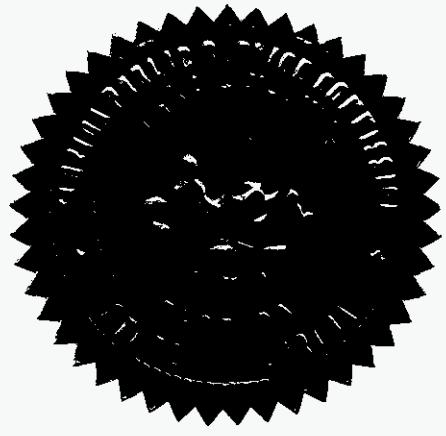


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of :
Application for rate increase :
and increase in service avail- :
ability charges by Southern :
States Utilities, Inc. for :
Orange-Osceola Utilities, Inc.:
in Osceola County, and in :
Bradford, Brevard, Charlotte, :
Citrus, Clay, Collier, Duval, :
Highlands, Lake, Lee, Marion, :
Martin, Nassau, Orange, :
Osceola, Pasco, Putnam, :
Seminole, St. Johns, :
St. Lucie, Volusia and :
Washington Counties. :

DOCKET NO. 950495-WS



PROCEEDINGS: SPECIAL AGENDA CONFERENCE

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

DATE: Thursday, August 15, 1996

TIME: Commenced at 9:00 a.m.
Concluded at 11:45 a.m.

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

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting
H. RUTH POTAMI, CSR, RPR
Official Commission Reporter

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I N D E X

MISCELLANEOUS

1		
2		
3	ITEM	PAGE NO.
4	CERTIFICATE OF REPORTERS	117
5		
6		
7	ISSUES	
8	ISSUE NO.	PAGE NO.
9	Issue No. 74	5
10	Issue No. 75	11
11	Issue No. 117	11
12	Issue No. 118	13
13	Issue No. 119	13
14	Issue No. 120	19
15	Issue No. 120	50
16	Issue No. 121	51
17	Issue No. 122	52
18	Issue No. 123	53
19	Issue No. 124	57
20	Issue No. 125	61
21	Issue No. 126	87
22	Issue No. 127	94
23	Issue No. 128	96
24	Issue No. 129	97
25	Issue No. 130	103
	Issue No. 131	104
	Issue No. 132	105
	Issue No. 133	106
	Issue No. 134	107
	Issue No. 138	107
	Issue No. 135	112
	Issue No. 136	112
	Issue No. 137	113
	Issue No. 140	113
	Issue No. 142	113
	Issue No. 146	113
	Issue No. 147	113

1 P R O C E E D I N G S

2 (Hearing convened at 9:00 a. m.)

3 **CHAIRMAN CLARK:** We'll call the agenda
4 conference to order.

5 **MS. LINGO:** Good morning, Commissioners.
6 We're here today to present Staff's recommendation on
7 final rates, rate structure and service availability
8 for Southern States Utilities. On June 28th, 1995,
9 Southern States filed an application for approval of
10 interim and final rate increase and an increase in
11 service availability. August 2nd, 1995, has been
12 designated as the official filing date.

13 Due to the fact that subsequent issues rely
14 on decisions on other issues, Staff suggests
15 proceeding issue by issue, with a brief introduction
16 for each.

17 Also, in order to avoid additional
18 confusion, as Staff introduces each item we will make
19 minor corrections if necessary.

20 **MS. LINGO:** Good morning, Commissioners. In
21 Issue 74 --

22 **CHAIRMAN CLARK:** Hang on just a minute. As
23 I recall, we can go straight through issue by issue.
24 There is no issue we have to go to another issue
25 first, is there?

1 **MR. RENDELL:** 138 should be addressed before
2 135. That's the only one I'm aware of.

3 **CHAIRMAN CLARK:** Okay.

4 **MS. LINGO:** Good morning, Commissioners. In
5 Issue 74 Staff recommends that no repression
6 adjustment be made in this case.

7 We want to be clear, however, that the
8 reason for our recommendation that no adjustment be
9 made is not because we don't believe there will be
10 repression; the problem is we don't have a way to
11 quantify what the appropriate adjustment would be in
12 this case.

13 As we're going to discuss in Issue 125,
14 Staff is recommending a capband rather than a uniform
15 rate structure. Using a different rate structure
16 will, in fact, affect the results of the repression
17 analysis. And there's no analysis in the record that
18 was based on anything other than a uniform rate
19 structure, so we lack the information to determine
20 what an appropriate repression adjustment would be.

21 **CHAIRMAN CLARK:** Questions, Commissioners?

22 **COMMISSIONER DEASON:** Move Staff.

23 **COMMISSIONER JOHNSON:** Second.

24 **CHAIRMAN CLARK:** I did have something I
25 wanted to discuss on this item.

1 I was concerned that there was an agreement
2 among the experts that there would be repression. And
3 I was concerned that there wasn't a discussion of why
4 we, nonetheless, chose not to do repression. But on
5 discussing it with Staff, and based on your
6 explanation today, the problem is we don't have a good
7 analysis of what repression would be using a different
8 rate structure. And we're not -- based on what Staff
9 talked about yesterday, I think we could conclude that
10 there may not be repression because some people's
11 rates will go down, some will go up. And there's no
12 way -- and some are going to go up from what they were
13 prior to this case but they will come down from the
14 interim rates.

15 **MS. LINGO:** Yes, ma'am. In fact,
16 Commissioner, the only way to make an appropriate
17 determination regarding repression in this case is to
18 look at each system on an individual basis. That
19 hasn't been done. We don't have the information to do
20 that.

21 **CHAIRMAN CLARK:** Do we plan to get that
22 information?

23 **MS. LINGO:** Yes, ma'am. I think it would be
24 helpful if the company would provide, for example,
25 customer billing data, both bills and gallons. If

1 they would provide that information on a monthly basis
2 but maybe file it with us quarterly; and that
3 information, if it could be provided by customer class
4 and by meter size, we can monitor over the next, say,
5 two years -- that would be probably a good length of
6 time to get this information -- you know, what the
7 overall effects of not only what repression may be but
8 also anything else that's going on in the case both in
9 terms of conservation programs that we're going to get
10 to in a minute; maybe monitor the effects of weather
11 to the extent it may have on consumption. So that
12 would be something good to add.

13 **CHAIRMAN CLARK:** I think -- as I understand
14 it that is also information we have required of other
15 utilities.

16 **MS. LINGO:** Yes, ma'am. That's consistent
17 with what we have been requesting from utilities over
18 the past several rate cases.

19 **CHAIRMAN CLARK:** And certainly,
20 Commissioners, I think there is repression and there's
21 stimulation, too, and to the extent we can get a
22 handle on it I think we ought to.

23 I agree that what we have in this record is
24 inadequate to come up with an appropriate repression
25 or a stimulation, because there maybe could be some

1 stimulation in some areas, but it is something that I
2 think we need to get a handle on. And I would just
3 suggest or ask Commissioners in making the motion that
4 we include in that motion the requirement that there
5 be this reporting to give us that information.

6 **COMMISSIONER DEASON:** I'm sorry, what
7 reporting are you requesting?

8 **MS. LINGO:** Commissioner, information
9 regarding billing determinants, both in terms of
10 customer bills and customer gallons. We would like
11 this information, ideally, done on a monthly basis,
12 but they can provide it to us quarterly. I mean
13 compile the information every month but provide it to
14 us quarterly. And have the information broken down by
15 customer class and meter size so we can really
16 identify and hone in on what is going on.

17 And, again, as Chairman Clark said earlier,
18 it's consistent with what we've been asking of
19 utilities in prior rate cases.

20 **COMMISSIONER DEASON:** I think we need to
21 have some clarification. First of all, you're just
22 requesting some raw data --

23 **MR. RENDELL:** Yes, sir.

24 **COMMISSIONER DEASON:** -- to be reported. I
25 don't have a problem with that. I think what we need

1 to keep in mind, though, that raw data is just raw
2 data and we have issues in here concerning
3 conservation. We approved a rather sizeable
4 expenditure of funds for conservation.

5 It's hard to -- repression is generally
6 associated with price elasticities, and it's hard to
7 distinguish what is being driven by price elasticities
8 and what is being driven by conservation, what is
9 being driven by weather, what is being driven by
10 mandates from water management districts. I mean, all
11 of these things are intertwined. I don't want to be
12 caught in a trap of just looking at raw data, and say
13 "Oh, there was stimulation. Oh, there was
14 repression." Because stimulation and repression is
15 usually price oriented and there's many, many other
16 factors that are being intertwined when a customer
17 decides to consume or not consume.

18 **MS. LINGO:** Yes, sir, and we absolutely
19 agree with that. But to the extent that we at least
20 can get the data to help us along, we think it would
21 be helpful.

22 **COMMISSIONER DEASON:** The other
23 clarification is you don't mind getting data, but --
24 and I assume this is the case, it's not with the
25 intent then to go back and do some type of an

1 adjustment, even prospectively outside of the scope of
2 a rate proceeding, to try to say, "Well, we should
3 have had repression," or "We should have had
4 stimulation."

5 **MS. LINGO:** Yes, you're correct in that.

6 **MS. CAPELESS:** Commissioners, the reason
7 that we're recommending that no repression adjustment
8 be made is precisely for that reason; it's because we
9 don't have that data in the record upon which to
10 quantify what the repression adjustment should be.
11 We're not requesting or suggesting that you should
12 recommend that no repression be made because it's
13 unreasonable. We don't think the record says that.
14 We just don't have the information upon which to base
15 it.

16 **COMMISSIONER DEASON:** I have no problem
17 modifying the motion to seek the information, the
18 data.

19 **CHAIRMAN CLARK:** That was all I had
20 intended. Because when we talked about this issue
21 yesterday -- and let me say I appreciate Staff
22 spending that time -- we talked about the difficulty
23 starting with not having data, and that was Ms. Lingo
24 informed me that we do require this information from
25 other utilities, or we have in the past. It was

1 probably just an oversight it didn't get included in
2 this one.

3 Is there a motion? Is there a second?
4 Without objection, Item 74 as modified is approved.
5 Item 75.

6 MS. LINGO: Yes, Commissioners. In Issue 75
7 Staff recommends that the anticipated savings from the
8 approved conservation programs for the selected
9 communities is approximately 90.7 million gallons, and
10 that the appropriate number of billing determinants
11 upon which to calculate the water gallonage charge is
12 10,222,626,547 gallons.

13 CHAIRMAN CLARK: Questions?

14 COMMISSIONER KIESLING: Move it.

15 COMMISSIONER GARCIA: Second.

16 CHAIRMAN CLARK: Without objection, Item 75
17 is approved.

18 MS. TOMLINSON: Commissioner, Issue 117
19 concerns whether SSU's facilities and land are
20 functionally related. And if so --

21 CHAIRMAN CLARK: You need to speak up.

22 MS. TOMLINSON: I'm sorry. And if so, does
23 the combination of functionally-related facilities and
24 land wherever located constitute a single system as
25 defined 367.021(11) Florida Statutes.

1 Staff believes that SSU's facilities and
2 land are functionally related. In addition, the
3 combination of functionally-related facilities and
4 land wherever located does constitute a single system
5 as defined under 367.021(11), Florida Statutes.

6 Staff is prepared to answer any questions at
7 this time.

8 **CHAIRMAN CLARK:** I want to be clear. You're
9 just talking about the systems and the facilities that
10 are part of this docket.

11 **MS. TOMLINSON:** That is correct.

12 **CHAIRMAN CLARK:** Okay. Questions,
13 Commissioners?

14 **COMMISSIONER DEASON:** I have a question or
15 comment. I think to me it's clear, but I want to make
16 sure that everyone is on the same wavelength here, is
17 we're talking about here in this issue a determination
18 of functional relatedness for purposes of whether we
19 have the authority to impose uniform rates. This
20 functional relatedness has nothing to do with whether
21 this Commission does or does not have jurisdiction
22 within certain counties.

23 **MS. TOMLINSON:** That is correct.

24 **COMMISSIONER JOHNSON:** Move it.

25 **COMMISSIONER KIESLING:** Second.

1 **CHAIRMAN CLARK:** Do I need to --

2 **COMMISSIONER DEASON:** I'm fine.

3 **CHAIRMAN CLARK:** Okay. Without objection
4 117 is approved.

5 **MR. GROOM:** Commissioners, Issue 118 is
6 Staff's recommendation regarding the weather
7 normalization clause.

8 Staff is recommending that the proposed
9 weather normalization clause should not be approved.
10 Staff would be happy to answer any questions you have
11 on this clause.

12 **COMMISSIONER JOHNSON:** Move it.

13 **COMMISSIONER KIESLING:** Second.

14 **CHAIRMAN CLARK:** I agree with Staff. I
15 couldn't imagine how we would begin to explain these
16 rates when we got called about how they were figured.

17 I went back at least twice and tried to
18 figure out the process, and it was very complicated.

19 Without objection 118 is approved. 119.

20 **MS. XANDERS:** Commissioners, in Issue 119 we
21 must determine whether rates should be adjusted for
22 any service area in order to promote conservation.

23 Staff is recommending that the rate should
24 not be adjusted for any of the service areas.

25 **COMMISSIONER GARCIA:** Move Staff.

1 **COMMISSIONER JOHNSON:** Second.

2 **COMMISSIONER DEASON:** I have a question.

3 **COMMISSIONER KIESLING:** I do, too. You can
4 do yours.

5 **COMMISSIONER DEASON:** I'm looking at Page 64
6 of the Recommendation. I'm looking at the second
7 paragraph, and just about five or six lines down
8 there's a sentence that says "Staff believes that the
9 Commission has the authority, pursuant to Section
10 367.011(3)." My question is, I'm glad to have that
11 information, but is that -- are you recommending
12 that's a finding that we make as a result of this
13 issue? If you are recommending that, was that
14 something that was briefed by the parties?

15 **MS. XANDERS:** Commissioners, I think what
16 we're saying by that sentence is that in future
17 proceedings if we wish to implement a conservation
18 rate, the Commission has authority to do so. I'm not
19 certain that we're saying we're making any kind of a
20 finding.

21 **COMMISSIONER DEASON:** I just don't want to
22 prejudge any legal issue that could surface in a
23 subsequent proceeding.

24 **CHAIRMAN CLARK:** I agree with you.

25 **COMMISSIONER DEASON:** I'm not comfortable

1 making this as a legal finding and for purposes of
2 this issue in this docket.

3 **CHAIRMAN CLARK:** When we don't need to. I
4 agree with that.

5 **MS. CAPELESS:** I agree that it's not
6 necessary to do so in this case.

7 **COMMISSIONER KIESLING:** Okay. Mine is more
8 a comment. In later issues there are a couple of
9 issues where we are putting the Company on notice that
10 next time around we're going to be looking at certain
11 things, and I would like to include conservation rates
12 within that, so that if the next time this Company
13 files a rate case, I want them to file sufficient
14 information to be able to determine if we want to look
15 at conservation rates in the future.

16 **MS. XANDERS:** Commissioners, that was just
17 an oversight not included in that same sentence. We
18 think that that's a good idea.

19 **COMMISSIONER KIESLING:** Okay. That was my
20 only -- I'm not saying I want to impose them or that
21 we have the authority to. I'm just saying that I
22 think that it is a critical issue that we need to look
23 at in the next rate case.

24 **CHAIRMAN CLARK:** Would you like to make a
25 motion?

1 **COMMISSIONER KIESLING:** Yeah. I'll move
2 Staff with the addition of that proviso.

3 **CHAIRMAN CLARK:** Second?

4 **COMMISSIONER JOHNSON:** Second.

5 **CHAIRMAN CLARK:** Without objection, 119 as
6 amended is approved.

7 **COMMISSIONER JOHNSON:** On a similar issue
8 but it's related back to Issue 75, I had discussions
9 with Staff concerning the evidence that was presented
10 with respect to the amount of gallonage that would be
11 saved through the particular programs. What I
12 understood -- my concern was one, some of the
13 standards that were used. And I understand that in
14 Staff's comments they stated that they thought that
15 the evidence or the presentation was marginally
16 satisfactory. I had the same feeling and concern
17 about how we were coming up with the numbers and how
18 we were determining what the actual amount of
19 gallonage that would be conserved, how we calculated
20 that.

21 On one, the irrigation shut-off devices the
22 evidence that we had was the manufacturer's claim. In
23 the same vein that we are looking at issues and trying
24 to get more measurable determinative authorities for
25 these kind of things, I think that the company and

1 Staff should be again put on notice with these kind of
2 activities -- I understand it's never been done before
3 and this is our first step -- that these numbers in my
4 mind shouldn't serve as precedent and that this is
5 what it's always going to be. To the extent we can
6 have more evidence and a more methodical approach, I'd
7 like to see that, again just on the general
8 conservation area.

9 **MS. LINGO:** Yes, ma'am. We, too, had
10 concerns about the anticipated levels of savings with
11 regard to these devices. So when we were looking at
12 these anticipated levels of savings, Staff tended to
13 be conservative and go toward the lower ends of the
14 ranges with regard to how much we thought would be
15 saved.

16 In addition, in Issue 92 from the prior
17 agenda, the Commission has voted to require the
18 Company to provide us copies of any reports and data
19 or whatever they provided the Water Management
20 District, with regard to any of their conservation
21 programs. So it's going to be an ongoing process that
22 we're going to monitor and stay on top of.

23 **COMMISSIONER JOHNSON:** Thank you.

24 **CHAIRMAN CLARK:** I'm sorry. What I hear
25 Commissioner Johnson suggesting is that -- and it

1 would relate to Issue 75?

2 **COMMISSIONER JOHNSON:** Yeah. And I kept
3 confusing my conservation issues. I let that one slip
4 on me again.

5 **CHAIRMAN CLARK:** Do we need to order the
6 Company to keep information about data that indicates
7 the conservation that results from the conservation
8 measures?

9 **MS. LINGO:** Chairman Clark, I believe to the
10 extent that data is going to show up, it's going to
11 show up in the data we requested in Issue 74.

12 **CHAIRMAN CLARK:** Okay.

13 **COMMISSIONER JOHNSON:** The one you were
14 discussing with Commissioner Deason?

15 **MS. LINGO:** Yes, ma'am, in Issue 74 we
16 requested that data by customer class and by meter
17 size for the different service areas. So we can
18 see -- we can probably identify which ones, for
19 example, are irrigation customers on Marco, so we can
20 see what is going on with regard to irrigation
21 devices, for example. So I think we're going to be
22 getting that data already.

23 **CHAIRMAN CLARK:** You would be asking them to
24 tell you the areas in which they do distribute these
25 conservation devices. I assume that they could

1 distribute some of these devices in other areas and
2 they would need to tell us that as part of the data.

3 **MS. LINGO:** The devices are targeted to be
4 distributed to six selected communities.

5 **CHAIRMAN CLARK:** Right.

6 **MS. LINGO:** To our knowledge they are not
7 going to be distributing them to other communities as
8 of yet.

9 **CHAIRMAN CLARK:** But as part of the data,
10 they would indicate they've done this so that we could
11 evaluate what is happening.

12 **MS. LINGO:** Yes, ma'am.

13 **CHAIRMAN CLARK:** All right.

14 **COMMISSIONER JOHNSON:** Thank you.

15 **CHAIRMAN CLARK:** 120.

16 **MS. KEMP:** Good morning, Commissioners.
17 Issue 120 is the appropriate the rate. Staff is
18 recommending a bulk water rate for Marco Island of
19 \$1.53. And based on the Commission's decision at the
20 July 31st special agenda concerning the adjustment to
21 the return on equity, the appropriate rate after the
22 two-year period is \$1.56.

23 Staff is prepared to answer any questions
24 that you may have at this time.

25 **CHAIRMAN CLARK:** Questions.

1 **COMMISSIONER JOHNSON:** Move it.

2 **COMMISSIONER KIESLING:** Second.

3 **COMMISSIONER DEASON:** Let me -- I guess now
4 is the first time that -- you're recommending a bulk
5 rate for a period of time and then another bulk rate
6 after expiration of a return on equity adjustment; is
7 that correct.

8 **MS. KEMP:** Yes. At the July 31st special
9 agenda there was an adjustment to the return on
10 equity, and what we have is a revenue requirement now,
11 and after that two-year period the revenue requirement
12 changes based on that adjustment. So there is a
13 second rate after that time.

14 **COMMISSIONER DEASON:** Commissioners, I don't
15 have a problem with the recommendation as it pertains
16 strictly to what is an appropriate bulk rate. But the
17 recommendation raises an issue that I have had
18 subsequent to the vote that we had concerning revenue
19 requirement, and that is the automatic two-year
20 expiration of the return on equity adjustment and an
21 automatic increase in rates that would adjust
22 therefrom. And I understand that's what was done in
23 Gulf, but I think we had quite a bit of discussion
24 that there were a number of reasons why there is an
25 adjustment being proposed for this Company above and

1 beyond what was done in the Gulf case. And one of
2 those reasons, as I understand it, something that I
3 supported, was the concern over the quality of service
4 of the company, and the concern that customers
5 expressed throughout the service territory about the
6 quality of service.

7 I have a concern with an automatic increase
8 in rates without some type of a showing by this
9 Company that the quality of service has improved.

10 I think we're sending the wrong signal to
11 the Company, a wrong signal to the customers to have
12 an automatic rate increase without some type of
13 showing.

14 Now, I personally would not be opposed to
15 changing the return on equity after two years, and
16 reinstating it to what would be considered a
17 reasonable or a more normal range, but that it would
18 not coincide with an automatic step increase in rates,
19 realizing that the Company then would have the burden
20 to show that they had made the improvements necessary
21 and the quality of service to justify such an increase
22 in rates. That's the problem I'm having.

23 So I guess to an extent it may be kind of a
24 reconsideration of the action that we took previously,
25 but this issue is the first time that it kind of

1 surfaces. We're talking about an automatic increase
2 in rates two years hence from now, so I think -- I'm
3 raising it at this point to put it out on the table.
4 If you would rather discuss it later --

5 **CHAIRMAN CLARK:** I think now --

6 **COMMISSIONER DEASON:** -- or perhaps you
7 don't even want to discuss it at all, but --

8 **CHAIRMAN CLARK:** I think we should go ahead
9 and take it up now so we can move orderly through the
10 issues. And I take it you want to move to reconsider
11 our vote on -- I don't remember what issue it was --
12 on the adjustment to return on equity.

13 **MR. WILLIS:** I believe it was Issue 5.

14 **CHAIRMAN CLARK:** Okay. A couple of issues.

15 **MR. WILLIS:** 4 and 5.

16 **CHAIRMAN CLARK:** 4 and 5. We want a motion
17 to reconsider our vote on that issue. Because I think
18 in order to do that, we would have to change our vote
19 on that.

20 **COMMISSIONER DEASON:** If that's the
21 appropriate procedure to follow -- I think I was in
22 the majority on that -- I think it was a unanimous
23 vote.

24 **CHAIRMAN CLARK:** It was a unanimous vote,
25 yes.

1 **COMMISSIONER DEASON:** So would move we
2 reconsider that aspect of that decision.

3 **CHAIRMAN CLARK:** Is there a second?

4 **COMMISSIONER GARCIA:** I may second. I just
5 want to know what you're looking to do, because in all
6 honesty I hadn't considered going back to what we did.
7 If you could explain it just a little bit more.
8 You're looking for what, some type of standard whereby
9 which they come to this Commission and prove that
10 there have been substantive changes in the operation,
11 management and quality of the water company and the
12 services it provides. And if so, would not that
13 require, I guess, a series of hearings, because I
14 think on the totally objective grounds and criteria
15 that Staff uses, for the water quality at least, the
16 record indicated the Company had complied on those
17 grounds. And it's, I think, on the side that we do,
18 where we find the problems.

19 And I'm not adverse to doing all of the
20 service hearings again. I love this great state and I
21 love traveling in it, but I just want to make sure I
22 know what is the proposal.

23 **COMMISSIONER DEASON:** I'm not proposing --
24 I'm not proposing the Company do anything. I'm
25 basically saying that the burden is on the Company.

1 And I suppose that after the expiration of two years,
2 if they feel like they have made all of the
3 corrections necessary and to justify an increase in
4 rates, they can file whatever -- if they wanted to
5 file a full rate proceeding or if they wanted to file
6 a limited scope proceeding of some sort -- but the
7 burden would be on them.

8 I think right now what we're doing is that
9 we have found a situation where there are some things
10 lacking, and we've enumerated those and there's no
11 need to reiterate all of that today. But I think the
12 record speaks for itself, the agenda, when we did
13 revenue requirements, we went through all of that in
14 rather painstaking detail.

15 My concern is that the way it is structured
16 right now, without any type of showing or burden on
17 the Company to come forward and show that things are
18 different, that they are going to get an automatic
19 increase in rates. And that there could be situations
20 where customers who are right now receiving less than
21 or marginally satisfactory services, I think the
22 majority termed it, that those customers would be
23 facing a rate increase two years from now, perhaps
24 with no change in the service they are currently
25 receiving. And I think that's inappropriate for the

1 customers as well.

2 **COMMISSIONER KIESLING:** Could I inquire? If
3 I recall correctly, we made two adjustments, a
4 25-basis point adjustment for management
5 inefficiencies and a 25-basis point adjustment for
6 marginally satisfactory.

7 **COMMISSIONER GARCIA:** I thought it was --

8 **COMMISSIONER DEASON:** I thought it was
9 lumped.

10 **CHAIRMAN CLARK:** I did, too.

11 **COMMISSIONER GARCIA:** Madam Chairman, the
12 Chairman, I think, combined aspects of both.

13 **CHAIRMAN CLARK:** It being all indicative of
14 the need to be more efficient in terms of management.

15 There's been a motion. Is there a second?

16 **COMMISSIONER GARCIA:** I'll second.

17 I understand what Commissioner Deason wants
18 to do and I think it's understandable. While I don't
19 want to redo the case, and I certainly don't want to
20 create a standard, and I guess we can discuss a
21 standard if there are majority votes. I certainly do
22 not want to create a situation where it would be
23 easier for the Company to come in for a full rate
24 case. That's the only specter that scares me.

25 **CHAIRMAN CLARK:** That's my concern. And the

1 concern is that they would come in at that time and
2 say, "Not only do we need it adjusted up 50 basis
3 points, what currently is the rate of return needs to
4 be changed, too."

5 **COMMISSIONER GARCIA:** But I understand what
6 you're trying to do, Commissioner Deason.

7 **CHAIRMAN CLARK:** I do, too.

8 **COMMISSIONER GARCIA:** Perhaps if we can
9 articulate, or Staff can help us articulate a very
10 specific limited proceeding, and that may include
11 having some of us travel around the state again,
12 that's fine. I just don't want the Company, by the
13 time this is done, that they have such an arduous task
14 before them that they say, "Hey, what the heck, let's
15 just file a full case."

16 **CHAIRMAN CLARK:** Another way of --

17 **COMMISSIONER DEASON:** Let me say something.
18 I apologize for --

19 I think I understand what you're saying.
20 But the truth of the matter is, this Company could
21 file for a rate increase tomorrow. Well, they need to
22 get a test year approval and all of that, but we all
23 know that all companies we regulate have the latitude
24 to file a case any time that they see fit.

25 As I understand what you're saying is

1 perhaps you're thinking that with an automatic
2 two-year increase perhaps they won't be filing a case.
3 They can get by with an increase that's going to be in
4 effect two years from now. And I guess there's some
5 merit to that. But to me that's like we're going to
6 give you a little bit of an increase, hopefully you
7 won't ask for a bigger one, and with no justification.
8 And what I'm saying is, is for any increase,
9 regardless, there should be some burden on the Company
10 to justify it.

11 **COMMISSIONER GARCIA:** Absolutely. And I
12 think that the arduous task that this Company has
13 had -- and the citizens have had with this rate case I
14 don't think is anything that anyone wants to repeat.

15 But what I do want is that we don't create a
16 burden so substantial that either/or becomes a simple
17 thing, or a small stepping stone, and you might as
18 well, with the complexities involved, go ahead and do
19 it. And that's all I'm asking. That's why I seconded
20 the motion.

21 **CHAIRMAN CLARK:** Another way of approaching
22 it is to leave it as it is, have Staff monitor it.
23 Then if they think the adjustment should be made
24 because the service hasn't improved, to bring it to
25 our attention.

1 **COMMISSIONER GARCIA:** I don't think that the
2 guidelines are there, is what Chuck is saying.

3 **MR. HILL:** I would be very concerned about
4 you placing that burden on us to try to determine if
5 the --

6 **CHAIRMAN CLARK:** Let me ask you, we directed
7 them to do some specific things with regard to some
8 specific areas.

9 **MS. O'SULLIVAN:** That's correct. On Issue 3
10 at the last agenda you approved Staff's recommendation
11 to require quarterly reports on corrective measures
12 for lead and copper and sampling and other
13 requirements.

14 **MR. WILLIS:** Commissioners, there were only
15 three areas within the hundred-and-something utility
16 plants in this rate case that required some form of
17 quality of service improvement, you might say, from
18 this Commission where we directed them to do further
19 follow up.

20 My understanding coming from that last
21 agenda was that the Commission, or the feeling among
22 the Commissioners up here was that a portion of this
23 came from transition of management. And that there
24 was a rocky transition of management that might have
25 caused a lot of the problems that you perceived that

1 were there and that that now was over.

2 **CHAIRMAN CLARK:** I don't know that that is,
3 in fact, the case. But it certainly -- there was the
4 time when they had -- when they no longer had their
5 president, they had an interim, they hired someone and
6 it seemed to me that there were times in there that
7 there was symptoms indicating that top management
8 wasn't providing the overall direction needed to
9 provide an adequate efficiencies and quality of
10 service.

11 **COMMISSIONER GARCIA:** I'm scared we're going
12 to rehash that point. I think that's behind us and I
13 never considered going back. But let me reconsider,
14 since I did second and we didn't take a vote yet. Let
15 me just ask this, Commissioner Deason, give me a
16 standard with your motion so that I know what I'm
17 seconding.

18 **CHAIRMAN CLARK:** Are you withdrawing the
19 second then?

20 **COMMISSIONER GARCIA:** Yeah. Until I have an
21 idea. Because that is the problem I have. That we're
22 sort of rehashing that issue, which I think took a
23 long time last time and I think we looked for
24 concensus on the full Commission.

25 If you have a standard you would like to

1 articulate, it would give me something to second,
2 unless someone else just wants to second -- to
3 rediscuss this. I don't want to rediscuss what we did
4 the other day. I have been able to sleep since we did
5 that and I hope -- and I'm sure we did the right
6 thing -- but I want to make sure that what we ask for
7 is something that Staff has something to shoot for and
8 that we and the Company has something they are
9 shooting for so we don't get caught up in something
10 that is a little bit --

11 **COMMISSIONER DEASON:** Commissioner, I don't
12 know that I can answer your question in the sense that
13 I think that you're asking it.

14 I do not have some type of a concrete
15 specific standard, one-two-three steps, that if you do
16 this, well, then you're authorized to increase your
17 rates. The only standard I have is the standard which
18 regulation generally has followed over the years, and
19 that is before there's a change this rates, an
20 increase in rates, the burden is on the company to
21 justify that.

22 Now, the only thing I would say is that I
23 don't think in this particular situation they are
24 required to justify or go through all of the hoops and
25 make all of the filings that are associated with a

1 full revenue requirements proceeding, a full-blown
2 rate case, which has been done in this case. That if
3 they want the revenues associated with the 50 basis
4 points on equity, it is their burden to come forward
5 and address the concerns that were expressed by the
6 Commission, and the reasons expressed by the
7 Commission why that adjustment was made to have that
8 adjustment, in effect, reversed. But the burden is on
9 the Company to make the showing. I can't specify and
10 enumerate what exactly they would have to do at that
11 time. Just like we don't specify exactly what a
12 company has to do to justify a full-blown rate case.
13 We have procedures in place and they make their
14 filings, but everything is scrutinized.

15 The only thing I would say is that the
16 Company would have to justify -- address the concerns
17 expressed by the Commission, to have the effects of
18 that 50-basis point adjustment removed. And that it
19 would not be automatic. Because I think there were
20 some very serious concerns from this Commission. And
21 I'm hopeful, and I think that the management of this
22 Company, if they take to heart what was said, that in
23 a two-year period those things can be addressed and
24 perhaps -- if those things are addressed, I would be
25 the one making the motion to do it because I think

1 those are some very serious concerns and that the
2 quality of service that the customers are receiving
3 improved to the point that is justified, it is
4 justified.

5 My concern is having an automatic increase
6 with no showing, no burden on the Company to justify
7 it.

8 **COMMISSIONER GARCIA:** As long as we're going
9 to limit our discussion to that, I'll go ahead and
10 second this.

11 **CHAIRMAN CLARK:** Okay. Further discussion?
12 There's been a motion and second. All those in favor
13 say "aye".

14 **COMMISSIONER DEASON:** Aye.

15 **COMMISSIONER JOHNSON:** Aye.

16 **COMMISSIONER GARCIA:** Aye.

17 **CHAIRMAN CLARK:** Apposed, "nay". Nay.

18 **COMMISSIONER KIESLING:** Nay.

19 **COMMISSIONER DEASON:** We're on
20 reconsideration, is that correct?

21 **COMMISSIONER GARCIA:** Maybe I can ask Staff
22 to articulate. I don't think we do this, and maybe --
23 have we done this before?

24 **MR. WILLIS:** Have we done the 50-basis point
25 reduction before?

1 **COMMISSIONER GARCIA:** No. Have we created a
2 standard whereby we revisit an issue before we
3 remove -- I don't know what we call it, a --

4 **CHAIRMAN CLARK:** An adjustment.

5 **COMMISSIONER KIESLING:** An adjustment.

6 **MS. O'SULLIVAN:** I don't have the orders
7 with me. They are back in my office. The orders that
8 dealt with the return on equity I think included an
9 automatic rate increase at the conclusion of the
10 penalty period. I don't recall requiring the
11 Utility --

12 **CHAIRMAN CLARK:** The adjustment period.

13 **MS. O'SULLIVAN:** I'm sorry. I don't recall
14 requiring the Utility to come back in and demonstrate.
15 There were usually other requirements in the order to
16 fix the problems, but there was no requirement that
17 they come back in and make a showing to raise the
18 rates.

19 **COMMISSIONER GARCIA:** Now I'm looking for
20 guidance. Have we done this in the past at any time
21 where when we lifted an adjustment we created a
22 standard of some sort?

23 **MR. WILLIS:** Commissioners, the only two
24 cases I'm aware of are the Gulf case, in which we
25 raised the rate of return, and this case. That's it.

1 In water and wastewater we don't normally actually
2 raise the rate of return and the length of time. And
3 that was sort of unusual that occurred in the last
4 agenda conference.

5 All I can say is the basis that was used in
6 the last agenda conference was that the Commission
7 believed that some of those problems may have been
8 behind the Company, but there was a need for an
9 adjustment.

10 **COMMISSIONER JOHNSON:** See, and I view that
11 probably a little differently, Marshall.

12 I think the reason why I was in support of
13 the motion after Commissioner Deason made it was that
14 I think we did talk about management inefficiencies.

15 What I think he's saying here is to the
16 extent it wasn't a penalty per se and that we actually
17 saw some management inefficiencies, if we
18 automatically, after two years, just adjust the rates,
19 then we don't know if the management inefficiencies
20 have been cured.

21 And he's suggesting that we put in an
22 approach or step so that we can ensure that before we
23 make that adjustment that there have been improvements
24 made with respect to what we have entitled
25 inefficiencies of management. It wasn't just like a

1 penalty because they have been bad. It was more of a
2 concern with respect to how the Company was being
3 managed, how they were responding to companies (sic),
4 and getting them to react to that and correct whatever
5 those problems were.

6 And I guess as a regulatory body he's
7 suggesting that we need to have some certainty and
8 security as to whether or not those corrections have
9 actually been made. And I agree with that.

10 My concern is even if we can't have
11 definitive standards, there needs to be at least some
12 guidelines so that the Company understand what we are
13 asking them to correct or what we're asking them to do
14 so that they can prepare to do those things over the
15 next two years.

16 And I think what we've said is -- and I
17 think what he's suggesting -- that over this two-year
18 period if they come back and demonstrate that they've
19 done certain things, then the adjustment goes into
20 place, but we don't do it automatically.

21 It would be incumbent upon us, I think, if
22 we're going to do that to come up with at least some
23 guidelines, whether guidelines or standards, so that
24 they know what we're asking for, what we'd like to
25 see.

1 And that's what I'd like to have some more
2 discussion on. Commissioner Deason, I understood you
3 to say well, they should kind of understand general
4 regulatory principles. They should know their job and
5 they should know what they are doing bad and what they
6 should correct. Maybe I'm being a little
7 paternalistic than that. And I'm not so sure.

8 I think that perhaps maybe if we could come
9 up with some guidelines, and perhaps it's already in
10 the record, that those things that we thought were
11 inefficiencies, those things that we thought needed to
12 be improved, that would at least set some parameters.

13 **COMMISSIONER DEASON:** Let me say this. I
14 appreciate those comments. I generally agree, but to
15 me part of the adjustment is based upon -- that is the
16 return on equity adjustment, is based upon the finding
17 that the Commission made that it was less than
18 efficient management, and that we're a surrogate for
19 competition. We set a reasonable return for the
20 company to earn, but we all know in a competitive
21 environment, the companies which are less efficient
22 don't earn the higher return as those companies that
23 are efficient. And what we're saying is that based
24 upon the findings, the evidence in this case, we're
25 setting rates in a going-forward basis, and we're

1 saying that normally we would set return on equity at
2 X, but we're reducing that 50 basis points for the
3 less-than-efficient management and other activities,
4 and findings concerning service that we made.

5 Normally what you do when you set the rates,
6 you say those rates are fine until they have to be
7 changed again. And they aren't changed again until
8 the company requests a rate increase and can justify
9 it, or unless our auditors determine the company is
10 overearning and we need to open an investigation to
11 reduce rates. But the assumption is that we all know
12 that things are going to change, but things are going
13 to be working in both directions. And generally the
14 assumption is the rates, after a rate proceeding, are
15 going to be sufficient to allow the company to earn
16 whatever rate of return we determine is reasonable.
17 It just so happens in this case we determined a
18 reasonable return to be 50 basis points lower than
19 what we would determine for an efficiently run
20 company.

21 I don't see where we need to deviate from
22 that standard which says those rates are good from
23 here on out until the company can justify a change in
24 those rates. And part of the reason they can
25 justify -- they could file a full-blown rate case. Or

1 if they don't think that is necessary, if they wanted
2 to remove that -- increase that return on equity by 50
3 basis points they could address the reasons why they
4 are no longer an inefficient company but they are an
5 efficient company and why their rates should be
6 increased for that.

7 I don't think it's our burden to go forward,
8 specify, make a list of ten items and say, "Here's a
9 checklist, and if you check all of this off, then
10 we're going to increase your rates."

11 Anytime they structure a request to increase
12 rates, it's within their prerogative and they address
13 how they want to increase the rates and the reason why
14 the rate should be increased.

15 We're deviating from the way things are
16 normally done by having an automatic rate increase by
17 having no responsibility on the company to make the
18 showing that rates do, in fact, need to be increased.

19 **MR. WILLIS:** Commissioners, let me throw
20 this out for consideration.

21 In the past where we have had quality of
22 service problems, which is the normal reason for an
23 adjustment on the equity return, we have never had a
24 period of time in which the rates would automatically
25 increase in water and wastewater cases from my memory.

1 In those cases, the burden came upon the
2 company to do that in the next rate case, and one of
3 the reasons being you had to hear from the customers.
4 Because as in this case, as in prior cases, a lot of
5 the problems that you heard that caused you to make
6 that adjustment, to make that determination, came from
7 the customer service hearings which you attended and
8 heard all of those problems that existed.

9 Now, I don't know how between now and two
10 years you could come up with that kind of
11 determination and put down a list and say, "These are
12 the things that you have to improve," without going
13 out there and finding out if there are --

14 **CHAIRMAN CLARK:** Other side of the story.

15 **MR. WILLIS:** Other side of the story. Are
16 there more problems that would now exist that would
17 cause you to make the same determination? It's kind
18 of like a "Catch 22". If you're looking at saying
19 that you want to put the burden on the company to come
20 forward, then maybe you ought to back up, do like
21 we've done in the past and just say, "It's up to you
22 in your next rate case to come forward and justify the
23 reasoning to have your rate of return increased at
24 that point in time." That may not be two years from
25 now; that may be three or four years from now because

1 the return that you select at this point is still
2 within the range of reasonableness.

3 **CHAIRMAN CLARK:** I would add to that only
4 this: I agree with you that in the past we've not had
5 the adjustment I think. It was only in Gulf Power
6 that we did it. And in this case you really have a
7 combination of things that have, in my mind,
8 contributed to the need for an adjustment. And I
9 would rather see us not have an adjustment and just
10 let it stay and not put it for two years. Then say in
11 two years we're going to come back in some sort of
12 proceeding.

13 I think where the Company may be looking at
14 its revenues and saying "Maybe we should come in;
15 maybe we shouldn't," there are some tradeoffs. If
16 they have to come in, I think they're going to come in
17 and say we need to look at everything. I think it's
18 an invitation to them to put in more. And I would
19 rather see us say no adjustment after two years rather
20 than saying that we have a proceeding. I guess that's
21 my view of it.

22 But I thought what we had reached was a
23 reasonable compromise of all of our views on it, and I
24 was comfortable with that decision.

25 **COMMISSIONER JOHNSON:** As Marshall

1 suggested, the proceeding would require us to conduct
2 customer hearings as if it was a full-blown rate case;
3 that we have to go through that exercise in order to
4 hear from the customers themselves and have a accurate
5 record upon which to base our decision?

6 **MR. WILLIS:** I'm certainly suggesting that.

7 **COMMISSIONER DEASON:** I need to clarify
8 something. I'm not proposing that we have any type of
9 proceeding two years from now. To the contrary. What
10 I'm saying is that, first of all, we should not have a
11 automatic rate increase, which is a rate increase
12 without a proceeding. If we're going to have rate
13 increase -- you're going to have to have a proceeding
14 if there's going to be rate increase. I think that
15 goes hand in hand. What we've got proposed now and
16 what is being approved as of now is a rate increase
17 with no proceeding, no burden of proof, no
18 justification, no hearing from customers, no
19 verification there's been any change whatsoever in the
20 quality of management of this Company. I think that's
21 unacceptable.

22 What I would do is put the burden on the
23 Company. And if after two years they think they can
24 justify it, fine. And if they think they can't, they
25 are going to need to live with the rate of return as

1 we've set it. But that is always realizing that a
2 company always has the prerogative to file a rate case
3 for whatever reasons. Perhaps the cost of money goes
4 up or perhaps inflation, or perhaps DEP mandates or
5 whatever --

6 **COMMISSIONER GARCIA:** Maybe I better ask
7 staff. Staff, how do we limit it? Once the Company
8 comes in and says, "Okay. We've corrected these
9 problems." And again you're saying let's not set a
10 standard so they put their standards on, and then the
11 citizens -- Jack Shreve's office has an obligation to
12 step in in this case and say "no", and then I guess
13 the citizens have a right to be heard. Let's get on
14 the wagon and start traveling again.

15 Again, I don't have a problem with doing
16 that. I think we're stepping out to a slippery slope
17 where, as Commissioner Clark has stated, we're almost
18 inviting them to redo the case. And it's not that we
19 invented these rules, but the rules that are out there
20 sort of require -- the due process rules require
21 there's an escalation here to ensure the basic rights
22 of all parties before us. That's why I keep harping
23 back. I understand the difficulty you have. But if
24 we could create a standard now so that we are
25 respecting all of the parties involved, it could be a

1 hearing here on said date where we discuss six, ten
2 points, whatever you want, but that, at least, ensures
3 that we do not step out under the slippery slope of
4 making it for the company easier to go ahead and file
5 a rate case. Because once they file -- and again, he
6 would be within his right, Jack Shreve's office would
7 have to step in. As he says, he's never seen a
8 justified rate increase in his history, and he's been
9 there over 20 years. So I can understand them coming
10 right back in here.

11 **COMMISSIONER DEASON:** But right now what
12 Mr. Shreve faces is the worst of all worlds, is an
13 automatic increase in two years without the
14 opportunity to show why it's not justified.

15 **MS. CAPELESS:** Commissioners, if I may offer
16 perhaps a suggestion.

17 I think for one thing that it's speculative
18 at this point to be able to come up with specific
19 issues that would need to be determined or litigated
20 two years or however many years from now; that it's
21 really not necessary to decide what those issues are
22 today.

23 What I think you could do, I think you have
24 the discretion to do any of the things that you've
25 considered at the table today. I think what you might

1 also consider doing is what I hear Commissioner Deason
2 saying is don't let the increase go in effect
3 automatically two years from now. You could modify
4 Issues 4 and 5 to say if the Company wishes to come
5 in, they can come in but not before two years from now
6 and prove to us that the adjustment should be made.
7 And at that time you can decide, you know, what issues
8 will be at the table then.

9 **COMMISSIONER DEASON:** Let me clarify that,
10 too. I think it's unfair to the Company, too, to put
11 two years on it. If six months from now by some
12 miracle they correct all of these problems, they
13 should be able to -- anytime they can justify a rate
14 increase they should be allowed to file. What I'm
15 saying is I think we ought to do away with the two
16 years, period. Set the return on equity on a
17 going-forward basis what we think is a reasonable
18 return for this company, and if things change for
19 whatever reason, cost of money goes up, management
20 becomes more efficient, they can file whatever they
21 want to at whatever time; and it could be a full-blown
22 rate case, it could be a limited scope proceeding. We
23 don't tell them how to file their cases.

24 The rates would continue until there is a
25 reason to change them. And when there is a reason to

1 change them, the burden is on the Company to show why
2 those rates need to be changed, and that would -- so
3 there would be really be no need for a two-year period
4 either way, up or down.

5 **CHAIRMAN CLARK:** Commissioner Kiesling.

6 **COMMISSIONER KIESLING:** Yes. I have a
7 different perspective on this.

8 It seems to me that what we did, we have to
9 call it an adjustment because that's the word we're
10 allowed to use, but everyone used other words quite
11 frequently in our former discussion. And what we were
12 discussing I thought was essentially a penalty for
13 past conduct. We've certainly used -- everyone has
14 used the word "penalty" when they haven't been
15 thinking about the right words. And it seems to me
16 that I don't see this as an automatic rate increase in
17 two years. I see it as a return to the authorized
18 rate which we are adjusting downward for a limited
19 period of time, because it's not -- I don't recall
20 that we at any time in our discussion on the 31st,
21 indicated that we were making this adjustment in order
22 to promote future conduct. We were essentially trying
23 to send a message to the Company that past conduct did
24 not meet our standards.

25 **CHAIRMAN CLARK:** I think we were trying

1 promote it in the sense that it sends a message that
2 we're not going to tolerate what occurred.

3 **COMMISSIONER KIESLING:** That I agree with.
4 But I certainly thought at the time that we were doing
5 a penalty with the name under the guise of an
6 adjustment for past conduct.

7 **CHAIRMAN CLARK:** Let me just say that
8 what -- I do have concerns about us calling it a
9 penalty, because I think that the way I couch the
10 motion, and what I think we are all, in fact, saying
11 we are concerned about the way this Company was
12 managed, and it was not managed as efficiently as
13 companies should be managed.

14 In the past we have rewarded companies that
15 have been particularly efficient. This one was
16 inefficient in our judgment, and, therefore, we set
17 the rate of return lower.

18 And I think what Commissioner Deason is
19 saying is that we should just let that penalty, that
20 adjustment go forward. If they feel like they can
21 come in and show us that at any time that they have
22 become efficient, we can make an adjustment. And my
23 concern is only that it would -- I'm just afraid of
24 what it would invite. And as you say, they can file a
25 rate case at any time.

1 It seems to me that the real two choices are
2 to either let the adjustment be adjusted back upward
3 after two years, or simply let it go and let it be in
4 effect the whole time until they come in again.

5 **COMMISSIONER JOHNSON:** And I think I had --
6 as it relates to the motion, or the previous motion, I
7 felt that the management and inefficiency issue had
8 two aspects. It had the Governor, the Lieutenant
9 Governor letter and had those conducts surrounding
10 that letter, and in a way that could have been
11 perceived as a penalty aspect. Then it had the
12 going-concern issues related to the quality of
13 service, and the fact that customers were not
14 satisfied with the service and that we were trying to
15 somehow encourage or act like a surrogate for
16 competition and apply something that would cause the
17 Company to change its conduct. But it was a mixed
18 bag, and in that vein I would feel uncomfortable
19 lifting the two years. I thought we did want to send
20 a message. And I thought that the 50 basis points,
21 the \$500,000 penalty that was -- excuse me, adjustment
22 that was being assessed was appropriate. And I still
23 think that that is appropriate. I'd like to see that
24 continue for the next two years. I don't want us to
25 say, "Well, company, if you come in and give us some

1 demonstrations in six months, everything is okay.
2 Don't worry about it." I think it is something they
3 should worry about and I think we sent the right
4 message when we imposed the adjustment for the next
5 two years. So I wouldn't want to see that changed at
6 all.

7 So to the extent that there is a choice
8 between opening this up for them to come in and prove
9 at any time, I wouldn't vote for that because I think
10 that the assessment was just improper.

11 I do, after this discussion, I have some
12 concerns about allowing them to come in, or almost --
13 I guess you're not requiring them -- but allowing them
14 to come in and maybe giving them the incentive to file
15 the full rate case concerns me even more.

16 **CHAIRMAN CLARK:** Commissioners, I'm in a bit
17 of a quandry. We have moved to reconsider and we are
18 on reconsideration. So at this point I need a motion
19 on the merits.

20 **COMMISSIONER DEASON:** I'll be glad to make a
21 motion.

22 I move that we establish the return on
23 equity as was previously established, and that be the
24 going forward return on equity. It stay in effect
25 until at some subsequent proceeding, whatever

1 proceeding that may be, the Commission determines that
2 that return on equity needs to be changed. And that
3 there would not be an automatic increase in rates two
4 years from this decision.

5 **CHAIRMAN CLARK:** There's a motion. Is there
6 a second? (No response.)

7 The motion dies for lack of a second. Is
8 there another motion?

9 **COMMISSIONER KIESLING:** Yes. I'm willing to
10 move that we continue on with the decision that we
11 made previously to access an adjustment to the return
12 on equity of 50 basis points and that that adjustment
13 remain in effect for two years.

14 **CHAIRMAN CLARK:** Is there a second?

15 **COMMISSIONER GARCIA:** Second.

16 **COMMISSIONER JOHNSON:** Second.

17 **CHAIRMAN CLARK:** All those in favor --

18 **COMMISSIONER DEASON:** And that is with the
19 assumption there will be an automatic rate increase
20 with two years.

21 **COMMISSIONER KIESLING:** Yes.

22 **COMMISSIONER DEASON:** Without any type of
23 filing by the Company to justify that.

24 **COMMISSIONER KIESLING:** Well, I understand
25 that's your position. That's not my position.

1 I believe that in the last hearing on the
2 31st we set a return on equity and a rate of return of
3 10.88, with a range of 9.88 to 11.88. We then made an
4 adjustment to that. There was an adjustment for two
5 years. And that, you know, it's not a new rate. It's
6 simply the seizing of an adjustment.

7 **CHAIRMAN CLARK:** There's been a motion and
8 second. All those in favor say "aye." Aye.

9 **COMMISSIONER JOHNSON:** Aye.

10 **COMMISSIONER KIESLING:** Aye.

11 **COMMISSIONER GARCIA:** Aye.

12 **CHAIRMAN CLARK:** Opposed, "nay".

13 **COMMISSIONER DEASON:** Nay.

14 **COMMISSIONER GARCIA:** Let me just state for
15 the record, and I guess it's out there, but unless I
16 feel that we can create a standard, I think we invite
17 restarting this case up and ending up in a full-blown
18 rate case. And we're inviting the Company to come
19 back and do that. Under these circumstances, I think
20 we're not, and I think the justification expressed by
21 all of the Commissioners are satisfied, at least are
22 closely satisfied by what we did last time.

23 **CHAIRMAN CLARK:** We're back on Issue 120. I
24 think there was a motion but that precipitated this
25 discussion, and since we have now reconsidered that

1 issue and reaffirmed our vote, I think we are prepared
2 to vote on 120. There's been a motion and a second.
3 All those in favor say "aye." Aye.

4 **COMMISSIONER DEASON:** Aye.

5 **COMMISSIONER JOHNSON:** Aye.

6 **COMMISSIONER KIESLING:** Aye.

7 **COMMISSIONER GARCIA:** Aye.

8 **CHAIRMAN CLARK:** Opposed nay.

9 **COMMISSIONER DEASON:** Let me clarify
10 something for the record and it will apply to other --
11 the majority has ruled that there's going to be a
12 change in rates in two years. I disagree with that,
13 but given that that's the decision, there's an number
14 of decisions in here where that is -- numbers or
15 dollars are being presented and associated with that.

16 Issue 120 is a prime example. Given it's
17 the decision has already been made, there is going to
18 be an adjustment in two years. I agree what has been
19 presented here is the appropriate way to do it.
20 That's the reason I'm voting with the majority.

21 **CHAIRMAN CLARK:** Issue 121.

22 **MS. XANDERS:** Commissioners, Issue 121
23 relates to allocating the reuse revenue requirement to
24 the water customers pursuant to section --

25 **CHAIRMAN CLARK:** Is there a motion?

1 **COMMISSIONER JOHNSON:** Move it.

2 **COMMISSIONER KIESLING:** I second, but I just
3 want to make a brief comment.

4 Both on 121 and 122, the only reason that I
5 can support Staff's recommendation on these two issues
6 is because we're making it clear we're going to look
7 at it in the next rate case, and for the rationale
8 that are in there.

9 If we were not going to continue to look at
10 this, I would have some concern about whether or not
11 we were fulfilling the statutory requirements that we
12 look at both water and wastewater customers when we
13 set reuse --

14 **CHAIRMAN CLARK:** Okay.

15 **COMMISSIONER KIESLING:** -- rates.

16 **CHAIRMAN CLARK:** Without objection, 121 is
17 approved. 122.

18 **MS. XANDERS:** Commissioners, Issue 122
19 contains Staff's recommendation regarding the
20 appropriate reuse rates for SSU. In this issue we're
21 making four recommendations.

22 First we are recommending four reuse rates
23 which are contained in Attachment D on Page 89.

24 **CHAIRMAN CLARK:** Are there any questions?

25 **COMMISSIONER GARCIA:** Move Staff.

1 **COMMISSIONER KIESLING:** Second.

2 **CHAIRMAN CLARK:** Without objection, 122 is
3 approved.

4 I would like to say one thing for the
5 benefit of the people here. Even though we may not
6 have a discussion here about it, all of the
7 Commissioners had the opportunity individually to meet
8 with Staff so we could clarify some of our questions.
9 And on this one I had a question with regard to some
10 of the reuse. But the Staff has clarified that, at
11 least with respect to the one where they were not
12 charging for reuse, that they will either begin to
13 charge or change their tariff. Correct?

14 **MS. XANDERS:** Yes, ma'am.

15 **CHAIRMAN CLARK:** I just didn't want the
16 impression of the lack of discussion to mean that we
17 hadn't read it and hadn't thoroughly analyzed it, each
18 one of us individually. Issue 123.

19 **MS. MASSEY-AZPELL:** Commissioners, Item 123
20 is Staff's recommendation regarding the appropriate
21 miscellaneous services charges --

22 **COMMISSIONER KIESLING:** I can move this one.

23 **COMMISSIONER DEASON:** I have a question on
24 this one, and I guess my question can kind of be
25 boiled down to the first sentence on the last

1 paragraph on Page 90. It says that "Staff agrees that
2 the record contains insufficient evidence to establish
3 that the charges requested by SSU of unreasonable."
4 But reading further, I get the feeling that Staff is
5 very concerned about these charges. And my concern is
6 that the burden here is what the standard is. Is it
7 that there's insufficient evidence to show what
8 they've requested is unreasonable? It's their burden
9 to show that their request is reasonable. It's not
10 somebody else's burden to come in and show what they
11 requested is unreasonable, and just because perhaps
12 some of the other intervenors didn't put on evidence
13 attacking these particular charges, then that makes
14 what the company requested as reasonable. And I'm a
15 little concerned about that.

16 I'm concerned that these are some charges
17 that perhaps should be increased, and this would help
18 eliminate or alleviate some of the revenue requirement
19 burden on the base facility charge and gallonage
20 charges on customers.

21 I think that the Company should have, in
22 such an all encompassing comprehensive case of this
23 nature, come forward with some information on the cost
24 of providing these types -- and I think that's Staff's
25 concern as well. Staff wants to address this on a

1 going-forward basis and I agree. I guess I'm just
2 expressing some dismay that this was not something
3 that was done.

4 **MR. HILL:** Yes, sir. We dropped the ball on
5 this.

6 I don't believe there was anything
7 intentional on the part of the Utility. I truly
8 believe it was an oversight on their part. We should
9 have done some preliminary work and had some testimony
10 with some witness to discuss cost and other charges.

11 I think we can fix this on a going-forward
12 basis. I certainly -- I do not believe that the costs
13 for a utility like this would be similar to "J. D.
14 Petulio at English Water Company." I think we need to
15 do some work with these charges in this area.

16 **COMMISSIONER DEASON:** Clarify for me exactly
17 how you propose to address this on a going-forward
18 basis. How do you want to do that?

19 **MR. HILL:** What we would like to do is go
20 ahead and update SAB Second Revised 13. We would
21 start with the original charges that are there now
22 established back in 1986. Bring those forward with
23 the index. We have had about 30% or 35% since then.
24 Compare that then to like charges of other utilities
25 that we have and see if they are reasonable. If we

1 can get a cost study we certainly would do one. I
2 would like to look at bifurcating perhaps SAB Second
3 Revised 13 to differentiate between the "mom and pops"
4 where perhaps these rates would be appropriate versus
5 a Jax Suburban or a Southern States, where I think
6 these costs would not be appropriate, and then reissue
7 the SAB. And if the company then wishes to file
8 tariffs to bring that up or we could handle it in the
9 next proceeding for this particular utility.

10 **COMMISSIONER DEASON:** I don't disagree with
11 what you are saying, that seems to be a reasonable way
12 to approach it. But what I want to avoid is if we go
13 through that procedure and update all of those SABs,
14 and cost estimates and guidelines and whatever and
15 then the company choses to avail itself of that, file
16 a tariff and basically get a rate increase without a
17 justification that they need a rate increase. Where
18 they should have done it was in this case, where it
19 could have been calculated in total revenue
20 requirements and rates, and perhaps mitigated some of
21 the impact on BFCs and gallonage charges.

22 I think these rates probably are too low and
23 they probably do need to be increased. But I wouldn't
24 want to do it outside of some type of a proceeding
25 where there would be limited scope for a full-blown

1 rate case, so that the beneficial impacts of these
2 rate increases would be offset by reductions in other
3 revenue requirement aspects.

4 **MR. HILL:** Yes, sir.

5 **CHAIRMAN CLARK:** Anything else? Is there a
6 motion on 123? Without objection, 123 is approved.
7 124.

8 **MR. VONFOSSEN:** Issue 124 concerns goals and
9 objectives for both rate structure and service
10 availability.

11 We've listed what we believe to be the eight
12 ratemaking objectives. We believe for Southern States
13 special priority should be given to affordability.

14 In a normal ratemaking scenario with a
15 single territory utility we're obligated, the
16 Commission is, to give a utility a fair rate of return
17 on its investment. This results in a revenue
18 requirement with rate level being essentially a
19 fallout issue.

20 With Southern States, based on its makeup of
21 various systems, the Commission has the latitude to
22 address affordability by doing some allocating of
23 revenue. And we believe that that allocation,
24 opportunity to do that, should be viewed as an
25 additional tool in ratemaking. And we believe the

1 Commission should utilize that tool to an end to
2 provide affordable rates for all of Southern States
3 customers.

4 Regarding service availability, we believe
5 the charges should rise to a level to make it that
6 growth would pay for itself but to also not hinder
7 growth. And we believe that looking at raising
8 individual systems, individual CIC levels to a
9 minimum, should not be viewed an objective.

10 **CHAIRMAN CLARK:** Questions, Commissioners?

11 **COMMISSIONER DEASON:** Move Staff.

12 **CHAIRMAN CLARK:** I have a little concern
13 with what you just said. And I think it was you said
14 a primary goal should be affordability.

15 **MR. VONFOSSEN:** Yes, ma'am.

16 **CHAIRMAN CLARK:** I'm not sure that I would
17 make that conclusion now. I certainly think that's a
18 real consideration. And I think all of the things
19 that you've outlined as goals and objectives are
20 appropriate. But I don't know that I would at this
21 point describe one as primary.

22 As I have understood what has been
23 recommended as a rate structure, you start out with
24 cost. And we started out with costs to individual
25 facility areas. And you look at the cost. And then

1 you go through other analyses that includes all of
2 these goals. And I don't recall in this one that you
3 talked about costs. Maybe I'm getting confused. But
4 I think to suggest that cost isn't a consideration is
5 sort of not consistent with what we, in fact, have
6 done.

7 **MR. HILL:** That's true, Madam Chairman.
8 And, in fact, perhaps it's just the wording.

9 If you look at 4, fairness, degree of
10 subsidy. Subsidies in my mind are you're saying the
11 same thing as cost. If you want to minimize subsidy,
12 you want to try to get it to cost.

13 **CHAIRMAN CLARK:** I think these are all goals
14 and I just wouldn't put one necessarily ahead of the
15 other because it depends on the circumstance.

16 **MR. HILL:** Yes, ma'am. You have to
17 basically balance all of them.

18 **CHAIRMAN CLARK:** That's right. And if that
19 is the way the order is going to be written, I have no
20 problem with that. Without objection.

21 **COMMISSIONER DEASON:** Since we are getting
22 into it now, within the recommendation it does specify
23 that the rate structure impact on acquisitions was of
24 very little weight. Are you saying you want
25 everything to have equal weight --

1 **CHAIRMAN CLARK:** No. No.

2 **COMMISSIONER DEASON:** -- or you're not
3 wanting anything to have any weight.

4 **CHAIRMAN CLARK:** I think it depends on the
5 circumstances but these are all considerations you
6 have to look at.

7 **COMMISSIONER DEASON:** You're not trying
8 to --

9 **CHAIRMAN CLARK:** I'm not trying to suggest
10 that one is more important than the other all the
11 time. It depends on the case. When you look at any
12 rates you're going to have to look at each one of
13 these things and give an assessment of what impact the
14 rate structure you have suggested addresses each one
15 of these. And it may be that when it's extremely
16 expensive, than affordability comes to the forefront.

17 When you have -- like revenue stability, you
18 might want to do more in how you structure it as the
19 Staff has suggested with respect to the 40/60% split
20 between base facility and gallonage charge. All I'm
21 saying is these are considerations and I would not
22 make a flat statement that one is primary.

23 **MR. HILL:** And I would agree. I also would
24 not say that one doesn't matter. Again, they all
25 start out with equal weighting and equal

1 consideration.

2 **CHAIRMAN CLARK:** Okay. Without objection
3 then 124 is approved. 125.

4 **MS. CHASE:** Commissioners, Issue 125 is the
5 rate structure issue. Staff is recommending that the
6 Commission find that a uniform rate structure should
7 be a long-term goal for this Company as it is in the
8 long run best interest of the Company and its
9 customers.

10 For this case we'd recommend that you
11 approve a combination capped and banded rate structure
12 that we call the "capband" as a step towards a uniform
13 rate. Before a uniform rate is approved for this
14 Company, Staff believes there be must be two areas of
15 study that were raised during the pendency of the
16 case.

17 One is is to analyze the high cost
18 facilities to try to determine why they are high cost
19 and whether they would ever be a viable candidate for
20 a uniform structure.

21 The other area of study is to develop a
22 Commission policy with regard to acquisitions for
23 Southern States in terms of the impact on system-wide
24 costs and ultimately rates.

25 Our choice of the capband rate structure was

1 made with it phased into an uniform rate in mind. The
2 capband is a variation of the modified stand-alone
3 rate structure. It caps the customer's bills in
4 exactly the same manner as the modified stand-alone
5 rate structure does. The only difference is how the
6 facilities below the capband are treated.

7 In the modified stand-alone, every service
8 area gets the same level of subsidy from those
9 facilities that are capped, and the capped band, we
10 have grouped the like-cost facilities, and they share
11 the subsidies within the bands. This has the
12 advantage in our opinion of reducing the number of
13 rates from 95 water rates to 47; from 43 wastewater
14 rates to 26. Under the capband rate structure, of the
15 customers that are paying a subsidy, 37% would pay a
16 subsidy less than a dollar on a bill of 10,000
17 gallons, and 95% of the customers pay a subsidy less
18 than \$2.

19 We're available for any questions you might
20 have.

21 **CHAIRMAN CLARK:** Questions, Commissioners?

22 Let me be sure understood part of our
23 conversation yesterday.

24 When you came up with the bands, you did
25 some sort of analysis that indicated where the

1 appropriate break-off would be.

2 **MS. CHASE:** Yes, Commissioner, that's true.
3 We looked at bills, typical bills that we generally
4 use in the industry of 10,000 for water, 6,000 for
5 water and sewer, then we looked for like groupings.
6 We did graphs, histograms, whatever. Looked for like
7 groupings. And then massaged them to the degree we
8 could in order to mitigate the subsidies that are paid
9 to the greatest extent that we could.

10 **MR. HILL:** It actually was an exciting
11 moment for us. We started with stand-alone rates. We
12 calculated modified stand-alone rates, Mr. Hansen's
13 subsidy rate structure, the company proposal, uniform
14 rate structure, differentiated all different ways, and
15 none of them seemed to really make any progress. A
16 bunch of them were an immediate jump to a uniform rate
17 and several of them basically didn't move us off of
18 dead center. And we didn't see a lot of homogeneous
19 grouping. Because of the testimony in the record and
20 the discussion of the high cost systems, those at and
21 above the cap, it came to us that they really had been
22 identified as a group themselves, a population of
23 atypical systems, that while we might know a lot about
24 them, we don't know enough. We don't know why they
25 are there. We don't know what their future is going

1 to hold. So we then separated them.

2 We were then left with what about the
3 remainder of Southern States' facilities in this
4 filing? And we again looked at all of those rate
5 structures. And we then tried to balance the
6 affordability, the cost, and we didn't particularly
7 care for a lot of the subsidies that came out of that.

8 So we ended up doing some scattergrams and
9 some histograms. And when they first came back we
10 were very shocked because they looked just like my
11 hand (Indicating four fingers.) And it was "My God,
12 look at that. There are four perfect groupings here."

13 As it turned out, within a hour we found out
14 that was not right. We had some contamination in our
15 data. But our proofing was close enough behind that
16 we did catch that within an hour or so.

17 Having seen that, however, we then went back
18 to clean data and clean macros and did some more
19 scattergrams and histograms. It didn't come out near
20 as crisp and clean. There were eight groupings and
21 some facilities scattered in between. And looking at
22 that we then said now concerns have been raised by
23 levels of subsidy, about cost base. One of our goals
24 in coming up with any bands that we might have should
25 be to try to limit the differentiation from a

1 stand-alone rate. Let's minimize those subsidies all
2 we can.

3 We then tried to put these facilities in
4 this band or that band to try to see where they really
5 fit and ended up with our recommended structure that
6 we think is a good balancing of all of those goals and
7 objectives, as well as the concerns raised by many of
8 the parties throughout the proceeding.

9 **COMMISSIONER JOHNSON:** Mr. Hill, is this the
10 issue where you discuss your concerns about going
11 straight to uniform rates and the acquisition
12 adjustment?

13 **MR. HILL:** Yes, ma'am. We certainly believe
14 that the parties have brought it to our attention. We
15 agree 100%. This agency needs desperately to get a
16 handle on our acquisition policy with respect to this
17 Company. It may well call for radical departures from
18 things this agency has done in the past. It may well
19 be very distasteful for the Utility and for this
20 agency, but we need desperately to get a handle on an
21 acquisition policy; that if we're going to encourage
22 the purchase of other facilities, then we need to go
23 through a screening process to decide do they belong
24 in any type of uniform rate at all, or should they
25 remain stand-alone? Should this utility even have

1 picked them up. I think it ties into the viability,
2 and the long run future of the facilities that they
3 are purchasing.

4 That, in addition to a detailed study, a
5 viability study, if you will, of all of those
6 facilities above the cap, parties in the proceeding
7 said that it's nice, you claim in an uniform rate
8 you're paying a subsidy today but some day you'll
9 receive a subsidy, and you're receiving one today but
10 some day they'll pay it.

11 And the fact is that's not going to be true
12 for every facility that's out there and we need to
13 answer those questions: Are these facilities at the
14 cap ever going to turn around? And if not, what
15 should we do with them? And we don't know the answers
16 to those, but we believe that those two are very
17 paramount in moving to an uniform rate, as well as
18 setting up procedures to clearly scrutinize capital
19 expenditures. We don't want the utility running out
20 spending money they wouldn't have spent if they had
21 another rate structure. If the monies need to be
22 spect, then, yes, you need to spend them.

23 But we think those safeguards needs to be in
24 place, and we think some study needs to be done for
25 the facilities above the cap and we think we need to

1 get a handle on an acquisition policy --

2 **CHAIRMAN CLARK:** Not just for this utility
3 but all utilities. We need to look at our overall
4 acquisition policy. But it has probably more
5 significance for this utility.

6 **MR. HILL:** Yes, ma'am. We believe those
7 things need to occur prior to us ending up at some
8 single uniform rate. But we believe we could take
9 some steps in that direction and that's why we've
10 recommended the structure that we had.

11 **COMMISSIONER JOHNSON:** I had a conversation
12 with Staff with respect to the issues that Mr. Hill
13 just discussed. Because some of my concerns, based on
14 even the testimony of the Utility, was that the
15 uniform rate structure might have provided some
16 perverse incentive to buy companies or to buy systems
17 that were dilapidated, that perhaps weren't viable,
18 and that certainly isn't the kind of message that we
19 would want to send. And we wouldn't want to have
20 extraordinary subsidies from some systems to support
21 those systems that perhaps shouldn't have been
22 purchased in the first place.

23 To the extent that a uniform rate structure
24 would cause that to occur, and we didn't have the
25 necessary safeguards in place to prevent it, then that

1 would cause me great concern.

2 To the extent that we do identify those as
3 issues, and we can address them in order to minimize
4 those kind of activities, then I feel a little more
5 comfortable headed in that particular direction.

6 But I mean when witnesses testified that the
7 rate structure was there -- appeared to be their sole
8 insensitive for purchasing systems or not, it shocked
9 me in a lot of instances, particularly when some of
10 those systems did not seem viable.

11 **MR. HILL:** Yes, ma'am.

12 **COMMISSIONER JOHNSON:** I personally like the
13 ideas that have been raised, and the issues that we
14 need to pursue on generally viability and acquisition
15 adjustment policies, because to the extent that there
16 are other systems or companies where we are looking at
17 the uniform structure I think we need to have a
18 complete package in our evaluation before we move
19 forward on that.

20 **MR. HILL:** Yes, ma'am.

21 **CHAIRMAN CLARK:** I agree with that. I think
22 uniform rates for single systems are the way to go.
23 But I think that this case and the acquisitions of
24 this Company certainly has demonstrated a good policy
25 that's been mishandled.

1 I think if you look at Jacksonville Suburban
2 you see a company not unlike Southern States, perhaps
3 not as large but it is in the business of also
4 acquiring companies, and you see them acquiring a
5 company that has currently rates that are low, but
6 they have to make a substantial investment if they are
7 stand-alone. Jacksonville Suburban comes along and
8 says, "We can acquire them. We can give them uniform
9 rates," and it benefits both the customers -- and
10 that's the kind of analysis that Jacksonville Suburban
11 appears to have made in the past. I was dismayed that
12 that didn't appear to have been done here.

13 I think uniform rates has the added benefit
14 of not delaying needed improvements, needed for
15 environmental reasons. But there's got to be a
16 balancing and I'm not sure we have evidence of a good
17 balancing in this case, and I was disappointed.

18 **MR. HILL:** Yes, ma'am.

19 **CHAIRMAN CLARK:** That's one of my problems
20 with the management of the Company. They took it as a
21 cart blanche, I thought, to make investments and to
22 make acquisitions without careful consideration of the
23 impact on the new customers and the old customers.

24 **MR. HILL:** Yes, ma'am.

25 **COMMISSIONER KIESLING:** Let me also say that

1 I agree with the other Commissioners who have spoken,
2 that this appears to be the kind of case where uniform
3 rates will be a future goal, but I also agree that I
4 don't think we're there. And I guess I wonder if we
5 might not need to take a generic look at acquisition
6 policy and how we're going to deal with it, too.

7 **CHAIRMAN CLARK:** That's been an ongoing
8 project.

9 **MR. HILL:** Correct.

10 **CHAIRMAN CLARK:** I can't remember how many
11 years ago we started looking at it. And basically
12 started from the notion of positive/negative
13 acquisition adjustments, and the notion that we need
14 to look just beyond that isolated thing. So I know
15 Staff has been looking at it, and, unfortunately,
16 other things would have taken care of it.

17 **COMMISSIONER KIESLING:** I agree. I just
18 hope that perhaps this brings to the forefront that it
19 needs to move up the priority list and get to the
20 point where the Commission can take evidence and come
21 up with an acquisition policy that we are going to
22 carry out throughout the state for whatever utilities
23 may be in the water and wastewater arena.

24 I had a couple of questions that relate into
25 the rate structure concepts that were discussed in

1 this issue. One of them was the 40/60 split. It also
2 was addressed in 126, but to the extent that it's also
3 mentioned in Issue 125, I guess I want to understand
4 whether or not the split, whatever we decide the
5 appropriate split to be, is something that impacts on
6 rate structure.

7 **MR. HILL:** Yes, ma'am. It does.

8 **MR. RENDELL:** Commissioners, I believe it
9 impacts on the rate structure, but I don't believe
10 that the split will change the recommendation on the
11 type of rate structure we're recommending. It will
12 affect the rates, but the overall rate structure will
13 not change.

14 **COMMISSIONER KIESLING:** Yeah. That's what I
15 had gleaned from the discussions yesterday.

16 And I guess I wonder why we're dealing with
17 it in Issue 125 instead of in 126 then?

18 **MS. LINGO:** It was probably an oversight of
19 how the issues played out. It probably should have
20 been before 125. We just followed that concept
21 throughout 125 once we determined what the appropriate
22 split should be.

23 **COMMISSIONER KIESLING:** Okay. I also have a
24 question on like the 10,000 gallons for water and the
25 6,000 for wastewater. Somewhere in here I know that

1 Staff opined that the 6,000-gallon cap was
2 appropriate. I can't find the reference right now and
3 I have used a different copy because I left mine at
4 home, so I don't have the underlined portion right
5 now.

6 **MR. RENDELL:** I believe the actual cap is
7 addressed in Issue 129, that's the wastewater cap. We
8 based it on a couple of reasons. I'll address one of
9 them. That was addressed in the last rate case. It
10 was a specific issue and the majority of those
11 facilities are in this one. Also we looked at the
12 average usage, and I believe Mr. Groom could give some
13 insight on the average usage for Southern States.

14 **COMMISSIONER KIESLING:** If it's in 129, I
15 mean I can wait until then.

16 **MR. GROOM:** The average usage is not in 129.
17 Just figuring what the average usage is, for water it
18 would be 9,695 gallons per month, and for wastewater
19 5,930 per month. So we're right there as far the
20 10,000 gallon benchmark and the 6,000-gallon cap.

21 **COMMISSIONER KIESLING:** Okay. My concern is
22 that we went out to 21 different places and heard from
23 customers, and I heard a whole lot from a whole lot of
24 customers who said "I don't even use 6,000 gallons a
25 month." And they had bills that backed them up and

1 showed that they didn't. And if they are not using
2 the 10,000 gallons a month on water, then I'm
3 concerned about the 6,000-gallon cap on wastewater.

4 **MR. GROOM:** I didn't want to mislead you.
5 That is including general service customers, that
6 average usage. But that's how we did determined the
7 rate structure. We have to look at all gallons, I'm
8 sure customers, when you look at the average usage
9 for each plant, a majority of them are below the
10 10,000 gallon. There are some that are using 1,500
11 gallons a month.

12 **COMMISSIONER KIESLING:** I know.

13 **MR. RENDELL:** A couple of other insights.
14 The analogy we used throughout the rate structure when
15 we used 10,000 gallons, it's based on a couple of
16 assumptions.

17 One is that we looked at that when we set
18 the cap in the modified. That we determined in the
19 last rate case affordability at 10,000 in \$52 for
20 water and \$65 for wastewater. So we carried that
21 analogy throughout. I believe that 10,000 gallons has
22 been used for a considerable amount of time throughout
23 the water and wastewater industry, because we look at
24 350 gallons per day per person and there's 2.5 people
25 per household. But I do believe in this day and age

1 we need to reevaluate that because of conservation,
2 repression or some other factors. But that's one of
3 the reasons we looked at that.

4 As far as a cap goes --

5 **COMMISSIONER KIESLING:** Let me ask you one
6 thing before I get off it then. On the 2.5 people per
7 household, where does that come from? Is that a
8 national census number or does it take into account
9 the fact that Florida has such a high percentage of
10 retirees and that most of them do not have children in
11 their home any longer?

12 **MR. HILL:** That is both a national standard
13 and from DEP within this state. We may have a lot of
14 retired people but we also have a lot of yuppies that
15 are still working and in service industries and on
16 average our state looks just about like the nation.

17 **CHAIRMAN CLARK:** I thought the statistic you
18 used was from DEP.

19 **MR. HILL:** Yes, ma'am. Yes, ma'am. And
20 they include that in their rules. And, in fact, we
21 have it in ours with respect to original certificates.
22 We use the industry standards.

23 **COMMISSIONER KIESLING:** Okay. Then that, I
24 guess, answers my question.

25 I have did have only one other, and I don't

1 know where the right place to talk about the 40/60
2 split is, if this is the right place and time I have a
3 concern over that split to the extent that for many of
4 the customers who go up north for six months out of
5 the year and things of that nature, it seems to me
6 that having that level of split, it causes me concern
7 about those customers who need to leave their
8 utilities on, but want to have like a vacation rate
9 or, you know, a rate for when they are not there.

10 **MR. RENDELL:** We do have some answers to
11 your concerns. I believe it would be appropriate in
12 126 but we could take it up now.

13 **CHAIRMAN CLARK:** Let's see if there's any
14 more discussion on 125. If what's in 126 requires us
15 to go back, we'll go back. Any further questions on
16 125? Is there a motion?

17 **COMMISSIONER DEASON:** Yes, I have a
18 question. I'm trying to understand the basic
19 difference between the modified the stand-alone and
20 the capband, and why in Staff's opinion that the
21 capband is the superior rate structure than the
22 modified stand-alone.

23 **MR. HILL:** I think I can field that.

24 The modified stand-alone rate structure, the
25 rates are calculated, you start with stand-alone for

1 all of the facilities, 1 through N, and you calculate
2 their stand-alone rate. You then -- because the
3 Commission desires to cap a bill for 10,000 gallons of
4 use at \$52, you then come in with the modified
5 stand-alone, you calculate a hypothetical rate that
6 equates to \$52 at 10,000 gallons, which generates a
7 certain amount of revenue; when subtracted from the
8 revenue requirement creates a revenue deficiency that
9 is then moved to the other facilities below the cap.

10 **COMMISSIONER DEASON:** Let me ask you this:
11 The actual rates themselves, the base facility charge
12 and gallonage charge for those systems which are under
13 the capband --

14 **MR. HILL:** Yes, sir.

15 **COMMISSIONER DEASON:** -- their rates are
16 capped.

17 **MR. HILL:** Yes, sir.

18 **COMMISSIONER DEASON:** Those are the same.
19 Is that right or wrong?

20 **MR. HILL:** Those -- the actual rates for
21 those facilities below the cap are their stand-alone
22 rates, and they are different for every facility.

23 **COMMISSIONER DEASON:** No. I'm talking about
24 after you apply -- after you make the determination
25 that they need to be capped and you cap those rates.

1 **MR. HILL:** Yes.

2 **COMMISSIONER DEASON:** All right. Compare
3 those rates under the modified stand-alone with your
4 cap then. Just those systems -- are those rates the
5 same?

6 **MR. HILL:** Those are identical.

7 **COMMISSIONER DEASON:** That's what I thought.
8 They equate to each other.

9 **MR. HILL:** Yes, sir.

10 **COMMISSIONER DEASON:** The difference is with
11 your grouping of your bands for those companies that
12 are not capped, i.e. those systems which are providing
13 the subsidy.

14 **MR. HILL:** Yes, sir.

15 **COMMISSIONER DEASON:** And you've tried to
16 the best extent that you can to come up with bands and
17 tried to put similarly situated systems in the same
18 band?

19 **MR. HILL:** Yes, sir.

20 **COMMISSIONER DEASON:** It is not done on a
21 geographic basis whatsoever.

22 **MR. HILL:** No, sir.

23 **COMMISSIONER DEASON:** And for those systems
24 within each band the rates are identical.

25 **MR. HILL:** Yes, sir.

1 **COMMISSIONER DEASON:** Now, I know that you
2 are reducing the number of rate structures.

3 **MR. HILL:** Yes, sir.

4 **COMMISSIONER DEASON:** Is that the primary
5 advantage?

6 **MR. HILL:** That is, indeed. The primary
7 advantage is that you've gone from 50-some rates to 8
8 rates. That is the -- you're making a step in the
9 direction.

10 **COMMISSIONER DEASON:** Mathematically you
11 would agree that you're going to have subsidies within
12 subsidies.

13 **MR. HILL:** There will be subsidies within --
14 yes, sir.

15 **COMMISSIONER DEASON:** You have a full group
16 of systems which are providing subsidies to those
17 groups which are capped.

18 **MR. HILL:** Yes, sir.

19 **COMMISSIONER DEASON:** Then you're going one
20 step further, and you're going to these various strata
21 so depending on whether you're at the high end of your
22 strata or the low end of your strata, you're going to
23 be giving or receiving a subsidy to systems within
24 your strata.

25 **MR. HILL:** Yes, sir.

1 **MS. CHASE:** Commissioner, beyond that in a
2 couple of the bands, the systems that are banded
3 actually pay something less than their stand-alone, so
4 they actual end up getting a subsidy much like the
5 capped do except that it's not to that degree.

6 **COMMISSIONER DEASON:** I noticed there were
7 some negative effects when you start comparing the
8 structures.

9 **MR. HILL:** And the reason we considered this
10 to be infinitely better than any of the structures we
11 looked at is first of all, we keep the deviation, the
12 subsidies -- basically I believe it's better than the
13 modified stand-alone. You have a few instances where
14 a few number of customers do pay more than they would
15 under the modified stand-alone, but you have a large
16 group that paid less than they would.

17 So I think you've got almost an identical
18 deviation from stand-alone with the banded rates but
19 yet you've made a step in a direction.

20 **COMMISSIONER DEASON:** So the primary
21 difference is that under modified stand-alone we have
22 subsidies that flow because of the affordability
23 standard that we've put in place.

24 **MR. HILL:** Yes, sir.

25 **COMMISSIONER DEASON:** Now you've gone one

1 step further and in the name of reducing the number of
2 rate structures, there are some more subsidies
3 involved within each classification or strata or band;
4 band, that's the terminology you used.

5 **MR. HILL:** Yes, sir. And I guess, you know,
6 in the name of, again it comes down to whether this
7 Commission believes a uniform rate is in the long run
8 best interest of the customers of this company or not.
9 And from there you go in a direction.

10 And if this Commission believes that a
11 uniform rate is not in the long run best interest,
12 then you need to go another whole other direction. If
13 you believe that's where you need to go, then we need
14 to start going there.

15 **COMMISSIONER DEASON:** I guess that's my next
16 question. Assuming that's the direction the
17 Commission wants to go, how does your proposed capband
18 structure get you there?

19 **MR. HILL:** We have gone from 54 rates to 8
20 rates. I would envision in the next proceeding I
21 would hope that, assuming that a long run goal would
22 be a uniform rate, that we would reduce the number of
23 bands in every proceeding. And if, for example, this
24 Commission would have the number of bands, every time
25 the utility comes in, if you assume they are going to

1 be in every three to four years, then you phase to a
2 single uniform rate over a period of 9 to 12 years.
3 If the Commission chose not to be so aggressive, you
4 can from 8 to 6 to 4 to 2 to 1 and now you're phasing
5 to a single uniform rate over a period of 12 to 15
6 years.

7 **COMMISSIONER DEASON:** Let me ask you another
8 question. Say we're several years down the road,
9 we're in this next proceeding that we all don't really
10 look forward to, is it your -- would it be your
11 proposal that the companies that are within a separate
12 band, that they stay together and they are going to
13 be -- you're going to be combining bands, or you just
14 basically throw all the systems up there again and
15 then you come up with new bands but just a lesser
16 number of bands.

17 Once you get identified with a band, do
18 those systems stay affiliated with each other to an
19 extent that they are part of the band and they flow
20 with each other from here on?

21 **MR. HILL:** Until the next proceeding, and
22 then we would consolidate bands. I certainly don't
23 envision just throwing everybody up against the wall
24 and seeing where they fall out this time.

25 **COMMISSIONER DEASON:** If you have a band now

1 that has eight systems in it.

2 MR. HILL: Yes, sir.

3 COMMISSIONER DEASON: Those eight systems
4 are always going to be in the same band with each
5 other from now on. You may combine bands; is that
6 what your proposal is?

7 MR. HILL: I would like to think that what
8 happened, there may be an anomaly where one of those
9 facilities within that band, something happened to it.

10 COMMISSIONER DEASON: We need to think this
11 thing through. I've got some problems with it. Okay.

12 MR. HILL: Sure.

13 COMMISSIONER DEASON: To have true uniform
14 rates within a band, that means any time that the
15 rates are changed they have got to be changed the same
16 or else they won't be uniform.

17 MR. HILL: That's true.

18 COMMISSIONER DEASON: And we have
19 pass-throughs in this state.

20 MR. HILL: That's true.

21 COMMISSIONER DEASON: One of the reasons for
22 a pass-through would be perhaps an increase in ad
23 valorem tax.

24 MR. HILL: That's true.

25 COMMISSIONER DEASON: All of these systems

1 that are in a band are not geographic, I mean they are
2 different counties, so what if County X has a large ad
3 valorem tax increase, you're going to have other
4 systems within that band, their rates go up because
5 County X increases ad valorem taxes.

6 **MR. HILL:** Yes, sir.

7 **COMMISSIONER DEASON:** That's going to be an
8 awfully difficult thing to explain to those customers
9 that "Your rates are going up because this county over
10 here on the other side of the state increased its
11 property taxes."

12 **MR. HILL:** I'm not sure that -- again, I
13 think you need to look, do you want to go to a single
14 uniform rate? If you want to go there, then those are
15 things that we have to address along the way. It's no
16 different than an ad valorem tax increase for another
17 industry, another type utility. That is all included
18 in the same rate that everyone pays. So either a
19 uniform rate is a good or it is not a good -- and yes,
20 I don't know that they would -- a pass-through
21 would -- and I forget the recommendation -- that
22 applies to all of the facilities within a particular
23 band. Just like if you were down the road 12 or 15
24 years from now and you had a single rate for all of
25 the facilities that Southern owned, to the extent they

1 had an increase in a particular location that would be
2 passed on to all customers, yes, sir.

3 **MS. CHASE:** Commissioner, I think the
4 biggest problem we had with keeping modified
5 stand-alone rate structure was not only the number of
6 rates it has, but also the direction. We don't
7 believe it really has any direction. We tried to
8 work with it; how would it ever get you to a uniform
9 rate because the rates do stay separate for all 95
10 systems in water. And even if you wanted to go to a
11 stand-alone rate structure, it's not really clear how
12 you would unbundle them to bring them to that. So our
13 main problem with the modified stand-alone was its
14 lack of direction.

15 **CHAIRMAN CLARK:** I would just take issue
16 with something Chuck said, that you would maintain the
17 same bands.

18 I would hope you would do another analysis
19 again to see what is the appropriate band, because you
20 did an analysis to look at some of the subsidies.

21 It also seems to me, depending on what we
22 might do with high cost areas, your ability to move to
23 a uniform rate, if that's in fact what you wanted to,
24 is going to be affected by that.

25 **MS. CHASE:** I think we probably would

1 reevaluate them. Every rate structure has a drawback.
2 This one does have that in the sense that you could
3 have service areas jumping from a band to another band
4 in rate stability or whatever. But it has more rate
5 stability than a modified stand-alone would have. It
6 has less rate stability than a full uniform rate would
7 have.

8 **MR. RENDELL:** Commissioners, if I might, I'd
9 just like to just add some insight.

10 I struggled with the same analysis that
11 Commissioner Deason struggled with. And I will admit,
12 I was the last one on Staff to be convinced of this
13 rate structure because I kept coming back to why is
14 one better than the other, between modified and
15 capband.

16 And what I came down is the modified and the
17 capband both address affordability, which is one of
18 our goals identified in Issue 124. I stepped back and
19 looked at our long-term goal which is uniform. The
20 capband does capture some of those benefits in that
21 you have ease of administration of the rate structure
22 and you have less rates.

23 One of the other ones that also stood out is
24 fairness and that's also one of our goals. And the
25 fairness issue is the degree that subsidies occur.

1 And the capband does minimize these subsidies more
2 than the modified. The modified stand-alone is a step
3 towards uniform, but it's a baby step in my mind. And
4 the capband does get you one step further. So I
5 struggled with the same thought process that you
6 struggled with. And then when I made up of my mind on
7 the capband, then I was convinced that this is the
8 best alternative.

9 **CHAIRMAN CLARK:** Questions, Commissioners?
10 Is there a motion?

11 **COMMISSIONER GARCIA:** Staff.

12 **CHAIRMAN CLARK:** Is there a second?

13 **COMMISSIONER JOHNSON:** Second.

14 **CHAIRMAN CLARK:** All those in favor say
15 "aye".

16 **COMMISSIONER JOHNSON:** Aye.

17 **COMMISSIONER KIESLING:** Aye.

18 **COMMISSIONER GARCIA:** Aye.

19 **CHAIRMAN CLARK:** Aye. Opposed, "nay".

20 **COMMISSIONER DEASON:** Nay.

21 **CHAIRMAN CLARK:** Commissioners, we have been
22 at the for almost two hours. Let's take a 15-minute
23 break and we'll come back the 11:05.

24 (Brief recess.)

25 - - - - -

1 (Hearing reconvened at 11:10 a.m.)

2 **CHAIRMAN CLARK:** Issue 125. No, we've done
3 125. 126.

4 **MR. GROOM:** Commissioners, Issue 126, the
5 Staff's recommendation regarding whether the rate
6 structure proposed by SSU that collects 40 percent of
7 the revenue through the base facility charge and 60
8 percent of the revenue through the gallonage charge
9 should be approved, Staff is recommending that it
10 should be approved. We'll be happy to answer any
11 questions you may have.

12 **CHAIRMAN CLARK:** Questions, Commissioners.

13 **COMMISSIONER KIESLING:** I've already
14 expressed my concern that it doesn't seem to me that
15 the fixed costs are accurately reflected in this 40/60
16 split, and so to the extent that people who are only
17 here for a portion of the year are going to continue
18 to pay an inordinate amount in base facility charge,
19 whether they have any consumption or not, concerns me.

20 I also guess I just need to say that I was
21 not overly impressed with the Brown & Caldwell study.
22 If that was my only support for this, I would have
23 trouble with that.

24 **MR. GROOM:** Commissioner, the point I took
25 was just that there is a trade-off between

1 conservation and -- Witness Ludson testified that
2 somewhere around 55 to 60 percent costs are fixed, and
3 therefore we're already going down to 40 percent, and
4 it is -- by that study, it is a water conserving rate
5 structure.

6 And it is one of our goals to have revenue
7 stability for the company. I just felt that it was
8 appropriate, the 40/60 split, but I can understand
9 your concerns.

10 **CHAIRMAN CLARK:** And I guess what I'm
11 hearing you say, though, with the 40/60 split, those
12 people who do not stay year-round are still getting a
13 better deal, because all the fixed costs are not in
14 fact recovered in that base facility charge.

15 **COMMISSIONER KIESLING:** And what I'm saying
16 is I understand that that's what Staff is saying. I
17 don't necessarily buy the numbers.

18 **CHAIRMAN CLARK:** Okay. And I probably would
19 have been more persuaded by other testimony.

20 **COMMISSIONER JOHNSON:** So would you keep it
21 at the 33/67?

22 **COMMISSIONER KIESLING:** I would probably
23 have left it where it was, yes. I don't know that I'd
24 go down to the 25/75 that was advocated by
25 Ms. Dismukes, because I don't think that was any more

1 reflective, but I certainly would not -- I personally
2 would not have raised it, because I heard too many
3 people who were too concerned about the fact that
4 they're paying large bills every month even if they're
5 not here and even if there is no consumption. And I
6 think we need to -- I would like us to in some way try
7 to be more responsive to that, those customers.

8 **CHAIRMAN CLARK:** I understand that concern,
9 but I also think that we need to be mindful of that
10 costs need to be paid by cost causers.

11 **COMMISSIONER KIESLING:** I agree.

12 **CHAIRMAN CLARK:** And to the extent they're
13 part of the fixed cost, that goes on whether water is
14 used or not or whether they're there or not. They're
15 either going to have to pay it -- it's going to visit
16 a disproportionate cost on people who do not cause the
17 cost.

18 **COMMISSIONER KIESLING:** And I understand
19 what you're saying. If you accept and give the most
20 weight --

21 **CHAIRMAN CLARK:** I see.

22 **COMMISSIONER KIESLING:** -- to the testimony
23 that says that 55 to 60 percent of their --

24 **CHAIRMAN CLARK:** I get your point.

25 **COMMISSIONER KIESLING:** -- costs are fixed

1 costs, then that would completely support what you're
2 saying.

3 **CHAIRMAN CLARK:** I see.

4 **COMMISSIONER KIESLING:** I'm questioning the
5 accuracy of those numbers.

6 **CHAIRMAN CLARK:** Okay.

7 **COMMISSIONER JOHNSON:** And I think Staff has
8 somewhat questioned the accuracy of those particular
9 numbers, too.

10 And I had the same concerns as you,
11 Commissioner Kiesling, and I met with Staff yesterday
12 to further discuss the issue, how we came up with our
13 40/60, and why we thought that that was more
14 appropriate than the 33/67. And Staff can respond,
15 but one of the big issues in my mind, at least with
16 respect to our conversations yesterday, was more the
17 focus on rate stability as opposed to the cost causer
18 kind of an argument. Could you respond?

19 **MR. GROOM:** Sure. There's a lot of
20 testimony on this issue, and there's a lot of numbers
21 out there, and there's a lot of numbers not being
22 disputed, one of those numbers being the 55, 60
23 percent fixed cost.

24 There's also another number that
25 Dr. Whitcomb has testified saying that because of the

1 switch from the 920199 where it was 55/45 and the
2 Commission approved a 33/67 split, there was a revenue
3 shortfall from the years '92 through '94 of 3.6
4 million; and that again was -- you know, there's a lot
5 there that can determine that number. You know,
6 weather has some effect, the price elasticity has some
7 effect.

8 To me, I just looked at it as two hands
9 here. You know, you've got conservation on one hand
10 and you've got your revenue stability for your company
11 on the other. I just felt 40/60 was a middle point
12 there.

13 I based it on the Brown & Caldwell study.
14 Their economic people there looked at it and said it
15 was a water conserving rate structure. And then the
16 company has said that this would achieve their revenue
17 stability they want. So I just -- I felt that the
18 40/60 split was just appropriate.

19 **MR. RENDELL:** Commissioners, I would like to
20 point out also that I think what got lost is we keep
21 honing in on the 33/67, but there is a significant
22 number of other facilities that weren't in the 920199,
23 and Mr. Groom did some analyses last night on them;
24 and some of their costs, there's 33 percent in the
25 gallonage. So this is going to be a huge departure

1 for those also. So we need to keep those in mind
2 also.

3 **COMMISSIONER JOHNSON:** Say that again. I
4 guess I didn't understand the significance of what you
5 just said.

6 **MR. RENDELL:** Some of the facilities that's
7 in this rate case were not in Docket 920199. Docket
8 920199 did, in fact, have a 33/67 split, but since
9 that time there's other facilities that's coming on
10 line that's included in this case, and some of their
11 breakage is there's about 30% in gallonage.

12 Mr. Groom has those specifics, if you would
13 like for him to say those. But we have to also keep
14 them in mind, that they're getting approximately 70
15 percent through the base facility. So this is going
16 to be a huge departure for them also.

17 So we did weigh stability and conservation.
18 Ms. Dismukes, the reason why we did not accept that is
19 they were only honing in on rate structure, and that's
20 the way they said to do conservation.

21 They also recommended no conservation
22 dollars for any type of programs. The Commission at
23 the -- July 31st granted some money for these
24 conservation programs. We recognized it again in
25 Issue 75, I believe, or 74.

1 So rates is not the only way that we look at
2 conservation. We need to have education and programs
3 in place. So that's one of the reasons we dismissed
4 Ms. Dismukes' allocations. So we kept conservation
5 and revenue stability in mind.

6 **COMMISSIONER KIESLING:** And just let me say
7 my concern doesn't have anything to do with whether
8 this is a conservation water conserving rate
9 structure. It has more to do with the idea of the
10 costs for -- that the cost causer should pay the
11 costs.

12 And while I understand that Mr. Groom says
13 that the 55 to 60 percent of fixed cost estimate was
14 not disputed, that's where my concern lies, is because
15 I recognize that it's in there, that there wasn't
16 something to dispute it, but I'm not -- I wish there
17 had been something to dispute it, because I'm not
18 convinced that that's accurate.

19 **MR. RENDELL:** I understand.

20 **COMMISSIONER KIESLING:** That's my only
21 concern.

22 **MR. RENDELL:** And I believe that it hasn't
23 been disputed. It takes me back to another recent
24 case in St. George Island where we recommended a 60/40
25 split because they were seasonal, and utility wasn't

1 covering the fixed costs. So we have to weigh those
2 considerations in mind also.

3 **CHAIRMAN CLARK:** Further discussion? Is
4 there a motion?

5 **COMMISSIONER GARCIA:** I move so.

6 **CHAIRMAN CLARK:** All those in favor say aye.
7 Aye.

8 **COMMISSIONER KIESLING:** Aye.

9 **COMMISSIONER JOHNSON:** Aye.

10 **COMMISSIONER GARCIA:** Aye.

11 **COMMISSIONER DEASON:** Aye.

12 **CHAIRMAN CLARK:** Opposed, nay.

13 (No response.)

14 **CHAIRMAN CLARK:** 127.

15 **MS. MASSEY-AZPELL:** Commissioners, Item 127

16 is Staff's recommendation regarding the appropriate
17 rates for residential wastewater only customers.

18 Staff is recommending that flat rates be calculated on
19 a per service area basis.

20 Staff is also recommending that in order to
21 determine the feasibility of a metered rate for
22 Tropical Isles, SSU should be given 120 days to
23 explore whether or not it is feasible to obtain the
24 metered information, and also to file with the
25 Commission a report of their findings.

1 SSU should also explore in the report how
2 vacation rate can be implemented for the Tropical
3 Isles customers if it is proven that obtaining the
4 metered information is not feasible.

5 And, finally, SSU should be required to
6 notify the customers of Tropical Isles that the issues
7 being explored and the results will be presented to
8 the Commission in a future docket.

9 **CHAIRMAN CLARK:** I have a question I
10 neglected to ask yesterday. If they are in Tropical
11 Isles unmetered, you're still suggesting a vacation
12 rate? Because if they're metered they won't use any
13 water; they will show no water being used, so they'll
14 just get the base facility charge. How are you going
15 to know they're on vacation?

16 **MS. CHASE:** They do get water from the City
17 of Fort Pierce, and our understanding in the customer
18 testimony is that the City of Fort Pierce turns their
19 water off. That's what we're asking the Company to do
20 is to come up with some procedure where the customer
21 has to show Southern States that they had their water
22 cut off, and if they can work out an arrangement with
23 the city to verify that they're back on.

24 **CHAIRMAN CLARK:** Okay. Got you. Other
25 questions on 127?

1 Without objection, 127 is approved. 128?

2 **MS. TOMLINSON:** Commissioners, 128 concerns
3 the treatment for indices and pass-throughs on a going
4 forward basis if a capped rate structure is approved.

5 Staff believes that if the modified
6 stand-alone rate structure is approved, future
7 requests for indices should be implemented on a
8 company-wide basis, and requests for pass-throughs
9 should be implemented on a specific plant facility
10 basis.

11 The capband structure, as discussed in Issue
12 125, requests for an indices, should be handled in the
13 same manner as the modified stand-alone rate
14 structure.

15 However, pass-throughs should be implemented
16 at the cap on a specific plant facility basis, and
17 pass-throughs for service areas within a band should
18 be applied to all facilities within the band in order
19 to keep the banded rate uniform.

20 We are prepared to answer any questions at
21 this time.

22 **CHAIRMAN CLARK:** Questions, Commissioners?

23 **COMMISSIONER KIESLING:** I move Staff.

24 **COMMISSIONER GARCIA:** Second.

25 **CHAIRMAN CLARK:** All those in favor say aye.

1 Aye.

2 **COMMISSIONER JOHNSON:** Aye.

3 **CHAIRMAN CLARK:** Opposed, nay.

4 **COMMISSIONER DEASON:** Nay.

5 **CHAIRMAN CLARK:** Issue 129.

6 **MR. GROOM:** Commissioners, 129 is "What are
7 the appropriate rates for SSU." Staff has some minor
8 corrections that need to be made. There's three
9 plants; Bona Ventura, Lehigh -- excuse me -- Lalani
10 and Palm Court. I included a wastewater-only charge
11 for them. That should be stricken. That should be --
12 they do not have wastewater-only customers, so we'd
13 like to remove those from the schedules. I have the
14 page numbers if you like.

15 **CHAIRMAN CLARK:** Any other changes?

16 **MR. GROOM:** And then the Marco Islands,
17 Commission approved rate increase in two years is --
18 it should be referred to in Issue -- on Page 66, "What
19 are the appropriate bulk rate customers." There's a
20 mixed match there.

21 It's my oversight. I just used the
22 percentage basis for all the other plants. It should
23 be -- coincide with what's in the issue.

24 **CHAIRMAN CLARK:** So what's in the issue
25 explanation is correct?

1 **MR. GROOM:** It's correct; right. This
2 schedule just doesn't reflect that. It needs to be
3 corrected.

4 And then there's one other thing. There's a
5 possibility that there's some general service
6 customers that we left out on the schedules. We need
7 to work with SSU to make sure that there will be
8 further water factored in.

9 In other words, there could be some general
10 service customers for plants that just only have
11 residential schedule right now, and we just need to
12 include those in there.

13 **MR. RENDELL:** This was brought to Staff's
14 attention late yesterday afternoon, and we haven't had
15 a chance to verify it, but they are fallout rates, and
16 we will correct it in the schedules that will go in
17 the order.

18 **CHAIRMAN CLARK:** But the MFRs would indicate
19 if they had general service customers.

20 **MR. RENDELL:** Yes. And, like I said, this
21 was brought to our attention. We have not had time to
22 verify it.

23 **CHAIRMAN CLARK:** And it's just a matter that
24 you didn't use these in your rate schedules?

25 **MR. RENDELL:** It's a possibility.

1 **CHAIRMAN CLARK:** Okay. Questions on 129?

2 **COMMISSIONER KIESLING:** Yes. I still am
3 feeling conflicted on the 6,000 gallon cap. And on
4 Page 144, the middle paragraph, toward the end of it,
5 it says, "Staff believes this gallonage, wastewater
6 gallonage of 6,000 gallons, is appropriate for all
7 plants." And I just have a problem with that.
8 Certainly back two issues ago in 127 we found that for
9 those service areas, that the consumption was 1,500 to
10 5,000.

11 **MR. RENDELL:** Commissioners, I apologize. I
12 haven't had a chance to come see you. I know you had
13 this question on Rainbow Springs, and I've been a
14 little busy, so I haven't had time to come see you.

15 When we looked at the cap, one of the issues
16 was that this was addressed in the last rate case, but
17 we didn't let that just be the controlling --

18 **COMMISSIONER KIESLING:** Okay.

19 **MR. RENDELL:** We do look at the average
20 consumption, and we recommend a cap that's higher than
21 the average consumption. That way low users are not
22 subsidizing high users. And I welcome the opportunity
23 to come see you and explain our rationale, not only in
24 this case, but also in the Rainbow Springs, which will
25 be up before you in a couple of agendas.

1 **COMMISSIONER KIESLING:** Well, I know that
2 you and I did not have a chance to talk about this.

3 **CHAIRMAN CLARK:** Let me ask a question. If
4 you use 3,000 gallons of water, what is your
5 wastewater rate? What do you get paid for on
6 wastewater?

7 **MR. RENDELL:** For which facility?

8 **COMMISSIONER KIESLING:** Pay for 3,000
9 gallons.

10 **CHAIRMAN CLARK:** No. How many gallons do
11 you pay for in wastewater --

12 **MR. RENDELL:** Oh, for wastewater? You are
13 paying for each one of those, but it's factored into
14 the rates that you're only paying for the 20%.
15 There's a differential in the rate, and in the rate
16 schedules it shows a different rate.

17 **CHAIRMAN CLARK:** You mean there is a
18 differential in the rate between general service and
19 residential?

20 **MR. RENDELL:** Correct.

21 **CHAIRMAN CLARK:** I know that now.

22 **MR. RENDELL:** Correct. And it's factored
23 into the calculation of the rate, so that you're
24 paying on each gallon, but it's factored in that
25 you're actually only paying for 20%.

1 **CHAIRMAN CLARK:** Right. The point is you
2 will never be charged for more than 6,000 gallons
3 sewage; right? It's a cap.

4 **MR. RENDELL:** That's correct. And if you
5 set a high gallonage on cap, then -- I'm sorry. Let
6 me go back. If you set a low gallonage cap, it's
7 force -- it's a higher gallonage charge, and you're
8 forcing the low users to subsidize high users.
9 Therefore, we set a cap that's higher than the average
10 usage so that the people that conserve will not be
11 penalized.

12 **CHAIRMAN CLARK:** So I guess I'm wondering if
13 your concern is not addressed, because if in fact you
14 are a low use customer, you're not being charged for
15 6,000 gallons, you're being charged for what you use.
16 It's when you're a high use water customer your
17 wastewater doesn't go any more than 6,000 gallons.

18 **MR. RENDELL:** And if you are to --

19 **COMMISSIONER KIESLING:** Wait a minute. Say
20 again what you said just a second ago to the Chairman.

21 **MR. RENDELL:** We look at the average usage
22 and we set a cap that's higher than the average use.
23 If you set a cap be -- lower than the average usage,
24 it forces your gallonage rate higher; therefore, the
25 low end users are subsidizing the high end user, so we

1 set at higher than the average. And in this case the
2 average was 5,900 or 5,400. So it's higher than the
3 average usage.

4 If we were to lower the cap, it's going to
5 penalize your low end users.

6 **CHAIRMAN CLARK:** It forces --

7 **COMMISSIONER KIESLING:** Okay. Wait. Let me
8 just cogitate on that one second longer, because I
9 think that solved my whole problem.

10 **MR. RENDELL:** That's why I apologize. I
11 haven't had a chance to sit down and explain that.
12 There's two factors going on. One is the cap and the
13 other is the differential, so that you actually aren't
14 paying for every gallon, it just appears that you are.

15 **COMMISSIONER KIESLING:** Okay.

16 **CHAIRMAN CLARK:** I think your concern is
17 satisfied that the cap is a cap and you're not
18 penalizing low users. You are if you set the cap low.

19 **MR. RENDELL:** Lower, yes.

20 **COMMISSIONER KIESLING:** Yes. That's the
21 first time it made sense to me. Okay. Thank you.

22 **CHAIRMAN CLARK:** Further questions on 129?
23 (No response) All those in favor say aye. Aye.

24 **COMMISSIONER KIESLING:** Aye.

25 **COMMISSIONER JOHNSON:** Aye.

1 **COMMISSIONER GARCIA:** Aye.

2 **CHAIRMAN CLARK:** Oppposed, nay.

3 **COMMISSIONER DEASON:** Well, I'm going to
4 vote with the majority, but it's with the -- this is
5 kind of a bottom line issue, and there are a lot of
6 other issues that I have voted in the minority on.
7 Those dissents still stand. This is a kind of
8 fallout, and I vote with the majority given that some
9 of the policies have already been established by
10 previous vote.

11 **CHAIRMAN CLARK:** Okay. On those that I
12 think that you might need to distinguish, I'll still
13 call for the vote, but you can let me know if I don't.

14 Issue 130.

15 **MS. GALLOWAY:** Commissioners, Issue 130 is
16 Staff's recommendation regarding the four-year rate
17 reduction. Staff is recommending the removal of
18 \$238,489 of amortized rate case expense from the water
19 service area revenue, and \$116,609 amortized rate case
20 expense from the wastewater service area revenues.

21 It may appear, when looking at Schedules 5-A
22 and 5-B that only the service areas with banded rates
23 receive a four-year rate reduction and that the cap
24 systems do not.

25 This appearance is due to the mechanics of

1 how our recommended rate structure is calculated. We
2 assure you that Staff has complied with the statute
3 and our rules in applying the rate reduction to all
4 service areas. And we're available for any questions
5 that you may have.

6 **CHAIRMAN CLARK:** Questions, Commissioners.

7 **COMMISSIONER KIESLING:** I move it.

8 **COMMISSIONER JOHNSON:** Second.

9 **CHAIRMAN CLARK:** All those in favor say aye.

10 Aye.

11 **COMMISSIONER KIESLING:** Aye.

12 **COMMISSIONER JOHNSON:** Aye.

13 **COMMISSIONER GARCIA:** Aye.

14 **COMMISSIONER DEASON:** Aye.

15 **CHAIRMAN CLARK:** Opposed, nay. (No
16 response) 131.

17 **MS. BINFORD:** Commissioners, Issue 131
18 discusses whether any portion of the interim rate
19 increase should be granted and how the refund should
20 be calculated and the amount of the refund.

21 In this docket, Staff calculated the interim
22 refund based on how the interim rates were calculated.
23 Staff is recommending that the refund should be
24 calculated using the plants in Docket 920199 on a
25 combined basis. The other plants should be analyzed

1 separately.

2 After Staff's calculation, Staff believes
3 that a refund of 5.69 percent of the wastewater
4 service revenue collected under interim rates for
5 Lehigh is required, 27.53 percent of the wastewater
6 service revenue collected under interim rates for
7 Marco Island is required.

8 Also, because the Enterprise facility was
9 removed from the docket, 100% of the wastewater
10 service revenues collected under interim rates should
11 be refunded.

12 There is a correction on this issue. No
13 refund is required for the Enterprise water facility
14 because no increase was granted for that facility.

15 **CHAIRMAN CLARK:** Thank you. Questions,
16 Commissioners.

17 **COMMISSIONER KIESLING:** I move Staff as
18 corrected.

19 **COMMISSIONER GARCIA:** I second.

20 **CHAIRMAN CLARK:** Without objection, 131 is
21 approved. 132.

22 **MS. GILCHRIST:** Commissioners, Item 132
23 begins --

24 **COMMISSIONER GARCIA:** I move Staff.

25 **MS. GILCHRIST:** Thank you.

1 (Laughter.)

2 **CHAIRMAN CLARK:** Well, are there any
3 questions on this issue? (No response) Without
4 objection, 132 is approved. Issue 133.

5 **MS. DEWBERRY:** Staff's recommendation for
6 main extension charge of 446 for water and the \$480.00
7 for wastewater --

8 **CHAIRMAN CLARK:** Questions, Commissioners.

9 **COMMISSIONER KIESLING:** I move Staff.

10 **COMMISSIONER DEASON:** I have a question.
11 The top of Page 157, the references made there to a
12 gross-up for used and useful and then a subtraction
13 which states "represents SSU's investment in net
14 plants," I'm not following that. Could somebody
15 explain that?

16 **MS. DEWBERRY:** That was the calculation --
17 that was the methodology that the utility used for
18 calculating.

19 **COMMISSIONER DEASON:** That's not what you're
20 recommending?

21 **MS. DEWBERRY:** We're recommending gross
22 instead of applying the used and useful and nonused
23 and useful.

24 **COMMISSIONER DEASON:** I'm sorry. Is there a
25 gross-up for used and useful or not? That's where I'm

1 having --

2 **MS. DEWBERRY:** Not in our calculation.

3 **COMMISSIONER DEASON:** Okay; fine.

4 **CHAIRMAN CLARK:** Questions.

5 **COMMISSIONER GARCIA:** Move it -- I'll second
6 it.

7 **CHAIRMAN CLARK:** Without objection, 133 is
8 approved. 134.

9 **MS. GALLOWAY:** Commissioners, Issue 134 is
10 Staff's recommendation regarding the reflection of a
11 \$280.00 wastewater main extension charge.

12 **CHAIRMAN CLARK:** Questions, Commissioners.

13 **COMMISSIONER KIESLING:** Move it.

14 **CHAIRMAN CLARK:** Without objection, 134 is
15 approved. Issue 135.

16 **COMMISSIONER KIESLING:** 138 is supposed to
17 go first.

18 **CHAIRMAN CLARK:** Thank you.

19 **COMMISSIONER KIESLING:** You're welcome.

20 **MR. RENDELL:** In 138, this is Staff's
21 recommendation for the appropriate plant capacity
22 charge. Staff is recommending that a plant capacity
23 charge of \$700.00 be applied to the water service
24 areas, and a charge of 1300 to the wastewater service
25 areas.

1 We make this recommendation based on the
2 market study with some adjustments to it that SSU
3 provided when they proposed their charges, and we'll
4 be able to answer any questions you may have.

5 **CHAIRMAN CLARK:** Questions, Commissioners.

6 **COMMISSIONER GARCIA:** I move it.

7 **CHAIRMAN CLARK:** Let me ask a question that
8 I'm not sure it affects how I vote, but how are you
9 going to account for the service availability of the
10 charges? And I was just concerned about from time to
11 time we've had systems that have been bought. How are
12 you going to allocate the service availability?

13 **MR. HILL:** I don't believe there will be any
14 allocation necessary. The charges will apply to
15 customers coming on at whatever facilities.

16 **CHAIRMAN CLARK:** But it's CIAC; right?

17 **MR. HILL:** Yes, ma'am.

18 **CHAIRMAN CLARK:** Which reduces rate base.

19 **MR. HILL:** Yes, ma'am.

20 **CHAIRMAN CLARK:** Which reduces what their
21 investment in plant is.

22 **MR. HILL:** Yes, ma'am.

23 **CHAIRMAN CLARK:** Are you going to do that on
24 a plant-by-plant basis based on what people --

25 **MR. HILL:** I don't believe that we can --

1 **CHAIRMAN CLARK:** Do it any other way?

2 **MR. HILL:** -- do it in a gross manner for
3 another 12 or 15 years until you get to a single
4 uniform rate. I think we're going to have to keep
5 these separate.

6 **CHAIRMAN CLARK:** Well, I don't have a better
7 idea, but that causes me some concern.

8 **MR. HILL:** Perhaps in the next filing we
9 could explore appropriate collection and allocation of
10 contributions.

11 **COMMISSIONER KIESLING:** We've already
12 voted --

13 **COMMISSIONER DEASON:** Well, I think even a
14 uniform system of accounts is going to require you
15 to --

16 **CHAIRMAN CLARK:** Yes, you're right.

17 **COMMISSIONER DEASON:** -- book the
18 contributions as it relates to what plant it's
19 associated with.

20 **MS. MERCHANT:** That's correct. And I
21 believe that you already voted at the prior agenda to
22 do stand-alone revenue requirements in the next -- or
23 to be able to require them to-

24 **MR. RENDELL:** And, Commissioners, I believe
25 that we'll continue in that practice, that each

1 individual facility will book their respective CIAC,
2 but as the recommendation indicates, we're looking at
3 it as an overall total company basis when we look at
4 their CIAC level.

5 **CHAIRMAN CLARK:** Any other questions on 138?

6 **COMMISSIONER KIESLING:** I have one that
7 really is probably not that related, but assuming for
8 the moment that the president signs the repeal of the
9 CIAC tax, how are we going to handle that?

10 **CHAIRMAN CLARK:** The way we did it before
11 when it wasn't taxed. I mean, I don't see it as a
12 problem. The problem has always been the CIAC when we
13 had to gross it up.

14 **MR. HILL:** Right. It's a wonderful thing.

15 **MS. MERCHANT:** The gross-up would go away.

16 **CHAIRMAN CLARK:** Yes.

17 **COMMISSIONER KIESLING:** And that's it. I
18 mean, just --

19 **MR. HILL:** Yes, ma'am.

20 **CHAIRMAN CLARK:** The taxes weren't booked to
21 CIAC to begin with. They were just taxes, not
22 expenses. I'm in over my head.

23 **MS. MERCHANT:** The service availability
24 charges that you're establishing are prior to the
25 gross-ups, so the gross-up is just a factor added on

1 top of that. Whatever charge you establish for
2 whatever utility, they're grossed up, and you could
3 just take away the gross-up in -- I guess, in the same
4 manner that you added it on a generic basis, I would
5 assume.

6 **COMMISSIONER KIESLING:** Okay. I'm just
7 trying to understand that. That's why I said perhaps
8 this isn't the right place, but at some level,
9 gross-up of CIAC and the collection of that tax as an
10 expense does go into rates.

11 **CHAIRMAN CLARK:** We haven't allowed them to
12 collect the tax unless they've asked for a gross-up.

13 **COMMISSIONER KIESLING:** So if the gross-up
14 goes away --

15 **CHAIRMAN CLARK:** And we haven't grossed it
16 up in this case. We're just telling them what the
17 level of investment needs to be.

18 **COMMISSIONER KIESLING:** Okay. I probably
19 just need to talk to our accounting Staff at some
20 point outside of this case, because my question
21 doesn't relate to this case. My question kind of
22 relates to in general what kind of adjustments we're
23 going to have to make to other water and wastewater
24 cases.

25 **MR. HILL:** We'll get with you.

1 **CHAIRMAN CLARK:** Is there a motion on 138?

2 **COMMISSIONER GARCIA:** I make it.

3 **CHAIRMAN CLARK:** All those in favor say aye.

4 Aye.

5 **COMMISSIONER JOHNSON:** Aye.

6 **COMMISSIONER KIESLING:** Aye.

7 **COMMISSIONER GARCIA:** Aye.

8 **COMMISSIONER DEASON:** Aye.

9 **CHAIRMAN CLARK:** Opposed, nay. (No
10 response) We're back on 135.

11 **MS. LINGO:** Commissioners, in Issue 135 we
12 recommend that plant capacity charges not be
13 differentiated by type of treatment, and this is
14 considered --

15 **CHAIRMAN CLARK:** Is there a motion?

16 **COMMISSIONER KIESLING:** Move it.

17 **CHAIRMAN CLARK:** Without objection, 135 is
18 approved. 136.

19 **MS. CHASE:** Commissioners, in 136 --

20 **CHAIRMAN CLARK:** Is there a motion?

21 **COMMISSIONER KIESLING:** Move it.

22 **CHAIRMAN CLARK:** Without objection, 136 is
23 approved. I'm sorry. Did you have any changes?

24 **MS. CHASE:** No.

25 **CHAIRMAN CLARK:** 137.

1 **COMMISSIONER GARCIA:** I move it.

2 **CHAIRMAN CLARK:** Without objection, 137 is
3 approved. (Pause)

4 **MS. MERCHANT:** I believe it's 140, page 207.

5 **CHAIRMAN CLARK:** Questions, Commissioners,
6 on 140.

7 **MS. MERCHANT:** AFPI.

8 **CHAIRMAN CLARK:** Without objection, 140 is
9 approved.

10 **MR. GROOM:** Commissioners, Issue 142 is
11 Staff's recommendation regarding whether Utility
12 should be required to offer the option of electronic
13 funds transfer. Staff is --

14 **COMMISSIONER GARCIA:** This is something
15 they --

16 **MR. GROOM:** They've implemented it in April
17 of '96.

18 **CHAIRMAN CLARK:** Without objection, 142 is
19 approved. 146.

20 **COMMISSIONER KIESLING:** I move it.

21 **CHAIRMAN CLARK:** Without objection, 146 is
22 approved.

23 **MR. RENDELL:** Commissioners, that brings us
24 to 147, which is to close the docket issue, and we're
25 recommending that the docket be closed after Staff's

1 verified that there be -- the appropriate refunds have
2 been made.

3 **CHAIRMAN CLARK:** Is there a motion?

4 **COMMISSIONER KIESLING:** I move it.

5 **CHAIRMAN CLARK:** Without objection, 147 is
6 approved.

7 **COMMISSIONER GARCIA:** Before we close out, I
8 just want to -- and I'm sure I speak for the rest of
9 the Commission, but they can say it themselves if
10 they'd like.

11 I want to thank Staff for an absolutely
12 fantastic job. I know that this has been probably one
13 of the most contentious cases that we've ever had to
14 deal with, and perhaps it is the grinding and grueling
15 nature that forced the resolution that was even better
16 than where we were before; and I'm sure that put a lot
17 of you through a lot of pain and heartache. I know
18 that this case has kept all of us up at nights, no one
19 more so than Staff.

20 In the same light, I want to thank the
21 Citizens, because I think they've done a terrific job
22 of representing themselves, of acquiring good counsel,
23 and Jack Shreve, who took a very difficult case and
24 figured a way around it, crashed with us on a few
25 occasions, but found a way to make that his presence

1 as Public Counsel was all throughout representing the
2 Citizens, and I think that's why this outcome is even
3 better than where we have been before. So, again,
4 thank you.

5 **COMMISSIONER KIESLING:** Let me just say that
6 in that instance, Mr. Garcia, you did speak for me.

7 **COMMISSIONER GARCIA:** I knew I would get you
8 eventually. (Laughter)

9 **COMMISSIONER DEASON:** What is the
10 terminology? Ditto?

11 **CHAIRMAN CLARK:** I agree. I have been well
12 aware of the Staff's hard work. I know that the
13 parties have put in a lot of hard work. I would like
14 to say hello again to everyone, hello to you again,
15 Mr. Bud Hansen, and everybody else.

16 I can truthfully say, though, I hope not to
17 see you for a long time, but I wish you all well, and
18 thank you for participating. (Laughter)

19 And I also want to thank the Utility for
20 their work in this case. It has been a difficult,
21 grueling case, but I think I was pleased with the
22 representation, because I thought we didn't let it get
23 personal, and I was concerned about that, and everyone
24 was professional.

25 And I want to say thank you all, and I think

1 it speaks well of the representation here that you all
2 did a good job in not letting it get out of hand, and
3 we stuck to the issues; and as a result, while it's
4 not a perfect solution, I think there was a lot of
5 hard work put towards a reasonable solution, and I
6 thank you all for that.

7 This agenda is adjourned.

8 (Thereupon, the hearing concluded at 11:45
9 a.m.)

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1 STATE OF FLORIDA)
 : CERTIFICATE OF REPORTERS
 2 COUNTY OF LEON)

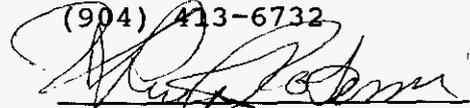
3 We, JOY KELLY, CSR, RPR, Chief, Bureau of
 Reporting and H. RUTHE POTAMI, CSR, RPR, Official
 4 Commission Reporters,

5 DO HEREBY CERTIFY that the Special Agenda
 Conference in Docket No. 950495-WS was heard by the
 6 Florida Public Service Commission at the time and
 place herein stated; it is further

7
 8 CERTIFIED that we stenographically reported
 the said proceedings; that the same has been
 transcribed under our direct supervision; and that
 9 this transcript, consisting of 11~~6~~ pages, constitutes
 a true transcription of our notes of said proceedings.

10 DATED this 19th day of August, 1996.

11
 12 
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