

ORIGINAL

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 ALOHA UTILITIES, INC.

3 DOCKET NO. 991643-SU

4 APPLICATION FOR WASTEWATER RATE INCREASE OF

5 ALOHA UTILITIES, INC. IN PASCO COUNTY

6 REBUTTAL TESTIMONY OF STEPHEN G. WATFORD

7 Q. Please state your name and employment address.

8 A. Stephen G. Watford, Aloha Utilities, Inc., 2514 Aloha Place,  
9 Holiday, Florida 34691.

10 Q. In what capacity are you employed by Aloha Utilities, Inc.

11 A. I am the Utility's President.

12 Q. How long have you been so employed?

13 A. I have been an officer of the Utility since 1986 and the  
14 President of the Utility for approximately five years. I have  
15 been employed with Aloha since 1975.

16 Q. What is the purpose of your rebuttal testimony?

17 A. The purpose of my testimony is to address five basic issues.  
18 First is the issue on in-house costs related to this rate  
19 proceeding. I have attached hereto, as SGW-1, a schedule  
20 showing the approximate total cost for this rate case to date,  
21 including notices and filing fees and incidentals as well as  
22 estimates for these and travel to complete the case. In  
23 order to estimate the cost of notices, we utilized our  
24 experience from the last couple of notices we have had to  
25 issue as a basis for estimating the costs of the two expected

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1 additional notices in this case. The great majority of the  
2 in-house costs are related to the noticing and the filing fee  
3 with some incidentals for copying and travel related items.  
4 We have also incurred a significant amount of monies in  
5 preparing the engineering maps required in order to comply  
6 with Rule 25-30.440(1)(a) & (b). Mr. Dale Ernsberger, an  
7 outside consulting engineer who has worked with Aloha for many  
8 years, completed these maps on very short notice, after it was  
9 determined that the Commission staff engineers would accept  
10 these as complying with the PSC's Rule under the  
11 circumstances. He had already begun preparation of the maps,  
12 but they were not needed for other purposes for several  
13 months. Mr. Ernsberger charged the Utility \$4,617.50 for  
14 preparing these maps in order to comply with the Commission's  
15 Rule 25-30.440(1)(a) & (b), and did so in a very short period  
16 of time. He did not however charge us any premium for  
17 expediting those maps. I have attached hereto a schedule  
18 showing the additional engineering costs, along with the in-  
19 house costs.

20 Q. What other issues need to be addressed by you?

21 A. One item that is of very great concern to me is change which  
22 has recently occurred concerning our office building. For  
23 over 25 years, we have rented office space from a related  
24 party at a price substantially below market value. Mid-summer  
25 this year, well after we had filed the MFRs, we were informed

1 by the related party that we would no longer be allowed to  
2 rent this office property and would be required to vacate the  
3 premises by December 31<sup>st</sup> of this year. That is about the same  
4 time as rates should be going into effect in this rate  
5 proceeding.

6 After an extensive search by us, we have now located a new  
7 office building which we have expressed an interest in and  
8 have, as of today, made a formal offer on. We first had to  
9 seek approval from our bank for commitment to provide  
10 financing for that building and received that on September 6.  
11 The price for the building is \$800,000.

12 It will provide us not only a replacement for our current  
13 office building that will be central to our service territory,  
14 but it will also provide us much needed additional space for  
15 the utility's administrative offices. We have been utilizing  
16 the same amount of space in our current offices for many, many  
17 years despite the fact that our customer base has grown by  
18 many multiples.

19 In addition to the requirement by the related party that we  
20 vacate the premises by the end of the year, Aloha Utilities,  
21 Inc. has been sued in Federal court for our buildings failure  
22 to meet the requirements of the Americans with Disabilities  
23 Act (ADA). As such, we are currently negotiating to hopefully  
24 settle that lawsuit, and as part of the terms of the proposed  
25 settlement, we have agreed to have ADA compliant offices by

1 the end of this year. Therefore, this move is not only  
2 necessitated by eviction, but also by compliance with the  
3 Americans with Disabilities Act. The current building is not  
4 modifiable to comply with that Act.

5 Our annual rental expense to rent the current offices  
6 comprising 5,270 square feet is \$17,478 on an annual basis.  
7 The new building will cost \$800,000. Based upon discussions  
8 with our banker and with the realtor, we anticipate that the  
9 annual mortgage payment, including interest, will be \$86,373  
10 annually for 6,062 square feet. The annual tax expense based  
11 on an estimate provided by the current owner using last year's  
12 tax bill is \$11,884. The annual insurance expense is  
13 estimated to be \$3,800 by the current owner based on last  
14 year's cost. Annual maintenance, as estimated once again by  
15 the current owner, is \$3,900 based upon last year's  
16 experience. All of these estimates from the realtor combine  
17 to total an annual expense of \$106,000. There are also  
18 additionally approximately 2,000 additional square feet of  
19 office space included with the purchase which will be rented  
20 by the third party under a four year lease. With annual net  
21 rental income as estimated by the realtor of \$30,000.  
22 Therefore, the Utility's net cost for the new building will be  
23 \$76,000. Subtracting the \$17,478 of current annual rental  
24 expense results in an increased expense of \$58,522 to Aloha.  
25 We believe the Commission should recognize this additional

1 cost because it was unforeseeable that the Utility would incur  
2 this substantial change in operating costs. And that cost  
3 should be allocated to the Seven Springs System in this rate  
4 proceeding under the same basis as the rents have been  
5 previously.

6 While I recognize that the Commission generally has not  
7 recognized new expenses brought to their attention by  
8 utilities after the filing of the MFRs in rate proceedings, we  
9 believe this is a very different situation. We were not aware  
10 of the new rental agreement, nor were we aware that we would  
11 have to make substantial changes to the existing building in  
12 order for it to be compliant with the ADA Law at the time we  
13 filed our original MFRs, or at the time we filed our original  
14 Direct Testimony with the MFRs. As such, this is a change in  
15 cost that the Utility will begin incurring immediately, and it  
16 is one that we could not have known about prior to the case  
17 being filed. Surely if the Commission staff determined during  
18 their audit that changes had occurred since the filing of the  
19 case that caused our office rent expense or any other expense  
20 to be substantially reduced, they would recognize those  
21 changes. It is therefore only appropriate that they recognize  
22 this change that has caused our expenses to increase as a  
23 result of having to find new office space, because our  
24 landlord has refused to renew our lease, and because of the  
25 governmental requirement related to the ADA. For both  
26 reasons, I believe that the Commission must recognize this

1 increased cost. Otherwise, the Utility will be forced to seek  
2 this change through a separate proceeding at substantially  
3 higher cost to the customers of the Utility. The Commission's  
4 responsibility under the Statute to set rates on a going  
5 forward basis demands that this increase cost be considered in  
6 rate setting. The staff was informed of this change in  
7 response to discovery approximately 2 months ago when we were  
8 asked about known charges.

9 We will endeavor to try and provide the Commission with final  
10 documents concerning the purchase of this property by the  
11 hearing date if at all possible so that all the information is  
12 available to them to review these costs. To the extent we are  
13 able to finalize the deal or even a contract in advance of  
14 that date, we will provide the documentation even earlier as  
15 a supplemental exhibit.

16 Q. What other issues do you feel you need to address?

17 A. There has been a finding by the audit staff, which was  
18 subsequently adopted by the citizens that there should be some  
19 adjustment to the salary of the Vice President of the Utility.  
20 To a large extent, Mr. Nixon has already addressed the failure  
21 of the audit staff to take the necessary steps in determining  
22 the relative worth of the Vice President to the company. The  
23 position appears to have just been adopted by the citizens  
24 without any further investigation on their part. This  
25 recommendation by the audit staff actually dates back to the

1 initial audit last summer during which the staff calculated  
2 the prudent amount of salary, benefits and costs for the Vice  
3 President to be pegged at 20% of my salary. This has been  
4 carried forward through subsequent audits and now is the  
5 position currently held by the staff auditors and the OPC. In  
6 fact, it has been only relatively recently that there have  
7 been any inquiries made into what benefit Ms. Speer provides  
8 to the operation of Aloha Utilities. In discovery in this  
9 case, a description of her job duties and responsibilities  
10 have been provided to the parties. To date, no one has taken  
11 issue with any of the duties and responsibilities delineated  
12 for the Vice President and seem to solely be basing the  
13 recommended adjustment on tying it to the salary of the  
14 President. It would seem that the experience and unique  
15 qualifications Ms. Speer brings to the job should be what is  
16 at issue here and whether her compensation is just in relation  
17 to those. Ms. Speer has a bachelors degree in accounting with  
18 a major in finance. However, it should also be noted that  
19 above and beyond that, Ms. Speer is an extremely successful  
20 business woman. Her business acumen and personal success in  
21 many different business ventures speaks for itself. Ms. Speer  
22 has herself acknowledged that she spends at least 20% of a  
23 normal work week carrying out her duties at Aloha. As the  
24 Chief Operating Officer of the Utility, I can state that she  
25 was very conservative in her 20% estimate of time. On many

1 weeks, her time either meeting with me in officers' meetings  
2 or in dealing with other matters either directly or on the  
3 telephone greatly exceed the 20% of the time she has  
4 represented as her norm. Ms. Speer as well as Ms. Kurish and  
5 myself discuss on a weekly and sometimes daily basis any  
6 significant issues before this Utility. During the deposition  
7 of Ms. Speer, staff seemed to ask serious questions dealing  
8 with issues of minutia and detail that I, being actively  
9 engaged in the operation of this Utility approximately 60  
10 hours per week, would have to go look up the answers to. This  
11 appeared to be some attempt by staff, at a much later date  
12 then when the opinion was initially rendered, to bolster their  
13 position as to Ms. Speer's participation in the operation of  
14 the Utility. The officers of Aloha meet on a weekly basis to  
15 conceptually discuss all of the major issues concerning the  
16 Utility. Ms. Speer is an intrical part of the formation of  
17 all the decisions of a significant nature that occur at this  
18 Utility. As Ms. Speer herself has stated, she works  
19 approximately 20% of a normal work week at Aloha. Given that,  
20 it would be ludicrous to assume that she would read every  
21 document, read every Rule, and personally participate in every  
22 conversation that relates to the operation of this Utility.  
23 That is my job. Most issues discussed between myself and the  
24 other officers are discussed on a conceptual issues basis and  
25 not by reviewing documents, contracts, rules on a line by line  
26 basis. Obviously, given the amount of time she has herself

1 stated she devotes to this Utility, that would be impossible.

2 Q. I believe you had another issue to discuss?

3 A. Yes, it appears that a position has been taken by the Office  
4 of Public Counsel that an employee that was added, Pam  
5 Yacobelli, should be disallowed as an imprudent expense simply  
6 because she is not a specifically delineated line item in the  
7 amended Consent Final Judgment. This presumption is ludicrous  
8 on its face because this is a general rate proceeding for the  
9 entire Seven Springs Wastewater System. Ms. Yacobelli has  
10 been added to the administrative staff of Aloha due to the  
11 increased workload necessitated by having to comply with the  
12 Amended Consent Final Judgment. An additional person,  
13 actually probably two additional people were necessary. In  
14 fact, Pam is consistently working overtime since being hired  
15 in November of 1999 and we are just now bringing the  
16 wastewater treatment plant on line with the associated  
17 additional reporting requirements that come in to play with  
18 that facility going on line. All of the administrative staff,  
19 Pam Yacobelli, Connie Kurish and myself work in excess of a  
20 standard forty hour work week each and every week, some weeks  
21 far in excess. The duties that have been assumed by Ms.  
22 Yacobelli and predominately associated with the increased  
23 requirements brought on by the amended Consent Final Judgment.  
24 However, just through normal growth and overall increased  
25 regulatory requirements and a general level of under staffing  
26 that occurs throughout Aloha, the addition of Ms. Yacobelli

1 was overdue.

2 Q. Do you have any further testimony to provide?

3 A. I am able to discuss at length the circumstances surrounding  
4 the required additions to the wastewater treatment plant and  
5 any other issues related to reuse and so forth; however, for  
6 the purposes of filing my rebuttal testimony and responding to  
7 the issues raised by the Staff, the DEP and the OPC witnesses,  
8 we felt Mr. Porter was better qualified to answer the majority  
9 of those issues. I will be glad to provide any additional  
10 information that the Commission needs in order to fully review  
11 the issues as raised by either the staff or the other parties  
12 in this proceeding.

13 Q. Does that conclude your testimony?

14 A. Yes, it does.

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ALOHA UTILITIES, INC.  
In-House Fees and Costs  
Docket No. 991643-SU

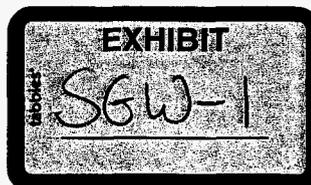
Actual Cost

Cost of notice	\$ 3,500.00
Filing fees	4,500.00
Incidentals	500.00
Engineering Costs from Genesis for MFR Map Preparation	<u>4,617.50</u>
Total	<u>\$13,117.50</u>

Estimated Cost

2 additional notices, travel, copying, federal express, telephone and other	<u>11,000.00</u>
Total	<u>\$11,000.00</u>
Total Actual Plus Estimated Costs (including map)	<u>\$24,117.50</u>

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***CIVIL ENGINEERING ASSOCIATES INC.***

September 11, 2000

Stephen G. Watford  
President  
Aloha Utilities, Inc.  
2514 Aloha Place  
Holiday, Fl 34691

Reference: Sewer Map Production  
Aloha Utilities Service Area

CEA File No: 0404 01 09

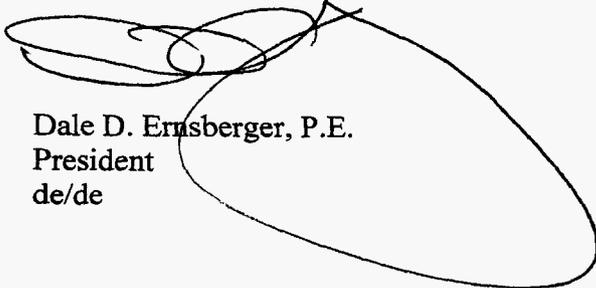
Dear Mr. Watford:

According to our records, we invoiced Aloha \$4,617.50, in the billing period for February, 2000, for the work associated with producing the Sewer System Map for the Aloha Service Area.

If you have any questions, please telephone.

Sincerely,

***CIVIL ENGINEERING ASSOCIATES, INC.***



Dale D. Emsberger, P.E.  
President  
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