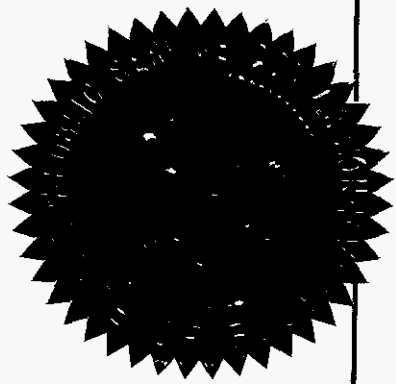


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 100104-WU

In the Matter of:

APPLICATION FOR INCREASE IN WATER
RATES IN FRANKLIN COUNTY BY WATER
MANAGEMENT SERVICES, INC.



VOLUME 1

Pages 1 through 147

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A CONVENIENCE COPY ONLY AND ARE NOT
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THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: COMMISSIONER LISA POLAK EDGAR
COMMISSIONER NATHAN A. SKOP
COMMISSIONER ART GRAHAM

DATE: Tuesday, October 5, 2010

TIME: Commenced at 11:14 a.m.
Concluded at 3:22 p.m.

PLACE: St. George Island Volunteer Fire
Department
324 East Pine Avenue
St. George Island, Florida

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

RECEIVED NUMBER DATE

8647 OCT 15 2010

FLORIDA PUBLIC SERVICE COMMISSION CLERK

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19
20
21
22
23
24
25

I N D E X

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NAME: PAGE NO.:

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EXHIBITS

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24	22	DR-12	15	15
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EXHIBITS

	NUMBER:	ID.	ADMTD.
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3	24 DR-14	15	15
4	25 Staff's Exhibit 25	15	15
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P R O C E E D I N G S

1
2 **COMMISSIONER SKOP:** Okay. At this point we're
3 going to go back on the record and convene the technical
4 portion of the hearing. And, Staff, if you could
5 address the preliminary matters.

6 **MR. JAEGER:** Yes, Commissioner. There are
7 quite a few stipulations. I think the first thing we
8 could do is go to the Prehearing Order and go to the
9 back of it and get the stipulations there.

10 **COMMISSIONER SKOP:** Okay. And do we want to
11 address the outstanding motion to strike first?

12 **MR. JAEGER:** That motion to strike was issued
13 yesterday afternoon at about 3:45, and so that's no
14 longer a pending matter.

15 **COMMISSIONER SKOP:** Okay. And that, just for
16 the record, the motion to strike was denied for the
17 reasons set forth in the order, and copies of that have
18 been provided to the Commission and the parties. And,
19 Mr. Jaeger, you may proceed.

20 **MR. JAEGER:** Thanks. Under Section X, page 29
21 of the Prehearing Order, Proposed Stipulations, the
22 first stipulation was the parties agreed that no used
23 and useful adjustment for water plant facilities and
24 storage is required. And do you want me to go through
25 all the stipulations and have the Commissioners agree to

1 that all at once or --

2 **COMMISSIONER SKOP:** That would probably be the
3 appropriate thing to do.

4 **MR. JAEGER:** Okay. The parties agree that the
5 testimony of WMSI Witness Withers may be taken up out of
6 sequence, but not before both of OPC's witnesses have
7 testified, just trying to accommodate her schedule.

8 The parties and Staff are agreed that the
9 testimony and Exhibit DMD-1 of Staff Witness Dobiak, the
10 auditor, may be inserted into the record, and that in
11 lieu of cross her deposition and six deposition exhibits
12 will be admitted as an exhibit.

13 The parties further agree that the testimony
14 and Exhibit CM-1 of Staff Witness McKeown and the
15 testimony of Staff Witness Chelette may be inserted into
16 the record.

17 With these stipulations, the parties and Staff
18 agree that all Staff witnesses may be excused from the
19 hearing.

20 Finally, Issue 5, "Should any adjustments be
21 made to offset plant improvements related to mains in
22 the State Park as a result of WMSI's transfer of rental
23 rights to the elevated tower?" The stipulation is, "As
24 a result of WMSI's transfer of rental rights to the
25 elevated tower, plant in service and accumulated

1 depreciation should be reduced by \$100,000 and \$6,978
2 respectively. Additionally, test year depreciation
3 expense should be reduced by \$2,326."

4 Issue 7, "Should any adjustments be made to
5 test year land?" And the stipulation, "Land should be
6 decreased by \$3,400 to reflect the removal of appraisal
7 and surveying costs associated with land that was sold."

8 Issue 11, "Should any adjustments be made to
9 test year Advances for Construction?" This is a partial
10 stipulation. "Advances for Construction should be
11 decreased by \$9,257 to reflect Commission approved
12 adjustment from the Utility's last rate case."

13 Issue 12, "What is the appropriate working
14 capital allowance?" Again, a partial stipulation.
15 "Working capital should be reduced by \$112,034
16 unamortized debt discount and issuing expense which is
17 included in the Utility's long-term debt cost rate.
18 Further, working capital should be reduced by \$17,983 to
19 remove fully amortized rate case expense from prior rate
20 case."

21 Issue 14, "What is the appropriate amount of
22 customer deposits to include in the capital structure?"
23 Stipulation, "The appropriate amount of customer
24 deposits to include in the capital structure is
25 \$100,499."

1 Issue 24, "Should any adjustments be made to
2 the requested level of Contract Labor Costs?"
3 Stipulation, "\$1,250 of additional contractual service
4 costs should be removed for a total of \$7,250 for Hank
5 Garrett charges during 2009 that's on the general ledger
6 as management fees."

7 And the last stipulation in the Prehearing
8 Order is "Should the Utility be required to provide
9 proof that it has adjusted its books for all Commission
10 approved adjustments?" Stipulation, "To ensure that the
11 Utility adjusts its books in accordance with the
12 Commission's decision, WMSI should provide proof within
13 90 days of the final order issued in this docket that
14 the adjustments for all the applicable NARUC USOA
15 primary accounts have been made."

16 That's all the stipulations in the Prehearing
17 Order.

18 **COMMISSIONER SKOP:** All right. Very well.
19 Any other additional preliminary matters that we need to
20 take up at this time?

21 **MR. JAEGER:** Since the issuance of the
22 Prehearing Order we do have quite a few other
23 stipulations I can get to.

24 We've added several exhibits. I think first
25 we could go -- in the Comprehensive Exhibit List we have

1 Exhibits 1 through 65, and then we added 66 and 67. And
2 so we'd like to identify that as Exhibit 1 and have it
3 admitted into the record.

4 **COMMISSIONER SKOP:** Okay. With respect to 66
5 and 67, we have identified those customer exhibits but
6 we've not yet entered those in. I would look to Public
7 Counsel if they would like to do so at this time.

8 **MR. McGLOTHLIN:** We'd move 66 and 67 into the
9 record.

10 **COMMISSIONER SKOP:** All right. Any objection?

11 **MS. SCOLES:** No.

12 **COMMISSIONER SKOP:** All right. Hearing none,
13 show 66 and 67 entered into the record. And,
14 Mr. Jaeger --

15 (Exhibits 66 and 67 admitted into the record.)

16 **MR. JAEGER:** Okay. Now I'd like to go back to
17 the stipulations.

18 Another exhibit we'd like to have identified
19 at this time is OPC's Response to Staff's First
20 Interrogatories 1 through 8.

21 **COMMISSIONER SKOP:** Okay. And that'll be
22 Exhibit 68.

23 (Exhibit 68 marked for identification.)

24 **MR. JAEGER:** And then we have Dobiac's
25 deposition and six deposition exhibits. We'd have, like

1 to have that as 69.

2 **COMMISSIONER SKOP:** All right. That will be
3 marked for identification as Exhibit 69.

4 (Exhibit 69 marked for identification.)

5 **MR. JAEGER:** And then we have WMI's -- I'm
6 sorry -- WMSI's Supplemental Response to OPC Second
7 Interrogatory Number 67.

8 **COMMISSIONER SKOP:** Okay. That will be marked
9 for identification as Exhibit 70.

10 (Exhibit 70 marked for identification.)

11 **COMMISSIONER EDGAR:** Mr. Jaeger, could you
12 repeat what Exhibit 70 is titled or described as again
13 for me? Thank you.

14 **MR. JAEGER:** That is WMSI's Supplemental
15 Response to OPC's Second Interrogatory Number 67.

16 **COMMISSIONER EDGAR:** Thank you.

17 **COMMISSIONER SKOP:** Okay. Mr. Jaeger, just
18 slow this down so we can get the exhibits
19 contemporaneously with entering them.

20 The first handout that you gave us is properly
21 marked for identification as Exhibit 68. That's the tan
22 one that is the OPC's Answers to Staff's First Set of
23 Interrogatories 1 through 8; is that correct?

24 **MR. JAEGER:** That's correct.

25 **COMMISSIONER SKOP:** Okay. The second one that

1 you handed out with the purple cover sheet has been
2 marked for identification as Exhibit 69, and that's the
3 deposition of Debra Dobiac.

4 **MR. JAEGER:** With her six deposition exhibits.
5 That's correct, sir.

6 **COMMISSIONER SKOP:** All right. Thank you.
7 And 70 will be passed out?

8 **MR. SAYLER:** Yes. I passed that out. It's
9 the --

10 **COMMISSIONER SKOP:** I did not get one. Thank
11 you.

12 **MR. SAYLER:** Oh, okay.

13 **COMMISSIONER SKOP:** All right. Thank you.
14 And Exhibit 70 has been marked for identification as
15 WMSI's Supplemental Response to OPC's Second Set of
16 Interrogatories Number 67.

17 **MR. JAEGER:** And then the last stipulation
18 that I was just made aware of by the Office of Public
19 Counsel, they said Issue 25 can be stipulated to. And
20 that's the Utility's -- they are -- they will adopt the
21 Utility's position on Issue 25.

22 **COMMISSIONER SKOP:** Okay. All right. Very
23 well. You mentioned that as Exhibit 1 you wanted to
24 take up or Staff wanted to take up what's been marked
25 for identification as hearing IDs 1 through 67. Does

1 that now include 68, 69 and 70?

2 **MR. JAEGER:** That can be so, yes, sir.

3 **COMMISSIONER SKOP:** Okay. Any objection to
4 that, Ms. Scoles?

5 **MS. SCOLES:** No, Chairman.

6 **COMMISSIONER SKOP:** Okay. All right. Hearing
7 no objection, show that done.

8 (Exhibits 1 through 65 marked for
9 identification and admitted into the record.)

10 (Exhibits 68 through 70 admitted into the
11 record.)

12 **MR. JAEGER:** Okay. So, first of all, do we
13 approve all the stipulations? Is that --

14 **COMMISSIONER EDGAR:** Commissioner Skop, if, if
15 appropriate, I'd move that we accept and adopt the
16 proposed stipulations on pages 29 and 30 of the
17 Prehearing Order, and additionally Issue 25 with the
18 Utility's position.

19 **COMMISSIONER SKOP:** All right. Is there a
20 second?

21 **COMMISSIONER GRAHAM:** Second.

22 **COMMISSIONER SKOP:** All right. All in favor,
23 signify by saying aye.

24 (Unanimous affirmative vote.)

25 **MR. JAEGER:** And I think you moved all

1 exhibits in, 1 through 70; is that correct?

2 **COMMISSIONER SKOP:** Yes. 1 through 70 is the
3 current state.

4 **MR. JAEGER:** Okay. And with the excusal --
5 I'd propose that we insert the Staff witnesses'
6 testimony at the proper place in the Commission
7 proceeding.

8 **COMMISSIONER SKOP:** All right. We will do
9 that at the appropriate time.

10 **MR. JAEGER:** Okay.

11 **COMMISSIONER SKOP:** Okay. And then my --

12 **MR. JAEGER:** Oh --

13 **COMMISSIONER SKOP:** Go ahead.

14 **MR. JAEGER:** OPC did make me aware of two
15 changes, two changes to our Prehearing Order that she,
16 that we did not apparently put in her changes. Issue 17
17 is the first one.

18 **COMMISSIONER SKOP:** All right. All right.

19 **COMMISSIONER EDGAR:** Page 12?

20 **COMMISSIONER SKOP:** All right. Issue 17 on
21 page 12. Can you --

22 **MR. JAEGER:** That's right. Page 12. And it
23 should have been "The appropriate overall rate of return
24 for WMSI is 3.85 percent."

25 **COMMISSIONER SKOP:** Any objection to making

1 that correction?

2 **MS. SCOLES:** No, Chairman.

3 **COMMISSIONER SKOP:** All right. Very well.

4 Show it done.

5 **MR. JAEGER:** And then Issue 42, instead of the
6 position for miscellaneous service charges, that's
7 Page 21, OPC wanted to just take no position. Is that
8 correct?

9 **MR. MCGLOTHLIN:** That's correct.

10 **MR. JAEGER:** And those are all the changes I'm
11 aware of.

12 **COMMISSIONER SKOP:** All right. Any, any
13 objection to the proposed change on Issue 42, page 21?
14 All right. Hearing none, show it done.

15 Mr. Jaeger, any additional matters?

16 **MR. JAEGER:** None that I know of, sir.

17 **COMMISSIONER SKOP:** Okay. It's my
18 understanding that the parties have agreed to waive
19 opening and we'll proceed with calling the first
20 witness. So, Ms. Scoles, you're recognized.

21 **MS. SCOLES:** Thank you, Mr. Chairman. With
22 your permission, Water Management Services calls direct
23 witness Frank Seidman.

24 **COMMISSIONER SKOP:** And actually before we get
25 to that, let me swear all of the witnesses that are in

1 attendance so we can do that expediently. All right.
2 Please raise your right hand.

3 (Witnesses collectively sworn.)

4 Thank you. You may be seated.

5 Ms. Scoles, you may proceed.

6 Whereupon,

7 **FRANK SEIDMAN**

8 was called as a witness on behalf of Water Management
9 Services, Inc., and, having been duly sworn, testified
10 as follows:

11 **DIRECT EXAMINATION**

12 **BY MS. SCOLES:**

13 Q. Okay. Mr. Seidman, you were just sworn in. I
14 would ask you to please state your name and business
15 address for the record.

16 A. My name is Frank -- excuse me. My name is
17 Frank Seidman. My address is 18444 Lost Lake Way,
18 Jupiter, Florida.

19 Q. Mr. Seidman, who are you employed with?

20 A. Management and Regulatory Consultants, Inc.

21 Q. And what's your position with that firm?

22 A. I'm President.

23 Q. Mr. Seidman, did you prepare and cause to be
24 filed direct testimony in this proceeding?

25 A. Yes, I did.

1 Q. And do you have that prefiled direct testimony
2 before you today?

3 A. Yes, I do.

4 Q. Do you have any corrections or revisions to
5 your direct prefiled testimony?

6 A. No.

7 Q. If I were to ask you the questions that are
8 contained in your direct testimony here this morning,
9 would your answers be the same?

10 A. Yes.

11 **MS. SCOLES:** Okay. Mr. Chairman, I would ask
12 that Mr. Seidman's prefiled direct testimony be inserted
13 into the record as though read.

14 **COMMISSIONER SKOP:** All right. The prefiled
15 testimony of Mr. Seidman will be entered into the record
16 as though read.

17 **BY MS. SCOLES:**

18 Q. Mr. Seidman, did you have any exhibits to your
19 prefiled direct testimony?

20 A. Yes, I do.

21 Q. And those were Exhibits FS-1 through 3; is
22 that correct?

23 A. That's correct. Yes.

24 Q. Do you have any corrections or revisions to
25 those exhibits?

1 **A.** No.

2 **Q.** Do you have any additional exhibits that you
3 would like to present at this time?

4 **A.** Yes. We prepared an updated rate case expense
5 exhibit at the request of the Public Service Commission
6 Staff, and I had that prepared under my direction.

7 **MS. SCOLES:** Okay. Chairman, we can admit
8 that now or I can wait until later, if you prefer.

9 **COMMISSIONER SKOP:** We can take it up at the
10 end of his testimony.

11 **MS. SCOLES:** Okay. Very well.

12

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1 **TESTIMONY OF FRANK SEIDMAN**
2 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
3 **IN DOCKET NO. 100104-WU**
4 **REGARDING THE APPLICATION OF**
5 **WATER MANAGEMENT SERVICES, INC.**
6 **FOR AN INCREASE IN RATES & CHARGES**
7 **AND A REVISION OF**
8 **SERVICE AVAILABILITY CHARGES**

9
10 **Q. Please state your name, profession and address.**

11 A. My name is Frank Seidman. I am President of Management and Regulatory
12 Consultants, Inc., consultants in the utility regulatory field. My address is 18444
13 Lost Lake Way, Jupiter, FL 33458.

14
15 **Q. State briefly your educational background and experience.**

16 A. I hold the degree of Bachelor of Science in Electrical Engineering from the
17 University of Miami. I have also completed several graduate level courses in
18 economics at Florida State University, including public utility economics. I am a
19 Professional Engineer, registered to practice in the state of Florida. I have over 40
20 years experience in utility regulation, management and consulting. This experience
21 includes nine years as a staff member of the Florida Public Service Commission,
22 two years as a planning engineer for a Florida telephone company, four years as
23 Manager of Rates and Research for a water and sewer holding company with

1 operations in six states, and three years as Director of Technical Affairs for a
2 national association of industrial users of electricity. I have been providing rate and
3 regulatory consulting services in Florida for over 30 years. Specifically, with regard
4 to the water and wastewater industry, I have participated in the preparation and
5 presentation of numerous rate cases, most of which were considered by this
6 Commission. Many of those cases were made final through the Proposed Agency
7 Action procedures; others went to public hearing in which I presented direct and/or
8 rebuttal testimony. I have prepared or participated in the preparation of all phases
9 of water and wastewater financial, rate and engineering sections of the Minimum
10 Filing Requirements ("MFRs"), including used and useful. I have also participated
11 in most of the water and wastewater rulemaking procedures before this
12 Commission. I have also prepared several original cost studies accepted by this
13 Commission in setting rates.

14
15 **Q. On whose behalf are you presenting this testimony?**

16 A. I am presenting this testimony and appearing on behalf of the applicant, Water
17 Management Services, Inc. ("WMSI").

18
19 **Q. What is the purpose of your direct testimony?**

20 A. The purpose of my direct testimony is to present the factual basis for WMSI's
21 request to increase its rates and charges and to revise its service availability
22 charges, as presented in the MFRs.

23

1 **Q. Are you sponsoring any exhibits?**

2 A. Yes. I am sponsoring three exhibits. Exhibit (FS-1)____ is a summary of my
3 education and experience, as it pertains to water and wastewater regulation. Exhibit
4 (FS-2)____ contains the MFRs, consisting of Volume I, the Financial, Rate and
5 Engineering sections; Volume II, the Billing Analysis; and Volume III, the
6 Additional Engineering Information required by Rule 25-30.440, Florida
7 Administrative Code. Exhibit (FS-3)____ contains the schedules supporting the
8 request to revise the service availability charges.

9
10 **Q. Would you please summarize the basis for the application to increase rates?**

11 A. Yes. As summarized in Schedule B-1 of Volume I of Exhibit (FS-2)____, based
12 on the unadjusted books, the utility operated at a \$28,242 loss in test year 2009,
13 earning a negative 0.70% rate of return on a rate base of \$4,019,449. After
14 adjustments to both the operating expenses and rate base, the utility net operating
15 income was a negative \$247,662, earning a negative 4.03% on a rate base of
16 \$6,146,522. The adjusted cost of capital or required rate of return for the utility is
17 5.01%. An increase in revenues of \$641,629 is necessary to allow the utility the
18 opportunity to earn a 5.01% rate of return. This increase is inclusive of the
19 \$327,504 increase in interim rates requested by the utility.

20
21 **Q. How was the revenue requirement determined for interim rates?**

22 A. In accordance with Section 367.082, Florida Statutes, and Rule 25-40.437(5),
23 Florida Administrative Code, the revenue requirement for interim rates was

1 determined based on the historic 2009 test year, using a 13 month average rate base
2 and the per book revenues and expenses for 2009. The requested revenue increase
3 reflects the difference between the achieved rate of return on equity and the
4 minimum of the range of the last authorized rate of return on equity and
5 recognizing the actual cost of debt for the test year.

6
7 **Q. Did you make any adjustments to the per book financial information in**
8 **determining the revenue requirement for interim rates?**

9 A. Yes. I adjusted rate base and the related depreciation expense for non-used &
10 useful plant consistent with the most recent rate proceeding. I made minor
11 corrections to expenses for expenses incurred during the test year but not booked
12 until the following quarter. I also normalized or annualized certain continuing
13 expenses that originated during the test year but were not reflected on the books for
14 a full 12 months. If this normalization is not reflected in the determination of
15 interim rates, any interim revenue increase granted will be immediately insufficient
16 to maintain the minimum level of rate of return the utility is entitled to under the
17 statute. It was not necessary to annualize any rate changes, as none occurred during
18 the test year.

19
20 **Q. In determining final revenue requirements, what adjustments were made to**
21 **the test year operating revenues and expenses?**

22 A. Operating revenues were reduced to reflect the reduction of rates, effective
23 February 2010, resulting from the termination of the amortization of rate case

1 expense associated with the limited proceeding, Docket No. 000694-WU. The
2 primary adjustments to operating expenses were to normalize certain test year
3 expenses either to reflect a full 12 months for some only partially expensed on the
4 books or to reflect known changes in personnel or salaries that are now in effect,
5 and will continue to be in effect for the foreseeable future. As explained in greater
6 detail in Mr. Brown's testimony, these adjustments are necessary to reflect the level
7 of expenses which is necessary for WMSI to efficiently provide quality service to
8 its customers. Finally, there are adjustments to depreciation and taxes associated
9 with adjustments to plant in service, rate base and the requested revenue increase.
10 These are all summarized and detailed in Schedule B-3 of Volume I of Exhibit (FS-
11 2)_____.

12
13 **Q. What adjustments were made to Plant in Service?**

14 A. Plant in Service was adjusted to include several pro forma projects necessary to
15 preserve and maintain the quality of service for existing customers. These projects
16 are described in Schedule A-3 of Volume I of Exhibit (FS-2)_____. It is the
17 intent of the utility to complete these projects within two years. The projects
18 include improvements to the supply main, the water treatment plant, the ground
19 storage tank and the distribution system.

1 **Q. Were adjustments made to any components of rate base other than Plant in**
2 **Service?**

3 A. Yes. Adjustments associated with the pro forma additions to Plant in Service were
4 made to accumulated depreciation. There is also an adjustment for non-used and
5 useful plant. The detail of the non-used and useful adjustment is found in Schedule
6 A-3 and the F Schedules of Volume I of Exhibit (FS-2)_____.

7
8 **Q. Were there any adjustments made to the utility's cost of capital?**

9 A. Yes. It is necessary for the utility to refinance its debt in order to fund the described
10 projects. These adjustments are reflected in Schedules D-1, D-2, D-5 and D-6 of
11 Volume I of Exhibit (FS-2)_____.

12
13 **Q. Is the utility proposing any changes in the rate structure?**

14 A. Yes. The utility is proposing changing the existing rate structure for residential
15 service from a Base Facility Charge plus a three tiered, increasing block gallonage
16 charge to a Base Facility Charge plus a two tiered, increasing block gallonage
17 charge.

18
19 **Q. What is the reason for changing from a three tier to a two tier gallonage**
20 **charge?**

21 A. The tiered gallonage charge structure, set in Docket No. 000694-WU, Order No.
22 PSC-05-1156-PAA-WU, issued November 21, 2005, called for tiers at 8,000,
23 15,000 and over 15,000 gallons per month with rate factors set at 1.0, 1.25 and 1.5,

1 respectively. The order also proposed a 1.3% overall repression adjustment. Based
2 on the actual impact of this structure, the overall economy and the change in
3 shallow well drilling practices on the utility's customer consumption level, the
4 three tiered structure no longer captures the residential consumption characteristics.
5 Consumption in the second tier has decreased substantially, while consumption in
6 the third tier has increased substantially. The utility is proposing the rate structure
7 be changed to a two tier structure. The proposed tiers are 15,000 gallons and over
8 15,000 gallons per month with rate factors of 1.0 and 1.50, respectively. The
9 proposed overall repression adjustment is 3.2%. The development of the proposed
10 rates is detailed in page 2 of Schedule E-2 of Volume I of Exhibit (FS-2)_____.

11
12 **Q. Is the utility proposing any change in the relative amount of the Base Facility**
13 **Charge?**

14 A. Yes. Currently only 50% of WMSI's revenue requirement is met by the Base
15 Facility Charge ("BFC"). WMSI proposes to increase this to 75% for a number of
16 factual and policy reasons. First, WMSI's service territory is primarily a resort
17 community. This causes revenue collections to be susceptible to large month-to-
18 month and season-to-season swings. Placing a greater share of the revenue
19 collection in the BFC helps mitigate this problem and brings greater revenue
20 stability. Second, the new shallow well policy has negatively impacted WMSI by
21 reducing both the number of customers and the number of gallons sold. The
22 current BFC rate structure exacerbates this problem, by providing an incentive to
23 customers to significantly reduce consumption at the higher tiers or to drop off the

1 system entirely. With the low BFC and high tiered rates under the current rate
2 structure, customers find that the modest cost of drilling a shallow well makes
3 economic sense. By increasing the BFC portion of the bill, the savings that may
4 accrue from using less WMSI water will be less, making it more economical to stay
5 on the system. This works to everyone's benefit. By keeping more customers on
6 the system, revenues are spread over a larger base, mitigating per use cost. It also
7 means that the cost of providing fire protection, which is built into the rates, will be
8 allocated to a greater portion of the island residents.

9
10 **Q. Are there any changes proposed in the miscellaneous service charges?**

11 A. Yes. The utility is proposing changes in its reconnection charges to better reflect
12 today's costs and to discourage potential abuses, as explained by Mr. Brown. These
13 charges are developed in page 2 of Schedule E-4 of Volume I of Exhibit (FS-
14 2)_____.

15
16 **Q. Is the utility proposing any changes in its Service Availability Charges?**

17 A. Yes. Analysis of the utility's ratio of net Contributions in Aid of Construction
18 ("CIAC") to net plant indicates that with present CIAC charges and no additions to
19 plant, the ratio is only 33% at build out. After the proposed additions to plant, that
20 ratio will drop to 24%. The current charges are \$1,620 composed of an \$845.00
21 Plant Capacity Charge, a \$525.00 Main Extension Charge and a \$250.00 Meter
22 Installation Fee. The utility proposes that the charge be increased to \$4,833.35,
23 with the Plant Capacity Charge increasing to \$4,058.35 and the Main Extension

1 Charge and the Meter Installation Fee remaining unchanged. This results in the net
2 CIAC to net Plant ratio reaching 75% at buildout. The increased level of CIAC
3 will have a mitigating affect on monthly service rates to existing and future
4 customers. The development of the proposed Service Availability Charges and
5 other supporting documentation required by Rule 25-30.565, Florida
6 Administrative Code, are found in Exhibit (FS-3)_____.

7

8 **Q. Does that conclude your direct testimony?**

9 **A. Yes, it does.**

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1 **BY MS. SCOLES:**

2 Q. Mr. Seidman, have you prepared a summary of
3 your prefilled direct testimony?

4 A. Yes, a very brief one.

5 Q. Okay. Would you please provide the parties
6 and the Commissioners with that summary at this time?

7 A. Yes. Thank you.

8 Good morning, Commissioners. My direct
9 testimony presents the basis for the Utility's request
10 to increase its rates and charges and to revise its
11 service availability charges. And my testimony also
12 sponsors the minimum filing requirements, the MFRs.

13 The historical test year data in the MFRs was
14 prepared directly from the books of the Utility. The
15 normalization or annualization adjustments and the
16 proposed pro forma adjustments were provided by the
17 management of the Utility.

18 To summarize our case, based on the unadjusted
19 books for the test year, the Utility operated at a
20 \$28,242 loss, that was for test year 2009, which is
21 equivalent to a negative 0.7 percent rate of return on
22 rate base, and that rate base was \$4,019,449.

23 We made two major types of adjustments to the
24 historic test year. The first was to normalize
25 expenses, as I previously said. There were several

1 expenses that were incurred by the Utility during the
2 test year for only a few months, but these are ongoing
3 expenses, will continue and are continuing on a regular
4 basis. And these normalization adjustments serve to
5 annualize these expenses so that the rates could be
6 properly set to recover them.

7 The second type of adjustment was to reflect
8 capital improvement projects that the Utility intends to
9 complete within two years of this rate case. The MFRs
10 also reflect the change in the Utility's cost of capital
11 that would result from financing these capital
12 improvements. When all of these adjustments are
13 considered, the Utility will require an increase in
14 annual revenues of \$641,629. The basis for all of these
15 adjustments is fully explained in the testimony of the
16 Utility's president, Mr. Brown.

17 The Utility is also requesting a change in its
18 rate structure. The Utility has been experiencing a
19 steady decline in annual revenues over the past several
20 years due to a combination of overall economic
21 conditions, a three-tiered rate structure and a shallow
22 well policy that encourages customers to stop using
23 water from the Utility.

24 The Utility is proposing that the rate
25 structure be two-tiered and have a base facility charge

1 that recovers 75 percent of the revenue requirement.
2 This change will be an incentive to stay on the system
3 so that the customer base does not shrink, and that it
4 will distribute the cost of fire protection, which is
5 built into the rates and which is available to residents
6 whether or not they are customers of the Utility, over a
7 larger customer base.

8 The Utility is also requesting that its
9 miscellaneous charges be increased to reflect current
10 costs. And, finally, the Utility is requesting an
11 increase in its service availability charges to keep
12 them within Commission guidelines. That concludes my
13 summary.

14 **MS. SCOLES:** Mr. Chairman, the Utility would
15 tender Mr. Seidman for cross-examination.

16 **COMMISSIONER SKOP:** Very well.

17 Mr. McGlothlin, you're recognized for
18 cross-examination.

19 **MR. MCGLOTHLIN:** First, I don't think we've
20 seen the updated rate case expense exhibit. Is that
21 available?

22 **COMMISSIONER EDGAR:** And has that been marked?

23 **MS. SCOLES:** I'm sorry?

24 **COMMISSIONER EDGAR:** Has that been marked for
25 identification?

1 **MS. SCOLES:** No, ma'am. It was just completed
2 late yesterday.

3 **COMMISSIONER SKOP:** Do we need a number for
4 that, Ms. Scoles, or is that part of a previous filed
5 exhibit?

6 **MS. SCOLES:** No, Chairman. We will need a
7 number.

8 **COMMISSIONER SKOP:** Okay. The next number
9 will be marked for identification for Exhibit 71. A
10 short title?

11 **MS. SCOLES:** It would be Updated Schedule
12 B-10.

13 (Exhibit 71 marked for identification.)

14 **COMMISSIONER SKOP:** All right. Very well.
15 You may proceed.

16 **MR. McGLOTHLIN:** Commissioner, since we
17 received this only now, I'd like to request an
18 opportunity to ask this witness about it when he comes
19 back on rebuttal, if we have any questions at that time.

20 **COMMISSIONER SKOP:** Ms. Scoles, any objection
21 to that?

22 **MS. SCOLES:** No, Chairman.

23 **COMMISSIONER SKOP:** All right. Very well.

24 **COMMISSIONER EDGAR:** So does that need to be
25 distributed, Commissioner, or not at this time?

1 **COMMISSIONER SKOP:** Yes. We, yeah, we
2 probably need to distribute it. Exhibits don't seem to
3 be flowing very well this morning.

4 (Pause.)

5 Okay. Everyone has exhibits.

6 Mr. McGlothlin, you may proceed.

7 **CROSS EXAMINATION**

8 **BY MR. McGLOTHLIN:**

9 **Q.** Hello, Mr. Seidman.

10 **A.** Good morning.

11 **Q.** I have several questions for you that relate
12 to your direct testimony, and I expect we'll have more
13 questions when you return to the stand.

14 For my first question, my first question
15 relates to the minimum filing requirements that you
16 prepared or were involved in preparing; is that correct?

17 **A.** Yes.

18 **Q.** Those have been marked as an exhibit. I'm
19 going to ask Tricia to distribute a brief excerpt from
20 that. I don't think there's any need to assign a number
21 to it because it's already in the record.

22 **COMMISSIONER SKOP:** Very well.

23 **MR. McGLOTHLIN:** This is for convenience only.

24 **COMMISSIONER SKOP:** All right.

25 **BY MR. McGLOTHLIN:**

1 Q. If you have that before you, Mr. Seidman,
2 we've provided a copy of Schedule A-5. If you will turn
3 to that.

4 A. Yes.

5 Q. And I'll refer you to the column 3 marked Test
6 Year 12/31/09 and the total at the bottom. And there
7 you show that the total amount of water plant in service
8 as of December 31st, 2009, was \$8,993,851; correct?

9 A. Yes.

10 Q. And that's, that is the amount prior to any
11 adjustments for non used and useful portions; correct?

12 A. That's correct.

13 Q. Would you agree then that this figure,
14 \$8,993,851 in plant and service would represent the
15 original cost of those assets when they were placed in
16 service?

17 A. Yes.

18 Q. And that is the original cost prior to any
19 depreciation expense having been taken and --

20 A. That's correct.

21 Q. Now we've also provided MFR Schedule A-12, if
22 you'll turn there. And as a preliminary matter, we're
23 going to be using the term contributions-in-aid-of-
24 construction or CIAC. Would you take a moment and
25 describe for those in the room who don't deal with that

1 terminology every day what is meant by contributions-in-
2 aid-of-construction?

3 **A.** Contributions-in-aid-of-construction are fees
4 paid by usually a customer or developer prior to
5 obtaining service. And since they're contributed, they
6 become a deduction from the amount of plant that the
7 Utility is allowed to earn on since they're not Utility
8 money.

9 **Q.** All right. Now if you'll see on Schedule
10 A-12, again under column 3, Test Year, the figure
11 \$3,239,514; correct?

12 **A.** Yes.

13 **Q.** Is that the total of contributions-in-aid-
14 of-construction or CIAC that has been provided by
15 customers toward the cost of the plant?

16 **A.** Yes.

17 **Q.** Now would you agree with me that if you begin
18 with the original cost and subtract the amount of CIAC,
19 the remainder should represent the amount that the, that
20 the Utility has spent to provide the plant in service?

21 **A.** Basically, yes.

22 **Q.** And you can check my math, if you wish, but we
23 identified \$8,993,851 as the original cost and CIAC of
24 \$3,228,165. Would you agree with me, subject to check,
25 that that results in the amount of original cost that

1 was funded by the Utility of \$5,765,686?

2 **A.** Yes, I'll agree with that.

3 **Q.** Now we've also provided you a copy of
4 Schedule D-5, Interim. If you'll turn to that.

5 **A.** Yes.

6 **Q.** Again referring to test year information, you
7 show that the average principal balance of long-term
8 debt outstanding was \$7,768,865; correct?

9 **A.** Which page are you looking at?

10 **Q.** If we could have a short time-out. We may
11 have given him the wrong page.

12 **COMMISSIONER SKOP:** Yes, Mr. McGlothlin. Hold
13 in place for a moment. I see the D-5 final. I don't
14 see the interim.

15 **MR. MCGLOTHLIN:** If we could have a moment, we
16 have the interim to which we referred in the question.

17 **COMMISSIONER SKOP:** All right. Very well.

18 **THE WITNESS:** Excuse me. Can I ask my counsel
19 for a copy of my Volume 1? I don't seem to find it.

20 (Pause.)

21 Okay. What are we looking at now?

22 **MR. MCGLOTHLIN:** The Schedule D-5, Interim.

23 **COMMISSIONER SKOP:** And, Mr. McGlothlin, do
24 you have a copy of that we can hand out or do we need to
25 refer to it in the volume in the testimony?

1 **MR. McGLOTHLIN:** We don't have a number of
2 copies. It's Page 97 in the MFRs, if you have that with
3 you.

4 **COMMISSIONER SKOP:** Okay.

5 **MR. DURBIN:** I have a copier here. Would you
6 like me to make copies?

7 **COMMISSIONER SKOP:** If you'd like. Okay. I'm
8 fine.

9 **COMMISSIONER EDGAR:** Thank you.

10 **MR. McGLOTHLIN:** We could also ask the witness
11 if he would take this value subject to check, if that
12 would expedite things.

13 (Pause.)

14 **THE WITNESS:** The D-5 you're looking at, page
15 97 is from the interim.

16 **BY MR. McGLOTHLIN:**

17 **Q.** Yes. Correct.

18 **A.** Okay.

19 **Q.** And do you see a value there for the average
20 principal balance of long-term debt of \$7,768,865?

21 **A.** Yes.

22 **Q.** Bearing in mind that we've identified the
23 amount of original costs funded by the Utility as about
24 \$5.7 million, would you agree that the amount of debt on
25 the Utility's books exceeds the amount it invested in

1 Utility assets?

2 A. Yes.

3 Q. By approximately \$2 million?

4 A. Yes.

5 Q. I also have several questions that relate to
6 the subject of the service, service availability
7 charges. Would you take a moment and explain that term
8 to those who don't deal with it every day?

9 A. Service availability charges?

10 Q. Yes.

11 A. Service availability charges are the method by
12 which contributions-in-aid-of-construction are
13 collected. It's the determination of a charge that
14 could be on the basis of the cost of plant that's put
15 into place or the cost of mains that are put into place
16 or the cost of meters that are put into place. And
17 based on those costs and the allocated amount per
18 customer, we can end up making a service availability
19 charge. There are guidelines within the Commission
20 rules. It's just how much you can collect, there's a
21 minimum and a maximum. But in any case, that's what
22 they are, they're a means of collecting contributions-
23 in-aid-of-construction.

24 Q. I'll direct you to page 8 of your direct
25 testimony. Now the current charges imposed by the

1 Utility for service availability include a plant
2 capacity charge, a main extension charge and a meter
3 installation fee; correct?

4 A. Yes.

5 Q. And currently the plant capacity charge is
6 \$1,620; correct? I'm sorry?

7 A. No.

8 Q. \$845.

9 A. Yes. That's correct.

10 Q. The main extension is, charge is \$525?

11 A. Right.

12 Q. And the meter installation fee is \$250?

13 A. That's correct.

14 Q. So the total of service availability charges
15 currently is \$1,620.

16 A. That's correct. That's on line 20 of that
17 page 8.

18 Q. And the Utility proposes that the charge be
19 increased to \$4,833.35; correct?

20 A. That's correct.

21 Q. And do I understand correctly that's based
22 upon your proposal to set the service availability
23 charges at 75 percent CIAC?

24 A. That's correct. That's the maximum allowed by
25 Commission rules.

1 **MR. McGLOTHLIN:** I want to distribute a copy
2 of that rule for purposes of my next question.

3 **COMMISSIONER SKOP:** All right. Do we need to
4 mark that or would you like it marked?

5 **MR. McGLOTHLIN:** Yes, please.

6 **COMMISSIONER SKOP:** Okay. That'll be Exhibit
7 Number 72. And a short title.

8 **MR. McGLOTHLIN:** Excerpt Commission Rule
9 25-30.580.

10 (Exhibit 72 marked for identification.)

11 **COMMISSIONER SKOP:** Okay. Very well. And you
12 may proceed.

13 **BY MR. McGLOTHLIN:**

14 **Q.** In an earlier answer, Mr. Seidman, you
15 referred to some guidelines, maximum and minimum. Would
16 you read for us the parentheticals there (1) and (2)
17 that are set out in the rule?

18 **A.** You want me to read both paragraphs?

19 **Q.** Yes. The maximum -- those are referring to
20 the maximum and minimum amounts.

21 **A.** Yes. "The maximum amount of
22 contributions-in-aid-of-construction, net of
23 amortization, should not exceed 75 percent of the total
24 original cost, net of accumulated depreciation, of the
25 Utility's plant -- of the Utility's facilities and plant

1 when the facilities and plant are at their design
2 capacity."

3 And, two, "The minimum amount of
4 contributions-in-aid-of-construction should not be less
5 than the percentage of such facilities and plant that is
6 represented by the water transmission and distribution
7 and sewage collection systems."

8 Q. Would you agree with me that the rule speaks
9 in terms of guidelines as opposed to hard and fast
10 explicit setting of rates?

11 A. Yes, I would agree.

12 Q. And it is necessary for a utility to be at
13 either the maximum or the minimum under the rule;
14 correct?

15 A. In general practice it's pretty much
16 necessary, I think, to be at the minimum, unless there's
17 some extraordinary circumstances. And the same thing
18 with the maximum. The Utility has been pretty flexible
19 within that range.

20 Q. Now I have an example of such a situation for
21 you to consider in the next question. Now the rule
22 says, "The minimum amount of CIAC should not be less
23 than the percentage of such facilities and plant
24 represented by water transmission and distribution."
25 With that in mind, take the example of a water

1 transmission and distribution system that has no
2 treatment plant and provides purchased water, if you
3 have that example in your mind. Isn't it correct that
4 in this example if the service availability policy is
5 designed to contribute at the minimum level, that would
6 be 100 percent contributions-in-aid-of-construction?

7 A. That would be right.

8 THE COURT REPORTER: Excuse me. Can you speak
9 a little bit more into your microphone, and would you
10 repeat your question?

11 MR. McGLOTHLIN: Yes.

12 THE COURT REPORTER: I'm having trouble
13 hearing this morning.

14 COMMISSIONER SKOP: All right. Mr.
15 McGlothlin, if you could repeat your question.

16 MR. McGLOTHLIN: I'm sure it's my fault. I'll
17 try to do better.

18 BY MR. McGLOTHLIN:

19 Q. The example is a water distribution company
20 that has no treatment facility and provides purchased
21 water instead. Would you agree with me that under the
22 minimum criterion in the rule, if taken literally, that
23 would be 100 percent CIAC?

24 A. That would be correct. Yes.

25 Q. So absent some variance from that, the Utility

1 would be in violation of the, of the minimum provision;
2 correct?

3 A. Well, since it's a guideline, it's not to be
4 in violation.

5 Q. Fair point.

6 A. But it's obviously a special case that the
7 Commission would consider and say, no, that's too much,
8 we'd like to see some investment.

9 Q. And if you know, am I, do I understand
10 correctly that that's not just a hypothetical situation,
11 there have been examples of such utilities that would
12 fall either above or below the maximum and minimum
13 levels in the rule?

14 A. My memory is not that good. I don't know.

15 Q. All right. Would you agree that in setting
16 service availability charges for a particular utility,
17 in the past the Commission has taken into account such
18 things as the requested charges relative to those
19 charged by other utilities in the, in the area?

20 A. No, I don't think so.

21 Q. What about whether a proposed service
22 availability charge would have the effect of either
23 enhancing or impeding growth in the area?

24 A. I haven't participated in any cases where that
25 was an issue.

1 **MR. McGLOTHLIN:** We want to distribute another
2 exhibit, please.

3 **COMMISSIONER SKOP:** All right. Does that need
4 to be marked for identification?

5 **MR. McGLOTHLIN:** Yes, because it's an excerpt.

6 **COMMISSIONER SKOP:** All right. It will be
7 Exhibit 73. And a short title.

8 **MR. McGLOTHLIN:** Excerpt Order Number
9 PSC-96-1320.

10 (Exhibit 73 marked for identification.)

11 **COMMISSIONER SKOP:** All right. Very well.
12 You may proceed.

13 **BY MR. McGLOTHLIN:**

14 **Q.** Do you have that before you, Mr. Seidman?

15 **A.** Yes, I do.

16 **Q.** If you'll please turn to page 248 and read the
17 second full paragraph. Read to us, I mean.

18 **A.** Excuse me?

19 **Q.** Page 248, the second, second paragraph.

20 **A.** Oh, okay. The paper was hiding my page
21 numbers.

22 **COMMISSIONER EDGAR:** I'm sorry, Commissioner.
23 I apologize for interjecting. What was the title on
24 this exhibit?

25 **COMMISSIONER SKOP:** Excerpt from PSC orders on

1 service availability policy.

2 **COMMISSIONER EDGAR:** Thank you. And page --

3 **COMMISSIONER SKOP:** 248.

4 **MR. McGLOTHLIN:** It's Page 248.

5 **COMMISSIONER EDGAR:** Okay. I see. It's a
6 couple of different -- I'm sorry. I was, I was in the
7 wrong place. Thank you. I apologize.

8 **MR. JAEGER:** Joe, there's actually two orders
9 here all in one.

10 **MR. McGLOTHLIN:** You're correct. The short
11 title should perhaps refer to both orders. The other is
12 PSC-94-1042.

13 **COMMISSIONER EDGAR:** It was my fault. I was
14 confused.

15 **COMMISSIONER SKOP:** Please proceed.

16 **BY MR. McGLOTHLIN:**

17 **Q.** Based on that paragraph, would you agree that
18 the Commission has considered the issue of competitive
19 and market-based rates in setting service availability
20 charges?

21 **A.** Yes. It says that directly.

22 **Q.** And if you'll turn to the second order in that
23 packet, please. This is PSC-94-1042 in the Mid-County
24 Services docket 921293. And we've flagged a paragraph
25 on page 5 of that order.

1 **A.** This one I should remember since I was in it,
2 but --

3 **Q.** Well, we'll give you a minute to refresh
4 yourself.

5 **A.** Okay. You're looking at page 5?

6 **Q.** Yes.

7 **A.** Okay.

8 **Q.** Would you agree with me that in this case the
9 Commission found that a CIAC ratio of 56.97 percent was
10 reasonable for that company?

11 **A.** That it was reasonable, yes.

12 **Q.** And would you agree also that according to
13 this order, in, in that case the company witness had
14 compared the requested CIAC charge to those charged in
15 surrounding areas?

16 **A.** That it's compared to charges around the area?

17 **Q.** Surrounding areas.

18 **A.** I offhand don't see that. Is there something
19 you're, that --

20 **Q.** Page 5, first full paragraph, Mr. Seidman.

21 **A.** Well, I don't know how to answer this. The
22 developer's witness made that comparison. It doesn't
23 say that the Commission gave it any weight. I mean,
24 it's there, so I guess in the sense the Commission has
25 had to make a, to take into consideration.

1 I mean, the first order you showed me was
2 pretty explicit there. It said that the Commission made
3 a statement that they were taking it into consideration.
4 In this one I don't see that they said that. I know
5 what he testified to. But it seems like since they went
6 with what I was proposing, that they ignored it or
7 whatever.

8 Q. Would you agree that Mr. Kramer was the
9 utility's witness and not the developer's witness?

10 A. Mr. Kramer?

11 Q. Yes.

12 A. No.

13 Q. Do you have page 4 of that?

14 A. I'm sorry. Okay. I don't remember him, so
15 let me see. Utility Witness Kramer. Okay. I'm sorry.
16 I don't recall that. Yes. So obviously it's true we
17 did that.

18 Q. I gather from your earlier answers that in
19 this case you did not make a comparison of the request
20 in this case with service availability charges of
21 utilities in surrounding areas?

22 A. Not really. I mean, I, I was sort of aware of
23 charges in other areas that were, especially in new, new
24 areas, and I don't recall exactly what the numbers were.
25 It seems like we -- I did a case for a development

1 that's down in, I think in Franklin County near Lanark
2 Village, and those rates were pretty high, the service
3 availability charges.

4 Q. Do you happen to recall what the CIAC ratio
5 was?

6 A. I think we set it at 75 percent.

7 Q. Well, we've established that the total
8 requested CIAC or service availability charge in this
9 case is \$4,800 and change; correct?

10 A. Right.

11 Q. In your experience, is that a relatively high
12 service availability charge compared to other utilities?

13 A. I don't know. I mean, it's hard to make those
14 type of comparisons. This charge is based on the, first
15 of all, the capital projects that were being proposed,
16 being put in place, and it's a pretty good chunk of
17 money. And, you know, the only place to get it from is
18 from new customers. We can't redistribute this over
19 customers that are already here. So I don't think it's
20 unfair to go ahead and use a rate that high at this
21 particular point.

22 On the other hand, we also did a comparison,
23 not a comparison, but a calculation of what the charge
24 would be if we didn't put in the projects, you know, and
25 it's a lower number than that. That would be based on

1 just, you know, the same input except no capital
2 projects, and that would be about \$2,300 instead of 48.

3 So it's really hard to, you know, to make a
4 direct comparison. We're talking about bringing into
5 effect the, you know, the addition of quite a, quite a
6 bit of capital.

7 You know, on top of that, you know, we just
8 had \$6 million put in for the bridge which has never
9 been picked up through any CIAC except existing.

10 Q. In your earlier answer you indicated what the
11 lower amount would be excluding those pro forma
12 adjustments. Would that value still fall within the
13 range between the minimum and the maximum?

14 A. That \$2,300 would be at 75 percent under those
15 conditions, yeah, without the, without the pro forma
16 additions.

17 I mean, it's awfully hard to, to go ahead and
18 make judgments on these because you're trying to
19 balance, you know, what new people coming on are paying
20 under a current market and future market with what would
21 be passed on to everybody through increases in monthly
22 rates. And since this is, this is a big help to get
23 monthly rates stabilized, you know, that's a judgment
24 factor that we made for the Utility.

25 Q. Would you agree that the Commission sets

1 service availability charges on a plant capacity basis
2 and not a total system basis?

3 **A.** Not a what?

4 **Q.** Not a total system basis.

5 **A.** No. The, the guideline for minimum and
6 maximum is based on total plant against total CIAC.
7 There are portions of it, you know, you can break it
8 down in various ways. But the total fee is, is measured
9 on the impact over all plant and service and all CIAC.

10 **THE COURT REPORTER:** Are you saying not CIAC?

11 **THE WITNESS:** All CIAC.

12 **BY MR. McGLOTHLIN:**

13 **Q.** I want to ask you a couple of questions to see
14 if we understand the way you went about your calculation
15 correctly -- whether we understand correctly, I mean.

16 As we understand it, you removed the current
17 meter installation and main extension charge and then
18 calculated that value that would correspond to a
19 75 percent CIAC value; correct?

20 **A.** It's a complicated formula developed by Staff
21 that takes into consideration the, the amount of
22 depreciation that's accumulated already, the amount of
23 depreciation that will continue to accumulate until you
24 get to what we might call a build out point, the amount
25 of CIAC that's already in place, the amount of

1 amortization of CIAC that's going to continue, and make
2 the, the determination based on the ratio out in the
3 future, you know.

4 Q. Did you first establish the objective of
5 setting it at the 75 percent ratio and then go about the
6 calculation to derive the value that would correspond to
7 75 percent?

8 A. No. The formula set up by Staff automatically
9 calculates a 75 percent. There is a place in the
10 formula for you to choose something less.

11 But the formula, when go through it all, it
12 establishes what the minimum is, considering the minimum
13 to be the cost of the transmission and distribution
14 system. It calculates what the fee would be for
15 75 percent. And then it, you know, there's a place in
16 there to determine a fee in between, what percentage
17 that would produce.

18 Q. So given the option of choosing 75 percent or
19 the option of choosing something less than 75 percent,
20 on behalf of the Utility you elected the 75 percent
21 calculation; correct?

22 A. Yes, we did.

23 Q. Those are all of my questions. Well, I'm not
24 quite through. Almost.

25 I believe in your summary and also in your

1 direct testimony at page 3, line 3, referring to the
2 results of 2009 you indicated that there is an
3 unadjusted books loss of \$28,242?

4 A. Yes.

5 Q. And that \$28,242, is that calculated based on
6 the application of the Uniform System of Accounts
7 prescribed by the Commission?

8 A. The what? I'm sorry.

9 Q. Is that calculation made in conformity with
10 the Uniform System of Accounts?

11 A. Yes.

12 Q. Now in 2009 the Utility initiated a new
13 deferred compensation program, did it not?

14 A. Yes.

15 Q. And in conjunction with that, did the Utility
16 show on its books as expenses some \$80,000 representing
17 \$40,000 of deferred compensation for two, for each of
18 two employees?

19 A. I believe that's correct. Yes.

20 Q. Do you know whether the Utility actually paid
21 that amount into a fund for the purpose?

22 A. Whether -- I'm sorry.

23 Q. Whether the Utility actually paid \$80,000 into
24 a fund to fund that account.

25 A. I would leave that to Mr. Brown to confirm.

1 Q. Would you agree that with respect to the loss
2 shown of \$28,242, but for the \$80,000 of deferred
3 compensation, the Utility would have seen a positive net
4 operating income for 2009?

5 A. Would you repeat that?

6 Q. Yes. If one were to exclude, for purposes of
7 my question, the \$80,000 of expense on the books in the
8 form of deferred compensation, would that have the
9 effect of resulting in a positive net operating income
10 for the year?

11 A. Yes. If that's the only change made. Yes.

12 Q. Now you also said after adjustments to both
13 the operating expenses and rate base, the NOI for
14 purposes of the MFRs was a negative \$247,000; correct?

15 A. Yes.

16 Q. And that assumes that the pro forma
17 adjustments for adding plant of about \$2.2 million is
18 included in rate base in this case; correct?

19 A. Yes. Let me check one thing.

20 Yes. That's correct.

21 Q. So as originally filed, the rates coming out
22 of this docket would reflect the amount necessary to
23 fund the construction of those pro forma adjustments.

24 A. That's correct.

25 Q. And at page 5, line 17, do you say that the

1 intent of the Utility is to complete the construction of
2 those facilities within two years?

3 A. Yes, assuming there's some mechanism that
4 comes out of this hearing to provide for funding.

5 MR. McGLOTHLIN: That concludes my
6 questioning.

7 COMMISSIONER SKOP: Thank you, Mr. McGlothlin.
8 Staff?

9 MR. JAEGER: Yes, Commissioner Skop.

10 **CROSS EXAMINATION**

11 **BY MR. JAEGER:**

12 Q. Mr. Seidman, is it correct that you are the
13 witness sponsoring the billing determinant information
14 contained in MFR Schedule E-2 that's hearing Exhibit 3,
15 your FS-2?

16 A. Oh, yes.

17 Q. I'm going to have Paul Stallcup just pass out
18 an excerpt. It's already a part of the exhibits, so you
19 don't need to identify it. It's Schedule E2, page 1 and
20 page 2. Do you have that there?

21 A. Yes, I have it.

22 Q. Okay. Please look at MFR Schedule E-2, page
23 1 of 2.

24 A. Yes.

25 Q. And the second column in that schedule is

1 titled Test Year Billables/Gallons and also is
2 identified as column 5. Do you see that?

3 A. Yes.

4 Q. Would it be fair to say that the number of
5 bills and gallons listed in this column represents the
6 actual number of bills rendered and gallons sold during
7 the 2009 test year?

8 A. Column 5?

9 Q. Column 5.

10 A. Column 5. Yes, that's actual for test year.

11 Q. Okay. Now take a look at the column titled
12 Repressed Test Year Bills/Gallons. That's column 11.

13 A. Uh-huh.

14 Q. And is it correct to say that these are the
15 billing determinants that you used to calculate the
16 Utility's proposed rates?

17 A. Yes.

18 Q. If we compare the number of residential bills
19 and gallons in column 11 to the actual number of test
20 years, residential bills and gallons listed in column 5,
21 would it generally be true that these repressed bills
22 and gallons are lower than the actual number of bills
23 and gallons observed during the test year?

24 A. That's correct.

25 Q. And are these downward adjustments in actual

1 bills and gallons are intended to capture the effects of
2 repression; is that correct?

3 A. Yes. Reduction in customers and gallons is
4 resulting from the downturn in the economy, the, you
5 know, shallow well policies, the loss of gallon sales
6 due to inverted rates.

7 Q. Go to Schedule E-2, page 2 of 2. There's a
8 black dot area on the middle left. According to this
9 schedule, you're recommending adjusting the number of
10 customers downward by approximately 3 percent as a part
11 of your proposed repression adjustment; is that correct?

12 A. I believe that's right.

13 Q. And could you explain why you think the number
14 of customers will decline by 3 percent if the Utility's
15 proposed rates are approved?

16 A. Why they will decline?

17 Q. The number of customers. Yes.

18 A. Well, the number of customers have been
19 declining anyway based on the history. And this is
20 taking into consideration that they will continue for
21 the near future anyway, at least into the, you know,
22 2010 and '11 when these rates would go into effect.

23 Q. So you're anticipating just a continuing
24 decline as it did from 2006 to now?

25 A. Yes. We don't see any turnaround yet.

1 Q. And do you, do you have a reason or why you --
2 what is the primary cause behind this historical
3 decline? I think you sort of touched on it.

4 A. Well, yes. I mean, I can't attribute it to
5 any one factor. Obviously the recession we've gone
6 through has had an impact. But these numbers go back,
7 for instance, the drop in customers beginning 2007,
8 2008, you know, are really at the cusp of the recession.

9 We do know that during those years the
10 gallonage rate had been converted to an inverted rate.
11 That was done as part of a final order in Docket 00694,
12 which was the supply main docket. At that time the
13 Staff went ahead and revised the rate structure so that
14 there was an incline in rates charging significantly
15 more, I think 25, 50 percent more in the second and
16 third tiers. And looking back at the information we
17 had, there were some significant drops in consumption
18 levels above the base level.

19 Q. Okay.

20 A. It's just the way things have been bearing
21 out. I'd say that's probably low, that 3 percent.

22 Q. You referenced the economy. Do you know if
23 any portion of this decline in the number of customers
24 from 2006 to 2009 has been called by -- caused by
25 foreclosures on the property?

1 A. I don't know. I know there have been
2 foreclosures out here, but I didn't tie it specifically
3 to anything.

4 Q. Did you perform any analyses or studies to
5 determine what portion of the decline in number of
6 customers --

7 A. No, I did not. No, I did not. I think in
8 this particular case, first of all, as far as I'm
9 concerned, when we do this regression analyses, you
10 know, they're like any other analyses. They're based on
11 history and they tell the future, and whatever we say
12 about the future is always wrong.

13 In this case I think what happened was we got
14 some inverted rates. They were based on repressed
15 sales. That's the way the staff designed them, that
16 they assumed there would be a regression in sales of
17 water. There was. I think the regression was greater
18 than what the staff built into its regression
19 percentage.

20 And just looking at the factors involved here
21 without doing any in-depth analysis, I admit that, I
22 didn't do any in-depth analysis, just looking at the
23 trend we've had and the trend continuing into, into
24 2010, that this is a pretty reasonable, if not
25 conservative, estimation of what gallons the customers'

1 repression will be.

2 Q. Okay. I'd like to change subjects just a
3 little bit and ask you a hypothetical question. If the
4 Commission were to approve phased in rates for the
5 Utility's pro forma plant and it takes two years for
6 these additions to come online, given the recent
7 volatility of the Utility's billing determinants, do you
8 believe that it would be appropriate to update the
9 billing determinants so the phased in rates can be based
10 on the most recent billing data?

11 A. I'm having trouble hearing you. I'm sorry.

12 Q. I'm saying if, if the, if you phased in the
13 rates and you didn't do it for two years because that's
14 when everything would come online, would you have to
15 redo the billing determinants?

16 A. I don't know. You know, like I say, the, the
17 determination of how much to repress is an educated
18 guess at best. I know from past experience that when
19 the Commission authorizes an inverted rate scheme and
20 takes into consideration repression, the utilities are
21 usually asked to provide monthly reports comparing, you
22 know, the results to see what would happen so we would
23 have a record of it. That's about all I can tell you.

24 MR. JAEGER: I'd like to pass out a, a
25 demonstrative. It's staff's 30 and it's already been

1 admitted and this is just for being helpful.

2 **COMMISSIONER SKOP:** All right. So you don't,
3 Mr. Jaeger, you don't need a number for that?

4 **MR. JAEGER:** I don't need a number. No.

5 **BY MR. JAEGER:**

6 **Q.** Okay. Staff's Exhibit 30 referred to WMSI's
7 response to Staff's number 75 interrogatory.

8 **A.** Number 75?

9 **Q.** That's correct.

10 **A.** Okay. I'm looking at it.

11 **Q.** And the amount needed to reconcile the rate
12 base of the capital structure is \$3,873,820 [sic], which
13 is shown on the last line of that response; is that
14 correct?

15 **A.** That's correct.

16 **Q.** Would you agree that the amount of
17 \$3,873,821 is primarily a function of the amounts
18 associated with non-utility property investment in
19 associated companies and negative equity?

20 **A.** Well, it's associated with a negative equity.
21 I don't know that it's associated with any other
22 investment in companies. All I can tell you about that
23 is that it's, I mean, it's obvious, there's nothing
24 hidden here, that the Company has more debt than it does
25 rate base. You know, that's the purpose of the

1 reconciliation, so that nobody, none of the customers
2 pay for that differential through their rates. You
3 know, part of it is going to be when you have losses
4 every year, those losses continue to increase the
5 negative equity. The actual workings of it, I don't
6 know what it's composed of, you know.

7 Q. Staff would like a late-filed exhibit that
8 shows what many comprises the 3,873,821. The Company's
9 interrogatory response seems to distinguish between
10 total assets and total capital and rate base, but it
11 does not identify the specific amounts per the balance
12 sheet.

13 A. Do you want that response from me or
14 Mr. Brown, or doesn't it matter to you?

15 Q. It was my understanding that Exhibit 30, that
16 75, did that not come from you?

17 A. Well, the number comes from me. You're asking
18 me for what, what makes it up.

19 Q. Yes. We would like --

20 A. The number on, the number on that schedule is
21 the difference between their total debt and rate base.
22 You know, it's -- you subtract one from the other to get
23 it. I don't, you know, I never intended to identify
24 anything with it. I have never done that in the past in
25 reconciliation. So if you're asking me what the innards

1 are of that, I'm not the one that's going to be able to
2 tell you.

3 **COMMISSIONER SKOP:** Mr. Jaeger, is the
4 late-filed that Staff's requesting properly addressed to
5 Witness Seidman or better off to Mr. Brown?

6 **MR. JAEGER:** We can try Mr. Brown, if he would
7 be any better at that.

8 **COMMISSIONER SKOP:** All right. Very well. So
9 we'll take that up at the appropriate time with Witness
10 Brown.

11 **MR. JAEGER:** Okay. So we won't have that
12 identified at this time?

13 **COMMISSIONER SKOP:** If you wish to identify
14 it, but do you want to wait until Witness Brown?

15 **MR. JAEGER:** We'll wait until Witness Brown.

16 **COMMISSIONER SKOP:** Thank you. Do we -- this
17 exhibit that is being handed out, is that also an
18 excerpt, or do we need --

19 **MR. JAEGER:** This is also -- this comes from
20 hearing Exhibit 3 that Mr. Stallcup is passing out, and
21 it was a part of Frank Seidman's 2.

22 **COMMISSIONER SKOP:** All right. And you may
23 proceed.

24 **BY MR. JAEGER:**

25 **Q.** On Schedule A-19, page 1 of 2, look at the

1 column 2. It says prior year ended 12/31/07. Should
2 that be 12/31/08?

3 A. Yes, it should. That's a typo.

4 Q. And column 3, test year ended 12/31/08, should
5 that be 12/31/09?

6 A. Yes.

7 Q. Okay. Again, these are just excerpts from
8 hearing Exhibit 3 and Schedules D-2 and D-5.

9 I think I have Schedule D-2, the final on the
10 top. And has the Company filed a schedule showing a
11 reconciled rate base Schedule D-2 for the year 2009
12 without the pro forma adjustments?

13 A. Say that again.

14 Q. Is the test year 12/31/09 shown there, is that
15 with or without pro forma adjustments included? I think
16 it was the test year 12/31/09 column, it's \$7,730,000
17 and it has common equity. Is that the actual test year?

18 A. I'm checking. This Schedule D-2, final part
19 1 at page 1 of 1, it shows as Page 60, that includes the
20 pro forma adjustments.

21 Q. Can you provide a late-filed exhibit showing a
22 reconciled 13-month average capital structure for 2009
23 including the weighted average cost of capital without
24 the pro forma?

25 A. It's included in the MFR as part of the

1 interim rate structure, excuse me, capital structure on
2 page 96. If you look at page 96, that's D-2, D-2,
3 page 1, interim, and you'll see that the 13-month
4 average is 6 million rather than 8 million. And that's,
5 that's because it excludes the pro forma adjustments.

6 Q. Okay. And that's the same for Schedule D-5
7 that you have for the year 2009 without any pro forma?

8 A. Right.

9 MR. JAEGER: Okay. That's all the questions I
10 have, Commissioner.

11 COMMISSIONER SKOP: Thank you, Mr. Jaeger.

12 Any questions from the bench? Hearing none,
13 Ms. Scoles, you're recognized for redirect.

14 MS. SCOLES: Okay. I just have a very few
15 questions, Chairman.

16 **REDIRECT EXAMINATION**

17 **BY MS. SCOLES:**

18 Q. Mr. Seidman, going back to the service
19 availability charges that you discussed with
20 Mr. McGlothlin, are there any benefits to existing
21 customers for increased service availability charges?

22 A. Yes. I think I discussed that a little with
23 him that since CIAC is an offset to rate base, in the
24 end it reduces what the rate base would have been upon
25 which rates would be set. The higher it is, the lower

1 the monthly rates are going to be for existing customers
2 going forward into the future. It's a tradeoff.

3 Q. Back to the pension. If the \$80,000
4 adjustment for the pensions was rejected, would the
5 income then be adequate for the Utility?

6 A. Define adequate. I'd have to do the
7 calculation and see what the return would be.

8 Q. And then back to the figure of the
9 3,873,821 that Mr. Jaeger asked you about, does the
10 source of that differential have any impact on the rates
11 requested?

12 A. The 3 million?

13 Q. Right.

14 A. No. That was -- what it does is it eliminates
15 the interest expense associated with that \$3 million
16 that's not picked up through customers from their rates.

17 MS. SCOLES: That's all I have, Chairman.

18 COMMISSIONER SKOP: All right. Very well. If
19 we could take up exhibits. Ms. Scoles, you're
20 recognized.

21 MS. SCOLES: I would like to move Exhibit 71,
22 the updated Schedule B-10.

23 COMMISSIONER SKOP: All right. Any objection?

24 MR. McGLOTHLIN: Is that the rate case
25 expense?

1 **MS. SCOLES:** Yes.

2 **COMMISSIONER SKOP:** I believe that's what's
3 been marked for Exhibit 71.

4 **MR. MCGLOTHLIN:** I'd like to have a chance to
5 cross on it before it's moved.

6 **COMMISSIONER SKOP:** All right. Very well.
7 Ms. Scoles.

8 **MS. SCOLES:** That's all I have, Chairman.

9 **COMMISSIONER SKOP:** Okay. What about Exhibits
10 2, 3 and 4?

11 **MS. SCOLES:** I'm sorry?

12 **COMMISSIONER SKOP:** For -- well, I'm not sure
13 that those have been formally admitted. Mr. Jaeger got
14 me a little mixed up on that one.

15 **MR. JAEGER:** I got mixed up myself,
16 Commissioner. I'm sorry. What I heard was we went just
17 right through 1 through 70 and admitted all exhibits and
18 that's what I heard.

19 **COMMISSIONER SKOP:** Okay. That's, that's what
20 I thought I heard, but, in an abundance of caution, I
21 want to be clear that the parties had no problem with
22 that.

23 **MS. SCOLES:** That's fine. Thank you,
24 Chairman.

25 **COMMISSIONER SKOP:** All right. Very well.

1 **MR. McGLOTHLIN:** I move 72 and 73.

2 **COMMISSIONER SKOP:** All right. Any objection?
3 All right. Hearing none, show 72 and 73 entered.

4 (Exhibits 72 and 73 admitted into the record.)

5 And, Commissioners, at this point we're going
6 to break for lunch, and we will resume at 1:45.

7 **COMMISSIONER EDGAR:** Okay.

8 **COMMISSIONER SKOP:** Thank you. We're
9 temporarily on recess.

10 (Recess taken.)

11 Okay. We're going to go back on the record at
12 this point. And where we left off is Mr. Seidman,
13 Seidman --

14 **COMMISSIONER EDGAR:** Seidman.

15 **COMMISSIONER SKOP:** Seidman. Sorry. Excuse
16 me. Mr. Seidman had finished his direct testimony and
17 he was stepping down and will be back on rebuttal.

18 So, Ms. Scoles, please call your next witness.

19 **MS. SCOLES:** Mr. Chairman, Water Management
20 Services would call direct witness Gene D. Brown.

21 **COMMISSIONER SKOP:** Thank you. And,
22 Mr. Brown, you've been previously sworn; correct?

23 **THE WITNESS:** Yes, I have. Yes, sir.

24 Whereupon,

25 **GENE D. BROWN**

1 was called as a witness on behalf of Water Management
2 Services, Inc., and, having been duly sworn, testified
3 as follows:

4 **DIRECT EXAMINATION**

5 **BY MS. SCOLES:**

6 Q. Okay. Mr. Brown, would you state your name
7 and business address for the record, please?

8 A. My name is Gene Brown. My business address is
9 250 John Knox Road, Tallahassee.

10 Q. And you're employed by Water Management
11 Services.

12 A. Water Management Service.

13 Q. What is your position with the company?

14 A. I'm President and Chief Executive Officer.

15 Q. Did you prepare and cause to be filed direct
16 prefiled testimony in this case?

17 A. Yes, I did.

18 Q. Do you have a copy of that prefiled testimony
19 before you today?

20 A. Yes, I do.

21 Q. Do you have any corrections or revisions to
22 that testimony?

23 A. No.

24 Q. And if I were to ask you the questions that
25 are contained in that testimony, would your answers be

1 the same?

2 **A.** Yes, they would.

3 **Q.** Mr. Brown, you did not have any prefiled
4 exhibits as part of your direct testimony; is that
5 correct?

6 **A.** That's correct.

7 **Q.** Okay. Have you prepared a summary of your
8 prefiled direct testimony?

9 **A.** Yes. Or you did.

10 (Laughter.)

11 **Q.** I'm sorry.

12 **A.** You corrected mine.

13 **Q.** Mr. Brown, would you please provide the
14 parties and the Commission with a summary of your
15 testimony at this time?

16 **A.** Okay. My name is Gene Brown, and I am
17 President and CEO of Water Management Services, Inc. My
18 direct testimony explains some of the reasons that Water
19 Management Services has found it necessary to file this
20 request for a rate increase at this time. The main
21 underlying reason is that water sales and revenue have
22 decreased, while expenses have continued to increase
23 during the past several years.

24 Since this Commission last set the Utility's
25 rates in early 2006, our water sales have decreased by

1 approximately 70 million gallons a year, or 32 percent,
2 while our revenue has decreased by approximately
3 \$168,000 a year on an average basis through the test
4 year 2009. A great deal of this increase has been
5 caused by the sudden legalization of shallow wells all
6 over St. George Island. These shallow wells have also
7 contributed to an increase in the cost of running the
8 utility company, especially in connection with our
9 cross-connection control program. And now even though a
10 person can put, just put in a shallow well with no
11 permit and use the Utility's water on a limited basis or
12 not at all, as many do not, Water Management Services is
13 still expected to provide high pressure, high volume
14 water throughout the island for fire protection.

15 Despite these problems, we've continued to
16 provide a very high level of service to our customers.
17 The inspections by DEP in 2009 and again in 2010 found
18 no significant deficiencies, and we're in substantial
19 compliance with all the rules and regulations enforced
20 by all of our regulators, including DEP, EPA, the Water
21 Management District and this Commission.

22 We provide service 24 hours a day, seven days
23 a week to over 1,800 service locations spread out over
24 St. George Island, which is about 20 miles long and
25 pretty, pretty spread out. We have virtually no service

1 complaints, or at least I never hear about them. And I
2 ask and nobody complains. You heard the testimony
3 today. I mean, we provide excellent, outstanding
4 service. I cannot remember the last time a service
5 complaint was filed with the Commission. I mean, I
6 vaguely do, but it's been a while.

7 We're able to maintain this high level of
8 service with great employees who are experienced and
9 dedicated to outstanding customer service. I would like
10 to just take a moment -- I know Lisa introduced our two
11 operators, but let me ask the rest of our people who are
12 here today to stand. There's Sandra Chase, Jessica
13 Blankenship, T. J. Lamieux and Bobby Garrett. That's
14 the real reason we're able to provide such great
15 service. And you met Hank Garrett and Nita Molsbee.
16 Stand again, Nita, who is our Chief Operator. These are
17 the people that are really responsible for everything we
18 do right.

19 The -- my top three managers started, that's
20 Hank, Nita and Sandy, started working with the company
21 in the early to mid '80s. Our average manager has been
22 with us 22 years, and that is really the underlying
23 reason why we're able to provide such great service.

24 Our other major problem with this company is
25 that it's simply wearing out. I started it in 1974;

1 that's 35 years ago. We put -- at that time the island
2 had been operating on shallow wells and septic tanks for
3 about 20 years, and we started with about 15 customers
4 and grew to about 1,900 and something. Now we've got
5 about 1,800. But it's simply wearing out and many of
6 the components have reached the end of their useful
7 lives.

8 Because of that I asked our engineers, PBS&J,
9 to make recommendations as to improvements that need to
10 be made to keep us operating at a high level. They
11 recommended a new ground storage tank and other
12 improvements which we deem to be necessary. These
13 improvements are explained more fully in our MFRs and in
14 the extensive PBS&J engineering report filed in this
15 case.

16 We're also asking for an increase in our
17 service availability charges, our CIAC. If we do not
18 make this change at this time, the ratio of build out
19 will be about 25 percent CIAC and about 75 investor
20 contributed plant, which might seem good on the face of
21 it, but what that will do is make the rates even higher.
22 So we, we feel like it's been too low all these years.
23 It's about at one-third, two-thirds now, but at build
24 out, if we don't change, it'll be at 25/75. We think it
25 ought to be basically the reverse of that, which will

1 reduce the amount of money we have to borrow, the cost
2 of which has to be passed along to our existing
3 customers.

4 In my direct testimony I also explain the
5 reasons for many of these necessary expenses included in
6 our filing. These reasons are more fully developed in
7 my rebuttal testimony and in the testimony of our other
8 witnesses, including Frank Seidman, Mike Scibelli and
9 Barbara Withers.

10 That concludes my summary.

11 **MS. SCOLES:** Mr. Chairman, I would move that
12 Mr. Brown's direct testimony that was prefiled in this
13 case be moved into the record.

14 **COMMISSIONER SKOP:** Thank you. The prefiled
15 direct testimony of Witness Brown will be entered into
16 the record as though read.

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TESTIMONY OF GENE D. BROWN
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
IN DOCKET NO. 100104-WU
REGARDING THE APPLICATION OF
WATER MANAGEMENT SERVICES, INC.
FOR AN INCREASE IN RATES & CHARGES
AND A REVISION OF
SERVICE AVAILABILITY CHARGES

Q. Please state your name and business address.

A. My name is Gene D. Brown. My business address is 250 John Knox Road, No.4,
Tallahassee, FL 32303.

Q. By whom are you employed and what is your position?

A. I am employed by Water Management Services, Inc. ("WMSI," "utility," or
company") as its president and chief executive officer ("CEO").

Q. Please describe your duties and responsibilities in that position.

A. I have overall responsibility for all operations of the company.

1 **Q. Please describe your educational background and utility experience.**

2 A. I have a Bachelor of Science degree from Florida State University and a JD degree
3 from the University of Florida. I started the company in 1974 and have served as its
4 CEO since that time.

5

6 **Q. What is the size of the utility?**

7 A. By 2006, we grew to almost 1900 active customers. We now have about 1800
8 active customers.

9

10 **Q. When were your rates last set by the Florida Public Service Commission?**

11 A. In February of 2006, the Florida Public Service Commission ("Commission" or
12 "FPSC") entered an order in a limited proceeding filed in Docket No. 000694-WU.
13 That case established the rates which were in effect for four years until February of
14 this year, 2010. The rates were then reduced to reflect the completed collection of
15 our rate case expenses in that limited proceeding.

16

17 **Q. What were your operating revenues in 2006?**

18 A. The operating revenues in 2006 were \$1,487,200.

19

20 **Q. How much water did you sell in 2006?**

21 A. We sold 221,110,000 gallons.

22

23

1 **Q. What were your operating revenues last year, in 2009?**

2 A. The operating revenues last year were \$1,319,558. This is a reduction of \$167,642
3 from 2006.

4
5 **Q. How much water did you sell last year, in 2009?**

6 A. We sold 151,136,000 gallons last year in 2009. This is down 69,974,000 gallons,
7 or 32%, from 2006.

8
9 **Q. What is the reason for this reduction in customers' revenue and water sales?**

10 A. There are several reasons. First, the general economy has deteriorated over the last
11 few years, especially on St. George Island. Second, many properties cannot be
12 developed and several businesses have been forced to close for lack of adequate
13 sewage treatment. Third, a significant number of property owners on St. George
14 Island have put in shallow wells and do not use our water at all, and some use our
15 water only for limited household uses.

16
17 **Q. Are the shallow wells consistent with governmental policy?**

18 A. Yes, they are now, although this is a recent change. Shortly after we started the
19 utility in the 1970's, both state law and a Franklin County ordinance prohibited
20 wells of any type within St. George's Plantation, which is the major residential area
21 of St. George Island. Until the last couple of years, the general policy of both state
22 and local government was that St. George Island should be developed with a
23 central water system and that central sewer should be used if it was available.

1 Now, governmental policy has shifted in favor of shallow wells and septic/aerobic
2 tanks as a development policy on St. George Island.

3

4 **Q. Can you be more specific about this change in governmental policy, and its**
5 **impact on your business?**

6 A. The utility relied on the legal prohibition against wells by investing in plant and the
7 infrastructure necessary to serve all the properties on St. George Island. By the end
8 of 2008, however, we had discovered approximately 100 illegal wells in the
9 Plantation. When we notified the Franklin County Commission and the Northwest
10 Florida Water Management District (“NFWMD”) and requested that they
11 enforce the county ordinance and the state Development of Regional Impact Order
12 (“DRI”), which prohibited those wells, neither agency took any enforcement action.
13 In fact, they both refused to act. Moreover, not only did they refuse to act, the
14 NFWMD filed a case in the First District Court of Appeal which resulted in an
15 opinion that declared the St. George Island DRI prohibition against wells to be void
16 and unenforceable. Then, in January of this year, the NFWMD adopted a rule
17 amendment that encourages wells all over St. George Island by doing away with
18 the requirement for any type of notice or consumptive use permit, so long as the
19 well does not pump over 15,000 gallons per day (which is over 42 ERC’s) and so
20 long as it is said to be for “non-public” uses. Since there is no notice to the utility,
21 or any consumptive use permit required, there is no way for the utility to determine
22 where wells are drilled, when wells are drilled, whether they are actually pumping
23 within the 15,000 gpd limitation, or whether they are actually pumping only for

1 "non-public" uses. This allows unlimited individual wells throughout St. George
2 Island with no notice to WMSI. All of this has had, and is continuing to have, a
3 very negative effect on our revenue. It is very difficult to plan, and it is even more
4 difficult to borrow the funds necessary for capital improvements, when all lenders
5 know that the utility's revenues can be substantially reduced at any time at the
6 discretion of the customers.

7

8 **Q. Has this policy change also allowed you to cut expenses?**

9 A. No, it has actually increased our expenses. For example, the wells on the island
10 require no notice to the utility; we now have to search them out to enforce our
11 cross-connection control program. Undetected shallow wells and septic tanks on
12 small lots which exist side by side with our water system constitute a serious health
13 hazard. This was shown by the engineering study prepared for WMSI as part of the
14 wastewater case we filed with the Commission last year, in 2009, in Docket No.
15 090189-SU. We still have to provide fire flow for the entire island, including non-
16 customers with wells. We are required to serve anyone who requests service,
17 which could be a large number during the next drought or when water quality
18 problems develop. It is very difficult to plan long-term, or for "peak day" demand,
19 when use of the company's water system is totally optional for the customer while
20 the utility must remain ready, willing and able to serve anyone at any time. This
21 reduction in water use also requires the utility to flush more often at more locations,
22 which also increases our expenses. Also, many expenses are fixed in nature and do
23 not decline with reduced water sales.

1 **Q. Please describe your level of service?**

2 A. The last two inspections by the Florida Department of Environmental Protection
3 (“DEP”) in 2009 and 2010 found no significant deficiencies. We are in substantial
4 compliance with all governmental rules and regulations, such as those imposed by
5 DEP, the Environmental Protection Agency, NFWFMD and the FPSC. We have
6 very few customer complaints, and almost none related to water quality and
7 service. I do not recall any service related complaints during the test year. Our
8 only two complaints related to customer deposits, and they were both resolved in
9 favor of the utility. We provide very good water with a high level of customer
10 satisfaction.

11

12 **Q. How have you been able to maintain that level of service?**

13 A. Primarily with qualified, experienced personnel who are committed to meeting all
14 required service standards. Our vice president has worked for the company for
15 over 29 years, since January, 1981. Our general operations manager, who is a
16 licensed water operator, has worked for the company for a total of 11 years. Our
17 assistant operations manager is a licensed water and wastewater operator who has
18 worked for the company for a total of 22 years, including 3 years as a part-time
19 operator. Our controller has worked for the company since 1998, and our
20 administrative assistant has worked for the company since 2005. Both of our field
21 technicians are long-time Franklin County residents who are making a career with
22 the water company. One is working to obtain his DEP water operator’s license
23 with a view toward replacing one of our current operators upon their retirement.

1 Including me, each of the utility's four top management employees has worked for
2 the company for an average of 24 years. That is the key to the utility's success,
3 having experienced personnel who are dedicated to providing a consistent, high
4 level of service to customers.

5

6 **Q. What improvements have you made since the last rate case?**

7 A. We installed a new supply main pipeline across the bridge to the island, and we
8 have made various improvements to enhance fire protection on the island.

9

10 **Q. Do you plan to make any other improvements to enhance your service?**

11 A. Yes. Last year we asked our engineers, PBS&J, to conduct a complete evaluation
12 of the water system and to make recommendations for improvements that are
13 needed to maintain reliability and our current level of service.

14

15 **Q. What were the results of that evaluation?**

16 A. PBS&J concluded that we need to construct a new ground storage tank; construct a
17 little over 2,000 feet of new supply main; rebuild major parts of the pumping and
18 electrical system; and that we need to make various other improvements to increase
19 the reliability and integrity of the system.

20

21 **Q. Why are all of these improvements necessary at this time?**

22 A. The ground storage tank and parts of the electrical system are approximately 35
23 years old and have basically reached the end of their useful lives. The ground

1 storage tank is crumbling in places and we could have a catastrophic failure at any
2 time. The electrical system is problematic and unreliable. Parts of the supply main
3 are exposed and unsupported out in the Bay on the island side, making it subject to
4 damage from boats or storms as well as salt water intrusion. Any of these problems
5 could result in a sudden loss of water supply to the island, which would last for an
6 extended period of time until emergency repairs could be made. Needless to say,
7 we do not want that to happen.

8

9 **Q. What will these improvements cost?**

10 A. They will cost approximately \$2.2 million.

11

12 **Q. How does the company propose to pay for these improvements?**

13 A. We have a conditional written commitment from a local commercial bank to make
14 a \$5 million loan with a United States Department of Agriculture guarantee, subject
15 to approval of our requested rates. This loan will pay for all the needed
16 improvements, and will refinance all of the utility's existing debt except the State
17 Revolving Fund loan administered by DEP which was used for the new supply
18 main. It is necessary and prudent to refinance all of our existing debt at current
19 market rates, except for the State Revolving Fund loan which is at 3%.

20

21 **Q. Can you borrow this money without a rate increase?**

22 A. No. The proposed loan is expressly contingent upon new, increased rates necessary
23 to repay the loan.

1 **Q. What is the company's financial condition at this time?**

2 A. Since its rates were last set in February of 2006, the utility has lost approximately
3 \$750,000. These losses are continuing, with no end in sight. The utility has a
4 certificate from the FPSC, but does not have a monopoly. The utility is obligated
5 to provide water service and fire flow throughout the island to an unlimited and
6 unstable number of customers and potential customers, but those water users do not
7 have to buy water from the company and many do not. They can simply put in a
8 cheap shallow well, without notice or a permit, or they can just use our water on a
9 limited basis for strictly household uses.

10
11 **Q. You mentioned fire flow. Do you provide fire protection for the island?**

12 A. The utility does not have an official, legal obligation to provide fire protection to
13 the island. However, the company is the only source of water supply for fighting
14 fires on the island. In a response to concerns voiced at customer meetings in
15 Docket No. 000697-WU (supply main limited proceeding), the Commission
16 approved modifications to the system to provide for fire protection. The utility has
17 approximately 122 fire hydrants throughout the island, and it plans to install 40-50
18 more this year. The utility has a maintenance program to monitor and maintain the
19 hydrants. The utility also maintains an island-wide distribution system with looped
20 lines with sufficient pressure to provide a large volume of water for the sustained
21 period of time necessary to fight a fire.

22

23

1 **Q. How have you paid for this limited fire protection?**

2 A. The utility's only revenue comes from those service locations that are connected to
3 our system. Franklin County collects a fee or tax from each island property owner
4 to be used for fire protection, but we receive nothing from this. We do not have a
5 separate charge for fire protection.

6

7 **Q. Is that equitable?**

8 A. It seems somewhat inequitable that the customers who buy all of their water from
9 the utility are having to subsidize other water users who buy only part or none of
10 their water from the utility. Those water users are basically getting free water for
11 fire protection, as well as a free "stand-by" water system that is available in case
12 they have a problem with their well, which will happen at some point in time. This
13 increases the cost-per-customer for those who elect to buy water from the utility.

14

15 **Q. What percentage of your revenues are projected to be collected from base
16 facility charges ("BFC") based upon the Minimum Filing Requirements
17 ("MFR's") filed in this case?**

18 A. We are requesting that percentage to be 75%.

19

20 **Q. Why is this percentage necessary?**

21 A. As a resort location, the utility has a great variance between its highest month and
22 its lowest month. If the utility continues with its current ratio, which is 50% BFC's
23 and 50% water sales, it will collect about \$100,000 less during its lowest month or

1 months than during its peak month or months. This causes the utility a big problem
2 because our debt service, employee costs and most other O&M expenses remain
3 constant. If the utility goes to a 75%/25% ratio, the difference will be around
4 \$50,000. That is still a problem, but it is manageable. It would seem to be a more
5 equitable rate structure to allow those customers who elect to install shallow wells
6 to pay their fair share of the cost of fire protection and the cost of "stand by"
7 service protection in case their well goes dry or becomes contaminated.

8
9 **Q. Are there any other differences between WMSI and other water systems**
10 **which tend to increase the cost-per-customer for St. George Island?**

11 A. During the utility's last rate case, a FPSC staff engineer with a great deal of water
12 utility experience stated that the SGI water system was a "horrendous" system to
13 operate and maintain. The basis for his comment was that most systems are not
14 located five miles out in the Gulf and did not have to install and maintain even one
15 supply main exposed and suspended under a bridge in a harsh environment. In this
16 case, the utility has had to install two supply mains to the island because the
17 government elected to tear down its first supply main when they tore down the
18 bridge built in 1966. The construction and maintenance of these lines has added a
19 great deal to the cost-per-customer. Also, the island extends over a narrow strip 20
20 miles long with shifting sand in a very harsh and exposed environment. All of this
21 adds costs that are not found in most water companies.

22

23

1 **Q. Why is the utility filing at this time, in this bad economy?**

2 A. There is no choice. The utility survived the losses in 2008, and hoped that 2009
3 would be better. Unfortunately, 2009 was worse than 2008, and 2010 is going to
4 be worse than 2009. Our first quarter revenue this year was \$269,208, \$17,548 less
5 than the first quarter last year. Our first quarter loss was \$146,139, \$44,167 more
6 than the first quarter of last year. Expenses cannot be reduced without affecting the
7 level of service, and the utility is risking an island-wide loss of water if the
8 recommended capital improvements are not made. It would be imprudent and
9 irresponsible not to request the rate relief necessary for the utility to maintain
10 reliability and consistent service to its customers.

11

12 **Q. How important are the interim rates that are being requested?**

13 A. They are extremely important. The utility must have interim financing while the
14 rate case is being processed, and no bank will make a loan to the utility without at
15 least some indication of increased revenue.

16

17 **Q. When do you plan to make the capital improvements?**

18 A. As soon as the utility has a decision as to whether the improvements are approved
19 as part of its rate structure, our engineers will prepare the bid documents, and
20 construction will proceed as soon as possible after that.

21

22

23

1 **Q. Why is the utility asking for an increase in service availability charges?**

2 A. When the utility finishes the capital improvements that are currently planned, its
3 ratio of net Contributions in Aid of Construction ("CIAC") to net plant will be
4 approximately 24% at build out. The utility believes that ratio should be 75%, and
5 that the increased charges are necessary to reach that goal. It seems more equitable
6 to our existing customers to provide that our future customers pay for system
7 improvements and additions than charging those costs to our existing customers. If
8 we continue with the current service availability charges, the ratio of net CIAC to
9 net plant will never approach 75%. The difference will have to be passed on and
10 paid by our existing customers through the increased rates necessary for the utility
11 to recover increased interest costs, increased depreciation costs and other costs
12 relating to an increased rate base.

13
14 **Q. Why is the utility asking for an increase in miscellaneous service charges?**

15 A. The utility's current charges were established approximately 30 years ago, and they
16 do not cover its current costs. The utility needs to recover its actual costs related to
17 these miscellaneous service charges rather than passing these costs on to its general
18 customer base. The utility should not be used as an after-hours maintenance/rental
19 management agent. The utility has many situations when emergency calls require
20 its personnel to respond at all times of the day and night because of problems on
21 the customer's side of the meter. The current low and unrealistic charges encourage
22 calls to the utility rather than to a rental management company or a plumber.

23

1 **Q. Are you familiar with the O&M expenses outlined in the MFR's filed with this**
2 **case?**

3 A. Yes, I am.
4

5 **Q. In your opinion, are all those reasonable and necessary?**

6 A. Yes, they are. We have attempted to live within our means over the last several
7 years and have incurred significant losses. I do not know of anything that could be
8 cut without affecting our level of service.
9

10 **Q. Are you familiar with the test year adjustments included with the MFR's in**
11 **this case?**

12 A. Yes, I am.
13

14 **Q. Could you briefly explain those in the order set forth in Schedule B-3, starting**
15 **with the bridge maintenance contract?**

16 A. The new 12 inch ductile iron supply main is suspended under the new bridge by
17 approximately 550 plastic/stainless steel hangers. It was painted with a three coat
18 system required to meet Department of Transportation ("DOT") specs. This is a
19 fragile system that is out of normal view and needs to be constantly inspected,
20 repaired or adjusted, and repainted over time, starting with sections that have
21 already experienced substantial paint failure. This is a 10 year contract which
22 requires quarterly inspections and payments. It also requires the contractor to make
23 any necessary repairs or adjustments to prevent a catastrophic failure. Under the

1 contract, the pipe will be completely refurbished and recoated during the first six
2 years and the pipe and coating system will be appropriately maintained for the full
3 10 year term of the contract. The price of \$48,000 per year is reasonable and
4 necessary.

5
6 **Q. Please explain the billing software lease and maintenance contract.**

7 A. The billing system we had for years was outdated and did not provide the detail and
8 level of customer service that our customers need. Also, we could not get adequate
9 help in fixing problems with the system. The new system is more complete and
10 customer friendly. It is constantly updated and maintained on a real time basis.
11 The annual cost of \$4,960 is reasonable and necessary.

12
13 **Q. Please explain the engineering service contract.**

14 A. One thing I have learned over the years is that a utility such as WMSI must have
15 access to high quality engineering services on a consistent basis. With all the
16 governmental compliance issues and permitting requirements, some of which are
17 newly enacted, our operators and management team must have a contract which
18 assures that we will have a priority with a firm like PBS&J in order for us to
19 continue providing a high level of service and maintenance of all our operations.
20 The \$4,000 per month cost is reasonable and necessary. This PBS&J contract
21 includes various and sundry services.

22

23

1 **Q. Please explain the John Deere lease.**

2 A. We have a need for this 4-wheel drive utility vehicle for meter reading and other
3 work around the island. The annual cost of \$2,840.52 is reasonable and necessary.
4

5 **Q. Please explain the Hydra Platform lease.**

6 A. The Florida DOT required WMSI to suspend the new supply main in a difficult to
7 reach position under the new bridge with no metal to metal contact. Both the utility
8 and its contractor have to be able to work on any and all parts of the almost five
9 miles of pipe on short notice. The hydra platform is a specialized piece of
10 equipment that allows the utility access to the pipe. The annual lease expense of
11 \$20,580.24 is reasonable and necessary.
12

13 **Q. Please explain the stuffer machine lease and the mail machine lease referenced
14 as items 7 and 8 on Schedule B-3.**

15 A. Both of these machines are necessary to provide efficient customer service and to
16 save employee costs. The annual lease expenses of \$2,824.80 and \$2,568,
17 respectively, are reasonable and necessary.
18

19 **Q. Please explain the two vehicle leases shown as items 9 and 10 of Schedule B-3.**

20 A. The utility has three trucks on the island for use by our four full time employees.
21 One is owned and two are leased. The annual lease payments of \$7,940.64 and
22 \$8,863.80 respectively are reasonable and necessary.
23

1 **Q. Explain the increase for health insurance.**

2 A. This increase simply reflects the increased premium quoted by the company's
3 carrier based upon the personnel now employed by the company.

4

5 **Q. Can you explain the adjustments to employee costs reflected in sections 12 A-
6 H of Schedule B-3?**

7 A. In 2009, the company had several changes in one field technician position. The
8 utility recently employed a new field technician at a cost which is less than the cost
9 for the technician he replaced. The company also rehired its former operator with
10 over 20 years of WMSI experience to replace a field technician who did not have
11 an operator's license. My salary was reduced by \$30,000 per year. The utility has
12 the same number of employees that we have had for several years, and the overall
13 payroll will be less in 2010 than in 2009.

14

15 **Q. Can you explain the need for an accounting services contact?**

16 A. The utility has an accounting procedures manual to assure compliance with all of
17 the various requirements involving accounting issues, including those of the
18 National Association of Regulatory Utility Commissioners. The accounting
19 services contract assures that the company will have priority access to a high level
20 Certified Public Accountant for an average of 10 hours per month. A set monthly
21 retainer is better for our cash flow, and any unused hours are credited to the months
22 during which more hours are required. The annual cost of \$18,000 is reasonable
23 and necessary.

1 **Q. Please explain WMSI's general approach to customer service.**

2 A. All of the company's employees make every possible effort to provide prompt and
3 efficient customer service, including meter reading and billing issues, customer
4 calls, emergency response, 24 hours a day-7 days a week-365 days a year, water
5 quality issues, and all issues regarding new services.

6
7 **Q. What is the company's general approach to employee education and training?**

8 A. The company encourages its employees to attend all training and continuing
9 education courses that are available. The company also has an in-house training
10 program for all new employees before they are given total responsibility for a
11 particular task. The utility requires as much cross-training as is reasonably
12 possible, so there will not be total dependency on any one employee.

13
14 **Q. Do you have any final comments before concluding your testimony?**

15 A. WMSI recognizes that this is a difficult period financially for its customers as well
16 as the utility. If the company had a choice, it would not have filed this case until
17 the economy improves. However, there are critical capital improvements that must
18 be made to reduce the possibility of a complete water outage on the island. Also, it
19 is simply impossible to continue current operations with continuous, substantial and
20 increasing losses. Accordingly, it has become clear to management that WMSI
21 cannot continue to provide reliable and consistent water service to St. George
22 Island without new and increased rates as set forth in the MFR's.

23

1 Q. Does that conclude your testimony?

2 A. Yes, it does.

3

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1 **MS. SCOLES:** The Utility offers Mr. Brown for
2 cross-examination.

3 **COMMISSIONER SKOP:** All right. Very well.
4 Thank you.

5 Mr. McGlothlin, you're recognized.

6 **CROSS EXAMINATION**

7 **BY MR. MCGLOTHLIN:**

8 **Q.** Hello, Mr. Brown.

9 **A.** Hello.

10 **Q.** I have a limited number of questions for you
11 that relate to your direct testimony.

12 **A.** Okay.

13 **Q.** And have some, have some additional questions
14 when you come back for rebuttal.

15 **A.** Yes, sir.

16 **Q.** You said in your direct testimony and in your
17 summary that you're employed by Water Management
18 Services, Inc., as its President and Chief Executive
19 Officer. Your relationship with Water Management
20 Services is not limited to your role as an officer
21 though, is it?

22 **A.** I'm part owner.

23 **Q.** Yes. I want to ask you a couple of questions
24 that will serve to describe the overall ownership of, of
25 Water Management Services.

1 A. Okay.

2 Q. What is St. George Island Utility Company,
3 Limited?

4 A. That is a limited partnership that was filed
5 and formed in 1979 that purchased all of the water
6 company operating assets from Leisure Properties,
7 Limited, which was the original developer of the island.
8 Another man and I named John Stocks bought the island
9 basically in 1971 and formed Leisure Properties, and
10 then we started the water company. And I then formed
11 St. George Island Utility Company, Limited, to take over
12 and run the utilities.

13 Q. And does that entity own a portion of --

14 A. It owns 85 percent of the stock in Water
15 Management Services, Inc. Yes, sir.

16 Q. And what is your ownership interest in
17 St. George Island Utility Company, Limited?

18 A. Oh, it's probably 90 -- it's about probably
19 80 or 90 percent. It gets a little bit complicated, but
20 I have the controlling ownership through my family or me
21 personally.

22 Q. Now what is Brown Management Group?

23 A. Brown Management Group is a Sub S personal
24 corporation that I formed which owns a limited number of
25 passive assets, and I own 100 percent personally of that

1 stock, and then I own 10 percent of the stock in Water
2 Management Services.

3 Q. So is it fair to say that in addition to being
4 the President, through your ownership interest in
5 St. George Island Utility, Limited, and your ownership
6 of Brown Management Group, you have a controlling
7 ownership interest in the Utility as well?

8 A. That is correct.

9 Q. At page 9 of your testimony you state that
10 since rates were last set in February 2006, the Utility
11 has lost approximately \$750,000.

12 A. Well, that is incorrect. I -- it's over a
13 million dollars. I thought it -- I guessed at it. I
14 should have corrected that earlier.

15 We, since we filed that case, based on our
16 federal tax returns we have lost about \$1,100,000 in
17 those six years, which I've documented in discovery here
18 and updated it.

19 Q. Yes, sir. And you anticipated my next
20 question. When you say you've, the Utility has losses
21 of that magnitude, you are referring to your federal tax
22 returns?

23 A. I'm referring to Water Management Services,
24 Inc.'s, federal tax returns filed for the last six
25 years.

1 Q. And, and you are aware, of course, that for
2 federal tax purposes, the federal government allows
3 Water Management Services to utilize accelerated
4 depreciation relative to that prescribed by the
5 Commission in its Uniform System of Accounts.

6 A. Oh, absolutely. There's a great deal of
7 difference between the Commission rules and depreciation
8 and all of that and the federal tax law.

9 Q. And --

10 A. We have to comply with both.

11 Q. Yes. And in complying with the Commission's
12 regulatory requirements, you prepare annual reports, do
13 you not?

14 A. We do. Every year.

15 Q. And those annual reports depict the financial
16 situation of the company as it appears when conforming
17 to the Uniform System of Accounts that this Commission
18 prescribes; correct?

19 A. To the best of our ability they do.

20 **MR. MCGLOTHLIN:** I'm going to ask Tricia to
21 hand out a document now.

22 **COMMISSIONER SKOP:** Do we need an exhibit
23 number for this?

24 **MR. MCGLOTHLIN:** These will be Excerpts Water
25 Management Services Annual Reports.

1 **COMMISSIONER SKOP:** All right. That is marked
2 for identification as Exhibit 74.

3 (Exhibit 74 marked for identification.)

4 **MR. SAYLER:** Excuse me, Commissioner. What
5 exhibit number was that?

6 **COMMISSIONER SKOP:** 74. And, Mr. McGlothlin,
7 can you give me another short title on that one, please?
8 Usually it's on there. Repeat that.

9 **MR. MCGLOTHLIN:** Excerpts Water Management
10 Services Annual Report.

11 **COMMISSIONER SKOP:** Okay. All right. Thank
12 you.

13 **MR. MCGLOTHLIN:** Thank you. I thought you
14 meant you didn't like my first one and I was going to
15 have to try again.

16 **COMMISSIONER SKOP:** No. I just had -- the
17 acoustics in the room aren't the best. So you may
18 proceed.

19 **BY MR. MCGLOTHLIN:**

20 **Q.** Now within this package, Mr. Brown, there's a
21 page that has a caption on the upper right-hand corner
22 called, that says "Year of Report," with the date
23 December 31st, 2005. Do you see that?

24 **A.** Mine says seven.

25 **Q.** Well, further into the package.

1 **COMMISSIONER GRAHAM:** Two more pages.

2 **THE WITNESS:** Okay. 2005.

3 **BY MR. McGLOTHLIN:**

4 **Q.** And -- excuse me just a second.

5 Bear with me, Mr. Brown. I'm going to send
6 you back to 2007, the first page in the package.

7 **A.** Okay.

8 **Q.** Do you see at the bottom there's a caption
9 called Net Utility Operating Income?

10 **A.** Yes, sir.

11 **Q.** And looking at the current year, which was
12 2007 at the time, did Water Management Services report
13 to the Commission that for that year it experienced a
14 positive net operating income of \$410,000?

15 **A.** Yes, it does.

16 **Q.** And --

17 **A.** Could I explain one part of that?

18 **Q.** Let me ask my questions first.

19 **A.** Okay. Sure.

20 **Q.** And then you'll have that opportunity.

21 For the previous year, which would have been
22 2006, did Water Management Services report to the
23 Commission that it experienced a positive net operating
24 income of \$439,784? And that's on the same page,
25 Mr. Brown, just under the, another column marked

1 Previous Year at the top.

2 A. Okay.

3 Q. Does that indicate that for 2006 the Utility
4 reported to the Commission a positive net operating
5 income in the amount of \$439,784?

6 A. We reported whatever this says.

7 Q. Okay. Now if you'll turn the page to see the
8 Year of Report, December 31st, 2009.

9 A. Okay.

10 Q. Do you have that?

11 A. All right.

12 Q. And looking first at the previous year, which
13 would have been 2008, does that indicate that Water
14 Management Services reported to the Commission that it
15 experienced a net operating income positive in the
16 amount of \$107,567?

17 A. Yes, sir.

18 Q. And for the year 2009 does it indicate a loss
19 or negative \$23,496?

20 A. Yes, sir.

21 Q. Now you heard my exchange with Mr. Seidman
22 when I asked him to agree with me that if the Commission
23 were to exclude \$80,000 of deferred compensation that
24 is, was expensed in 2009, that would have the effect of
25 sending this into positive territory.

1 **A.** I would take your word for it. I haven't made
2 those calculations.

3 **Q.** Okay. Well, \$80,000 is bigger than \$23,000;
4 correct?

5 **A.** 80,000 is bigger than 23,000. Yes, sir.

6 **Q.** Is it true that in 2009 Water Management
7 Services expensed that \$80,000, but the --

8 **A.** Yes. That's true.

9 **Q.** But it is not a funded account; correct?

10 **A.** That's correct.

11 **Q.** Earlier today the Staff distributed what has
12 been marked as Exhibit seventy -- was it one?

13 **COMMISSIONER SKOP:** 70.

14 **BY MR. McGLOTHLIN:**

15 **Q.** Seven zero. A document captioned WMSI's
16 Supplemental Response to OPC's Second Set of
17 Interrogatories. Yes. We're going to hand you a copy
18 for purposes of my next question or two.

19 If you will turn first to the first page after
20 the cover sheet --

21 **A.** Okay.

22 **Q.** -- you will see Interrogatory 67 that OPC
23 served on the Utility during the discovery phase of this
24 case. I'll give you a second just to read Interrogatory
25 67, which continues on to the next page with

1 subparagraphs 2 and 3.

2 **A.** All right.

3 (Pause.)

4 **Q.** Now this interrogatory sought information
5 concerning what the Utility did after the Utility and
6 the Office of Public Counsel entered a settlement
7 agreement that was approved by the Commission, and that
8 called for the Utility to perform certain improvements
9 to loop areas of its system for purposes of increased
10 fire flow; correct?

11 **A.** That's correct.

12 **Q.** And you'll see that Interrogatory 67 refers to
13 orders that were issued in August 2004 and
14 November 21st, 2005; correct?

15 **A.** I assume so. Yes, sir.

16 **Q.** In response to that, the Utility provided us
17 with, among other things, a page listing certain
18 invoices from Boh Brothers; correct?

19 **A.** Yes, sir.

20 **Q.** And if the Commissioners would turn to that
21 page, which is, shows a list of one, two, three, four,
22 five, six invoices under Account 105.15, and the caption
23 is Boh Brothers Contract for Water Main Improvements.

24 Would you agree with me, sir, that all of
25 those invoices are for work performed between the months

1 of June 2003 and December 2003?

2 A. If you say so. I mean, I haven't -- I don't
3 have them here.

4 Q. Well, this is the document that was provided
5 to us in response to our request for that information,
6 is it not? Are you familiar with it?

7 A. I'm -- yes, we've been providing material on
8 this trying to document it.

9 Q. Well, if you'll agree that these invoices are,
10 are dated -- do I understand correctly that when you
11 receive such an invoice, it is for a charge in the
12 Utility for work that has been done to that point?

13 A. Yes. They have to be -- this was all handled
14 by my engineer, whose initials are probably on there
15 because he handled all this and approved the payment and
16 sent me the invoice with his signature and I paid it.

17 Q. Well, if these invoices represent payment for
18 work done up to and including the dates shown, doesn't
19 it follow that these do not relate to the work that was
20 to be done after 2004 as requested in our interrogatory?

21 A. These invoices would relate to work in '03, I
22 believe.

23 Q. Yes, sir. And I believe that's my point.
24 Because if you'll return back to Interrogatory 67, does
25 that not reflect that the settlement agreement pursuant

1 to which the looping projects were to be performed was
2 not approved until calendar year 2004?

3 A. That's right. We had already done a lot of
4 the work before that date.

5 Q. Well, you had not done the work related to the
6 settlement agreement prior to the approval of that
7 settlement agreement, had you?

8 A. Oh, yes. We had done most of it, I believe.

9 Q. Wasn't the settlement agreement reached by the
10 Utility and OPC to resolve the dispute over whether
11 \$400,000 would be spent to replace the elevated storage
12 tank?

13 A. Yes. By the time it got all approved, a lot
14 of this was done verbally, as I recall. But as I said,
15 Les Thomas handled this with Steve Reilly and Jay
16 Abbott, and it was all documented and tested and we went
17 through this back in those years. We have not totally
18 reconstructed it. This just came up recently and we're
19 trying to respond as best we can with limited staff.

20 But we put in right at 40,000 lineal feet of
21 six- and eight-inch to improve fire flow. It did
22 improve fire flow. And we got the fire flow up where
23 all the insurance rates on the island were lowered, and
24 it was approved by the Office of Public Counsel, by the
25 fire department, everybody, and they signed off and gave

1 them the documents and we thought it was over. But we
2 have gone back and shown you where we put in right at
3 40,000 lineal feet with all the appurtenances and valves
4 and everything.

5 Q. I want to acknowledge that the Utility did
6 provide OPC with a map marked to demonstrate or to
7 indicate on the map where the looping improvements
8 occurred. My only point is that we also asked for the
9 invoices that would demonstrate how much was, was spent
10 and by whom, and it appeared to me based upon the fact
11 that the dispute over the disposition of the elevated
12 storage tank was not, did not occur until 2004, it
13 occurs to me, it appears to me that these invoices may
14 be, may not be the ones that relate to the, to the work
15 on those --

16 A. I think most of them are. As I told you this
17 morning, there's probably some more in early '04. We
18 were trying to respond to your question, which put a
19 figure of 400 and -- it had a specific figure that we
20 were trying to tie to of \$479,000 was in your figure,
21 and that is the total that is reflected on the general
22 ledger for '03 for these water lines. So we were trying
23 to respond to the question in documenting that \$479,000.

24 Since you asked me this morning, I've looked
25 at the '04 general ledger, and there is another \$165,000

1 on there or in the annual report for distribution lines.
2 So probably it's a total of the 479,000 plus the 165.
3 But this is not something we can just do as easily as
4 you might think. This was all gone over, audited by the
5 federal government, DEP, PSC, everybody. We documented
6 it, we gave the final agreement, the final plans, and
7 gave the map to the Office of Public Counsel, which I
8 understand you can't find now and we can't either. I
9 didn't personally do it but our engineer did.

10 So, I mean, I hate for you to make it seem
11 like there's something sinister or unknown about it. It
12 has been, what, six years ago, seven?

13 Q. My, my only point is that there appears to be
14 a discrepancy between what was requested and the
15 invoices that were provided.

16 A. Well, your question -- the interrogatory asked
17 for us to document how we spent 479,000, it was right to
18 the dollar, and we documented it as best we could. And
19 that ties to the general ledger, which is done with
20 great detail in '03. And we documented that, with
21 Mr. Seidman's help, my accountant's help, and now we
22 find there's also 165,000 we spent in '04.

23 I guess I'm trying to understand the problem.
24 We put in 40,000 feet of fire protection with all the
25 appurtenances. We got the pressure up so that the

1 island committee looking into water pressure signed off
2 on it and the insurance rates were lowered and everybody
3 seemed to be happy.

4 But we've got an engineer here. I don't, I
5 don't think five, six hundred thousand is an exorbitant
6 cost for 40,000 feet of eight- and six-inch line
7 installed with all the appurtenances.

8 Q. You were here when Chief Abbott testified,
9 were you not?

10 A. I was.

11 Q. In his remarks he said that he thought the
12 improvements were, in his words, incomplete. Can you
13 respond to that?

14 A. I think Jay Abbott will always think that fire
15 protection on this island is incomplete. I mean, it's a
16 work in process. We, we have found ourself in this
17 position of providing limited fire protection, but there
18 is no set amount of plant that we're supposed to put in
19 that I'm aware of. He, he's demanding now that we put
20 in a new pumping station down near the Cut and do a lot
21 of other work.

22 We did go out for bid on this. Blankenship
23 bid 940 something thousand dollars to do this work,
24 basically the work that we did, maybe with just a little
25 bit more, and we ended up saving a lot of that money and

1 doing it for apparently five or six hundred thousand.

2 Q. I have several questions for you that relate
3 to your tariff provisions and the manner in which the
4 Utility inspects the premises of customers.

5 A. Right.

6 Q. Okay. First I'll just give you a copy of some
7 responses to our second set of interrogatories.

8 A. Okay.

9 COMMISSIONER SKOP: Mr. McGlothlin, is this
10 handout an excerpt? Will we need a number for it?

11 MR. MCGLOTHLIN: I believe we need a number
12 for it.

13 COMMISSIONER SKOP: All right. That will be
14 number 75. A short title, please.

15 MR. MCGLOTHLIN: WMSI Response to OPC First
16 Set of PODs, Number 3.

17 (Exhibit 75 marked for identification.)

18 (Pause.)

19 Commissioner, I misspoke. This is a part of
20 hearing Exhibit 35. So in the interest of conservation,
21 I can turn back that exhibit number.

22 COMMISSIONER SKOP: Okay. Do we want to do
23 that or do we just want to leave it as marked?

24 MR. MCGLOTHLIN: Either way.

25 COMMISSIONER SKOP: Let's just leave it as

1 marked and proceed on.

2 **BY MR. McGLOTHLIN:**

3 Q. Do you have that document before you,
4 Mr. Brown?

5 A. Yes. It doesn't have an exhibit number on it,
6 but I have what was just handed.

7 Q. It's been marked as Exhibit 75.

8 A. Okay.

9 Q. And if you'll turn in the document to question
10 76 regarding the operating procedures when an existing
11 customer wishes to reconnect.

12 A. Okay.

13 Q. I'll give you a minute to look at that.

14 MS. SCOLES: Joe, would you mind scooting up?
15 I'm having a really hard time hearing.

16 MR. McGLOTHLIN: Is this better?

17 MS. SCOLES: Thank you. Yes.

18 THE WITNESS: Okay. I've looked at that.

19 **BY MR. McGLOTHLIN:**

20 Q. And in that response you state that the
21 Utility personnel performed an audit of the service
22 location, both a bookkeeping audit and a site visit;
23 correct?

24 A. Yes. Whenever we have a request for service.

25 Q. And the purpose of the bookkeeping audit would

1 be to see if the customer owes money for, for
2 nonpayment; correct?

3 A. That would be the main purpose. And also to
4 see, if they have been a customer, what their level of
5 use was.

6 Q. Now with respect to a site visit, would you
7 describe specifically what the service personnel do to
8 conduct a site visit?

9 A. They go and physically inspect the property
10 inside and out to see if there is a shallow well, see if
11 there's a need for a cross-connection control device,
12 and see what the use is, whether it's multifamily,
13 single family, commercial, just what's going on there.

14 Q. Do we understand correctly that Water
15 Management Services, Water Management Services will not
16 install a meter until the customer allows Utility
17 personnel access to the inside of the premises?

18 A. That is correct.

19 Q. And if you'll turn to OPC's Interrogatory 78
20 within the same document.

21 A. Would you like me to explain why we don't do
22 that or --

23 Q. No. You've answered my question.

24 A. That's just yes or no. Okay.

25 Q. Yes.

1 **A.** I'll do that later.

2 **Q.** Now with respect to Interrogatory 78, you say
3 that whenever there's a request for service, the Utility
4 will perform an inspection of the premises inside and
5 out to determine the type of use; correct?

6 **A.** Right.

7 **MR. McGLOTHLIN:** I want to provide an exhibit
8 which is entitled WMSI Current Water Tariff. We'd like
9 that one identified, please.

10 **COMMISSIONER SKOP:** That will be marked for
11 identification as Exhibit 76.

12 (Exhibit 76 marked for identification.)

13 And, Mr. McGlothlin, can you repeat that short
14 title, please?

15 **MR. McGLOTHLIN:** Yes. WMSI Current Water
16 Tariff.

17 **COMMISSIONER SKOP:** All right. Thank you.

18 **BY MR. McGLOTHLIN:**

19 **Q.** If you will turn to page 7, which is shown on
20 the bottom right-hand corner.

21 **A.** Okay.

22 **Q.** Do you recognize this as a copy of the
23 Utility's current tariff, Mr. Brown?

24 **A.** It seems to be. Yes, sir.

25 **Q.** And you'll see that on page 7 the entry of

1 5.0 defines the term point of delivery; correct?

2 A. Yes, sir.

3 Q. And that's the point where the company's pipes
4 or meters are connected with pipes of the customer;
5 correct?

6 A. Yes.

7 Q. Now if you'll turn to page 12 of 55 in the
8 same document. Do you see a Section 11.0 entitled
9 Inspection of Customer's Installation?

10 A. Right.

11 Q. And take a moment to review that, if you wish.

12 A. Okay.

13 Q. Is it true that this section refers to water
14 service installations or changes to the customers'
15 piping, equipment and devices that shall be inspected?

16 A. It says, "Inspection of customer's
17 installation."

18 Q. And near the end of Section 11 the tariff
19 states, "The company has the right to inspect the
20 customers's installation prior to rendering water
21 service." Correct?

22 A. Yes.

23 Q. Now one more reference which is on the next
24 page, 13.

25 A. Okay.

1 Q. And if you'll look at entry 13.0, Access to
2 Premises.

3 A. Okay.

4 Q. Does that state the company shall have access
5 at reasonable hours to the premises of the customer for
6 the purpose of installing, maintaining and inspecting
7 the Company's property?

8 A. Well, I haven't read it. It says whatever it
9 says.

10 Q. Well, would you agree that the inside of a
11 home or business is beyond the point of delivery?

12 A. I would agree with that. That's not where the
13 water is delivered. That's right. It's not, not used
14 at the meter. It's used inside and outside the
15 premises.

16 Q. If you'll turn now to page 28 of 55, and the
17 caption is Sheet Number 24.

18 A. Okay.

19 Q. Do you recognize that as the application for
20 water service for residential and general service?

21 A. Yes, sir.

22 Q. Is this application the same one that is used
23 by the service personnel when a customer wishes to
24 connect?

25 A. I don't think the service personnel, T. J. and

1 Bobby, handle these agreements. They work off work
2 orders. Our Operations Manager handles the agreement
3 and has the application filled out by the applicant, and
4 then directs the service personnel what to do in
5 response to that.

6 **MR. McGLOTHLIN:** We have one more document to
7 distribute.

8 **COMMISSIONER SKOP:** Do we need to mark that
9 for identification, Mr. McGlothlin?

10 **MR. McGLOTHLIN:** Yes, please.

11 **COMMISSIONER SKOP:** All right. That will be
12 Exhibit Number 77 for ID. And a brief short title.

13 **MR. McGLOTHLIN:** Addendum to Application for
14 Water Service.

15 (Exhibit 77 marked for identification.)

16 **THE WITNESS:** Okay.

17 **BY MR. McGLOTHLIN:**

18 Q. Do you recognize -- well, first let me
19 represent to you that we received this from one of the
20 Utility's customers. And our question is this: Do you
21 recognize this to be a copy of the application for water
22 service, residential and general, to which has been
23 added an additional page called Addendum?

24 A. Yes.

25 Q. Our question is simply this, Mr. Brown: We

1 don't see within the Company's tariff any portion of the
2 application that lines up with this particular page
3 identified as Addendum. Can you explain how and why the
4 Company would be using this when it's not part of the
5 tariff?

6 A. Yes. There is a story behind this. Is this
7 the right time to explain all this?

8 Q. This is the right time.

9 A. Okay. We've had a lot of problems on
10 St. George Island with people converting uses. We, for
11 example, have over 100 multifamily structures in single
12 family areas. People tend to build these big
13 McMansions, and they'll have literally six and eight
14 bedrooms. And then they come along and they file some
15 condo documents and all of the sudden that's four or
16 five condos. And that doesn't seem fair or equitable to
17 our other customers to let people put in condominium
18 units on a single family property with a five-eighths
19 meter with no notice to us.

20 So we gathered up a bunch of these and went
21 over to the Commission and complained and said, "What do
22 we do?" And we, we took one, which was just a small
23 third acre lot within a couple of blocks of here. The
24 people came in and got a residential connection, paid a
25 service connection fee for a five-eighths meter, and

1 then they converted it to four condominium units and
2 sold them. So we went to the Commission, had -- it
3 wasn't a hearing like this, but it was pretty formal.
4 After all the investigation and all, we had a meeting
5 with, and I see some of the staff here today, and our
6 basic point was, "Can we collect more CIAC from these
7 people?" And the answer was, "No, because you did not
8 properly inspect it. You failed in your duty to
9 determine what the uses were at the time."

10 So we've got 100 and something that we've
11 documented multifamily structures who have paid
12 five-eighths residential. And in the letter, which I
13 didn't bring with me today, but the staff member told us
14 that this was our duty and pretty much directed us. So
15 from that point forward we have required and do require
16 inspection to determine.

17 People tend to hide wells. They don't want to
18 pay three or four hundred dollars for a cross-connection
19 device. If they can, if they can go down in the
20 Plantation, for example, and build a big McMansion and
21 it's got six bedrooms and six bathrooms and they can put
22 in a five-eighths meter and pay one single family tap
23 and then they can just go file condominium documents and
24 deed out six properties, we have no control over that.

25 So the staff pretty much directed us to --

1 they didn't say you've got to do this. They said, "It's
2 your duty." And since then, by the way, we have found
3 two or three -- I won't name names, but one of them was
4 here in some of these meetings -- it looked like a
5 single family house. We looked at it. It's three
6 units. And so we do require, we feel like we have, we
7 have to know what's going on before we sell connections.

8 And maybe we should -- I don't know if this is
9 the right time, but we probably should ask for an
10 amendment to our tariff to include this because it's
11 necessary information.

12 Q. You acknowledge that this particular page is
13 not part of your tariff currently then?

14 A. It is not part of the tariff. I think it is
15 within the rules and it is within our rights to ask what
16 are you going to do with this property? We have to know
17 that. And people will not tell you everything. If the
18 connection fee might be \$15,000 if they say one thing,
19 but it's \$1,500 if they don't let you inside to look,
20 then sometimes they don't tell you everything you would
21 find out if you inspect.

22 But this was the direction. And we have the
23 letter, if anybody would like to see it later. But we
24 were directed to, that this was our responsibility.

25 Q. Could you supply that letter to us as, as an

1 exhibit?

2 A. We could.

3 MR. McGLOTHLIN: Okay. I'd like to have an
4 exhibit number for that.

5 COMMISSIONER SKOP: All right. That will be
6 Exhibit Number 78. And I believe that will be a
7 late-filed, so if I could have a short title.

8 (Late-Filed Exhibit 78 identified for the
9 record.)

10 MR. McGLOTHLIN: I'll look to Mr. Brown for
11 that.

12 BY MR. McGLOTHLIN:

13 Q. Was this a letter from the Commission staff,
14 is that -- or the County Commission?

15 A. No. This was the Commission staff. We had --
16 this has been an ongoing problem and it just came to a
17 head. We took this one over there that seemed pretty
18 clear-cut, and they ruled that we should have inspected
19 it. Of course we didn't know how we could know that
20 because the condo -- and they deeded it out two years
21 after we hooked it up, so I never could quite understand
22 how we could have determined that. But we're being
23 pretty vigilant about it now.

24 COMMISSIONER SKOP: Mr. Brown, on that
25 late-filed exhibit, do you have a short title what that

1 letter may be called?

2 **MS. SCOLES:** Chairman, could I suggest
3 Commission Staff Letter to WMSI Regarding Inspections?

4 **COMMISSIONER SKOP:** All right. Very well.
5 Thank you.

6 **COMMISSIONER EDGAR:** Ms. Scoles -- excuse me.
7 Ms. Scoles, do you know if that's something that you
8 would be able to submit during the course of this
9 hearing, or is that something that would need to be,
10 realizing that we're out of town and all of that, would
11 need to be late-filed after the conclusion of testimony?

12 **MS. SCOLES:** We can certainly look at the
13 Utility office here on the island, Commissioner, and try
14 to get it before the hearing concludes.

15 **THE WITNESS:** We can have it faxed down here,
16 I mean, if we're going to be here a day or two.

17 **MS. SCOLES:** We'll make every effort to do
18 that, Commissioner.

19 **COMMISSIONER EDGAR:** Thank you.

20 **COMMISSIONER SKOP:** Okay. Well, it's been
21 marked for identification as Exhibit 78. And if you can
22 produce it prior to the close of the hearing, then it
23 won't need to be late-filed. But we'll address it at
24 the appropriate time.

25 **MS. SCOLES:** Okay. Thank you, Chairman.

1 **COMMISSIONER SKOP:** Mr. McGlothlin, you may
2 proceed.

3 **BY MR. MCGLOTHLIN:**

4 **Q.** Just a few more questions.

5 If you'll look back to the response to OPC's
6 Interrogatory 78, which was provided earlier.

7 **A.** Okay.

8 **Q.** There's a reference to a \$100 temporary
9 service charge. Do you see that?

10 **A.** Well, it doesn't say service charge. What I'm
11 reading in my answer says temporary meter. It's a
12 temporary meter.

13 **Q.** Okay.

14 **A.** Not temporary service charge. It's not a
15 service charge. It's a temporary meter.

16 **Q.** Okay. I'll accept your correction. But
17 apparently, if I understand correctly, on several
18 occasions the Utility has charged \$100 for a temporary
19 meter for, for a limited time use; correct?

20 **A.** Several, four or less, that's correct.

21 **Q.** And as I understand it, that's an
22 accommodation for real estate sales personnel?

23 **A.** It's a temporary meter for people who do not
24 want to sign up and be permanent customers. We give
25 them a choice. If you come in and you want service, we

1 have a procedure. You can fill out the application, pay
2 a deposit, sign it personally or corporately, and some
3 people do that. We had an appraiser in Tallahassee, for
4 example, was in a few months ago and he signed up and he
5 was a customer for a day, he appraised the house, made
6 sure the water worked, and then he terminated. Other
7 people want temporary service, so we have provided
8 temporary service to three or four people pursuant to
9 the PSC rules. There is a rule that authorizes
10 temporary meters for actual cost, and that \$100 is our
11 estimate of actual cost.

12 Q. Would you agree with me that your current
13 tariff does not contain an entry or item called
14 temporary meter charge?

15 A. Yes, sir. There are many things that are
16 authorized by the PSC rules in Chapter 25 that aren't
17 specified in our tariff. Our tariff was designed about
18 35 years ago. But we feel like anything that's
19 specifically authorized in the PSC rules, we should
20 adhere to that, including temporary meters. Some
21 temporary meters we get thousands of dollars for; when
22 these contractors get them and use them for a month or
23 two and use a lot of water.

24 This was just an accommodation to home
25 inspectors and realtors and people who need to inspect

1 the property, need temporary water service, so we give
2 them a temporary meter, or they can become a customer
3 temporarily. And we've had both.

4 Q. You mentioned in one of your earlier answers
5 that in addition to temporary meters, you do provide
6 temporary service; is that correct?

7 A. A temporary meter implies temporary service.
8 If we put in a meter, that is service. A temporary
9 meter is service until it's, until that service is
10 terminated, at which time the meter is taken out.

11 Q. And if I understood you correctly, you did
12 agree that the charge for a temporary meter or a charge
13 for temporary service is not currently within your
14 tariff.

15 A. No. It's currently within the PSC rule that
16 says we can charge for a temporary meter and we will
17 charge our actual costs.

18 MR. McGLOTHLIN: All right. That concludes my
19 questioning for now.

20 COMMISSIONER SKOP: Thank you. Thank you, Mr.
21 McGlothlin.

22 Staff.

23 MR. SAYLER: Yes, Commissioner, we have a
24 short line of questioning for Witness Brown. And I do
25 have a handout that I'd like to pass out at this time

1 just to save a little time when I get to the questions.

2 **COMMISSIONER SKOP:** All right. Do we need a
3 number for that?

4 **MR. SAYLER:** Yes, we will.

5 **COMMISSIONER SKOP:** That'll be Exhibit 79. A
6 short title.

7 (Exhibit 79 marked for identification.)

8 **MR. SAYLER:** Excerpt from Various Annual
9 Reports. Some of the items in the -- just various
10 annual -- or, excuse me. Excerpt from 2009 Annual
11 Report.

12 I do want to note that this particular exhibit
13 contains an excerpt from something that's already in the
14 record under Exhibit 30, and then also some MFRs. But
15 because I note that the annual report is not in the
16 record, I wanted to just go ahead and enter this into
17 the record so that we have it.

18 **COMMISSIONER SKOP:** Okay. All right. It's
19 marked as Exhibit 79 for identification. You may
20 proceed.

21 And just before you do, Linda, it's my
22 understanding we're going to switch out court reporters
23 about this time; is that correct?

24 **THE COURT REPORTER:** She's not here yet. I
25 told her 3:00, so.

1 **COMMISSIONER SKOP:** Okay. All right. All
2 right. Very well. Mr. Sayler, you may proceed.

3 **MR. SAYLER:** Thank you, Commissioner.

4 **CROSS EXAMINATION**

5 **BY MR. SAYLER:**

6 **Q.** Good afternoon, Mr. Brown. My name is Erik
7 Sayler on behalf of Commission Staff.

8 If I ask a question that, or I mumble or
9 something and you need me to reclarify, please let me
10 know.

11 **A.** Okay.

12 **Q.** Earlier when Mr. Seidman was being
13 cross-examined by my co-counsel, Mr. Jaeger, he was
14 asking essentially for a late-filed exhibit. But just
15 probably to make it easier, do you remember when he was
16 doing that?

17 **A.** Yes, I do.

18 **Q.** All right. I will just walk you through those
19 same questions so we can see if we can get that
20 late-filed exhibit that Mr. Jaeger was looking for. Or
21 if you can generate it in the midst of the hearing today
22 or tomorrow, then hopefully it can be submitted as an
23 exhibit during the hearing.

24 **A.** Today or tomorrow?

25 **Q.** If it's possible to generate that exhibit

1 during the time of the hearing; otherwise, we would like
2 to ask for it as a late-filed exhibit.

3 **COMMISSIONER SKOP:** Mr. Sayler?

4 **THE WITNESS:** Refresh my memory on --

5 **COMMISSIONER SKOP:** Hold on for a second,
6 Mr. Brown.

7 Mr. Sayler, what -- we're going to need to
8 mark that and get a short title for that exhibit number.

9 **MR. SAYLER:** Okay.

10 **COMMISSIONER SKOP:** So that will be
11 Exhibit 80.

12 **MR. SAYLER:** 80.

13 **COMMISSIONER SKOP:** And if you can give me a
14 brief description, please, and that way Mr. Brown can be
15 responsive to it.

16 **MR. SAYLER:** Yes. Late-filed exhibit that
17 shows what comprises the roughly \$3.8 million listed in
18 response to Interrogatory 75. So --

19 **THE WITNESS:** Well, that won't happen today or
20 tomorrow.

21 **MR. SAYLER:** Okay.

22 **THE WITNESS:** That's -- you're talking about a
23 complete audit from many years. That's a very
24 complicated issue as I understand it.

25 **COMMISSIONER SKOP:** All right. Ms. Helton,

1 how do we want to proceed with respect to the, what
2 Staff is seeking to obtain?

3 **THE WITNESS:** And we don't have the personnel
4 to do that. We do have a CPA or we can hire one to do
5 it, but we certainly can't do it without a complete
6 audit.

7 **MS. HELTON:** Mr. Chairman, maybe we can take
8 about a five-minute break, and the staff and OPC and the
9 company can get together and we can figure out, maybe we
10 can all better understand then what it is we're talking
11 about. And then we'll come back on the record, if
12 that's okay with you, and have a, hopefully a
13 resolution.

14 **COMMISSIONER SKOP:** All right. Very well.
15 We'll take a five-minute recess and reconvene at the
16 appropriate time. Thank you.

17 (Recess taken.)

18 All right. We're going to go back on the
19 record at this time. And, Staff, where we left off is
20 we were talking about an exhibit that's been marked for
21 identification as Exhibit 80. And if Staff could add a
22 little bit of clarification to that exhibit or how we
23 need to proceed.

24 **MR. SAYLER:** Commissioner Skop, Chairman Skop,
25 at this time Staff will not ask for that late-filed

1 exhibit. It's really dependent upon a line of questions
2 that I'll be asking Mr. Brown. And depending upon the
3 answers for those questions, then I may have to ask for
4 that late-filed exhibit.

5 **COMMISSIONER SKOP:** Okay.

6 **MR. SAYLER:** So I don't know if we can reserve
7 that number or --

8 **COMMISSIONER SKOP:** We'll just, we'll proceed,
9 we'll proceed forward without it being a placeholder.
10 We'll just go next in order for the next exhibit, and at
11 the time, if the need arises, we'll assign it the
12 appropriate number. And as a forward-looking basis, if
13 Staff could get the short title so we know what we're
14 asking for, I think that'll facilitate moving forward.
15 So you may proceed.

16 **MR. SAYLER:** Absolutely.

17 **BY MR. SAYLER:**

18 **Q.** Mr. Brown?

19 **A.** Yes, sir.

20 **Q.** My name is Erik Sayler. And the first part of
21 my questioning is this, and this is actually on a
22 different line of questions for now.

23 **A.** Okay.

24 **Q.** On page 10 of your, your direct testimony, if
25 you'll turn to that for me, please.

1 **A.** Okay.

2 **Q.** Specifically lines 15 through 18.

3 **A.** Okay.

4 **Q.** All right. Would you agree that in your
5 testimony you're requesting a 75 percent BFC allocation;
6 is that correct?

7 **A.** That is correct.

8 **Q.** All right. And would it be your testimony
9 that under the current BFC allocation of 50 percent that
10 you were not able to cover your fixed costs during the
11 off season; is that correct?

12 **A.** That is correct.

13 **Q.** All right. And the purpose of requesting the
14 75 percent BFC allocation is to help ensure that the
15 Utility is able to cover its costs during the off
16 season; is that correct?

17 **A.** Well, that's one reason. Probably a more
18 important reason is we, we're trying to be more fair and
19 equitable to all our customers, especially those who
20 elect to stay on the system. And the way it is now,
21 they'd be encouraged to just go out and spend \$100 and
22 put in a shallow well for either potable or nonpotable
23 water and use that; whereas, if we go to a 75 percent,
24 75 BFP, then there's an encouragement built into that to
25 stay on the system, and it'll spread the cost like for

1 fire protection and all the other things. Right now
2 we're providing fire protection for people who are not
3 even customers. There are houses are on the island that
4 seems like we're backing up the -- with just shallow
5 wells and septic tanks but don't use ours. So we're
6 just trying to spread it out. So it's a combination of
7 all those things.

8 Q. All right. Thank you. But getting back to my
9 original question, isn't it true that the purpose of
10 requesting the 75 percent BFC allocation is to help
11 ensure that the Utility is able to cover its fixed
12 costs, its fixed costs during the off season?

13 A. That is one of the reasons. That is not the
14 only reason.

15 Q. All right. Thank you. Moving along, if you
16 will turn, refer to the handout, which was marked as,
17 for identification as 79. The Excerpt from the Annual
18 Reports is the short title.

19 I will note that the first couple of pages
20 pertain to interrogatory requests which are already in
21 the record.

22 A. Okay.

23 Q. And are you familiar with these interrogatory
24 responses submitted by the Utility, numbers 71 through
25 76?

1 A. Yes. All 100 or 200 or 300. I'm generally
2 familiar with all of them.

3 Q. All right. And these interrogatories were
4 prepared under your -- by you or under your supervision;
5 correct?

6 A. Yes.

7 Q. And has anything changed since these
8 interrogatory responses were prepared?

9 A. Well, some things have changed, but --

10 Q. Anything that would change that would affect
11 your response to these questions?

12 A. Not that comes to mind, but you'd have to
13 refer me to a specific question.

14 Q. All right. How about question 71?

15 A. Well, those balances on debt have probably
16 changed a little bit but not substantially.

17 Q. All right. For the record, Staff asked that
18 you provide a list of debt issues that would be paid off
19 with the proposed \$5 million loan from Citizens State
20 Bank; is that correct?

21 A. That's correct.

22 Q. And here you listed a number of debt
23 obligations that the Utility was proposing to pay off
24 that totaled roughly 2.8 million; is that correct?

25 A. That's correct.

1 Q. And am I correct that this lists all the
2 current Utility debt obligations with the exception of
3 the loan that the Department of Environmental Protection
4 provided for the new bridge water main; is that correct?

5 A. That's basically correct. I don't know of any
6 new debt that's not on here. I can't think of any right
7 now.

8 Q. Okay. So once all the debt issues are being
9 paid off by the \$5 million loan from the Citizens State
10 Bank, then WMSI will just have two debt issues
11 outstanding, the Citizens Bank loan and the DEP loan; is
12 that correct?

13 A. That is correct.

14 Q. All right. And the \$5 million loan or line of
15 credit from Citizens State Bank is conditional; is that
16 correct?

17 A. Yes.

18 Q. All right. And to fund the supply main that
19 runs along the St. George Island bridge, WMSI did
20 receive a loan from the DEP. And that was a guaranteed
21 loan; is that correct?

22 A. It was guaranteed by me.

23 Q. Okay. Well, let me rephrase my question, and
24 I apologize for being a little repetitive. You received
25 a loan from DEP for the water main.

1 **A.** The water main I ended up spending \$7,009,000
2 on. I received a \$6 million loan. That's correct.

3 **Q.** Okay. And, in your opinion, is the supply
4 main that runs along the St. George Island bridge
5 100 percent used and useful?

6 **A.** Yes, sir. Absolutely.

7 **Q.** Were the proceeds from, the proceeds from the
8 DEP loan used to fund sole, or fund just the supply main
9 that runs along the St. George Island bridge; is that
10 correct?

11 **A.** No. The proceeds were used to fund the
12 40,000 feet of 6- and 8-inch fire protection
13 improvements, some improvements of the plant. There was
14 about -- we went out for bid, and, and then we did it
15 ourself more or less and saved \$900,000 and spent it on
16 this other stuff. But it was, it was used for either
17 the supply main or other improvements to the water
18 system.

19 **Q.** So are you -- is it your testimony today that
20 proceeds from the DEP loan were used to fund or pay for
21 activities other than the supply main; is that correct?

22 **A.** That is correct.

23 **MR. SAYLER:** One moment. If you'll permit me,
24 I need to confer with Staff.

25 **COMMISSIONER SKOP:** All right.

1 (Pause.)

2 **MR. SAYLER:** Thank you for your indulgence.

3 With those responses, we don't need to seek a
4 late-filed exhibit that we had discussed earlier.

5 **COMMISSIONER SKOP:** All right. Very well.
6 Any additional questions?

7 **MR. SAYLER:** I have three last questions.

8 **BY MR. SAYLER:**

9 Q. If you will look at the exhibit that I handed
10 to you, the last couple of pages, there's a page
11 specifically entitled F-1(A) and F-9. Please let me
12 know when you're there. I hand numbered them 7 and 8 on
13 the bottom right-hand corner.

14 **COMMISSIONER GRAHAM:** It's the last two pages.

15 **THE WITNESS:** Is that it?

16 **MR. SAYLER:** If you look on the bottom center,
17 it says F-1(A) and then the last page is F --

18 **COMMISSIONER EDGAR:** The last two pages,
19 Mr. Brown, of that I think will get you there.

20 **THE WITNESS:** F-1(A). Okay.

21 **BY MR. SAYLER:**

22 Q. All right. And this is an excerpt from your
23 annual report dated December 31st, 2009; is that
24 correct?

25 A. That's correct.

1 Q. All right. If you will look on that, there is
2 something listed as net non-utility property in the
3 amount of \$811,018. Do you see that?

4 A. Right.

5 Q. If you will turn to page, the next page, F-9,
6 you have Non-Utility Property Account 121. Do you see
7 that?

8 A. Yes.

9 Q. All right. Under the description for that you
10 have something called, quote, disallowed investment in
11 plant, unquote, in the amount of \$858,173. Do you see
12 that?

13 A. Yes, sir.

14 Q. And that corresponds to the amount on the
15 prior page because that's, the 811,000 is that amount
16 just less accumulated depreciation amortization; is that
17 correct?

18 A. 811. Yes, sir.

19 Q. All right. The question that staff has is can
20 you explain what you mean by or what the annual report
21 means by disallowed investment in plant? What does that
22 amount represent?

23 A. This was money that we spent on plant that we
24 documented we spent, but there was a disagreement about
25 it in one of the earlier cases. We only had two cases,

1 one in '89 and one in '94. And I think it was the first
2 one where they disallowed a lot of the plant that we had
3 in the ground.

4 Q. Do you know to what plant that is specifically
5 referring?

6 A. It was mainly the distribution system. There
7 was an issue about whether it should be allowed or not.
8 And I can't tell you whether this includes the non used
9 and useful part. I don't think it does.

10 **COMMISSIONER SKOP:** Mr. Sayler, I have a
11 follow-up question.

12 Mr. Brown, with respect to that disallowed
13 investment in plant, you mentioned that it was part of
14 the distribution system. Is that actual physical assets
15 that was disallowed in the cases that you alluded to, or
16 would that be like a positive acquisition adjustment
17 that was disallowed?

18 **THE WITNESS:** There was no acquisition
19 adjustment. We built it up. But we had, we had booked
20 and spent the money we thought or we knew we did, we
21 documented it. But at the end of the case the
22 Commission determined that it should be something less,
23 so we've always carried that as disallowed plant. I
24 mean, for tax reasons and other reasons it has to be
25 carried on our books, but we don't get a return and

1 don't report it as part of rate base.

2 **COMMISSIONER SKOP:** Thank you.

3 Mr. Saylor, you may proceed.

4 **BY MR. SAYLER:**

5 Q. All right. My last request would be Staff
6 would like to have a late-filed exhibit just detailing
7 what exactly that disallowed investment in plant is.

8 A. We can do that. We can go back and look at
9 the order.

10 **MR. SAYLER:** All right.

11 **COMMISSIONER SKOP:** Mr. Saylor, that will be
12 Exhibit Number 80, and if you have a brief title.

13 **MR. SAYLER:** Disallowed Investment in Plant.
14 How does that sound?

15 **COMMISSIONER SKOP:** Okay. All right.

16 (Late-Filed Exhibit 80 identified for the
17 record.)

18 **MR. SAYLER:** And with that, staff has no
19 further questions. Thank you for your time.

20 **COMMISSIONER SKOP:** All right. Very well.
21 Thank you.

22 Ms. Scoles, you're recognized for redirect.

23 **MS. SCOLES:** Thank you, Chairman.

24 **REDIRECT EXAMINATION**

25 **BY MS. SCOLES:**

1 Q. Mr. Brown, will you take Exhibit Number 76,
2 which the Office of Public Counsel passed to you
3 earlier?

4 **COMMISSIONER SKOP:** Ms. Scoles, can I, can I
5 interrupt just for -- Commissioner Graham has a
6 question. And, I'm sorry, I should have looked to the
7 bench, so I apologize.

8 **COMMISSIONER GRAHAM:** That's all right. I
9 have two quick questions, if I may.

10 Mr. Brown, how are you today?

11 **THE WITNESS:** Fine. How are you, Mr. Graham?

12 **COMMISSIONER GRAHAM:** You talked about the
13 fire flow, the improvement and the impact it had here on
14 the, on the island.

15 **THE WITNESS:** Yes, sir.

16 **COMMISSIONER GRAHAM:** And how it improved
17 their insurance rating.

18 **THE WITNESS:** Yes, sir.

19 **COMMISSIONER GRAHAM:** Do you have any idea how
20 much money was saved, you know, through property
21 insurance?

22 **THE WITNESS:** Since that time, probably
23 hundreds of thousands of dollars. We have a report that
24 details that. There was an actual committee formed on
25 the island, and they had inspectors come in from the

1 Insurance Institute to inspect. And they rated the fire
2 department, they rated us, they rated everything, and
3 we've been working on it since then. But, but it
4 satisfied everybody back then enough to get the rates
5 down.

6 **COMMISSIONER GRAHAM:** So we have some pretty
7 hard numbers on that?

8 **THE WITNESS:** Yes.

9 **COMMISSIONER GRAHAM:** Okay. One other
10 question I had. You were talking about the, the water
11 main going into the house. If you have a water main
12 going into a single family home, your responsibility for
13 the most part ends at that water main. Everything down
14 line of that water main, if it were to fail or to leak,
15 it would be the responsibility of the homeowner;
16 correct?

17 **THE WITNESS:** Theoretically. But on
18 St. George Island a lot of times they --

19 **COMMISSIONER GRAHAM:** Well, now if you, if you
20 find out that that water main has been split and they're
21 feeding four other condos, like you were saying before,
22 in that case does your responsibility go to wherever
23 down line it pipes into the individual condo or does
24 your responsibility still end at that first initial
25 main?

1 **THE WITNESS:** Our responsibility is to furnish
2 water to that entire structure. But our problem is when
3 they subdivide it into these various ownerships, it
4 really complicates things. I, I notice here, for
5 example, Mason Bean's name on one of these things faxed
6 to Public Counsel. Yeah. This thing from Mason Bean,
7 for example, he didn't want to let us look at his, but
8 we looked at it and found out that he had three
9 apartments. You ride by it, it's always been a single
10 family house. But that -- there's a hundred and
11 something of those. And we had an argument with him,
12 and it's just an ongoing problem.

13 **COMMISSIONER GRAHAM:** I'm just kind of
14 curious, and this is more of a curiosity question, if
15 that means your responsibility goes in further past that
16 first meter or do you, does everything still stop at
17 that first meter even though it's split inside?

18 **THE WITNESS:** Well, there's, there's only one
19 meter, you understand. There's a five-eighths meter,
20 which was a great big house. And then to avoid paying
21 us CIAC, they just let one person, like Perryman
22 (phonetic) on this particular case that we dealt with,
23 we were trying to make a test case of, she said, "Well,
24 I'll just continue." She signed up for a single family
25 house and then she just distributed the bill. We'd send

1 her a bill for \$20, let's say, and she would collect
2 \$5 from each of the owners. And these were actual
3 separate legal owners. I mean, they had tax records,
4 they owned the property.

5 **COMMISSIONER GRAHAM:** Well, no. I guess my
6 question is if you were looking to collect more money
7 from that household, does that mean that they get more
8 from you? Is there, you know --

9 **THE WITNESS:** They don't, they don't -- they
10 would still get the same water. We wanted them to put
11 in individual meters and be individual customers, but we
12 were not able to do that. And we were told by Staff
13 that that's your responsibility. At the time of
14 connection you should have known, you should have gone
15 and looked and found out that that was four separate
16 units. And the only way to do that is to actually look.

17 **COMMISSIONER GRAHAM:** So what is your recourse
18 now if somebody goes in and splits up a single family
19 home? Is there any recourse for you?

20 **THE WITNESS:** We have no recourse. We've,
21 we've got, we've got over a hundred of those on single
22 family lots on St. George Island. And, you know, it's
23 just a good way to make money, I guess, if you can put
24 up a great big house and design it. We've got a house
25 down here with eight bedrooms that looks like a motel,

1 but we've signed up a single family connection. And
2 according to Staff, it's our responsibility at the point
3 of hookup. That's the last chance we have. I mean, I
4 think Mr. McGlothlin is probably right; we can't just go
5 in willy-nilly and start inspecting houses.

6 But at the point that there is no customer,
7 before they get water, we do have the right, I believe,
8 and we've been instructed it's our responsibility to
9 determine what the uses are. At that point we have to
10 look at it.

11 **COMMISSIONER GRAHAM:** Okay. Thanks.

12 **COMMISSIONER SKOP:** Thank you.

13 Ms. Scoles, you're recognized for redirect.

14 **MS. SCOLES:** Thank you, Chairman.

15 **BY MS. SCOLES:**

16 **Q.** Mr. Brown, if you would refer to Exhibit
17 Number 76. This is your current water tariff.

18 **A.** Okay.

19 **Q.** Turn to page 11, which is sheet number 9.0.

20 **A.** Okay.

21 **Q.** Do you have that?

22 **A.** I do.

23 **Q.** Would you just read that first sentence of
24 paragraph 7.0, Limitation of Use?

25 **A.** "Limitation of Use. Water service purchased

1 from the company shall be used by the customer only for
2 the purposes specified in the application for water
3 service, and the customer shall not sell or otherwise
4 dispose of such water service supplied by the company."

5 Q. What does that mean, Mr. Brown?

6 A. Well, it should mean, we've argued that it
7 means, and I hesitate because we've been told it doesn't
8 apply in our situation, that they shouldn't be able to
9 collect money and skirt this rule by just collecting
10 from all the other owners in a condo development that is
11 put in without our knowledge and after we sign up a
12 single family residential use.

13 And there are, as I said earlier, there are a
14 couple of administrative rules, PSC rules, we call them,
15 that apply in this situation too that allow us to do
16 temporary meters and such.

17 Q. Mr. Brown, you're going to be handed an order.
18 This is not an exhibit to be entered, Chairman, but I
19 would like Mr. Brown to take a look at it.

20 You were speaking earlier with the Office of
21 Public Counsel about some work regarding the fire
22 protection on the island back in 2003. Do you remember
23 that conversation, Mr. Brown?

24 A. Yes.

25 Q. Would you turn to the first page of that order

1 and read for us the date and the PSC Order Number,
2 please?

3 A. The order number is PSC-04-0791-ASWU, and it's
4 issued August 12, '04.

5 Q. Okay. If you'll turn to page 8 of that order.
6 Would you read the paragraphs 2 and 3 that are
7 highlighted there, please?

8 A. "Order Number PSC-03-1005-PAA-WU had already
9 authorized the company to expend some funds to improve
10 the water distribution system by looping the mains that
11 serve the length of the long narrow service territory.
12 The company has been utilizing its own personnel and
13 equipment to install these mains."

14 Q. Okay. And then paragraph 3.

15 A. Has been using.

16 Q. Paragraph 3 also.

17 A. "The company shall expend the approximately
18 \$400,000 that would have spent replacing the company's
19 elevated tank to complete the looping of the water mains
20 that serve the service territory from Bob Sikes Cut to
21 the State Park."

22 Q. So is it your understanding that this order
23 directed for you to complete the work that had already
24 been done, already been started in 2003?

25 A. That's my recollection, that we had been doing

1 work, and there was a question about this final
2 \$400,000, and we were authorized to spend that as well.

3 Q. Okay. Thank you. Will you turn the page now,
4 Mr. Brown, page 9.

5 A. Page 9 of this order?

6 Q. Yes, sir. It should be the very next page.

7 A. Okay.

8 Q. Would you read the top paragraph? What's the
9 paragraph number there? Is it 4?

10 A. Four.

11 Q. Would you read that for us, please?

12 A. "Upon completion of the above improvements to
13 the distribution system, Water Management Service --
14 Water Management shall furnish two complete sets of
15 as-built drawings of the company's water distribution
16 system to OPC. One copy shall be retained at OPC's
17 office and the second shall be retained by the customers
18 at the fire station on St. George Island."

19 Q. Did the Utility provide that information as
20 directed by the Commission?

21 A. Yes, we did.

22 **MS. SCOLES:** Nothing further, Chairman.

23 **COMMISSIONER SKOP:** All right. Thank you,
24 Ms. Scoles.

25 We'll take up exhibits at this time, if

1 there's no further questions.

2 **MR. MCGLOTHLIN:** OPC moves 74, 75, 76 and 77.

3 **COMMISSIONER SKOP:** All right. Any objection?

4 **MS. SCOLES:** No objection.

5 **COMMISSIONER SKOP:** All right. Hearing none,
6 Exhibits 74, 75, 76 and 77 will be entered.

7 (Exhibits 74, 75, 76 and 77 admitted into the
8 record.)

9 And Staff?

10 **MR. SAYLER:** Commissioner, Staff would move
11 Exhibit 79, the excerpt from the 2009 annual report.

12 **COMMISSIONER SKOP:** Any objection?

13 **MS. SCOLES:** No.

14 **COMMISSIONER SKOP:** All right. Hearing none,
15 79 will be entered into the record.

16 (Exhibit 79 admitted into the record.)

17 And outstanding exhibits that we'll have to
18 deal with at some point will be 71, 78 and 80 at the
19 appropriate time.

20 Okay. Mr. Brown, you may step down. We'll
21 see you on rebuttal. And at this point, Commissioners,
22 we're going to take a brief break to change out the
23 court reporters. So we'll take ten and come back on the
24 record.

25 (Recess taken.)

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(Concluding time for Volume 1 is 3:22 p.m.)
(Transcript continues in sequence with Volume

2.)

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

3
 4 I, LINDA BOLES, RPR, CRR, Official Commission
 5 Reporter, do hereby certify that the foregoing
 6 proceeding was heard at the time and place herein
 7 stated.

8 IT IS FURTHER CERTIFIED that I
 9 stenographically reported the said proceedings; that the
 10 same has been transcribed under my direct supervision;
 11 and that this transcript constitutes a true
 12 transcription of my notes of said proceedings.

13 I FURTHER CERTIFY that I am not a relative,
 14 employee, attorney or counsel of any of the parties, nor
 15 am I a relative or employee of any of the parties'
 16 attorneys or counsel connected with the action, nor am I
 17 financially interested in the action.

18 DATED THIS 15th day of October,
 19 2010.

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