

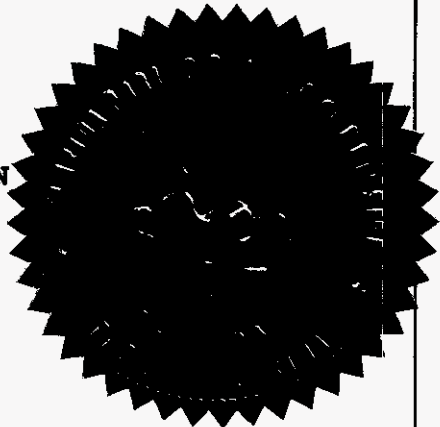
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate ) Docket No. 951056-WS  
increase in Flagler County by )  
Palm Coast Utility Corporation. )  
\_\_\_\_\_ )

THIRD DAY - AFTERNOON SESSION

VOLUME 8

PAGES 966 through 1138



PROCEEDINGS: HEARING  
BEFORE: COMMISSIONER J. TERRY DEASON  
COMMISSIONER JULIA L. JOHNSON  
COMMISSIONER DIANE K. KIESLING  
DATE: Friday, July 19, 1996  
TIME: Commenced at 11:05 a.m.  
PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida  
REPORTED BY: LISA GIROD JONES, RPR, RMR  
APPEARANCES:

(As heretofore noted.)

BUREAU OF REPORTING  
RECEIVED 7-25-96

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FPSC-RECORDS/REPORTING

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PROCEEDINGS

(Transcript continues in sequence from  
Volume 7.)

FRANK SEIDMAN

resumed the stand on behalf of Palm Coast Utility  
Corporation, and having previously been duly sworn,  
testified as follows:

CONTINUING DIRECT EXAMINATION

BY MR. GATLIN:

Q Mr. Seidman, have you also filed supplemental  
rebuttal in this case?

A Yes, sir.

Q And it consists of -- well, nine pages?

A Yes, nine pages of testimony.

Q If I were to ask you the questions set forth  
therein, would your answers be the same today?

A Yes, they would.

MR. GATLIN: Mr. Chairman, we ask that it be  
inserted into the record as though read.

COMMISSIONER DEASON: Is there an objection to  
supplemental rebuttal testimony? Mr. Reilly?

MR. REILLY: Yes, there are objections.

COMMISSIONER DEASON: Please proceed.

MR. REILLY: We object for the same reasons we  
stated before. Basically, the Company did file

1 supplemental rebuttal testimony, and we got a copy of  
2 that supplemental rebuttal testimony, and we have no  
3 objection to it.

4           What testimony is being offered today is, in  
5 effect, an updated or amended supplemental testimony  
6 that incorporates the original supplemental testimony  
7 and then adds in all that inflow and infiltration  
8 information that we talked about earlier.

9           We have no objection to that question and  
10 answer that dealt with the change that supposedly  
11 occurred on July 2nd. But using this as a vehicle to  
12 bootstrap additional prefiled supplemental direct  
13 testimony, we thought, and we continue to feel, is  
14 inappropriate and outside the procedures and outside  
15 what is fair to the citizens.

16           And so we do not have objection to the  
17 supplemental rebuttal that was previously furnished to  
18 everybody at the original hearing, nor any problem with  
19 adding that section of this new supplemental rebuttal  
20 that dealt with the change. But -- and I can identify  
21 those substantial pages that go on and provide an  
22 additional bite of the apple. Another opportunity to  
23 present supplemental, or amended supplemental testimony,  
24 I think is inappropriate and outside the prehearing  
25 order.

1           COMMISSIONER DEASON: Well, let's make sure  
2 we're all talking from the same supplemental testimony.  
3 Mr. Gatlin, we have -- I have a document here that is  
4 entitled Supplemental Rebuttal Testimony. And I'm  
5 not -- it doesn't have a date on it.

6           MR. GATLIN: No, it doesn't. This testimony  
7 that you're looking at, see if on Page 5 there's a  
8 heading --

9           COMMISSIONER DEASON: I have one version some  
10 five pages long and then I have another one that is some  
11 nine pages.

12          MR. GATLIN: All right, well -- Mr. Chairman,  
13 the five pages, when we filed further supplemental  
14 testimony, we put that in this new testimony.

15          COMMISSIONER DEASON: So the five pages is now  
16 within the supplemental, which is nine pages long?

17          MR. GATLIN: Yes. It goes over to Page 5 and  
18 Line 8 -- Line 6, completes the flushing testimony.

19          COMMISSIONER DEASON: Okay, and then where the  
20 heading "infiltration and inflow," from that point on,  
21 that is the new supplemental?

22          MR. GATLIN: That's correct. The first part  
23 we served on everybody at the hearing on July the 2nd,  
24 and then subsequent to Mr. Bidy's amendment to his  
25 exhibit we prepared and filed that starting on Line 8,

1 Page 5. And as I hear Mr. Reilly, he has no objection  
2 to the testimony relative to the flushing.

3 COMMISSIONER DEASON: Is that correct?

4 MR. REILLY: That is correct. We conceded to  
5 that at the hearing, and basically have no objection in  
6 the spirit of what was decided at the hearing, to have  
7 this on Page 8, that one little question and answer that  
8 dealt with the concentrate. But all this language in  
9 here about the infil -- all the other language on  
10 infiltration and inflow could have, and perhaps should  
11 have, been included in this first draft of the  
12 supplemental testimony and was thrown in there for the  
13 reasons stated before. And we would object for that  
14 reason.

15 COMMISSIONER DEASON: Now wait, Mr. Reilly,  
16 what you find objectionable begins on Page 5, Line 8.

17 MR. REILLY: Correct.

18 COMMISSIONER DEASON: And goes to where?

19 MR. REILLY: Goes all the way up to Page 8,  
20 Line 2. And then I would concede that we could add to  
21 the five-page supplemental the -- beginning on Lines 4  
22 through 11, which did in fact -- which does in fact deal  
23 with the concentrate issue, and then begin deleting the  
24 balance of the amended supplemental testimony starting  
25 on Line 12 until you go to the end on Line 3 of Page 9.

1           COMMISSIONER DEASON: Why is it that you find  
2 that objectionable?

3           MR. REILLY: Well, in my reading of the  
4 considerable discussion we had at the last hearing was  
5 that the scope of the supplemental testimony would be  
6 addressed to the change that was thrown, this  
7 substantial change, that was thrown at the hearing; that  
8 they had already reviewed -- in fact, this is responding  
9 to previously filed testimony, the first one. And so my  
10 argument is this is totally outside the scope of what  
11 their amendment to their supplemental testimony was  
12 supposed to address, that in fact all this language  
13 could have and should have been in this first version,  
14 but was thrown in after the fact, given another two  
15 weeks for the attorneys to meet with everybody and to  
16 further massage a full discourse of their response to  
17 our inflow and infiltration recommendations.

18           And if you -- again, I don't want to put you  
19 back to the discussion, but it went over and over as to  
20 what was going to be the scope of what would be allowed  
21 for this fairly unprecedented supplemental rebuttal  
22 testimony. And it goes beyond that.

23           COMMISSIONER DEASON: Mr. Gatlin.

24           MR. GATLIN: Mr. Chairman, starting on Line 8,  
25 Page 5, and going to Page 8 on Line 2, there is rebuttal



1 testimony that relates to the original testimony of  
2 Mr. Biddy. We had made the decision not to file  
3 rebuttal testimony, on that subject, to Mr. Biddy prior  
4 to the hearing and did not do so. When he testified he  
5 changed the exhibit, he changed his excess infiltration  
6 and inflow from 8 to 18 percent, and that got our  
7 attention. And that's why we wanted to file  
8 supplemental testimony.

9           COMMISSIONER DEASON: So what you're  
10 indicating is that this testimony does not directly  
11 address the change which Mr. Biddy made; it's just that  
12 after the magnitude of his change of testimony, you felt  
13 it appropriate to file rebuttal testimony on the subject  
14 matter?

15           MR. GATLIN: That's correct. That's all there  
16 is to it, bottom line.

17           COMMISSIONER DEASON: Staff have any  
18 comments?

19           MR. EDMONDS: We have no objection to the nine  
20 pages of supplemental testimony.

21           COMMISSIONER DEASON: And this supplemental  
22 testimony was filed on what date, Mr. Gatlin? July the  
23 12th?

24           MR. GATLIN: Yes, since the hearing. You set  
25 the date as July 12th for filing the testimony. That

1 was an agreement with Mr. Reilly. I had asked for a  
2 later date, and you set the 12th, as I recall.

3 COMMISSIONER DEASON: Well, I'm going to allow  
4 the testimony, based upon the assertion that due to the  
5 change that counsel found it necessary to address the  
6 subject matter and that had it not been for the change,  
7 that there was not the necessity to address the subject  
8 matter. For that reason I will allow the supplemental  
9 testimony.

10 Therefore, the supplemental testimony  
11 consisting of some nine pages will be inserted into the  
12 record. And Mr. Gatlin, I assume that the exhibits  
13 attached thereto need to be identified?

14 MR. GATLIN: Yes, sir, FS-15 -- I thought  
15 there were two.

16 COMMISSIONER DEASON: FS-14 and 15.

17 MR. GATLIN: Yes.

18 COMMISSIONER DEASON: FS-14 and 15 will be  
19 identified as composite Exhibit 42.

20 (Exhibit No. 42 marked for identification.)  
21  
22  
23  
24  
25

1 SUPPLEMENTAL REBUTTAL TESTIMONY OF FRANK SEIDMAN  
2 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
3 REGARDING THE APPLICATION FOR INCREASED RATES FOR  
4 PALM COAST UTILITY CORPORATION  
5 IN FLAGLER COUNTY  
6 DOCKET NO. 951056-WS  
7

8 Q. Please state your name, profession and address.

9 A. My name is Frank Seidman. I am President of  
10 Management and Regulatory Consultants, Inc.,  
11 consultants in the utility regulatory field. My  
12 mailing address is P.O. Box 13427, Tallahassee, FL  
13 32317-3427.  
14

15 Q. Have you previously submitted direct and rebuttal  
16 testimony in this proceeding?

17 A. Yes.  
18

19 Q. What is the purpose of your supplemental rebuttal  
20 testimony?

21 A. To respond to the direct testimony of Mr. Ted L.  
22 Bidy as revised June 28 and corrected at the  
23 public hearing on July 2 with regard to allegations  
24 of excess flushing and excess infiltration and  
25 inflow.  
26

1     FLUSHING

2     Q.    Mr. Bidby, at page 6 of his June 28 revised  
3            testimony represents that the amount of flushing at  
4            Palm Coast is extraordinarily high. Do you agree  
5            with his assessment?

6     A.    No. The amount of flushing carried out at Palm  
7            Coast is the amount necessary to maintain a high  
8            quality of water for all of PCUC's customers,  
9            wherever they are located, and to meet state and  
10           federal standards. The amount of flushing  
11           experienced in the last three years, expressed as a  
12           percent of water pumped, is the lowest it has been  
13           since 1989. Exhibit 42 (FS-14) is a comparison of  
14           the percent water unaccounted for and used for  
15           flushing and other identifiable purposes, from 1988  
16           through 1995.

17

18    Q.    Exhibit 42 (FS-14) shows a jump in flushing  
19           beginning in 1989. Did some event occur that  
20           triggered that increase?

21    A.    Yes. Around 1988, service was introduced to the  
22           beachside portion of PCUC's service area. Mains  
23           were extended to serve these developments and  
24           individual homes which are outside of the  
25           originally platted areas of Palm Coast. Since 1988,

1 approximately 25 miles of new mains have been added  
2 to serve the beachside and other areas.  
3 Subsequently, the flushing requirements increased  
4 because of distance to the beachside area and due  
5 to its sparsity of development. The percent of  
6 pumped water required for flushing peaked out in  
7 1991 and has dropped and leveled off since then.

8

9 Q. If the flushing requirement for the beachside  
10 service area is excluded from the company's total  
11 flushing requirement, what happens to flushing as a  
12 percent of water pumped?

13 A. Excluding the beachside area, flushing as a percent  
14 of total water pumped drops to about 12%, as  
15 compared to 17% with beachside flushing for 1994  
16 and 1995.

17

18 Q. Do any other factors affect the amount of flushing  
19 required to maintain the required levels of  
20 chlorine residuals in the system?

21 A. Yes. The fact that PCUC uses chloramine rather than  
22 chlorine to treat the water increases the amount of  
23 flushing necessary to maintain chlorine residuals.  
24 Residual levels are more difficult to maintain when  
25 chloramine is used as a disinfectant, however,

1 treatment with chloramine is necessary to control  
2 the level of trihalomethanes.

3

4 Q. Has PCUC explored any alternatives to flushing to  
5 maintain water quality?

6 A. Yes. PCUC has looked into adding chlorine booster  
7 stations. It is PCUC's conclusion that booster  
8 stations will help to some extent, but significant  
9 amounts of flushing will still be required. This is  
10 true because the Palm Coast area is large, with  
11 varying levels of density in its neighborhoods.  
12 PCUC does not dictate where its customers live, but  
13 regardless of where they live, they are entitled to  
14 good quality water.

15

16 Q. Do you agree with Mr. Biddy's opinion that the use  
17 of more than 5% of finished water for flushing is  
18 excessive?

19 A. No. I don't know how he can select an amount that  
20 fits all situations without regard to the  
21 characteristics of the system. The amount of  
22 flushing is to a large extent a function of system  
23 configuration, customer density and quantity and  
24 frequency of customer use. The characteristics of  
25 PCUC's service area result in a flushing

1 requirement that is greater than 5% of pumped  
2 water. It would be irresponsible for a utility to  
3 limit its flushing to a set amount when the  
4 circumstances warrant otherwise. PCUC is obligated  
5 by statute to provide safe water and the flushing  
6 required to provide safe water is not excessive.

7

8 INFILTRATION & INFLOW

9 Q. Do you agree with Mr. Bidy's conclusions regarding  
10 infiltration and inflow as shown on his Exhibit TLB  
11 3.1, as amended at the July 2 hearing?

12 A. No. Mr. Bidy made several errors that  
13 significantly impacted his results. In theory,  
14 Exhibit TLB 3.1 only puts numbers to an approach  
15 that I had already addressed and taken issue with  
16 in my rebuttal. But the errors in Mr. Bidy's  
17 exhibits, both the June 28 and July 2 versions,  
18 significantly affect the conclusions to be drawn  
19 from it. When the errors are corrected, PCUC's  
20 infiltration and inflow are virtually the same as  
21 that allowed by Mr. Bidy for a new system, for  
22 infiltration alone.

23

1 Q. Would you please summarize your understanding of  
2 Mr. Bidy's Exhibit TLB 3.1, as amended at the July  
3 2 hearing?

4 A. Yes. In Exhibit TLB 3.1., Mr. Bidy measures  
5 infiltration and inflow. He starts with a maximum  
6 three month average daily flow at the wastewater  
7 plant and subtracts the amounts of water returned  
8 to the plant for treatment by customers and by the  
9 membrane plant. He identifies the difference as  
10 infiltration and inflow. He then compares that  
11 amount to his chosen allowance of 200 gpd/inch  
12 dia.-mile and reaches a conclusion that  
13 infiltration and inflow is excessive.

14

15 Q. What was the first error that you found on Exhibit  
16 TLB 3.1?

17 A. I found that Mr. Bidy used the wrong amount for  
18 the water returned to the treatment plant by  
19 customers. Instead of using the total water sold to  
20 wastewater customers, he used only the water sold  
21 to residential customers. This resulted in a  
22 312,000 GPD understatement of water sold to  
23 wastewater customers and a resulting overstatement  
24 of infiltration and inflow.

25



- 1       **Q.    Is this an obvious error?**
- 2       **A.    No. The sales quantities in Mr. Biddy's Exhibit TLB**  
3           **3.1 are stated in terms of GPD rather than gallons**  
4           **as they are in the source provided to Mr. Biddy.**  
5           **Mr. Biddy incorrectly references that source as**  
6           **PCUC's response to OPC Interrogatory No. 65. The**  
7           **correct source is PCUC's response to OPC's Request**  
8           **for Production of Documents No. 65. I had to**  
9           **convert the GPD to gallons in order to check it**  
10          **against the source we provided. When I did, it**  
11          **became obvious that Mr. Biddy had used only**  
12          **residential sales, and assumed it was total sales.**  
13
- 14       **Q.    Are there any other errors on Exhibit TLB 3.1?**
- 15       **A.    Yes. In determining an allowance for infiltration**  
16          **based on footage of pipe, Mr. Biddy did not**  
17          **consider the footage for service laterals, another**  
18          **probable source of infiltration.**  
19
- 20       **Q.    Was that information available to him?**
- 21       **A.    Yes. It was provided in response to OPC's Request**  
22          **for Production of Documents No. 35. That response**  
23          **showed 333,328 feet of 4 inch diameter laterals. By**  
24          **excluding service laterals, Mr. Biddy understates**

1 the infiltration allowance, using his criterion, by  
2 50,504 GPD.

3

4 Q. Did Mr. Bidy utilize the information on reject  
5 concentrate returned to the plant properly in his  
6 revised Exhibit TLB 3.1?

7 A. Yes. The exhibit, as verbally revised at the  
8 hearing on July 2, correctly reflects only the  
9 reject sent to the plant for treatment, not all of  
10 the reject.

11

12 Q. What is the result of correcting Exhibit TLB 3.1  
13 for the errors you found?

14 A. When corrections are made for these errors, the  
15 amount of infiltration and inflow in the PCUC  
16 system is virtually the same as the amount that Mr.  
17 Bidy would allow for a new system for infiltration  
18 alone. As shown on my Exhibit 42 (FS-15), PCUC's  
19 infiltration and inflow is only 13,770 GPD, or  
20 0.66% more than Mr. Bidy's allowance. PCUC's  
21 infiltration and inflow is equivalent to 205  
22 gpd/inch dia.-mile, as compared to the 200  
23 gpd/inch dia.-mile guideline for new lines that Mr.  
24 Bidy proposes, and the 500 gpd/inch dia-mile  
25 standard traditionally used by the Commission.

- 1 Q. Does that complete your supplemental rebuttal  
2 testimony?  
3 A. Yes, unless OPC introduces additional changes.

1 MR. GATLIN: Mr. Seidman is available for  
2 cross examination.

3 CROSS EXAMINATION

4 BY MR. SIRKIN:

5 Q Good afternoon, Mr. Seidman.

6 A Good afternoon, Mr. Sirkin.

7 Q On Page 10 of your rebuttal testimony you talk  
8 about 46,000 lots presently platted in Palm Coast.  
9 Where did that number come from?

10 A That's an inventory of lots that we've had for  
11 many years from the original plats. It's an  
12 approximate. It's 46,438, something like that.

13 Q And now you say also there that there are  
14 about 12,000 customers for these 46,000 platted lots?

15 A Approximately, yes.

16 Q How long did it take Palm Coast to go from the  
17 plat to the 12,000 customers? What time period are we  
18 talking about?

19 A How long did it take to get 12,000 customers?

20 Q Right.

21 A Fifteen years, I think.

22 Q You talk about the next build-out horizon in  
23 the rebuttal testimony. What do you mean by that?

24 A I'm sorry. That's probably longer than 15  
25 years. I'm trying to think. The utility was under

1 construction in the late sixties. I don't know when  
2 they first started getting customers, but say if they  
3 started getting customers in 1970, it would be 25  
4 years.

5 Now go ahead, I'm sorry.

6 Q In that same area you talk about the next  
7 build-out horizon. What do you mean by that?

8 A For purposes of preparing an increase  
9 application for service availability charge, the  
10 Commission asks you to look at a build-out horizon which  
11 coincides with the next major addition of plant, and in  
12 this case it's, I believe, maybe two years down the  
13 road.

14 Q In your rebuttal testimony on Page 13, you  
15 refer to the leverage formula which results in an 11.10  
16 return equity; is that correct?

17 A Correct.

18 Q And you also state in your rebuttal testimony  
19 that you want this to be applied to the year end  
20 projected rate base?

21 A Yes, sir.

22 Q How was the leverage formula derived? Was  
23 that assumed, if it would be applied, the average rate  
24 base or year end rate base, in the derivation of that  
25 leverage formula?

1           A     I don't think the leverage formula has  
2 anything to do with the period for rate base.

3           Q     Does it change the risk at all of common  
4 equity, if it's applied to the year end or to the  
5 average?

6           A     I don't know why it would make any difference.

7           Q     If you apply the equity to a bigger rate base,  
8 to more equity at year end than if you would at average,  
9 it doesn't make any difference?

10          A     Well, it's applied to the capital structure at  
11 year end versus average.

12          Q     That's correct.

13          A     Whatever the difference is, if there's more  
14 equity at year end, it would change the relationship.  
15 But the formula is based on the relationship of  
16 debt-to-equity, and it takes into consideration that  
17 shift.

18          Q     You're saying the cost of equity, that really  
19 doesn't change depending upon the relationship?

20          A     The formula -- the formula determines a cost  
21 of equity based on the relationship of equity to debt.

22          Q     So if you did that determination at year end  
23 or on the average rate base, it would make a difference?

24          A     If the ratios are different, yes, it would  
25 make a difference.

1 Q On Page 14 of your rebuttal testimony, you  
2 refer to a 27 June 1980 revenue agreement between ICDC  
3 and PCUC. Are you familiar with that agreement?

4 A What page are you looking at?

5 Q Page 14, Line 15, et seq.

6 MR. GATLIN: Line what?

7 MR. SIRKIN: Line 15.

8 WITNESS SEIDMAN: Yes, I'm familiar with  
9 that.

10 Q (By Mr. Sirkin) I'm going to show you a copy  
11 and ask you if this is a complete copy.

12 A Okay, yes, that looks to be complete. That's  
13 the revenue agreement that was entered into in 1992.  
14 It's an update from the original one of 1980.

15 Q This was an exhibit I requested to be marked  
16 for identification as Exhibit 29, but it was not moved  
17 into evidence because of objections for lack of support  
18 by one of the witnesses.

19 COMMISSIONER DEASON: This was previously  
20 identified as Exhibit 29?

21 MR. SIRKIN: That is correct, sir.

22 COMMISSIONER DEASON: And there was an  
23 objection made previously?

24 MR. SIRKIN: Yes, by Company's counsel, that  
25 it was not supported by the witness with whom I was

1 discussing it.

2 COMMISSIONER DEASON: Very well.

3 Q (By Mr. Sirkin) Now this agreement provides a  
4 mechanism through which PCUC recovers period costs  
5 associated with nonused plant; is that correct?

6 A That's correct.

7 Q What was the relationship between PCUC and  
8 ICDC when the agreement was signed?

9 A They're affiliated companies. Is that what  
10 you mean?

11 Q Was ICDC a stockholder of PCUC?

12 A No.

13 Q Do you know anything about how this contract  
14 was negotiated?

15 A This particular update?

16 Q Yes, this particular update.

17 A No.

18 Q Do you know if it was approved by the FPSC in  
19 accordance with Section 5 of the contract?

20 A Yes, it's on file.

21 Q You talked about this particular update. In  
22 response to Public Counsel's Request 36, there were two  
23 contracts proffered. One is an earlier contract dated  
24 27 June, 1980; are you familiar with that?

25 A Yes.



1 Q Does the contract marked Exhibit 29 supersede  
2 this agreement, or are they both in force?

3 A It supersedes it.

4 Q So this is a precursor of the other agreement?

5 A Yes.

6 Q And was the 46,000 lot figure obtained from  
7 this contract?

8 A The 46,000 figure -- no, no, it didn't come  
9 from the contract.

10 Q Did not come from the contract?

11 A No, it came from information from the utility  
12 back as far back as 1980 when we were first working with  
13 the utility on preparing rate applications.

14 Q But you are familiar with it and it does  
15 relate to the later agreement? You are familiar with  
16 this agreement?

17 A Yes, I have read it.

18 Q And it's the precursor of the one we've marked  
19 as Exhibit 29?

20 A Yes.

21 Q I would like this marked as Exhibit 41, I  
22 believe is the next number?

23 COMMISSIONER DEASON: I believe it was 43.

24 MR. SIRKIN: 43.

25 COMMISSIONER DEASON: 43, yes.

1 MR. SIRKIN: I would like it marked as some  
2 number.

3 (Exhibit No. 43 marked for identification.)

4 Q (By Mr. Sirkin) Mr. Seidman, do you know how  
5 much of the total revenue requirements the Company has  
6 requested comes from the margin reserve gross-up?

7 A Dollar wise, no, I don't.

8 Q How about from the economy of scale gross-up?

9 A No. I would have to look at the exhibits and  
10 make some determination.

11 Q In your rebuttal testimony on Page 15, you  
12 talk about methodology that was actually in effect  
13 during 1995, which produced lower rate base and a higher  
14 nonused investment. What methodology are you talking  
15 about, methodology from the prior rate case?

16 A That's correct, the used and useful  
17 methodology that was approved in the prior rate case.

18 MR. SIRKIN: I have no further questions.

19 COMMISSIONER DEASON: Mr. Reilly?

20 CROSS EXAMINATION

21 BY MR. REILLY:

22 Q Mr. Seidman, am I correct that PCUC has a  
23 subsidiary called Aqua Tech?

24 A That's correct.

25 Q Does Aqua Tech provide operation and

1 maintenance services to water and wastewater systems  
2 that are not part of the PCUC system?

3 A That's correct.

4 Q Am I also correct that the income or revenue  
5 from Aqua Tech is recorded below the line on the books  
6 of PCUC?

7 A Yes, it is.

8 Q And what's the approximate income in 1995 from  
9 this operation?

10 A There's a net income of approximately  
11 \$52,000 -- \$50,000 from Aqua Tech.

12 Q I've just handed out an exhibit that is  
13 short-titled Response to Selected OPC Interrogatories  
14 Third Set, and Response to OPC Interrogatory No. 23.  
15 Could I possibly get a number to identify that?

16 COMMISSIONER DEASON: Yes, Exhibit 44.

17 (Exhibit No. 44 marked for identification.)

18 Q (By Mr. Reilly) Could I have you refer to  
19 this exhibit, Page 2 --

20 A Yes.

21 Q -- of this exhibit, circled Page 2. And I  
22 would have you focus on the Company's response to  
23 Interrogatory No. 75. This interrogatory was asking  
24 about the services that PCUC, through Aqua Tech,  
25 provides to these non-PCUC water and wastewater systems;

1 would you agree? Interrogatory 75.

2 A That's correct.

3 Q And I believe there's also a reference to  
4 Interrogatory 23 and Attachment G, which just for your  
5 convenience, if you need it, is also attached to this  
6 composite exhibit.

7 A Okay.

8 Q Now in this response PCUC states that  
9 employees of PCUC provide the services to these non-PCUC  
10 water and wastewater systems; is that correct?

11 A Yes.

12 Q And that these employees keep track of their  
13 time, and that the loaded salary is removed from the  
14 regulated salary expense; is that also correct?

15 A That's correct.

16 Q For these PCUC employees that perform these  
17 services, do they have supervisors?

18 A Yes.

19 Q Was any of the supervisor's time charged or  
20 allocated to the function of providing water and  
21 wastewater services to these non-PCUC systems?

22 A Not unless they did some specific work.

23 Q So generally they would not be included? Does  
24 this answer also indicate that there are no  
25 administrative and general expenses allocated or charged

1 to the function of operating and maintaining these  
2 non-PCUC systems; is that correct?

3 A That's correct. That's what it says.

4 Q Would I also be correct that no general plant  
5 was allocated to the function of performing operations  
6 and maintenance services for these non-PCUC systems?

7 A No, there were no plant allocations made.

8 Q Who houses the employees that provide these  
9 non-PCUC operation and maintenance services when they're  
10 not in the field?

11 A Palm Coast Utility.

12 Q And who cuts the payroll checks for the  
13 employees that provide these non-PCUC operation and  
14 maintenance services?

15 A Palm Coast Utility.

16 Q Who bills these non-PCUC systems for services  
17 rendered by PCUC employees?

18 A Either Aqua Tech or Palm Coast Utility. I  
19 don't know exactly which one sends the bill.

20 Q Now, does Aqua Tech have any employees?

21 A No, it uses the Palm Coast Utility employees.

22 Q Am I also correct that Aqua Tech has no  
23 assets?

24 A I don't believe it does. I don't know.

25 Q If an employee of PCUC uses a vehicle or

1 equipment to perform the operation and maintenance  
2 services for these non-PCUC systems, it must be using  
3 the vehicles and equipment of PCUC; is that correct?

4 A Yes, that would be right.

5 Q Who pays for the insurance used by the PCUC  
6 employees to perform the operation and maintenance  
7 services for these non-PCUC systems?

8 A Palm Coast.

9 Q Would you agree with me that although PCUC  
10 provides some administrative and general support to  
11 these non-PCUC systems, that you have not attributed any  
12 cost to this support when removing expenses from test  
13 year expenses?

14 A The only expenses removed are direct expenses  
15 at a loaded rate.

16 Q So your answer is yes?

17 A My answer is that the only expenses included  
18 were direct expenses at the loaded rate.

19 Q Now, am I correct that the officers of  
20 Aqua Tech, which are listed in response to Interrogatory  
21 No. 77, which can be found on Page -- circled Page 4,  
22 that these are the same officers of PCUC?

23 A Yes.

24 Q Is any of Mr. Trace's time charged to  
25 Aqua Tech?

1 A Not that I'm aware of.

2 Q And the same for Mr. Schlobohm's time?

3 A Not that I'm aware of.

4 Q And the same for Mr. Perry?

5 A That's correct.

6 Q Could you please turn to your rebuttal exhibit  
7 FS-6? I believe it's your first exhibit attached to  
8 your rebuttal. Here your reconcile rate base to capital  
9 structure; is that correct?

10 A I'm still searching.

11 Q I'm sorry.

12 A Okay, yes.

13 Q Attached to your prefiled rebuttal?

14 A Yes.

15 Q And your answer was yes, that this is your  
16 attempt to reconcile rate base to capital structure?

17 A Right.

18 Q Could you look at the line Deferred Taxes  
19 Net. Here you show 5,066,186 as being nonused and  
20 useful; is that correct?

21 A That's correct.

22 Q Could you please turn back to Schedule A-3-D  
23 of the MFRs. Now this is Page 6 of the MFRs.

24 A Yes, I have it.

25 Q Could you show me on this MFR schedule where

1 your number 5,066,186 can be found?

2 A No, I would have to look at my work papers.

3 Q Is that number on this tax schedule, MFR  
4 schedule? I mean, is it physically located anywhere on  
5 the page?

6 A No. It comes from the balance sheet.

7 Q Now this number, your 5,066,000, this number  
8 is close to the number shown on Line 23, is it not, the  
9 5,565,046?

10 A Yes.

11 Q Which is partly classified as disallowed, per  
12 order, in the amount of 2,301,117?

13 A Correct.

14 Q And partly as nonused and useful in the amount  
15 of 3,263,926?

16 A Correct.

17 Q Does the amount in FS-6 include the amount  
18 disallowed per the order in the Company's last rate  
19 case?

20 A Repeat that, please.

21 Q Is your 5,066,186 number used in your FS-6  
22 schedule, does that include this 2,301,117 partly -- the  
23 disallowed amount?

24 A Yes. It would include all the disallowed  
25 amounts on here.



1 Q And did the Commission disallow this because  
2 PCUC failed to avail itself to certain options that  
3 would have prevented it from being charged taxes on  
4 CIAC?

5 A That's correct.

6 Q Isn't it true that these deferred taxes are  
7 not related to nonused and useful plant, but were  
8 disallowed due to the Company's failure to avail itself  
9 of certain options that would have prevented PCUC from  
10 paying taxes on CIAC?

11 A They're not related to nonused and useful  
12 plant, but they are dollars that are nonused for  
13 purposes of rate making.

14 Q But -- let's take a look at working capital on  
15 this same -- still on FS-6. Here you attribute 402,414  
16 in negative working capital to nonused and useful plant;  
17 is that correct?

18 A Yes, nonused and useful assets, yes.

19 Q Would you also look at the line labeled CIAC  
20 net of trust?

21 A Yes.

22 Q Now in your reconciliation you did not include  
23 trust CIAC; is that correct?

24 A That's correct.

25 Q And the amount -- excuse me?

1           A     The trust dollars are accounted for because  
2 we're tying this to the total assets, but that's  
3 correct, net of trust, the trust is not in this number.

4           Q     And that amount that is not included is this  
5 8,124,376; is that correct?

6           A     Yes.

7           Q     Moving on to a different subject, how much  
8 have you removed from O&M expenses as nonused and  
9 useful?

10          A     Approximately \$252,000 in water and 127,000 in  
11 wastewater.

12          Q     Coming to a total of around 379?

13          A     Yes.

14          Q     Now, how much did the Company collect in 1995  
15 from ICDC and Hammock Dunes associated with nonused and  
16 useful O&M?

17          A     Repeat that, please.

18          Q     My question is, how much did the Company  
19 collect in 1995 from ICDC and Hammock Dunes associated  
20 with nonused and useful O&M? And this is by way of the  
21 revenue, guaranteed revenue agreements? To help refresh  
22 your memory, I think already entered into the record is  
23 Exhibit 10, which quantifies that number.

24          A     Is that what you're handing out?

25          Q     Well, no, we're handing out a little exhibit.

1 We're going to ask some questions. This is your  
2 response to Interrogatory 47 where you quantify the  
3 dollar amounts. We'll get you a copy of it. This is  
4 already admitted into evidence as Exhibit 10. This is a  
5 one page -- it's a one-page schedule that quantifies the  
6 amount of guaranteed revenues received from various  
7 developers.

8 A The Company provided this response.

9 Q The Company provided this response.

10 A Yes.

11 Q And what does this schedule indicate is the  
12 1995 total for nonused and useful O&M, just from these  
13 two developers?

14 A I don't know that there's -- are there two  
15 developers in here? This is the ICDC.

16 Q We just picked the two biggest, I believe,  
17 Hammock Dunes 1 and 2 -- O&M, where it says the O&M  
18 expenses, and it's my understanding from ICDC, you  
19 collected, is it -- does the schedule not indicate that  
20 you -- PCUC collected \$465,558 from ICDC in 1995 for  
21 nonused and useful O&M, and collected \$97,639 from  
22 Hammock Dunes, Phase 1 and 2, for the year 1995? And by  
23 adding those two figures --

24 A I don't know what you're talking about on the  
25 Hammock Dunes. I see the number for ICDC.

1 Q Would you look at Page 2 that we handed you?  
2 This is Exhibit 10.

3 A She gave me this, but that's not what it was.  
4 (Pause)

5 Q Thank you. We were missing a page on that  
6 one. Are we on the same book and page?

7 A Okay.

8 Q I'm trying to take you through and quantifying  
9 what PCUC actually received in 1995 from these two  
10 entities for nonused and useful O&M.

11 A Well, the ICDC number, the 465,558, that is  
12 nonused O&M.

13 Q How about the Hammock Dunes?

14 A The Hammock Dunes expense is expense that was  
15 included in -- was netted out in services net, which was  
16 not included in the O&M for rate making purposes and  
17 therefore was sort of below the line, if you want to  
18 call it that, for purposes of determining O&M expense.  
19 ICDC pays the nonused portion of allowable O&M. The  
20 Hammock portion is already netted out in services  
21 rendered to other -- for other purposes. So it wasn't  
22 included in that number.

23 Q Do you know how PCUC and ICDC determine the  
24 amount of nonused and useful O&M that ICDC will pay  
25 PCUC, if you followed all those --

1           A     In general terms. In general terms they used  
2 the nonused and useful formulas from the last rate case  
3 and apply that to the updated annual expense each year.

4           Q     Repeat that last part. It is in fact updated  
5 each year?

6           A     The new expenses. Each year they will  
7 determine an availability figure, okay? And they will  
8 take the actual dollars in that year, apply the  
9 formulas, the used and useful formulas, for both plant  
10 and O&M, to the dollars in that year.

11          Q     Okay, let's take a look at this exhibit we  
12 just handed out. And it's short titled Revenue  
13 Agreement Between PCUC and ICDC. And we had this all  
14 prepared, of course, before this other one was  
15 identified, so I guess I still ask for a number on this,  
16 because there's other matters in here as well. It's not  
17 just the guaranteed -- it could get a little confusing.

18                   COMMISSIONER DEASON: Very well.

19           MR. REILLY: Because it also includes Response  
20 to OPC Interrogatory No. 47. So I'm just conceding that  
21 there is a portion of this exhibit that is in fact  
22 previously identified Exhibit No. 29, I believe.

23                   COMMISSIONER KIESLING: Then I need to get  
24 one, because I thought 29 and that one were the same and  
25 so I said I didn't need one.

1           COMMISSIONER DEASON: It will be identified as  
2 Exhibit 45.

3           (Exhibit No. 45 marked for identification.)

4           MR. GATLIN: Is that the document that on the  
5 front has Palm Coast Utility Corporation, the docket  
6 number, and says Response to Selected OPC  
7 Interrogatories Set 3?

8           COMMISSIONER DEASON: No, it was a document  
9 that was handed out subsequent to that, Mr. Gatlin.

10          MR. REILLY: This is a second exhibit,  
11 Mr. Gatlin.

12          MR. GATLIN: I have a revenue agreement and I  
13 have what I just read, and I don't know what exhibit  
14 you're referring to.

15          COMMISSIONER DEASON: Exhibit 45.

16          MR. GATLIN: The revenue agreement between  
17 the --

18          COMMISSIONER DEASON: It's the Revenue  
19 Agreement and Response to OPC Interrogatory No. 47.

20          MR. GATLIN: Thank you very much.

21          Q        (By Mr. Reilly) Mr. Seidman, do you have that  
22 before you?

23          A        I have the revenue agreement, yes.

24          Q        According to the revenue agreement with ICDC,  
25 is it based upon unimproved lots to total lots? And

1 unimproved being defined as not occupied, not -- I guess  
2 direct your attention to Pages 1 and 2 of the revenue  
3 agreement.

4 A There are definitions on Page 1. That's what  
5 I'm looking at now.

6 Q Right.

7 A Defines unimproved lots and improved lots,  
8 yes.

9 Q So is it true that this amount is  
10 determined -- is based upon a comparison of the  
11 unimproved lots to total lots?

12 A I don't know that I draw that conclusion. The  
13 procedure is as I outlined it, is to use the formulae  
14 from the last rate case.

15 Q Can one find on Pages 8 through 24 of this  
16 exhibit the calculation of the guaranteed revenue from  
17 ICDC? Is that correct?

18 A Yes.

19 Q If you would turn to Page 9 in particular, is  
20 this the calculation for 1995?

21 A That's correct.

22 Q Could you refer to the O&M expenses by  
23 department? Do you see the column labeled Percent  
24 Nonused and Useful?

25 A Yes.

1 Q Do you know how this percentage was  
2 calculated?

3 A Only in the general terms that it uses the  
4 formulae from the last rate case. I haven't tried to  
5 work it.

6 Q Can you explain why the percentages are  
7 different than the percentages you used in your O&M  
8 analysis for 1995?

9 A My percentages were based on the study done in  
10 1995. These percentages are based on a study done in  
11 1988 or '89, the last case.

12 Q Do you know how much in O&M the Commission  
13 disallowed as being nonused and useful in the last case?

14 A No, I don't.

15 Q Would you accept, subject to the check, that  
16 the amount disallowed as nonused and useful was \$26,000?

17 A Subject to check, yes.

18 Q Moving to a different subject, am I correct  
19 that ITT charges PCUC for administrative services?

20 A That's correct.

21 Q According to your rebuttal testimony at  
22 Page 26, you state that ITT provides corporate  
23 administrative, legal, accounting and tax expertise. Is  
24 that correct?

25 A Yes.



1 Q Do you expect the level of support provided by  
2 ITT to PCUC to be about the same in 1996 as it was in  
3 1995?

4 A I don't know. I don't know what the -- what  
5 the particulars are of the support they request. In  
6 general terms, with regard to the major programs of  
7 advice on health pensions, corporate policies, things of  
8 that, I would expect it to be relatively the same. If  
9 there's any particulars, I don't know.

10 Q But outside any extraordinary event that might  
11 come up, you would expect it to be approximately the  
12 same?

13 A I just don't know.

14 Q Am I correct that ITT administrative service  
15 fee is charged PCUC as .25 percent of PCUC revenue?

16 A That's correct.

17 Q And that for 1995 the amount of the fee was  
18 21,201?

19 A Correct.

20 Q Am I correct that PCUC is seeking roughly a  
21 \$3 million rate increase in this proceeding?

22 A That sounds right.

23 Q And if the Commission approves this increase,  
24 the administrative service fee charged to PCUC would  
25 increase by approximately \$7500?

1 A Okay.

2 Q And I guess my question is, where do you see a  
3 relationship between services rendered and the fee  
4 charged, since it is based on this arbitrary formula?

5 A Well, the formula may be arbitrary, just like  
6 we pay a regulatory assessment fee of four and a half  
7 percent that will go up if we get a rate increase.  
8 We've already indicated that the service -- the charge  
9 for the service, this administrative service charge,  
10 is .25 percent of revenue, that it's not based on the  
11 allocation of any particular expenses. I think what's,  
12 again, important is the increase keep the charge within  
13 bounds for services received, and I would think so.

14 Q And that this service fee ranges from .25  
15 percent to 1 percent to various subsidiaries?

16 A That's correct.

17 Q How many subsidiaries does ITT own; do you  
18 know?

19 A No.

20 Q Do you know the total number of administrative  
21 and general expenses that -- do you know the total  
22 amount of administrative and general expenses for ITT?

23 A No, I don't.

24 Q Do you know who performs these administrative  
25 services?

1 A Individuals, no.

2 Q In your rebuttal testimony you say one of the  
3 reasons you believe the Commission should deem these  
4 expenses reasonable is that the expense has been  
5 included in prior rate cases; is that correct?

6 A That's true, but the main reason is that I  
7 feel that the expense is reasonable for these types of  
8 services. The Commission has, through its previous  
9 orders, acknowledged that the expense paid was  
10 reasonable.

11 Q Do you know if these expenses were in fact  
12 even challenged in the last rate case?

13 A No, I don't. But I don't know whether that  
14 would make any difference. They were subject to audit  
15 and part of the Staff's preparation for the case. They  
16 weren't challenged; I would assume that they agreed with  
17 them.

18 Q We're handing out a cross examination exhibit  
19 that's short titled Attachment, a response to  
20 Interrogatory No. 51.

21 COMMISSIONER DEASON: Be identified as Exhibit  
22 46.

23 MR. REILLY: No. 46.

24 (Exhibit No. 46 marked for identification.)

25 Q (By Mr. Reilly) If you would please to turn

1 to -- have you got it yet?

2 A Yes, I have it.

3 Q Turn to Page 2 of this exhibit. Just had a  
4 couple of very brief questions. Does this appear on  
5 Page 2, particularly the upper first paragraph -- does  
6 this explain what is involved with the ITT's contract  
7 service charge and R&D assessment policy? Does this --

8 A Yes, it explains -- would you rephrase your  
9 question?

10 Q My question is, is this what you're relying  
11 upon to help identify what's being provided to PCUC for  
12 this .25 percent charge?

13 A No.

14 Q Could you explain what this tells us, this  
15 first paragraph. This is all I know we've had to go by  
16 as to what ITT claimed was being provided for the .25  
17 charge. It certainly didn't go into the detail that you  
18 provided in response. It just says, you know, the  
19 funding of international research and development and  
20 the cost of ITT corporate administrative and commercial  
21 services and advice provided to ITT companies.

22 A Right.

23 Q What does that mean to you?

24 A Well, it means to me that it covers the  
25 funding of international research and development and

1 the cost of ITT corporate administrative and commercial  
2 services and advice provided to ITT companies. And what  
3 I've outlined in my testimony is a little more detail  
4 than what some of those services are that ITT provides  
5 to Palm Coast Utility specifically.

6 Q We're just shifting gears here for a quick  
7 second. We're going to shift gears a little bit and ask  
8 you questions with you wearing your engineering hat.

9 A Okay.

10 Q Instead of accounting hat. In your  
11 supplemental rebuttal testimony that was admitted today,  
12 the newest version on Page 2, Lines -- let's see, Line  
13 21, to Page 3, Line 7, you basically explain that  
14 flushing water used in PCUC increased since 1988 because  
15 of serving beachside customers; is that correct?

16 A Yes. That has a significant effect on the  
17 flushing requirements.

18 Q In your testimony you also stated that these  
19 homes are outside the originally platted areas of Palm  
20 Coast; is that correct?

21 A That's correct.

22 Q Since PCUC decided to serve these outside  
23 homes, why should PCUC's regular customers pay for the  
24 extra flushing costs? Isn't that PCUC's responsibility  
25 to negotiate with these beachside developments for

1 proper compensation?

2 A Well, these are regular customers of Palm  
3 Coast now. I just said they weren't in the original  
4 plat of Palm Coast -- of the Palm Coast development, but  
5 they are within the service area approved by the  
6 Commission in the certificate extension, so that they're  
7 regular customers.

8 Q At Page 5, Lines 2 through 4, you say  
9 basically that it would be irresponsible for a utility  
10 to limit its flushing to a set amount when the  
11 circumstances warrant otherwise. Has Mr. Bidy  
12 recommended to PCUC that it limit its flushing to  
13 5 percent or any other lower level of flushing than is  
14 currently being carried out?

15 A No, he's just recommended they not be  
16 compensated for it.

17 Q So -- but he certainly has not recommended  
18 that that flushing not take place?

19 A Well, no. But if you're not going to be  
20 compensated for a service, it makes it a little  
21 difficult to go ahead and provide it.

22 Q But if the flushing -- if extra flushing is  
23 caused by a defective and improperly designed system  
24 with many, many dead-end lines and with large numbers of  
25 lines that are nonused and useful and have no customers

1 on them, should this not be recovered in the guaranteed  
2 revenue for expenses associated with nonused and useful  
3 plant as opposed to being borne by current ratepayers?

4 A I'm not aware of this flushing being the  
5 result of any defective lines or improper design.

6 Q Is not -- you're not aware that there are a  
7 large number of dead-end lines in cul-de-sacs in Palm  
8 Coast in the PUD, the planned unit development of Palm  
9 Coast?

10 A There's a lot of dead-end lines. I don't know  
11 that's an improper design to have cul-de-sacs. You've  
12 got to serve them.

13 Q Could not -- to the extent that a system is  
14 designed with looped systems, does this not reduce the  
15 requirement for flushing?

16 A Oh, yes. And the Company has gone ahead and  
17 looped the system within the primary area of Palm Coast  
18 development. They've looped the two water plants,  
19 they've looped the north and south zones, and they're  
20 probably going to go ahead and loop on the beach side  
21 eventually.

22 Q Could you not expect that the more looping  
23 that takes place, the less flushing you could expect to  
24 be required to have?

25 A Hopefully so, yes.

1 Q Would it not also be true that as the lines  
2 become more and more used and useful and there are more  
3 and more customers making demands for water, that there  
4 will be less requirement for flushing?

5 A As the system's density improves, there should  
6 be a lesser requirement for flushing, that's true, in  
7 any system.

8 Q And to the extent that flushing is required as  
9 a result of underutilized lines, would it not be proper  
10 to recover this expense from the guaranteed revenues to  
11 help compensate extra operational costs caused by these  
12 nonused and useful lines?

13 A Well, it's not that they're nonused and  
14 useful; there's low density, and you have to use those  
15 lines to get to the customers you have. You have an  
16 obligation to those customers to provide quality  
17 service. If the flushing were excessive, and I don't  
18 think it is, that would be a different story, to make an  
19 adjustment. But it seems to me that the flushing within  
20 the character of this system is fine. And with regard  
21 to the beach side, you know, this is not a case of  
22 nonused because a developer wanted something built out  
23 in advance. These lines are out there to serve  
24 developments that are in place and to serve potential  
25 customers that are not even affiliated with the



1 developers.

2 Q When you say it's normal, do you think --  
3 you're saying it's normal for Palm Coast, or that  
4 normally systems experience this high level of  
5 flushing? What does your term "normal" refer to?

6 A I think it's normal for a system this large.  
7 The fact that it's Palm Coast and the fact that it's a  
8 development doesn't change it. I mean it could be a  
9 city that has sparse areas, and you would have the same  
10 situation you have in Tallahassee.

11 Q We're talking about percentages of total water  
12 produced. And as the system gets larger, obviously -- I  
13 mean on a percentage basis, that wouldn't necessarily  
14 increase. Aren't there factors other than the largeness  
15 of the system that determines the amount of flushing?  
16 It's the design and amount of utilization are the two  
17 big factors in Palm Coast; is it not?

18 A The largeness of the system means that there's  
19 more areas that have -- would have lower -- potential  
20 for lower density, and that's what we have. We have  
21 pockets of high density throughout the system. You have  
22 long runs between them sometimes.

23 Q But if in fact Palm Coast system was many  
24 times larger than it is now, instead of the number of  
25 customers we have build-out, you wouldn't expect the

1 same percentage of water produced to be used for  
2 flushing, would you?

3 A Now, I don't think I said that.

4 Q Well, you said for a system this large. You  
5 mean this large and nonused and useful you would expect  
6 it?

7 A This large and with areas of sparse  
8 development.

9 Q Okay. Thanks. In your supplemental rebuttal  
10 testimony on Page 7, Line 14, starting on Line 14, to  
11 Line 23, you allege that Mr. Bidy did not include the  
12 \$333,328 feet of four-inch --

13 A Excuse me, what page are you looking at?

14 Q Page 7, I'm sorry.

15 COMMISSIONER KIESLING: Supplemental?

16 MR. REILLY: We're talking about -- excuse me  
17 one second. Okay, this is Page 7, sorry, of  
18 supplemental, correct, the new supplemental.

19 Q (By Mr. Reilly) I think we're talking about  
20 Line 23, okay?

21 A Okay.

22 Q And this is where you talk about how he  
23 didn't -- Mr. Bidy didn't include the service  
24 laterals?

25 A That's correct.

1 Q Do you know where in the 200 gallon per inch  
2 per diameter mile of pipe for infiltration, where this  
3 comes from, the standard that Mr. Biddy used?

4 A Do I know -- yes, I know where it comes from.

5 Q What is that?

6 A What's commonly referred to as the Ten State  
7 Standards.

8 Q The Ten State Standards.

9 A Ten states plus Ontario.

10 Q I understand this has already been handed  
11 out. We have just selected pages. This is a document  
12 that's been much referred to in this proceeding, and we  
13 do have a complete copy of the document, and if the  
14 parties feel it necessary, we can, at any appropriate  
15 time, file the entire document with the Commission and  
16 the parties, but at this point in time I would like to  
17 have identified just selected pages of this Ten State  
18 Standards and just ask a few questions about it.

19 COMMISSIONER DEASON: Exhibit 47.

20 (Exhibit No. 47 marked for identification.)

21 Q (By Mr. Reilly) Do you know what is the  
22 minimum size gravity of sewer main recommended by this  
23 manual? And I would direct your attention to --  
24 actually the first page after the cover, that's  
25 entitled -- that's designated at 30-1.

1 A Yes.

2 Q And particularly details of Design and  
3 Construction, 33.1 Minimum Size?

4 A Yes.

5 Q Could you read that -- just that little brief  
6 statement?

7 A "No public gravity sewer conveying raw  
8 wastewater shall be less than 8 inches (203 millimeter)  
9 in diameter."

10 Q Going back to the 333,328 feet of four-inch  
11 service laterals, could you tell me what the definition  
12 of a service lateral is?

13 A It would be the pipe from the gravity main in  
14 the street to the house connection.

15 Q Now, generally, these service laterals are not  
16 deep; is that correct?

17 A It depends on where the main is that it begins  
18 from.

19 Q But would not the laterals represent the least  
20 deep pipe that's in the entire system, because it  
21 basically takes the sewage from the home just below the  
22 line and presumably gradually drops down for, what,  
23 relatively short distances? What type of distances  
24 would we be talking about on these laterals, on the  
25 average?

1           A       I'm talking about approximately an average of  
2 50 feet, be 100 feet sometimes, but maybe 50 feet.

3           Q       So it is correct to characterize these as the  
4 least deep of the entire gravity system, because it is  
5 the highest point?

6           A       As it gets closer to the house lot line, yes.

7           Q       And by the very nature of a gravity system,  
8 there must be continued reduced depth until at least you  
9 get to some kind of a substation that force mains it,  
10 correct?

11          A       That's correct.

12          Q       Now isn't it true that these service laterals  
13 should be above the ground table virtually all the time?

14          A       Well, maybe where they are at the house, but  
15 again, it depends on the depth of the gravity sewer that  
16 they're connecting to.

17          Q       And the distance?

18          A       And the distance.

19          Q       Isn't it correct that virtually 65 percent of  
20 these laterals, four-inch service laterals you mention,  
21 actually go to unoccupied or unused lots?

22          A       No, I only gave you the footage for used lots.

23          Q       Is that correct?

24          A       That's correct. I only gave you footage for  
25 used lots.

1 Q So you're saying of the footage that you gave  
2 me, they are serving --

3 A They're serving customers.

4 Q Current customers?

5 A Correct.

6 Q Okay, on Page 8 of your -- of this  
7 supplemental testimony, at the very bottom, you talk  
8 about the 500 gallons per day per inch diameter mile  
9 standard, and you say this is traditionally used by the  
10 Commission; is that correct?

11 A That's correct.

12 Q Could you share with us why you make this  
13 statement and the cases that supposedly adopt such a  
14 standard? Any docket numbers?

15 A No. I know we've used it in prior Palm Coast  
16 cases as a means of evaluating infiltration. I haven't  
17 had an occasion myself to use it in other cases. It's  
18 been recognized by Staff in all of the discussions  
19 regarding used and useful rules that we've had over the  
20 past three or four years. And I do recall seeing it  
21 mentioned either in a Staff recommendation or in a  
22 Commission order just recently, but I don't recall what  
23 it was.

24 COMMISSIONER DEASON: Mr. Reilly --

25 WITNESS SEIDMAN: And it's also, I believe,

1 mentioned in Staff memoranda. And I could probably  
2 provide you with that.

3 COMMISSIONER DEASON: How much more do you  
4 have with this witness?

5 MR. REILLY: I have really just one little  
6 page of additional questions on this whole line, and  
7 then I do have some rate case expenses, which is like a  
8 logical place to break, if you don't mind.

9 COMMISSIONER DEASON: After the --

10 MR. REILLY: Just this little line of  
11 questioning on --

12 COMMISSIONER DEASON: When you finish that  
13 line, let me know.

14 WITNESS SEIDMAN: Can I finish my statement?

15 MR. REILLY: Sure.

16 WITNESS SEIDMAN: And I can refer you to a  
17 memo of October 1981, a Staff memo, within the  
18 engineering section of water and wastewater, where they  
19 discuss the 500 gallon per day guideline.

20 Q (By Mr. Reilly) Okay, now, just following up  
21 on this 500 gallon a day guideline, previously  
22 identified, I think it was a utility exhibit where they  
23 spoke of Manual No. 9.

24 A Yes.

25 Q Now, do you know where this 500 gallon per day

1 standard found in this Manual No. 9, that it in fact was  
2 derived from old studies from 1955 to 1965?

3 A I think that's correct, yes, but there's been  
4 no update on it.

5 Q Do you know when the industry started to use  
6 PVC pipes instead of clay pipes, approximately? Which  
7 decade?

8 A Somewhere in the fifties there was the  
9 beginning. Use of PVC became more prevalent in the  
10 years after that, in the sixties and seventies. But  
11 Palm Coast has a considerable amount of pipe that's not  
12 PVC.

13 Q But, however, PVC pipe is perhaps more  
14 commonly used in the seventies, or are you suggesting  
15 otherwise?

16 A Yes.

17 Q Now, isn't it correct that the 500 gallon per  
18 day standard in Manual 9 on Page 31 applies to  
19 noncompression type joints? And I can direct your  
20 attention to Page 31 of that standard. It speaks of,  
21 "With noncompression type joints it is possible to meet  
22 the average specification allowance of 500 gallons per  
23 day."

24 A It may well say that, yes.

25 Q Do you know what the difference is between



1 compression and noncompression joints?

2 A I think it speaks for itself.

3 Q It doesn't to me. Can you illuminate it a  
4 little bit more than that?

5 A The joints -- compression joint is made with  
6 force behind it.

7 Q Do you know if the PVC sewer pipes use  
8 compression joints?

9 A Yes. It uses a -- yes, it does.

10 Q And with the use of compression joints, does  
11 this not reduce the infiltration source dramatically?

12 A Hopefully it would, yes, but infiltration  
13 isn't just from the joints.

14 Q Okay, and I guess this is outlined on Page 30,  
15 a little sentence about, "Fortunately, modern jointing  
16 practice and the use of compression type joints makes it  
17 possible to reduce leakage from sources dramatically."

18 But do you know that more than 85 percent of  
19 PCUC's sewer lines are PVC pipes, and less than 15  
20 percent are clay pipes?

21 A No, I don't. They've got some -- I believe  
22 they've got almost 400,000 feet of clay pipe.

23 Q Excuse me?

24 A Got about 400,000 feet of clay pipe.

25 Q If I could have you refer to Mr. Bidy's

1 exhibit that we talked about some time earlier today,  
2 Exhibit 3.1. It's my understanding that in response to  
3 OPC's Interrogatory No. 40, that we -- that Mr. Bidy  
4 reproduced the makeup of the various components of the  
5 collection system and broke it down by PVC and this  
6 vitrified clay pipe.

7 A Okay.

8 Q And it's my understanding that if you did an  
9 analysis of this that it would produce a percentage of  
10 approximately what I suggested?

11 A I'm not arguing with your percentage. I  
12 didn't make that. I just recall seeing from an annual  
13 report approximately 400,000 feet of clay pipe.

14 Q But in fact that could represent a relatively  
15 minor, or 15 percent of the total?

16 A Maybe a major portion of infiltration problem.

17 MR. REILLY: That concludes that line of  
18 questioning.

19 COMMISSIONER DEASON: Before we take a break,  
20 let me ask, how much more total do you have for this  
21 witness?

22 MR. REILLY: Just strictly rate case expense,  
23 and it's not too, too, too overwhelming. I'll move  
24 along briskly.

25 COMMISSIONER DEASON: How much do you have for

1 the next rebuttal witness?

2 MR. REILLY: You're destroying my entire  
3 strategy here. It is less. I have less for  
4 Mr. Guastella than I had for Mr. Seidman.

5 COMMISSIONER DEASON: Can you put a time  
6 estimate on it?

7 COMMISSIONER KIESLING: Seems to me that when  
8 we got these estimates when we were down in Palm Coast,  
9 you were talking about like 45 minutes for one. And  
10 it's been over an hour, well over an hour. Did you add  
11 more questions?

12 MR. REILLY: We have more questions. We also  
13 had more testimony. We tried very hard to limit the  
14 scope of this hearing and tried to keep testimony out,  
15 but it keeps coming in and we keep asking questions  
16 about it. We will move as briskly as we can.

17 COMMISSIONER DEASON: Mr. Melson, how much do  
18 you have for this witness and the next?

19 MR. MELSON: One question for this witness at  
20 this point and ten minutes or less for Mr. Guastella.

21 COMMISSIONER DEASON: Staff?

22 MS. REYES: Approximately, I would guess,  
23 somewhere about 15 to 20 minutes for this witness and  
24 maybe a little bit longer, probably less than half an  
25 hour, for Mr. Guastella.

1           COMMISSIONER DEASON: Mr. Sirkin, do you have  
2 cross for Mr. Guastella?

3           MR. SIRKIN: If it lasts five minutes I would  
4 be surprised.

5           COMMISSIONER DEASON: We're going to take a  
6 break until 3:15.

7           (Recess from 3:05 p.m. until 3:15 p.m.)

8           COMMISSIONER DEASON: Call the hearing back to  
9 order. Mr. Reilly.

10          Q     (By Mr. Reilly) Mr. Seidman, getting on to  
11 the issue of rate case expense.

12          A     Uh-oh.

13          Q     You said uh-oh? Roughly speaking, how much of  
14 this rate case do you believe relates to issues of  
15 nonused and useful, very broadly speaking?

16          A     Probably half.

17          Q     That was my estimate. How much rate case  
18 expense is the Company requesting in this case?

19          A     Our latest projections show \$419,248.

20          Q     Would you agree with me that the utility's  
21 last rate case was quite controversial and very  
22 complicated?

23          A     Yes.

24          Q     Do you know how much rate case expense the  
25 Commission allowed the utility in its last rate case?

1 A No.

2 Q Would you accept, subject to check, that  
3 excluding the investigation cost, the Commission allowed  
4 the utility to recover 215,102 in rate case expense?  
5 And this can be verified on Page 60 of Order 22843.

6 A I'll accept that, sure.

7 Q Are you aware that in the last rate case the  
8 Commission was critical of the Company for using outside  
9 consultants because the Company had competent in-house  
10 staff?

11 A I'm aware of discussion in that regard.

12 Q Has it been approximately seven years since  
13 the Company's last rate case?

14 A Yes.

15 Q And would you agree that inflation has been  
16 running, roughly, what, three percent a year, on the  
17 average, yielding --

18 A I don't know, but fine, that's fine.

19 Q And that would be about a 21 percent increase  
20 for that period of time?

21 A Yes.

22 Q Would you accept, subject to check, that if we  
23 increase the amount of rate case expense found  
24 reasonable in the last rate case by the rate of  
25 inflation, the amount today would be about \$260,000?

1           A     I'll accept that.

2           Q     Would you also agree that the Company's  
3 projected rate case expense in this docket exceeds this  
4 amount by approximately 159,000?

5           A     Yes, but we didn't figure it on the basis of  
6 indexing up the last case. This is actual costs that  
7 we've incurred because of the circumstances that we've  
8 had to face in putting this case together.

9           Q     Could I have you refer to this supplemental  
10 rate case expense, Exhibit 13-B, and could you turn to  
11 Page 2 of that exhibit. Here you show that you expect  
12 to spend 27 hours assisting with the preparation of the  
13 brief; is that correct?

14          A     That's correct.

15          Q     How will you assist in the preparation of the  
16 brief? In percentage terms, I mean, how much of the  
17 brief will you write?

18          A     Probably a small portion. The major -- the  
19 majority of the writing will be done by counsel. My  
20 input will be one of assisting in addressing positions  
21 on certain issues, reviewing the transcripts, the  
22 documents and the exhibits to back up our position,  
23 technical support.

24          Q     Could I get you to flip back over to 13-A and  
25 to Page 79 of 13-A. And on this page -- this is the law

1 firm's estimate to complete the case prior to the extra  
2 day of hearing; is that correct?

3 A What page are you looking at?

4 Q 79 of 95.

5 A Yes, okay.

6 Q And at this page, this is -- this basically  
7 represents the law firm's estimate to complete the case  
8 prior to the extra day of hearing?

9 A Yes.

10 Q And there's an entry in July to read  
11 transcripts and prepare the brief for 80 hours; is that  
12 correct?

13 A Yes.

14 Q Could you now turn to Page 3 of FS-13B. Here  
15 there are two entries for the preparation of the brief  
16 right near the top. It's 12 hours for Mr. Gatlin's time  
17 and 80 hours for Mr. Schiefelbein's time; is that  
18 correct, under B?

19 A Yes.

20 Q KG is brief, 12?

21 A Yes, I see that.

22 Q And WLS, 80.

23 A Yes, I see that.

24 Q Why should the amount of time to write the  
25 brief have increased 12 hours due to the additional part

1 of a day of hearings?

2 A I don't know that the increase was simply a  
3 recognition that there was an extra day of hearings, but  
4 that there was extra work that would be necessary, that  
5 was felt to be necessary because of the substance of  
6 what's transpired between the original hearing and now.

7 Q There's also an entry for preparation of  
8 rebuttal testimony to Sapp; is that correct?

9 A If you can point me to it.

10 Q It's Mr. Schiefelbein, I believe, and it says  
11 preparation of rebuttal testimony to Sapp, four hours.

12 A Okay.

13 Q What rebuttal testimony is being referred to  
14 there?

15 A The exhibit that was put in -- oh, wait a  
16 minute, this is back in -- no, this is a new update?

17 Q This is the new update.

18 A This would be with regard to the supplemental  
19 exhibit that was put in today.

20 Q Is it customary for the attorneys to write the  
21 testimony of the witness?

22 A It's customary for the attorneys to review it  
23 and to comment on both form and substance.

24 Q Does it say review, or does it say preparation  
25 of rebuttal testimony?



1           A     I know what it says and I know what they did.  
2 Mr. Sapp wrote the basic testimony. Counsel went ahead  
3 and -- excuse me, the basic preparation for it. Counsel  
4 went ahead and put it in the format and discussed it  
5 with Mr. Sapp as to how it should be presented.

6           Q     It's also on this same page an entry by  
7 Mr. Gatlin for preparation of rebuttal testimony to  
8 Mr. Biddy. What rebuttal testimony does this refer to?

9           A     This is referring to the testimony that I put  
10 in today, supplemental. This is time Mr. Gatlin spent  
11 with me with regard to finalizing that testimony.

12          Q     Do you testify, Mr. Seidman, on used and  
13 useful issues in rate cases?

14          A     Yes, I have.

15          Q     And you are a registered engineer?

16          A     Yes.

17          Q     And what is your hourly rate?

18          A     \$85 an hour.

19          Q     Now in this case the Company chose to have  
20 Mr. Guastella testify on most of the used and useful  
21 issues; is that correct?

22          A     Yes.

23          Q     What is Mr. Guastella's hourly rate?

24          A     I would have to look it up, but if you can  
25 tell me, I'll --

1 Q Subject to check, \$190?

2 A Fine, yes.

3 Q That would be about double?

4 A Yes.

5 Q Could you now turn your attention back to  
6 Exhibit FS-13A, and could you look at Page 3. There's  
7 an entry here for Mr. Guastella that says, work in  
8 progress on rate filing and participation in used and  
9 useful workshop. Is that correct? Right at the top?

10 A Yes.

11 Q Why should Mr. Guastella's participation in a  
12 used and useful workshop be charged to rate case  
13 expense?

14 A Because he was participating on behalf of Palm  
15 Coast Utility for the purposes of determining Staff  
16 positions, and positions of the industry as they might  
17 affect his used and useful analysis.

18 Q Wouldn't such a representation of Palm Coast  
19 at such a workshop be more an expense to the utility for  
20 its operations than it would be a proper rate case  
21 expense item?

22 A Well, in this particular case it coincided  
23 with the preparation of this rate case, and I believe  
24 they wanted him there, specifically, so there would be  
25 some -- he would have some knowledge of the input into

1 that procedure.

2 Q There is an air fare charge on this page,  
3 also, for Mr. Guastella, for \$1008 to Tallahassee. Do  
4 you know if this was first class rate or coach rate?

5 A No, I don't know. I assume it's --

6 Q Given that amount, what would you assume?

7 A Knowing what it costs to fly to Tallahassee, I  
8 would assume that was coach. I know I've paid \$600 just  
9 to get from West Palm Beach to Tallahassee.

10 Q Do you know if this cost and the others listed  
11 under the trip to Tallahassee were for the workshop or  
12 for the -- any particular preparation for the rate case?

13 A The June 19th and 20th? No, let's see, the  
14 July 11 and 12, I don't recall if that was the workshop  
15 dates or not. It could be.

16 Q Would it be reasonable to conclude that they  
17 were associated with the workshop? For example, if you  
18 would look at the legal bills for that month on Page 33,  
19 if you would, we see no meeting with the lawyers and  
20 with Mr. Guastella, nor any meeting between you and  
21 Mr. Guastella at that same time period; is that correct?

22 A July 11th? This is Page 33?

23 Q Let me make sure here.

24 A I see one entry for July 11.

25 Q Yes, that's the right page. I'm almost really

1 referring to what is not on this page, that there were  
2 not any meetings with you or the law firm or anything in  
3 Tallahassee during that time, with Guastella and those  
4 parties?

5 A You mean so we can back into the date of the  
6 workshop?

7 Q So we can determine what brought him to  
8 Tallahassee.

9 A I think July 11th and 12th was the workshop.  
10 I don't recall. If somebody knows, that's fine. I'm  
11 not trying to evade it.

12 Q Okay.

13 A It's a year ago.

14 Q Back on 3, could you look at the entries for  
15 July 18, 19 trip to Palm Coast. Do you know what the  
16 limo charges are for?

17 A No.

18 Q But from this -- it indicates that a limo was  
19 taken and charged as rate case expense.

20 A Yes, I see that.

21 Q By Mr. Guastella.

22 A I see that.

23 Q Do you know if this is least costly form of  
24 transportation for Mr. Guastella to use and to be borne  
25 by the ratepayers?

1           A     I don't know what it was used for, so I don't  
2 if it's the least costly for whatever he did.

3           Q     Well, you do know that it was the form of  
4 transportation chosen?

5           A     For something.

6           Q     For something.

7           A     But since I don't know what it was for, I  
8 can't express an opinion on whether it was the least  
9 costly method.

10          Q     Could you turn to Page 5. Here we have  
11 charges for Mr. Guastella for an unspecified trip, which  
12 includes a charge of \$72.76 for an auto, another charge  
13 for \$154.50 for limo, and additional travel for  
14 540 miles times 30 cents a mile. Do you know why he  
15 apparently rented a car, used his own car and then used  
16 a limo for the same trip?

17          A     No, I don't.

18          Q     Could you turn to Page 13 of this exhibit.  
19 This is Mr. Guastella's estimate to complete the project  
20 prior to this additional day of hearing; is that  
21 correct?

22          A     Yes.

23          Q     And it's \$112,360.42?

24          A     Yes.

25          Q     Could you turn to Page 8 of this newer updated

1 rate case expense, 13B, and on Page 8, now with the  
2 additional day of hearing, Mr. Guastella estimates that  
3 the total cost of the project is \$119,555.55, or roughly  
4 7,000 more than was the prior estimate; is that correct?

5 A That's correct.

6 Q And even at \$190 an hour, and if you assume he  
7 charges his travel time at the same right and takes a  
8 day to travel to and from the hearing, this would  
9 calculate at \$3,040; is that correct?

10 A What would calculate at 3,040?

11 Q The 190 hours times two times eight, or 16  
12 hours.

13 A I guess you lost me.

14 Q I'm trying to ascertain the cost of  
15 Mr. Guastella's services for this additional day of  
16 hearing, and if you had multiplied two eight-hour days  
17 times the \$190 rate you would get \$3,000 instead of  
18 \$7,000; is that correct?

19 A Oh yes. I didn't know what you were doing,  
20 that's why I didn't know what you were getting at. I  
21 wouldn't surmise from his additional cost that all he  
22 did was add two days on. You have to -- he had to do  
23 some review of what transpired with Mr. Bidy and his  
24 change on the -- with regard to the reject from the  
25 plant to see if it affected anything on his numbers.

1           Q     But Mr. Guastella didn't offer any  
2 supplemental testimony or anything?

3           A     No. Ascertained he didn't have to do  
4 anything. It was kind of confusing when Mr. Bidy was  
5 giving that orally, as to exactly what was going to be  
6 impacted by that, whether it was just going to be the  
7 infiltration expense, infiltration amount that was on  
8 3.1, or whether it affected used and useful of the water  
9 treatment plant, just because of the way he was talking  
10 about the amount of reject, so he had to look into  
11 that. He would have had to prepare for the case again,  
12 to come back up here. I know I did. You have to renew  
13 yourself on all the information.

14          Q     So basically even counting the time and the  
15 hearing time, that it cost around \$4,000 to get that one  
16 sentence that said that the citizens' change on the  
17 concentrate, we basically agree with it?

18          A     No, that's not what I said. I said that's one  
19 of the things he would have had to do, but the other  
20 things he would have had to have done was to have  
21 prepared for coming back here.

22          Q     Moving right along here, Page 20, Exhibit 13A,  
23 I noticed on this page that there's a charge from you  
24 concerning SAC, or service availability charge; is that  
25 correct?

1 A What page are you on?

2 Q This is Page 20 of 95 on 13A. And the service  
3 availability charge evaluation is pretty much throughout  
4 this bill.

5 A Yes.

6 Q Now, when was the last time PCUC changed its  
7 service availability charges?

8 A I'm not sure whether they changed it in the  
9 last case or not. I know they haven't changed it since.

10 Q Isn't there a separate docket to consider  
11 PCUC's request for increased service availability  
12 charges?

13 A Yes, it is.

14 Q If the Commission determined that the cost to  
15 prepare the service availability charge application  
16 should not be amortized over four years but some other  
17 period, would it -- would you believe it would be  
18 appropriate to ascertain those costs associated with  
19 that element and amortize it over a different period of  
20 time?

21 A The expense to do service availability in the  
22 service availability docket?

23 Q Well, as I understand it, you're attempting to  
24 collect from the ratepayers in this rate proceeding.

25 A In this docket.



1 Q In this docket.

2 A Right.

3 Q Work that was prepared for another docket.

4 A Right.

5 Q And setting aside the propriety of doing that,  
6 regardless of what form that the Commission might choose  
7 to allow the Company to recoup its costs associated with  
8 supporting that application, if they decided to do that  
9 in some other way, would it not be appropriate to take  
10 it out of this rate case expense, associated with this  
11 docket?

12 A Well, I don't know that there's another way  
13 available to them. I thought rate case expense was --  
14 had to be amortized over four years. I've included it  
15 in here prior to the fact that the Commission decided to  
16 handle the service availability charge in a separate  
17 docket. But as far as I'm concerned, it was a necessary  
18 part of completing this rate application because policy  
19 of the Commission has always been when you put in a rate  
20 application, service availability charges are up for  
21 review. So I would have had to have done a review of  
22 the service availability charge anyway to complete my  
23 work on this docket, whether or not we applied for an  
24 increase.

25 Q Has not the Commission included costs

1 associated with service availability applications and  
2 embedded those costs of pursuing the application in that  
3 service availability charge that it settles on?

4 A I don't know. I've never applied for a  
5 service availability charge as a separate item. It's  
6 always been part of a rate case.

7 Q Generally would the Commission allow recovery  
8 of costs associated with another docket to be included  
9 as rate case expense in a separate docket?

10 A Not unless they intertwined them normally.  
11 But in this case, as I mentioned, the work needed to be  
12 done to complete the work for this case anyway.

13 Q Could I get you to refer to Page 56 of this  
14 same 13A, and here on this page there's a charge --  
15 excuse me?

16 A 56?

17 Q 56 of 95. There's a charge here on this page  
18 for photocopying 2174 pages at 20 cents per page, for a  
19 total of \$434; is that correct?

20 A Yes.

21 Q Do you know what the standard photocopying  
22 charge is in Tallahassee for professional -- from a  
23 professional copy service?

24 A No.

25 Q Do you care? Do you think it's relevant to

1 this Commission to determine reasonable rate case  
2 expense, or should we just pay whatever the consultant  
3 decides to charge?

4 A It may be relevant to the Commission what  
5 others charge for photocopying.

6 Q And you're recommending that the ratepayers  
7 pay this full amount, correct?

8 A I think 15 to 20 cents is pretty standard when  
9 copying is done by a professional firm.

10 Q It's not five to ten cents?

11 A I've never charged that.

12 Q At the professional copying centers?

13 A No, I say when it's done by a professional  
14 firm. I don't mean a professional copying firm. I mean  
15 an attorney or a consultant.

16 Q But my question is, the professional copiers,  
17 what do they charge, for large -- I mean, I understand  
18 small jobs, but we're talking about thousands at a  
19 time. Is it -- would it be a prudent thing to do to  
20 hand that over to a professional and save that  
21 substantial cost?

22 A It might be. It just depends on the  
23 circumstances. I don't know what was copied in this. I  
24 do know that when we made our -- for instance, when we  
25 put together the MFRs, they were done by a professional

1 company by the utility. Circumstances dictate whether  
2 or not you have the time, or whatever, to go to a  
3 professional copying place, or whether you do it  
4 in-house, and what it's for.

5 Q Could I get you to turn to Page 64 of this  
6 same exhibit, and look at the entries for June 11,  
7 1996.

8 A What page again?

9 Q This is Page 64.

10 A Okay.

11 Q And at this page, the entry under June 11 --  
12 there is a group of entries, and there's one that says,  
13 prepare for deposition with a charge of 4.1 hours; is  
14 that correct? That's --

15 A Yes, I see that.

16 Q Do you know what deposition Mr. Schiefelbein  
17 was preparing for on June 11?

18 A I might be able to figure it out.

19 Q Would you accept, subject to check, that there  
20 was a deposition on that day of Ms. Dismukes?

21 A Okay. I don't know if she was the only one  
22 deposed on that day or not, was she? (Pause) So the  
23 question is, did he spend four hours preparing for her  
24 deposition.

25 Q No name is mentioned, it's just on this

1 date --

2 A Excuse me?

3 Q Oh it does, it does say -- well, no, it says,  
4 attend deposition of Kim Dismukes. So you do see that?  
5 There's no other depositions that he attended  
6 apparently?

7 A No, I would surmise from this that since this  
8 is the day of her deposition, that the preparation for  
9 deposition here was for a deposition that was  
10 forthcoming.

11 Q Okay.

12 A The work for her preparation would have been  
13 in earlier days.

14 Q Would you turn to Page 74, 74 of this exhibit,  
15 for our last question on rate case expense. On this I  
16 would refer you to an entry for 6-18-96 where there's a  
17 charge of \$2,196 to photocopy 10,980 pages.

18 A Yes, I see that.

19 Q Would this have been the type of an assignment  
20 that you referred to earlier that might have been  
21 appropriate to try to have a substantially reduced cost  
22 to ratepayers by using a professional copy service  
23 instead of the 20 cents per page that you are  
24 recommending this Commission make the ratepayers bear?

25 A Again, it's a matter of the circumstances at

1 the time the copying was done and the time frame in  
2 which it had to be completed. I know that Gatlin's firm  
3 does use outside copying sometimes. So I would bend to  
4 their discretion that they had decided in this case that  
5 timing was such that they did it in-house.

6 MR. REILLY: No further questions.

7 COMMISSIONER DEASON: Mr. Melson.

8 CROSS EXAMINATION

9 BY MR. MELSON:

10 Q Mr. Seidman, you were asked some questions  
11 about Exhibit 10, which related to reimbursements or  
12 other debits and credits between ICDC and Hammock Dunes  
13 and the utility. Do you recall that line of questions?

14 A Yes.

15 Q Is it correct that the Hammock Dunes, as  
16 referred to on that exhibit, does not refer to my  
17 client, the Dunes Community Development District?

18 A Yes. This exhibit refers not to Hammock  
19 Dunes, but to Hammock Phases 1 and 2, different phases  
20 of Hammock. Hammock is a generic term for beach side  
21 area subdivisions. There are no charges on here to  
22 Hammock Dunes.

23 Q No charges to Dunes to Community Development  
24 District?

25 A Right.

1 Q Thank you.

2 COMMISSIONER DEASON: Staff?

3 CROSS EXAMINATION

4 BY MS. REYES:

5 Q Mr. Seidman, in your rebuttal testimony and at  
6 your deposition, you discuss the theoretical merits of  
7 using ITT's federal statutory tax rate of 35 percent  
8 versus Palm Coast's standalone federal statutory tax  
9 rate of 34 percent, correct?

10 A That's correct.

11 Q And during your deposition you were asked if  
12 you could provide us with the names of utilities and the  
13 specific commission order numbers wherein this  
14 Commission addressed the use of a higher consolidated  
15 federal income tax rate for the utility than its  
16 standalone rate and wherein the orders discussed the  
17 theoretical justification the Commission gave for the  
18 use of the higher rate. Do you recall that part of our  
19 discussion?

20 A Yes, I do.

21 Q Do you also recall that your response to our  
22 request for Commission precedent was that you were not  
23 aware of any and that you hadn't relied on any past  
24 precedent for what you were proposing?

25 A That's correct.

1 Q Is it true that the taxable income of Palm  
2 Coast on a standalone basis is below \$10 million?

3 A That's correct.

4 Q In this next question I'm going to be  
5 referring to Order 22843 from Palm Coast's last rate  
6 case.

7 A Will I need a copy?

8 Q I don't think you'll need one.

9 A Okay.

10 Q In that case the Commission imputed ITCs  
11 because Palm Coast failed to claim the ITCs on its tax  
12 return related to certain additions that were  
13 transferred from CWIP to plant in service?

14 A Correct.

15 Q As of December 31st, 1988, the Commission  
16 imputed \$264,356 of ITCs and \$83,272 of accumulated  
17 amortization on those ITCs. Are you familiar with this  
18 imputed ITC adjustment?

19 A Yes.

20 Q Amortizing that imputed ITC adjustment at  
21 forward at 3 percent, as was done in that order, do you  
22 agree that the December 31st, 1995 year end amount of  
23 that imputation results in a net figure of \$125,569?

24 A Yes.

25 Q And subject to check, would you agree that the



1 13-month average equivalent of that \$125,569 adjustment  
2 is \$129,534?

3 A Yes.

4 Q You're aware that Mr. Spano appraised the RIB  
5 site land at its highest and best use, correct?

6 A Yes, I am aware of that.

7 Q And from a rate making perspective, do you  
8 believe that it's appropriate to value land transactions  
9 between related parties at its highest and best use, in  
10 this case residential development?

11 A Yes. I believe that for a transaction between  
12 related parties, the cost should -- or the value should  
13 reflect the value to a nonaffiliate purchaser, and that,  
14 to me, would mean valued at its highest and best use.

15 Q Isn't it true that the RIB site which was  
16 purchased in 1990 is located next to the spray field and  
17 RIB site which was purchased in 1979?

18 A That's correct.

19 Q Is it reasonable to assume that Palm Coast  
20 knew, when they purchased the effluent disposal land in  
21 1979, that more land would eventually have to be  
22 acquired for effluent disposal as wastewater flows  
23 increased?

24 A Yes, it would be reasonable for them to assume  
25 that, as there was growth in the community, that they

1 would need more land, but not necessarily where it would  
2 be.

3 Q On Page 16, Line 4 of your rebuttal testimony,  
4 you indicate that the guaranteed revenue charge recovers  
5 costs associated with nonused plants. A decrease in the  
6 amount of nonused plant in this case would affect the  
7 guaranteed revenue charge, correct?

8 A Yes.

9 Q Now, I just have a few more questions on  
10 flushing, particularly in the beach side area.

11 A Okay.

12 Q Isn't it true that Palm Coast only serves  
13 water customers on the beach side?

14 A Would you repeat that?

15 Q Is it true that Palm Coast only serves water  
16 customers on the beach side?

17 A Yes.

18 Q And isn't it true that at the southern end of  
19 the beach side Palm Coast provides water for customers  
20 of the Dunes?

21 A Palm Coast provides bulk water to the Dunes,  
22 but not to the customers of the Dunes directly.

23 Q Do you know what customer is located at the  
24 northern end of the beach side area?

25 A Matanzas Shores, I believe, is the northern

1 most customer -- regular customer.

2 Q If we could have just a second. (Pause)

3 Isn't it true that Marineland is located north  
4 of Matanzas Shores?

5 A Yes, it is.

6 Q Isn't it true that Palm Coast can serve  
7 Marineland through an emergency interconnection which  
8 was installed several years ago?

9 A Yes. It has provided emergency service to  
10 Marineland on a year-by-year basis. The contract with  
11 Marineland has lapsed, lapsed in March, I believe. And  
12 right now, I guess it's in limbo.

13 Q Isn't it true that Marineland has a water  
14 treatment plant which can meet its current demands?

15 A Yes, I believe that's correct. I don't know  
16 if it can meet its current demands. I do know they have  
17 a plant.

18 Q Do you know if that's a reverse osmosis plant?

19 A Yes, I believe it is.

20 Q Isn't it true that if Marineland was a regular  
21 customer of Palm Coast, that some of the water which is  
22 currently being used for flushing can instead be sold to  
23 Marineland?

24 A Oh yes, yes. And the Company has made  
25 overtures to Marineland to become a regular customer,

1 unsuccessfully.

2 Q Isn't it true that Palm Coast does not receive  
3 any revenues from water which is used for flushing?

4 A I don't believe they receive any revenues now.

5 Q And isn't it true that Marineland is unwilling  
6 to pay an impact charge to connect to Palm Coast's water  
7 system?

8 A Repeat that, please.

9 Q Isn't it true that Marineland is unwilling to  
10 pay an impact charge to connect to Palm Coast's water  
11 system?

12 A Yes, that's my understanding.

13 Q Thank you. Staff has no further questions.

14 COMMISSIONER DEASON: Redirect?

15 REDIRECT EXAMINATION

16 BY MR. GATLIN:

17 Q Mr. Seidman, some questions were asked of you  
18 about the revenue agreement with ICDC.

19 A Yes, sir.

20 Q Is there any requirement that you know of,  
21 from the PSC or by statute, that there be a revenue  
22 agreement?

23 A No, I'm not aware of any requirement that you  
24 have one.

25 Q Does the existence of the revenue agreement

1 have any influence on your used and useful study for  
2 O&M?

3 A No, no. The used and useful studies don't  
4 take that into account at all. It's not relevant.

5 Q The revenue agreement is for revenue of all of  
6 the nonused and useful nature; is that right?

7 A I can't hear you.

8 Q The revenue agreement is for nonused and  
9 useful costs?

10 A That's correct.

11 Q Mr. Reilly asked you some questions about the  
12 Ten State Standards.

13 A Yes.

14 Q Why don't you use that in determining the  
15 level of infiltration and inflow?

16 A The Ten States Standard is a standard for  
17 installing new lines, not for evaluating existing  
18 systems.

19 Q And how old are the lines at Palm Coast,  
20 generally?

21 A Up to 25 years.

22 Q Why would you include laterals in determining  
23 infiltration and inflow?

24 A Laterals are normally a major source of  
25 infiltration into a system.

1 Q Does Manual 9 recognize that lateral or source  
2 of infiltration and inflow?

3 A Yes, Manual 9 mentions services as part of the  
4 overall plan to subject infiltration, and then I believe  
5 it also indicates that it's a major source of  
6 infiltration. House connections is how they refer to  
7 it.

8 MR. GATLIN: That has been identified as  
9 Exhibit 37, I believe, Manual 9.

10 That's all I have. Thank you, Mr. Chairman.

11 COMMISSIONER DEASON: Exhibits?

12 MR. GATLIN: Like to move Exhibit 41 and 42.

13 COMMISSIONER DEASON: Exhibit 41 -- first of  
14 all, is there an objection to Exhibit 41 or Exhibit 42?

15 MR. REILLY: No objections.

16 COMMISSIONER DEASON: Exhibits 41 and 42 are  
17 admitted. Further exhibits?

18 MR. REILLY: We would move in Exhibits 44  
19 through 47.

20 COMMISSIONER DEASON: Without objection  
21 Exhibits 44 through 47 are admitted.

22 MR. GATLIN: Just a moment, Mr. Chairman.

23 (Pause) Mr. Chairman, did -- was Exhibit 44 offered?

24 COMMISSIONER DEASON: Yes, Exhibit 44 was  
25 moved.

1 MR. GATLIN: Exhibit 44 is an exhibit with  
2 several responses to interrogatories that were not  
3 referred to in the testimony, and I would like to  
4 understand from Mr. Reilly what it is that he's placing  
5 into evidence.

6 MR. REILLY: We asked a number of questions  
7 with this cross examination exhibit, and it is true that  
8 we did not ask questions about every interrogatory  
9 response that can be found in Exhibit 44. So if you'll  
10 wait one minute, I can clarify exactly which  
11 interrogatory responses we utilized in our cross  
12 examination. I know -- can we identify them?

13 MR. GATLIN: Would it be 75?

14 MR. REILLY: I know for sure it's 75. We're  
15 checking them off right now. I think that's the only  
16 reason why we put the whole thing in was so it would be  
17 known, the context of it and --

18 COMMISSIONER DEASON: There were some  
19 questions on 77.

20 MR. REILLY: I believe that's correct, 77.

21 MR. GATLIN: 77. Maybe 78, I'm not sure.

22 MR. REILLY: Quickly checking, I believe that  
23 would cover it, and if that's an objection, I don't have  
24 a problem with that, 75 and 77, responses.

25 MR. GATLIN: That will be fine.

1 MR. REILLY: That's been reduced to --

2 COMMISSIONER DEASON: Exhibit 44, as far as  
3 admittance to the record, will only include the  
4 interrogatories and responses thereto for No. 75 and  
5 77.

6 MR. SIRKIN: I would like to withdraw my  
7 request to have Exhibit 29 moved into the record because  
8 Exhibit 45 contains that exhibit, and I would like to  
9 request that Exhibit 43 be moved into the record.

10 COMMISSIONER DEASON: 29 is no longer being  
11 moved and you are moving Exhibit 43. Without  
12 objection?

13 MR. REILLY: No objection.

14 COMMISSIONER DEASON: Without objection  
15 Exhibit 43.

16 (Exhibit Nos. 41, 42, 43, 44, 45, 46 and 47  
17 received into evidence.)

18 MR. REILLY: I did want to clarify one thing  
19 on Exhibit 44, and this is the problem we get into when  
20 we start picking and choosing pieces. The response to  
21 the portion that we've identified as 75, Pages 6 and 7,  
22 should be included too because it's part of that  
23 response. It is in fact this Company's response to OPC  
24 Interrogatory 23, Attachment G, which is referred to  
25 there. So it's what we've previously identified, plus



1 Pages 6 and 7.

2 COMMISSIONER DEASON: You lost Mr. Reilly.

3 MR. REILLY: Pages 6 and 7 relate to  
4 interrogatory response -- as I understand it --  
5 Interrogatory Response No. 75. It was put on there for  
6 the convenience of the witness if he wanted to have all  
7 the information in front of him.

8 COMMISSIONER DEASON: Page 6 looks to be  
9 interrogatories, but there is Attachment G associated  
10 with question 23?

11 MR. REILLY: Right, so that 23 goes with 75 is  
12 my understanding, and this is the Attachment G, which  
13 was their response to a -- I believe it's a POD request,  
14 75.

15 COMMISSIONER DEASON: Any objection to  
16 Attachment G being included within Exhibit 44?

17 MR. GATLIN: I have no objection.

18 MR. SCHIEFELBEIN: Excuse me, Commissioner.  
19 Could I get a clarification on Exhibit 41? And my  
20 taking notes is not the greatest. I have it down as --  
21 that includes FS-6 through 12, 13A and 13B.

22 COMMISSIONER DEASON: That's correct.

23 MR. SCHIEFELBEIN: Thank you.

24 COMMISSIONER DEASON: Thank you, Mr. Seidman.

25 (Witness Seidman excused.)

1                   COMMISSIONER DEASON: I think Mr. Guastella is  
2 already on the stand. You may proceed.

3                   JOHN F. GUASTELLA  
4 was called as a witness on behalf of Palm Coast  
5 Utilities Corporation, and having been duly sworn,  
6 testified as follows:

7                   DIRECT EXAMINATION

8 BY MR. GATLIN:

9           Q     Mr. Guastella, have you been sworn?

10          A     Yes.

11          Q     And have you prepared written testimony for  
12 presentation in this proceeding?

13          A     Yes, I have.

14          Q     Consisting of how many pages? 44?

15          A     Forty-four pages.

16          Q     If I were to ask you those questions today as  
17 set forth in that document, would your answers be the  
18 same?

19          A     Yes.

20          Q     And you have no exhibits?

21          A     That's correct.

22                   MR. GATLIN: May we have that testimony  
23 inserted into the record as though read?

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

1                   REBUTTAL TESTIMONY OF JOHN F. GUASTELLA  
2                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
3                   REGARDING THE APPLICATION FOR INCREASED RATES FOR  
4                   PALM COAST UTILITY CORPORATION  
5                   IN FLAGLER COUNTY  
6                   DOCKET NO. 951056-WS  
7

8           Q.    Please state your name, profession and address.

9           A.    My name is John F. Guastella. I am President of  
10           Guastella Associates, Inc., consultants in the  
11           utility regulatory field. My mailing address is  
12           P.O. Box 371, Peapack, New Jersey 07977.

13  
14          Q.    Have you previously submitted direct testimony in  
15           this proceeding?

16          A.    Yes.

17  
18          Q.    What is the purpose of your rebuttal testimony?

19          A.    My rebuttal testimony will address the direct  
20           testimony of Public Counsel witnesses, Mr. Ted L.  
21           Biddy and Ms. Kimberly H. Dismukes, and Florida  
22           Public Service Commission ("FPSC") witnesses, Ms.  
23           Karen Amaya and Mr. Robert F. Dodrill, with respect  
24           to used and useful and related issues. My testi-  
25           mony also addresses the testimony of Mr. Arsenio

1 Milian and Mr. Gary L. Moyer, filed on behalf of the  
2 Dunes Community Development District ("DCDD") with  
3 respect to the proposed rate for effluent reuse sales.  
4

5 Q. Have you reviewed the testimony of these witnesses,  
6 as well as the pre-filed testimony of other wit-  
7 nesses on behalf of the FPSC?

8 A. Yes.  
9

10 Q. Do you have any general comments with respect to  
11 Mr. Bidy's testimony regarding the issue of used  
12 and useful?

13 A. Yes. My overall impression is that Mr. Bidy would  
14 strictly limit recognition of PCUC's cost of pro-  
15 viding service to a ratio of the existing test year  
16 demands to the capacity of various system compo-  
17 nents. Mr. Bidy seems to give absolutely no  
18 consideration to regulations which require water  
19 and sewer utilities to have sufficient capacity to  
20 add customers or the rate setting precedents which  
21 require that a utility be granted sufficient reve-  
22 nues to cover its current cost of providing ser-  
23 vice. Mr. Bidy's proposed methodology ignores  
24 regulatory requirements with respect to the provi-  
25 sion of safe and adequate service, it ignores basic

1 rate setting principles and it ignores longstanding  
2 used and useful policies established by the FPSC  
3 not only with respect to PCUC, but other water and  
4 sewer utilities as well.

5 Mr. Bidy attempts to justify his approach, in part,  
6 by suggesting it is reasonable to simply shift costs to  
7 future customers, without adequate consideration of  
8 whether PCUC will be able to recover its current costs of  
9 providing service, or whether shifting costs to future  
10 customers results in unduly discriminatory rates for  
11 those customers.

12

13 Q. Has Mr. Bidy departed from the FPSC's decisions  
14 with respect to PCUC in prior rate cases?

15 A. Yes.

16

17 Q. Would you list those items where Mr. Bidy has  
18 departed from FPSC decisions regarding PCUC?

19 A. Yes.

20 1. Mr. Bidy recommends the disallowance of  
21 margin reserve, which is contrary to the  
22 FPSC's decision with respect to PCUC.

23 2. One of the arguments Mr. Bidy makes with  
24 respect to the disallowance of margin reserve  
25 is that the utility receives guaranteed reve-

- 1                   nues, which is an argument specifically re-  
2                   jected by the FPSC.
- 3           3.    Mr. Biddy recommends that no allowance for  
4                   fire demand be included in the used and useful  
5                   calculations with respect to source of supply  
6                   and treatment plant, which was specifically  
7                   rejected by the FPSC.
- 8           4.    Mr. Biddy argues against the use of the maxi-  
9                   mum day with respect to the calculation of  
10                  used and useful for the water plant, which is  
11                  contrary to the FPSC's finding with respect to  
12                  PCUC in previous cases.
- 13          5.    Mr. Biddy fails to adjust the total well  
14                  capacity in order to recognize that on any  
15                  given day some wells will be out of service,  
16                  which is contrary to the FPSC's findings with  
17                  respect to PCUC in previous cases.
- 18          6.    Mr. Biddy calculates a used and useful per-  
19                  centage with respect to water treatment plant  
20                  without an allowance for plant uses, contrary  
21                  to the FPSC's finding with respect to PCUC in  
22                  previous cases.
- 23          7.    With respect to water and wastewater mains,  
24                  Mr. Biddy recommends the use of a ratio of  
25                  connected lots to total lots in his calcula-

1           tion of used and useful, which is contrary to  
2           the FPSC's acceptance of the ratio of ERCs to  
3           lots in the PCUC's previous rate cases.

4           8. Mr. Biddy makes no individual analysis with  
5           respect to transmission (off-site) mains,  
6           which is contrary to the method accepted by  
7           the FPSC in PCUC's previous rate cases.

8           9. Mr. Biddy utilizes a "lot count method,"  
9           without a separate analysis with respect to  
10          the wastewater pumping plant, contrary to the  
11          FPSC's finding in PCUC's previous rate cases.

12          10. Mr. Biddy makes no separate adjustment for  
13          hydrants, but instead apparently uses his lot  
14          count method, which is contrary to the FPSC's  
15          finding in PCUC's previous rate cases.

16          11. Mr. Biddy makes no separate analysis with  
17          respect to force main and gravity main, which  
18          is contrary to the FPSC's finding with respect  
19          to PCUC in previous cases.

20

21          **Q. Do you agree with Ms. Amaya's testimony that while**  
22          **the FPSC does not currently have rules which set**  
23          **out a specific methodology for used and useful**  
24          **determinations, it has been working with industry**

1           and the Department of Environmental Protection  
2           ("DEP") to establish such rules?

3       A.    Yes.  I have been a participant in that process,  
4           which has been open to all interested industry and  
5           regulatory representatives.

6  
7       Q.    Have any specific methods been established with  
8           respect to used and useful calculations?

9       A.    To my knowledge no final recommendation has been  
10           prepared for submission to the FPSC.  The used and  
11           useful workshop, however, has identified certain  
12           principles which should be recognized in any rules  
13           which establish specific methods or calculations  
14           with which to make used and useful determinations.  
15           It has been recognized that water and sewer utili-  
16           ties must provide safe and adequate service to both  
17           existing and future customers and should be encour-  
18           aged to construct economically-sized facilities in  
19           order to do so.  While the characteristics of  
20           water and sewer utilities differ from such other  
21           utilities as electric and gas, and require differ-  
22           ent considerations with respect to used and useful,  
23           it must also be recognized that those other utility  
24           industries construct facilities with sufficient  
25           capacity to meet both short and long term growth,



1 the costs of which are recognized for rate setting  
2 purposes. The used and useful determinations for  
3 water and sewer utilities which serve growing real  
4 estate developments should not produce rates which  
5 deny a reasonable level of current costs. Used and  
6 useful determinations for water and sewer utilities  
7 should not be so stringent as to deny similar  
8 reasonable rate allowances, nor should they foster  
9 within the water and sewer industry a disincentive  
10 to construct reasonably-sized facilities.

11

12 Margin Reserve

13 Q. Do you agree with Mr. Biddy's recommendation to  
14 disallow any margin reserve as part of the used and  
15 useful calculation?

16 A. No. The FPSC has recognized for this utility as  
17 well as others that margin reserve represents a  
18 cost for utility facilities which must be incurred  
19 to serve both existing and new customers. It has  
20 recognized that existing customers will be present  
21 in the future when new customers are added, and  
22 both must receive adequate service. The FPSC has  
23 recognized that service must be provided to all  
24 customers on a continuous basis, now and in the  
25 future, to not only meet growth but also changes in

1 demand characteristics of all customers. The FPSC  
2 has recognized that the requirements to serve  
3 customers are the same for all utility companies  
4 regardless of whether the utility company is serv-  
5 ing affiliated or unaffiliated developers. The  
6 FPSC has recognized that the provision of service  
7 to existing and new customers is a statutory re-  
8 quirement. Mr. Bidy does not recognize or ade-  
9 quately address any of those FPSC findings.

10 Moreover, he does not explain how a utility would  
11 recover a reasonable level of costs which it is incurring  
12 on a current basis. The FPSC has specifically rejected,  
13 in its past decisions for PCUC and in other cases, Mr.  
14 Bidy's argument that margin reserve should be denied  
15 because carrying charges for plant needed to serve future  
16 customers may be paid to the utility by guaranteed  
17 revenues.

18

19 **Q. Do you agree with Mr. Bidy's argument regarding**  
20 **AFPI charges?**

21 **A. No. An AFPI charge is not and should not be a**  
22 **mechanism to shift to future customers costs which**  
23 **are appropriately recovered through general rates**  
24 **for service. The new customers who pay a proper**  
25 **level of AFPI charges will also pay a proportionate**

1 level of the costs related to margin reserve when  
2 they pay general rates for service. There is no  
3 need to improperly shift costs to future customers  
4 simply to hold rates artificially low. In addi-  
5 tion, the level of collection of AFPI charges is  
6 uncertain and spread over future periods. Accord-  
7 ingly, shifting costs to AFPI for margin reserve  
8 would deny PCUC its unavoidable and reasonable  
9 current cost of providing service.

10

11 Q. Do you agree with Ms. Amaya's allowances for margin  
12 reserve?

13 A. I, of course, agree with Ms. Amaya in that she  
14 recognized the validity of a margin reserve allow-  
15 ance in used and useful calculations. I disagree,  
16 however, with certain adjustments she made with  
17 respect to some individual plant components. With  
18 respect to the membrane softening plant, Ms. Amaya  
19 uses an 18-month period for margin reserve instead  
20 of the proposed three-year period, for the reason  
21 that the expansion of the plant to accommodate  
22 additional membrane skids would not require more  
23 than eighteen months. I would first point out that  
24 the Company's rate filing and my used and useful  
25 calculations do not include the cost of expanding

1           the plant; they are based on the cost of the exist-  
2           ing plant, which in fact required nearly five years  
3           from design to completion. It is also conceptually  
4           improper to base the period for margin reserve for  
5           the existing plant on the period for incremental  
6           increases to that plant. I have selected a three-  
7           year period with respect to water treatment plants  
8           recognizing that it is a reasonable average allow-  
9           ance to design, permit and construct the water  
10          plants (with shorter periods for expansion) and  
11          allow for regulatory lag.

12          Ms. Amaya also reduces the period for margin reserve  
13          with respect to water and wastewater mains from eighteen  
14          months to twelve months, simply stating that the shorter  
15          period is sufficient. It is important to recognize that  
16          the margin reserve portion of used and useful calcula-  
17          tions is part of a rate setting/cost recovery process,  
18          and should not be viewed as only a permitting, design and  
19          construction process. In my opinion, margin reserve  
20          should always be based on a period of at least eighteen  
21          months, even if the design, permitting and construction  
22          process takes only twelve months. The reason for this  
23          duration is that by the time a utility files and receives  
24          rate relief, there is usually a regulatory lag with  
25          respect to cost recovery. In this case, PCUC is utiliz-

1 ing a year-end 1995 test year. Accordingly, the period  
2 for the regulatory lag between the end of the test year  
3 and the full year that the new rates will be in effect  
4 will itself exceed twelve months.

5 With respect to the wastewater treatment plant and  
6 effluent disposal (excluding the effluent storage tank),  
7 Ms. Amaya uses a three-year margin reserve instead of the  
8 proposed five-year margin reserve. The five-year margin  
9 reserve was utilized because of the Company's specific  
10 experience with respect to design, permitting and  
11 construction of wastewater treatment and disposal  
12 facilities. In workshop discussions with respect to used  
13 and useful rules, DEP representatives have suggested that  
14 ten years be considered for margin reserve.

15

16 Q. Am I correct that the demands which you use in your  
17 used and useful calculations are based on demands  
18 for 1995 prior to the allowance of margin reserve?

19 A. Yes. In fact with respect to the water system, the  
20 maximum day demand was actually a 1994 demand. I  
21 conservatively used that 1994 demand as being  
22 applicable to the mid-point of 1995. Accordingly,  
23 before including an allowance for margin reserve,  
24 the maximum day demand for "average" 1995 should be  
25 adjusted for growth to bring that demand to a year-

1 end 1995 demand. Thus, the margin reserve period  
2 with respect to the water treatment plant is three  
3 years for margin reserve and half a year for growth  
4 between mid-1995 and year-end 1995. The same is  
5 true with respect to the other margin reserve  
6 allowances. In other words, half a year should be  
7 added to recognize that PCUC's rate filing is based  
8 on a year-end test year, and the demands represent  
9 mid-point 1995 demands.

10

11 **Q. Has Ms. Amaya taken the half-year's growth into**  
12 **account in her calculations of the demands which**  
13 **should be used, including margin reserve for used**  
14 **and useful calculations?**

15 **A. No. Ms. Amaya applies her respective periods for**  
16 **margin reserve without recognizing that the half-**  
17 **year's allowance should be made for growth.**

18

19 **Q. Has Ms. Amaya made any allowance to recognize**  
20 **economies of scale?**

21 **A. Ms. Amaya testifies that in effect her margin**  
22 **reserve allowances enable the utility to build**  
23 **larger increments of plant, thereby taking advan-**  
24 **tage of economies of scale. It appears, therefore,**

1           that Ms. Amaya considers margin reserve to be a  
2           measure of economies of scale.

3

4           **Q. Do you agree with that assessment?**

5           A. No. As I testified, margin reserve recognizes the  
6           need for a utility to have sufficient plant to  
7           serve both present and new customers in the rela-  
8           tively near-term future, without sacrificing the  
9           level of service provided to any future customer  
10          (existing or new). The basis for the allowance has  
11          generally been the time period for design, permit-  
12          ting and construction of utility facilities, as  
13          well as recognition of regulatory lag with respect  
14          to the establishment and implementation of rates  
15          which enable a utility to recover its costs. A  
16          margin reserve period would be necessary whether or  
17          not the facilities being constructed are economi-  
18          cally sized. Participants during the used and  
19          useful workshop recognized that, in addition to  
20          margin reserve, there was a need for some methodol-  
21          ogy with which to reflect economies of scale as a  
22          general allowance. There was a consensus that the  
23          cost to build a facility at 80% of a given capacity  
24          was likely not much lower than the cost to build a  
25          facility at 100% of a given capacity. It is also

1 recognized that utility facilities will generally  
2 have a comfortable level (10% to 20%) of capacity  
3 available even for systems which are fully devel-  
4 oped. In my opinion, the use of a 20% factor for  
5 economies of scale recognize these considerations.  
6 It is also a provision which leads to a reasonable  
7 balance between rate treatment of water and sewer  
8 utilities and that of other types of utilities  
9 regulated by the FPSC, which construct economical  
10 sized systems with ample extra capacity for which  
11 no used and useful calculations are made.

12

13 **Q. Do you agree with the reasons Ms. Dismukes gives**  
14 **for imputing CIAC with respect to margin reserve?**

15 **A. No. Ms. Dismukes is incorrect when she states that**  
16 **the imputation of CIAC is necessary to achieve a**  
17 **proper matching with the margin reserve. The**  
18 **margin reserve is based on the plant which is used**  
19 **and useful for year-end 1995. It is obvious that**  
20 **CIAC will not be received until subsequent to year-**  
21 **end 1995 for the ERCs represented by margin re-**  
22 **serve. Moreover, as new customers are added, there**  
23 **is then a need for yet additional margin reserve.**  
24 **Accordingly, the need for margin reserve in order**  
25 **to meet the demands of existing as well as new**



1 customers now and in the near-term future is always  
2 current, and the ERCs represented by growth or new  
3 customers is always in the future. That is by  
4 definition the nature of margin reserve.

5

6 Q. Has Ms. Dismukes addressed the reasons which you  
7 stated in your pre-filed testimony as to why CIAC  
8 should not be imputed with respect to margin re-  
9 serve?

10 A. No.

11

12 Q. Am I correct that you are recommending that no CIAC  
13 be imputed with respect to margin reserve despite  
14 the fact that it has been the FPSC's policy to do  
15 so?

16 A. Yes. I believe the FPSC should reconsider its  
17 policy for the reasons stated in my pre-filed  
18 testimony. The arrangement between real estate  
19 purchasers and the affiliated developer of PCUC  
20 with respect to the collection of amounts which  
21 will ultimately become CIAC merely served to par-  
22 tially offset the significant carrying costs the  
23 developer incurred as part of the formation of the  
24 new utility. The FPSC's policy with respect to the  
25 imputation of CIAC conflicts with its policy with

1           respect to AFPI (recovery of carrying costs associ-  
2           ated with non-used and useful plant). As I stated  
3           in my direct testimony, the FPSC established the  
4           AFPI charge in order to recognize that future  
5           customers should pay for the carrying costs associ-  
6           ated with non-used and useful plant. The arrange-  
7           ment established between the Palm Coast developer  
8           and real estate purchasers is conceptually the  
9           same.

10           In my opinion, the FPSC has also recognized that  
11           margin reserve allowances are essential in order for  
12           utilities to construct economically-sized facilities to  
13           meet the demands of existing and new customers now and in  
14           the future. Allowing the necessary margin reserve but  
15           then reducing or eliminating it by the imputation of CIAC  
16           creates a disincentive for utilities to build economical-  
17           ly-sized facilities. By imputing CIAC, the rates for all  
18           customers will eventually be higher because water and  
19           sewer utilities will begin to make economic decisions  
20           based on the FPSC's rate allowances, which will lead to  
21           the construction of facilities which are not economically  
22           sized.

23

24           Fire Flow

1 Q. Did Mr. Biddy make any allowance for fire demands  
2 in his used and useful calculations for the source  
3 of supply and treatment plant?

4 A. No.

5

6 Q. Mr. Biddy states that his primary reason for not  
7 making an allowance for fire flow is because PCUC  
8 did not provide records or supporting documents in  
9 the original filing of the MFRs with respect to  
10 fire flows. Is that a valid reason for making no  
11 allowance for fire flows?

12 A. No. PCUC submitted MFRs in accordance with the  
13 FPSC requirements, and those MFRs were accepted.  
14 In any event, the need for a utility to meet maxi-  
15 mum day demands plus fire flows when designing and  
16 constructing its system is generally recognized  
17 without the need to provide additional documenta-  
18 tion. Moreover, my pre-filed direct testimony and  
19 used and useful analysis did, in fact, identify the  
20 fire flow demands in this case and as accepted by  
21 the FPSC in the Company's last case.

22 With respect to an allowance for fire flow for the  
23 source of supply and treatment plant, the FPSC has  
24 consistently recognized that such an allowance is  
25 appropriate for this utility. PCUC experienced signifi-

1       cantly higher fire demands (6,000 GPM at peak flow and a  
2       duration of about two days) during the 1985 forest fires  
3       than the level (2,000 GPM for five hours) included in  
4       either this or the last case. I would also note that  
5       according to the National Board of Fire Underwriters (now  
6       Insurance Service Office), PCUC would be required to meet  
7       a fire flow of 4,500 GPM for a ten-hour duration.  
8       Because of the configuration of the water utility system,  
9       fire demands which may occur throughout the system  
10      require the utilization of all components of the system.  
11      Mr. Bidy was provided with specific testimony regarding  
12      the need for fire demands as well as the FPSC's treatment  
13      of those fire demands as part of the rate filing.

14

15      Maximum Day Demand

16      Q.    Do you agree with Mr. Bidy's use of an average of  
17           the five highest maximum daily flows in the maximum  
18           month, instead of the use of the maximum day in  
19           used and useful calculations?

20      A.    No. The reasons Mr. Bidy gives for not using the  
21           single maximum day flow are that the maximum day  
22           may include unusual leaks, flushing or other un-  
23           usual usage (beyond typical unaccounted-for water)  
24           and because good records are hard to keep. The  
25           maximum day demand which I used contains no unusual

1 usage of water. The Company provided me with  
2 information which identified ten maximum daily  
3 flows, along with any unusual occurrences during  
4 those days. The maximum day I used was, in fact,  
5 the third highest maximum day; the highest and  
6 second highest maximum day flows were rejected  
7 because they did include unusual usage. Also  
8 contrary to Mr. Bidy's testimony, the FPSC has  
9 consistently used the maximum day demand for PCUC  
10 instead of the average of five maximum days.

11

12 Water Treatment Plant

13 Q. Do you agree with Mr. Bidy's calculation of the  
14 used and useful percentage with respect to the  
15 water treatment plants?

16 A. No. In addition to his failure to use the maximum  
17 day, margin reserve or fire flow allowance, which I  
18 previously addressed, Mr. Bidy also fails to  
19 adjust the total capacity for plant uses. As I  
20 indicated in my pre-filed direct testimony, an  
21 adjustment of 13.3% is necessary with respect to  
22 WTP #1. That level is less than the actual level  
23 of plant uses, but higher than the 10% allowed by  
24 the FPSC in the last case. The Company's outside  
25 engineers have recognized a similar level as pro-

1           posed in this case in order to allow for backwash-  
2           ing of filters.

3           I would also note that neither Mr. Biddy or Ms.  
4           Amaya have considered the fact that since WTP #1 had  
5           reached 100% capacity, requiring the addition of WTP #2,  
6           that an adjustment should be made to recognize the  
7           integrated use of both treatment plants. Mr. Biddy does  
8           not address this item at all. Ms. Amaya calculates a  
9           used and useful percentage with respect to WTP #2  
10          apparently on the assumption that it only meets water  
11          demands which exceed the capacity of WTP #1. That  
12          approach is not consistent with the actual integrated use  
13          of the treatment plants. Customer demands cannot be met  
14          at PCUC by operating WTP #1 until it reaches capacity and  
15          then use WTP #2 for the balance of the demand. My  
16          analysis demonstrates the used and useful percentage of  
17          the combined operation of the water treatment plants is  
18          89.3%. The cost of WTP #1, however, is 100% used and  
19          useful as evident from the need for the addition of WTP  
20          #2.

21

22          High Service Pumping

23          Q.    Am I correct that you made a used and useful allo-  
24               cation with respect to high service pumping equip-  
25               ment?

1 A. Yes. The high service pumps were allocated along  
2 with other plant allocations. I do not, however,  
3 make a separate allocation specifically for high  
4 service pumps.

5

6 Q. Do you agree with Ms. Amaya's calculation of the  
7 used and useful percentage with respect to high  
8 service pumps?

9 A. No. Ms. Amaya uses a combined capacity of all high  
10 service pumps with respect to both treatment  
11 plants. If a separate used and useful allocation  
12 is to be made for high service pumps, then it  
13 should be recognized that the high service pumps at  
14 each treatment plant should be allocated  
15 separately, making allowance for the highest  
16 capacity pump being out of service at each plant.

17

18 Source of Supply

19 Q. Mr. Biddy testified that when storage or high  
20 service pumping facilities are available, the "firm  
21 reliable capacity" method is not applicable. Do  
22 you agree?

23 A. No. There is no "firm reliable capacity" method  
24 with respect to used and useful calculations re-  
25 lated to source of supply. The FPSC has recognized

1 that for used and useful purposes, the capacity of  
2 PCUC sources of supply should be adjusted to re-  
3 flect the reality that some of the wells may not be  
4 on line during the maximum day. With respect to  
5 the lime softening plant (WTP #1), in the last case  
6 the FPSC accepted the Company's elimination of the  
7 capacity of the two highest yield wells from the  
8 total well capacity. At that time the Company had  
9 twenty-two wells in service. There are now twenty-  
10 seven wells serving WTP #1. The Company's records  
11 show that on any given day at least one well is not  
12 in use due to monitoring requirements of the water  
13 management district. In addition, PCUC alternates  
14 the use of certain wells which have relatively  
15 high, naturally occurring color in order to comply  
16 with color standard. While PCUC must perform  
17 periodic maintenance, it must also be prepared for  
18 unanticipated well or pump failures. On average,  
19 for the ten maximum days, there were in excess of  
20 five wells not in operation for various reasons.  
21 Now that the Company has 27 wells instead of the 22  
22 wells it had at the time of the FPSC's last deci-  
23 sion, it is appropriate to recognize three wells  
24 out of service instead of two with respect to WTP  
25 #1.



1     Storage Facilities

2     Q.   Do you agree with Mr. Biddy's used and useful  
3           calculations with respect to water storage facili-  
4           ties?

5     A.   No. Mr. Biddy allows nothing for retention. In my  
6           opinion, whether considering elevated or ground  
7           storage tanks, used and useful calculations should  
8           not be made on the basis that the utility must  
9           drain its storage tanks dry before full recognition  
10          of their cost is included in rate base. As a  
11          practical matter, the utility is simply not going  
12          to pump its ground storage facilities to the point  
13          of suction, nor is it going to permit its elevated  
14          storage facilities to empty down to the mains.

15          With respect to equalization and emergencies, on the  
16          basis of a review of the Company's operating records, it  
17          is appropriate to use a 50% factor to meet equalization  
18          of flows on the maximum day and also be prepared to  
19          handle such emergencies as main breaks and unanticipated  
20          plant shutdowns. It should also be recognized that the  
21          storage facilities must be capable of delivering water  
22          for fires at any point throughout the distribution  
23          system, as well as meet coincidental fire demands.  
24          Accordingly, a separate allowance for fire demands should

1 be made for each of the major storage facilities, as I  
2 proposed.

3

4 Land

5 Q. Do you agree with Mr. Bidy's recommendation to  
6 make a used and useful adjustment to land?

7 A. No. The cost of land to the utility would be no  
8 smaller in order to serve just existing customers  
9 and, therefore, should be considered 100% used and  
10 useful. I would note that Ms. Amaya recognizes  
11 this principle in her discussion with respect to  
12 the concentrate blend station where she states that  
13 "...the minimum investment that should have been  
14 necessary to construct a smaller capacity blend  
15 station to meet current demands should be compared  
16 with the investment the utility has made to con-  
17 struct the current blend station, and any subse-  
18 quent used and useful adjustment should not result  
19 in a lower percentage of investment in plant than  
20 that which would have been necessary for the  
21 smaller capacity blend station."

22

23 Transmission and Distribution System

24 Q. Do you agree with either Mr. Bidy's or Ms. Amaya's  
25 use of a ratio of connected lots to total lots in

1 calculating the used and useful percentage with re-  
2 spect to mains?

3 A. No. Ms. Amaya states that it is necessary to com-  
4 pare connected lots to lots available in order to  
5 compare "apples to apples." Her analogy is mis-  
6 placed. Neither the design or the cost of mains is  
7 based solely on the number of lots to be served.  
8 Mains are designed for required flows and pressure.  
9 The design must take into consideration residential  
10 flows with respect to some lots, as well as  
11 significantly higher flows with respect to commer-  
12 cial lots. The design must also take into consid-  
13 eration fire flow requirements. Finally, the  
14 design must also take into consideration the dis-  
15 tances over which the mains must be extended.  
16 Thus, the cost of mains is based on the cost to  
17 meet flow and pressure requirements as well as to  
18 meet the number of lots to be served. Mr. Biddy's  
19 and Ms. Amaya's use of connected lots to total  
20 lots, which is not the basis for the design and  
21 cost of mains, to identify the used and useful  
22 cost, creates a mismatch. My use of the ratio of  
23 ERCs to lots is consistent with the design as well  
24 as the cost of mains, and has been consistently  
25 accepted by the FPSC for PCUC.

1 Q. Do you agree with Mr. Biddy's discussion on page 9  
2 of his pre-filed testimony regarding the used and  
3 useful analysis for the water transmission and  
4 distribution system?

5 A. No. Mr. Biddy's discussion is contradictory. On  
6 the one hand he recognizes that engineers design  
7 water transmission and distribution systems with  
8 fire flow delivering capability, and therefore the  
9 cost of laying water mains includes the cost for  
10 fire flow provision. On the other hand he states  
11 that it is inappropriate to use fire flow allow-  
12 ances in the used and useful calculation.

13 His statements are also contradictory in that he  
14 states the fire flow provision is for all existing and  
15 future customers, but then he states that PCUC's proposed  
16 used and useful calculations shift more cost burden to  
17 existing customers especially in new and sparsely  
18 developed areas. Mr. Biddy's calculations, however,  
19 don't recognize any added cost with respect to mains in  
20 order to meet fire flows, and therefore he includes no  
21 cost for existing customers with respect to fire flow.

22 Mr. Biddy is also incorrect when he states that I  
23 have added an extra 33.1% to the used and useful percent-  
24 age for water mains by including a fire flow allowance.  
25 In fact, in order not to duplicate the cost of mains con-

1 sidered used and useful, I applied the 33.1% fire demand  
2 allowance only to the portion of mains not previously  
3 found to be used and useful according to my density  
4 calculation (ERCs to total lots).

5

6 **Q. Has Mr. Biddy made any other invalid statements**  
7 **with respect to mains?**

8 A. Yes. Mr. Biddy states that the "lot count" method  
9 allocates the water main costs evenly to all cus-  
10 tomers, and that the lot count method gives an  
11 equal cost share to all customers. This analysis  
12 by Mr. Biddy is simply inconsistent with rate  
13 making. A used and useful determination estab-  
14 lishes the cost level of investment which should be  
15 recognized in rates. Once that level of used and  
16 useful cost is established, then studies could be  
17 made to determine an allocation of costs among  
18 customer classes. Mr. Biddy has made no such cost  
19 allocation; he merely uses a ratio of lots to lots  
20 in order to exclude more of PCUC's actual costs  
21 from rate base. Moreover, all customers are  
22 charged the same basic rates for service, and their  
23 share of the costs will vary according to their  
24 usage (given similar classes of customers).  
25 Accordingly, this analysis by Mr. Biddy is

1           irrevelant to the question of appropriate used and  
2           useful calculations. My use of the ratio of ERCs  
3           to lots is appropriate for the purpose of used and  
4           useful calculations for mains.

5

6           **Q.** Do you agree with Mr. Bidy's statement that "the  
7           lot count method will not discourage future devel-  
8           opment as opposed to the method proposed by PCUC  
9           which will probably discourage future development?"

10          **A.** No. Mr. Bidy has presented no evidence and I am  
11          not aware of any which would demonstrate that  
12          future development is at all affected by the dif-  
13          ference in rates resulting from the use of proper  
14          used and useful allowances, let alone the increment  
15          of the rates which is based on used and useful  
16          mains. On the other hand, it is obvious that  
17          because PCUC installed most of the mains in the  
18          early stages of this development, the total cost  
19          included as used and useful is much less than if  
20          the mains had been installed gradually over the  
21          years (because the cost of labor, material and  
22          construction costs have increased over the years).  
23          The lower embedded cost of mains coupled with used  
24          and useful adjustments have produced the lowest  
25          cost of service for this utility. In any event,

1 the process of rate setting is to establish the  
2 cost of providing utility service.

3

4 Q. Mr. Bidy states that "fire hydrants are part of  
5 the distribution system and there is no need to  
6 perform a separate used and useful analysis." Is  
7 he correct?

8 A. Mr. Bidy is apparently unaware of the fact that  
9 hydrants have not yet been installed throughout the  
10 system and the cost of only the active hydrants  
11 which are all necessary to provide existing custom-  
12 ers with fire protection have been included as used  
13 and useful.

14

15 Q. Has the FPSC accepted your method with respect to  
16 hydrants in previous cases?

17 A. Yes, and it is still applicable.

18

19 Wastewater Collection System

20 Q. To the extent that Mr. Bidy or Ms. Amaya uses the  
21 relationship of connected lots to total lots with  
22 respect to the wastewater collection system, would  
23 your comments be similar?

24 A. Yes. They would be similar to those made regarding  
25 the water transmission and distribution system.

- 1 Q. Mr. Biddy's June 3, 1996 revision eliminated this  
2 sentence on lines 8 to 11 of page 11 of his testi-  
3 mony. "...It is inappropriate and unnecessary to  
4 break down the collection system used and useful  
5 into gravity main, pre-treatment effluent pumping  
6 (PEP) main, PEP tanks, force main and service lines  
7 as PCUC has proposed." Did he provide any other  
8 explanation regarding those components?
- 9 A. No. He apparently relies on his lot count analysis  
10 stating that "lot count provides an equal share for  
11 all customers, so that existing customers will not  
12 subsidize future customers." Once again, Mr. Biddy  
13 seems to consider his used and useful analysis as  
14 being an exercise which establishes equal shares of  
15 the costs for all customers. He is incorrect.  
16 Used and useful analyses establish the utility's  
17 cost of providing service which should be recovered  
18 through the rates resulting from this rate case.  
19 The use of lot counts is not a mechanism with which  
20 to establish equal share costs for all customers,  
21 individually as a class or existing compared to  
22 future. As has been recognized by the FPSC in  
23 previous cases and Ms. Amaya in this case, separate  
24 treatment with respect to gravity mains, PEP sys-  
25 tem, force mains and service lines is most appro-



1           priate for PCUC. Two of the most obvious examples  
2           relate to PEP tanks and service lines. Clearly  
3           those components may be identified with individual  
4           existing customers and should be included as en-  
5           tirely used and useful. Mr. Bidy's lot count ana-  
6           lysis which he apparently would apply to those  
7           items because he believes it creates an equal share  
8           for all customers, existing as well as future,  
9           simply does not make sense.

10

11           Collection System Pumping Plant

12           Q. Ms. Amaya has adopted your methodology with respect  
13           to the pumping plant with the exception that she  
14           uses a peaking factor of two, as was used in the  
15           last case, instead of a peaking factor of three,  
16           subject to additional justification. Would you  
17           explain why you use a peaking factor of three?

18           A. Yes. According to recommended design criteria with  
19           respect to the design of sewers (which have been  
20           provided in response to interrogatories), the  
21           peaking factor for domestic wastewater flows, with  
22           and without commercial flows and inflow and infil-  
23           tration, show that a peaking factor in excess of  
24           three times average is warranted. The factor of  
25           two times used in the last case has been found to

1           be inadequate for peak flows during the course of  
2           any given day.

3

4       **Q. Do you agree with Ms. Amaya's analysis with respect**  
5       **to the effluent disposal facilities?**

6       A. No. First I would point out that the capacity of  
7       the spray field is 600,000 gallons per day, not the  
8       800,000 gallons per day used by Ms. Amaya. The  
9       second error is with respect to the older RIB site  
10      which has a capacity of one million gallons per  
11      day, not 1.3 million gallons per day. It also  
12      appears that Ms. Amaya did not make adjustment for  
13      dry weather capacity, which of course is not avail-  
14      able during wet weather periods.

15           With respect to the effluent storage tank, Ms. Amaya  
16      performs a separate calculation using only the spray  
17      field capacity (using 800,000 GPD instead of the correct  
18      600,000 GPD), but fails to take into consideration the  
19      1.6 MGD disposal at DCDD during dry weather periods.  
20      Accordingly, using Ms. Amaya's proposed three-day minimum  
21      requirement would produce a minimum capacity of 6.6  
22      million gallons, which is calculated by multiplying three  
23      times the sum of the 600,000 GPD spray field capacity  
24      plus the 1.6 MGD disposal at DCDD. I would note,  
25      however, that PCUC's actual requirement for storage is

1 not the minimum amount. PCUC had an outside engineering  
2 firm, Dames & Moore, perform a study which indicates that  
3 the wet weather flow volume over a 24-day period ranges  
4 from 4.3 to 4.6 MGD, which would require significantly  
5 more than the minimum capacity when calculated over a 24-  
6 day wet weather period. PCUC's internal studies show a  
7 wet weather flow in excess of 5 MGD over a 21-day wet  
8 weather period. Because of this significant need for wet  
9 weather storage in excess of the 6 million gallon storage  
10 tank, PCUC is seeking surface water discharges, which it  
11 now does not have.

12

13 Wastewater Treatment Plant

14 Q. Do you agree with Ms. Amaya's use of the average  
15 annual daily flow in the calculation of used and  
16 useful for the wastewater treatment plant?

17 A. No. Despite the fact that the permitted capacity  
18 of wastewater treatment plants is stated as an  
19 average annual daily flow, treatment plant must be  
20 designed to meet the maximum three-month demand.  
21 The cost of wastewater treatment plants is also,  
22 therefore, related to the design criteria for the  
23 maximum three-month demand at a minimum. PCUC  
24 cannot meet the wastewater flow demands of its  
25 customers if the capacity of the plant was limited

1 to the average annual daily flow. Although utili-  
2 ties have a choice of stating the permitted capac-  
3 ity in terms of either annual average, maximum  
4 three months or maximum month demands, DEP never-  
5 theless requires the expansion of plants on the  
6 basis of the three-month average daily flow.  
7 Capacity analysis reports must be submitted to DEP  
8 on the basis of the three-month average daily  
9 flows. If these reports show that the permitted  
10 capacity will be equaled or exceeded within the  
11 next five years, DEP requires that the planning and  
12 design of the expansion be initiated. Accordingly,  
13 the cost which the utility incurs with respect to  
14 its wastewater treatment plants is based on its  
15 ability to meet the three-month average demands in  
16 relation to their permitted capacity, and the used  
17 and useful cost should be determined on a similar  
18 basis.

19  
20 Effluent Reuse Rate

21 Q. Do you agree with Mr. Milian that DEP as well as  
22 water management districts encourage and in many  
23 cases require reuse of effluent for irrigation?

24 A. Yes. In addition, I believe the FPSC also supports  
25 such a policy. The use of effluent (least quality

1 water) for irrigation purposes has become suffi-  
2 ciently important that charges for such service  
3 have been encouraged by the FPSC. Effluent has  
4 been recognized as a valuable commodity by state  
5 regulatory agencies.

6  
7 Q. Do you agree with Mr. Milian that "to the extent  
8 that higher rates for effluent reuse will discour-  
9 age reuse for irrigation, the proposed rates would,  
10 in effect, be contrary to the implementation of the  
11 policies of these agencies"?

12 A. Mr. Milian has not quantified the level of rates  
13 which would cause DCDD to stop taking effluent  
14 reuse for irrigation purposes. The effluent reuse  
15 rate of 67 cents per thousand gallons, which I am  
16 proposing, is approximately half of the bulk water  
17 rate which DCDD is paying for potable water. Al-  
18 though I have not undertaken any studies in this  
19 regard, I assume that the bulk water rate is itself  
20 significantly less than what it would have cost  
21 DCDD to develop its own facilities for potable wa-  
22 ter. Thus, I doubt that the proposed effluent  
23 reuse rate would prompt DCDD to use potable water  
24 instead, or find another source of its own, even if  
25 that were feasible.

1 Q. Mr. Milian states that PCUC is the primary benefi-  
2 ciary in the arrangement it has with DCDD. Do you  
3 agree that PCUC is the primary beneficiary?

4 A. No. The customers of both PCUC and DCDD are  
5 beneficiaries because of the environmental protec-  
6 tion created by the use of effluent reuse water  
7 instead of potable water. DCDD will be obtaining  
8 effluent reuse water from PCUC at a cost which is  
9 less than the bulk rate PCUC is charging for pota-  
10 ble water. DCDD is also likely receiving a  
11 significant benefit because PCUC is selling potable  
12 water to it at a bulk rate instead of what it would  
13 have cost DCDD to have obtained its own separate  
14 supply of water. It appears that DCDD customers  
15 are paying less for effluent reuse water than they  
16 would otherwise pay for potable water for irriga-  
17 tion. I would add that if PCUC's rate for effluent  
18 reuse is adopted, the resultant revenues would be  
19 flowed through to offset PCUC's sewer rates so that  
20 PCUC's customers (not stockholders) also receive a  
21 benefit.

22  
23 Q. From a policy perspective, what would be a reason-  
24 able rate even if there were no cost study to  
25 support PCUC's proposed reuse rate?

1       A.    The FPSC has indicated in other cases that an  
2            effluent rate should not exceed the cost of alter-  
3            natives for irrigation water.  On that basis, it  
4            seems that the upper limit would be at least the  
5            level of PCUC's raw water rate.  It is not incon-  
6            ceivable, however, that consideration of value  
7            alone would include a determination of what it  
8            would have cost DCDD to install all of its own  
9            water facilities.  From strictly a "value" consid-  
10           eration, in my opinion, the rate of 67 cents per  
11           thousand gallons is a reasonable mid-point.

12

13       Q.    Mr. Milian states that PCUC has not incurred any  
14            incremental costs, and ultimately that is one of  
15            the reasons that he is recommending that no rate be  
16            charged for effluent reuse water.  Do you agree?

17       A.    No, in general, rates are not based on incremental  
18            cost pricing.  Although PCUC did, in fact, incur  
19            costs for the six million gallon storage facilities  
20            primarily as a means of providing service to DCDD,  
21            an effluent reuse rate should not be based on  
22            incremental costs.  Rate setting is basically an  
23            averaging process.  Similar classes of customer all  
24            pay the same rates for service.  For example,  
25            residential customers closer to the source of

1 supply do not pay less for water than customers far  
2 from the source of supply. Existing customers do  
3 not pay less for water than new customers despite  
4 the fact that the cost of facilities today are  
5 higher than in the past.

6  
7 Q. Assume a utility customer is connected to an exist-  
8 ing main and the utility does not have to add  
9 plant, employees or any significant expense to  
10 provide service. In other words, there is no  
11 significant incremental cost to serve that cus-  
12 tomer. Should that utility not charge that cus-  
13 tomer for service?

14 A. No. Such a customer would and should pay the same  
15 rates as other customers.

16  
17 Q. Do you believe your cost allocation study develops  
18 a reasonable allocation considering the value of  
19 service, the state's policy regarding effluent  
20 reuse for irrigation purposes and cost allocation  
21 principles?

22 A. Yes. I believe Mr. Milian's recommendation that  
23 there should be no effluent rate is extreme in that  
24 it does not recognize the value to all effluent  
25 customers or to the state due to the availability



1 of effluent reuse. The other extreme would have  
2 been the allocation of all costs of the wastewater  
3 collection and treatment facilities to effluent  
4 reuse, justified on the basis that there would be  
5 no effluent reuse available to DCDD if PCUC did not  
6 collect and treat wastewater. My study is not  
7 based on an incremental cost analysis, nor is it  
8 based on a fully allocated cost analysis. I have  
9 allocated only effluent reuse facilities which are  
10 necessary to handle wet weather conditions. More-  
11 over, I have spread those costs over all effluent  
12 not just the estimated effluent purchases by DCDD.  
13 Accordingly, I believe that the effluent reuse rate  
14 establishes a reasonable economic balance among the  
15 parties and is consistent with water conservation  
16 concerns of the responsible state regulatory agen-  
17 cies.  
18

1     Audit Disclosure No. 5

2     Q.    Does Mr. Dodrill correctly state in Audit Disclo-  
3           sure No. 5 PCUC's position with respect to the  
4           utility assets which were used to establish an  
5           effluent reuse rate?

6     A.    No. Mr. Dodrill is incorrect when he characterizes  
7           the cost allocation study with respect to the  
8           development of an effluent reuse rate as a "dedica-  
9           tion" of \$2,935,977 of sewer utility plant to  
10          effluent reuse (for sale to a customer). All plant  
11          and facilities used to dispose of effluent are  
12          essential in order to treat wastewater and provide  
13          sewerage disposal service to its customers in  
14          compliance with DEP regulatory requirements. Since  
15          PCUC has an opportunity to sell some of its efflu-  
16          ent, it has developed a rate for effluent based on  
17          a cost allocation of certain of its sewer utility  
18          plant and facilities. The revenues which are  
19          estimated to be generated by the sale of effluent  
20          have been deducted from the overall sewer system  
21          revenue requirement and, therefore, the sewer  
22          customers receive the full benefit of the cost  
23          allocation to effluent reuse sales. Accordingly,  
24          Mr. Dodrill's suggestion to reduce the sewer util-  
25          ity plant accounts by \$2,935,977 would not only

1           constitute, in part, a double deduction but also  
2           deny PCUC the ability to recover the cost of efflu-  
3           ent disposal which it must incur in order to serve  
4           its regular sewer customers.

5

6           Non-used CIAC

7           Q.    Do you agree with Ms. Dismukes' recommendation to  
8           adjust the capital structure by including "non-used  
9           CIAC" as cost free capital?

10          A.   No, for the same reasons which Mr. Seidman de-  
11          scribes in detail in his rebuttal testimony.

12

13          Q.    Is there a broader issue created by Ms. Dismukes'  
14          recommendation with respect to non-used CIAC?

15          A.   Yes. Ms. Dismukes' recommendation would in effect  
16          require the FPSC to completely overhaul its poli-  
17          cies with respect to rate regulation for developer-  
18          related water and sewer utilities. In order to  
19          establish a regulatory policy with respect to rate  
20          regulation of developer-related water and sewer  
21          utilities, the FPSC has established over the years  
22          a policy with respect to significant used and  
23          useful adjustments for such utilities, as well as  
24          policies and regulations with respect to service  
25          availability charges, including both capacity fees

1 as well as AFPI charges. The Florida statutes also  
2 reflect the FPSC's policies with respect to the  
3 exclusion from rate base of contributions in aid of  
4 construction. Accordingly, the FPSC policies,  
5 rules and regulations and Florida statutes have all  
6 evolved over the years in order to develop an  
7 appropriate mechanism with which to recognize rate  
8 setting for new and/or growing developer-related  
9 utilities. Ms. Dismukes' recommendation introduces  
10 an element which would necessitate a complete  
11 revamping of the FPSC's rate setting treatment  
12 regarding such utilities.

13 It is important to recognize that "non-used CIAC" or  
14 "prepaid CIAC" is not contributions in aid of construc-  
15 tion, nor is it attributable to existing customers or  
16 used and useful investment in accordance with FPSC policy  
17 or rules. Instead, the dollars associated with what has  
18 been dubbed non-used CIAC or prepaid CIAC represent  
19 dollars collected in accordance with agreements between  
20 developers and real estate purchasers. While developers  
21 may or may not transfer those dollars to a utility as  
22 part of the funding of non-used and useful plants,  
23 developers also incur enormous costs to create and  
24 subsidize new water and sewer utilities during their  
25 growth years. With respect to Palm Coast, I estimate

1 that the carrying costs incurred by the developer since  
2 1980 amount to approximately \$60 million. If any rate  
3 making consideration were to be given to non-used CIAC,  
4 then the developer's carrying costs to create this  
5 utility would also have to be given consideration.  
6 Accordingly, an entirely different method would have to  
7 be created to replace the FPSC's existing policies and  
8 rules with respect to rate setting for developer-related  
9 water and sewer utilities.

10

11 Q. In your opinion would it be possible to undertake  
12 such a revamping of the FPSC's rate setting poli-  
13 cies?

14 A. No. The FPSC's policies with respect to service  
15 availability charges, levels of CIAC and used and  
16 useful analyses have been applied for too many  
17 years to now change direction. While each of those  
18 specific policies and components may be improved  
19 upon, the inter-relationship of all of them with  
20 respect to the appropriate regulation of water and  
21 sewer utilities cannot change so significantly as  
22 to begin to introduce such foreign elements as is  
23 being recommended by Ms. Dismukes.

24

1 Q. Does that conclude your testimony at this time,  
2 pending the receipt of any revisions or additional  
3 testimony by other parties?

4 A. Yes.

5

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1 MR. GATLIN: Mr. Guastella is available for  
2 questions.

3 CROSS EXAMINATION

4 BY MR. SIRKIN:

5 Q Good afternoon, Mr. Guastella.

6 A Good afternoon, Mr. Sirkin.

7 Q On Page 11 of your rebuttal testimony you  
8 refer to the water system maximum day demand. What time  
9 period did you examine to determine that maximum demand?

10 A I believe the time period spanned a number of  
11 years, and we found that the maximum day demand occurred  
12 in 1994.

13 Q Did it include 1995 data in your study?

14 A Yes.

15 Q Hypothes --

16 A Not entirely. The case was being prepared  
17 during 1995. So we didn't have all of 1995 data.

18 Q Hypothetical question for an expert witness:  
19 Isn't it your belief that the 20 percent economy of  
20 scale gross-up of plant should be given to a utility  
21 even when the utility plant is imprudently lodged for  
22 its current customer base?

23 A I don't think the two are interrelated. The  
24 economy of scale should be allowed. To the extent that  
25 there is capacity that should be adjusted as nonused and

1 useful, that portion is excluded.

2 Q Regardless of the prudence of the investment  
3 in plant, you should still have the 20 percent economy  
4 of scale factor?

5 A No, the prudence should be included if the  
6 plant was constructed prudently, which in this case it  
7 was. As a matter of fact, it's less costly for the  
8 customers of Palm Coast, now and in the long run,  
9 because of the way the plant was constructed.

10 Q My question was a hypothetical. Assuming a  
11 plant is imprudently sized for its current demand, do  
12 you recommend that the 20 percent economy of scale  
13 factor should still be included?

14 A If it's imprudently sized, no, but I'm  
15 assuming that there is a basis for that conclusion.

16 Q Did Palm Coast design the plant as it now  
17 exists because they would be allowed a 20 percent  
18 economy of scale gross-up?

19 A I can't speak for what Palm Coast did. I can  
20 speak for the plant being installed based on sound  
21 engineering criteria on the basis of my discussions with  
22 the Company and my review of engineering reports. I do  
23 know it was prudent from a rate setting perspective,  
24 because the plant that's installed is less costly than  
25 would have been installed if it were installed in



1 increments over the years. So the customers are  
2 receiving the benefit of a lower cost system, as well as  
3 adjustments for rate making purposes for used and  
4 useful. So from a rate setting perspective --

5 Q Was that an answer to the question? Sorry?

6 A -- Palm Coast's investment is entirely  
7 present.

8 Q Was that a question -- an answer to a question  
9 I asked?

10 A I believe it was.

11 Q Is it your experience that utility commissions  
12 in general allow a margin reserve?

13 A It's my experience that utility commissions in  
14 general don't perform used and useful studies. Florida  
15 is one of the few places that undertake the extensive  
16 used and useful studies, if not the only place. Most  
17 other regulatory agencies, virtually all other  
18 regulatory agencies, treat water and sewer utilities the  
19 same as Florida Public Service Commission treats, say,  
20 electric utilities. If there is a long-term plan for  
21 the facilities, they're included in rate base as 100  
22 percent used and useful. Florida, of course, has to  
23 deal with a different kind of real estate development  
24 characteristic, and I believe that's the basis for why  
25 Florida employs used and useful analyses to the extent

1 it does. And I think that's appropriate to do, if the  
2 used and useful analysis are appropriate.

3 Q As promised, that's all the questions I have.

4 COMMISSIONER DEASON: Mr. Reilly?

5 CROSS EXAMINATION

6 BY MR. REILLY:

7 Q Mr. Guastella, at Page 4 of your rebuttal  
8 testimony, at Lines 18 to 22, you state that  
9 Mr. Bidy's -- Mr. Bidy calculates a used and useful  
10 percentage with respect to water treatment plant without  
11 an allowance for plant uses. Is that correct?

12 A Yes.

13 Q Could I have you look at Mr. Bidy's exhibit  
14 TLB-2. And you can pick any version because it's the  
15 same from the beginning to all the others. And --

16 A I don't --

17 Q This is -- this answer would be the same  
18 regardless of whether you used the originally filed or  
19 any of the modified versions of his testimony.

20 A I don't have the original version of his  
21 testimony, but I seem to recall that he did not include  
22 a plant allowance in the original version. On the  
23 version that we got the weekend before the hearings, I  
24 believe he then did include a plant allowance, but  
25 previous ones he did not.

1 Q If your attorney could give you a copy of the  
2 original version, or any version will do because I  
3 believe the provision is the same in all versions.

4 MR. SCHIEFELBEIN: Would that work for the May  
5 31st provision, TLB-2?

6 MR. REILLY: It's my understanding if you take  
7 the original, or any one of them, it would work. Do you  
8 have a copy of the bound original testimony.

9 WITNESS GUASTELLA: If you have it, I would be  
10 glad to look at it. I think we can solve it right  
11 away. (Pause)

12 COMMISSIONER DEASON: We're going to go off  
13 the record and let the attorneys straighten this out.

14 (Discussion off the record)

15 COMMISSIONER DEASON: Are you ready to go back  
16 on the record?

17 MR. REILLY: I'm ready to go back on the  
18 record.

19 COMMISSIONER DEASON: We're back on the  
20 record.

21 MR. REILLY: What I would like to do is give  
22 you what I purport to be the original filed -- prefilled  
23 testimony of Mr. Bidy as filed on May 15th, 1996, and  
24 I'll give this version up and have you refer to Line  
25 23. We have found a second copy.

1 MR. SCHIEFELBEIN: This is a May 21st?

2 MR. REILLY: May 21st?

3 MR. SCHIEFELBEIN: It may not matter. I  
4 assume we're off the record.

5 COMMISSIONER DEASON: No, we're on the  
6 record.

7 Q (By Mr. Reilly) Could I have you refer to  
8 Line 23 of TLB-2? Could you read that to me?

9 A Yes. Capacity less 10 percent plant use, GPD.

10 Q Would that indicate that in fact Mr. Bidy did  
11 provide a 10 percent plant use?

12 A No, because if you look at Line 24 and do the  
13 calculation, the calculation is based on the full  
14 8 million gallons of capacity without any adjustment for  
15 plant uses. Part of the problem I had with Mr. Bidy's  
16 exhibits in general, the calculations didn't match what  
17 he was saying.

18 Q Okay. And then it's my understanding that  
19 that -- it was a mathematical error that was identified  
20 at the hearing; was it not?

21 A I believe Mr. Bidy revised his -- I don't  
22 know which version of Mr. Bidy's revised testimony  
23 corrected arithmetic. I believe it may have been at the  
24 hearing itself, not prior to the hearing, and then he  
25 didn't use the correct amount in terms of -- well, he

1 used the correct amount, but didn't state it as 10  
2 percent correctly.

3 Q But it is my memory that he did in fact  
4 correct it on the stand at the hearing, as far as the  
5 typographical, I think he called it, a typographical  
6 error. But has it not been in his -- the text of his  
7 analysis in this exhibit, from day one, that he was in  
8 fact allowing for a 10 percent plant use, or intended  
9 to? Is that correct?

10 A I don't recall the language. I believe the  
11 language in the original left it as a question.

12 Q What does this language here on Line 23 seem  
13 to indicate?

14 A I'm talking about the text of his testimony.  
15 The language here seems to indicate that there's an  
16 adjustment for 10 percent plant capacity. However, I  
17 believe the language in his original testimony had some  
18 question about whether or not you should use 10  
19 percent. His calculation showed that he did not use a  
20 10 percent allowance, and that's what my rebuttal  
21 testimony was responding to, what I was looking at.

22 Q To save time, he'll do a little referring  
23 while we move on to another subject. If I could have  
24 you refer to Page 9 of your rebuttal.

25 A I have it.

1 Q Okay. And from Lines 2 through 6 you state  
2 that, "There is no need to improperly shift costs to  
3 future customers simply to hold rates artificially low.  
4 In addition, the level of collection of AFPI charges is  
5 uncertain and spread over future periods."

6 Now, did you attend the customer portion  
7 testimony of the hearing at Palm Coast?

8 A Yes.

9 Q Do you know if the customers believed that  
10 their rates are being kept artificially low?

11 A I really can't speak for the customers and  
12 what their understanding of the rate setting process is.

13 Q But in your judgment the rates are being  
14 kept -- would be kept artificially low?

15 A If Mr. Bidy's suggestion is included to shift  
16 costs to future customers, yes, that's correct.

17 Q If I could have you refer to Page 17, Lines 6  
18 through 12 of your rebuttal testimony, you -- your  
19 question reads, "Mr. Bidy states that his primary  
20 reason for not making an allowance for fire flow is  
21 because PCUC did not provide records or supporting  
22 documents in the original filing of the MFRs with  
23 respect to fire flows." Is that correct?

24 A Yes.

25 Q Could you identify Mr. Bidy's testimony where

1 he states he did not include a fire flow in used and  
2 useful calculations because PCUC didn't provide fire  
3 flow records or supporting documents? And I could  
4 direct your attention perhaps to Page 5 of that  
5 testimony, if you have it there handy, Lines 4 to 6,  
6 or --

7 A Well, you're referring me to the wrong lines.

8 Q Yeah, I think it's 3 to 4, starting on Line 3  
9 and ending up on 4.

10 MR. GATLIN: What was the page number?

11 Q (By Mr. Reilly) Page 5, and I'm just  
12 exploring your statement that he did not include any  
13 fire flow provision.

14 A You're still referring me to the wrong lines.  
15 Read Lines 1 through 3, "For this reason I have not  
16 included a fire flow provision in my used and useful  
17 calculations for source of supply of water treatment  
18 plant." Then revert to my rebuttal testimony; that's  
19 precisely what I'm referring to.

20 Q Hold one second, please. You're reading from  
21 Page 5?

22 A Yes.

23 Q Is this the -- say the June 28th version; is  
24 that correct?

25 A That's correct.

1 Q All right, so you're saying he's not included  
2 a fire flow provision in his used and useful calculation  
3 for supply of water at treatment plant; is that  
4 correct? But would you go on to read what he says  
5 starting on Line 4?

6 A "PCUC currently has a total of 4.15 million  
7 gallons for storage, which seems adequate for fire flow  
8 and peak hour demands. Therefore I have included fire  
9 flow in my used and useful calculations for water  
10 storage."

11 Q So in fact Mr. Bidy does provide some fire  
12 flow provision in his used and useful calculations; is  
13 that correct?

14 A That's correct for storage, but your previous  
15 question was referring to my rebuttal testimony. In my  
16 rebuttal testimony I'm specifically referring to his  
17 disallowance of any fire flow for source of supply and  
18 treatment. If you read Page 17 which you referred me  
19 to, the first --

20 Q I don't remember anything about source of  
21 supply and treatment being mentioned. It just said,  
22 Mr. Bidy states that his primary reason for not making  
23 allowance for fire flow is because PCUC didn't provide  
24 supporting documentation for filing with the MFRs. So  
25 there's no -- it appears from reading this sentence that



1 he's made no fire flow provision at all.

2           A     I believe you need to read testimony in its  
3 entirety and if you start at the top of that Page 17,  
4 the question was: "Did Mr. Biddy make any allowance for  
5 fire demands in his used and useful calculations for the  
6 source of supply and treatment plant?" And the  
7 follow-up question was -- the answer to that was no, and  
8 the follow-up question explained Mr. Biddy's reasons.

9           Q     On Page 17, the same page, Lines 14 through  
10 18, you state that, "In any event, the need for a  
11 utility to meet maximum day demands plus fire flow when  
12 designing and constructing its system is generally  
13 recognized without the need to provide additional  
14 documentation." Is that correct?

15           A     Yes.

16           Q     Could you tell us how many water treatment  
17 facilities you've designed?

18           A     I do not design utility facilities. I have  
19 examined the design of many of them.

20           Q     When you were saying regulatory standpoint,  
21 which regulatory standpoint are you referring to? PSC?  
22 DEP?

23           A     Regulatory rate setting standpoint by PSC here  
24 in Florida and around the country. Source of supply and  
25 treatment facilities are consistently recognized as

1 being allocable to fire service by regulatory agencies  
2 around the country, and it's contained in the American  
3 Waterworks Association Rate Manuals as well.

4 Q That was my next question. Can you really  
5 name specific manuals that suggest that the design for  
6 water treatment plant must meet max day demands and fire  
7 flow requirements?

8 A I don't know whether I can refer you off the  
9 top of my head to specific language, but if you examine  
10 the AWWA Water Rate Manual, either 3rd or 4th editions,  
11 which are the latest decisions over the past 13 years,  
12 you will find allocations of water source of supply and  
13 treatment facilities, as well pumping facilities and  
14 storage facilities in the establishment of fire service  
15 rates. So it is recognized that those types of  
16 facilities are allocable and used in the provision of  
17 fire protection service despite specific designs of  
18 specific components of the systems.

19 Q But treatment -- but the treatment component  
20 itself that it must simultaneously meet maximum day and  
21 fire flow requirements, you're saying that you have any  
22 citations of manuals that would suggest that it be  
23 designed to do that?

24 A No. I'm referring you to a cost process and a  
25 used and useful process. We do know for Palm Coast that

1 indeed the sources of supply and treatment facilities  
2 were in fact used to provide fire protection service  
3 when the utility had fires and that was recognized by  
4 the -- that, among other things, were recognized by the  
5 FPSC in the Company's last two cases.

6 Q But it is true that you have no manual that  
7 describes simultaneous requirement for max day and fire  
8 flow for treatment?

9 A I don't know whether I can give you a manual.  
10 I don't have all of the references off the top of my  
11 head. There are certain circumstances where I believe  
12 that would be true, where they would be references, but  
13 each system has to be designed on its own.

14 Q Are you aware that the Ten State Standards  
15 suggest max day, without any provision for fire flow on  
16 top of that?

17 A Not for all systems. They also recognize that  
18 you may be using source of supply for individual wells  
19 to provide for fire protection service, and the Ten  
20 State Standards is not considering all conditions that  
21 utilities have to meet in designing and constructing  
22 systems. At early stages of the design of systems, you  
23 may very well be using source of supply and treatment  
24 plant in order to provide fire protection service. Then  
25 as the system matures and you start to add more and more

1 distribution capacity in the form of storage, then you  
2 switch to how a system handles both general service  
3 demands and fire demands. And the manuals or the Ten  
4 State Standards don't go in that kind of detail, and  
5 they specifically say design engineers need to deal with  
6 the system that they're talking about.

7 Q Just a couple more questions. On Page 31 of  
8 your rebuttal, Lines 2 through 9, you talk about the two  
9 most obvious examples, this is now we're talking about  
10 PEP tanks and service lines -- "relate to PEP tanks and  
11 service lines. Clearly those components may be  
12 identified with individual existing customers and should  
13 be included as entirely used and useful. Mr. Biddy's  
14 lot count analysis which he apparently would apply to  
15 those items because he believes it creates an equal  
16 share for all customers, existing as well as future,  
17 simply does not make sense." Is that correct?

18 A Yes.

19 Q Does Mr. Biddy suggest that PEP tanks are not  
20 100 percent used and useful in his testimony now?

21 A You mean after he revised his testimony?

22 Q That's right.

23 A I don't -- I didn't think he talked about it,  
24 but let me check to see what he does with --

25 Q No, I would even suggest that's been since --

1 I realize this is a disadvantage because we've had so  
2 many versions of this testimony, but this has been since  
3 June 5 when the first change was made, and this is prior  
4 to your filing your rebuttal testimony?

5 A If you can refer me to where he includes PEP  
6 tanks and services as 100 percent used and useful, maybe  
7 I could respond to you, but I have not found it.

8 Q All right. (Pause) Have you -- in his  
9 testimony or in schedules, have you indicated where he  
10 has not suggested that these PEP tanks are 100 percent  
11 used and useful?

12 A In his original testimony he didn't treat them  
13 any differently. In his June -- I believe this is the  
14 June -- no, this is the latest version of his  
15 testimony. If you refer to Table TLB-2, Page 1, and go  
16 down to Line 50 entitled Service Lines, he doesn't make  
17 any distinction of service lines with respect to the PEP  
18 system tanks or the general service laterals  
19 connected --

20 Q Shouldn't you be in TLB-3, wastewater?

21 A Oh, I'm sorry, yes, I should. (Pause)

22 Q I guess it's my understanding, as it's been  
23 explained to me, that no adjustment, no used and useful  
24 adjustment was applied to these tanks. And so by  
25 inference, there would be no adjustment made, therefore

1 it would be included as 100 percent used and useful.  
2 Now, if -- suggesting that, do you see anything in those  
3 schedules or testimony that would contradict that  
4 interpretation of his testimony?

5 A Yes. I guess on TLB-3, Page 1 of 1, he  
6 apparently makes some allowance for the PEP system, but  
7 the PEP system is identified customer for customer, and  
8 he seems to now be complying with the analysis that I  
9 did. It wasn't there when I prepared my rebuttal  
10 testimony.

11 MR. REILLY: No further questions.

12 COMMISSIONER DEASON: Mr. Melson.

13 CROSS EXAMINATION

14 BY MR. MELSON:

15 Q Mr. Guastella, I'm Rick Melson representing  
16 the Dunes Community Development District. I think you  
17 recall, I'm probably interested in the effluent rate  
18 issue. If you could turn with me for a minute to Page  
19 35 of your testimony.

20 A I have it.

21 Q I believe you say at Line 4, effluent has been  
22 recognized as a valuable commodity by state regulatory  
23 agencies. What agencies are you referring to there and  
24 what's the basis of -- basis for that statement?

25 A Both DEP and FPSC. I've read documents by DEP

1 indicating that it was a valuable resource, and the  
2 Florida Public Service Commission has indicated that as  
3 well.

4 Q And are all those references that you have  
5 seen references to effluent that has been treated to the  
6 standards that are necessary to apply it to public  
7 access areas?

8 A I don't think they made that distinction. I  
9 think they were referring to effluent, and I don't think  
10 they got into the detail as to whether or not it's  
11 treated by the utility or by the customer.

12 Q Let me ask this. Are you aware of any Public  
13 Service Commission order or document that has ever  
14 considered anything other than -- has ever considered  
15 reuse effluent that was anything other than treated to  
16 tertiary standards and suitable for public access?

17 A Not in the cases that I've been involved in.  
18 I don't know whether or not they've dealt with that  
19 issue before.

20 Q On the top of Page 36, you talk generally  
21 about a sharing of the benefit when there is a reuse of  
22 effluent; is that correct?

23 A I didn't hear the tail end of your question.  
24 I'm sorry.

25 Q Page 36, you talk -- basically you indicate

1 that you believe there's a benefit to both parties to an  
2 effluent reuse transaction, both the utility and the  
3 customer. Is that a fair characterization of what  
4 you're saying there?

5 A Yes.

6 Q Are you familiar with the addendum agreement  
7 that was entered into between Palm Coast and Dunes  
8 Community Development District which provided on an  
9 interim basis for Dunes to provide storage capacity for  
10 Palm Coast effluent while Palm Coast was constructing  
11 improvements to its wastewater treatment plant?

12 A Yes.

13 Q And would you agree with me that Dunes'  
14 agreement to store that effluent for Palm Coast was a  
15 benefit to Palm Coast?

16 A Yes.

17 Q And would you also agree with me that Dunes  
18 received no benefit from providing the storage service,  
19 other than the monthly lease charge that was made for  
20 that storage capacity?

21 A As far as I know, that's the only benefit that  
22 Dunes received. They were paid for a lease amount for  
23 their storage facilities, for which they had no  
24 incremental cost, I might add.

25 MR. MELSON: I've got no further questions.



1 Thank you, Mr. Guastella.

2 COMMISSIONER DEASON: Staff?

3 CROSS EXAMINATION

4 BY MS. REYES:

5 Q Mr. Guastella, the itemized billing that was  
6 discussed earlier, which is a part of Exhibit No. 41,  
7 FS-13A.

8 A I'm sorry, I didn't hear your first couple of  
9 words.

10 Q I'm going to talk about the itemized billing,  
11 specifically the billing dated August 1st, 1995 which  
12 described your participation in a used and useful  
13 workshop.

14 A Yes.

15 Q Do you recall how many hours were spent at  
16 this workshop?

17 A No, I don't recall the specific hours. You  
18 mean in terms of how long the workshop itself lasted?

19 Q Right. Would it have been like a full day,  
20 like eight hours or --

21 A I don't recall. I do recall that there was a  
22 workshop. It was here in Tallahassee. I don't recall,  
23 frankly, when it started and when it ended. I do recall  
24 having received considerable material that was issued by  
25 Staff and by the Florida Waterworks Association that I

1 reviewed in preparation for that meeting.

2 Q Mr. Reilly and Mr. Seidman also had a  
3 discussion earlier about some of your billing which  
4 contained a charge for a limo, a rental car and some  
5 mileage expense.

6 A Yes.

7 Q Could you please elaborate and clarify what  
8 these charges were?

9 A I wasn't looking at the bills, but it's not a  
10 limo in the sense of a limousine. The means that I have  
11 of transportation to the airport from my house is by  
12 getting a limousine service, which gives you a car,  
13 basically, a car ride to the airport. It's cheaper than  
14 a taxi cab and it's cheaper than driving my car and  
15 parking it in a lot with the hopes that the car will  
16 still be there when you get back to the airport. So  
17 the -- it's not really a limousine. It was a limo  
18 service that gives you a car ride to and from airports.  
19 The auto expenses, you know, if I'm here and I don't  
20 have an automobile, I need to rent one, and I believe  
21 there was also some discussion about some mileage. In  
22 addition to renting an auto, I believe that probably --  
23 and again, I would have to look at the bills to refresh  
24 my memory better than this, but I believe there was an  
25 occasion when I needed to drive down -- I'm sorry, not

1 drive down, but fly down, in order to attend a meeting  
2 at Palm Coast, and I needed to rent a car in order to do  
3 that. I was staying at a place which I own in Florida,  
4 so there was no charge for room, but I was also driving  
5 a car back to New Jersey. So instead of charging for  
6 air fare, I charged for half of the mileage to drive  
7 back to New Jersey.

8 Q Okay, thank you. Now, I would like to ask  
9 some questions about the projection of the maximum day  
10 demand to year end 1995. Is it correct that the maximum  
11 day which you used occurred in 1994?

12 A Yes.

13 Q And isn't it true that you adjusted this  
14 maximum flow to arrive at the maximum flow for year end  
15 1995?

16 A Yes. And I did that by taking -- making the  
17 assumption that the maximum day occurred in midpoint of  
18 1995. So I did not increase that for growth from the  
19 midpoint of 1994 through the end of 1995. I increased  
20 it for growth from the midpoint of 1995 to year end  
21 1995.

22 Q And you made this adjustment because we're  
23 using a year end rate base, correct?

24 A Yes. And that was part of an adjustment to  
25 then make an allowance for margin reserves. So then I

1 extended additional growth for margin reserve.

2 Q And if the Commission decides to not use a  
3 year end rate base, do you believe it would still be  
4 appropriate to make this adjustment to the maximum day  
5 demand?

6 A I believe you don't need to make that  
7 adjustment if you're going to use a -- an average 1995  
8 test year. Of course there's many other things that  
9 would have to happen. You would have to eliminate the  
10 revenues from the customers that were included in the  
11 year end rate base, which may have more of an impact  
12 than using year end rate base. I many mean it may have  
13 an adverse impact on the rates themselves. But I  
14 haven't done those calculations.

15 Q I believe an exhibit has been passed out.  
16 It's entitled Responses to Staff Interrogatories Nos. 19  
17 and 39, and Late-filed Depo Exhibit 8.

18 Commissioner Deason, if we could have that  
19 exhibit marked for identification.

20 COMMISSIONER DEASON: Yes, Exhibit 48.

21 (Exhibit No. 48 marked for identification.)

22 Q (By Ms. Reyes) On Page 1 of this exhibit it's  
23 indicated that the cost of the concentrate line and  
24 blend station are booked into account 320.3, correct?

25 A Yes.

1 Q You do not believe that a used and useful  
2 adjustment is appropriate for the concentrate line,  
3 correct?

4 A That's correct.

5 Q And that's because the concentrate line is  
6 completely required for current demands?

7 A Yes.

8 Q Is it true that the blend station is sized to  
9 dispose of the concentrate from the ultimate 6.0 MGD  
10 capacity of the membrane softening plant?

11 A It's my understanding that certain components  
12 of that are sized for the build-out, yes.

13 Q Page 3 of this exhibit indicates that  
14 \$2,286,708 of the amount booked into account 320.3 is  
15 for plant which is not associated with the membrane  
16 train, correct?

17 A That's correct.

18 Q On the second sentence of this statement, you  
19 indicate this amount includes the concentrate line from  
20 the membrane plant to the wastewater treatment plant.  
21 Isn't it true that this main does not run all the way to  
22 the wastewater treatment plant?

23 A I can't tell you that just from reading this,  
24 and I can't tell you that from memory either.

25 Q You do not believe that a separate used and

1 useful calculation is necessary for high service  
2 pumping, correct?

3 A Not in this case, correct.

4 Q If a used and useful calculation is made for  
5 high service pumping equipment, isn't it true that it  
6 would be appropriate to make the adjustments using the  
7 dollar amounts shown on Page 2 of this exhibit?

8 A I didn't put these numbers together. I assume  
9 they're correct. So if these numbers are reflecting the  
10 cost of high service pumping, then these are the numbers  
11 that should be used, provided the used and useful  
12 calculation for high service pumping is done correctly,  
13 as I indicated in my rebuttal testimony.

14 Q Isn't it true that you have included an  
15 adjustment within the used and useful calculation to  
16 recognize that the actual flows to the wastewater  
17 treatment plant include infiltration which is associated  
18 with nonused and useful lines?

19 A I don't believe that is correct, but may I  
20 have your question again, please?

21 Q Sure. Isn't it true that you've included an  
22 adjustment within the used and useful calculation to  
23 recognize that the actual flows to the wastewater  
24 treatment plant include infiltration which is associated  
25 with nonused and useful lines?

1           A     Yes. I made an adjustment to reflect only the  
2 I&I applicable to connected customers.

3           Q     And isn't it true that there's an electrical  
4 expense associated with pumping the wastewater to the  
5 treatment plant?

6           A     Yes.

7           Q     Isn't it true that the utility didn't make any  
8 adjustments to purchased power expense for the system  
9 pumping plant to recognize the infiltration and inflow  
10 which is associated with nonused and useful lines?

11          A     I'll have to accept it subject to check, or  
12 you should have asked Mr. Seidman.

13          Q     You believe that it would be inappropriate to  
14 adjust the expense for I&I because power expenses are  
15 incurred on a current basis, correct?

16          A     I need to have that question again.

17          Q     Sure. You believe it would be inappropriate  
18 to adjust the expense for I&I because power expenses are  
19 incurred on a current basis, correct?

20          A     I guess I'm not following you. Adjust the  
21 expense for I&I, are you referring to adjust power  
22 expenses as opposed to adjust the expense for I&I? Are  
23 you calling expense for I&I power costs?

24          Q     Yes.

25          A     And with that understanding, may I have your

1 question against, please?

2 Q Sure. You believe that it would be  
3 inappropriate to adjust the expense for I&I because  
4 power expenses are incurred on a current basis, correct?

5 A I believe that's correct, but if I can expand,  
6 there are other reasons for not making an adjustment for  
7 I&I. The I&I level is reasonable.

8 Q Isn't it true that the principal difference  
9 between a distribution system, which provides fire flow,  
10 and one which does not is the size of the lines?

11 A It's one of the differences. Also you don't  
12 have hydrants on one compared to the other.

13 Q Is it true that you calculated the  
14 transmission and distribution fire flow allowance by  
15 dividing the fire flow requirement by the maximum day  
16 demand plus the fire flow?

17 A That was one step of the calculation. There's  
18 another step.

19 Q And isn't it true that this comparison is not  
20 related to the incremental cost difference between  
21 different sized lines?

22 A That's correct. I did not do an adjustment or  
23 an allocation to fire based on incremental costs of  
24 providing fire protection service, if that's what your  
25 question was intended to ask.



1 Q And Palm Coast's distribution system is sized  
2 to serve the build-out capacity demands, correct?

3 A Not entirely. There is -- there will still be  
4 some additional mains added, I believe transmission  
5 mains, that have not yet been installed.

6 Q At this time, isn't it true that the lines can  
7 meet maximum demands which exceed those which are used  
8 in the fire flow allowance calculation?

9 A I would expect they would. I believe the  
10 mains can meet more demands because there are more mains  
11 that are being included, and then I'm including for the  
12 used and useful calculation for fire. I am only taking  
13 a portion of the mains in terms of the allowance that I  
14 used for fire demands, so I'm only including a small  
15 portion of what the fire demands would be and a small  
16 portion of the mains that weren't previously included as  
17 used and useful in what I call the density part of my  
18 analysis.

19 Q Isn't it true that you believe that the water  
20 lines must be sized to serve the total ERCs connected,  
21 not the total lots connected?

22 A Yes. And they must be sized to meet fire  
23 protection and flow throughout the system and the  
24 demands of different customers which are approximately  
25 represented by the ERC calculation.

1 Q And is it correct that as was the case with  
2 providing fire flow, the size of the line which is  
3 installed is the primary difference between serving only  
4 single family connections and multi-ERC connections?

5 A I don't know if I could simplify the design to  
6 that level. The transmission distribution system is  
7 more complicated than just identifying what flows are  
8 from residential and what flows are from multi-family  
9 and then what piece may be fire flow requirements.  
10 There's a configuration that's complex. There's a grid  
11 that needs to be taken into account. There are sources  
12 of supply connections that have to deal with  
13 transmission mains, and then there's fire protection  
14 throughout the system. So it's difficult for me to just  
15 convert or to respond to your question with a simple  
16 yes. I believe it's more complicated than that.

17 Q Now, if I could have you refer to Page 6 of  
18 Exhibit No. 1, the preliminary design report, I'm not  
19 sure if he has a copy of that.

20 A I don't believe I do.

21 Q Page 6. The next to the last sentence on the  
22 page indicates that the average ratio of maximum  
23 three-month average daily flow to annual average daily  
24 flow for the last ten years is 1.16, correct?

25 A Yes.

1 Q And you used a ratio of 1.2?

2 A Yes, I did. That was based on my examination  
3 of the most current data.

4 Q Now if I could have you refer to Table N-2 of  
5 Exhibit No. 15, which I believe is one of your composite  
6 exhibits.

7 A Could you give me that again, please?

8 Q It's Table N-2 of Exhibit No. 15.

9 A I have it.

10 Q The 1.2 factor was calculated by dividing  
11 2.650 by 2.239, correct?

12 A Yes.

13 Q Isn't it true that you rounded up the result  
14 of this calculation from 1.184 to 1.2?

15 A I'll take that subject to check, yes.

16 Q Now if you could refer to Table M-2 of this  
17 same exhibit, the used and useful analysis.

18 A N?

19 Q M.

20 A I have it.

21 Q And specifically refer to lift station 19-1.  
22 Isn't it true that the peak demand plus infiltration and  
23 inflow of 827 gallons per minute exceeds the 405 gallons  
24 per minute station capacity?

25 A Yes.

1 Q And you are not aware of any sewage overflows  
2 at this lift station, correct?

3 A Correct.

4 Q Isn't it true that this indicates that the  
5 peak flows to the lift stations are less than 3?

6 A No. I mean, I don't know what the -- I mean,  
7 this is obviously an outlier in terms of data here, so I  
8 don't know what caused this one lift station. But if  
9 you take a look at all of the other lift stations, and  
10 if you take a look at the major lift stations which, in  
11 response to depositions, the Company provided a  
12 late-filed exhibit, through me, which showed that an  
13 analysis of the two largest lift stations confirmed that  
14 the peak was three times the average for the largest  
15 lift stations, confirming that the graphs that we gave  
16 you previously showing that the flows for virtually all  
17 of the lift stations would range between three and four  
18 times, in terms of peak to average, would be confirmed,  
19 since the largest lift stations would have the lower  
20 peak. So this is certainly not changing my conclusion  
21 about that.

22 Q Thank you, Mr. Guastella. Staff has no more  
23 questions.

24 COMMISSIONER DEASON: Redirect?

25 MR. GATLIN: No redirect and that completes

1 the rebuttal section of our case.

2 COMMISSIONER DEASON: Exhibits?

3 MR. GATLIN: We had no exhibits.

4 MS. REYES: Staff would move Exhibit 48.

5 COMMISSIONER DEASON: Without objection,  
6 Exhibit 48 is admitted.

7 Thank you, Mr. Guastella.

8 (Exhibit No. 48 received into evidence.)

9 (Witness Guastella excused.)

10 \* \* \*

11 COMMISSIONER DEASON: Anything else to come  
12 before the Commission?

13 MR. SCHIEFELBEIN: Yes. May I?

14 COMMISSIONER DEASON: Yes.

15 MR. SCHIEFELBEIN: I would like to talk about  
16 the submittal of the brief. Commissioners, it's my  
17 understanding that the -- first of all, that the  
18 transcript will -- for this third day of hearings will  
19 be available a week from today, that is the 26th. Now,  
20 the -- it's my desire and request to have three weeks  
21 from that date within which to submit our brief, which  
22 would take us, I think, to -- excuse me, to August  
23 16th. The current CASR schedules a Staff recommendation  
24 of 9-19 for a 10-1 agenda. However, there is no 10-1  
25 agenda. The calendar has apparently changed since the

1 CASR was prepared. The agenda that would be available  
2 to Staff, keeping them within the eight months, would be  
3 October 8th agenda, with a 9-26 Staff recommendation due  
4 under the standard filing procedure. So if we were  
5 given three weeks from the completion of the transcript  
6 for our brief, that would still leave roughly 40 days  
7 for the Staff recommendation from submittal of briefs.

8           Traditionally, I think for two-day hearings,  
9 the Commission gives two weeks from transcript for  
10 briefs. Here we have had pretty -- a pretty full three  
11 days. There's about 70 issues, and it would be, I  
12 think, unduly challenging to get it done in two. So we  
13 would ask for three. I think that Public Counsel, which  
14 is the only other party that I would expect would be  
15 briefing virtually all the issues, I've talked to them,  
16 and correct me if I'm wrong, Mr. Reilly, but I think  
17 they're in support of this request.

18           MR. REILLY: I'm going to have to correct  
19 you.

20           MR. SCHIEFELBEIN: All right.

21           MR. REILLY: I support your time, whatever the  
22 Commission can give us. The three weeks would be  
23 helpful. But as we've been consulting on the length of  
24 the brief -- and I'll have some comments.

25           MR. SCHIEFELBEIN: That's another thing I

1 intended to get to.

2 MR. REILLY: But I concur with you on the  
3 three weeks.

4 MR. SCHIEFELBEIN: And we had discussed it  
5 with Staff and were unable to come up with a 100 percent  
6 agreement on it, but I would beseech you, if we could  
7 have the three weeks from the completion. If the  
8 transcript time could be moved up, and it's my  
9 understanding it can't be, but if it could, we could  
10 move up our brief accordingly, but that's the situation  
11 we're in on that.

12 COMMISSIONER DEASON: Staff.

13 MR. EDMONDS: While it's true that we're no  
14 longer going to be going to the 10-1 agenda -- and we do  
15 have a couple revisions to the CASR to make. As  
16 Mr. Schiefelbein said, it will be the 10-8 agenda. The  
17 Staff recommendation would be due September 26th. Staff  
18 believes that two weeks for the briefs is appropriate.  
19 That's what was set forth in the order establishing  
20 procedure. Two weeks from when the transcripts were to  
21 be completed is what we've been working with all along  
22 in this docket. I would submit to you that this rate  
23 case is really no different than any other rate case in  
24 which the Commission typically gives two weeks for  
25 briefs. I do not believe there is an inordinate amount

1 of issues for this case, and I might add that there are  
2 no issues that have been identified as legal issues. So  
3 it would be Staff's position that two weeks from when  
4 the transcripts are complete, which would be August 9th,  
5 should be the date for the briefs to be due.

6           COMMISSIONER DEASON: Have the transcripts  
7 from the first phase of the hearing been completed?

8           MR. SCHIEFELBEIN: Yes, they have.

9           MR. EDMONDS: And those are available.

10           MR. SCHIEFELBEIN: Were you through on that  
11 or --

12           MR. EDMONDS: It depends.

13           MR. SCHIEFELBEIN: I didn't want to interrupt  
14 you.

15           MR. EDMONDS: I'm through for now.

16           MR. SCHIEFELBEIN: Certainly the order  
17 establishing procedure did not anticipate a three-day  
18 hearing.

19           COMMISSIONER DEASON: Well, I -- realizing  
20 that the transcripts are already available for the first  
21 two days of the hearing, I think that three weeks is  
22 excessive, but I certainly would be agreeable to giving  
23 you until the 12th, which would give you the weekend, if  
24 you find it necessary, to complete your brief. Close of  
25 business on the 12th, that would give you a little more



1 than two weeks, if that time is absolutely needed. That  
2 would -- let's see, the 12th would be a Monday. Does  
3 Staff have any objection to the 12th?

4 MR. EDMONDS: No.

5 COMMISSIONER DEASON: Briefs will be due then  
6 August the 12th, close of business on August the 12th,  
7 which is a Monday.

8 MR. SCHIEFELBEIN: The related matter to this  
9 is that I believe -- someone please correct me if this  
10 is wrong -- but I believe there's a page limitation on  
11 the brief, including the post-hearing statement of  
12 issues and positions of I think it's 60 pages, and I  
13 believe that's the standard --

14 MR. EDMONDS: That's what the rule states.

15 MR. SCHIEFELBEIN: Unless for good cause  
16 shown.

17 MR. EDMONDS: Correct.

18 MR. SCHIEFELBEIN: That it be longer. We  
19 would seek some -- it's absolutely impossible at this  
20 point -- we haven't written word one of the brief, but  
21 we are looking at roughly 72 issues, some of which are  
22 fairly complex, and we would ask for consideration of a  
23 lengthier brief, of course by all parties, and my  
24 request would be for a 100-page cap, and that would  
25 include the post-hearing lists of issues and positions,

1 all the accoutrements with the brief, as well as the  
2 argument, would be a total of 100 pages.

3 COMMISSIONER DEASON: Mr. Reilly.

4 MR. REILLY: We would oppose the 100 pages. I  
5 just would like the Commission to hold all the parties'  
6 feet to the fire to keep, perhaps, to 75 pages. You  
7 just had the Southern States case, a two-week hearing,  
8 150 systems, was 150 pages. And I think in comparison,  
9 I would really think that if we exercised our best  
10 efforts we could do it in 75 pages. The thrust of my  
11 argument, of course, is trying to keep some handle of  
12 rate case expense and time. And so that's what I would  
13 recommend.

14 COMMISSIONER DEASON: Any other comments?

15 MR. EDMONDS: I have a comment -- Staff would  
16 also oppose expanding the limit and request -- and  
17 recommend that it stay put at 60 pages, which is in  
18 accordance to the prehearing order and what the  
19 Commission typically orders, and is in line with the  
20 rule. And I'm not sure that good cause has been shown  
21 for expanding it.

22 COMMISSIONER DEASON: Mr. Schiefelbein, could  
23 you review the good cause argument?

24 MR. SCHIEFELBEIN: It's simply a reflection of  
25 the number of issues which have developed, which was not

1 known at the time that the order establishing procedure  
2 was issued. That's done early in the case. The extent  
3 of issues in this case did not become apparent until the  
4 prehearing conference of -- was it last month? Where it  
5 became apparent we had roughly 70 issues, and also the  
6 sheer volume of both transcript and exhibits in this  
7 case. I don't mean to overstate it, but I think that if  
8 one includes all the accoutrements with the brief, which  
9 are supposed to be included in that page limitation, I  
10 think that 60 is cutting it a bit fine. Once you  
11 eliminate your mandatory statement of position on each  
12 issue for 72 times, you're basically left with about 40  
13 pages of argument. And I think that that is  
14 insufficient for this number of issues. And of course  
15 not all issues are equal. Some issues you can knock off  
16 in a sentence, and some you may need ten pages.

17           COMMISSIONER DEASON: Any further comments?  
18 Mr. Melson?

19           MR. MELSON: Commissioner Deason, I don't have  
20 a dog in this hunt because I'm not going to need more  
21 than 60 pages, but I would observe, with 72 issues, your  
22 normal page limit would produce less than a page per  
23 issue. And I frankly think that would probably be  
24 unduly burdensome on the parties that have got to brief  
25 that many issues.

1           COMMISSIONER DEASON: I'll allow a page  
2 limitation of 75. Anything else?

3           MR. SCHIEFELBEIN: Yes. Did you want to  
4 establish -- I don't think we had any new late-filed  
5 exhibit requests today. There are a few outstanding  
6 from the first two days of the hearing. Did you want to  
7 establish a date for those?

8           COMMISSIONER DEASON: Are there late-filed  
9 exhibits that are still outstanding?

10          MR. SCHIEFELBEIN: There are two or three from  
11 the -- requested of the Company, and I think they can be  
12 provided relatively quickly.

13          COMMISSIONER DEASON: We did not establish a  
14 due date during the first phase?

15          MR. SCHIEFELBEIN: My understanding you did  
16 not. We would suggest -- would Monday the 29th be  
17 acceptable?

18          COMMISSIONER DEASON: Monday the 29th of  
19 July? Any objection to having that as the due date for  
20 all late-filed exhibits?

21          MR. REILLY: No objections.

22          MR. EDMONDS: No objection.

23          COMMISSIONER DEASON: Very well. That will be  
24 the due date.

25          MR. SCHIEFELBEIN: Thank you.

1 COMMISSIONER DEASON: Anything else?

2 MR. GATLIN: Is Mr. Guastella excused?

3 COMMISSIONER DEASON: He is.

4 MR. SCHIEFELBEIN: He's got a limo he needs to  
5 catch.

6 COMMISSIONER DEASON: If he doesn't have a  
7 limo, I hope his car is still at the airport.

8 Anything else? Thank you all. This hearing  
9 is adjourned.

10 (Hearing concluded at 5:00 p.m.)

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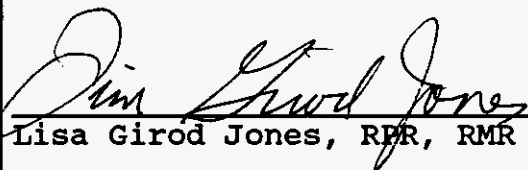
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14 I certify that the foregoing is a correct transcript  
15 from the record of proceedings in the above-entitled  
16 matter.

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\_\_\_\_\_  
Lisa Girod Jones, RPR, RMR

7/25/96  
\_\_\_\_\_  
Date

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