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1 the loss on utility investment. In addition, ratepayers bear many additional risks.

2 Ratepayers are required to pay depreciation expense, operating and maintenance expenses, taxes

3 and a return on all prudently invested plant and equipment. Ratepayers bear the risk of paying

4 for increased costs due to environmental compliance. Customers pay for the increased costs

5 associated with repairing plant and equipment. Ratepayers bear the risk of paying increased

6 operating costs due to environmental compliance testing. In Florida, ratepayers bear the risks of

7 inflation because the Commission allows annual indexing of operations and maintenance

8 expenses. The Commission's annual indexing rate increases compensate the utility for the

9 effects of inflation on its operating and maintenance expenses. If a water or wastewater utility

10 in Florida purchases utility services from another utility, the Commission allows for the pass-

11 through of purchased utility services rate increases. Customers, not stockholders, bear the risks

12 of rate increases from purchased utility services.

13 **Q. FWSC CLAIMS THAT SPLITTING THE GAIN BETWEEN RATEPAYERS AND**

14 **STOCKHOLDER MAY INCENT UTILITIES TO DRIVE UP THE PURCHASE PRICE**

15 **OF THE ASSET BEING SOLD. DO YOU AGREE?**

16 **A.** No. Management of the selling company would strive to obtain the highest price possible as it

17 is in stockholders best interest to obtain the highest prices possible irrespective of whether they

18 keep all of the gain or share a portion of its with ratepayers. In fact, the agreement between the

19 lawyers hired by FWSC to assist with the sale of the Orange County systems, contains a

20 provision in the agreement for a success fee of 8% of the difference between the gross amount

21 paid by Orange County and the amount obtained by FWSC in excess of \$10,380,000. In

22 addition, although the purchase price was negotiated at \$13.1 million, at one point in the

23 negotiations, FWSC offered to sell the systems to Orange County for \$16.0 million.

24 Furthermore, the purchasing entity has an incentive to keep the price as low as possible.

25 In the case of the Orange County systems, the county's consultant estimated the value of the

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