAL PERIOD DID SSU
6 PROJECT THROUGH THE END OF ITS 1996 TEST YEAR?

7 A. SSU projects an increase of 4,590 water customer
8 ERC's and 2,389 wastewater customer ERC's from the
9 end of the 1994 historical period through the end
10 of 1996 for FPSC jurisdiction plants.

11 Q. WHAT AMOUNT OF CIAC COLLECTIONS OVER THE ACTUAL
12 AMOUNT AT THE END OF 1994 DID SSU PROJECT THROUGH
13 THE END OF THE 1996 TEST YEAR FOR FPSC REGULATED
14 PLANTS?

15 A. SSU projected additional CIAC collections through
16 the end of 1996 of \$3,570,878 for water and
17 \$1,373,325 for wastewater.

18 Q. WILL THE CIAC COLLECTIONS FROM 1994 THROUGH THE END
19 OF 1996 PROVIDE RECOVERY OF INVESTMENTS IN UTILITY
20 PLANT MADE FOR THAT SAME PERIOD OF TIME?

21 A. No, they will not. Additional investments in
22 utility plant from 1994 through the end of 1996 are
23 projected in the MFRs to total over \$42,000,000 for
24 FPSC jurisdictional facilities. By comparison,
25 projected CIAC collections of \$4.9 million would

1 recover only 12% of that capital investment.

2 **Q. DO THESE PROJECTED CIAC COLLECTIONS THROUGH THE END**
3 **OF 1996 REDUCE 1996 RATE BASE AND PROPERLY SHOW THE**
4 **AMOUNT OF INVESTOR-SUPPLIED CAPITAL FOR THE 1996**
5 **TEST PERIOD?**

6 A. Yes.

7 **Q. WHY SHOULDN'T RATE BASE BE FURTHER REDUCED FOR**
8 **POTENTIAL POST-TEST PERIOD CIAC COLLECTIONS DURING**
9 **THE MARGIN RESERVE PERIOD AS MR. LARKIN AND MR.**
10 **HANSEN SUGGEST?**

11 A. Because to do so would reduce rate base to an
12 amount below the actual amount of investor-supplied
13 capital which will exist during the test period.

14 **Q. IS IT TRUE AS MR. LARKIN SUGGESTS THAT SSU WOULD**
15 **NOT BE HARMED BY EXCLUDING MARGIN RESERVE FROM RATE**
16 **BASE?**

17 A. No, it is not. Investors' capital must be in rate
18 base to have the opportunity to earn a return. Mr.
19 Larkin's claim that AFPI charges compensate the
20 company for its investment in margin reserve is
21 simply an unfounded assertion.

22 **Q. WHY IS THAT SO?**

23 A. First, because by definition, (see Rule 25-30.⁴³⁴~~343~~
24 Florida Administrative Code) AFPI charges are
25 designed to provide compensation to the utility for

1 making prudent investments in plant held for future
2 use -- in other words, plant which is not yet used
3 and useful. Since margin reserve plant investments
4 are "used and useful," AFPI collections are
5 unrelated to it.

6 Second, AFPI collections do not even approach
7 a compensatory return on the plant to which they do
8 relate, much less provide a return on margin
9 reserve plant as well.

10 **Q. WHAT RETURN DOES AFPI COLLECTIONS PROVIDE?**

11 A. In recent years, AFPI collections have increased
12 but still they produce only slightly more than 3%
13 of the investments they were designed to
14 compensate.

15 **Q. IF AFPI COLLECTIONS FAIL TO PROVIDE A COMPENSATORY**
16 **RETURN ON PRUDENT PLANT INVESTMENTS NOT YET USED**
17 **AND USEFUL AND CIAC COLLECTIONS FAIL TO RECOVER**
18 **INVESTMENTS IN NEW CAPACITY, WHAT RATEMAKING**
19 **TREATMENT OF MARGIN RESERVE PLANT SHOULD THE**
20 **COMMISSION ADOPT?**

21 A. The ratemaking objective should be to provide an
22 opportunity for investors to earn a fair return on
23 their capital until it has been recovered. Insofar
24 as the investment in margin reserve plant, that can
25 be accomplished by inclusion of the average

1 unrecovered test period investment -- original
2 cost, less depreciation and CIAC collections --
3 without further reduction for potential future
4 post-test period CIAC collections.

5 **Q. SUGARMILL WOODS CIVIC ASSOCIATION WITNESS BUDDY**
6 **HANSEN ALSO ADVOCATES IMPUTING CIAC AGAINST THE**
7 **MARGIN RESERVE. DO YOU HAVE ANY COMMENTS REGARDING**
8 **HIS TESTIMONY?**

9 A. Mr. Hansen's testimony is premised on the same
10 assertions as Mr. Larkin's, which my previous
11 comments demonstrate are unfounded and erroneous.
12 Mr. Hansen's proposed imputation of CIAC should be
13 rejected for the reasons I have stated here and in
14 my direct testimony.

15 **Q. PLEASE EXPLAIN WHAT OPC WITNESS KIMBERLY H.**
16 **DISMUKES PROPOSES WITH REGARD TO GAINS ON SALES OF**
17 **UTILITY PROPERTIES RECORDED BY SSU DURING RECENT**
18 **YEARS?**

19 A. As explained in pages 34 to 42 of her testimony,
20 Ms. Dismukes proposes that the Commission either
21 (1) amortize \$21,823,331 of gains on sales of
22 utility properties above-the-line over a five-year
23 period, or \$4,264,666 a year, in calculating cost
24 of service in this case, or (2) in the alternative,
25 deduct the amount of gains recorded, less dividends

1 paid to its stockholder, from SSU's common equity
2 in calculating cost of service in this case.

3 **Q. WHAT IS THE BASIS FOR MS. DISMUKES' PROPOSED**
4 **TREATMENT OF THESE GAINS?**

5 A. On page 35, lines 4 through 8 of her testimony Ms.
6 Dismukes indicates that she proposes to amortize
7 gains on sales of properties which were included in
8 rate base, but excluded gains on sales of
9 properties which were not in rate base. The
10 distinction she makes implies that inclusion of
11 utility property in rate base conveys an ownership
12 interest of some type to the utility's customers,
13 as a result of which they are entitled to a share
14 of the capital which financed property in rate
15 base.

16 **Q. IS THAT NOT THE CASE?**

17 A. No, it is not. Those who believe it does confuse a
18 calculation made for costing and/or pricing service
19 with the conveyance to customers of the right to
20 share in the capital which finances utility plant
21 or in profits resulting from that capital.

22 **Q. WHAT DOES INCLUSION OF PROPERTY IN A UTILITY'S RATE**
23 **BASE MEAN?**

24 A. It means that the item(s) of property are used and
25 useful in providing rate regulated service to

1 customers. As such, the amount of investor-
2 supplied capital with which the property was
3 financed is entitled to an opportunity to earn a
4 fair return. Regulators include the cost of
5 property (less depreciation, CIAC, etc.) in rate
6 base to provide investors that opportunity through
7 the calculation of the cost of utility service and
8 setting prices to recover the calculated cost of
9 service.

10 **Q. FOR HOW LONG A PERIOD ARE INVESTORS ENTITLED TO THE**
11 **OPPORTUNITY TO EARN A RETURN ON CAPITAL WHICH**
12 **FINANCES PROPERTY WHICH PROVIDES SERVICE TO UTILITY**
13 **CUSTOMERS?**

14 A. Only so long as the property provides service to
15 customers. If it ceases to provide service, it is
16 removed from rate base and the opportunity to earn
17 a return ceases.

18 **Q. WHAT ARE CUSTOMERS ENTITLED TO WHEN THEY PAY THE**
19 **PRICES CALCULATED ON THE BASIS OF PROPERTY INCLUDED**
20 **IN RATE BASE?**

21 A. Customers get exactly what they pay for: the
22 service they have demanded and which was provided
23 by the utility at the lowest price the regulators
24 could set to cover the cost of service.

25 **Q. BUT WHEN PROPERTY IS IN RATE BASE, DON'T PRICES**

1 **CUSTOMERS PAY PROVIDE THE CAPITAL WITH WHICH THE**
2 **PROPERTY IS FINANCED?**

3 A. No, customers do not provide the capital which
4 finances the utility's property -- investors do.

5 Properly constructed cost-based prices do
6 include elements to cover the cost of using
7 investors' capital (return) and for the return of
8 investors' capital (depreciation) for the period of
9 time for which service is provided along with other
10 cost of service elements.

11 **Q. WHY DOESN'T PAYMENT OF PRICES WHICH INCLUDE RETURN**
12 **ENTITLE CUSTOMERS TO SHARE IN THE CAPITAL UPON**
13 **WHICH A RETURN IS PAID?**

14 A. For the same reason that savings institutions
15 return the principal invested in time deposits to
16 the depositors even though the institution has paid
17 interest on the time deposit. The principal
18 invested belongs to the depositor who is also
19 entitled to be paid for the use of his or her
20 money. Further, savings depositors who withdraw
21 their savings and use the funds profitably --
22 perhaps in the stock market or by purchasing a
23 winning Florida lottery ticket -- do so without the
24 prospect of the savings institution in which the
25 funds were previously deposited laying claim to all

1 or some part of their profits.

2 **Q. SHOULD THE COMMISSION AMORTIZE GAINS ON SALES OF**
3 **UTILITY PROPERTIES AS A REDUCTION TO COST OF**
4 **SERVICE AS MS. DISMUKES PROPOSES?**

5 A. No, it should not. Sales of property are capital
6 transactions, not cost of service transactions.
7 The financial results of capital transactions
8 should be excluded from cost of service.

9 **Q. WHAT IS THE BASIS FOR MS. DISMUKES' PROPOSAL TO**
10 **EXCLUDE GAINS ON SALES OF UTILITY PROPERTIES FROM**
11 **SSU'S COMMON EQUITY FOR COST OF SERVICE PURPOSES?**

12 A. Ms. Dismukes' statements on page 42, lines 19
13 through 22 indicate her position is either (1) that
14 if the assets sold were "utility" assets the sales
15 proceeds belong to ratepayers, or (2) if the FPSC
16 declines to allow customers to share in investors'
17 property rights (the gains), the gains must be from
18 "non-utility" operations and should be excluded
19 from SSU's equity capital.

20 **Q. DO YOU AGREE WITH MS. DISMUKES' POSITION?**

21 A. No, I do not, for several reasons. First, it
22 should be clear from previous comments why the
23 payment of rate regulated prices for the service
24 they receive does not entitle customers to an
25 equity interest in either specific utility assets

1 or the capital with which they were financed.

2 Second, it is irrelevant whether the equity
3 capital which is used to finance the utility arose
4 as (1) proceeds from sales of stock, (2) reinvested
5 profits from utility operations, (3) reinvested
6 profits from non utility operations, or (4)
7 extraordinary gains on sales of operating or non
8 operating assets, proceeds from insurance, etc.
9 Whatever the originating transaction, as long as
10 common shareholders choose to leave the capital
11 invested in the business, it is common equity
12 capital.

13 The relevant questions are (1) what is the
14 total capital devoted to utility operations? and
15 (2) how much of that capital is common equity,
16 preferred stock or debt? These questions are asked
17 and answered by the reconciliation of capital
18 structure and rate base. No further adjustment is
19 necessary or appropriate.

20 **Q. WHAT IS OPC WITNESS HUGH LARKIN, JR.'S POSITION**
21 **WITH REGARD TO GAINS ON SALES OF PROPERTY REALIZED**
22 **BY SSU?**

23 A. At page 7, lines 6 through 9, Mr. Larkin asserts
24 that "... ratepayers have provided most of the
25 equity in the form of gains realized ... on the

1 sale of utility property...". Mr. Larkin further
2 opines that since the parent company's common stock
3 investment in SSU may have been financed with debt,
4 it really isn't an equity position (pages 5 and 6).
5 He suggests the fair return on equity is
6 substantially less than would be the result of
7 multiplying the book equity ratio by the authorized
8 return on equity.

9 **Q. WHAT IS THE BASIS FOR MR. LARKIN'S ASSERTION THAT**
10 **"... RATEPAYERS HAVE PROVIDED MOST OF THE EQUITY IN**
11 **THE FORM OF GAINS REALIZED ... ON THE SALE OF**
12 **UTILITY PROPERTY...?"**

13 A. Other than his unsupported claim, his testimony
14 contains nothing on the subject.

15 **Q. IS IT TRUE AS MR. LARKIN SUGGESTS ON PAGE 6 OF HIS**
16 **TESTIMONY THAT AN EQUITY INVESTMENT FINANCED WITH**
17 **DEBT REALLY ISN'T EQUITY AT ALL?**

18 A. No, it is not. Neither the means of acquisition
19 nor the financing of an equity investment changes
20 the economic characteristic of that investment.

21 **Q. PLEASE EXPLAIN.**

22 A. The primary economic characteristic of an equity
23 investment is that it represents the residual
24 investment, standing last in line after vendors,
25 debtholders or preferred shareholders whose claims

1 on the returns (if any) generated by the business
2 transactions of the enterprise are superior to
3 those of the common equity holder. Whether the
4 common equity holder borrowed 100% of the funds for
5 the investment ... or inherited 100% of the
6 investment from a distant uncle is irrelevant
7 because it does not change the primary economic
8 characteristic of that investment. However,
9 acquired or financed, the common equity holder is
10 still the residual investor, still last in line in
11 claims on returns from the enterprise and still the
12 investor whose risk is the greatest.

13 Those who argue for lower returns on equity
14 due to "double leverage" and similar theories
15 conveniently lose sight of these primary underlying
16 economic facts.

17 **Q. SHOULD THE COMMISSION ADJUST SSU'S COMMON EQUITY**
18 **RATIO BECAUSE OF GAINS REALIZED ON SALES OF**
19 **PROPERTIES OR SOURCE OF FINANCING AS OPC WITNESSES**
20 **DISMUKES AND LARKIN RECOMMEND?**

21 A. No, it should not. To do so would inappropriately
22 lower the return allowed on the common stock
23 portion of the capital which financed SSU's rate
24 base.

25 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

1 A. Yes.

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

3 A Yes, I can provide a summary.

4 The purpose of my rebuttal testimony is to
5 explain why the proposed imputation of potential post
6 test period service availability charges to offset the
7 margin reserve plan proposed by OCP witness Larkin and
8 Sugarmill Woods witness Hansen is inappropriate and
9 should be rejected.

10 My testimony also explains why the proposed
11 amortization of gains on sales of utility properties
12 or capital structure adjustments proposed by OPC
13 witnesses Dismukes and Larkin are also improper and
14 should be rejected.

15 Both of these proposals are based on
16 unfounded assertions as well as a profound confusion
17 between cost of service transactions and capital
18 transactions.

19 Turning first to the proposed imputation of
20 post test period service availability collections, the
21 reasons favoring the imputation offered by Mr. Larkin
22 simply are not based on fact. To clarify the record,
23 the facts are: First, post test period collections of
24 service availability charges from new customers will
25 not cause a decrease in rate base, nor will it cause

1 an excess of earnings above authorized levels.

2 There are two reasons for this. The first
3 is that those collections in the margin reserve period
4 are not equal to the number of margin reserve ERCs
5 times the connection charge.

6 I pointed out in my direct testimony that
7 the collection in the margin reserve period following
8 the last case was less than 50% of the amount imputed.
9 That is likely due to the fact that a good part of
10 that margin reserve is to serve existing customers
11 and, of course, they don't produce any collections.
12 But the fact is, even if margin reserve period
13 collections were fully equal to the amount which had
14 been imputed, it does not eliminate the need for a
15 return on that portion of plant.

16 It is analogous to anyone in this room who
17 withdraws their savings deposit at the end of the year
18 and a bank saying, "Well, because you withdrew the
19 deposit, we're not going to pay you interest." The
20 depositor is entitled to that interest.

21 The second reason is that new customer
22 connections do not decrease the margin reserve plant
23 investment. In fact, quite the contrary. As the
24 number of customers increase, it is likely that the
25 required margin reserve will increase.

1 When new customers hook up, the plant which
2 was previously considered margin reserve plant is
3 committed to serving existing customers then; and it
4 is replaced by a plant which is either under
5 construction or in the accounts called, "Plant Held
6 for Future Use."

7 At December of 1995, Southern States had
8 over \$30 million of plant held for future use and
9 construction work in progress, which demonstrates the
10 point that investors put up the capital first.
11 Customers may provide a reimbursement or a recovery of
12 that capital through either depreciation or
13 contributions in aid, but the investors' capital is
14 always put up first and that's the capital that needs
15 a return.

16 Another assertion in Mr. Larkin's testimony
17 is that margin reserve plant is not used and useful.
18 And that's contrary to fact. Present customers
19 benefit directly when margin reserve plant is
20 available to meet their peak demands which they place
21 on the system. Present customers also benefit when
22 new customers can be added without degrading the
23 service to the existing customers.

24 Mr. Larkin also implies in his testimony
25 that future test periods provide some special

1 advantage to a utility. That's not true. It may
2 reduce regulatory lag, but everyone gets treated
3 fairly. The Company has projected additional
4 customers, nearly 7,000; projected nearly \$5 million
5 of additional collections of service availability
6 charges, along with all the appropriate increases in
7 revenues and expenses.

8 Projected collections of service
9 availability charges only amount to 12% of the new
10 plant investment during the test period. And further,
11 collections of the allowance for funds prudently
12 invested, contrary to Mr. Larkin's assertion, do not
13 apply to margin reserve because margin reserve is used
14 and useful.

15 Furthermore, the AFPI collections fail to
16 compensate the plant which they are designed to
17 compensate, namely, the plant held for future use,
18 that currently amount to less than 3.5% of that
19 investment. Which is not a very good return.

20 The bottom line is that the investors put up
21 the money on the front end. That capital requires a
22 return. And that return can only be provided if a
23 margin reserve plant is included in rate base without
24 the imputation of potential post test period
25 collections of service availability charges.

1 Turning now to the amortization of gains on
2 sales, OPC witness Dismukes proposed to amortize gains
3 on sales of Utility property above the line. That
4 proposal ought to be rejected because it is based on
5 the unfounded notion that Utility customers somehow
6 acquire an equity interest in the property of the
7 Utility.

8 As I read her testimony, it appears that her
9 position is, because plant was included in rate base,
10 customers have some claim on that property or rights
11 to the gains on sales. That's simply not true.

12 What customers pay for is service. Period.
13 They get service at the lowest price this Commission
14 can set. Maybe not low enough to satisfy everybody,
15 but it's the lowest price this Commission can set.

16 Second is, because that price includes an
17 element for return does not mean customers are
18 entitled to that property or capital. It is no
19 different from a savings deposit. You wouldn't put
20 your money in a savings institution which said to you,
21 "If we pay you interest, we're going to keep part of
22 your capital if you want to withdraw it." It just
23 doesn't work that way.

24 Finally, OPC witnesses Dismukes and Larkin
25 propose that if the Commission doesn't amortize sales

1 on gains above the line that some alteration of the
2 Company's capital structure should be made. These
3 proposals appear to be based on the notion that
4 customers provide the gains on sales -- or, in the
5 alternative, some of the Company's equity investment
6 may have been financed with debt.

7 For whatever reason, these proposals should
8 be rejected. The basic characteristic of equity and
9 capital is that it stands last in line on claims to
10 the Company's profits or resources -- last in line
11 behind general creditors, senior creditors, or any
12 preferred shareholders. That's why it is called
13 common equity, that's why it has the highest risk, and
14 that's why it's entitled to that return.

15 Whether equity capital arose through an
16 inheritance or just a windfall transaction doesn't
17 make any difference. As long as it's equity capital,
18 it stands last in line; and as long as the
19 shareholders choose to leave that equity capital
20 invested, that's what it is, common equity capital.
21 It has the highest risk characteristics and is
22 entitled to the highest return.

23 That concludes my summary.

24 MR. ARMSTRONG: Thank you, Mr. Gower. The
25 witness is available for cross.

1 CHAIRMAN CLARK: Mr. Beck.

2 MR. BECK: No questions.

3 CHAIRMAN CLARK: Mr. Jacobs?

4 MR. JACOBS: Just a few, Madam Chairman.

5 CROSS EXAMINATION

6 BY MR. JACOBS:

7 Q Mr. Gower, your discussion about things such
8 as customers benefit from the reserves that you built
9 into the plant, you're talking about the customers of
10 that particular plant, aren't you?

11 A I did not address a particular plant. I had
12 in mind a system.

13 Q All right. But you are talking about
14 customers who are served off of that system, then?

15 A Yes, sir, it would have to be customers
16 served from the system.

17 Q All right. So if you have a large margin of
18 reserve at Amelia Island in Nassau County, that
19 doesn't really benefit the people who are, say,
20 several hundred miles away, does it?

21 A I, I really --

22 Q You can give me a yes or no and then explain
23 it if you wish.

24 A How about if I say I don't know? You really
25 need to speak to an engineering witness about that,

1 and I --

2 Q Sir, you obviously have a finance background
3 and you understand investment and return. If a
4 customer in Amelia Island has invested a lot of money
5 in his particular utility and you have invested money
6 in that utility, it doesn't really benefit anybody who
7 is not serving or being served by that utility, does
8 it?

9 MR. ARMSTRONG: I'm going to object, Madam
10 Chair. I think Mr. Jacobs' question where he referred
11 to the financial background of this witness is the
12 heart and soul of the difficulty everybody has with
13 margin reserve. Because it is not a financial
14 question, it's an engineering question. And that's
15 part of the problem why the margin reserve we believe
16 is deficient.

17 This witness is here to talk about
18 imputations of CIAC against the margin reserve, he's
19 not testifying as to what the margin reserve period
20 should be.

21 CHAIRMAN CLARK: Let me hear your question
22 again, Mr. Jacobs?

23 MR. JACOBS: Madam Chairman, what I'm saying
24 is is that he's talking about investment in a plant to
25 create margin of reserve or reserve margin. My

1 question is, if he's investing in it and the customers
2 are investing in it, a user of another quote/unquote
3 "system" several miles away -- several hundred miles
4 away is not a beneficiary of that investment. That's
5 my question. Yes or no?

6 A Well, I have to answer no, because the
7 premise to your question is improper. Part of your
8 premise was, do the customers invest in the system?
9 The customers do not invest in the system, investors
10 provide the capital.

11 Q (By Mr. Jacobs) You're familiar with
12 contributions in aid of construction, aren't you?

13 A That's exactly what I'm familiar with,
14 Mr. Jacobs --

15 Q All right.

16 A -- and the point I just made, if I may
17 finish my answer, is that the investors put up their
18 capital well in advance of recovery either through
19 contributions in aid or depreciation, however it is.
20 For the three years ended December 1995, collections
21 of the contributions in aid or service availability
22 charges amounted to 13% of the new capital investment
23 added to the Company's plant account. So then
24 investors are the ones that are putting up the
25 capital.

1 Q All right. You say that you are concerned
2 about the investors getting their money back. Are you
3 talking about the stockholders in Minnesota Power, I
4 guess? Those are investors.

5 Whenever you sell a company or you sell a
6 part of your Company off, the customers don't get the
7 benefit of that sale?

8 A I certainly hope not. Because they
9 shouldn't --

10 Q All right, sir, now --

11 A -- it's a capital transaction.

12 Q -- but the stockholders do?

13 A The stockholders may recover their capital
14 through a sale or they may not recover their capital.

15 Q Well, let's say in one of your years -- and
16 I'm sure you're familiar with Mr. Sandbulte's
17 testimony, his rebuttal testimony. He talks about a
18 16%-plus return and he says that's because of an
19 incident of a sale.

20 Stockholders, if that's a 16% increase on
21 that investment for that year, it's obvious that the
22 stockholders receive the benefit of that sale; is that
23 not correct?

24 A Yes, that would be correct. It is also
25 correct that Mr. Sandbulte's testimony pointed out

1 that the stockholders had lost money in prior years.

2 Q All right, sir. But they had 16% in one
3 year, they lost 3% one year, they lost 1.5% another
4 year. But for that one particular year you average it
5 over the five years you're talking about, it appears
6 that they gained some money then, didn't they?

7 A Sir, I --

8 Q Even though it's an incident sale, I
9 recognize that, but the stockholders benefited from
10 that sale?

11 A I would agree that the stockholders got the
12 benefit of the sale --

13 Q All right, sir.

14 A -- and they were entitled to it. But your
15 assertion that they did well over a period of years is
16 completely incorrect when compared to what the returns
17 ought to be. And I'm not an expert in rate of return,
18 but it adds up pretty fast.

19 Q Well, you're testifying on it and my
20 question didn't go to that. I just asked you a simple
21 question, and I --

22 A I'm sorry if I misunderstood --

23 MR. ARMSTRONG: Madam Chair, I think what we
24 need to do is have one person speak at the time.

25 Mr. Jacobs has interrupted Mr. Gower several times

1 already.

2 MR. JACOBS: The second -- I'm sorry, Madam
3 Chairman.

4 Q (By Mr. Jacobs) The second question is the
5 customers did not get any benefit from that 16% profit
6 that you had on that particular year, did they?

7 A Which customers?

8 Q The customers in the system, as you call it.

9 A Well, the customers who were served by that
10 property, whatever it was, got a benefit from it,
11 okay?

12 Q What was the benefit?

13 A Hopefully they would have paid a price for
14 the service they received and that service is a
15 benefit.

16 Q Did the customers in Amelia Island get a
17 benefit?

18 A I'm really not in a position to answer your
19 question because I have not examined the evidence in
20 the case to that level of detail.

21 My testimony runs to the concept of imputing
22 post test period collections of contributions in aid,
23 it runs to the ratemaking treatment of gains on sales.
24 Whether any customers got benefit of any property, I'm
25 not in a position to respond.

1 Q But you do agree with the concept that the
2 customers who benefit directly when margin reserve is
3 present are the customers who are serviced by that
4 particular entity that has margin reserve; is that not
5 correct?

6 MR. ARMSTRONG: Objection. Madam Chair,
7 here we go again, it's the margin reserve issue.

8 The witness is here to speak of the
9 imputations against the margin reserve and whether
10 that is the proper method to be applied for
11 ratemaking. He's not here to testify about the margin
12 reserve.

13 MR. JACOBS: Madam Chairman, I --

14 CHAIRMAN CLARK: Let me hear your question.

15 MR. JACOBS: -- would like to point out that
16 I said, "Would you agree with the premise that the
17 customers who benefit directly when the margin reserve
18 is present are those that are served only by that
19 particular entity that has the margin reserve?"

20 He made the statement, I wrote it down. He
21 said, "Customers benefit directly when the margin
22 reserve is present. Everyone gets treated fairly."
23 That was his comment.

24 CHAIRMAN CLARK: All right. I'll allow the
25 question.

1 A As I understood your question, Mr. Jacobs,
2 it was to the effect that, is it only the customers at
3 a particular location who may benefit from margin
4 reserve? Is that the thrust of your question?

5 Q (By Mr. Jacobs) When it is present at that
6 location, yes.

7 CHAIRMAN CLARK: I think he means current
8 customers at that location. Is that right,
9 Mr. Jacobs?

10 MR. JACOBS: Yes.

11 A I interpreted it to mean current customers.
12 I don't believe that the customer -- let me
13 rephrase that.

14 I think it's necessary to answer your
15 question to define particular location and further to
16 know how a particular location, whatever that may be,
17 may be interconnected with the rest of a system. But
18 having said that, I think it is entirely possible that
19 customers at many locations benefit from the existence
20 of margin reserve.

21 Q (By Mr. Jacobs) All right, sir. How do you
22 know explain that, that customers at Amelia Island,
23 let say, benefit from the margin of reserve at some
24 other utility's -- (Simultaneous conversation.)

25 A Mr. Jacobs, I understand that your interest

1 in this case relates to --

2 MR. JACOBS: Madam Chairman, I think that
3 response is not --

4 A May I finish my answer, please?

5 MR. JACOBS: -- at all responsive to my
6 question. It requires a yes or no.

7 CHAIRMAN CLARK: Just a minute.

8 Mr. Gower, it is up to your attorney to
9 object to the questions. If you disagree with the
10 premise, you can indicate that.

11 I would also indicate to both of you to
12 stick to his prefiled rebuttal and do not interrupt
13 each other.

14 Now ask your question again.

15 MR. JACOBS: I just want to know how do
16 people benefit -- he has made the statement, "Margin
17 of reserve, when margin of reserve is present,
18 everyone gets treated fairly and customers benefit
19 directly when margin reserve is present."

20 Q (By Mr. Jacobs) My question is, how do
21 people in one utility like Amelia Island benefit from
22 another utility's margin reserve that's some 200 miles
23 away?

24 CHAIRMAN CLARK: Do you mean one system?

25 MR. JACOBS: One system.

1 CHAIRMAN CLARK: Or facility?

2 MR. JACOBS: One facility, yes, ma'am.

3 CHAIRMAN CLARK: Okay. Go ahead, Mr. Gower,
4 you can answer that question.

5 A I cannot respond to specific service
6 locations because I don't know enough about the
7 physical construction of the system. However, my
8 statement was that customers benefit directly when
9 margin reserve plant is included or available to meet
10 their future demands.

11 It did not go beyond that as a general
12 concept, and I can't respond to Marco Island or
13 Deltona or Burnt Store because I just don't know about
14 the systems.

15 MR. JACOBS: Madam Chairman, if I may
16 inquire further?

17 Q (By Mr. Jacobs) Mr. Gower, then just to
18 make it easier, this is a system that is not -- this
19 is a system we're talking about here that is not
20 interconnected to another system. There are no
21 connections nor are there planned to ever be because
22 of geographical locations any future connections.

23 And so the question is, isn't it true that
24 the only beneficiaries of margin of reserve are those
25 customers of that particular utility, installation, in

1 that particular vicinity?

2 MR. ARMSTRONG: Objection to the
3 characterization of the testimony. I think we've had
4 a great deal of testimony about the physical
5 interconnection of the different facilities through
6 the aquifer, which was brought out on cross
7 examination by Intervenor Counsel.

8 MR. TWOMEY: Madam Chairman?

9 CHAIRMAN CLARK: I think he's talking about
10 physical interconnection of the systems and I'll allow
11 the question.

12 A Could you rephrase that question? Maybe I
13 could understand it a little better.

14 Q (By Mr. Jacobs) Yes, sir, I'll try as best
15 I can.

16 I think, to make it just kind of very basic,
17 you have a system. And your statement was, "When
18 customers benefit directly when margin of reserve is
19 present, everyone gets treated fairly." My question
20 is, isn't it true that the, that no one benefits
21 except those particular people at that particular
22 vicinity that are being served by that particular
23 system?

24 A Maybe I can answer the question this way.

25 If --

1 MR. JACOBS: Madam Chairman, may he just say
2 yes or no and then explain? That would be fine.

3 WITNESS GOWER: No, sir, I cannot answer yes
4 or no.

5 CHAIRMAN CLARK: Just a minute. He can
6 answer yes or no; if he cannot answer yes or no, he
7 can say that.

8 MR. JACOBS: All right, thank you.

9 A I cannot answer yes or no. But I can say
10 this. If there is any group of customers served by a
11 utility that has no margin reserve, they certainly
12 don't have any benefit.

13 And just one further point of clarification.
14 You keep referring to a statement that you apparently
15 think I made about everyone being treated fairly. I
16 don't recall that and don't find it in my direct
17 testimony or my rebuttal testimony.

18 I don't know whether that's helpful to you
19 or not, but I think that's about as far as I can go in
20 responding.

21 Q (By Mr. Jacobs) I don't know, Mr. Gower, if
22 it is necessarily important that it be helpful to me,
23 I just would like to have an answer to the question.
24 I'm certainly not going to take the time to have the
25 statement, "gets treated fairly," read back to you.

1 But it would appear that you do agree,
2 though, that no one who is not being served by that
3 particular system where the margin of reserve is
4 present is really a beneficiary of that margin
5 reserve?

6 MR. ARMSTRONG: Objection. Madam Chairman,
7 how many times are we going to ask the same question?

8 CHAIRMAN CLARK: I agree.

9 MR. ARMSTRONG: That's outside the scope of
10 his testimony.

11 CHAIRMAN CLARK: I think it's been asked
12 several times.

13 MR. JACOBS: Thank you, Madam Chairman. One
14 minute, please. (Pause)

15 Q (By Mr. Jacobs) Mr. Gower, in your position
16 with the Company, are you aware of other sales that
17 are in the works of other utility companies, other
18 parts of your overall company, other entities?

19 A Maybe I didn't write the introduction of my
20 testimony very well, but I'm not an employee of the
21 company.

22 Q But are you aware, though -- I'm sorry. Are
23 you aware of any, have you had any discussions with
24 them as an advisor, then?

25 A No, I have not.

1 Q Did you have an opportunity to -- in other
2 capital sales that have been made, were you were an
3 advisor in those sales?

4 A For this Company, Southern States?

5 A Yes.

6 A No. Southern States has never employed me
7 prior to this instance and I have not discussed with
8 them anything about sales of property except the
9 ratemaking treatment of it.

10 Q How about acquisitions, have you discussed
11 with them any implications it has on ratemaking as far
12 as their due diligence in making acquisitions?

13 A No, sir, I have never discussed that with
14 them at all.

15 MR. JACOBS: I have no further questions,
16 Madam Chairman. Thank you.

17 WITNESS HANSEN: Mike said he had no
18 questions.

19 CHAIRMAN CLARK: Thank you, Mr. Hansen, I
20 thought we were going to have to send you outside
21 again.

22 MR. TWOMEY: He would go too far.

23 MR. JACOBS: Madam Chair, I want you to know
24 I was not trying to hold time for him, either.

25 CHAIRMAN CLARK: Okay.

1 MS. O'SULLIVAN: Staff has just a few
2 questions.

3 CHAIRMAN CLARK: All right. But I will
4 note, Mr. Jacobs, that you were down for zero
5 questions for this witness.

6 MR. JACOBS: But over the evening I became
7 inspired. I'm sorry.

8 CHAIRMAN CLARK: Go ahead, Staff.

9 MS. O'SULLIVAN: Thank you.

10 **CROSS EXAMINATION**

11 BY MS. O'SULLIVAN:

12 Q Mr. Gower, on Page 11 of your rebuttal
13 testimony, Lines 14 through 17, you state that, "The
14 opportunity to earn a rate of return on property
15 ceases if assets are not in service." Is that
16 correct?

17 A Yes. That's in response to a question for,
18 "Over what period of time should a return be provided
19 through rates?" And my answer is, "Only so long as
20 the property is in service."

21 Q All right. Would you also agree that if
22 property is not placed in service the Utility should
23 not also earn a rate of return on that? (Pause)

24 A I think that if property is not placed in
25 service, it does not ever enter into the ratemaking

1 calculation.

2 Maybe I don't understand the thrust of your
3 question.

4 Q I think you have answered it correctly, or I
5 think you understood it. (Laughter)

6 A I'm glad one of us did.

7 Q We'll move on.

8 CHAIRMAN CLARK: At any rate, they like what
9 you said. (Laughter)

10 MS. O'SULLIVAN: That's right.

11 CHAIRMAN CLARK: Whether you understand it
12 or not.

13 MS. O'SULLIVAN: We learned in law school,
14 don't ask a question you don't know the answer to,
15 right?

16 Q (By Ms. Sullivan) The next topic or the
17 last topic that I will ask questions about is the
18 issue of margin reserve. Starting on Page 3, Lines 5
19 through 7, of your testimony, rebuttal testimony, you
20 state that a portion of margin reserve is used to meet
21 increased demands of present customers. And I believe
22 you state a few lines further down, you address
23 Ms. Dismukes' statements about fluctuations in
24 customer usage.

25 Could you give another specific example of

1 how margin reserve benefits current customers?

2 A I think -- well, there are two. There are
3 two benefits to current customers that I see, as I
4 understand it. And I think this is -- well, it's
5 analogous to any other utility.

6 Customers' demands fluctuate. I am told by
7 people like Dr. Whitcomb that that's even true for
8 water and sewer companies.

9 There are more factors than I personally
10 understand which influence that, but weather is
11 certainly one of them. And customers benefit when a
12 company has in service sufficient capacity to meet
13 their peak demands, just as electric company customers
14 benefit when, for whatever reason, there are peak
15 demands on an electric system.

16 If you think of it the other way, if the
17 Company only had a bare minimum amount of plant and a
18 peak demand arose, then customers would be seriously
19 inconvenienced.

20 The second is that the Company, having a
21 public service obligation, needs to have some plant
22 available to serve new customers. And since it has
23 that obligation, it has to meet it. And present
24 customers benefit when the Company can meet that
25 obligation imposed upon it by new customers without

1 degrading the service to the existing customers.

2 Q You mentioned that margin reserve
3 accommodates current customers when you have a
4 fluctuation in consumption because of weather
5 concerns. But isn't margin reserve measured in terms
6 of growth of customers as opposed to the amount of
7 gallonage consumed by customers?

8 A I think it is measured by reference to
9 number of customers -- of course, they use the common
10 denominator of equivalent residential connections --
11 but it is also measured by reference to the peak
12 demand which customers impose.

13 Q Might I refer you to --

14 MS. O'SULLIVAN: First, I guess to have it
15 identified for exhibit, the two exhibits we've passed
16 out. The first one is SSU's Response to OPC's Request
17 for Production of Document No. 10.

18 CHAIRMAN CLARK: That will be 233.

19 MS. O'SULLIVAN: The second exhibit is an
20 excerpt, Page 5 from Order No. PSC-93-1713-FOF-SU.

21 CHAIRMAN CLARK: That will be 234.

22 (Exhibit Nos. 233 and 234 marked for
23 identification.)

24 Q (By Ms. Sullivan) Referring to the first
25 exhibit, which is Exhibit No. 233, Response to OPC's

1 Request for Production of Documents asking for copies
2 of transcripts reviewed and Commission Orders which
3 support your conclusion that margin reserve benefits
4 current customers, is that what you have there in
5 front of you?

6 A I have that in front of me.

7 Q Okay. Is it your contention that each of
8 these orders on that list states or supports your
9 conclusion that margin reserve benefits current
10 customers?

11 A No. This was a list of orders which I did
12 read in preparing my direct testimony. And I could
13 not quote from memory -- many of these are very brief
14 orders. They're from abbreviated proceedings, I
15 believe they're call Staff assisted cases, so the
16 orders are very, very brief. And I would not and did
17 not intend to imply that each one of these made a
18 statement such as that.

19 Q All right. Referring to the second exhibit,
20 which is an excerpt from the order, could you turn to
21 Page 5 of that exhibit, Order No. -- Page 5 of the
22 order, and review the paragraph entitled, "Margin
23 Reserve," or the first paragraph of that section.

24 Does that paragraph support your conclusion
25 that margin reserve benefits current customers?

1 A No, I don't think this paragraph supports my
2 conclusion. That wasn't where I -- I did not arrive
3 at my conclusion that current customers benefit solely
4 on reading of the orders.

5 This statement in the order which you have
6 provided to me is fairly consistent with a number of
7 statements in other orders. And although this goes
8 beyond my rebuttal testimony, in my direct testimony I
9 have made statements that -- a statement that I felt,
10 based on a reading of the orders, that there was some
11 confusion in the record.

12 Some of the statements in the orders were to
13 the point that margin reserve is to serve new
14 customers, almost that point blank. And that's just
15 not correct.

16 Q Okay. You discussed a few minutes ago the
17 potential examples of how customers benefited by
18 margin reserve. Do you view margin reserve as being a
19 benefit to present customers in terms of potential
20 emergency situations?

21 A To be honest, I really hadn't considered
22 emergency situations. I considered just normal
23 customer demands and the fact that for various reasons
24 customers impose peak demands on a utility. And I
25 really had considered it in terms of normal

1 operations.

2 Q Would you agree, though, that used and
3 useful calculations include an allowance for emergency
4 use or peak use?

5 A I'm afraid I can neither agree or disagree,
6 since I have not reviewed those calculations in any
7 detail.

8 Q Okay. On Page 8, Lines 4 through 5, of your
9 testimony, you state that AFPI collections are
10 unrelated to used and useful. Is that correct?

11 A That's correct.

12 Q Okay. And I assume you would agree, quoting
13 from the rule, that AFPI is a mechanism which allows a
14 utility the opportunity to earn a fair rate of return
15 on prudently constructed plant held for future use for
16 future customers?

17 A Yes. And the thrust of my testimony was
18 that unfortunately it doesn't -- it does not cover the
19 required return.

20 Q That was my next question. You state that
21 the charge is not compensatory; is that correct?

22 A Yes. The actual collections for 1994 and
23 1995 as compared to the balances of plant held for
24 future use were both less than 3.5% of the associated
25 plant.

1 Q Has the Utility requested an increase or
2 adjustment to its AFPI charge?

3 A I know that the Company has filed extensive
4 MFRs; and I did not take the time to compare whether
5 that results in an increase or decrease in the AFPI
6 charge. I presume it's an increase, but I don't know
7 that for a fact.

8 MS. O'SULLIVAN: Okay. We have nothing
9 further, thank you very much.

10 CHAIRMAN CLARK: Commissioners? Redirect?

11 MR. ARMSTRONG: Very brief. But my one
12 question is, Madam Chair, the questions that Staff had
13 regarding the Page 14 -- Page 11, Lines 14 to 17, I'm
14 unclear what issue that addressed. I just want to
15 make sure that if I do have redirect -- I don't
16 understand the question or the answer and why they
17 felt that was correct. But if they could tell me what
18 issue that addressed, I might have some redirect.

19 MS. O'SULLIVAN: Did you object to my
20 question? I'm confused.

21 MR. ARMSTRONG: No, I am wondering what
22 issue that addressed so that I can determine whether I
23 need to do a redirect on that one.

24 MS. O'SULLIVAN: It addresses his testimony.
25 I think he states in his testimony that -- just a

1 moment.

2 MR. ARMSTRONG: I guess I could ask a
3 clarifying question of Staff --

4 CHAIRMAN CLARK: Go ahead.

5 MR. ARMSTRONG: And that would be, was that
6 intended to address the PS&I projects?

7 MS. O'SULLIVAN: It addresses what the
8 question addresses. I was trying to clarify; he
9 states in his testimony that the rate of return ceases
10 if assets are not placed in service, I wanted to see
11 if he agreed that --

12 THE REPORTER: I'm sorry, Ms. O'Sullivan,
13 I'm not following you.

14 MS. O'SULLIVAN: Okay. I asked if it would
15 cease if a property is no longer in service. I was
16 clarifying to ask whether or not he would agree that
17 it would not begin if property was not placed in
18 service. Just clarifying his testimony.

19 MR. ARMSTRONG: Well, with the understanding
20 that it doesn't address the PS&I projects or the
21 issues related thereto, I wouldn't have any questions
22 on that.

23 CHAIRMAN CLARK: I don't know whether it
24 does or not. Decide whether you want to conduct
25 redirect, Mr. Armstrong.

1 REDIRECT EXAMINATION

2 BY MR. ARMSTRONG:

3 Q Are you familiar with the concept of PS&I
4 projects, preliminary survey and investigation type
5 projects?

6 A Yes, sir.

7 Q Are you familiar with the standard
8 ratemaking treatment of those projects as it relates
9 to working capital?

10 A I have had an occasion to look at it but it
11 has been quite a long time.

12 Q If a PS&I project does not result in that
13 project going forward, what is your opinion as to
14 whether or not those types of projects should be
15 included in working capital?

16 A Now my understanding is that the dollars
17 collected in the deferred charge account, Preliminary
18 Survey and Investigation, would remain there until the
19 project under investigation either results in a
20 capital addition, in which case it would probably be
21 transferred to Construction Work in Progress. And if
22 it did not, then it would be written off and would not
23 remain on Preliminary Survey and Investigation.

24 Q And the PS&I project which does not result
25 in construction, does not result -- does not consider

1 construction projects, is it your opinion that those
2 types of projects would be included in the working
3 capital calculations?

4 A As long as the project or the preliminary
5 investigation of the project is still active, then my
6 understanding is yes, it would have been.

7 Q Okay. Just two brief questions. To your
8 knowledge of the concept of margin reserve, is margin
9 reserve included as used and useful plant?

10 A Yes.

11 Q To your knowledge of AFPI, does AFPI include
12 consideration of any used and useful plant?

13 A Absolutely not.

14 MR. ARMSTRONG: That's all I have in
15 redirect.

16 CHAIRMAN CLARK: Thank you. Exhibits?

17 MS. O'SULLIVAN: Staff moves in 233 and 234.

18 CHAIRMAN CLARK: Without objection, 233 and
19 234 will be entered in the record.

20 (Exhibit Nos. 233 and 234 received in
21 evidence.)

22 (Witness Gower excused.)

23 - - - - -

24 CHAIRMAN CLARK: The next witness I have on
25 my list is Mr. Denny.

1 Mr. Armstrong, let me point out to you it's
2 not required that a summary be given. I want to make
3 it clear that if you feel it's important to have a
4 summary, you may. But I was just pointing out --

5 MR. ARMSTRONG: Madam Chair, we have done
6 that with our individual witnesses. We have said,
7 "Please don't do that unless you feel you really have
8 an important summary to give."

9 CHAIRMAN CLARK: All right. So you have
10 considered that?

11 MR. ARMSTRONG: And several have said no and
12 a couple said yes.

13 CHAIRMAN CLARK: All right, that's fine.

14 MR. ARMSTRONG: Okay.

15 - - - - -

16 **WILLIAM DENNY**

17 was called as a rebuttal witness on behalf of Southern
18 States Utilities, Inc. and, having been duly sworn,
19 testified as follows:

20 **DIRECT EXAMINATION**

21 BY MR. HOFFMAN:

22 Q Would you state your name and your business
23 address.

24 A William Denny, 1000 Color Place, Apopka,
25 Florida.

1 Q Mr. Denny, you're the same William Dave
2 Denny who prefiled direct testimony in this
3 proceeding?

4 A I am.

5 Q And have you prepared and caused to be filed
6 18 pages of prefiled rebuttal testimony in this
7 proceeding?

8 A Yes, I have.

9 Q Do you have any changes or revisions to your
10 prefiled rebuttal testimony?

11 A One typo on Page 15, Line 3. The word
12 "tour" should be the word "our."

13 Q That was on Page 15, Line 3?

14 A Yes.

15 Q All right, sir. With that one change, if I
16 asked you the questions contained in your rebuttal
17 testimony today, would your answers be the same?

18 A Yes, they would.

19 MR. HOFFMAN: Madam Chairman, I would ask
20 that Mr. Denny's prefiled rebuttal testimony as
21 revised be inserted in the record as though read.

22 CHAIRMAN CLARK: It will be inserted in the
23 record as though read.

24 MR. HOFFMAN: Thank you.

25 Q (By Mr. Hoffman) Mr. Denny, you have

1 attached Exhibits WDD-4 and WDD-5 to your rebuttal
2 testimony?

3 A Yes.

4 MR. HOFFMAN: Madam Chairman, could I have
5 an exhibit number for those exhibits?

6 CHAIRMAN CLARK: That will be marked as
7 Exhibit 235.

8 MR. HOFFMAN: Thank you.

9 (Exhibit No. 235 marked for identification.)

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

2 A. My name is William (Dave) Denny and my business
3 address is 1000 Color Place, Apopka, Florida 32703.

4 **Q. ARE YOU THE SAME DAVE DENNY WHO SUBMITTED PRE-FILED**
5 **DIRECT TESTIMONY IN THIS PROCEEDING?**

6 A. Yes, I am.

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

8 A. The purpose of my rebuttal testimony is to identify
9 actual 1995 plant in service investments in renewal
10 and replacement items, meters, and water service
11 lines; to rebut the proposals of the Office of
12 Public Counsel witnesses Mr. Ted Bidy and Ms.
13 Kimberly Dismukes and a statement of Sugarmill
14 Woods Civic Association witness Mr. Buddy Hansen
15 regarding unaccounted-for water; to rebut Mr.
16 Hansen's testimony that Southern States Utilities
17 is not a single, functionally related system; to
18 rebut certain quality of service complaints from
19 testimony of customers given at the customer
20 service hearings; and to rebut certain statements
21 of the representatives of the Department of
22 Environmental Protection and the various county
23 health units which appear in the testimony offered
24 by the Commission staff.

25 **Q. THE PARTIES AND SEVERAL CUSTOMERS TESTIFYING AT THE**

1 **CUSTOMER SERVICE HEARINGS HAVE SUGGESTED THAT SSU'S**
2 **BUDGETED NUMBERS ARE INFLATED. COULD YOU PLEASE**
3 **DESCRIBE SSU'S ACTUAL 1995 INVESTMENTS IN METERS,**
4 **REPAIR AND REPLACEMENT ITEMS, AND WATER SERVICE**
5 **LINES?**

6 A. Yes. Exhibit 235 (WDD-4) is SSU's response to
7 OPC Interrogatory No. 161 which explains how SSU
8 projected the 1995 investment in meters. It also
9 shows the actuals through September 29, 1995. The
10 year end December 31, 1995 actuals (total company)
11 are 7,910 meters changed out and a total dollar
12 amount of \$615,661. Exhibit 235 (WDD-5) is SSU's
13 response to OPC Interrogatory No. 168 which
14 explains renewal and replacement items and shows
15 actual costs through August 31, 1995. The year end
16 December 31, 1995 actuals (total company) for
17 renewal and replacement items is \$592,891. The
18 year-end December 31, 1995 actual for water service
19 line installations (total company) is \$208,205.

20 **Q. CAN YOU EXPLAIN ANY VARIANCES BETWEEN THE 1995**
21 **BUDGETED AMOUNTS AND ACTUAL EXPENDITURES FOR THE**
22 **ABOVE ITEMS?**

23 A. The budget dollars for meter installations and
24 replacements in 1995 was based on a meter change
25 out program of 7% of all meters and a growth rate

1 of 3.5%. The variance was caused by the growth not
2 being what was anticipated and the size of meters
3 installed and/or replaced not being exactly as
4 budgeted. Since the cost of a meter varies with
5 the size of the meter, a partial variance will
6 result when meters installed or replaced are not as
7 predicted.

8 SSU was over budget for 1995 renewals and
9 replacements. The budget dollars for renewal and
10 replacements are to provide a source of funds for
11 unanticipated emergency repairs and/or
12 equipment/facility replacements or additions. The
13 1995 budget to actual variance was caused by having
14 more emergency repairs and/or equipment
15 replacements than anticipated. In my experience,
16 it is very difficult to anticipate every emergency
17 that you may encounter during a year. Failure to
18 make these emergency repairs/replacements could
19 lead to regulatory non-compliance or disruption of
20 service to our customers, so they must be done.

21 The budget dollars for water service
22 installations in 1995 was based on a growth rate of
23 3.5% in those areas where service line
24 installations are required. The variance was
25 caused by growth not being what was anticipated and

1 some of the growth taking place in the distribution
2 areas where water service lines were already
3 installed by SSU.

4 **Q. DO YOU AGREE WITH MR. BIDDY'S TESTIMONY REGARDING**
5 **UNACCOUNTED-FOR WATER INsofar AS HE RECOMMENDS THE**
6 **COMMISSION LOOK AT UNACCOUNTED-FOR WATER ON A PLANT**
7 **BY PLANT BASIS?**

8 A. No, the Commission should look at SSU's on a single
9 utility system basis. Contrary to Mr. Biddy's
10 assertion, it is not SSU's proposal to "shelter"
11 high UFW percentages at certain plants, but rather,
12 SSU's proposal is to look at UFW on a total system
13 basis because water is a statewide resource which
14 is most effectively preserved on a statewide basis
15 where a utility system such as SSU's is involved.
16 OPC's proposal of a plant-by-plant UFW evaluation,
17 and resulting UFW expense and used and useful
18 adjustments, encourage SSU to incur costs to lower
19 a high UFW percentage in a low use service area
20 rather than lower an already acceptable UFW
21 percentage in a high use service area without
22 regard to the fact that 1% reduction to UFW in the
23 high use service area may represent a much greater
24 water savings than a 10% reduction to UFW in a low
25 use service area.

1 Q. DO YOU AGREE WITH MR. BIDDY'S AND MS. DISMUKES'
2 SUGGESTION THAT THE COMMISSION REDUCE PURCHASED
3 POWER, CHEMICAL, AND PURCHASED WATER COSTS AND
4 REDUCE USED AND USEFUL FOR EACH SSU PLANT BY THE
5 AMOUNT OF UFW AT EACH PLANT GREATER THAN 10%?

6 A. No. There are three basic reasons why I disagree.
7 The first I have already explained. The higher
8 priority for the utility should be protecting and
9 preserving Florida's water resources. By making
10 the adjustments OPC proposes, the Commission puts
11 the utility in the position of choosing between:
12 (1) addressing UFW at every single plant and (2)
13 protecting water resources in a cost-effective
14 manner, but being penalized for doing so.

15 The second reason I disagree with OPC's
16 proposal ties to the nature of UFW, how it is
17 calculated, and my understanding of the basic
18 reason why the Commission has adjusted expenses for
19 "excessive" UFW in the past. Consider first what
20 exactly UFW is. UFW is the difference between the
21 amount of water produced or purchased and the sum
22 of the amount billed to all customers, metered for
23 other uses, and otherwise accounted for such as
24 from linebreaks. UFW typically includes the total
25 of all of the following: underground leakage;

1 unauthorized use; unavoidable leakage; inaccurate
2 master; industrial; commercial and domestic meters
3 and unusual causes. A one month balance of UFW is
4 not very useful because billing cycles may vary and
5 often do not occur simultaneous to the readings of
6 the plant flow meter. A longer period of UFW data
7 collection is needed to balance out any problems
8 which arise from these concerns and to allow you to
9 track trends. Because of the nature of the causes
10 for UFW, a portion of total UFW is not wasted water
11 leaching into the ground, but simply water not
12 measured accurately. As I understand it, the
13 theory supporting adjustments to expenses and used
14 and useful for "excessive" UFW is that if
15 adjustments were not made, the customers would pay
16 for water which is presumed wasted and which the
17 utility is presumed to have had the power to avoid
18 wasting. The error in this theory is that all or
19 at least some of the UFW is being used by the
20 customers but is not being measured accurately. In
21 such cases where a high UFW figure is explained by
22 inaccurate metering, unauthorized use or a billing
23 cycle discrepancy which skews the average, UFW
24 adjustments are unjustified and punitive. It
25 appears from the testimony that OPC made no effort

1 to explore whether such explanations existed for
2 UFW percentages in excess of 10%.

3 The third reason I disagree with OPC's
4 proposed adjustment concerns the 10% level at which
5 OPC considers UFW excessive. As explained in the
6 direct testimony of Mr. Gagnon, which I have
7 adopted as my own, the Commission should not accept
8 the absolute minimum of the range of acceptable UFW
9 that is stated in AWWA Manual M8. 12.5% is a much
10 more reasonable figure. Further, I note that in
11 the Commission staff's draft used and useful rules
12 of May 1995, staff proposes that UFW greater than
13 12.5%, without explanation should be considered
14 excessive. These draft rules are attached to the
15 testimony of SSU rebuttal witness Harvey as Exhibit
16 198 (RMH-3).

17 SSU concentrates on doing as good a job as
18 possible and exercises a great deal of effort to
19 accurately track and reduce UFW on a service area
20 basis, but with a focus on cost-effective
21 reductions to total water lost.

22 **Q. DO YOU BELIEVE THAT EXPENSE AND USED AND USEFUL**
23 **ADJUSTMENTS SHOULD BE MADE FOR UFW PERCENTAGES OVER**
24 **12.5% AT ANY OF SSU'S SERVICE AREAS?**

25 A. Even if the Commission examines UFW on a plant-by-

1 plant basis, OPC's proposed UFW adjustments should
2 not be allowed for the following plants: Amelia
3 Island, Beechers Point, Woodmere, Lehigh, and
4 Valencia Terrace. At Amelia Island, the two well
5 meters were replaced in May 1995 and since that
6 time UFW has been at 4.8%. At Beechers Point,
7 since April 1994 we have purchased water from the
8 town of Welaka and the UFW has been 5.7%, which
9 would indicate a metering problem had existed at
10 SSU's plant. At Woodmere, in June 1995 we
11 installed meters on both wells and the UFW since
12 then has been 5.3%. At Lehigh, the water plant
13 distribution meter was calibrated in July 1995 and
14 UFW has been 1.7%. At Valencia Terrace, upon
15 investigating the cause for the high UFW, SSU
16 discovered that several landscaped strips belonging
17 to a homeowners association were found to be
18 unmetered. The Commission should recall that SSU
19 acquired the Valencia Terrace plant in 1995. All
20 the landscaped areas are now metered, customer
21 accounts are set up, and the meters are read on a
22 monthly basis. This unmetered use represented a
23 significant amount of water and I am hopeful UFW
24 will be reduced. At this time, not enough
25 information has been compiled to check results.

1 In all these cases, the UFW problem was a
2 metering problem, not a waste problem. The same
3 approximate amount of water is being pumped
4 currently as was before; the only difference is
5 that now the water is being captured by proper
6 metering. I also note that SSU closed on its
7 purchase of the BVL facilities in December and has
8 not had sufficient date to assess any UFW problems.

9 **Q. DO YOU AGREE WITH MR. BIDDY'S TESTIMONY THAT A**
10 **SINGLE MAXIMUM DAY SHOULD NOT BE CONSIDERED IN THE**
11 **USED AND USEFUL CALCULATIONS BECAUSE CERTAIN WATER**
12 **LOSSES ARE DIFFICULT TO PRECISELY MEASURE?**

13 A. No. Based on my over twenty years of experience in
14 water utility operations, I believe that SSU's
15 practices and policies for tracking water losses
16 for line breaks, plant use, flushing and reading
17 plant meters at regular intervals are good and
18 SSU's water records reliable. We meter line
19 flushing. We estimate line breaks considering the
20 system pressure, size of the line and the severity
21 of the break. Plant use is also metered and
22 accounted for.

23 **Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. HANSEN'S**
24 **TESTIMONY CONCERNING UFW IN SUGARMILL WOODS?**

25 A. First, I would point out that for the test year

1 ending 1991, UFW at Sugarmill Woods was 8.1%, not
2 10% as Mr. Hansen thinks. For the test year ending
3 1994, UFW is 6%. Further, I do not think it is
4 fair to say that we "guess" on the amount of water
5 lost to a leak to make UFW look good, as Mr. Hansen
6 asserts. In addition to estimating water loss for
7 leaks using the criteria stated above, SSU also
8 meters line flushing and plant use. We estimate
9 the amount of water lost to line breaks considering
10 the system pressure, size of the line and the
11 severity of the break. Judgment is involved in
12 making these estimates, obviously. However, I
13 believe SSU does an honest job of reporting water
14 uses and water loss events.

15 **Q. MR. HANSEN ALSO SUGGESTS THAT SSU IS NOT A**
16 **SINGULAR, FUNCTIONALLY RELATED UTILITY SYSTEM. DO**
17 **YOU DISAGREE WITH HIS REASONING?.**

18 A. From an operational standpoint I do. Beginning on
19 page 7 of his testimony, Mr. Hansen states that the
20 test for determining whether facilities are
21 functionally related should be whether a change in
22 the operation of one affects another. The
23 conclusion he reaches seems to be that his proposed
24 test will only be met where facilities are
25 physically interconnected such as is the case with

1 Rosemont/Rolling Green. My understanding was that
2 the First District Court of Appeals in another case
3 and the Commission have already rejected the notion
4 that a physical interconnection of facilities was
5 required for those facilities to be considered
6 functionally related. Nonetheless, I believe there
7 are many types of operational activities which
8 occur in one SSU service area or which originate at
9 the central office that impact one or more SSU
10 service area. As described in my direct testimony,
11 SSU's operations are so integrated that any given
12 SSU plant could not provide safe, adequate,
13 reliable service without support from the
14 personnel, equipment, and supplies based in other
15 SSU service areas and the Apopka central office.

16 **Q. WOULD YOU ADDRESS THE WATER QUALITY CONCERNS RAISED**
17 **AT THE SEBRING SERVICE HEARINGS BY RESIDENTS OF THE**
18 **COVERED BRIDGE FACILITY?**

19 A. Yes. SSU is meeting all water quality standards
20 for drinking water at the Covered Bridge water
21 plant, as confirmed by the testimony of staff
22 witness, Mr. Maier, a DEP employee.

23 The fire hydrants at Covered Bridge are
24 regularly flushed to maintain a chlorine residual
25 in the distribution network. However, in instances

1 where a chlorine residual above a certain level is
2 not maintained in the distribution network or
3 inside the plumbing of a home, sulfur-reducing
4 bacteria tends to "attack" the naturally occurring
5 soluble sulfates in the water to produce sulfides.
6 The bacteria are not pathogenic (harmful) to
7 humans, but the sulfides which are produced will
8 react with the natural hardness (calcium) in the
9 water or with copper plumbing. The result of such
10 reactions is the formation of insoluble sulfides
11 causing black or tan colored particles in the
12 water. Significant amounts of sulfides can arise
13 especially if a homeowner is absent for a period of
14 time. The sulfides are not harmful. Simply
15 running the water for 30 seconds in the home will
16 remove any accumulation of sulfides in the pipes of
17 the home. It is also a good practice for customers
18 to flush the hot water heater if the home has been
19 vacant for a period of time as copper piping in and
20 around a hot water heater tends to cause a greater
21 accumulation of sulfides in this vicinity. The key
22 to prevention, as I said initially, is simply to
23 maintain a higher than minimum chlorine residual in
24 the distribution network. SSU will make every
25 effort to do this by flushing the lines with

1 increased regularity. I also note that even with
2 line flushing, if the home has an activated carbon
3 filter to remove chlorine, and the homeowner goes
4 on vacation or is absent for a period of time,
5 natural sulfates from water in Osceola and
6 Highlands Counties can develop into sulfides
7 causing black, brown, and yellow water.

8 **Q. CUSTOMERS SERVED BY SSU'S FACILITIES IN DUVAL**
9 **COUNTY COMPLAINED ABOUT WATER QUALITY IN TERMS OF**
10 **CORROSIVITY AND LEAD CONTENT. COULD YOU ADDRESS**
11 **THOSE CUSTOMERS' CONCERNS?**

12 A. Yes. The need for corrosion control is determined
13 by the test results of sampling for lead and copper
14 in accordance with FAC Rule 62-551. The rule
15 states that if 90% of the samples taken are not
16 below the action levels for two consecutive six
17 months testing periods a corrosion control study
18 must be done and a recommendation made to the
19 Department for proper treatment based on that
20 study. Once testing reveals that an action level
21 has been met, Rule 62-551, FAC, mandates that
22 corrosion control treatment for a medium sized
23 facility be installed within 24 months after the
24 Department approves the utility's recommended
25 treatment. Corrosion control permits for SSU's

1 Beacon Hills and Cobblestone plants were issued on
2 June 30, 1995, with an expiration date of January
3 1, 1997. The corrosion control facilities for
4 Beacon Hills and Cobblestone were installed on
5 January 20, 1996. SSU is therefore in compliance
6 with the rule.

7 **Q. WOULD YOU ADDRESS THE LEAD CONCERN AT VALENCIA**
8 **TERRACE THAT WAS RAISED BY CUSTOMERS AT THE MT.**
9 **DORA SERVICE HEARING?**

10 A. Yes. When SSU purchased the Valencia Terrace
11 system, in March of 1995, the former owner had
12 already taken two successive six month periods of
13 samples to meet the lead and copper rule. The
14 action level had not been exceeded, and in such
15 cases, the rule allows for reduced monitoring.
16 When complying with reduced monitoring the utility
17 must sample during the months of June, July,
18 August, or September. SSU sampled, on reduced
19 monitoring, in July, 1995, and the tests revealed
20 the presence of 0.016 mg/l levels of lead in two of
21 eleven samples. The remaining samples had a lead
22 content of less than .001 mg/l. The action level
23 is 0.015 mg/l of lead. At the point of entry to
24 the Valencia Terrace distribution network, the lead
25 content was less than 0.001 mg/l. A sample in the

1 distribution network also had a lead content of
2 less than 0.001 mg/l. According to the rule, to be
3 in compliance, 90% of ^{our} four samples must not exceed
4 the action level. Had it not been that Valencia
5 Terrace was on reduced monitoring, the action level
6 might not have been exceeded, since the sampling
7 base would have been greater with routine
8 monitoring and there was no relevant water quality
9 or operational changes that would have caused a
10 difference in tests results since the earlier tests
11 were taken. Although lead can be a serious health
12 concern in large doses, the lead levels in this
13 case were not cause for alarm. In any event, when
14 the action level is exceeded, the rule requires two
15 things: notification/education of the customers
16 and a return to routine monitoring. The document
17 the customers indicated they had received from SSU
18 notifying them of the test results and the health
19 effects of lead was a standard notification letter
20 which DEP requires the utility to distribute
21 pursuant to the rule, and which SSU did distribute.
22 Routine monitoring requires sampling every six
23 months. SSU is scheduled to sample Valencia
24 Terrace again by the end of June, 1996. If the
25 next samples are below the action level then SSU is

1 required to sample again six months later. In sum,
2 SSU has acted in complete compliance with Chapter
3 62-551, F.A.C., and I do not believe that the
4 customers' concerns require any further action by
5 SSU at this time.

6 **Q. WOULD YOU COMMENT ON THE STATEMENT MADE BY**
7 **CUSTOMERS AT A NUMBER OF THE SERVICE HEARINGS**
8 **REGARDING THE TASTE OF CHLORINE IN THE WATER?**

9 A. Yes. Chapter 62-550.518(4), FAC, 3 states that the
10 supplier of water shall maintain a minimum free
11 chlorine residual of 0.2 milligrams per liter or
12 its equivalent throughout the distribution network
13 at all times. SSU must meet this requirement for
14 all of its plants and, with very rare exception,
15 does meet this requirement. For residents located
16 close to the treatment facilities, the chlorine
17 residual will often be higher than the minimum so
18 SSU can comply with the rule at the remote point of
19 the distribution network. In my experience, it is
20 extremely difficult to meet disinfection
21 requirements, chlorine residual requirements, and
22 appeal to every customer's particular sense of
23 smell and taste. However, SSU does try to be as
24 responsive as it can be to high chlorine
25 complaints.

1 **Q. COULD YOU COMMENT ON THE TESTIMONY OF MS. BLANCA**
2 **RODRIGUEZ OF THE DEP REGARDING THE WOOTENS WATER**
3 **PLANT?**

4 A. Yes. A permit was issued October 5, 1995, for the
5 addition of an aerator and storage tank at the
6 Wootens water plant. Improvements proposed under
7 this permit are necessary to satisfy water quality
8 parameters for total dissolved solids and color.
9 Implementation of this work has been delayed
10 because of difficulties in acquiring suitable
11 property rights to install the aerator -- the well
12 site is very small. SSU has actively pursued the
13 various options to resolve this situation over the
14 last several months and hopes to reach closure by
15 year-end.

16 **Q. DO YOU AGREE WITH THE TESTIMONY OF MR. CLARENCE**
17 **ANDERSON OF DEP REGARDING THE CHULUOTA WASTEWATER**
18 **PLANT?**

19 A. No. The Chuluota wastewater plant has a rainfall
20 gauge located on site and it is read daily.
21 Approximately 11.43 inches of rainfall was recorded
22 in August 1995 and 10.2 inches of rainfall recorded
23 in October 1995. The monthly operating reports'
24 average daily flows for the months of August and
25 October 1995 were 0.060 mgd and 0.050 mgd

1 respectively. The permitted capacity for the
2 Chuluota wastewater plant is 0.1 mgd. The
3 excessive rain caused increased flows but at no
4 time did the plant exceed permitted capacity.
5 During 1995 there were capital improvements made to
6 correct problems in the collection facilities. The
7 work consisted of lining much of the collection
8 main lines.

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

10 A. Yes, it does.

1 Q (By Mr. Hoffman) Do you have a brief
2 summary of your rebuttal testimony, Mr. Denny?

3 A Yes, I do.

4 Q Could you provide that?

5 A The purpose of my rebuttal testimony is to
6 identify the actual 1995 plant in service investments
7 in renewal and replacement items, meters and water
8 service materials; rebut the proposal of the Office of
9 Public Counsel's witness Mr. Ted Bidy and
10 Ms. Kimberly Dismukes, and a statement of Sugarmill
11 Woods Civic Association witness Mr. Buddy Hansen
12 regarding unaccounted for water and the statement that
13 Southern States Utilities is not a single,
14 functionally related system.

15 Also rebut certain quality of service
16 complaints from testimony given by customers at the
17 customer service hearings and certain statements of
18 the representatives of the Department of Environmental
19 Protection and various county health units which
20 appear in the testimony offered by the Commission
21 Staff.

22 The Commission should look at unaccounted
23 for water on a systemwide basis. OPC's proposal of a
24 plant-for-plant unaccounted for water evaluation and
25 resulting unaccounted for water expense and used and

1 useful adjustments encourages SSU to incur costs to
2 lower a high unaccounted for water percentage in a low
3 user service area rather than lower an already
4 acceptable unaccounted for water percentage in a high
5 use water areas without regard to the fact that a 1%
6 reduction in the high use area may represent a much
7 greater water savings than a 10% reduction in a low
8 user service area.

9 SSU wishes to spend our money in a manner
10 which saves the most water for each dollar spent. The
11 Intervenors' proposal would not allow us to do that.

12 Unaccounted for water percentages should
13 also be looked at over a period of time to be able to
14 see a trend. Looking at unaccounted for water on a
15 monthly basis is useless because in most cases the
16 billing periods do not coincide with the pump periods.

17 Even if the Commission looks at unaccounted
18 for water on a plant-by-plant basis, OPC's proposed
19 adjustments to purchased power, chemicals, and
20 purchased water, and the reduction to used and useful
21 for each plant by the amount of unaccounted water in
22 each plant greater than 10% should be disallowed.

23 Based on my experience and examples in my
24 testimony, most unaccounted for water problems are
25 caused by improper metering, not leaks. The water is

1 being treated, pumped and sold so no adjustment is
2 appropriate.

3 I also note that in the Commission Staff's
4 draft used and useful rules of May 1995, Staff
5 proposes that unaccounted for water greater than 12.5%
6 without explanation should be considered excessive.
7 At the very least, the Commission should use 12.5%
8 rather than the 10% OPC proposes to be used.

9 I also address the water quality concerns
10 raised at the Sebring customer service hearings by the
11 residents of the Covered Bridge facility. In service
12 areas like Covered Bridge where the source water
13 contains sulfide, it is very important to maintain
14 more than a minimum chlorine residual.

15 It is just as important for the residents of
16 a seasonal community as Covered Bridge to flush their
17 inside plumbing, and especially their hot water
18 heaters, upon their return to their residence. If
19 they don't, the chlorine in the water inside their
20 house plumbing will dissipate, causing black, brown or
21 yellow water.

22 Our operation personnel work very hard
23 keeping our plants operating within permit
24 requirements as well as providing quality service to
25 our customers. This is a difficult task with the

1 number of personnel we have.

2 It's very important that we maintain good
3 people. We require a lot from our people, and have
4 been paying them less than what other utilities pay
5 based on the Hewitt Study. A couple of months ago we
6 implemented pay increases based on that study.

7 We need to retain these valuable employees
8 in order to continue to provide high quality water
9 service to our customers.

10 That concludes my summary.

11 MR. HOFFMAN: He's available for cross.

12 CHAIRMAN CLARK: Mr. Reilly?

13 MR. REILLY: Thank you, Madam Chairman.

14 **CROSS EXAMINATION**

15 BY MR. REILLY:

16 Q Good afternoon, Mr. Denny.

17 A Good afternoon.

18 Q Isn't I true on Page 7, Lines 6 through 7,
19 you expressly confirm that you have adopted
20 Mr. Gangnon's testimony, direct testimony, as your
21 own?

22 A That's correct.

23 Q I have just one little point of
24 clarification as to his testimony and an exhibit
25 attached to it that I hoped you could clarify.

1 In his testimony he talks about Southern
2 States' emergency hurricane preparedness plan; and my
3 question to you is, is this plan not designed to
4 benefit the water, wastewater and gas customers of
5 Southern States?

6 MR. HOFFMAN: Madam Chairman, I'm going to
7 object. That was a question that would have been
8 directed to Mr. Denny properly on Mr. Denny's direct
9 testimony which adopted Mr. Gagnon's direct testimony.

10 MR. REILLY: I would agree, Madam Chairman,
11 but for the fact that he has expressly confirmed that
12 in his rebuttal testimony. I believe that if it is
13 within the four corners of his rebuttal testimony that
14 he could clarify this one point that we had.

15 MR. HOFFMAN: Madam Chairman, if I may? If
16 you look at the sentence that Mr. Reilly is referring
17 to, what Mr. Denny says in his rebuttal is, "As
18 explained in the direct testimony of Mr. Gagnon, which
19 I have adopted as my own, the Commission should not
20 accept the absolute minimum of the range of acceptable
21 unaccounted for water that is stated in AWWA Manual
22 M8."

23 It is in reference to an unaccounted for
24 water issue.

25 CHAIRMAN CLARK: What was your question,

1 Mr. Reilly?

2 MR. REILLY: I wanted him to clarify one
3 question I had on that preparedness report. That's
4 the full breadth of what we have.

5 CHAIRMAN CLARK: I'll allow the question.

6 MR. REILLY: Thank you.

7 Q (By Mr. Reilly) The question was, is it
8 your understanding that this is designed to benefit
9 both the water -- not both -- the water, wastewater,
10 and gas customers of Southern States?

11 A I'm not sure about the gas portion,
12 Mr. Reilly. I would agree on the water and
13 wastewater, though.

14 Q Well, that's the essence of my whole point
15 that I'm trying to clarify. I have relevant pages if
16 you want to look at it where the plan by its own
17 express terms says that it's for water, wastewater and
18 gas customers.

19 Would you like to refresh your understanding
20 of this report by letting me give you a copy of these
21 selected pages of this 582-page emergency plan?

22 A Sure.

23 Q Okay.

24 (Witness provided document.) (Pause)

25 Have you had a chance to look at those

1 relevant pages of report itself?

2 A Yes, sir.

3 Q What does it indicate to you?

4 A That the plan provides for the supply of
5 water, sewer and gas service during a hurricane or
6 other emergency situation.

7 Q In fact, there's an entire section of the
8 report designed for gas operations?

9 A That is correct.

10 Q Okay. My only question is did Southern
11 States allocate to its gas customers the cost of
12 preparing this report?

13 MR. HOFFMAN: Objection. Same objection,
14 Madam Chairman. This was in the direct.

15 CHAIRMAN CLARK: Mr. Reilly?

16 MR. REILLY: My response is the same. I
17 think that the -- that SSU, for whatever purpose I'm
18 not aware of, readopted and confirmed the adoption of
19 his testimony. And I believe it's a fair question --

20 CHAIRMAN CLARK: I'll allow it.

21 MR. REILLY: -- within the four corners of
22 his rebuttal.

23 A Would you repeat the question, please.

24 Q (By Mr. Reilly) Did Southern States
25 allocate to its gas customers the cost of preparing

1 this report?

2 A I can't answer that question, I don't know.

3 MR. REILLY: The Citizens would request a
4 hearing exhibit. And a short title of that exhibit
5 would be, "Allocation of Costs for Emergency Hurricane
6 Preparedness Plan." And it would identify whether
7 the gas customers did in fact get allocated a portion
8 of the costs for preparing this report; and if it was
9 so allocated, what the basis of that allocation was.

10 MR. HOFFMAN: Madam Chairman, again, we're
11 going to object to that. The Citizens have waived
12 their right to ask questions concerning this issue.

13 Not only that, the Citizens have not raised
14 an issue concerning the hurricane emergency
15 preparedness plan and any cost allocation issues in
16 connection therewith. It's way too late in the game
17 for this.

18 CHAIRMAN CLARK: Yes. Mr. Reilly, my
19 difficulty is the cost allocation of this I don't see
20 as being within the scope of his testimony.

21 MR. REILLY: I believe the report is being,
22 the recovery of this report is part of this rate case.

23 CHAIRMAN CLARK: But he is reporting on the
24 allocations in there, as I believe it, not on the
25 preparing of the report, which I see as a different

1 issue, Mr. Reilly.

2 MR. REILLY: Well, the question came up in
3 our mind about this report when the issue of the gas
4 customers came.

5 I felt that the Commission would want to
6 know whether these water and wastewater customers were
7 paying for a cost that should have been allocated to
8 another set of customers --

9 CHAIRMAN CLARK: I would have expected that
10 would have been developed through discovery in
11 preparation for this case.

12 MR. REILLY: Well, we've asked this question
13 because we thought that was the purpose of this
14 hearing, to try to illuminate the Commission on the
15 issues.

16 CHAIRMAN CLARK: Well, I agree with that,
17 Mr. Reilly. But it is not a place to conduct
18 discovery.

19 MR. REILLY: We felt that this report is
20 before this Commission and is subject to cross
21 examination questions. And we thought it was an
22 appropriate question, which apparently the Chair ruled
23 favorably twice, and so we still have this single
24 question we need to --

25 CHAIRMAN CLARK: Maybe I misunderstood what

1 you were asking for. I didn't realize you were asking
2 with respect to the allocation of the cost of
3 preparing it.

4 MR. REILLY: That is the thrust of this
5 single question to this witness.

6 CHAIRMAN CLARK: At this point I'm not going
7 to allow that as another exhibit.

8 MR. REILLY: That would conclude our
9 questions.

10 CHAIRMAN CLARK: Mr. Jacobs?

11 MR. JACOBS: Madam Chairman, we have no
12 questions of this witness.

13 MR. TWOMEY: I have a few questions.

14 CHAIRMAN CLARK: Mr. Twomey.

15 **CROSS EXAMINATION**

16 BY MR. TWOMEY:

17 Q Good afternoon, Mr. Denny.

18 A Good afternoon.

19 Q I want to touch first on the unaccounted
20 water issue. Are you saying merely that the level of
21 unaccounted for -- allowable unaccounted for water has
22 to be examined? Or are you, rather, suggesting that
23 it should be allowed to go from the 10% to the 12% or
24 12.5%?

25 A I'm saying it should be looked at based on

1 12.5% and it also should be looked at on a SSU system
2 basis rather than a plant-by-plant basis.

3 Q Why would you suggest that? Isn't it true
4 that your current levels allowed, that you in fact
5 have taken some credit for bringing it down to
6 somewhere in the neighborhood of 10%?

7 A Yes, sir, we have it down to 10.3%.

8 Q Okay. And we know, don't we, that a lower
9 level of unaccounted for water is beneficial and
10 positive in every regard, both in terms of cost and in
11 environmental concerns, right?

12 A That's correct.

13 Q Okay. So why would you want to suggest that
14 it should be allowed to go up from 10.3% if you had in
15 fact been able to achieve that level of success?

16 A I'm just saying that that should be the
17 minimum to be looked at. It is not to say that we
18 want it there so we can let ours go back to 12.5%.

19 Q But, really, isn't it sending the wrong
20 signal to let it go up?

21 A No, sir, I don't think so.

22 Q Okay. If you are losing, with respect to
23 the issue of looking at it on a Companywide basis
24 instead of a system-by-system specific basis, isn't it
25 more logical, Mr. Denny, to attempt to cure specific

1 problems instead of allowing them to be consumed in an
2 average?

3 A Like I said in my summary, Mr. Twomey, I
4 think what we should look at is the preservation of
5 Florida's resource, the water resource, based on we
6 should look at the amount of gallons lost rather than
7 a percentage basis.

8 I will give you an example. You could have
9 a system such as Sugarmill Woods, which unaccounted
10 for water is at 9.8%; and on an annual basis that's
11 about 39 million gallons of water. But that's
12 acceptable based on the 9.8%. But here I've got a
13 system at 17.1%, Hobby Hills in Lake County, that the
14 17.1% only amounts to 1.4 million gallons on an annual
15 basis.

16 So my point is we should look at the gallons
17 and concentrate on the high gallons, irregardless of
18 the percentage, to preserve the water.

19 Q Yes, sir. But isn't it true that you can
20 look at the gallons -- you can look at both the
21 gallons and the percentages and neither conflicts with
22 the other? Isn't that correct?

23 A Would you repeat that, please?

24 Q Yes, sir. Isn't it true that you can
25 accomplish your goal of looking at the gallons being

1 wasted or lost at any one location and still look at
2 the percentages at each location? You don't have to
3 have an average Companywide number in order to look at
4 gallonage, do you?

5 A No, sir, we don't. But the reason I think
6 we should is because I think that we are one utility
7 system.

8 Q I know that's right.

9 Now let me change gears on you. You are
10 here also to speak in defense of that single
11 integrated system idea, right?

12 A Yes, sir.

13 Q Okay. Now let me ask you, how much of the
14 reserve capacity at the Burnt Store reverse osmosis
15 plant can be used to supplement the service being
16 provided to the customers at your Marco Island reverse
17 osmosis plant?

18 A The physical reserve capacity?

19 Q Yes, sir.

20 A I don't think any of it.

21 Q That would be zero, right?

22 A Yes, sir.

23 Q Okay. How much of the reserve capacity of
24 the Sunny Hills wastewater treatment plant can be used
25 to treat any excess flows developed at the Sugarmill

1 Woods wastewater treatment plant?

2 A The same answer.

3 Q Right, zero?

4 A Correct.

5 Q That's because they are not in fact
6 physically interconnected; isn't that correct,
7 Mr. Denny?

8 A It is true that they are not physically
9 interconnected.

10 Q All right. Now how many of your water
11 treatment plants that are in this case are in fact
12 physically interconnected?

13 A I haven't counted them, I think six or
14 eight.

15 Q Six or eight. And how many of your
16 wastewater treatment plants that are included in this
17 filing are in fact physically interconnected by pipes?

18 A Off the top of my head, I can't think of
19 any.

20 Q Okay, none. So let me ask you this. Isn't
21 it true that at the plants that are in fact physically
22 interconnected by pipes that they can share capacity
23 if necessary?

24 A If they are connected by pipe, yes, sir.

25 Q Okay. Would you agree with me those plants

1 that are in fact physically interconnected are
2 functionally related in an engineering sense?

3 A Yes, sir, I guess so.

4 MR. TWOMEY: Okay. Thank you very much,
5 that's all I have.

6 - - - - -

7 (Transcript continues in sequence in
8 Volume 41.)

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FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 2015 EXHIBIT NO. 232
COMPANY: _____
WITNESS: _____
DATE: 11/26/14

DOCKET 950495-WS 27
 EXHIBIT NO. 232
 CASE NO. 96-0422-7

26

951

365 DAYS

PROPERTY
BOUNDARY

34

35

90 DAYS

30 DAYS

T50S
R26E

T51S
R26E

3

2

HENDERSON CREEK
WEIR

CREEK

HENDERSON



SCALE
1,500 FEET

ViroGroup

AIR • WATER • SOIL TECHNOLOGY

DRN BY: CAM

DWG. NO. A-013183KF-1

DATE: 4/26/96

PROJECT NAME: SSU - MARCO ASR

NUMBER: 01-03183.00

APPROXIMATE GROUNDWATER TRAVEL TIME (DISTANCE) TO MARCO LAKES.

DOCKET 950495-WS
EXHIBIT NO. 233
CASE NO. 96-04227

EXHIBIT NO. 233

WITNESS: GOWER

DOCKET NO. 950495-WS

**APPLICATION FOR RATE INCREASE BY
SOUTHERN STATES UTILITIES, INC.**

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DESCRIPTION:

OPC POD NO. 10

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495 EXHIBIT NO. 233
COMPANY/
WITNESS: _____
DATE 4/25/76

SOUTHERN STATES UTILITIES, INC.
RESPONSE TO REQUEST FOR PRODUCTION OF DOCUMENTS
DOCKET NO.: 950495-WS

REQUESTED BY: OPC
SET NO: 1
DOCUMENT REQUEST NO: 10
ISSUE DATE: 07/18/95
WITNESS: HUGH GOWER
RESPONDENT: Hugh Gower

DOCUMENT REQUEST: 10

For purposes of this request, please refer to Hugh Gower's testimony at page 13, line 6 through 13. Provide a copy of the transcripts reviewed and the prior Commission Order which led Mr. Gower to his conclusion that margin reserve being associated with only new customers is a misconception.

RESPONSE: 10

Please refer to Appendix DR10-A for a list of the Commission orders which Mr. Gower reviewed which formed the basis for his testimony.

7-c-75
HQS

FILE NAME

SOUTHERN STATES UTILITIES, INC.
SURVEY OF FPSC CIAC ORDERS

DATE	DOCKET NO.	ORDER NO.	COMPANY	EVIDENCE
5-26-87	850151-WS	17600	DELTONA UTILITIES, INC.	GUASTELLA TEST STAFF RECOMMEN
12-8-88	871134-WS	20434	ORANGE-OSCEOLA UTI	
7-19-89	881324-WS	21554	CROWNWOOD OF OCALA UTILITY COMPANY	
4-23-90	890277-WS	22843	PALM COAST UTILITY CORPORATION	
4-23-90	890360-WS	22844	SOUTH BROWARD UTILITY, INC.	
4-30-90	890951-WS	22871	SOUTHERN STATES UTILITIES, INC.	
5-15-90	890868-WS	23511	SOUTHERN STATES UTILITIES, INC.	
10-24-90	890509-WS	23660	FLORIDA CITIES WATER COMPANY	
01-09-91	900571-WS	23973	SPORTSMAN'S HARBOR UTILITIES	
7-1-91	900718-WU	24735	GULF UTILITY COMPANY	
7-1-91	900521-WS	24733	FFEC-SIX, LTD.	
9-23-91	900816-WS	25092	SAILFISH POINT UTILITY CORPORATION	
4-13-92	910907-WS	PSC 92-0190	SPRINGSIDE AT MANATEE, LTD. -FDF-WS	
4-28-92	910477-SU	PSC 92-0266	FLORIDA CITIES WATER COMPANY -FDF-SU SOUTH FT. MYERS	
6-24-92	910976-WS	PSC 92-0563	FLORIDA CITIES WATER COMPANY -FDF-WS BAREFOOT BAY	NO MARGIN RES
8-12-92	911194-WS	PSC 92-0911	FLORIDA CITIES WATER COMPANY -FDF-WS GOLDEN GATE	
2-25-93	911188-WS	PSC 93-0301	LEHIGH UTILITIES, INC. (SSU) -FDF-WS	HARTMAN REBUT HARTMAN XEXAM
3-22-93	920199-WS	PSC 93-0423	SOUTHERN STATES UTILITIES, INC. -FDF-WS	
7-23-93	920655-WS	PSC 93-1076	SOUTHERN STATES UTILITIES, INC. -FDF-WS	HARTMAN EXAM
7-30-93	920733-WS	PSC 93-1117	GENERAL DEVELOPMENT UTILITIES, INC.	

-FOF-WS

11-30-93 921293-SU PSC-93-1713MID-COUNTY SERVICES, INC.
-FOF-SU

6-16-94 930826-WS PSC-94-0739UTILITIES, INC.
-FOF-WS

3-13-95 940726-WU PSC-95-0342SEVEN RIVERS UTILITIES, INC.
-FOF-WU

DOCKET 950495-WS
EXHIBIT NO. 234
CASE NO. 96-04227

EXHIBIT NO. 234

WITNESS: GOWER

DOCKET NO. 950495-WS

**APPLICATION FOR RATE INCREASE BY
SOUTHERN STATES UTILITIES, INC.**

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

DESCRIPTION:

ORDER NO. PSC-93-1713-FOF-SU (PG 5)

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495 **EXHIBIT NO** 234
COMPANY/
WITNESS:
DATE: 4/29/96

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Margin Reserve

The purpose for margin reserve is to allow a utility to expand prudently beyond current demands to enable it to meet reasonable projected short term growth. This practice allows the utility to include some cost of expansion in its rate base without placing an unreasonable burden on current customers to pay for long term growth. It is our practice to allow a reasonable margin reserve when necessary.

In its filing, Mid-County included a 20 percent margin reserve, which produced used and useful percentages in excess of 100 percent for the treatment plant and collection system. The 20 percent margin reserve used by the utility in its calculations was based on a proposed Rule 25-30.432(5)(a). The proposed rules, which have not been approved by this Commission, are still in the formative state and have undergone several revisions. The utility's proposed 20 percent margin reserve has been adjusted to reflect the various revisions.

The MFRs filed by the utility reflect a five year growth of negative 1.38 percent. However, it does not appear that the historic growth pattern is reflective of current trends. Rather, it seems a consequence of unusual circumstances. For example, the utility imposed a moratorium on new connections due to the consent order imposed by DRP on previous owners. The utility is now in compliance with this consent order and has upgraded its plant, as discussed previously. In addition, during the on-site inspection, our engineer noted that there was new construction in the service area, which will result in many new customers.

Mid-County supplied additional information documenting a positive growth pattern of 65 ERCs per year with as many as 100 ERCs being a reliable possibility. Further, the utility stated that since Utilities, Inc., assumed operation of the plant in 1991,

195 new connections have been added. The growth in 1993 equals 7.9 per month or 95 new customers per year. The utility also provided a color coded map which showed various sections of future development in the service area and a large portion of the certificated area on septic systems.

Based on our calculations, we found that the exact margin reserve percentage is 5.75. However, due to the large number of potential customers in the area with septic tanks, the 5.75 percent was rounded down to 5 percent margin reserve. Based on the foregoing, we find that the appropriate margin reserve factor is 5 percent. The 5 percent equates to 39,325 gallons per day (gpd) or 143 ERCs for the system.

Used and Useful

Wastewater Treatment Facility

In its application, the utility reflected that the wastewater treatment facility is 113.50 percent used and useful. This figure was derived by using the projected test year maximum day demand then adding a 20 percent margin reserve based on the 800,000 gpd capacity of the treatment plant. The 20 percent margin reserve figure was originally mentioned as a percentage for margin reserve in proposed Rule 25-30.432(5)(a) and as noted previously, this Rule has not yet been adopted by the Commission.

Our calculation, which uses the maximum monthly average daily flow, 743,000 gpd, divided by the permitted capacity of the facility, 800,000 gpd, produces an 92.8 percent used and useful figure. The utility's base year does not include the anticipated new growth as noted in our discussion of the margin reserve. Therefore, once a 5 percent margin reserve is included, the appropriate used and useful percentage is 97. Based on the foregoing, we find that the wastewater treatment plant is 97 percent used and useful.

Wastewater Collection System

The customary practice when calculating collection system margin reserve is to divide the ERCs being served by the ERC capacity. Using the MFR numbers, the average ERCs for the period ending March 31, 1994 or 2,402, was divided by the ERC capacity, or 2,909. The calculation which results indicates that the wastewater collection system is 82.57 percent used and useful. These numbers

DOCKET 950495-WS
EXHIBIT NO. 235
CASE NO. 96-04227

EXHIBIT (WDD-4)
PAGE 1 **OF** 4

SOUTHERN STATES UTILITIES, INC.
DOCKET NO.: 950495-WS
RESPONSE TO INTERROGATORIES

REQUESTED BY: OPC
SET NO: 5
INTERROGATORY NO: 161
ISSUE DATE: 09/12/95
WITNESS: Denny/Gagnon
RESPONDENT: William (Dave) Denny

INTERROGATORY NO: 161

Meter Replacements. Please refer to pages 16 and 17 of the direct testimony of William Denny. Please show, in detail, how the estimated \$698,973 for 1995 and the estimated \$699,720 for 1996 for meter replacements were determined. Please provide the amount of meters replaced in 1995 to date. This should include both the amount of meters by rate category and the total cost, to date. Please indicate the number of meters replaced during 1993 and 1994 by meter type, and the associated costs by meter type.

RESPONSE: 161

The estimated \$698,973 for 1995 referred to on pages 16 and 17 of William Denny's testimony was determined by a meter change out program of 7% of all meters and new meters associated with growth and overheads. The 1996 estimate of \$699,720 was determined by a meter change out program of 8% of all meters, new meters associated with growth and overheads.

As of 9/29/95, a total of 6,136 meters have been changed out. The year to date (9/29/95) expenditures for replacement meters is \$385,765. The estimate included in Mr. Denny's testimony also includes new meters. Year to date (9/29/95) expenditures for new meters is \$125,801. In total, these expenditures year to date are \$511,566. Annualized, the expected expenditures for new and replacement meters is \$682,092.

In 1993, a total of 8,540 meters were changed out. The total cost for meter change outs and new meter installs for 1993 was \$604,266.

In 1994, a total of 8,606 meters were changed out. The total cost for meter change outs and new meter installs for 1994 was \$880,401.

Appendix 161-A provides the number of meters, by size and associated unit cost per meter.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495 EXHIBIT NO. 235
COMPANY/
WITNESS: SSW Denny
DATE: 4/29/96

DOCUMENT NUMBER-DATE
03387 MAR 21 1996
FPSC-RECORDS/REPORTING

As of 9/29/95, a total of 6,136 meters have been changed out and 2,726 installed.

METER CHANGE OUTS

5/8X3/4	5689	@	\$24.91	=	\$141,712.99
3/4"	14	@	40.81	=	571.34
1"	279	@	68.37	=	19,075.23
1 1/2"	48	@	190.27	=	9,132.96
2"	52	@	255.99	=	13,311.48
3"	18	@	1,373.85	=	24,729.30
4"	14	@	2,151.30	=	30,118.20
6"	14	@	3,397.30	=	47,562.20
8"	6	@	4,648.10	=	27,888.60
10"	2	@	10,600.00	=	21,200.00
TOTAL	6136				\$335,302.30

INSTALLS

5/8X3/4	2286	@	24.91	=	\$56,944.26
3/4"	138	@	40.81	=	5,631.78
1"	255	@	68.37	=	17,434.35
1 1/2"	11	@	190.27	=	2,092.91
2"	26	@	255.99	=	6,655.74
3"	6	@	1,373.85	=	8,243.10
4"	1	@	2,151.30	=	2,151.30
6"	3	@	3,397.30	=	10,191.90
8"	0	@		=	
10"	0	@		=	
TOTAL	2726				\$109,345.34

In 1995, the year to date (9/29/95) expenditures for replacement meters, including overheads, is \$385,765. The estimate in Mr. Denny's testimony also includes new meters. Year-to-date (2/29/95) expenditures for new meters, including overheads, is \$125,801. In total, these expenditures year-to-date are \$511,566. Annualized, the expenditures for new and replacement meters is \$682,092.

In 1994, a total of 8,606 meters were changed out and 5,600 meters installed.

METER CHANGE OUTS

5/8X3/4	7,660	@	\$24.91	=	\$190,810.60
3/4"	100	@	40.81	=	4,081.00
1"	636	@	68.37	=	43,483.32
1 1/2"	46	@	190.27	=	8,752.42
2"	71	@	255.99	=	18,175.29
3"	30	@	1,373.85	=	41,215.50
4"	27	@	2,151.30	=	58,085.10
6"	17	@	3,397.30	=	57,754.10
8"	17	@	4,648.10	=	79,017.70
10"	2	@	10,600.00	=	21,200.00
TOTAL	8,606				\$522,575.03

INSTALLS

5/8X3/4	4533	@	24.91	=	\$112,917.03
3/4"	496	@	40.81	=	20,241.76
1"	500	@	68.37	=	34,185.00
1 1/2"	15	@	190.27	=	2,854.05
2"	35	@	255.99	=	8,959.65
3"	11	@	1,373.85	=	15,112.35
4"	2	@	2,151.30	=	4,302.60
6"	4	@	3,397.30	=	13,589.20
8"	2	@	4,648.10	=	9,296.20
10"	2	@	10,600.00	=	21,200.00
TOTAL	5,600				\$242,657.84

The total cost for meter change-outs and new meter installs for 1994, including overheads, was \$880,401.00.

In 1993, a total of 8,540 meters were changed out and 5,806 meters were installed.

METER CHANGE OUTS

5/8X3/4	8,137	@	\$24.91	=	\$202,692.67
3/4"	9	@	40.81	=	367.29
1"	330	@	68.37	=	22,562.10
1 1/2"	22	@	190.27	=	4,185.94
2"	22	@	255.99	=	5,631.78
3"	3	@	1,373.85	=	4,121.55
4"	5	@	2,151.30	=	10,756.50
6"	5	@	3,397.30	=	16,986.50
8"	7	@	4,648.10	=	32,536.70
10"		@	10,600.00	=	
TOTAL	8,540				\$299,841.03

INSTALLS

5/8X3/4	4571	@	24.91	=	\$113,863.61
3/4"	444	@	40.81	=	18,119.64
1"	723	@	68.37	=	49,431.51
1 1/2"	13	@	190.27	=	2,473.51
2"	38	@	255.99	=	9,727.62
3"	11	@	1,373.85	=	15,112.35
4"	4	@	2,151.30	=	8,605.20
6"	1	@	3,397.30	=	3,397.30
8"	1	@	4,648.10	=	4,648.10
10"	0	@	10,600.00	=	
TOTAL	5,806				\$225,378.84

The total cost for meter change-outs and new meter installs for 1993, including overheads, was \$604,266.

SOUTHERN STATES UTILITIES, INC.
DOCKET NO.: 950495-WS
RESPONSE TO INTERROGATORIES

REQUESTED BY: OPC
SET NO: 5
INTERROGATORY NO: 168
ISSUE DATE: 09/12/95
WITNESS: Denny/Gagnon
RESPONDENT: William (Dave) Denny

INTERROGATORY NO: 168

Plant in Service - Renewal and Replacement Facilities. Please refer to page 15 of the direct testimony of William Denny. Please identify the amount added to plant in service in 1995 to date for which the \$540,000 of funds for unanticipated emergency repairs and/or equipment, facility or additions have been used. Please identify the amounts expended during 1993 and 1994 for such unanticipated emergency repairs and/or equipment - facility, replacement or additions, and indicate whether or not these amounts were included within the respective budgets. Has the Company included any depreciation expense or accumulated depreciation adjustments in the filing related to the \$540,000 in renewal and replacement facilities for 1995 and the \$535,500 renewal and replacement facilities for 1996? If yes, please identify the amounts and indicate where such adjustments are reflected within the filing.

RESPONSE: 168

As of August 31, 1995, \$352,634 have been expended for emergency repairs and/or equipment - facilities, replacements or additions. Annualized, this results in plant in service of \$528,951 for 1995.

In 1993, the budget amount for emergency repairs and/or equipment - facility, replacement, or additions was \$494,098. The amount expended for these items was \$1,441,770.

In 1994, the budget amount for emergency repairs and/or equipment - facility, replacement or additions was \$467,624. The amount expended for these items was \$911,284.