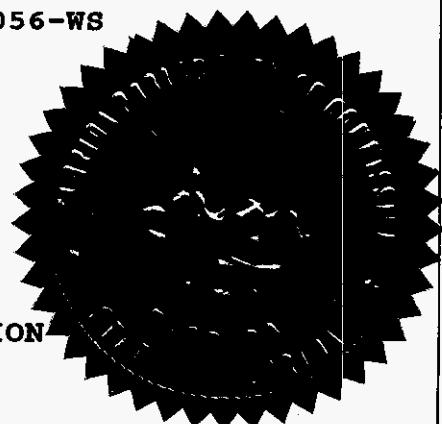


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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of
Application for rate
increase in Flagler
County by Palm Coast
Utility Corporation.

: DOCKET NO. 951056-WS



SECOND DAY - MID-MORNING SESSION

VOLUME 5

Pages 493 through 589

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER J. TERRY DEASON
COMMISSIONER JULIA L. JOHNSON
COMMISSIONER DIANE K. KIESLING

DATE: Monday, July 2, 1996

TIME: Commenced at 8:45 a.m.

PLACE: The Knights of Columbus Building
51 Old Kings Road
Palm Coast, Florida

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting
ROWENA NASH HACKNEY
Official Commission Reporters

APPEARANCES:

(As heretofore noted.)

WITNESSES VOLUME 5

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
	NAME																							
	TED L. BIDDY																							
		Direct Examination By Mr. Reilly					496																	
		Prefiled Direct Testimony Inserted					510																	
	KIMBERLY H. DISMUKES																							
		Direct Examination By Mr. Reilly					533																	
		Voir Dire Examination By Mr. Schiefelbein					536																	
		Prefiled Direct Testimony Inserted					540																	
		Cross Examination By Mr. Edmonds					566																	
	JEFF MARTIN																							
		Direct Examination By Ms. Reyes					570																	
		Prefiled Direct Testimony Inserted					572																	
		Cross Examination By Mr. Reilly					575																	
		Cross Examination By Mr. Melson					584																	
		Redirect Examination By Ms. Reyes					587																	
		Cross Examination By Mr. Schiefelbein					587																	

EXHIBITS VOLUME 5

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
	NUMBER						ID.	ADMTD.																
	25	(Biddy) TBL-1 through 3					509																	
	26	(Dismukes) Composite of exhibits attached to prefiled testimony					539	570																
	27	(Late-Filed) (Martin) Current PCUC operating permit					586																	

P R O C E E D I N G S

(Transcript follows in sequence from
Volume 4.)

- - - - -

TED L. BIDDY

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

DIRECT EXAMINATION

BY MR. REILLY:

Q Would you please state your name and
business address for the record?

A Ted L. Bidy. And the address is 2804
Remington Green Circle, Tallahassee.

Q Have you been sworn, Mr. Bidy?

A Yes, I have.

Q Did you prefile direct testimony in this
docket?

A Yes, I did.

Q Did you also prepare and file an updated
version of your prefled testimony which was filed on
June 28, 1996?

A Yes, that's correct.

MR. REILLY: If I might explain,
Commissioners, when Mr. Bidy filed his testimony he

1 filed it with several qualifications and provisos in
2 there. And since his testimony was filed he has
3 conducted his on-site inspection which was anticipated
4 with his testimony, and we have received substantial
5 discovery since then. So rather than just having him
6 amend his testimony live on the stand, we tried to
7 provide a strike-and-add version. We filed it on
8 Friday, but we'll circulate extra copies right now.
9 Staff has a number of copies with them already, I
10 believe, extra, so there should be plenty to go
11 around.

12 **COMMISSIONER KIESLING:** Just so that I'm
13 clear, there were also filed at some point updated
14 exhibits?

15 **MR. REILLY:** June 5th, '96, all of that has
16 been incorporated. This supercedes everything.

17 **COMMISSIONER KIESLING:** And just for my
18 edification, how extensive are the changes since the
19 one I read was the one you're superseding.

20 **MR. REILLY:** It's not extensive. It relates
21 to language, for instance -- I think he's going to
22 give in his summary, perhaps, some of the changes so
23 we'll get into that.

24 But some of his discussion of the issues was
25 equivocal and those equivocations are being resolved.

1 **COMMISSIONER KIESLING:** So the exhibits that
2 are attached, though, are the updated exhibits.

3 **MR. REILLY:** Absolutely. I don't think we
4 had the capability on the exhibits, but they are the
5 correct updated consequences of his testimony. But to
6 make it easier to follow, this is a strike-and-add
7 version. It has the original language still in there,
8 stricken, and then his updated version right next to
9 it. So hopefully it will be easy for everyone to
10 follow. That's, of course, the reason we did it.

11 **Q (By Mr. Reilly)** Okay. Mr. Bidy if I were
12 to ask you the same questions posed in your prefiled
13 direct testimony, would your answers be the same as
14 outlined in your updated 6-28-96 prefiled direct
15 testimony?

16 **A** Yes, it would.

17 **Q** Now, however, did -- are you sure that's --

18 **A** The exhibits would change slightly and I'll
19 get to that.

20 **Q** Okay. Do you continue to endorse and
21 sponsor the exhibits as amended in 6-28-96 attached
22 testimony?

23 **A** With four changes I want to discuss.

24 **Q** Could you discuss those changes and why you
25 made them from even the June 28, 1996, version?

1 **A** Yes. Subsequent to our filing on last
2 Friday, June 28th, we received from discovery --
3 actually it was a request at a deposition --
4 additional information concerning the --

5 **MR. GATLIN:** The exhibits we filed were
6 supposed to be filed last Friday, they were all filed
7 Friday, not any day after that. I don't know where he
8 got one on Saturday.

9 **WITNESS BIDDY:** Can I answer? It was after
10 we had filed that afternoon on the 28th. On Friday
11 the 28th we received the request that we had made at
12 deposition of Mr. Guastella. We had already filed
13 that day our amended testimony at that point.

14 **MR. GATLIN:** Mr. Chairman, I understood he
15 was to get the late-filed exhibits and the exhibits at
16 one time on Friday, and that this testimony, this
17 amended testimony that he's presenting today, was the
18 result of all of the discovery through Friday which
19 was timely filed. Now we're about to find out there's
20 a further addition or change to his exhibits, I
21 believe.

22 **MR. REILLY:** Commissioners, we're doing the
23 very best we can. We worked very hard on that last
24 day to prepare a strike-and-add with updated exhibits
25 with everything we received. But it's my

1 understanding that we had -- it was through Friday
2 that was the deadline to get the information to the
3 Utility, so it was late, late in the afternoon before
4 we got this information. There was no physical way
5 possible for the Citizens to integrate information we
6 just received in the late afternoon, have it typed,
7 prepared, 15 copies and filed with the Clerk by
8 5 o'clock that afternoon. It was just physically
9 impossible. We had endeavored as best we can to not
10 sandbag anybody but to be as forthright as we can on
11 our positions on on these issues. It is a slight
12 change because the Company gave us -- if you'll let
13 Mr. Bidy explain -- information late Friday afternoon
14 that he's attempting to quantify for your benefit.

15 **MR. GATLIN:** Mr. Chairman, it's been a long
16 time since last Friday. They could have gotten it to
17 us Saturday, Sunday, yesterday and not waited until
18 today to find out the new and different information
19 that they are going to rely on. I think it's highly
20 improper.

21 **COMMISSIONER DEASON:** Let me ask this
22 question: What information was filed on Friday from
23 Mr. Guastella's deposition?

24 **MR. REILLY:** It's Late-filed Exhibit No. 6
25 and in this he quantifies I believe the --

1 **COMMISSIONER KIESLING:** You have to talk
2 into the mike.

3 **MR. REILLY:** Late-filed Exhibit No. 6, which
4 we received late Friday afternoon, quantifies the
5 concentrate, the reject concentrate levels, going from
6 the membrane plant to the wastewater treatment plant.
7 It was a matter of us giving them proper credit for
8 this amount of flow through the wastewater treatment
9 plant. And that number did not come to us until we
10 could not possibly put it in this updated exhibit.

11 **COMMISSIONER DEASON:** That late-filed
12 deposition exhibit was scheduled to be filed on
13 Friday?

14 **MR. GATLIN:** And it was filed on Friday.
15 Like I say, we could have been informed since Friday
16 if there was additional information. We could have
17 been informed at the beginning of the hearing if there
18 were changes that were going to be made to the
19 testimony.

20 **MR. REILLY:** Normally, Commissioners, to
21 have these changes we ask, "Are your answers the
22 same?" It's customary to have them done
23 contemporaneous at the hearing. I have just
24 endeavored the best I could to identify before the
25 hearing as much as I could those changes.

1 **MR. GATLIN:** It's not customary to bring
2 new --

3 **COMMISSIONER DEASON:** One at a time.

4 **MR. GATLIN:** Excuse me.

5 **MR. REILLY:** I think it's proper after all
6 of the cross examination, you know, that any number of
7 the witnesses could ask Mr. Bidy about this matter
8 and he could -- I hope the Commission, since it's
9 trying to get the latest and best information to make
10 its decision, that this information could be permitted
11 to be put into the record. I think that's what we're
12 here for, is what I would argue.

13 **COMMISSIONER DEASON:** Mr. Gatlin.

14 **MR. GATLIN:** Even if that is a good excuse
15 for not giving them to us on Friday, we could have had
16 it Monday, we could have had it today and not wait
17 until Mr. Bidy gets on the stand and spring this new
18 information. It's unfair and does not follow what the
19 Prehearing Order said.

20 **MR. REILLY:** Final argument. We're not
21 springing any new information on the Utility. The
22 Utility has had this information and knows this
23 information. We're merely incorporating information
24 that was already known to the Utility to update
25 Mr. Bidy's recommendation. We're not springing

1 anything new on the Utility.

2 **MR. GATLIN:** It changes his testimony.

3 **COMMISSIONER DEASON:** Very well. What I'm
4 going to do, Mr. Reilly, I'm going to let you go
5 through Mr. Biddy's testimony, make whatever changes
6 that he would make so we can have it identified.
7 Before that is incorporated I'm going to allow
8 Mr. Gatlin to make an objection to that, and as an
9 alternative, and that is that if he considers that new
10 information to be of such magnitude, well then it
11 appears we're going to have another day of hearing,
12 that perhaps will give Mr. Gatlin ample time to
13 prepare to have the necessary information to cross
14 examine on whatever changes. But right now we're just
15 going to determine what those changes -- I don't know
16 how significant they are. Let's find out what those
17 changes are but I'm not going to incorporate them
18 until I know what they are and I give Mr. Gatlin an
19 opportunity to understand what those changes are.

20 **MR. REILLY:** It's my understanding that
21 we're offering the updated testimony as published June
22 28, 1996, as filed with the Commission on late Friday.
23 And the only changes that we'll be going over are just
24 schedule exhibit changes; is that correct, Mr. Biddy?

25 **A** That is correct, yes.

1 Q (By Mr. Reilly) Could you identify where
2 those changes and the nature of those changes can be
3 found?

4 A Yes. Based on Mr. Guastella's Late-filed
5 Exhibit No. 6, he gave us the amount of reject
6 concentrate that is discharged to the wastewater
7 treatment plant from the membrane plant at a figure of
8 139,747 gallons per day. And this was different from
9 that that was shown in the filing data of 353,000
10 gallons per day. This had a direct impact upon our
11 computations of excess inflow and infiltration, and it
12 changed on Exhibit TLB-3. It changed --

13 Q What was that number there?

14 A TLB-3. It changes Line 5 from 7.8%, to
15 18.05%. It also changes the used and useful
16 calculation on Line 10 from 48.13% to 42.8% it also
17 changes the effluent disposal reuse used and useful
18 calculation on Line 16 from 56.62% to 50.35%. Those
19 three changes because of the number that was given to
20 us.

21 Q Are there any changes to Exhibit TLB-3.1
22 that actually deal with the concentrate levels?

23 A Yes, there is. On Line 7, the reject
24 concentrate that we have indicated in that exhibit was
25 as previously reported 353,000 gallons, and based on

1 this latest information we have 139,747 gallons per
2 day.

3 **COMMISSIONER DEASON:** I'm sorry you lost me.
4 Where is that last change?

5 **MR. REILLY:** TLB-3.1 attached to Mr. Biddy's
6 testimony. It's located right behind TLB-3.

7 **COMMISSIONER DEASON:** What was the line
8 reference.

9 **MR. REILLY:** Go ahead Mr. Biddy, just repeat
10 that.

11 **WITNESS BIDDY:** Line 7. The amount of
12 reject concentrate from the membrane treatment
13 previously was shown at 353,000 gallons per day. And
14 based on the Late-filed Exhibit 6 of Mr. Guastella it
15 is 139,747 gallons per day.

16 **Q** So in establishing our inflow and
17 infiltration adjustment, the purpose for putting these
18 figures, flow of reject concentrate is to give the
19 Company credit for those flows so it's not included in
20 any I&I adjustment?

21 **A** That is correct. The actual number goes
22 into the amount of treated sewage.

23 **Q** So, in effect, with using these latest and
24 lower numbers, their credit it reduced by somewhat?

25 **A** That is correct.

1 Q And this has the effect of at least
2 increasing by some degree our I&I recommendation
3 adjustment?

4 A That is correct.

5 Q Okay. And the levels of those changes you
6 can just judge for yourself.

7 **MR. GATLIN:** Mr. Chairman, are there any
8 connected changes in the revised testimony as a result
9 of those changes in the exhibit?

10 **MR. REILLY:** I don't believe there's any
11 language changes, so the testimony stands as filed on
12 Friday. It's just with the new information, the
13 quantification needed to be adjusted slightly.

14 **COMMISSIONER DEASON:** Those are the only
15 changes, Mr. Biddy?

16 **WITNESS BIDDY:** Based on that particular
17 filing, yes, sir.

18 There is one typo in Exhibit TLB-2, on
19 Line 24 it shows 54.33%. That's a typographical error
20 it should read "58.73%."

21 Q Was that typo in the earlier version of the
22 testimony, too?

23 A Yes, it was.

24 Q With those changes --

25 **COMMISSIONER DEASON:** Let's discuss whether

1 we're going to allow these changes or not.

2 Mr. Biddy, as I understand it, these are
3 calculations that are changed based upon changed input
4 data.

5 **WITNESS BIDDY:** Yes, sir, that's correct.

6 **COMMISSIONER DEASON:** It does not change the
7 basis of your testimony or the reason you made the
8 calculation, it's the way you made the calculation.

9 **WITNESS BIDDY:** No, sir, it does not. Mr.
10 Gatlin.

11 **MR. GATLIN:** It makes a substantial change
12 to Exhibit 3.1, doesn't it?

13 **WITNESS BIDDY:** Yes, it does.

14 **MR. GATLIN:** Mr. Chairman, that's the main
15 exhibit I wanted to inquire about on cross examination
16 but I'm not going to be able to do that now if these
17 changes are accepted.

18 **COMMISSIONER DEASON:** I'm going to allow the
19 changes because they appear to me as more
20 computational and it's not as goes to the basis of the
21 testimony or to the methodology which this witness
22 endorses, the change of input data and the resulting
23 calculations that change from that input data, so I'm
24 going to allow the changes to be made. However, I'm
25 going to allow Mr. Gatlin, if he feels it's necessary,

1 to further explore this change with this witness and
2 if that means having Mr. Bidy available for that
3 further cross examination on these changes, that he
4 would be available when we reconvene the hearing in
5 Tallahassee.

6 **MR. GATLIN:** Yes, Mr. Chairman. That's what
7 I'm saying, my cross examination on this subject is
8 now -- I'm not prepared.

9 **COMMISSIONER DEASON:** Very well. Is that a
10 problem --

11 **MR. REILLY:** I think we can make him
12 available on this issue later to defend his position.
13 We just wanted to use the most updated correct figure.

14 **COMMISSIONER DEASON:** I understand. Well,
15 I'm going to allow the changes with that stipulation,
16 that the witness would be available for further cross
17 examination as a result of the changes that were made
18 here today.

19 **MR. REILLY:** Okay. Mr. Chairman, then at
20 this time I would move Mr. Bidy's testimony as
21 prefiled on 6-28-96 be inserted into the record as
22 though read, and that his exhibits attached to that
23 testimony as amended today be assigned a composite
24 exhibit number for identification purposes.

25 **COMMISSIONER DEASON:** Without objection, the

1 prefiled testimony dated June 28th, 1996, will be
2 admitted. It will be inserted into the record, and
3 the exhibit prefiled and attached thereto will be
4 given Composite Exhibit No. 25.

5 (Exhibit No. 25 marked for identification.)

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

2 A. My name is Ted L. Bidy. My business address is Baskerville-Donovan, Inc.
3 (BDI), 2804 Remington Green Circle, Tallahassee, Florida 32308.

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

5 A. I am Vice-President of Baskerville-Donovan, Inc. and Regional Manager of the
6 Tallahassee Office.

7 Q. **WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK
8 EXPERIENCE?**

9 A. I graduated from the Georgia Institute of Technology with a B.S. degree in Civil
10 Engineering in 1963. I am a registered professional engineer and land surveyor in
11 Florida, Georgia and Mississippi and several other states. Before joining BDI in
12 1991, I had operated my own civil engineering firm for 21 years. My areas of
13 expertise include civil engineering, structural engineering, sanitary engineering,
14 soils and foundation engineering and precise surveying. During my career, I have
15 designed and supervised the master planning, design and construction of
16 thousands of residential, commercial and industrial properties. My work has
17 included: water and wastewater design; roadway design; parking lot design;
18 stormwater facilities design; structural design; land surveys; and environmental
19 permitting.

20 I have served as principal and chief designer for numerous utility projects.
21 Among my major water and wastewater facilities designs have been a 2,000 acre
22 development in Lake County, FL; a 1,200 acre development in Ocean Springs,

1 MS; a 4 mile water distribution system for Talquin Electric Cooperative, Inc. and
2 a 320 lot subdivision in Leon County, FL.

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

4 A. I am a member of the Florida Engineering Society, National Society of
5 Professional Engineers, and Florida Society of Professional Land Surveyors.

6 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A STATE OR
7 FEDERAL COURT AS AN ENGINEERING EXPERT WITNESS?**

8 A. Yes, I have had numerous court appearances as an expert witness for cases
9 involving roadways, utilities, drainage, stormwater, water and wastewater
10 facilities designs.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC
12 SERVICE COMMISSION (FPSC) FOR USED AND USEFUL ANALYSIS
13 AND OTHER ENGINEERING ISSUES?**

14 A. Yes, I have testified before the FPSC for Docket No. 950495-WS on engineering
15 issues and used and useful analysis.

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

17 A. The purpose of my testimony is to provide comments on methods of used and
18 useful analysis used by Palm Coast Utility Corporation (PCUC) for this rate
19 increase filing. A summary of my used and useful methodology is included as
20 Exhibit TLB-1.

21 **Q. DID YOU PREPARE OR SUPERVISE THE PREPARATION OF THE
22 EXHIBITS YOU ARE SPONSORING FOR THIS PROCEEDING?**

1 A. Yes, I did.

2 Q. **DO YOU AGREE WITH THE MARGIN RESERVE PROPOSED BY**
3 **PCUC FOR USED AND USEFUL CALCULATIONS?**

4 A. No, I do not think the margin reserve requested by PCUC in this rate filing is
5 appropriate. While it may be appropriate for a utility to have reserve capacity to
6 accommodate demands placed upon the system because of growth, it is not
7 appropriate to make current customers pay for this reserve capacity in a margin
8 reserve. It is more appropriate to collect these costs from the cost causers,
9 namely the future customers. Funds to support prudently constructed reserve
10 capacity should be collected from future customers in the form of contribution-
11 in-aid-of- construction (CIAC), paid by customers upon connection, or prepaid,
12 in the form of plant capacity charges, connection charges for distribution and
13 collection mains, advances for construction collected from developers and
14 distribution and collection lines contributed by developers. Even the carrying
15 charges for plant which is not needed to serve current customers may be paid for
16 by the utility receiving guaranteed revenues from future customers, which is
17 being done in the instant case. The Commission also permits utilities to collect
18 an allowance for funds prudently invested (AFPI) which also reimburses the
19 utility for the carrying charges for nonused and useful plant. Collection of these
20 contributions and prepaid fees from future customers should render a margin
21 reserve allowance, paid by current customers, to be unnecessary.

22 Under Florida conditions of economy and tightening environmental

1 regulation, increasing water costs and water conservation concern, it is
2 reasonable to believe that the water consumption and wastewater generation of
3 existing customers will not increase. Therefore, the margin reserve requested by
4 PCUC is solely for new customers. If the PSC allows margin reserve in the used
5 and useful calculations, then it will penalize existing customers by burdening
6 them to pay extra cost for new customers. Allowing margin reserve will further
7 increase water and wastewater rates to existing customers. High utility rates
8 reduce the financial ability for customers and that will hinder future development.
9 Therefore, the PSC should eliminate margin reserve allowance in used and useful
10 analysis. The utility should recover the costs of plant addition from new
11 customers or developers through other measures.

12 **Q. DO YOU HAVE ANY COMMENTS ON THE FIRE FLOW**
13 **REQUIREMENT PCUC APPLIED IN ITS USED AND USEFUL**
14 **CALCULATIONS?**

15 **A.** Fire flow capacity should be included in the used and useful calculation only if
16 fire flow provision is proven by sufficient records or supporting documents.
17 PCUC did not provide this information in the original filing of the MFR's.

18 Many components of a water distribution system dictate the delivery of
19 fire flow. They include high service pumps, distribution storage tanks and water
20 mains. Because of economic concerns, for many systems fire flows are provided
21 partially by high service pumps and partially by storage. It is not cost effective to
22 use source of supply and treatment plant to meet instantaneous demands, such as

REVISED June 28, 1996

1 peak hourly flows and fire flows. For this reason, I have not included a fire flow
2 provision in my used and useful calculations for source of supply or water
3 treatment plant.

4 PCUC currently has a total of 4.15 million gallons for storage which
5 seems adequate for fire flow and peak hour demands. Therefore, I have included
6 fire flow in my used and useful calculations for water storage. However, OPE
7 has requested PCUC to provide the fire flow test information to further confirm
8 the fire flow provision. Revised used and useful calculations will be submitted if
9 PCUC does not provide adequate information. According to Citizen's Document
10 Request No. 58, PCUC provided some fire flow test records to confirm the fire
11 flow provision. The records show that the available fire flow in PCUC's
12 distribution system varies from 1,377 gpm to 5,503 gpm at 20 psi residual
13 pressure. The average fire flow available is 3,552 gpm. Though the information
14 provided is not extensive, I believe the fire flow requested by PCUC is
15 reasonable.

16 **Q. DO YOU HAVE ANY COMMENTS ABOUT THE LEVEL OF**
17 **UNACCOUNTED FOR WATER PRESENTED BY PCUC IN THE**
18 **MFR'S?**

19 A. To encourage efficiency, PSC should allow no more than 10% unaccounted for
20 water. PCUC projected a 4.68% unaccounted for water in its Schedule F-1 of
21 MFR's. However, an unusual negative (-8.21%) unaccounted for water existed

REVISED June 28, 1996

1 in January 1995. PCUC should justify the causes of such a negative percentage
2 of unaccounted for water. ~~Adjustments may be necessary depending upon~~
3 ~~PCUC's responses to pending discovery.~~

4 From the response to Citizen's Interrogatory No. 83, I do not believe
5 PCUC has excess unaccounted for water. However, the flushing water used for
6 water quality compliance is extraordinarily high as shown in responses to Staff's
7 Interrogatories No. 8 and 9. The average quantity of water used for flushing in
8 1995 was equal to 25.9% of water sold or 19.2% of total gallons pumped. A
9 well designed system should have no more than 5% water use for flushing. In my
10 opinion use of more than 5% of total finished water for flushing is excessive.

11 **Q. DO YOU RECOMMEND THAT A SINGLE MAXIMUM DAY FLOW**
12 **SHOULD BE USED IN USED AND USEFUL CALCULATIONS?**

13 **A.** No, the single maximum day flow should not be used in used and useful
14 calculations in this filing. The single maximum day flow may include undetected
15 or unrecorded leaks, flushing and unusual usage, in addition to the PSC allowed
16 unaccounted for water. Normally, a water main leaks for days before detection
17 and that amount of water loss is hard to keep track of. Main breaks and line
18 flushing have similar situations because good records are hard to keep.
19 Therefore, an average of the five highest maximum daily flows in the maximum
20 month is justified and should be used for all used and useful calculations for
21 water facilities. This has been the policy historically used by the Commission.

REVISED June 28, 1996

1 Q. DO YOU HAVE ANY COMMENTS ON THE USED AND USEFUL
2 CALCULATIONS PREPARED BY PCUC FOR WATER SUPPLY
3 WELLS?

4 A. Besides the margin reserve, I disagree with the inclusion of fire flow in supply
5 wells used and useful calculations. As stated before it is not appropriate to meet
6 instantaneous demands from water supply, especially when adequate storage
7 exists to meet such demands. Therefore, it is inappropriate to include fire flow
8 allowance in the supply wells used and useful calculations.

9 PCUC used called "firm reliable capacity" in calculating the used and
10 useful percentages for water supply wells. The firm reliable capacity excludes the
11 largest well capacity by assuming it to be out of service. When there are more
12 than ten wells, the largest two wells are assumed to be out of service. The
13 combined capacity of the remaining supply wells is the "firm reliable capacity."

14 However, when storage or high service pumping facilities are available,
15 the "firm reliable capacity" method is not applicable. According to Section
16 3.2.1.1 Source capacity of *Recommended Standards For Water Works*:

17 "The total developed groundwater source capacity shall equal or exceed
18 the design maximum day demand and equal or exceed the design average
19 day demand with the largest producing well out of service."

20 This design criteria should be used to calculate used and useful
21 percentage for supply wells. For the above reason, the "firm reliable capacity"

REVISED June 28, 1996

1 method should not be applied to supply wells where the water system is also
2 equipped with storage and high service pumping facilities. Adjustments have
3 been made according to the above principles in Exhibit TLB-2.

4 **Q. DO YOU HAVE ANY COMMENTS REGARDING USED AND USEFUL**
5 **CALCULATIONS OF THE FINISHED WATER STORAGE?**

6 A. In the MFR's, Exhibit JFG-1, Table D, PCUC used 50% of the maximum daily
7 flow (MDF) as equalization and emergency storage. However, I believe a half
8 (50%) of the average daily flow (ADF) is adequate for equalization and
9 emergency storage. This allowance is more than adequate for equalization (peak
10 hour demand) storage, compared with the 20 to 25% ADF mentioned in the
11 AWWA M32. The excess storage can be used as a provision for emergency
12 storage. The one day ADF storage criteria used in "10 States Standards" was
13 reduced to one half day because MDF design is used for supply wells and
14 treatment plant. With this provision for excess storage, I do not believe it is
15 justified to add more allowance for emergency storage.

16 PCUC requested ten percent (10%) of the total finished water storage as
17 "retention storage" because that portion of storage is unusable. These concerns
18 are not true for all storage facilities, especially for elevated tanks. For ground
19 storage facilities, as-built drawings should be able to reveal the minimum
20 operating level. It is not justified to assume 10% of the storage capacity is
21 retention storage for every single storage tank. PCUC provides no supporting

REVISED June 28, 1996

1 explanation to justify 10% retention storage allowance for each storage tank.

2 Retention storage is not applicable to elevated storage tanks.

3 When designing storage tanks and high service pumps, engineers have to
4 check the available net positive suction head (NPSH) and ensure that it is greater
5 than the net required positive suction head to avoid cavitation problems.

6 Therefore, the vortex situation is rare because high service pumps are always
7 placed at a low grade to obtain the maximum NPSH. Based on my field
8 inspection and response to OPC's Document Request No. 59, I believe some
9 retention storage adjustment is necessary. A weighted average of 6% retention
10 Full storage tank capacity was applied in my used and useful calculations, per
11 Exhibit TLB-1 and Exhibit TLB-2.

12 **Q. DO YOU AGREE WITH THE 100% USED AND USEFUL REQUEST**
13 **FOR FACILITY LANDS?**

14 A. No, PSC should not automatically grant 100% used and useful on facility lands.
15 Every system has different sizes of facilities and lands. The current demands and
16 available facilities are also unique between systems. These factors all dictate the
17 facility usage. Therefore, a used and useful assessment is necessary for every
18 facility land because all facility lands are part of the system. Facility lands are
19 designed and used to serve the whole system, including new and existing
20 customers. The higher the existing demand, the higher the used and useful
21 percentage. Therefore, the used and useful percentages of facility lands should

REVISED June 28, 1996

1 be the same as the specific facility on it. However, based on the site plans
2 provided in response to OPC's Document Request No. 61, I measured the
3 acreage occupied by water and wastewater treatment facilities and total available
4 land to calculate the used and useful percentages. Adjustments were made in my
5 used and useful calculations as shown in Exhibits TLB-2 and TLB-3.

6 **Q. DO YOU HAVE ANY COMMENTS ON THE USED AND USEFUL**
7 **PERCENTAGES FOR WATER TRANSMISSION AND DISTRIBUTION**
8 **FACILITIES REQUESTED BY PCUC?**

9 A. The used and useful analysis for a water transmission and distribution system is
10 not a flow measurement or flow projection technique. Therefore, it is
11 inappropriate to use fire flow allowance in the used and useful calculation. Used
12 and useful analysis is about allocating construction costs fairly to both existing
13 and future customers. Normally engineers design the water transmission and
14 distribution system with fire flow delivering capability. Therefore, the cost of
15 laying water mains also includes the cost for fire flow provision. However, the
16 fire flow provision is for all existing and future customers. The used and useful
17 calculations proposed by PCUC shifts more cost burden to existing customers,
18 especially in new or sparsely developed areas. By using a fire flow allowance
19 factor, PCUC added an extra 33.1% to the used and useful percentages of water
20 distribution mains and off-site mains.

21 On the other hand, the "lot count" method allocates the water main costs

REVISED June 28, 1996

1 evenly to all customers, after engineers have properly designed the whole system.
2 The lot count method assigns a fair share of the total construction cost to every
3 customer. The lot count method does not fail to recognize water main cost to
4 accommodate fire flow and looped lines, because it allocates the total cost
5 through used and useful percentages. Existing customers do not get a free ride
6 because the construction costs of fire flow accommodation and looped lines are
7 included in the total cost.

8 Water transmission and distribution systems are designed for all existing
9 and future customers. The lot count method gives an equal cost share to all
10 customers. Therefore, the lot count method will not discourage future
11 development, as opposed to the method proposed by PCUC, which will
12 probably discourage future development. However, in some instances the lot
13 count method still favors future customers. If there is no future development,
14 engineers would design a smaller size system for existing customers. However,
15 most of the time water transmission and distribution mains are oversized for
16 existing systems to accommodate future phases of development.

17 When lots located in future phases of a development are not connected to
18 existing water mains, those lots are not included in the lot count method so as to
19 reduce the used and useful calculation for existing customers. To the extent
20 existing mains can serve those unconnected future lots, existing customers will
21 support more than their share of the cost for the existing oversized mains.
22 Therefore, existing customers in these instances are carrying extra costs for

REVISED June 28, 1996

1 laying larger sizes of water mains that ultimately will be connected to serve future
2 development. Under those conditions, existing customers pay more than their
3 fair share. PCUC should recover the cost of unused water mains by collecting
4 contributions from new customers and AFPI and guaranteed revenues to cover
5 the carrying costs of nonused and useful utility plant.

6 In addition, fire hydrants are part of the distribution system and there is
7 no need to perform a separate used and useful analysis. Appropriate used and
8 useful adjustments have been made in the Exhibit TLB-2.

9 **Q. DO YOU HAVE ANY COMMENTS REGARDING THE USED AND**
10 **USEFUL PERCENTAGES REQUESTED BY PCUC FOR THE**
11 **WASTEWATER COLLECTION SYSTEM?**

12 A. The lot count method should also be used to determine the used and useful
13 percentage for the wastewater collection system. This method should be used
14 because the overall collection system is designed for existing and future
15 customers. Lot count provides an equal share for all customers, so that existing
16 customers will not subsidize future customers. ~~It is inappropriate and~~
17 ~~unnecessary to break down the collection system used and useful into gravity~~
18 ~~main, pretreatment effluent pumping (PEP) main, PEP tanks, force main, and~~
19 ~~service lines as PCUC has proposed: In Exhibit TLB-3, a combined used and~~
20 ~~useful percentage was calculated for gravity mains, force mains, and pumping~~
21 ~~plants. However, due to large numbers of sewer service lines and PEP mains~~

REVISED June 28, 1996

1 installed on vacant lots, I also calculated separate used and useful percentages for
2 gravity sewer service lines and PEP mains in Exhibit TLB-3.

3 **Q. SHOULD GALLONS OF WASTEWATER TREATED EXCLUDE**
4 **EXCESS INFLOW AND INFILTRATION IN ENGINEERING**
5 **SCHEDULE F-2(S)?**

6 A. Yes. For used and useful analysis, the amount of wastewater treated should not
7 include any excessive inflow and infiltration. Engineering Schedules F-2(S) filed
8 by PCUC did not show the inflow and infiltration condition of its wastewater
9 collection system. The inflow/infiltration information should be presented to
10 show the conditions of collection system. It is inappropriate to add an inflow and
11 infiltration allowance in the used and useful calculation for wastewater systems.

12 Many guideline criteria are available and can be used for infiltration
13 allowance on gravity sewers. In the *Recommended Standards for Wastewater*
14 *Facilities*, 200 gallons per inch of pipe diameter per mile per day is the
15 recommended guideline and that criteria is generally used by the Florida
16 Department of Environmental Protection (FDEP) staff.

17 Any excessive inflow and infiltration should be excluded from the amount
18 of wastewater treated. ~~Currently no excess inflow and infiltration was~~
19 ~~determined in my used and useful analysis. However, OPC is requesting more~~
20 ~~information to confirm there is no excess inflow and infiltration in the wastewater~~
21 ~~collection system. Future adjustments may be necessary pending the results of~~

REVISED June 28, 1996

1 further discovery. Based on the response to OPC's Interrogatory No. 65 and
2 information provided in the MFR's, I calculated there is 7.85% excessive inflow
3 and infiltration, as my Exhibit TLB-3.1 illustrates. Proper adjustments were
4 applied to my used and useful percentages in Exhibit TLB-3.

5 **Q. WHAT IS THE CAPACITY OF EFFLUENT DISPOSAL/REUSE**
6 **FACILITIES OF PCUC?**

7 A. According to FDEP permit No. DC18-244706, modified on February 16, 1995,
8 PCUC has a total of 4.2 million gallons per day (MGD) effluent disposal and
9 reuse capacity. ~~Therefore, this capacity was used in my used and useful~~
10 ~~calculation in Exhibit TLB-3. However, during my field investigation, the utility~~
11 ~~engineer explained that the current available capacity is 3.4 MGD not 4.2 MGD~~
12 ~~and DEP is revising its construction permit. Therefore, I have reduced the~~
13 ~~effluent disposal capacity to 3.4 MGD and revised my used and useful calculation~~
14 ~~in Exhibit TLB-3.~~

15 **Q. DO YOU AGREE WITH PCUC THAT 20% OF THE FACILITY COST**
16 **SHOULD BE INCLUDED IN RATE BASE REGARDLESS OF**
17 **EXISTING DEMANDS?**

18 A. No. Every customer should pay his or her fair share for the overall facility cost.
19 PSC should not allow PCUC's request to include 20% of the cost in rate base
20 without regard to current demands.

21 **Q. DID YOU PREPARE ANY USED AND USEFUL CALCULATIONS IN**

1 **THIS TESTIMONY?**

2 A. Yes, I have calculated the used and useful percentages for all water and
3 wastewater systems, according to my positions on the above issues. However,
4 some information was not provided by PCUC, and I had to make many
5 assumptions in the calculations. For example, fire flow provision was included
6 without confirmation. All numbers filed by PCUC were used, and assumed to be
7 genuine and correct. The calculated used and useful percentages of water and
8 wastewater systems are presented in Exhibit TLB-2 and Exhibit TLB-3,
9 respectively. A summary which explains the rationale behind my various used
10 and useful calculations can be found in Exhibit TLB-1. However, these used and
11 useful numbers are subject to change pending further responses to discovery.

12 **Q. DOES THIS CONCLUDE YOUR PREFILED TESTIMONY?**

13 A Yes, that concludes my testimony filed on May 21, 1996.

1 **MR. GATLIN:** Mr. Chairman, this changes the
2 nature of this exhibit entirely. And with this change
3 we would like permission to submit some rebuttal
4 testimony on it.

5 **MR. REILLY:** I would like to comment on
6 that. I don't think it changes his testimony
7 materially at all. As you've stated I think
8 correctly, the methodology is unchanged. We made an
9 updated computation change based on the level of
10 concentrate going into this plant, so that in effect
11 the credit went down slightly affecting the number,
12 percentage that he was recommending.

13 I don't see any reason why we're now going
14 to have supplemental testimony with no change in the
15 substance of the -- basis of his recommendation.

16 **MR. GATLIN:** Mr. Bidy testified it was a
17 substantial change when I asked him a while ago.

18 **MR. REILLY:** I think the change speaks for
19 itself, from 7%, what to, 18%, give or take. The
20 Commission can judge the level of magnitude of that
21 change. But, you know, it's all as a result of
22 information that's been in the possession of the
23 Utility. It's no information we're springing on them
24 by surprise. It is their data. We're merely using
25 updated data to insert it into a recommendation, the

1 foundation of which has been prefiled. I just object
2 to that suggestion. It's certainly up to the
3 Commission to rule.

4 **MR. GATLIN:** And we think it's been
5 improperly treated in this exhibit with a new number.

6 **COMMISSIONER DEASON:** I'm not going to make
7 a ruling today as to whether you can or cannot file
8 additional rebuttal testimony. If you think it is
9 essential, obviously you have the latitude to have
10 that testimony prepared and filed, and if there's an
11 objection to it, in the subsequent hearing date we'll
12 take that objection up. The only thing is, is if you
13 do plan to file supplemental rebuttal, we do need to
14 establish a date for that filing, and if there are any
15 objections to that, we'll take it up when we reconvene
16 the hearing. We can discuss that filing date now or
17 we can do it before we adjourn these hearings today.

18 **MR. GATLIN:** Let's do it now.

19 **COMMISSIONER DEASON:** It appears that the
20 best information that I have is that we're looking at
21 having another day of hearing in Tallahassee on the
22 19th of July.

23 **MR. EDMONDS:** That's correct.

24 **COMMISSIONER DEASON:** Okay. So we need that
25 rebuttal testimony filed in time for that hearing.

1 **MR. GATLIN:** I'm sorry, Mr. Chairman --

2 **COMMISSIONER DEASON:** My only concern is
3 that it be filed in enough time that all of the
4 parties have that and we don't go through the same
5 exercise because hopefully the 19th is going to be the
6 last day of hearing.

7 **MR. GATLIN:** How about the 16th, filed on
8 the 16th?

9 **COMMISSIONER DEASON:** Any objection to the
10 16th?

11 **MR. REILLY:** We would object to that. It's
12 the same thing. We're just running frantically. We
13 get this material moments before it's needed. I would
14 strongly urge the Commission to require it to be filed
15 a little sooner so we'd have time to react to it.

16 **MR. GATLIN:** That's three days ahead of the
17 hearing.

18 **MR. REILLY:** Today is a 2nd. There's a big
19 gap between the 2nd and the 19th. It seems that the
20 16th is pushed --

21 **COMMISSIONER DEASON:** The 19th is a Friday;
22 a week before the hearing would be the 12th. Is the
23 that possible?

24 **MR. GATLIN:** Be glad to.

25 **COMMISSIONER DEASON:** All right.

1 **MR. REILLY:** We can work with that.

2 **COMMISSIONER DEASON:** Very well. The 12th
3 it is. I believe we've inserted the testimony and we
4 have identified the prefiled exhibits attached
5 thereto. Does the witness have a summary of his
6 testimony?

7 **MR. REILLY:** I believe he does.

8 **Q (By Mr. Reilly)** Mr. Bidy, would you like
9 to provide a brief summary?

10 **A** Yes, I will. I have a brief summary.

11 My testimony provides comments on the
12 methods of used and useful calculation analysis
13 provided by, or proposed by Palm Coast Utility
14 Corporation and sets forth new used and useful
15 calculations that we performed based on our beliefs of
16 the facts.

17 Firstly, on margin reserve it is the Office
18 of Public Counsel's position that margin reserve is an
19 unnecessary burden to existing customers, which the
20 Utility and the developer should bear for future
21 growth.

22 Concerning fire flow, fire flow should be
23 provided through storage tanks and high service
24 pumping, just like Palm Coast Utility Corporation has.
25 However, the design flow for supply wells and

1 treatment plants should not include fire flow. Water
2 treatment plants are designed to fill storage tanks
3 during off peak hours, therefore, instantaneous
4 demands like fire flow can be provided by the storage
5 facilities and you just do not design the water
6 treatment plants and wells for fire flow.

7 On the subject of the average of five max
8 days versus the single max day, it is our contention
9 that the average of five max days evens out undetected
10 unusual leaks or main breaks, and this method has been
11 used by the PSC before. The single maximum day may
12 include unusual uses that tend to sway the number
13 higher, and, therefore, we believe that it's more
14 appropriate to use the average of five days for the
15 maximum day.

16 Concerning the lot count method, we believe
17 that it is a reasonable method to use for the
18 distribution system and the collection system used and
19 useful calculation because the total cost is average
20 and it's included in the lot price.

21 As far as facility lands are concerned,
22 existing customers should not bear the cost of
23 facility land for future customers, therefore, we do
24 not recommend 100% of used and useful for facility
25 lands.

1 And finally on the topic of inflow
2 infiltration, I do not agree that a 15% inflow and
3 infiltration allowance should be included in the used
4 and useful calculations without actual flow
5 evaluation.

6 Now, according to my evaluation, there is
7 excess infiltration in the system. Previously I had
8 reported that 7.8, but based on the latest information
9 furnished by the Utility last Friday it's actually
10 18.05%. So we have deducted that in our used and
11 useful calculations.

12 And that completes my summary.

13 **MR. REILLY:** We tender Mr. Bidy for cross
14 examination.

15 **COMMISSIONER DEASON:** Mr. Gatlin.

16 **MR. GATLIN:** My cross goes to Exhibit 3.1
17 and I'll defer it.

18 **COMMISSIONER DEASON:** Very well. The
19 County.

20 **MR. SIRKIN:** We have no questions.

21 **COMMISSIONER DEASON:** Mr. Melson.

22 **MR. MELSON:** No questions.

23 **COMMISSIONER DEASON:** Staff.

24 **MR. EDMONDS:** No questions.

25 **MR. REILLY:** May I inquire something?

1 Mr. Bidy testifies about a wide range of things that
2 I would have assumed the Utility was prepared to ask
3 Mr. Bidy about that has nothing to do with the
4 changes. I would hope that Mr. Bidy would be
5 available to get the wide range of cross examination
6 on those other matters and that his cross examination,
7 that he felt he was disadvantaged about would, of
8 course, be limited to the single subject that was the
9 subject of this minor -- what I suggest was a
10 relatively minor change. I don't want to make
11 Mr. Bidy available at the later hearing for all of
12 his cross examination. There's absolutely no basis or
13 reason for that whatsoever. We need to get that over
14 with here today.

15 **COMMISSIONER DEASON:** Mr. Gatlin.

16 **MR. REILLY:** If he's waiving any further
17 cross examination that's fine.

18 **MR. GATLIN:** The only cross I have is
19 related to the subject of infiltration and inflow and
20 to the exhibits that -- and resulting testimony from
21 those exhibits that were changed today.

22 **MR. REILLY:** That will be the limit of the
23 cross examination is on that one subject. Okay.

24 Thank you.

25 **COMMISSIONER DEASON:** And I'll let you move

1 his exhibit at the conclusion of all cross examination
2 and that would be after Mr. Gatlin crosses.

3 **MR. REILLY:** On that subject. Thank you
4 very much.

5 **COMMISSIONER DEASON:** Thank you, Mr. Biddy.
6 I hope you're available on the 19th.

7 **MR. SCHIEFELBEIN:** Mr. Chairman, could we
8 take a brief break?

9 **COMMISSIONER DEASON:** Yeah. Do you want to
10 just discuss a matter off the record or do you need to
11 take a lunch break at this time?

12 **MR. SCHIEFELBEIN:** We could either do a
13 lunch break which would be fine, or have say five
14 minutes.

15 **COMMISSIONER DEASON:** We are just going to
16 take a five-minute recess and we're going to go ahead
17 before we take a lunch break. Five minutes.

18 (Brief recess.)

19 - - - - -

20 **COMMISSIONER DEASON:** Ladies and gentlemen,
21 if I could ask you to take your places, please. We'll
22 call the hearing back to order. Mr. Reilly.

23

24

25

KIMBERLY H. DISMUKES

1
2 was called as a witness on behalf of Citizens of the
3 State of Florida and, having been duly sworn,
4 testified as follows:

DIRECT EXAMINATION

5
6 **BY MR. REILLY:**

7 Q Would you please state your name and
8 business address for the record?

9 A Kimberly H. Dismukes. 5688 Forsythia
10 Avenue, Baton Rouge, Louisiana.

11 Q Have you been sworn?

12 A Yes.

13 Q Did you prefile direct testimony in this
14 docket?

15 A Yes.

16 Q Do you have any corrections or amendments
17 you would like to make concerning that prefiled
18 testimony?

19 A Yes, I do.

20 Q And what are those changes?

21 A The first change is on Page 7. There were
22 two issues in at the prehearing conference that were
23 removed and this relates to that, so I'm going to
24 delete that section of my testimony. Starting on Line
25 7 through Line 2 just strike that portion of the

1 testimony.

2 Q Okay.

3 A And then continuing over to Page 8, strike
4 the testimony of Line 1 to Line 4. And then on that
5 same page, Line 13, the 6.69% figure we changed to
6 6.90%.

7 Q 6.90%.

8 A Turn to Page 18. This is another issue that
9 was withdrawn at the prehearing conference, and you
10 need to strike from Line 14 through Line 21.

11 MR. EDMONDS: I'm sorry was that Page 18.

12 MR. REILLY: Page 18, starting on Line 14.

13 A (By Mr. Reilly) Turning on over to Page 19,
14 strike from Line 1 through Line 10.

15 Page 25, Line 12, at the end of the
16 completed sentence, after the figure \$160,539, add the
17 words "for wastewater." And the last change to my
18 testimony is on Page 10. Sorry I got it out of order.
19 Line 17 change the word "my adjustments", the word
20 "adjustments" to "my adjustment." The word "increase"
21 to "increases", and then delete "water revenue by
22 \$33,023" and the word "and."

23 Q Would you repeat that last thing you said?
24 After increases you say what?

25 A Oh, delete the words "water revenue by

1 \$33,023 and" -- just delete those words.

2 Q All right. And some of my schedules change
3 as a result of those changes as well. I'll go through
4 that.

5 Schedule 2. On the bottom half of the
6 schedule the 6.69% figure, it's the one in the box
7 would change to 6.90%. Schedule 9, delete the
8 information under the column for "water". And lastly
9 on Schedule 14, the bottom group of figures, where it
10 says "overrecovery of rate case expense." That would
11 be deleted under both the water and the wastewater
12 column.

13 Q So that entire section is gone?

14 A Yes.

15 Q Ms. Dismukes, if I were to ask you the same
16 questions posed in your prefile direct testimony,
17 would your answers be the same as you have outlined
18 here today, as prefiled and as amended today?

19 A Yes.

20 Q And would you continue to sponsor your
21 exhibits as amended today?

22 A Yes.

23 MR. REILLY: At this time I would move
24 Ms. Dismukes' prefiled testimony to be inserted into
25 the record as though read, and that her composite

1 exhibit be assigned a number for identification
2 purposes.

3 **MR. SCHIEFELBEIN:** Excuse me. I would like
4 to conduct some very limited voir dire before we do
5 that.

6 **COMMISSIONER DEASON:** You may proceed.

7 **VOIR DIRE EXAMINATION**

8 **BY MR. SCHIEFELBEIN:**

9 **Q** Ms. Dismukes, as part of your prefiled
10 testimony you endorse certain aspects of the audit
11 report pertaining to the spray field and the RIB site;
12 is that correct?

13 **A** The Staff Audit Report, yes.

14 **Q** Okay. Do you have any professional
15 experience in the land appraisal field?

16 **A** No.

17 **Q** Do you have any educational experience in
18 the land appraisal field?

19 **A** No.

20 **MR. SCHIEFELBEIN:** That concludes my voir
21 dire.

22 **COMMISSIONER DEASON:** You renew your motion
23 to have the testimony inserted?

24 **MR. REILLY:** I do renew that motion.

25 **COMMISSIONER DEASON:** Is there an objection?

1 **MR. REILLY:** And I would suggest if the
2 Commission decides that for whatever reason this
3 appraisal is not found to be reliable, that
4 Ms. Dismukes be allowed to propose alternative means
5 to provide a regulatory treatment to these.

6 **COMMISSIONER DEASON:** Is there an objection
7 to having the testimony inserted?

8 **MR. SCHIEFELBEIN:** I had earlier mentioned
9 under ideal circumstances that we might have taken the
10 witnesses out of order. Basically we have here
11 Ms. Dismukes' endorsement in very summary fashion of
12 Audit Disclosure 1 and Audit Exception 1 relative to
13 two parcels of land.

14 Now, in my cross examination and my voir
15 dire of various other witnesses on this I expect to
16 show that those witnesses, which Ms. Dismukes has
17 endorsed, do not have the proper credentials to reach
18 the expert opinions that they offer specifically as
19 expert witnesses. And further, that they have not
20 examined the underlying data necessary to support an
21 expert opinion.

22 Basically I think the most expedient way to
23 do this, not to turn this into a lawyer's puzzle, is
24 that if I'm able to establish that Mr. Dodrill's and
25 Mr. Sapp's testimony is inadmissible on these issues,

1 then I would ask that these portions of Ms. Dismukes'
2 testimony be received subject to a later motion to
3 strike.

4 **COMMISSIONER DEASON:** Mr. Reilly.

5 **MR. REILLY:** I honestly do not object to
6 that procedure. I think this testimony is -- relates
7 to that other testimony. And if that testimony fails,
8 then necessarily this recommendation would fail. So I
9 honestly don't know that I would oppose that proposal.

10 **MR. SCHIEFELBEIN:** That's all I'm trying to
11 do.

12 **COMMISSIONER KIESLING:** May I inquire about
13 one aspect? And that would be, would it be more
14 appropriate to just recognize that if the underlying
15 testimony upon which Ms. Dismukes relies is not
16 admissible, then no weight could be given to her
17 opinion because it would be baseless.

18 **MR. REILLY:** It's mooted.

19 **COMMISSIONER KIESLING:** As opposed to going
20 through a motion to strike, etcetera.

21 **MR. SCHIEFELBEIN:** Commissioner Kiesling, I
22 would accept that that procedure as well.

23 **COMMISSIONER DEASON:** Very well. Given the
24 discussion and the objection that has been made and
25 the circumstances, I'm going to allow the testimony to

1 be inserted into the record. And as Commissioner
2 Kiesling indicated, the cross examination of witnesses
3 yet to follow may have a bearing on the testimony of
4 Ms. Dismukes to the extent she accepts matters that
5 are the subject of other persons' testimony.

6 **MR. SCHIEFELBEIN:** Thank you. Okay.

7 **COMMISSIONER DEASON:** Okay. The testimony
8 has been inserted. We need to identify her exhibit.
9 Is that correct?

10 **MR. REILLY:** That's correct.

11 **COMMISSIONER DEASON:** Composite Exhibit

12 No. 26.

13 (Exhibit No. 26 marked for identification.)
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25

1 TESTIMONY
2 OF
3 KIMBERLY H. DISMUKES
4

5 On Behalf of the
6 Florida Office of the Public Counsel
7

8 Before the
9 FLORIDA PUBLIC SERVICE COMMISSION
10

11 Docket No. 951056-WS
12

13 Q. What is your name and address?

14 A. Kimberly H. Dismukes, 5688 Forsythia Avenue, Baton Rouge, Louisiana 70808.

15 Q. By whom and in what capacity are you employed?

16 A. I am a self-employed consultant in the field of public utility regulation. I have been
17 retained by the Office of the Public Counsel (OPC), on behalf of the Citizens of the
18 State of Florida, to analyze Palm Coast Utility Corporation's (PCUC or the
19 Company) rate filing in the instant docket.

20 Q. Do you have an appendix that describes your qualifications in regulation?

21 A. Yes. Appendix I, attached to my testimony, was prepared for this purpose.

22 Q. Do you have an exhibit in support of your testimony?

23 A. Yes. Exhibit 26 (KHD-1) contains 16 schedules that support my testimony.

24 Q. What is the purpose of your testimony?

25 A. The purpose of my testimony is to respond to Palm Coast Utility Corporation's
26 request to increase water rates by \$1,479,626 and wastewater rates by \$1,575,817.

1 My testimony is organized into five sections. In the first section of my testimony, I
2 summarize my recommendations. In the second section, I address adjustments to the
3 Company's proposed cost of capital. In the third section of my testimony, I address
4 adjustments to test year revenue. In the fourth section of my testimony, I discuss
5 certain expense adjustments. In the fifth section, I address adjustments to the
6 Company's proposed rate base.

7 **I. Summary of Recommendations**

8 Q. Would you please summarize your recommendations?

9 A. Yes. Schedule 1 summarizes the adjustments that I propose and shows the revenue
10 requirement impact of each adjustment. As shown, the adjustments that I
11 recommend reduce the Company's revenue requirement by \$2,471,765. I would note
12 that I have not incorporated the used and useful recommendations of Mr. Bidy, due
13 to time constraints. If his recommendations were incorporated, it would further
14 decrease the Company's requested rate increase.

15 **II. Cost of Capital**

16 Q. What adjustments do you recommend concerning the Company's capital structure
17 and overall cost of capital?

18 A. I have proposed four adjustments to the Company's cost of capital. The first
19 adjustment, shown on Schedule 2, increases the amount of zero cost investment tax
20 credits included in the Company's proposed capital structure by \$125,569. In the
21 Company's last rate case, Order No. 22843, the Commission found:

1 PCUC failed to claim any ITCs on certain additions that were
2 transferred from CWIP to plant in service.

3
4 If the ITCs had been realized by the utility or its parent, they would
5 have been included in the utility's capital structure at zero cost and
6 amortized below-the-line. This would have had the effect of reducing
7 the utility's overall rate of return.

8
9 Since it was through its own error that the utility did not realize the
10 benefits of the ITCs, we do not believe that the ratepayers should bear
11 the additional costs. We find, therefore, that the ITCs should be
12 imputed to PCUC's capital structure.

13
14 Based upon the evidence and discussion above, we find that a net
15 accumulated ITC balance of \$185,050 on a thirteen month average
16 basis should be imputed on PCUC's capital structure. [P. 45.]

17 Consistent with the Commission's decision in the Company's last rate case, I have
18 calculated the amount of ITCs that should be imputed to PCUC's capital structure.
19 As shown on Schedule 2, this amounts to \$125,569.

20 Q. What is the next adjustment that you propose?

21 A. The next adjustment that I recommend concerns CIAC that I believe should be

1 included in the Company's capital structure as cost-free funds. As shown on Schedule
2 3, I compared the Company's non-used and useful plant to non-used and useful
3 CIAC. For the water operations, there is no excess non-used and useful CIAC when
4 compared to the balance of non-used and useful plant in service. However, for the
5 wastewater operations, there is a significant amount of excess non-used and useful
6 CIAC compared to non-used and useful plant. Comparing the Company's year-end
7 balance of non-used and useful plant of \$13,246,623 to non-used and useful CIAC
8 of \$32,399,663 indicates that the Company has \$19,153,040 of CIAC that exceeds
9 its balance of non-used and useful plant. Subtracting the CIAC cash held in trust,
10 which apparently is not available for use by PCUC, the net amount of CIAC in
11 excess of non-used and useful plant is \$11,028,664. I recommend that the
12 Commission include this excess CIAC in the Company's capital structure as a source
13 of cost-free capital.

14 Q. Did not the Commission reject this argument in the Company's last rate case?

15 A. Yes, it did. The Commission rejected the adjustment based upon three findings. First,
16 the Commission found that the amount of CIAC held in trust should be offset against
17 the CIAC balance for an appropriate comparison. As indicated above, I have offset
18 the amount of excess CIAC with the CIAC held in trust.

19
20 Second, the Commission found that the combined water and wastewater rate base
21 total requested by PCUC, which was \$16,103,845, was less than PCUC's reported

1 capital structure of \$28,383,746. Based upon this finding the Commission concluded
2 that PCUC has a significant investment in non-used and useful plant. I made a
3 similar comparison for purposes of the instant case. As depicted on Schedule 4, I
4 compared the rate base and total capital from Docket No. 951056 and Docket No.
5 890277 to the total rate base in these two cases. As shown, the rate base in the instant
6 docket is \$37,359,642 compared to the total capital of \$39,453,807. This compares
7 to the prior docket where the Company's total rate base was \$16,103,845 and its total
8 capital was \$28,383,746. What is evident from this comparison is that while the
9 Company increased its rate base by \$21,255,797, it only increased its total capital by
10 \$11,070,061. This suggests that PCUC did not use investor supplied capital to fund
11 approximately \$10,185,736 of plant investments. Instead, it used the funds collected
12 from customers in the form of prepaid CIAC to fund these investments. Since the
13 Company has not made an investment in this plant, it would only be appropriate for
14 the Commission to include in PCUC's capital structure the cost-free funds used to
15 finance this additional investment. It is interesting that the rate base not funded by
16 capital of \$10,185,736 shown on Schedule 4 is about the same as the cost-free excess
17 CIAC of \$11,028,664 depicted on Schedule 3.

18
19 To further evaluate this issue, I examined the total amount of non-used and useful
20 plant and the total amount of non-used and useful CIAC compared to the net income
21 generated by the Company's non-used and useful plant. In theory, the income

1 received by the Company on its non-used and useful plant should approximate a
2 normal return. However, if the return is in excess of a normal return, one can
3 reasonably conclude that the Company has not properly accounted for its non-used
4 and useful assets, liabilities and related income. As shown on Schedule 5, the
5 Company is earning excess of a normal return on its non-used and useful plant,
6 because once non-used and useful CIAC is taken into consideration, the Company
7 has no net investment in non-used and useful assets. As shown on Schedule 5, the
8 Company has a negative investment of \$10,550,236 in non-used and useful assets.
9 My calculation of the net income received by PCUC on its non-used and useful
10 assets is \$465,636. Since PCUC has no non-used and useful assets that are not
11 funded by prepaid CIAC, all profits earned on these negative assets are a windfall
12 profit to stockholders.

13
14 Third, the Commission rejected a recommendation, similar to the one that I propose
15 in the instant proceeding, because there was no precedent for treating prepaid CIAC
16 as cost free capital. While true, this should not deter the Commission from making
17 the adjustment that I propose. The facts of this case show that PCUC has used
18 prepaid CIAC to fund used and useful plant investment. As such, the Commission
19 should include these funds in the Company's capital structure. Furthermore, while the
20 Commission has not made this adjustment in the past, PCUC is a unique utility that
21 has substantial amounts of non-used and useful plant, non-used and useful CIAC, and

1 several mechanisms to provide it with a return on its non-used and useful
2 investments.

3

4 Accordingly, for the reasons discussed above, I recommend that the Commission
5 include in the Company's capital structure cost-free CIAC in the amount of
6 \$11,028,664.

7 ~~Q. What is the third adjustment that you recommend concerning the Company's cost of
8 capital?~~

9 ~~A. The third adjustment that I recommend relates to another adjustment made by the
10 Commission in PCUC's last rate case. In that case, the Commission found that the
11 Company failed to take accelerated depreciation on its tax returns due to purposes
12 that served PCUC's parent company. In Order No. 22843, the Commission found:~~

13 ~~Notwithstanding the above, we believe that a prudent utility should
14 attempt to provide the best possible service at the lowest possible
15 cost. This includes paying the least amount of tax legally possible.~~

16 ~~Based upon this as well as other issues, we find that there has been a
17 pattern, on PCUC's part, of not taking the cost of service into
18 consideration when determining its tax policies. We believe that it is
19 appropriate to send a signal to PCUC. Accordingly, we find it
20 appropriate to assess an equity penalty of 50 basis points against~~

21 ~~PCUC for its failure to take the interests of its ratepayers into~~

1 ~~consideration when determining its tax policies. [P. 48.]~~

2 Consistent with the Commission's decision in PCUC's last case, I have reduced the

3 Company's requested cost of equity by 50 basis points. As shown on Schedule 2, this

4 ~~reduces the Company's requested cost of equity from 11.10% to 10.60%.~~

5 Q. What is the fourth adjustment that you recommend?

6 A. My fourth adjustment relates to the Company's treatment of customer deposits. In

7 reconciling the Company's capital to rate base, PCUC reconciled, or reduced

8 customer deposits. This is an inappropriate adjustment since all customer deposits

9 support current plant in service. Accordingly, when developing my overall capital

10 structure and cost of capital, I included 100% of the Company's customer deposits

11 in the reconciled capital structure.

12

13 As shown on Schedule 2, the cost of capital that I recommend is ~~6.90%~~ ^{6.90%}. This

14 compares to the Company's requested cost of capital of 8.84%. As shown on

15 Schedule 6, the revenue requirement impact of my recommended cost of capital

16 reduces the Company's water revenue requirement by \$769,049 and the wastewater

17 revenue requirement by \$578,045.

18 **III. Revenue Adjustments**

19 Q. What adjustments do you propose to the Company's revenue?

20 A. I am proposing several adjustments to test year revenue. The first set of adjustments

21 is depicted on Schedule 7. As shown, I am recommending that the Commission

1 increase test year revenue by \$52,772 for the Company water operations and by
2 \$54,857 for its wastewater operations. The adjustments that I recommend relate to
3 two items. The first, concerns the income earned by PCUC for services (operation
4 and maintenance) rendered to one water system and three wastewater systems which
5 are not owned by PCUC. The Company provides operations and maintenance
6 services for these plants and records the associated income below the line for
7 ratemaking purposes. It is not clear if the same individuals that perform operations
8 and maintenance expenses for the Company also perform the services for these other
9 plants, but it would seem reasonable that they would. While the Company has
10 reduced the revenue received from these plants by the expenses incurred by the
11 Company, it is not clear if the related expenses have been removed or credited to the
12 appropriate accounts in the instant rate proceeding. In addition, it is not clear if the
13 expenses charged for rendering services to these plants includes administrative and
14 general expenses and other overhead costs which should properly be allocated to
15 them. Since these services appear to be provided as a utility function of PCUC, I
16 have included the income above the line for ratemaking purposes. I would note that
17 there is still discovery outstanding on this issue. If necessary, I will modify my
18 testimony based upon the Company's responses to OPC's discovery.

19
20 The next adjustment relates to revenue received from Aqua Tech Utility Services
21 Corporation--a wholly owned subsidiary of PCUC. During 1995 PCUC recorded

1 \$50,365 of revenue below the line associated with Aqua Tech Utility Services. It is
2 not clear what services this company provides or to whom. The Company did not
3 reveal in its MFRs that the subsidiary even existed. Since the Company has not
4 explained the purpose of this subsidiary and how it relates to PCUC, I have included
5 above the line for ratemaking purposes the revenue received from this subsidiary. As
6 shown on Schedule 7, I recommend increasing test year revenue by \$50,365. I would
7 also note that there is discovery outstanding on this issue. I will update my testimony
8 accordingly, if necessary.

9
10 The next group of revenue adjustments that I recommend is reflected on Schedule 8.
11 This schedule merely updates the Company's miscellaneous service revenues as
12 budgeted for the projected test year to actual. As shown, the adjustments that I
13 recommend increase test year water revenue by \$5,174 and wastewater revenue by
14 \$5,197.

15
16 Schedule 9 shows the next group of revenue adjustments that I recommend. As
17 shown, my adjustment ~~increase test year water revenue by \$33,023 and~~ wastewater
18 revenue by \$195,640, which is the same figure the Company used in developing its
19 wastewater rates. My adjustment merely moves this revenue into the determination
20 of PCUC's revenue requirement.

21

1 The first adjustment relates to the Hammock Dunes community. According to the
2 Company, Hammock Dunes flushed their lines often, but this frequency is not
3 expected to continue into the future. Accordingly, PCUC reduced test year
4 consumption for this customer by 39,681,000 gallons. I reviewed the Company's
5 expenses associated with flushing the lines for Hammock Dunes in 1995 and did not
6 see an appreciable decline compared to 1994. In addition, the actual consumption
7 during 1995 was 83,796,400 gallons--only slightly less than experienced in the past.
8 Accordingly, I recommend that the Commission not reduce the level of consumption
9 as requested by the Company, but instead use actual test year consumption. As
10 shown, I recommend that the Commission increase test year revenue by \$33,024.

11
12 The second adjustment relates to reuse revenue that the Company expects to receive
13 in the future. As shown on Schedule 9, I have increased test year revenue by
14 \$195,640.

15 **IV. Expense Adjustments**

16 Q. What adjustments to expenses are you proposing?

17 A. The adjustments that I recommend are presented on Schedules 10 through 16.
18 Schedule 10 summarizes the adjustments that I recommend concerning the non-used
19 and useful portion of the Company's operation and maintenance (O&M) expenses
20 and administrative and general expenses. As shown on Schedule 10, I recommend
21 that the Commission reduce test year water expenses by \$58,783 for non-used and

1 useful expenses. With respect to the Company's wastewater operations I recommend
2 that the Commission reduce test year expenses by an additional \$37,804 associated
3 with non-used and useful O&M expenses.

4
5 The details of how I calculated my recommended used and useful percentages
6 compared to the Company's percentages are depicted on Schedule 11. With respect
7 to the Water Distribution expenses and Wastewater Collection expenses, the
8 difference between my recommendation and that of the Company's relates to margin
9 reserve. Consistent with my recommendations and that of Mr. Ted Bidy, I have
10 excluded margin reserve from the used and useful calculations for operation and
11 maintenance expenses.

12
13 With respect to Department 0770-Administrative, the Company estimated this
14 department's expenses to be 80% used and useful based upon interviews with
15 department personnel. In the Company's last rate case, this department's expenses
16 were determined to be only 19.31% used and useful. The difference between the
17 instant case and the prior case relates to the method used to determine used and
18 useful. In the prior case the Company used the average ERCs to total lots to calculate
19 the percentage of this department's costs that should be considered used and useful.
20 However, in the instant case it was based upon an interview. There is considerable
21 difference between the last case and the instant case that is not adequately explained.

1 For purposes of developing my recommended used and useful percentages, I used a
2 factor weighted 50% based upon the used and useful percentage of collection and
3 distribution lines and 50% based upon the Company's 80% interview estimate. As
4 shown on Schedule 11, my recommended used and useful percentage is 65.30%
5 compared to the Company's of 80%.

6
7 Concerning Department 0771-Controller, the Company has several different used and
8 useful percentages. For the VP Finance the Company used 80% based upon an
9 interview. For the reasons cited above, I recommend a used and useful percentage
10 of 65.30%. (I would note that in the last case, the Company used connected to
11 available lots as the method to determine used and useful for this position.) For the
12 Executive Secretary, the Company determined the used and useful percentage to be
13 90% based upon interviews. My recommendation uses a weighted average factor
14 consisting of 50% of used and useful lines and 50% of the 90% used by PCUC. As
15 shown, my used and useful percentage is 70.30%. For the position Assistant
16 Controller the Company determined that 80% of these expenses were used and
17 useful. I am recommending a used and useful percentage of 65.30% for the reasons
18 cited above. For the G/L Bookkeeper the Company estimated the used and useful
19 percentage to be 90%. I recommend a used and useful percentage of 70.30% for the
20 reasons given above.

21

1 The next Department is 0772-Engineering. There are only two differences between
2 the used and useful percentage used by the Company and the one that I recommend.
3 These relate to the Senior VP Engineering & Field Operations and
4 Operation/Engineering Administration. The Company's used and useful percentage
5 is based upon the composite for departments 0751, 0752, 0753, 0754, 0755, 0761,
6 0762, 0763, and 0772, which results in a used and useful percentage of 93.72%. I
7 have used the same methodology employed by the Company, but substituted my
8 used and useful recommendations to develop the composite for the departments
9 listed. My recommended used and useful percentage is 93.25% compared to the
10 Company's of 93.72%.

11

12 With respect to Department 0777-Purchasing and Safety, the Company used a
13 composite used and useful percentage based upon departments 0751, 0752, 0753,
14 0754, 0755, 0761, 0762, and 0763, which results in a used and useful percentage of
15 93.39% for the purchasing coordinator. I have used the same methodology employed
16 by the Company, but substituted my used and useful recommendations to develop
17 the composite for the departments listed. My recommended used and useful
18 percentage is 92.90%.

19

20 For Department 0778-Inventory Control, the Company used a composite based upon
21 departments 0753 and 0763. The result is a used and useful percentage of 78.62%.

1 I used the same methodology, substituting my used and useful percentage for these
2 departments which yields a used and useful percentage of 77.01%.

3

4 Although not reflected on this schedule, the Company assumed that personnel
5 services were 100% used and useful. I have used a composite used and useful
6 percentage of 90.61% based upon the total of all expenses excluding personnel
7 services. The Company's rationale is that the cost of personnel services would not
8 change even if only used and useful personnel were served. Accordingly, PCUC
9 assumed that Department 0775 is 100% used and useful. As shown on Schedule 10,
10 I disagree with the Company and believe that it would be more appropriate to
11 determine the percentage of used and useful based upon a composite of all other
12 departments. This is consistent with many cost allocation procedures where it is not
13 possible to develop an independent allocation formula. Accordingly, as shown on
14 Schedule 10, I recommend that the Commission remove 9.39% of these expenses as
15 non-used and useful.

16

17 I would note that at this time, my recommendations do not include the non-used and
18 useful plant recommendations of Mr. Ted Bidy, due to time constraints. If these
19 recommendations were incorporated, the adjustments that I propose would be larger.
20 Also, with the exceptions noted, I have used the same methodology employed by the
21 Company to develop my used and useful O&M recommendations.

1 Q. What is the next expense adjustment that you recommend?

2 A. The next adjustment that I propose is shown on Schedule 12. The Company included
3 in test year expenses the full cost of employee relations services that were provided
4 by ITT Industries (ITT) during the historic and budgeted 1995 test year. This is a new
5 service which was not previously provided by ITT, but the Company. While I do not
6 dispute the amount charged by ITT, the Company did not remove other expenses in
7 the account personnel services that will not or should not recur because of the change
8 over in providing this service. As shown on Schedule 12, I have removed the non-
9 recurring expenses that were incurred by PCUC during the first half of 1995. The
10 adjustment that I recommend reduces test year water expenses by \$9,246 and
11 wastewater expenses by \$6,260.

12 Q. What is the next adjustment that you propose?

13 A. The next adjustment is shown on Schedule 13. I am recommending that the
14 Commission remove from test year expenses \$21,201 for expenses charged from the
15 parent company, ITT. The Company has included in test year expenses a contract
16 service charge from ITT. According to the Company this cost is for administrative
17 services and advice. The amount charged to subsidiaries of ITT range from .25% of
18 revenue to 1.0% of revenue. The charge to PCUC is .25% of revenue. In my opinion,
19 the Company has not justified the amount of the fee nor the method used to allocate
20 the fee. In response to OPC's interrogatory 51, the Company refused to provide the
21 amount of this fee charged to the other subsidiaries of ITT. Likewise, it refused to

1 provide the number of employees of the other subsidiaries of ITT. This information
2 was requested to test the reasonableness of the allocation method used by ITT. Since
3 PCUC has not justified the expense and refused to provide information that would
4 allow me to test the reasonableness of the expense, I do not believe that the
5 Commission should approve this charge. The Company has provided no information
6 concerning the types of services provided, if any. Accordingly, I recommend that the
7 Commission remove from test year expenses \$21,201.

8
9 The next adjustment shown on Schedule 13 relates to affiliate charges from ITT
10 Community Development Corporation (ICDC). During 1995 ICDC began providing
11 accounts payable processing services to PCUC. This function was apparently
12 previously provided by the Company. The Company provided no justification for the
13 change, other than a cryptic memo saying that "Per agreement between Jim Perry of
14 PCUC and myself there will be [a] monthly fee of \$1000 for accounting services
15 provided to PCUC." The Company provided no information concerning how the fee
16 was determined or that it is cost-effective for ICDC to provide this service. In the
17 absence of supporting documents, I recommend that the Commission disallow the
18 expense of \$10,564.

19
20 As shown on Schedule 13, after considering used and useful, my recommendation
21 for these two adjustments, reduces test year water expenses by \$12,369 and

1 wastewater expenses by \$8,374.

2 Q. Would you describe the adjustments on Schedule 14

3 A. Yes. Schedule 14 consists of several adjustments recommended by the Commission's
4 Staff Auditors in their audit of the Company's books and records. Included on
5 Schedule 14 are those adjustments where the auditors' reasoning was persuasive and
6 I agree with the proposed adjustment. With respect to expense adjustments, I
7 recommend that O&M water expenses be reduced by \$4,098 and wastewater
8 expenses be increased by \$585, for the reasons cited on Schedule 14 and the reasons
9 given by the Staff's Auditors. These adjustments relate to expenses that were either
10 not supported by the Company, relate to lobbying activities, and legal fees associated
11 with the divestiture of PCUC. None of these expenses should be recovered from
12 ratepayers.

13

14 ~~The next adjustment on Schedule 14 that I recommend relates to rate case expense.~~

15 ~~According to the Staff Auditors the Company failed to reduce its rates consistent~~
16 ~~with Section 367.0816 of the Florida Statutes which provides that utilities are to~~
17 ~~reduce their rates at the conclusion of the recovery period (for rate case expense) by~~
18 ~~the amount of rate case expense previously included in rates.~~

19

20 ~~To ensure that customers receive the benefit of the rate reduction that they did not~~
21 ~~receive, I calculated the amount by which current rate case expense should be~~

1 ~~reduced to recognize this over recovery. In my opinion, this provides a reasonable~~
2 ~~means by which the Commission can return to ratepayers the amount of rate case~~
3 ~~expense over recovered by the Company. I determined the amount of over recovery~~
4 ~~by first determining the annual expense included in customers rates of \$101,892. I~~
5 ~~divided this amount by 12 to determine the monthly amount included in rates. Next~~
6 ~~I multiplied the number of months (40) the Company collected or will collect rate~~
7 ~~case expense to which it is not entitled. As shown on Schedule 14, this amounts to~~
8 ~~\$339,641. I divided this amount by four to determine the amount by which current~~
9 ~~rate case expenses amortization should be reduced. As shown on this schedule, rate~~
10 ~~case expense amortization should be reduced by \$84,910.~~

11 Q. What is the adjustment depicted on Schedule 15?

12 A. Schedule 15 reflects the revenue requirement impact of my recommendation to
13 calculate the Company's test year income taxes using a 34% federal tax rate as
14 opposed to a 35% federal tax rate. The Company has not explained why it used a
15 35% tax rate, but it may relate to the fact that PCUC files a consolidated return with
16 its parent company ITT. While ITT's federal income tax rate may be 35%, the
17 Company's income taxes for book and ratemaking purposes are calculated on a stand
18 alone basis. The income generated by PCUC would only be taxed at the federal
19 income tax rate of 34%, not the 35% suggested by PCUC. The impact of my
20 recommendation is reflected on Schedule 15. As shown my recommendation reduces
21 the Company's water revenue requirement by \$22,395 and its wastewater revenue

1 requirement by \$23,858.

2 Q. Would you please describe the miscellaneous adjustments shown on Schedule 16?

3 A. Yes. The first adjustment removes from test year expenses \$36,981 associated with
4 rental expenses that apparently will not recur in the future. According to the
5 Company's response to OPC's interrogatory 63, with respect to account 741 rental of
6 building/real property, the agreement for rent expired in June 1995 and no expenses
7 were projected for July through December 1995. Since this expense will not recur
8 in the future, I removed from test year expenses the amount expensed during the
9 months of January through June 1995.

10

11 The second adjustment removes from test year expenses chamber of commerce dues
12 paid by PCUC in 1995 of \$828. In past proceedings the Commission has disallowed
13 chamber of commerce membership dues. For example, in Docket No. 810002-EU,
14 the Commission stated as follows concerning chamber of commerce dues:

15 ...it is our opinion that these dues serve to improve the image
16 of the Company, with direct benefits accruing to the
17 stockholders of the Company and with no benefits being
18 received by ratepayers. [Florida Public Service Commission,
19 Order No. 10306, p. 27.]

20 In addition, in the Commission's Order concerning Southern States Utilities, Inc. in
21 Docket No. 920199-WS, the Commission confirmed its policy to disallow chamber

1 of commerce dues and related expenses. I recommend that the Commission continue
2 with its policy of not recovering these costs from ratepayers and disallow \$541 of
3 used and useful expenses included in the test year.

4
5 In the next adjustment, I recommend that the Commission reduce test year legal
6 expenses by \$6,100 to reflect the fact that these expenses are non-recurring.
7 According to the Company's response to OPC's interrogatory 1, the Company
8 incurred \$9,342 in legal fees associated in defense of a lawsuit filed by Ferguson
9 Enterprises. The description of this lawsuit indicates that the costs will not recur in
10 the future. Accordingly, I have reduced test year expenses by \$6,100.

11 **V. Rate Base Adjustments**

12 Q. What rate base adjustments do you recommend?

13 A. I am recommending several adjustments. The first group of adjustments, depicted
14 on Schedule 14, relates to the adjustments and recommendations of the Commission's
15 Staff Auditors. As indicated above, I have found the Auditors' reasoning for these
16 adjustments to be persuasive and I agree with their rationale. Accordingly, I have
17 included their recommendations concerning rate base adjustments on Schedule 14.

18
19 The first adjustment reduces the cost of land and a buffer site purchased by PCUC
20 from ICDC. According to the Staff's Audit, the purchase price of the land and buffer
21 zone should be reduced by \$404,770.

1 The next adjustment is similar and related to the cost of land associated with a
2 sprayfield. The cost of this land should be reduced by \$268,509.

3

4 The third adjustment relates to the reclassification of the Rapid Infiltration Basin
5 (RIB) site and the change in depreciation associated with the change in classification.

6 If this cost is reclassified, depreciation expense should be reduced by \$34,270 and
7 accumulated depreciation should likewise be reduced by \$34,270.

8

9 The final rate base adjustment on this schedule reduces the cost of water plant in
10 service by \$548,416 and wastewater plant in service by \$504,537. According to the
11 Staff's Audit, the Company capitalized some rehabilitation costs which should have
12 been expensed. Accordingly, I have reduced plant in service by the amount indicated
13 in the Audit. Additional adjustments for depreciation expense and accumulated
14 depreciation should also be made.

15 Q. Did you make any adjustments to general plant?

16 A. Yes. Consistent with the Commission's decision in the Company's last rate case I
17 adjusted general plant accounts structures and improvements and office furniture and
18 equipment for their non-used and useful nature. In the Company's two previous rate
19 cases, the Company and the Commission both adjusted these accounts using the non-
20 used and useful factors associated with administrative and general expenses. As
21 shown on Schedule 10, my recommended non-used and useful percentage for

1 administrative and general expenses is 13.20%. Using this factor I reduced general
2 water plant by \$121,150 and general wastewater plant by \$122,167. The associated
3 reductions to accumulated depreciation and depreciation expense are also reflected
4 on Schedule 10.

5 Q. Do you have any other recommendations concerning rate base issues that you would
6 like to address?

7 A. Yes. Although I have not performed the calculations associated with my
8 recommendation due to time constraints, I recommend that the Commission not
9 include a margin reserve in the Company's used and useful calculations. In my
10 opinion, it is not appropriate to include margin reserve in the used and useful
11 calculations. Margin reserve represents capacity required to serve future customers,
12 not current customers.

13
14 The inclusion of a margin reserve to account for future customers above and beyond
15 the future test year level represents investment that will not be used and useful in
16 serving current customers. If the Commission includes margin reserve in the used
17 and useful calculations this will result in current ratepayers paying for plant that will
18 be used to serve future customers. This causes an intergenerational inequity between
19 ratepayers. If no margin reserve is allowed, the Company will still be compensated
20 for the prudent cost of its plant with Allowance for Prudently Invested Funds (AFPI)
21 or guaranteed revenue.

1 Q. If the Commission agrees with you, will PCUC be harmed?

2 A. Not if the plant was prudently constructed. The Company earns guaranteed revenue
3 on its non-used and useful plant. In addition, if the plant was prudently constructed
4 the Company would be permitted to accrue AFPI on plant that is not used and
5 useful. The Commission established AFPI for the very purpose of protecting utilities
6 from under recovering the cost of plant that is not used and useful, but was prudently
7 constructed. Consequently, if the Commission does not grant the Company's request
8 to include margin reserve in the used and useful calculations, PCUC could recover
9 the carrying costs associated with the assets that are currently considered non-used
10 and useful through the AFPI charges at some point in the future, through guaranteed
11 revenue, and through non-used and useful compensation received from ICDC.

12 Q. If the Commission decides that margin reserve should be included in the used and
13 useful calculations, should a corresponding adjustment be made to CIAC?

14 A. Yes. If margin reserve is included in the used-and-useful calculations, then, to
15 achieve a proper matching, an amount of CIAC equivalent to the number of
16 equivalent residential connections (ERCs) represented by the margin reserve should
17 be reflected in rate base. This is especially important in this case because the
18 Company is adding the cost of additional capacity to serve future customers.
19 Because of this addition, the Company is proposing to increase its plant capacity
20 charges. In calculating the imputation of CIAC, the Commission should use the
21 final new capacity charges. The CIAC that will be collected from these future

1 customers would at least serve to mitigate the impact on the existing customers
2 resulting from requiring them to pay for plant that will be utilized to serve future
3 customers.

4 Q. What are the two next rate base adjustment that you recommend?

5 A. I recommend that the Commission include in rate base a negative working capital
6 requirement of \$799,493 for the Company's water operations and negative \$558,004
7 for the Company's wastewater operations. The Company has included in rate base a
8 substantial amount of net debit deferred taxes. The Company's negative working
9 capital should be used to offset these debit deferred taxes.

10

11 I also recommend that the Commission reduce the amount of net debit deferred taxes
12 included in rate base by \$218,090 for the water operations and by \$160,539^{FOR WASTEWATER} The
13 Company's requested net debit deferred taxes includes deferred taxes associated with
14 an extraordinary property loss. I believe this relates to the faulty plant installed by
15 ICDC that the Commission disallowed from rate base in the Company's last rate
16 proceeding. Accordingly, it would not be appropriate to include the associated
17 deferred taxes in rate base. These adjustments are reflected on Schedule 1.

18 Q. What is your final recommendation concerning rate base issues?

19 A. I recommend that the Commission use a 13-month average rate base for the
20 Company's water operations. The Commission's Rule 25-30.433 (4), F.A.C. requires
21 the use of a 13-month average rate base. The rule further allows that if an applicant

1 can show an unreasonable burden there may be some deviation from rule. The
2 Company has not demonstrated, with respect to its water operations, that there were
3 any unusual or extenuating circumstances or that there were major plant additions
4 added during the test year. Accordingly, the Commission should not approve the use
5 of a year-end rate base for PCUC's water plant.

6 Q. Do you have any final comments before you conclude your testimony?

7 A. Yes. There is still discovery outstanding on several issues and the Company has
8 objected to many of OPC's discovery. Once this discovery is received and the
9 objection resolved, it may be necessary to file supplemental testimony. In addition,
10 as stated elsewhere in my testimony, time constraints prevented me from quantifying
11 the recommendations of Mr. Bidy. I anticipate quantifying the revenue requirement
12 impact of his recommendations and providing updated testimony on this subject.

13 Q. Does this complete your direct testimony, prefiled on May 21, 1996?

14 A. Yes, it does.

15

1 Q (By Mr. Reilly) Ms. Dismukes, would you
2 like to provide a brief summary of your testimony.

3 A I don't have a prepared summary.

4 MR. REILLY: Then I tender Ms. Dismukes for
5 cross examination.

6 MR. SCHIEFELBEIN: No questions. Thank you.

7 COMMISSIONER DEASON: County, questions?

8 MR. SIRKIN: We have no questions.

9 MR. MELSON: No questions.

10 COMMISSIONER DEASON: Staff.

11 MR. EDMONDS: I have a few questions.

12 CROSS EXAMINATION

13 BY MR. EDMONDS:

14 Q If I could refer you to your direct
15 testimony, Pages 25 and 26.

16 A Okay.

17 Q I believe in there that you briefly discuss
18 your recommendation of a 13-month average rate base
19 for the Utility's water operations?

20 A Yes.

21 Q What is your recommendation with regard to
22 the wastewater operations?

23 A Essentially I'm not objecting to the
24 Utility's use of a year end rate base for their
25 wastewater operations. My preference is to always go

1 with a 13-month average rate base, but in this
2 particular instance they did add a substantial amount
3 of plant during the test year, so I used their year
4 end rate base, so I'm not objecting to the use of a
5 year end rate base for the water wastewater
6 operations.

7 Q Based on their addition of plant.

8 A That's correct. I believe in the test year
9 they added roughly five to \$7 million worth of plant.
10 However, for the water operations they were relatively
11 insignificant.

12 Q Now, in your experience would you consider a
13 13% increase in plant, or the 5% increase in customer
14 growth, extraordinary?

15 A No.

16 Q If I could turn your attention to the RIB
17 site, are you aware that Mr. Spano appraised the RIB
18 site land at its highest and best use?

19 A Yes.

20 Q From a ratemaking perspective, do you
21 believe that it's appropriate to value land
22 transactions between related parties at their highest
23 and best use, in this case residential development?

24 **MR. SCHIEFELBEIN:** Commissioners, if I might
25 object to the question. We've already established

1 that Ms. Dismukes has no expert credentials in the
2 area of land appraisal. The term "highest and best
3 use" is purely an appraisal field term. I don't think
4 it's a proper question given her lack of credentials
5 in that area.

6 **MR. EDMONDS:** I do not dispute that she
7 admitted she is not a land appraiser or an expert in
8 land appraisals. I was asking a question from a
9 ratemaking perspective.

10 **MR. SCHIEFELBEIN:** I don't think that -- by
11 adding that phrase I don't think that there's any
12 showing it's prohibitive under the Evidence Code for a
13 layman to give an expert opinion, and I think that
14 expert opinion necessarily would involve expert
15 credentials that this witness lacks.

16 **COMMISSIONER DEASON:** I'm going to allow the
17 question. I think that the nature of the objection
18 goes more to the weight that the Commission will place
19 on any response. I do realize that while she may be
20 lacking in the technical expertise of land appraisal
21 per se, that land appraisals routinely come before
22 regulatory agencies and that she may have some
23 experience as to whether a certain type of land
24 appraisal is better than another type of land
25 appraisal in making regulatory decisions. To that

1 extent I'll allow the question.

2 **WITNESS DISMUKES:** Could you repeat the
3 question?

4 **MR. EDMONDS:** Certainly.

5 **Q (By Mr. Edmonds)** From a ratemaking
6 perspective, do you believe it's appropriate to value
7 land transactions between related parties at their
8 highest and best use? In this case, residential
9 development?

10 **A** No.

11 **MR. EDMONDS:** That's all I have. Thank you.

12 **MR. SCHIEFELBEIN:** Could I have but one
13 minute?

14 **COMMISSIONER DEASON:** Sure. (Pause)

15 **MR. SCHIEFELBEIN:** Thank you for your
16 indulgence. No questions.

17 **COMMISSIONER DEASON:** Okay. Redirect.

18 **MR. REILLY:** No redirect.

19 **COMMISSIONER DEASON:** Exhibits.

20 **MR. REILLY:** We'd like to move the Composite
21 Exhibit No. 26.

22 **COMMISSIONER DEASON:** 26. Without
23 objection, Exhibit 26 is admitted. Thank you,
24 Ms. Dismukes.

25 **WITNESS DISMUKES:** Thank you.

1 (Exhibit No. 26 received in evidence.)

2 (Witness Dismukes excused.)

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4 **COMMISSIONER DEASON:** Let's review -- we're
5 going to take a lunch break here shortly. Let's look
6 at the Order of Witnesses once again.

7 Is it Staff's intent to call Witness Sapp?

8 **MR. EDMONDS:** I believe we could do Witness
9 Sapp after lunch, but I would request that if there is
10 no objection, that we go ahead and take Mr. Martin,
11 who is the DEP witness and who is present.

12 **COMMISSIONER DEASON:** Before we take a lunch
13 break?

14 **MR. EDMONDS:** I don't think he would take a
15 whole lot of time.

16

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17

JEFF MARTIN

18 was called as a witness on behalf of Staff of the
19 Public Service Commission and, having been duly sworn,
20 testified as follows:

21

DIRECT EXAMINATION

22 **BY MS. REYES:**

23 **Q** Mr. Martin, could you please state your name
24 and business address for the record?

25 **A** Okay.

1 Q I'm sorry. The witness hasn't been sworn
2 yet I don't believe.

3 A No, I haven't.

4 COMMISSIONER DEASON: Okay.

5 (Witness sworn.)

6 Q Now could you please go ahead and state your
7 name and business address for the record?

8 A My name is Jeff Martin. I work with the
9 Florida Department of Environmental Protection at 7825
10 Baymeadows Way, Jacksonville Florida.

11 Q And what is your position?

12 A Okay. Position title is a Professional
13 Engineer III, and I'm what they call a NPDES program
14 engineer.

15 Q Have you prefiled direct testimony in this
16 docket consisting of four pages?

17 A Yes, that's right.

18 Q Do you have any changes or corrections to
19 your testimony?

20 A No, I don't.

21 MS. REYES: Commissioner Deason, may we have
22 Mr. Martin's testimony inserted into the record as
23 though read.

24 COMMISSIONER DEASON: Without objection it
25 will be so inserted.

DIRECT TESTIMONY OF JEFF MARTIN

488
1 Q. Please state your name and business address.

2 A. My name is Jeff Martin and my business address is 7825 Baymeadows Way,
3 Suite 200B, Jacksonville, Florida, 32256.
4

5 Q. Please state a brief description of your educational background and
6 experience.

7 A. I have a Bachelor of Science degree in Civil Engineering and have taken
8 graduate level courses in civil and environmental engineering. In 1990, I
9 received my registration as a Professional Engineer.

10 I have been employed with the Florida Department of Environmental
11 Protection (FDEP) as an engineer in the Water Facilities program handling
12 compliance inspections and permitting for water and wastewater facilities.
13 I have worked for private and a public utilities in water, wastewater, and
14 natural gas areas. I have also worked as a designer for a wood products
15 manufacturing company.

16 Q. By whom are you presently employed?

17 A. The Florida Department of Environmental Protection.

18 Q. How long have you been employed with the Department of Environmental
19 Protection (DEP) and in what capacity?

20 A. I have been employed with the FDEP since 1987 in the Water Facilities
21 Program. I was originally hired as an Engineer I and now hold the position
22 of Professional Engineer III.

23 Q. What are your general responsibilities at the DEP?

24 A. Currently, I am a NPDES Program Engineer in the Water Facilities
25 Program. I coordinate and process permits for the industrial and domestic

1 waste programs. I also review technical documents and prepare inspection
2 schedules. I am also responsible for coordinating Geographical Information
3 System and Global Positioning System activities for mapping and data
4 acquisition.

5 Q. Are you familiar with Palm Coast Utility Corporation's wastewater system
6 in Flagler County?

7 A. Yes.

8 Q. Does the utility have current operating or construction permits from the
9 Department of Environmental Protection?

10 A. Yes.

11 Q. Please state the issuance dates and the expiration dates of the
12 operating or construction permits.

13 A. Permit DC18-244706 is a construction permit which was issued on June 1,
14 1994 and expires on June 1, 1996. Permit D018-244704 is an operating permit
15 which was issued on August 18, 1994 and expires on January 18, 1999. Permit
16 FLA011600 has been sent out as a notice of draft permit that will replace the
17 Permit D018-244704.

18 Q. Please state whether the permit is a temporary operating permit, and if
19 so, please describe the permit terms.

20 A. There are not any temporary operating permits.

21 Q. Are the plants in compliance with its permits?

22 A. Yes.

23 Q. Are the wastewater collection, treatment and disposal facilities
24 adequate to serve present customers based on permitted capacity?

25 A. Yes.

- 1 Q. Are the treatment and disposal facilities located in accordance with
2 Rule 62-600.400(2)(c), Florida Administrative Code?
- 3 A. Yes.
- 4 Q. Has the Department of Environmental Protection (DEP) required the
5 utility to take any action so as to minimize possible adverse effects
6 resulting from odors, noise, aerosol drift or lighting?
- 7 A. No.
- 8 Q. Do the pump stations and lift stations meet DEP requirements with
9 respect to location, reliability and safety?
- 10 A. Yes.
- 11 Q. Does the utility have certified operators as required by Chapter 61E12-
12 41, Florida Administrative Code?
- 13 A. Yes.
- 14 Q. Is the overall maintenance of the treatment, collection, and disposal
15 facilities satisfactory?
- 16 A. Yes.
- 17 Q. Does the facility meet all applicable technology based effluent
18 limitations (TBELS) and water quality based effluent limitations (WQBELS)?
- 19 A. Yes.
- 20 Q. Does the facility meet the effluent disposal requirements of Chapters
21 62-600 and 62-610, Florida Administrative Code?
- 22 A. Yes.
- 23 Q. Are the collection, treatment and disposal facilities in compliance with
24 all the other provisions of Title 62, Florida Administrative Code, not
25 previously mentioned?

1 | A. Yes.

2 | Q. Has the Palm Coast Utility Corporation wastewater system been the
3 | subject of any Department of Environmental Protection enforcement action
4 | within the past two years?

5 | A. No.

6 | Q. Do you have anything further to add?

7 | A. No.

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1 **Q** **(By Ms. Reyes)** Have you prepared a summary
2 of your testimony?

3 **A** No, I have not.

4 **MS. REYES:** This witness is tendered for
5 cross.

6 **MR. GATLIN:** No questions.

7 **MR. SIRKIN:** No questions.

8 **CROSS EXAMINATION**

9 **BY MR. REILLY:**

10 **Q** Just a few questions, Mr. Martin. Are you
11 familiar with PCUC's wastewater facility and
12 collection system? Have you been to this utility for
13 any inspections?

14 **A** Yes, I'm familiar with them, and I have been
15 there in the past for inspections.

16 **Q** Okay. In your testimony on Page 2, Lines 23
17 through 25 you agree that PCUC has adequate capacities
18 of wastewater collection system treatment and disposal
19 facilities to serve present customers; is that
20 correct?

21 **A** Yes.

22 **Q** And on Page 3, Lines 14 through 16 you also
23 agree that PCUC's overall maintenance of the
24 collection system, treatment and disposal facilities
25 is satisfactory. Is that also correct?

1 A Yes.

2 Q Are you familiar with the PEP system,
3 pretreatment effluent and pumping that PCUC has
4 installed in certain areas of Palm Coast?

5 A Yes.

6 Q Isn't it correct that the pretreatment
7 provided by the PEP system is an anaerobic process?

8 A Yes.

9 Q Do you know if the pretreated wastewater
10 from the PEP tank is acidic when it reaches lift
11 stations or gravity sewer lines?

12 A No, I'm not aware of any acidic -- I would
13 consider that to be normal type wastewater.

14 Q So you would not -- there's nothing in your
15 information that would tell you that the effluent
16 product from the PEP system causes any formation of
17 hydrogen sulfide which corrodes the collection system
18 in a way that is greater than normal, sewer and
19 gravity sewer lines?

20 A No, we haven't seen any reports of that or
21 complaints of that.

22 Q Have you ever even heard of this type of a
23 problem before?

24 A I'm not aware of that problem in other
25 systems.

1 Q In his rebuttal testimony Mr. Guastella
2 testified that PCUC has experienced wet weather
3 wastewater flow of 5 million gallons a day for a
4 21-day wet weather period. Are you familiar with that
5 testimony?

6 A I did not hear his testimony.

7 Q Do you have any idea what the average annual
8 daily flow of the wastewater treatment plant is?

9 A Okay, the last number I saw 2.3 million
10 gallons per day on an annual average.

11 Q 2.3?

12 A Yes.

13 Q If, in fact -- I'll just ask you
14 hypothetical, if, in fact, you became aware that the
15 wastewater flows during wet weather exceed 5 million
16 gallons a day, could you suggest what would cause this
17 flow increase?

18 A Okay. They can have -- if they have an
19 increase in flow like that it can be caused by what we
20 call inflow and infiltration, either in the collection
21 system or it could be collecting stormwater that could
22 raise a flow that high.

23 Q Do I understand correctly that stormwater
24 powering into manholes would be more characterized
25 from inflow?

1 A Yes.

2 Q And that the higher water table is more
3 associated with the infiltration?

4 A Yes.

5 Q And that the two, of course, can be related
6 to each other?

7 A Yes.

8 Q In wet weather?

9 A Yes.

10 Q Does the Department have any understanding,
11 has carried any studies as to what the level of inflow
12 and infiltration is being experienced in the Palm
13 Coast Utility system?

14 A Okay. Based on documents that the Utility
15 has sent to us, the best I can recall is that -- the
16 amount is within the normal range of what we would
17 expect on a utility system.

18 Q And what range would that be?

19 A Okay. Normally you're looking at
20 approximately, say, 120% beyond kind of a typical
21 flow.

22 Q So you're using what, a 20% allowance?

23 A Yes. That's kind of a normal range that we
24 look at. And from the reports we've seen, that's
25 typically what they would get looking at -- based on

1 an able basis. I was going to indicate it's possible
2 on a certain particular day of a year or certain storm
3 event you could have a much greater one-day flow
4 volume.

5 Q In assessing whether a system has excessive
6 inflow and infiltration, does the Department not
7 consider the length of the lines and the diameter of
8 those lines? Is there any standard that the DEP uses
9 to assess reasonable levels of I&I that would take
10 those factors into consideration?

11 A Okay. There are certain design standards
12 that are in place when the lines are put in. There's
13 a normal amount of inflow or leakage from a line. And
14 the number that I gave is kind of the typical
15 allowance that we would see on a typical system.

16 Q Are you familiar with the ten-state standard
17 of 200 gallons per day, per inch diameter, per mile of
18 pipe?

19 A Yes, I have seen that.

20 Q Is there any DEP policy in terms of the
21 utilization of this standard?

22 A Okay. We basically follow that for the
23 construction aspects of collection and transmission
24 lines when they do an initial testing on the
25 collection line or transmission line, that they need

1 to meet that standard. It's over a course of time
2 that may possibly be greater in the future.

3 Q In your testimony on Page 2, Line 13, you
4 mention the construction permit DC18-244706 was issued
5 to PCUC on June 1, 1996; is that correct -- no excuse
6 me June 1, 1994; is that correct?

7 A Yes.

8 Q We have a few questions about the effluent
9 disposal capacity permitted to PCUC by DEP. Can you
10 tell us what the total disposal capacity is for PCUC?

11 A Okay. On the current operation permit,
12 which was just issued, the current permitted capacity
13 is 3.35 and that permit included the construction of a
14 new RIB system. And when that is completed their
15 capacity would be 3.95.

16 Q Could you please identify the various
17 components of that capacity?

18 A Okay. Let me refer to their permit.

19 One existing site is a spray irrigation site
20 which we have as .6 MGD. The second site is a RIB
21 site. We have that as 1.0 MGD. We have another RIB
22 site as .75 MGD. We also identify Hammock Dunes as
23 receiving 1 million gallons per day on an annual
24 average basis. And then the new proposed RIB site
25 would be .6 MGD.

1 Q And when will that come into operation?

2 A Okay. This one can be constructed now.
3 Whenever they are finished with that then they can
4 proceed and use that one.

5 Q Now, these various permits that you're
6 referring to in these capacities, these are operating
7 permits or construction permits? Is there any
8 difference?

9 A Okay. The way that the permits are handled
10 now we have, with the new issued permit, we only have
11 one permit document, and any time there's a
12 construction activity or a modification of the permit,
13 we will modify the one permit document. So it's kind
14 of an all inclusive permit now.

15 Q But these levels that you've just identified
16 are the only levels they are permitted to operate
17 under at this time?

18 A Yes.

19 Q You're saying that would supersede any
20 construction permit capacity?

21 A Yes. The construction is included in this
22 permit. Their current permitted average flow is 3.35,
23 and after the construction of the new RIB it would be
24 3.95 and we've included that in the permit.

25 Q The numbers you gave me were very close to

1 the numbers that I had with the largest difference
2 being Hammock Dunes, which I had at 1.6 million
3 gallons a day, and you quoted as 1 million gallon a
4 day. Could you explain that difference?

5 A Okay. We have that permitted based on
6 the -- it's an annual average amount that they
7 actually have used for the past year. However, they
8 can have -- on a peak day we do allow them to have
9 1.6. However we're going to base that Dunes strictly
10 on the actual use of the Dunes facility there.

11 Q And the other difference I had was the new
12 12.5 acre RIB site?

13 A Okay.

14 Q The new RIB site you indicated was .75 and I
15 had it one million gallons a day. Could you explain
16 that that difference?

17 A Okay. That particular RIB was originally
18 permitted for 1 million gallons per day. However,
19 based on actual performance at the site, it has been
20 downrated to .75.

21 Q Okay.

22 Q Are you aware that PCUC has submitted an
23 application for limited wet weather effluent disposal?

24 A Yes, I am.

25 Q Could you describe your understanding of

1 that application and what it will provide, give them
2 authority to do?

3 A Okay. Under that application the Department
4 has a rule which can be used by facilities that have
5 existing reuse sites. By rule they are allowed to
6 apply for a limited wet weather discharge, and they
7 are allowed -- they can demonstrate in accordance with
8 certain items in the rule that they can discharge
9 effluent to a flowing stream on an average of 90 days
10 per year.

11 Q And this is during wet weather conditions
12 when they are having difficulty finding means of
13 disposal?

14 A Yes, that's right.

15 Q And what is this level of disposal permitted
16 for this 90-day period?

17 A Okay.

18 Q We actually have them report -- on a daily
19 basis they have to collect samples of the effluent,
20 and what we do is we require them to meet a certain
21 stream dilution factor based on the quality of the
22 water. And we basically allow a discharge based on a
23 per day basis.

24 Q What is the flow implications here? Is this
25 quantified in this report?

1 A They would have to report the daily flow --
2 actually the way the wet weather discharge rule is
3 written, we don't have a gallon per day maximum on
4 that discharge as long as they can still demonstrate
5 that they meet our dilution factor.

6 **MR. REILLY:** No further questions.

7 **COMMISSIONER DEASON:** Mr. Melson.

8 **MR. MELSON:** I've got a couple of questions.

9 **CROSS EXAMINATION**

10 **BY MR. MELSON:**

11 Q Mr. Martin, I'm Rick Melson representing the
12 Dunes Community Development District.

13 I believe you indicated that in the current
14 Palm Coast permit that Dunes is identified as an
15 effluent disposal site for a million gallons a day
16 annual average; is that correct?

17 A That's correct.

18 Q And if you look at the permit for the Dunes
19 plant, the Dunes plant is rated at 1.6 million gallons
20 a day; is that correct?

21 A Yes.

22 Q And to your knowledge does Dunes provide at
23 its plant site all of the wet weather storage
24 associated with that 1.6 million-gallon-a-day permit?

25 A Yes, they do.

1 Q And Dunes, in fact, takes up to -- or takes
2 1.6 million gallons a day from Palm Coast with some
3 regularity during certain periods of the year; is that
4 correct?

5 A Yes, they can.

6 Q With the Dunes I understood you to say that
7 Palm Coast is currently permitted for 3.35 million
8 gallons a day, was that right?

9 A Yes.

10 Q Without the Dunes as an effluent disposal
11 site, would that permitted capacity be downrated by a
12 corresponding amount?

13 A Yes, it would.

14 **MR. MELSON:** Commissioners, I had introduced
15 Composite Exhibit 4, which was some DEP permits. It
16 now appears that there is a later issued operating
17 permit that has some slight changes I was not aware
18 of. I was wondering if we might identify that as a
19 late-filed exhibit, let us get it from Mr. Martin, and
20 file copies with the Commission on a late-filed basis.
21 I'd like to have the current permit in the record.

22 **COMMISSIONER DEASON:** You need to ask the
23 witness if he can provide that to you.

24 Q **(By Mr. Melson)** Mr. Martin, could you
25 provide us a copy of the current Palm Coast permit

1 reflecting the 3.35 MGD?

2 A Yes, I can get that for you.

3 COMMISSIONER DEASON: That will be
4 identified as Late-filed Exhibit 27. Could I have a
5 short title, Mr. Melson?

6 MR. MELSON: PCUC Operating Permit.

7 MR. REILLY: It must be later in the day.

8 COMMISSIONER RIESLING: Current?

9 MR. MELSON: PCUC Current, okay.

10 (Late-Filed Exhibit No. 27 identified.)

11 Q (By Mr. Melson) One additional question.

12 Palm Coast treats its wastewater to secondary
13 standards; is that correct?

14 A Yes.

15 Q In order to be applied to a public access
16 area, does wastewater have to be treated to a higher
17 standard?

18 A Yes, it does.

19 Q And if Palm Coast were to want to apply
20 effluent to a public access area within its service
21 territory, would it have to treat the effluent to the
22 same standard that Dunes now treats --

23 A Yes, it would.

24 Q The standard doesn't vary depending on the
25 utility.

1 A No, it doesn't.

2 **MR. MELSON:** Okay. No further questions.

3 Thank you, Mr. Martin.

4 **COMMISSIONER DEASON:** Redirect.

5 **REDIRECT EXAMINATION**

6 **BY MS. REYES:**

7 Q Just one question. Mr. Reilly indicated an
8 allowance for infiltration from ten states was 250
9 gallons per day per inch diameter per mile. Are you
10 aware of any standard allowances for infiltration
11 which are greater than the 250 gallons per day per
12 inch per diameter per mile.

13 A I think the number may be 300.

14 **MR. REILLY:** I don't mean to testify, but I
15 think the record will reflect 200.

16 A (Continuing) 200. That would be the normal
17 what we look at for a design standpoint of a new
18 installation.

19 **MS. REYES:** Staff has no further redirect
20 and we would request --

21 **MR. SCHIEFELBEIN:** Pardon me, if I may, some
22 questions from Mr. Reilly and Mr. Melson, I'd like to
23 briefly inquire into something.

24 **CROSS EXAMINATION**

25 **BY MR. SCHIEFELBEIN:**

1 Q There was some discussion, I think, with
2 Mr. Reilly and Mr. Melson, certainly with Mr. Reilly
3 regarding the spray field and the RIB site. Have you
4 inspected those facilities?

5 A Yes, I have been there.

6 Q Okay. Specifically to the RIB site, is
7 that -- that is, I guess, what is called a nonpublic
8 access disposal site?

9 A That's correct.

10 Q Is that site surrounded by a fence?

11 A Okay. I believe the new RIB site is
12 surrounded by a fence.

13 Q Do you recall is that fence -- the height of
14 that fence approximately?

15 A Offhand I would say it's maybe six feet
16 high.

17 Q Do you recall whether that fence is capped
18 by barbed wire?

19 A I don't recall if it is.

20 Q What is the purpose -- is that fence there
21 because of requirements related to the nature of the
22 site being nonpublic access?

23 A Yes.

24 Q Is that basically to keep people out?

25 A Yes. It's mainly or safety reasons.

1 Q Is it fair to say it's there to isolate the
2 equipment?

3 A Yes.

4 Q Okay.

5 **MR. SCHIEFELBEIN:** Thank you very much.

6 **COMMISSIONER DEASON:** Further redirect?

7 **MS. REYES:** No further redirect. Staff
8 would request that the witness be excused.

9 **COMMISSIONER DEASON:** Yes. Mr. Martin you
10 may be excused. Thank you.

11 (Witness Martin excused.)

12 **MR. MELSON:** We will move Late-filed
13 Exhibit 27 subject to its receipt and the lack of an
14 objection.

15 **COMMISSIONER DEASON:** Very well. We're
16 going to take a lunch recess at this time. We'll
17 reconvene at 1:30.

18 (Thereupon, lunch recess was taken at 1:30
19 p.m.)

20 (Transcript continues in sequence in
21 Volume 6.)

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