

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Interim and
Permanent Rate Increase in
Franklin County by St. George
Island Utility Company, Ltd.

DOCKET NO. 940109-WU

FIFTH DAY - AFTERNOON SESSION

VOLUME 9

Pages 1248 through 1338

FILED
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TALLAHASSEE, FLORIDA

PROCEEDINGS: Hearing

BEFORE: CHAIRMAN J. TERRY DEASON
COMMISSIONER DIANE K. KIESLING

DATE: Tuesday, August 9, 1994

TIME: Commenced at 1:30 p.m.

PLACE: 101 East Gaines Street
Tallahassee, Florida

REPORTED BY: JANE FAUROT
Notary Public in and for the
State of Florida at Large

APPEARANCES:
(As heretofore noted.)

ACCURATE STENOGRAPHY REPORTERS, INC.
100 SALEM COURT
TALLAHASSEE, FLORIDA 32301
(904) 878-2221

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

I N D E X

WITNESSES - VOLUME 9

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EXHIBITS - VOLUME 9

Number:

Identified Admitted

(REPORTER NOTE:

A complete index with titles
will be provided on Monday,
August 15, 1994.)

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P R O C E E D I N G S

(Transcript follows in sequence from Volume 8.)

(Hearing reconvened at 1:30 p.m.)

CHAIRMAN DEASON: Call the hearing to order.

Are there any preliminary matters before we call the next witness?

MR. PIERSON: Yes, Mr. Chairman, I believe we have a request on the table by Staff for the company to waive the eight-month clock in order that we can set this schedule out just a little bit further.

CHAIRMAN DEASON: Mr. Pfeiffer, are you prepared to address that at this time?

MR. PFEIFFER: Yes, sir. We are agreeable to extending the eight-month clock for 15 days, which I understand would give ample time to place the matter on a second agenda where it's appropriate before the Commission. And we will agree to that.

MR. PIERSON: Do you mean second --

MR. PFEIFFER: No, I mean another scheduled docket of the agenda that's appropriate for placing this issue.

MR. PIERSON: I believe we have a special agenda that we could use on October 7th, '94.

CHAIRMAN DEASON: So is 15 days sufficient to allow you that flexibility, Mr. Pierson?

MR. PIERSON: Yes, I believe so.

1 MR. PFEIFFER: And we have discussed this matter.

2 CHAIRMAN DEASON: Very well. Thank you for that.

3 Any other preliminary matters?

4 MR. PIERSON: None that I'm aware of.

5 CHAIRMAN DEASON: Mr. Pfeiffer, you may call your
6 next witness.

7 MR. PFEIFFER: We call Gene Brown.

8 Thereupon,

9 GENE D. BROWN

10 was called as a rebuttal witness for St. George Island
11 Utility Company, Ltd., and having first been duly sworn, was
12 examined and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. PFEIFFER:

15 Q Please state your name and business address?

16 A Gene D. Brown, 3848 Killearn Court, Tallahassee,
17 Florida.

18 Q And you have previously been sworn as a witness in
19 this proceeding?

20 A Yes, I have.

21 Q Have you filed prefiled rebuttal testimony,
22 Mr. Brown?

23 A Yes, I have.

24 Q Do you have any additions, corrections or change
25 to make in the testimony set out in the prefiled testimony?

1 A No, not really, except for some of those
2 adjustment. There have been a number of things that have
3 developed since I filed my prefiled testimony that at some
4 point in these proceedings I would like to explain to the
5 Commission.

6 Q All right. We are distributing documents that
7 have been marked as GBA and GBD in the upper right-hand
8 corner. Mr. Brown, what is the document marked GBA?

9 A This is a system capacity analysis. One of the
10 issues that was stated in this case was the capacity of the
11 system. There was also an issue about doing another updated
12 system analysis, and since my rebuttal testimony, we have
13 entered into an agreement with Les Thomas to update the
14 system analysis. That is the Baskerville-Donovan analysis.
15 He is going to completely update and revise, and he has
16 agreed to do that for \$12,000. The estimate in the MFRs, I
17 believe, was for \$30,000. And I got three bids on this, and
18 this was by far the lowest and best bid. I paid him
19 initially \$3,000 against the overall contract of 12, and he
20 has done a preliminary analysis, which is included here
21 dated July 20, 1994, which is just sort of a thumbnail
22 windshield overview of the current capacity of the St.
23 George Island water system.

24 The other document dated June 30 is my agreement
25 where I signed that with him, and he is proceeding with the

1 system analysis which will tell us after he does his
2 hydraulic work within the next month or two, he will be in a
3 position to advise us exactly what improvements need to be
4 made. We have already talked about a lot of the
5 improvements; the variable speed pumps and all of that. The
6 only other thing that we are now doing is to put in a
7 variable speed chlorination device, which I have contracted
8 for, and Bruce White and East Side Pump, the same people
9 that did the pumping before, they are now in the process of
10 doing that, and that improvement is referred to in this
11 capacity analysis.

12 Q Mr. Brown, is this document supplemental to the
13 exhibits that are attached your rebuttal testimony?

14 A Yes. It trues up the estimates and pins down
15 exactly what we are doing with regard to the system
16 analysis. And this is a system analysis, a capacity
17 analysis, which is responsive to one of the issues in this
18 case.

19 MR. PFEIFFER: We would ask that GBA be marked as
20 the next numbered exhibit.

21 CHAIRMAN DEASON: It will be identified as Exhibit
22 Number 52.

23 (Exhibit Number 52 marked for identification.)

24 BY MR. PFEIFFER:

25 Q What is GBB, Mr. Brown?

1 A Another thing that we asked for in the MFRs was a
2 hydrological study. We had anticipated that would cost
3 \$45,000, because that is the estimate we got. Since then we
4 have gotten a total of three estimates, and we have entered
5 into an agreement with Les Thomas to do the hydrological
6 study. He did that in conjunction with Jim Stittam and
7 Associates (phonetic). Jim Stittam and Associates charged
8 \$7,000, we paid 7,000 in advance. He has now submitted a
9 bill which is attached here, and it came out slightly less
10 than \$7,000 for his total work. That hydrological report
11 was completed, it was filed as a part of our application to
12 the water management district to increase the comsumptive
13 use permit. The water management district has given us a
14 temporary permit, which we have, and they now have pending
15 this application. The total of this hydrological report is
16 now \$12,000, and all of that has been paid. That is 7,000
17 to Jim Stittam and Associates, a total of 5,000 to
18 Les Thomas. The actual study is probably six or eight
19 inches thick, and all the documents we have filed. The only
20 thing I have included here is the cover letter that went
21 with the application, which included the hydrological study
22 and all the other documentation. And it is included here as
23 part of GBB, as well as the checks and the documentation to
24 show that all of this money has been paid. The two checks
25 for the 5,000 and the 7,000, total of 12,000 are here, and

1 the report which was filed and hand-delivered around
2 July 11th or July 12th is attached here.

3 Q Mr. Brown, is this exhibit supplemental to the
4 exhibits that are offered with your prefiled testimony?

5 A Yes, sir, it is.

6 MR. PFEIFFER: We would ask that the document be
7 marked as Exhibit Number 53.

8 (Exhibit 53 marked for identification.)

9 CHAIRMAN DEASON: It will be so marked.

10 MR. PFEIFFER: And we have distributing GBC,
11 which relates to some insurance documents.

12 BY MR. PFEIFFER:

13 Q What is that, Mr. Brown?

14 A This is additional documentation on the insurance.
15 In our MFRs we had requested \$35,000 annually for insurance.
16 Since then we have gotten additional bids, several
17 additional bids, in addition to the first one which was for
18 35,000. We have accepted a bid which is included here, and
19 we have paid about -- between 8 and 9,000 on that. We paid
20 \$8,089 on June the 27th. That includes all of the casualty
21 or property insurance for the next year, it includes all of
22 the liability insurance, and it includes the first quarter
23 of workmens' comp. The only thing we still owe for would be
24 the next three quarters of workmens' comp, which is payable
25 a quarter in advance, and that's another \$3,000 or so. And

1 the bills and the check and all are here, and the actual
2 insurance binders. So this insurance is in effect as of at
3 least July 11th, and some of it, I think, was in effect
4 prior to that. But it's all bound over and we are covered.

5 Q And is that supplemental to the exhibits that are
6 attached to your prefiled rebuttal testimony, Mr. Brown?

7 A Yes, it is.

8 MR. PFEIFFER: And we would ask that it be marked
9 as Exhibit 54.

10 CHAIRMAN DEASON: Yes, Exhibit 54 is correct.

11 (Exhibit Number 54 marked for identification.)

12 MR. PFEIFFER: And we were passing out a document
13 that's marked GBD.

14 BY MR. PFEIFFER:

15 Q What is that, Mr. Brown?

16 A This is a corporate resolution substituting the
17 First Union Bank and Trust Company as the trustee under our
18 pension plan, which has been in effect for sometime, and
19 which has been funded. It has been in effect since January
20 of this year. There was some request that there be a
21 totally independent trustee, which there now is, and that is
22 this Union Bank and Trust Company. IDS is still handling
23 the funds, and those funds have been paid to them for the
24 first six months, and the check is included here. And the
25 pension plan will be kept in effect from this point forward,

1 and it will be funded timely. And there is an outside
2 trustee, and it is totally independent of the utility
3 company.

4 Q And is that supplemental to the exhibits that
5 accompany your prefiled rebuttal testimony, Mr. Brown?

6 A Yes, sir, it is.

7 MR. PFEIFFER: We would ask that GBD be marked
8 as Number 55, I believe, Chairman Deason.

9 CHAIRMAN DEASON: It will be so marked.

10 (Exhibit Number 55 marked for identification.)

11 BY MR. PFEIFFER:

12 Q What is GBE?

13 A This is a letter from Tim McDaniel of Eagle Tank
14 and Technology Corporation, and also a storage tank
15 inspection and maintenance agreement, which we have entered
16 into which is now in effect since July 7th of year. We have
17 received three bids on all of this, and we have taken the
18 best and lowest bid. This is a copy of the contract. In
19 addition, we asked Mr. McDaniel to clarify his earlier
20 letter regarding maintenance, and whether or not there has
21 been any negligence on the part of the company in
22 maintaining the equipment, and there has not been. I would
23 point out that the elevated tank is basically a brand new
24 tank, and it was under a one-year warranty. So there is
25 nothing we could have done on that. We have been cleaning

1 the storage tank on an annual basis, and it's basically just
2 a concrete, precast concrete. It has a tar and rock roof
3 that has been on there about 20 years, and roofs have to be
4 maintained or replaced, and I don't know of anything that we
5 could or should have done. You know, they need to be
6 replaced every 15 to 20 years, and this one needs some work
7 on it. But Mr. McDaniel is pointing out here that this is
8 normal wear and tear, just to clarify his earlier letter.

9 Q And is that supplemental to the exhibits
10 accompanying your prefiled testimony?

11 A Yes, sir, it is.

12 MR. PFEIFFER: And we are distributing GBF. We
13 would ask that GTE be marked as our next numbered exhibit.

14 CHAIRMAN DEASON: It will be identified as
15 Exhibit 56.

16 (Exhibit Number 56 marked for identification.)

17 BY MR. PFEIFFER:

18 Q What is GBF?

19 A This is a letter dated June 27, 1994. We had
20 asked in our MFRs for funds to clean out the pig, they call
21 it, running the little pigging device through all the pipes
22 on the island over a ten-year period at a cost of about
23 35,000 per year, total cost of \$350,000. Since then we have
24 talked more to our engineers and the rural water
25 association, who has advised -- they went down and looked at

1 the pipe coming across the bridge, the main transmission
2 line, and they saw some evidence of build-up in it. And we
3 feel like in order to cut down on turbidity, and keep the
4 water quality high, and to keep the hydraulic capacity of
5 the system up, and for a lot of other reasons, we do need
6 and request the money to at least clean out the line from
7 the well field to the plant. So we are revising our request
8 as a part of this rate case to allow funds which could be
9 amortized over some period of time for this \$21,183, which
10 is the updated current estimate that it would cost to do
11 that work. We do have a possibility of getting some money
12 back from TRIO (phonetic) on this.

13 Q What is TRIO?

14 A That's a local governmental association in North
15 Florida that gives grants if you can show that what you do
16 is energy efficient. They initially turned this down, but
17 we are going to try to persuade them that the pigging out of
18 this line will mean less electricity from the pumps, because
19 less friction less pumping capacity, less power will be
20 needed, and so there is a possibility we can get half of
21 this reimbursed. We are going to try to do that, but -- we
22 would like to be able to do that, but we are revising, the
23 \$350,000 figure is now 21,000. And of that we may be able
24 to get a grant of half of it. But we have to put up at
25 least half the money in advance. And this is the estimate

1 on it, and that's not as high a priority as the tank
2 maintenance. I think the tank maintenance is absolutely
3 essential, that we have got to do that or the elevated tank
4 is going to begin to corrode and rust, and the other is more
5 important. But this, I think, is something that should be
6 done.

7 MR. PFEIFFER: And we would ask that the GBF be
8 marked as the next numbered exhibit, Number 37, I believe.

9 CHAIRMAN DEASON: Yes. It will be identified
10 as 57.

11 (Exhibit Number 57 marked for identification.)

12 BY MR. PFEIFFER:

13 Q And what is this GBG, Mr. Brown, what is this
14 imposing group of documents?

15 A These are just all the bills for the uniforms. I
16 understand there is still an issue regarding these uniforms.
17 We have had complaints over the years with our men running
18 in and out of people's yards and not being identified, so we
19 entered into a contract sometime ago to put them all in
20 uniforms. They wear the uniforms. I think it's good that
21 they do, and this is the bill to document that this is an
22 expense that the utility is now incurring and will continue
23 to incur for uniforms for three people on the island.

24 Q Mr. Brown, is the Exhibit GBG supplemental to the
25 exhibits that were offered with your prefiled rebuttal

1 testimony?

2 A Yes, sir.

3 Q And I'm not sure I asked that question with regard
4 to the documents to tank maintenance and pipe cleaning, but
5 would that also be true?

6 A Yes, sir, it would.

7 MR. PFEIFFER: All right. And the next document
8 would be GBH. Mr. Chairman, I would ask that GBG be marked
9 as the next numbered exhibit.

10 CHAIRMAN DEASON: And that will be Exhibit 58.

11 (Exhibit Number 58 marked for identification.)

12 BY MR. PFEIFFER:

13 Q What is GBH?

14 A This is a current bill dated today from
15 Baskerville-Donovon. We asked them to prepare this. There
16 was a question the other day about what they were charging
17 for the aerator analysis and mapping and those things, and
18 also Mr. Biddey's testimony and work on this, and this is
19 just a bill to reflect the current charges to the utility
20 company. I would point out as part of this that the aerator
21 analysis report has been completed and delivered to DEP, the
22 updated mapping has been completed and delivered to DEP, and
23 this is a bill for the cost of that.

24 MR. PFEIFFER: And we would ask that that document
25 be marked as Exhibit Number 59.

1 CHAIRMAN DEASON: It will be so marked.

2 (Exhibit Number 59 marked for identification.)

3 BY MR. PFEIFFER:

4 Q And is that document supplemental to the exhibits
5 that are attached to your prefiled rebuttal testimony,
6 Mr. Brown?

7 A Yes, it is.

8 MR. PFEIFFER: Your Honor, GBI, we were asked by
9 Staff to provide some updated rate case expense bills. I
10 believe, that those were marked as a Late-filed Exhibit
11 Number 43, and these documents are intended to respond to
12 Late-filed Exhibit 43. So we would ask that GBI be marked
13 as that late-filed exhibit.

14 CHAIRMAN DEASON: It will be so identified.

15 BY MR. PFEIFFER:

16 Q Is that correct, Mr. Brown?

17 A Yes. I would like to make it clear this is not
18 all of the late-filed exhibit. We would probably have a few
19 more bills that will be coming in in the next few days that
20 we would like to still submit as a late-filed exhibit, but
21 this is everything that we have knowledge of as of today.

22 MR. PFEIFFER: Mr. Deason, perhaps it would be
23 appropriate to mark the document as Exhibit 43-A to reflect
24 that there may be additional rate case billings.

25 CHAIRMAN DEASON: It will be so identified.

1 (Late-filed Exhibit Number 43-A marked for
2 identification.)

3 MR. PFEIFFER: And the next document, GBG, is
4 intended to be responsive to Staff's request that we update
5 the debt schedules, and I believe those were identified as
6 Exhibit 61.

7 COMMISSIONER KIESLING: You mean GBJ?

8 MR. PFEIFFER: Yes, ma'am.

9 BY MR. PFEIFFER:

10 Q And what is GBJ, Mr. Brown?

11 A This is an exhibit that is not correct that we
12 need to withdraw, that I just saw. That we need to still
13 make this a late-filed exhibit, because this is not -- this
14 is not the one that I saw yesterday.

15 Q All right, sir.

16 A So, let's skip that one.

17 Q We would not identify GBJ as this point, then,
18 and --

19 A It will still be a late-filed exhibit, and we will
20 get it over here tomorrow.

21 MR. PFEIFFER: We were hoping that that would be
22 Number 61, but we will wait on that. And the next exhibit,
23 which is not numbered, is responsive to a request with
24 regard to -- from the Staff regarding 300 Ocean Mile, and we
25 would ask that it be identified. It doesn't have a letter

1 number, but since it's the only one, I think we can identify
2 it as the only one without a letter number in the upper
3 right-hand corner, and ask that it be identified as the next
4 numbered exhibit.

5 CHAIRMAN DEASON: It will be identified as Exhibit
6 Number 61, and it is entitled 300 Ocean Mile-CIAC. I'm
7 sorry, it would be 60.

8 (Exhibit Number 60 marked for identification.)

9 MR. PFEIFFER: I want to thank Ms. Chase for
10 helping me with that. You all no very well I could not have
11 done it myself.

12 BY MR. PFEIFFER:

13 Q Mr. Brown, did you sponsor any exhibits with your
14 prefiled testimony?

15 A Yes, I did. Do you want me to explain this one?

16 Q Yes, sir.

17 A Okay. This is responsive to Staff's request
18 regarding the issue of the 30 lost connections. What we
19 discovered was that these were connections at 300 Ocean Mile
20 Phase 2, which is a project that was built and completed,
21 and CIAC was paid on these connections prior to the last
22 case at \$500 each. That project then went into foreclosure,
23 it was tied up in litigation for years, and was not being
24 served by the utility company. So, during one of the Staff
25 audits in the interim, these did not show up as connections,

1 and they have asked us to document where those 30 are. And
2 we went to the Franklin County building department, and they
3 confirmed that the project was there, that they didn't have
4 a copy of the building permit, they gave us a copy of the
5 application. I know, I saw it built. Ms. Sanders saw it
6 built. We know it was there, and I have the journal where
7 we collected the money in '84, which was prior to the '89
8 tap fee increase. So this is all the documentation that we
9 have been able to locate to show, but I can assure the
10 Commission that that project was built well before the last
11 case, and that we did collect those connections at \$500.
12 And they were not on our customer list before because the
13 project was owned by RTC and then Ken Gordon finally bought
14 it years later, and then we hooked them up and now they are
15 on our CIAC list, so that's the 30 missing connections.

16 MR. PFEIFFER: And there are attached to the
17 prefiled testimony exhibits that are marked at the bottom as
18 I believe A through J, and we would ask that they be marked
19 consecutively as, I believe it would be Exhibits 61 through
20 70, Mr. Chairman.

21 CHAIRMAN DEASON: Those are the prefiled exhibits?

22 MR. PFEIFFER: Yes, sir.

23 CHAIRMAN DEASON: Wouldn't it be easier just to
24 identify those as a composite, or do you want them
25 individually --

1 MR. PFEIFFER: That would be fine, yes, sir.

2 CHAIRMAN DEASON: Okay. Let's identify the
3 prefiled rebuttal exhibits as a composite exhibit, and it
4 will be Composite Exhibit 61.

5 (Composite Exhibit 61 marked for identification.)

6 BY MR. PFEIFFER:

7 Q All right. Having summarized those exhibits,
8 Mr. Brown, is there any additional summary of your testimony
9 that you need to offer?

10 A I don't think so. You know, I had just as soon
11 pass.

12 MR. PFEIFFER: We would ask that Mr. Brown's
13 prefiled rebuttal testimony be inserted into the record of
14 this proceeding.

15 CHAIRMAN DEASON: Without objection, it will be so
16 inserted.

17 MR. PFEIFFER: And we would tender Mr. Brown for
18 cross.

19

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21

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25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **REGARDING THE APPLICATION FOR INCREASED RATES FOR**
3 **ST. GEORGE ISLAND UTILITY COMPANY, LTD.**

4 **IN FRANKLIN COUNTY**

5 **DOCKET NO. 940109-WU**

6
7 **Q. Please state your name, profession and address.**

8 **A. My name is Gene D. Brown. I am an attorney and**
9 **president of Armada Bay Company, the manager of St.**
10 **George Island Utility Company, Ltd. My office is**
11 **located at 3848 Killearn Court, Tallahassee, FL 32308.**

12
13 **Q. Have you previously filed direct testimony in this**
14 **proceeding?**

15 **A. Yes, I have.**

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

18 **A. To respond to the direct testimony of the OPC witness**
19 **Kim Dismukes and several of the witnesses produced by**
20 **the PSC staff.**

21
22 **Q. Would you please proceed with your response to the**
23 **testimony of OPC witness Dismukes?**

24 **A. Yes. My response will generally follow the issues in**
25 **the same order they appear in Ms. Dismukes testimony.**

1 Q. Ms. Dismukes seems concerned about the adjustments
2 which were made between the first case dismissed by
3 order of the Commission, and this case. What is the
4 basic reason that these adjustments were made?

5 A. Basically, the first case dismissed by the Commission
6 prompted me and the other utility employees to take a
7 hard look at the actual cost associated with the proper
8 operation and maintenance of the utility company.
9 However, I fail to see how the earlier case has any
10 relevance, since it was dismissed by order of the
11 Commission before any testimony was presented or before
12 any proceedings were conducted or at least concluded.

13

14 Q. Ms. Dismukes makes comparisons with various and sundry
15 other "Class B" utilities. Do you see any relevance to
16 those comparisons?

17 A. No. I do not see any relevance to what it may cost to
18 operate other utilities that are dissimilar to our
19 utility system.

20

21 Q. What is unique about the St. George Island water
22 system?

23 A. This is one occasion when I agree with Bob Crouch, the
24 PSC staff engineer who was previously assigned to this
25 case. Mr. Crouch has repeatedly stated that the St.

1 George Island water system is "an horrendous system" to
2 maintain and operate. Our well field is spread out on
3 the mainland, some 6 or 7 miles from the plant and
4 approximately 15 miles from many of our customers, who
5 are spread out along a 20 mile stretch of narrow sandy
6 beach and coastal barrier island. I have watched as
7 our wells start up and begin pumping solid black
8 sulphur water that we must transport to the plant,
9 treat, aerate and deliver to our customers with clear
10 drinking water purity. Many of these customers only
11 use their dwellings on a periodic basis, which allows
12 the hydrogen sulfide to build back up in the lines
13 requiring constant daily flushing. Also, many of our
14 customers have shallow wells, which exacerbates our
15 problems with the cross connection control program
16 which we must fully implement from start to finish.
17 Unlike most if not all of the systems cited by Ms.
18 Dismukes for comparison, we do not have a monopoly on
19 St. George Island. Indeed, one of our biggest problems
20 is the constant competition from shallow wells which
21 can be installed without a permit in a matter of a few
22 hours for approximately \$300 each. We are required
23 ready to serve these people with a safe and adequate
24 supply of potable water in case their well fails, as is
25 often the case, but we receive no revenue or assistance

1 whatsoever from all of these shallow wells which
2 operate side by side with septic tanks on small lots.
3 Because the island is approximately 1/4 mile wide on
4 average and is 20 miles long, we have to run many many
5 miles of distribution lines to t-roads and cul-de-sacs
6 which cannot be easily looped for improved service and
7 reliability as would be the case with a traditional
8 orthodox utility system serving a consolidated group of
9 customers, all tied to the system, and all producing
10 revenue. In other words, it is not fair or accurate to
11 compare the St. George Island water system with systems
12 that do have a monopoly where all dwellings and
13 businesses are tied into the system to achieve
14 economies of scale and operating efficiencies. We have
15 to deal with many of the problems caused by these
16 competing shallow wells, but we receive no operating
17 revenue whatsoever from these shallow well customers,
18 resulting in a higher cost per customer for those
19 dwellings and businesses which are on our system.
20 Offhand, I do not know of any PSC regulated water
21 system involving a barrier island 5 miles out in the
22 Gulf with competing water supply sources and with a
23 highly seasonal customer base. The importance of this
24 seasonal customer base cannot be overstated. We have
25 to design, construct, operate and maintain our system

1 for basically three weekends per year, i.e., Memorial
2 Day, July 4th and Labor Day. If we received revenue
3 based upon this design criteria, the system would be
4 much more economically feasible because our ongoing
5 operating revenue from the sale of water would be
6 approximately 2 to 3 times greater than it is based
7 upon our seasonal customer base. I do not believe that
8 the other companies cited by Ms. Dismukes have all of
9 these problems which result in a higher operating cost
10 per actual customer.

11
12 **Q. One of Ms. Dismukes primary problems seems to be with**
13 **the issue of management fees or management's**
14 **compensation. Would you briefly discuss this issue?**

15 **A. During the 1987 test year, our general manager had a**
16 **total compensation package of approximately \$41,000,**
17 **approximately \$34,000 of which was approved and allowed**
18 **in the Commission's order. However, the order also**
19 **directed the utility company to employ a new manager**
20 **with utility or management experience. Based upon**
21 **recommendations from the Commission staff, the utility**
22 **hired an individual who had worked at the Commission**
23 **and who had also managed another regulated utility.**
24 **This manager required a salary of approximately**
25 **\$36,000, but also required a housing allowance and**

1 other benefits including a pension plan, pushing his
2 total compensation into the \$45,000 range. When this
3 manager did not work out, the utility hired another
4 manager who required a base salary of \$36,000 per year
5 as well as other compensation which pushed the total
6 manager's compensation package into the 40's. However,
7 this manager was only willing to work 4 days per week
8 because of his other business commitments. This
9 manager left in the fall of 1991, because the utility
10 was unable to meet his salary demand of \$50,000 per
11 year. This was after the Department of Environmental
12 Protection had filed suit based upon the alleged
13 violation of a consent order negotiated by the
14 utility's management. At this time, the utility's
15 primary lender, Capital City First National Bank,
16 became quite concerned regarding the utility's
17 financial and regulatory prospects. The bank contacted
18 Ben Johnson and Associates and commissioned them to do
19 a comprehensive analysis regarding the utility company.
20 When this comprehensive analysis was completed and
21 submitted to the bank, Ben Johnson and Associates was
22 also asked to present a proposed management contract to
23 take over the management of the utility company. At a
24 meeting with the bank's representatives and myself, Mr.
25 Johnson presented a proposed agreement to manage the

1 utility company for \$6,000 per month, plus all
2 expenses. After considering this proposal, and after
3 discussing the matter with the representatives of
4 Capital City, I questioned whether Mr. Johnson would be
5 able to devote the necessary time and expertise to the
6 utility's management. I also doubted that he would be
7 able to come up with the necessary funds to solve all
8 of the problems facing the utility in the fall of 1991,
9 which he estimated to be in the \$350,000 to \$550,000
10 approximate range, plus the funding of all operating
11 deficits which were expected to run at least \$100,000
12 to \$200,000 per year on the basis of actual cash
13 losses. Because of these concerns and other matters
14 relating to ownership and control, I rejected Mr.
15 Johnson's proposal and proceeded with a management
16 contract between Armada Bay Company and the utility for
17 \$4,000 per month. At that time, I made a decision to
18 basically drop everything else that I was doing or had
19 planned to do, and to devote substantially all of my
20 time, energy and available financial resources to the
21 rehabilitation of the utility company. Since then, I
22 have been spending over 40 hours per week on utility
23 company business. This works out to be less than \$25
24 per hour, including office space, furniture, equipment,
25 etc. This should be compared with the \$50 per hour the

1 utility was required to pay Mary LaBatt, the PSC
2 designated and approved "co-manager" who had absolutely
3 no management experience and who did not provide her
4 own office or equipment, etc. My affiliates have made
5 net loans to the utility company of over \$250,000
6 during the period from January 1, 1992 through June 20,
7 1994. This figure represents the net cash invested by
8 the affiliates in the utility company to solve its
9 problems. In my opinion, the utility could not have
10 survived the last 2 1/2 years without this total
11 dedication in time, energy and especially money; and I
12 do not know who else would have made such an
13 investment.

14

15 Q. Don't you spend a great deal of time with all the other
16 companies mentioned by Ms. Dismukes?

17 A. No. Except for one or two periodic law clients, I
18 spend substantially all of my time managing and
19 representing St. George Island Utility Company, and I
20 have done so from late in 1991 until this time. I
21 expect to continue doing this until the utility
22 receives fair and adequate rate relief, and until the
23 utility can be placed on a sound financial footing, via
24 new long-term financing. After that, the utility will
25 still require professional management, either from me

1 or someone equally qualified to manage a fast growing
2 utility company on St. George Island.

3

4 **Q. How active are the other companies referred to by Ms.**
5 **Dismukes?**

6 **A.** Except for the law firm, they are all basically
7 inactive. They are companies that were built up during
8 the 70's and early 80's when I was actively involved in
9 the development of St. George Island and other
10 projects. I have had no such involvement for quite
11 some time, and substantially all of these companies
12 either have been or are being phased out, both with IRS
13 and the Florida Department of State's Office.

14

15 **Q. How active is your law practice?**

16 **A.** Except for one or two periodic clients, including one
17 old friend, I do not have a law practice. For various
18 reasons, I have elected to keep a sign on the door, but
19 I am really not "practicing law" because of the time
20 and effort required in managing the utility company. I
21 decided to make this commitment almost three years ago,
22 and I do not plan to return to the active practice of
23 law until and unless the remaining problems facing the
24 utility company are resolved, including this rate case,
25 the pending revocation proceeding, and the necessary

1 long-term refinancing of the utility's operations.
2 During 1992, I made very little from the practice of
3 law, except for the money paid to my law firm by the
4 utility company. During 1993 and the last half of
5 1994, I have made next to nothing practicing law or
6 doing anything other than managing St. George Island
7 Utility Company. This situation will continue as long
8 as I actively manage this company, which takes
9 substantially all of my time and energy.

10

11 **Q. Do you believe that the management fees and related**
12 **management compensation set forth in the MFR's are**
13 **reasonable and fair?**

14 **A.** Upon reflection, and being as objective as possible, I
15 believe that a general management fee or general
16 manager's salary should be \$42,000 per year, together
17 with a reasonable and necessary compensation package to
18 include a health insurance allowance, a transportation
19 allowance, a pension plan, and cellular phone service.
20 Of course, the manager will need a place to work,
21 including furniture, office equipment and at least one
22 telephone line, in addition to the telephone service
23 provided for the accounting and billing department of
24 the utility which has three full time employees and
25 one part time accountant.

1 Q. What lead you to this conclusion?

2 A. In making this analysis, I have tried to remove myself
3 from the equation. In other words, I have tried to
4 consider what it will take to attract and maintain a
5 qualified professional manager if and when I decide to
6 give up this job. Over the years, I have advertised
7 for and interviewed dozens of prospective utility
8 company managers, and I have hired at least three. At
9 all times, I was trying to find the best manager for
10 the money, but the total compensation package always
11 came down in the \$40,000 to \$50,000 range, even before
12 the complexities and greater number of customers which
13 were represented by the 1992 test year. In retrospect,
14 I believe that the management fee of \$6,000 per month
15 demanded by Ben Johnson in the fall of 1991 was fair
16 and reasonable based upon the problems which had to be
17 solved by the manager. And while the problems should
18 not be as great in the future, there will nevertheless
19 be a continuing need for full time competent
20 professional management to manage the fairly
21 complicated operations and responsibilities of a
22 private utility company serving a large barrier island
23 in a rapidly growing area of Florida. This Commission
24 has recognized deficient management in the past, and it
25 will take adequate compensation to continue competent

1 professional management in the future, even though the
2 previous problems facing the utility have been
3 substantially solved. I also reviewed and considered
4 the MFR benchmark analysis obtained from the PSC staff,
5 which is based upon an increase factor considering
6 combined growth and the CPI percentage of increase.
7 According to my analysis of this PSC staff benchmark,
8 the equivalent manager's salary in the test year 1992
9 would be between \$65,000 and \$70,000 plus other
10 benefits and expenses relating to the manager. And
11 while I do not believe it will actually take that much
12 to find a competent manager, it will take at least
13 \$42,000 per year plus the ordinary and reasonable
14 benefits and related expenses that I discussed earlier.

15
16 **Q. Ms. Dismukes argues that the management compensation**
17 **package should be reduced because the utility has**
18 **"consistently" been in violation of PSC and DEP rules**
19 **and regulations. Do you agree?**

20 **A. No. This is the same type of circular reasoning and**
21 **bootstrap arguments that the utility's management has**
22 **been fighting for years. Under prior management, the**
23 **utility admittedly had various problems, including some**
24 **violations. However, I thought, or hoped, that the**
25 **slate had been wiped clean in the fall of 1991 with the**

1 Commission approved settlement agreement which resulted
2 in a \$5,000 fine against the utility. To my knowledge,
3 this is the only fine ever assessed against this
4 utility in its over 15 years of PSC regulated
5 operations. This may not be an admirable record, but
6 one negotiated fine of \$5,000 over a span of more than
7 15 years does not justify punishing this utility for
8 all the years to come so that it will not have adequate
9 revenue to hire competent management to avoid the
10 problems of the past. Regarding the alleged DEP
11 violations, I would point out that the utility has had
12 one negotiated and agreed to fine of a few thousand
13 dollars in its over 15 years of regulation by the
14 Department of Environmental Protection and its
15 successors. Again, it does not seem appropriate to
16 penalize the utility in the future when the result will
17 be to make it extremely difficult if not impossible to
18 find or maintain a manager to avoid the problems of the
19 past.

20

21 Q. Is the \$24,000 per year as set forth in the MFR's a
22 fair and reasonable amount for attorneys' fees?

23 A. Again, upon reflection and trying to be as objective as
24 possible, I believe that \$24,000 was fair and
25 reasonable during the test year, and during 1993 and

1 early 1994. However, if I optimistically assume that
2 the utility will be able to obtain reasonable rates to
3 cover its day to day operations, which will help avoid
4 some of the crises faced by the utility during the past
5 several years, I believe that legal expenses should
6 level out. Even without the regulatory problems of the
7 past, however, this utility company will still need
8 professional legal advice and services. Attached as
9 Exhibit "A" to my testimony is an answer to one of the
10 PSC staff's questions regarding the obligations and
11 responsibilities of the utility's management. This
12 includes constant dealings with various regulatory
13 agencies, all of whom are administering detailed and
14 complicated rules and procedures. This includes the
15 Northwest Florida Water Management District, the Public
16 Service Commission, the Department of Environmental
17 Protection, and other agencies with ever changing rules
18 and regulations. Any manager is going to need advice
19 and representation from time to time regarding these
20 complicated rules and procedures as a type of
21 "preventative law" to avoid the regulatory problems of
22 the past. The utility also has to constantly deal with
23 other groups, such as the St. George Island Volunteer
24 Fire Department, the St. George Plantation Owners'
25 Association, the St. George Island Civic Club, the

1 Franklin County Commission, and other groups or
2 agencies who have an ongoing interest in dealing with
3 the utility company. This requires the drafting of
4 documents and agreements. The utility must constantly
5 negotiate and deal with its customers and potential
6 customers, including many different developers who need
7 service agreements, developer agreements and related
8 legal documents. These documents either have to be
9 drafted by the utility, or the utility must review
10 revised drafts submitted to it on an ongoing basis.
11 All of this takes time and legal expertise. In
12 managing this utility company, I have actually hired at
13 least six or eight outside lawyers and I have either
14 interviewed or negotiated with numerous other utility
15 company lawyers. Based upon my experience, the
16 prevailing hourly rates for utility lawyers in the
17 Tallahassee area is from \$135 to \$250 per hour. During
18 the 1992 test year, the utility company spent over
19 \$12,000 in outside lawyers, in addition to the fees
20 paid to my firm. On one occasion, we hired a utility
21 lawyer to attend one agenda conference and to provide
22 some basic research and advice regarding the utility's
23 pending problems with the PSC staff. The bill was
24 approximately \$10,000. On another occasion, I hired a
25 lawyer to make a five minute appearance at an agenda

1 conference, and his bill was almost \$3,000. When I was
2 trying to hire a lawyer to handle the PSC's attempt to
3 remove me as general manager and to fight the pending
4 revocation proceeding, the best estimate I received as
5 a total fee from start to finish was \$100,000. And
6 while this type of legal expense is not anticipated,
7 this company will require some reasonable level of
8 ongoing legal expenses even assuming the dismissal of
9 the pending revocation proceeding and the lack of any
10 additional show cause hearings or attempts to remove
11 management.
12

13 **Q. What do you think the minimum legal expense requirement**
14 **will be?**

15 **A.** I do not see how this utility company can operate on a
16 ongoing basis for anything less than \$1,000 per month
17 or \$12,000 per year. At an average hourly rate of
18 \$150, this will include approximately 6 to 7 hours per
19 month. Based upon my detailed time records, I have
20 been spending more than twice this amount on bona fide
21 legal matters for the past six months or so. If the
22 utility is to avoid the problems of the past, it must
23 have a reasonable and adequate amount of revenue for
24 legal advice and representation. A minimal amount of
25 \$1,000 per month, or \$12,000 per year, is still less

1 than half of the actual amounts paid by the utility
2 during the test year 1992. Of course, if the
3 Commission proceeds with ongoing attempts to remove
4 current management or to revoke the utility's operating
5 certificate, the utility's legal expenses will be
6 astronomical.

7
8 Q. Ms. Dismukes argues that with proper management, the
9 utility will not have any violations and will therefore
10 not require legal representation. Do you agree?

11 A. The tone and tenor of Ms. Dismukes' testimony assumes
12 that the utility company is always wrong, that DEP, the
13 PSC staff, and all other developer customers and other
14 groups or agencies dealing with the utility are always
15 right. That is not necessarily true. For example, all
16 of the utility's engineers and management team believe
17 that DEP is "dead wrong" in its current position that
18 the utility is legally required to construct new
19 parallel 8" line from the well field some 5 or 6 miles
20 across the bridge to the plant. Using Ms. Dismukes'
21 approach, the utility could simply capitulate and build
22 the line at a cost of approximately \$800,000 to its
23 customers; or it could employ competent legal counsel
24 to negotiate or fight for a more reasonable and
25 economically feasible solution. There are numerous

1 other examples, such as the utility's successful
2 defense of PSC staff's attempt to remove current
3 management and the related show cause proceedings which
4 were successfully defended. However, the point is
5 simply that complicated companies require legal advice
6 and representation, and it would not fair for this
7 Commission to tie the hands of the utility's management
8 by substantially disallowing all legal expenses based
9 upon Ms. Dismukes' continuing conclusion that the
10 utility is always wrong.

11

12 Q. Ms. Dismukes argues that the utility's test year
13 revenue should be increased to make it "consistent with
14 a 1993 test year," because the utility is asking for
15 certain adjustments that were not present during the
16 actual test year in 1992. Do you agree?

17 A. No. The requested adjustments have nothing whatsoever
18 to do with growth or increased demands on the system.
19 Instead, they are simply known and measurable changes
20 which properly reflect expenses that should have been
21 incurred during the 1992 test year in order for the
22 utility to meet its commitment to provide safe and
23 reliable service to all of its customers. Many of
24 these adjusted expenses have already been incurred, and
25 sound management dictates that the other expenses must

1 be incurred if the utility is to continue providing
2 safe and adequate water service.

3

4 Q. Would you please discuss these adjustments, commencing
5 with the question of salary increases?

6 A. First, let me point out that Ms. Dismukes' testimony
7 regarding the alleged rates of increase is misleading
8 and deceptive. For example, Hank Garrett was hired in
9 December of 1990 for a base salary of \$22,400, with
10 health insurance coverage of \$4,680 per year, and with
11 transportation reimbursement of \$10,400 per year, for a
12 total compensation package of \$37,480. After one or
13 more small incremental raises from the time Mr.
14 Garrett was hired in 1990, he ended up with a final
15 adjusted salary of \$32,500, with a \$3,600 annual health
16 allowance, and with \$5,200 as a total annual
17 transportation allowance, for a total compensation
18 package of \$41,300 at the end of 1993 with is still in
19 effect as of the date of this testimony. According to
20 my calculations, this results in an increase of
21 approximately 10% between 1990 and 1994 in Mr.
22 Garrett's total compensation, which is substantially
23 less than 5% per year. It certainly does not represent
24 a 39% annual increase, as argued by Ms. Dismukes. I
25 will not take the time to go through each and every

1 other utility company employee. Suffice it to say that
2 considerable thought and analysis has been devoted to
3 the question of employee compensation. The respective
4 compensation packages of the various employees have
5 been established at fair and reasonable levels that are
6 necessary to maintain the services and devotion of
7 these employees. It is important to maintain
8 continuity of operations in the utility business, and
9 we would have substantial turnover if our existing
10 employees who have proven themselves are not paid
11 adequately. The current compensation packages only
12 reflect a modest annual increase, when one considers
13 the original compensation paid to the respective
14 employees at the time they were hired rather than
15 simply taking their compensation immediately before and
16 immediately after the last adjustment. I have been
17 promising the utility company employees that they would
18 be adequately compensated from the time they were
19 hired, but they recognized that adequate compensation
20 would probably not be possible until and unless the
21 service related problems were first solved. Now that
22 all of the water service problems have been solved, and
23 all of the necessary physical improvements have been
24 made to the system, it is only fair and right that the
25 employees who made these improvements possible now be

1 adequately compensated as promised by management. I
2 have never knowingly paid any utility employee more
3 than he or she was worth. However, I cannot continue
4 to maintain the necessary employees to provide the
5 current level of service if the Commission forces me to
6 cut their salaries or employee benefits because this
7 will force all or most of them to leave.

8

9 **Q. Ms. Dismukes seems to think that the second field**
10 **assistant is seasonal and should not be allowed on a**
11 **twelve month basis. Do you agree?**

12 **A. No. When I rehired Hank Garrett as our Class "C"**
13 **operator in the winter of 1990, it was possible for him**
14 **to spend some time working in the field on the system**
15 **along with the first field assistant. At that time,**
16 **however, I promised him as a condition of his**
17 **employment that it would not be necessary for him to**
18 **continue working seven days per week around the clock**
19 **if he would dedicate himself to solving the various**
20 **problems facing the company at that time. Since Mr.**
21 **Garrett was hired, the complexity of the operation has**
22 **changed considerably, and the testing, compliance and**
23 **record keeping duties now require most of his time.**
24 **When he was hired, his testing was done by Southern**
25 **Water Services, Inc. at a cost of almost \$1,000 per**

1 month. In addition, the cross connection control
2 program, the ongoing system audit and mapping, and the
3 new required flushing schedules demand the services of
4 another full time employee on a year-round basis.
5 According to the Baskerville-Donovan engineering
6 analysis, a new forced air aerator will not necessarily
7 help the hydrogen sulphur problems on the island.
8 These problems are primarily caused by the build-up of
9 hydrogen sulfide in our many dead end lines which
10 remain unused for long periods of time between the
11 infrequent seasonal visits to the island by many of our
12 customers. Based on this engineering analysis, we have
13 initiated a new daily flushing program throughout the
14 system. This flushing program, along with the doubling
15 of the size of our existing aerator, has substantially
16 solved the hydrogen sulfide problems on the island. It
17 should be noted that this problem is even worse during
18 the fall and winter months because this is when the
19 system is used the least, causing the build-up of
20 hydrogen sulfide, requiring even more vigilance in the
21 daily flushing program. The fall and winter months are
22 also the time during which the employees have time to
23 analyze and conduct the ongoing system audit, to bring
24 the maps up to date, and to make the necessary
25 maintenance repairs that should be made during the

1 year. Regarding maintenance and repairs, it should
2 also be noted that the utility saves a great deal of
3 money for its rate payers by not contracting very many
4 repairs. Both of our field assistants have experience
5 in plumbing and carpentry, and one of the two field
6 assistants has extensive electrical knowledge and
7 experience. This allows the utility to save
8 considerable sums that would otherwise have to be spent
9 for outside repairs and maintenance. These savings
10 will not be possible, and the company will not be able
11 to meet its ongoing responsibilities, if the utility is
12 forced to discharge or only use one of its employees
13 part time.

14
15 **Q. Do you believe that the allocation of Ms. Chase's**
16 **salary of 2/3 to the utility and 1/3 to the law firm is**
17 **fair and equitable?**

18 **A. Yes, I believe it is more than fair and equitable. As**
19 **I stated earlier, I only have one or two periodic law**
20 **clients and Ms. Chase spends almost no time helping me**
21 **take care of those clients. My main client basically**
22 **requires only consultation and advice by telephone. I**
23 **do not represent him in any litigation and there is**
24 **very little secretarial work connected with my law**
25 **practice. Ms. Chase spends at least 40 hours per week**

1 working strictly on utility company matters. She is
2 the corresponding secretary and assistant to all of the
3 operations people on the island, as well as the
4 accounting and billing staff here in Tallahassee. In
5 other words, she writes and types substantially all of
6 their correspondence. She handles substantially all of
7 the utility's contacts and correspondence with its
8 customers, including developers and potential
9 customers. She has handled substantially all of the
10 special projects of the utility, such as customer
11 surveys, pension fund planning, insurance coverage
12 negotiations, etc. She also has total full time
13 responsibility for the ongoing and growing cross
14 connection control program. According to the DEP
15 testimony filed by the PSC staff, this alone requires
16 100% of the time of one person. According to Ms. Chase
17 and based upon my experience and knowledge in the
18 overall supervision of the utility including the cross
19 connection control program, I believe that this program
20 alone will take substantially all of Ms. Chase's time
21 as soon as it is fully implemented. As soon as this
22 rate case is concluded, Ms. Chase will devote the
23 necessary time to update the program so that all
24 required customers are brought under it as set forth in
25 our approved policy.

1 Q. Do you believe that an adjustment is necessary to
2 reflect the use of furniture and office equipment by
3 affiliates of the utility company?

4 A. No. Substantially all of the furniture and equipment
5 used by the utility company is owned by Armada Bay
6 Company. This is all covered by a written lease
7 agreement between Armada Bay and the utility, a copy of
8 which is attached as Exhibit "B." The utility company
9 not only gets the benefit of substantially all the
10 office equipment and furniture in the downstairs
11 portion of the utility company's office, they also get
12 the use and benefit of all of the office furniture and
13 equipment used by myself and Sandra Chase in the
14 upstairs portion of the office. This amounts to at
15 least 35 or 40 hours per week by me and at least that
16 much by Ms. Chase.

17

18 Q. Why do you need an adjustment for tank maintenance?

19 A. The utility recently installed a new elevated tank
20 constructed of sheet metal. The warranty on the
21 elevated tank has expired, and it is beginning to rust.
22 If is not properly maintained, it will rust through
23 allowing rust into our water. Also, the tank will
24 become unstable and unusable over a period of time. We
25 have always maintained our ground storage tank, but the

1 roof is almost 20 years old and needs to be repaired.
2 Also, the precast concrete siding is beginning to leak,
3 and needs to be sealed. Both of these tanks need to be
4 maintained on an annual basis as recommended by our
5 engineers. We have received two written bids for this
6 work, and we have decided to take the lower bid from
7 Eagle Tank Company, a copy of which is attached as
8 Exhibit "C." Mr. Tim McDaniel of Eagle Tank has
9 confirmed to the utility's management that there has
10 been no negligence in the past in maintaining either of
11 these tanks, and all of the bid relates to maintenance
12 work, including the roof which is a maintenance item.
13 I have not signed a contract with Eagle Tank Company
14 yet, because the PSC staff recently advised me that
15 three bids should be obtained. I am waiting for the
16 third bid. If it is lower, it will be accepted in lieu
17 of the Eagle Tank bid. This bid will be received prior
18 to the hearing, and I will be in a position to testify
19 about it at that time.

20

21 **Q. Is the adjustment for pipe cleaning necessary?**

22 **A. Yes.** Our engineers and the Florida Rural Water
23 Association have recommended that our pipes be cleaned
24 to cut down on turbidity, to assist in our leak
25 detection program, and to enhance the flow and pressure

1 capacity of the system. We especially need to clean
2 the main transmission line from the well field to the
3 plant. It is extremely important to maintain the 8"
4 diameter of this pipe, and to cut down on all flow
5 restrictions and turbidity problems. Attached as
6 Exhibit "D" is an updated estimate just to clean this
7 portion of the pipe, which badly needs to be done.
8 Based on recent statements of the PSC staff, I have
9 requested two additional bids on this work, which will
10 be provided prior to the hearing. I will be in a
11 position to testify regarding the bids at the hearing,
12 and we would very much like to be able to do this work,
13 beginning with the transmission line from the well
14 field to the plan. This is both a capacity and quality
15 of service matter, and we cannot fully and adequately
16 meet our responsibilities unless this work can be done.

17

18 **Q. Is an adjustment for insurance necessary?**

19 **A.** Yes. The utility company has always needed insurance,
20 and management cannot fully meet its responsibilities
21 unless adequate insurance is provided. Until recently,
22 the utility simply did not have and could not raise the
23 necessary funds to purchase adequate insurance while
24 making all of the necessary service improvements that
25 were required. Now that all the necessary improvements

1 have been made, and the quality of service is high, the
2 utility has purchased adequate insurance which is now
3 in effect as shown by Composite Exhibit "E" attached.
4 This insurance was purchased after full negotiation
5 with and the receipt of bids from at least three
6 insurance agents. This insurance is needed for a
7 number of reasons, including the fact that lack of
8 insurance could well result in a long term outage of
9 water service. For example, in 1985, the hurricane
10 destroyed the main transmission line from the mainland
11 to the island. Because the utility company had
12 adequate coverage, we were able to immediately repair
13 and replace the line at a tremendous cost to the
14 insurance company, not to the utility. Without this
15 insurance, water service to the entire island would
16 have been out for a considerable period of time. With
17 the insurance, we were able to have the system back on
18 line within one week by working night and day to repair
19 and replace the transmission line. This was several
20 weeks earlier than the electric company and the phone
21 company restored service, and it was over a year before
22 the state repaired the access bridge to the island.
23 This insurance is a reasonable and ordinary business
24 expenditure. The money has been spent, the insurance
25 is in effect, and the bills has been paid. The entire

1 first year's premium for casualty insurance and
2 liability insurance has been paid in full, and a major
3 portion of the workers' compensation has been paid.
4 The remainder will be paid as agreed with the insurance
5 company.

6

7 **Q. Is the pension plan necessary?**

8 **A.** Yes. I have personally promised the utility company
9 employees over the past several years that the utility
10 would establish a pension plan for their benefit if
11 they would stay with the company and help solve all of
12 its problems. These dedicated employees are the reason
13 that the problems have been solved, so that safe and
14 adequate water service is now provided to the customers
15 on St. George Island. Hank Garrett left a secure job
16 with the City of Apalachicola which had a good pension
17 plan because I promised him that this utility company
18 would also provide normal, ordinary benefits, including
19 a pension plan, if he would devote himself to bring
20 this service up to a high level. I am not a part of
21 the plan, but it would be unfair and unreasonable for
22 the Commission to disallow our plan which is for the
23 sole benefit of the dedicated employees who stay with
24 the company. In any business, and especially the
25 utility business, it is extremely important to maintain

1 continuity of employment. We now have an outstanding
2 group of employees who have stayed with the system
3 through a very rough period, and their dedication and
4 continued employment is vital to the success of this
5 utility company. Our plan was established as of
6 January 1, 1994, to be funded semi-annually. The first
7 semi-annual payment of \$3,293.70 has been paid to IDS
8 Financial Service, which is the independent Merrill-
9 Lynch subsidiary that is responsible for administering
10 the funds in a safe manner. I cannot properly manage
11 this company unless I have the ability to provide
12 adequate compensation to its employees, including
13 benefits such as the pension plan to maintain their
14 dedication and continued employment. Attached as
15 Exhibit "F" is the documentation regarding the pension
16 plan.

17

18 **Q. Is the hydrological study necessary?**

19 **A.** Yes. The North Florida Water Management District has
20 required this study as a condition precedent to the
21 utility's continued withdrawal of water from the
22 Eastpoint area. The management district recently
23 granted a temporary permit allowing us to exceed the
24 withdrawal rate as set by the permit previously in
25 effect. However, they have required that a final

1 hydrological report be submitted to them on or before
2 July 12, 1994. The original estimate as to the cost of
3 this study set forth in the MFR's was \$45,000.

4 However, I was able to obtain the complete study for
5 \$12,000. All of this \$12,000 has been paid by the
6 utility, as shown by the documentation attached as
7 Exhibit "G," and the study will be presented to the
8 district on or before next Tuesday, July 12, 1994.

9 This permit was necessary to continue serving the
10 number of customers we had in 1992. If we are
11 successful in having the permit modified for increased
12 withdrawal capacity, it will take us through 1995 based
13 on our current rate of growth. We will need another
14 permit modification in early 1996. Accordingly, I
15 believe that the \$12,000 should be amortized over two
16 years, or \$6,000 per year. All of our other estimates
17 for this work were much higher, and the \$12,000 cost is
18 reasonable. Indeed, it was a bargain based upon the
19 other estimates.

20

21 **Q. Why is another engineering analysis necessary?**

22 **A.** In 1992, the utility company filed a comprehensive
23 analysis with both DEP and the PSC. After initially
24 advising us that the report was complete and thorough,
25 DEP recently advised us that the report is fatally

1 flawed because it concluded that the supply of water to
2 the island would not be a problem for the next ten
3 years. Based upon the original Baskerville-Donovan
4 report, the utility had planned a series of
5 improvements as set forth in the ten year build-out
6 schedule of the report, but these improvements did not
7 include any improvements to the supply system from the
8 mainland, except for the third well, which has been
9 completed and is now on line. However, DEP recently
10 advised the utility in writing that the utility will be
11 out of capacity almost immediately unless the utility
12 constructs a new parallel supply line from the well
13 field to the island. The cost of such a line will be
14 approximately \$800,000. Also, the PSC staff has raised
15 an issue as to the capacity of the system. Based upon
16 all of these and other factors, I decided that it would
17 be wise and prudent to obtain an updated engineering
18 analysis to guide the utility's actions, both for the
19 short and long term. I cannot simply rely upon the
20 Baskerville-Donovan report, which is totally at odds
21 with the DEP position. These two positions are
22 diametrically opposed to each other, and I have to
23 decide which way to go. If I proceed to spend utility
24 company money based upon the Baskerville-Donovan
25 report, this could be considered an imprudent expense

1 in the future in light of the firm written position of
2 DEP, and the current questions being raised by the PSC
3 staff. I have obtained a firm price for this work of
4 \$12,000, and I have commissioned this work to be done
5 immediately. We are trying to have at least a
6 preliminary report ready prior to the hearing, so that
7 I can report the preliminary conclusions to the
8 Commission and its staff in response to the issue which
9 they have raised regarding capacity. This is a serious
10 question, which must be handled immediately, and as a
11 manager I had no reasonable choice but to proceed with
12 an updated engineering analysis. I did this after
13 obtaining bids from three engineering firms. I took
14 the lowest and best bid, and it is reasonable that this
15 expense be included in this rate case. Another
16 engineering analysis probably will not have to be done
17 for the next two or three years, so the expense should
18 be amortized over a reasonable period of time.

19

20 **Q. Public Counsel has argued that the revised aerator**
21 **analysis is not reasonable or proper. Do you agree?**

22 **A. No. The original aerator analysis was complete and**
23 **thorough. It was done by a competent, highly respected**
24 **engineering firm for a reasonable price. For some**
25 **reason, DEP wants additional and highly esoteric**

1 chemical analysis done. Such chemical analysis is
2 beyond the capacity of our testing lab, which is only
3 able to test for hydrogen sulfide content within
4 certain parameters. In fact, I know of no rule that
5 even requires the utility to test for hydrogen sulfide.
6 We have contracted for Baskerville-Donovan to revise
7 its aerator report, and they have agreed to do so for a
8 reasonable price. This final revised report will be
9 ready prior to the hearing, and can be presented at
10 that time if requested. As a manager, I have no way to
11 guarantee that all of our engineering analyses will be
12 accepted by any agency or agencies, including DEP. I
13 acted reasonably in hiring Baskerville-Donovan to do
14 the original report, and I have acted reasonably in
15 requesting Baskerville-Donovan to do a revised report
16 based upon the correspondence from DEP. The cost of
17 both of these reports should be allowed as a proper
18 expense.

19

20 **Q. Why do you need a fire protection study?**

21 **A.** During the past several years, the issue of fire
22 protection on St. George Island has been highly
23 controversial. The DEP and PSC staffs have held
24 meetings with the island representatives as well as the
25 state fire marshall's office regarding this issue. The

1 utility company constantly receives questions and
2 complaints regarding the level of fire protection on
3 St. George Island. There is a great deal of heat but
4 very little light regarding this subject. Thus far,
5 this utility company has been excluded from the debate,
6 although we are the only ones who can really deal with
7 the problem. In 1992, the state agencies and all of
8 the island representatives held a comprehensive 2-3
9 hour meeting to discuss and analyze this issue.
10 However, I was asked not to attend so I did not. The
11 utility company wants to deal with this issue on a
12 professional, objective basis. This issue should not
13 be used to simply criticize the utility company and to
14 prevent growth on St. George Island. The utility
15 system was never designed as a fire protection system,
16 it was designed as a potable water system capable of
17 providing a safe and adequate water supply. The
18 utility company is, however, ready, willing and able to
19 provide adequate fire protection via its water system
20 within a reasonable time. In order to do this, the
21 utility's engineers must first analyze the current
22 system, determine what level of fire protection is
23 reasonable and necessary on the island, determine the
24 most efficient and cost effective method of providing
25 such protection, and determine whether there is a

1 consensus among the rate payers and the agencies,
2 including the PSC, to provide the utility with a means
3 of recovering its investment in the necessary fire
4 protection improvements. In other words, we cannot
5 adequately deal with this question in the dark, and it
6 makes no sense to me to simply start spending money for
7 improvements that may or may not really be reasonable
8 or prudent in terms of fire protection capacity. Our
9 original bid for doing such a study was \$30,000. Since
10 then, we have received two other bids for the study,
11 the lowest one being \$12,000 as shown by Exhibit "H,"
12 which also includes the engineering analysis bid. If
13 the Commission agrees that this is a reasonable and
14 prudent expense, we will immediately proceed with the
15 study. If not, the study will not be done and we will
16 continue to deal with the fire protection issue to the
17 best of our ability without a study.

18

19 **Q. Public Counsel has questioned the need for the**
20 **utility's payment of the corporate filing fees**
21 **connected with Leisure Properties, Ltd. Would you**
22 **address this issue?**

23 **A. Yes. The only reason that Leisure Properties has**
24 **continued in existence is because it has to continue**
25 **servng as a general partner of the utility company,**

1 which is a Florida limited partnership. Public Counsel
2 has implicitly criticized this business format;
3 however, it should be pointed out that this saves the
4 rate payers a great deal of money because this type of
5 partnership is not required to pay corporate income
6 tax, as would be the case with an orthodox C
7 corporation. This distinction is especially important
8 in our case, because under the IRS reporting
9 requirements, all CIAC is included as taxable income,
10 which would soon result in tens of thousands of dollars
11 each year in corporate taxes that would have to be
12 included as expenses to be paid by the rate payers,
13 even before there is any income shown on the books
14 based upon PSC approved accounting, which does not
15 include CIAC as part of operating revenue. This small
16 expense is reasonable and should be allowed.

17

18 **Q. Why should the utility company pay 1/2 of the cost of**
19 **your cellular phone?**

20 **A. I constantly use my cellular phone for utility company**
21 **business. There have been numerous occasions when Hank**
22 **Garrett was able to reach me on my cellular phone**
23 **regarding emergencies that could have resulted in**
24 **complete water outages if I had not been able to**
25 **respond. On one occasion I was in the middle of Lake**

1 Miccosukee fishing. On two other occasions I was out
2 hunting early in the morning during the weekend. I
3 normally talk to Hank and the other utility company
4 employees on my mobile phone several times a day. I
5 spend at least 35-40 hours per week working on utility
6 company business, and I am on call 24 hours per day 7
7 days per week, 365 days per year. At least 80% of the
8 use of my cellular phone is water company related,
9 although the water company only pays 50% of the cost.
10 I constantly use my home telephone for long distance
11 calls to Hank and for calls to other utility company
12 employees, although none of this expense is charged.
13 Sandra Chase uses her separate mobile phone for utility
14 company business practically every day, although none
15 of this is charged to the utility company. Under all
16 of these circumstances, it is reasonable for the
17 utility company to pay the small cost represented by
18 50% of my cellular phone. The utility company
19 employees and I have made a commitment that we will
20 never again be without water on St. George Island
21 because of any lack of operating efficiency on the
22 utility's part. In today's high tech world, cellular
23 phones are part of efficient business operations,
24 especially for a utility company which must deal with
25 emergencies and other crises which relate to the

1 continued maintenance of water service. My phone was
2 obtained in the name of Sandra Chase, because she
3 already had her phone and an account with the phone
4 company which eliminated the requirement for a deposit
5 from the utility company. This saved the utility
6 company money, and was reasonable under the
7 circumstances.

8
9 Q. Do you believe that the utility's expenses for
10 electricity and chemicals should be reduced because you
11 have become so efficient in your leak detection
12 program?

13 A. No. Although we have been working extremely hard on
14 our leak detection program to reduce our water losses,
15 our actual loss for 1993 was 12.3%, as shown by our
16 current revised calculations. The standard rule of
17 thumb is 10%, although the last rate case allowed 15%
18 because of the extraordinary circumstances existing on
19 St. George Island. We have been extremely diligent in
20 the ongoing leak detection program, and we are
21 determined to hold this figure down, but we should not
22 be penalized or punished for doing a good job one month
23 out of the year as argued by Public Counsel's witness.
24 Also, it should be noted that the Rural Water report
25 which related to only one month was not calculated on

1 the same basis that DEP and PSC normally calculate this
2 figure. For example, the Rural Water Association makes
3 adjustments for the assumed inaccuracy of a certain
4 number of meters and other factors which distort the
5 overall figures. In my opinion, the utility will
6 continue to be able to hold its unaccounted for water
7 around 15% or less. It was approximately 15% in 1992,
8 a little over 12% in 1993, and will probably continue
9 in that range in the future. We now have a better
10 handle on the water that is flushed by our staff, and
11 the water that is used by the volunteer fire department
12 in the fire fighting efforts. We will continue to do
13 the best we can in this regard, but it does not make
14 sense to build in a disincentive by penalizing the
15 utility company for doing a good job as suggested by
16 Ms. Dismukes.

17

18 **Q. Should the repair cost on the generator be thrown out?**

19 **A.** No. It is my understanding that these costs were
20 normal maintenance items, including damage from
21 lightning strikes. We will continue to have
22 maintenance expenses of this nature, whether we have a
23 new generator or an old generator. In fact, the
24 generator repair costs may well increase because we now
25 have two generators instead of one, which is all we had

1 during the 1992 test year.

2

3 Q. Public Counsel has raised a question regarding the
4 payment of any rate case expense to you as an attorney,
5 indicating that you should not receive the \$20,000
6 estimated in the MFR's for a "rate case attorney." Do
7 you have any comment?

8 A. Yes. The reference to a "rate case attorney" in the
9 MFR's was never intended to refer to me or my firm. It
10 was always my intent to hire independent counsel as
11 soon as the utility could afford such services, but
12 well prior to the hearing in any event. We have
13 selected Steve Pfeiffer, whose total fee will probably
14 at least \$30,000. I have spent a great deal of time
15 directly working on the rate case. However, none of
16 this time is being charged to this case or to the rate
17 payers.

18

19 Q. Why does the utility company need to spend \$500 per
20 year for ongoing engineering services?

21 A. The utility company has to constantly, on a day to day
22 basis, make engineering decisions. This requires
23 continuous consultation with an advice from one or more
24 engineers. During the test year of 1992, the utility
25 company spent approximately \$100,000 for engineering

1 services. During 1993, the utility company spent
2 almost \$50,000 for engineering services. During the
3 first six months of 1994, we have incurred
4 approximately \$50,000 for engineering expenses. In
5 other words, our actual expenditures during the past
6 two or three years have been in the \$75,000 to \$100,000
7 range. This has enabled me and Hank Garrett to have
8 ample advice from engineers. Even though these large
9 engineering expenditures are not expected to continue
10 at the same level in the future, we definitely need
11 access to an engineer on an ongoing basis. Engineering
12 fees are expensive, but I constantly have to meet with
13 various agencies and groups, such as DEP, as well as
14 various owners and developers, many of whom are
15 represented by their own engineers. This means that we
16 need to have either in-house engineering advice and
17 consultation, or we need an outside consulting engineer
18 regarding various engineering and capacity issues. The
19 services of Wayne Coloney have been invaluable to the
20 utility company, because I constantly rely upon him to
21 review engineering matters and to advise me as to what
22 the utility should do. It is unfair and unreasonable
23 to expect the utility's company's management to
24 properly do its job and make sound
25 engineering/financial/capacity/service decisions

1 without adequate engineering advice, especially when
2 almost all of the people we deal with have their own
3 independent engineers. There will always be a need for
4 engineering services in running a complex utility
5 system such as this. Based on my 25 years of
6 management experience, I determined that a basic,
7 minimal retainer agreement is the best and most cost
8 efficient way to obtain these services. I have seen
9 nothing in any of the testimony to indicate that Wayne
10 Coloney is not an outstanding engineer, or that he is
11 not worth what we are paying him. I have also not seen
12 anything to indicate that the utility could have
13 obtained the necessary services for less than \$500 per
14 month during the test year, or that we will be able to
15 obtain the needed engineering services in the future
16 for less than \$500 per month. Accordingly, I believe
17 that \$500 per month, or \$6,000 per year, is reasonable,
18 prudent, and that it should be allowed as an ongoing
19 expense.

20

21 **Q. Do you agree that the utility's rate base should be**
22 **decreased because of the "newly discovered appraisal"**
23 **by William Bishop?**

24 **A. No I do not. The old William Bishop was completed well**
25 **before the St. George Island water system was purchased**

1 by the utility company on December 31, 1979. No
2 consideration has been given to additions to the system
3 between the date of Mr. Bishop's appraisal and the date
4 the system was sold. As explained in some detail
5 during our last rate case hearing, the Leisure
6 Properties' books and records were incomplete because
7 they do not contain all the real cost of the system.
8 That is why we did not try to rely upon the Leisure
9 Properties' books during the last rate case. Public
10 Counsel is now trying to take an old appraisal of only
11 part of the system that actually existed at 12/31/79,
12 and wants to combine that figure with an incomplete,
13 out-of-context figure from an affidavit filed in the 3
14 last case regarding part of the additions to the system
15 between January 1, 1980 and the end of the 1987 test
16 year. Not only is this "mixing apples and oranges," it
17 also leaves out a large block of time during which the
18 utility company was undergoing tremendous expansion and
19 growth in the late 70's on St. George Island. I have
20 reviewed both the William Bishop 1978 appraisal and the
21 Wayne Coloney appraisal some ten years later as
22 presented to the Commission in the last rate case.
23 These two appraisals do not seem to be inconsistent,
24 but an old undocumented, hearsay appraisal almost ten
25 years before the actual valuation date is totally

1 irrelevant and should not be considered by the
2 Commission. Since the old William Bishop appraisal,
3 there have been at least one or more complete
4 appraisals of the water system after the date of sale
5 at much higher values. It would be just as reasonable
6 (or unreasonable) for the Commission to take the higher
7 values in one of these subsequent appraisals and add it
8 to the figures from Barbara Withers' affidavit as it is
9 to take a lower appraisal substantially before the date
10 of sale to be added to the figures from Barbara
11 Withers' affidavit. However, any such later and higher
12 appraisal should also not be considered, just as the
13 lower appraisal completed a substantial time prior to
14 the date of sale should not be considered. This entire
15 matter was fully litigated during the 1989 rate case,
16 and it should not be relitigated as part of this
17 proceeding.

18 Q. It has been suggested that the utility company's CIAC
19 should be increased by imputing 30 lots that were added
20 to the utility's CIAC list after the last rate case.
21 Do you agree?

22 A. No. Our CIAC list through 12/31/92 is accurate and
23 complete. It shows each and every connection and
24 contribution by account number, name, service address
25 and the precise dollar amount received as CIAC. We

1 have requested the staff auditor to review any or all
2 of our customer records to see if there is any
3 inaccuracy or inconsistency. However, despite the
4 expenditure of over 32 weeks in auditing our books, the
5 staff auditor has declined our repeated suggestion that
6 the actual customer files be examined. Instead, a
7 demand has been made that we identify 30 specific
8 accounts that were added after the date of a prior
9 audit of our books at a time that the utility company
10 was undertaking an intensive internal accounting and
11 physical audit of every lot and possible physical
12 connection on St. George Island to discover every
13 existing connection to the system. In the course of
14 this audit, we found a large number of illegal
15 connections which were then imputed as CIAC. On
16 several occasions, we have had customers come into the
17 office with letters from a former manager of the
18 utility company giving a "free connection." All of
19 these connections have been added to our CIAC list, and
20 the full CIAC in effect at the time of the letter has
21 been imputed and added to our CIAC list. In other
22 words, our CIAC list as of this time is totally
23 accurate and complete. It is supported by the
24 necessary documentation for each account, and I frankly
25 do not see the logic or reason for imputing CIAC at

1 \$2,020 for each of thirty \$500 contributions on our
2 CIAC list based upon a less accurate and less complete
3 list from the case five years ago. We have added or
4 imputed approximately 50-60 connections based upon our
5 own internal and physical island audit, all of which
6 are properly reflected on our CIAC list as of December
7 31, 1992. It is impossible to know precisely which 30
8 of these should be selected to satisfy the PSC staff
9 auditor. Nevertheless, I have selected 30 that are in
10 addition to the 256 identified on the prior audit
11 report. These are attached as an addition to the
12 12/31/92 CIAC list attached as Exhibit "I."

13

14 **Q. Would you respond to the allegation that you are a poor**
15 **manager because the third well was not brought on line**
16 **in time?**

17 **A. Yes. When the utility was originally directed to have**
18 **the third well on line by a certain date, it was**
19 **designed as a 250 gpm well. However, after analyzing**
20 **the situation with my operations manager, Hank Garrett,**
21 **we determined that it would be much wiser to construct**
22 **a much better well with a capacity of 500 gpm. We**
23 **wanted to have complete redundancy and a backup for**
24 **wells 1 and 2, which operate together at a capacity of**

1 500 gpm. This decision required permit modifications,
2 including a modification of our water management
3 district consumptive use permit, which took
4 considerable time. Because of this design change and
5 the resulting permitting delays, construction of the
6 third well was not completed until approximately one
7 month after the March 1, 1993 date originally agreed
8 upon by the Commission and the utility. Approximately
9 at that time, the Commission and the utility entered
10 into an arrangement under which a Commission designated
11 co-manager was assigned to manage and control all
12 decisions of the utility company. This Commission
13 designated co-manager then refused to honor a prior
14 commitment I had made to assure immediate payment to
15 the well contractor from a \$75,000 cash escrow account
16 which I had established earlier. This refusal cost us
17 several additional months of delay in actually placing
18 the well into service, which required final testing and
19 completion of certain sophisticated electrical
20 controls, etc. All of these delays are documented by
21 the correspondence attached as Composite Exhibit "J."
22 After this problem was resolved by termination of the
23 co-management agreement, the well was completed with
24 all mechanical equipment in place on or before August
25 12, 1993, as shown by the letter to Ms. Katherine

1 Bedell which is included as part of Composite Exhibit
2 "J." As I recall, Mr. Bob Crouch and Mr. Marshall
3 Willis were both present at the DEP inspection of the
4 well on August 18, 1993, at which time all parties
5 seemed to agree that the well was complete. It would
6 have been a mistake to complete construction of a 250
7 gpm well, even if it could have been completely
8 finished by March 1, 1993. With a 500 gpm well, we now
9 have complete redundancy between two independent well
10 systems, each of which can produce at least 500 gpm.
11 Indeed, during the last Memorial Day weekend, we had to
12 switch over to well no. 3 to keep up with demand on the
13 island because it is capable of pumping 600 gpm which
14 enabled us to provide service without calling on any of
15 our storage on the island. I still do not understand
16 why I was not allowed to fulfil my commitment to the
17 well contractor regarding timely payment from my escrow
18 account. However, I do not believe my insistence that
19 this contractor be guaranteed payment constitutes any
20 type of "bad management" or that the utility should
21 suffer any type of penalty in this regard.

22
23 **Q. Do you believe your management fee should be reduced**
24 **because the third well was not on line and in service**
25 **as of March 1, 1993?**

1 A. No. If this was a problem, it should have been handled
2 as part of the prior docket concerning the third well,
3 which has now been closed. Someday, I hope we can
4 begin to look forward in managing this utility company
5 which should not continue to be punished because of
6 alleged, but unproven, past transgressions.

7
8 Q. Why does the utility need \$500 per month for an outside
9 CPA such as Barbara Withers?

10 A. During the 1992 test year, the utility company spent
11 over \$31,000 for accounting fees. We spent
12 approximately \$26,000 for accounting in 1993, and we
13 will spend much more than that for accounting in 1994.
14 Despite these expenditures, we still face allegations
15 that our books and records are not in accord with
16 Commission rules and procedures. I am personally
17 determined to see that our accounting books, records
18 and procedures are brought into line with the high
19 degree of sophistication demanded by the PSC staff. To
20 this end, the utility hired Ms. Joanie Hanney
21 approximately one month ago at a salary of \$40,000 per
22 year, plus all benefits enjoyed by the other utility
23 employees, including health insurance, pension plan,
24 etc. Ms. Hanney is a very experienced and competent
25 accountant, and there is no question that she can do

1 the job demanded by the Commission staff. This will
2 enable us to phase out our in-house consulting
3 accountant who was referred to in the PSC audit as
4 "inexperienced." I regret having to make this
5 decision, but the utility must have the degree of
6 accounting sophistication that is required by the
7 Commission and its audit staff. This may also enable
8 me to cut back on the time spent by Barbara Withers as
9 the outside consulting CPA for the system. However, in
10 any event, the total ongoing accounting cost to the
11 utility will be approximately double the adjusted total
12 requested in this rate case, which is \$22,640 per year,
13 including \$500 per month to Barbara Withers. During
14 the test year and during all of the years before and
15 after the test year, this utility has relied heavily
16 upon the services of Barbara Withers. I was present at
17 her deposition, and she never said or indicated that
18 she had failed to bill the utility company because of
19 any old bill as stated by Ms. Dismukes. However, Ms.
20 Withers did testify that she and the utility company
21 were operating under a prior retainer agreement
22 executed several years earlier which was still in
23 effect. Ms. Withers and the utility agreed on a fee of
24 \$500 per month for all of her consultation, advice and
25 other accounting services, and there was no requirement

1 that this amount be billed separately at the end of
2 each month. It was accrued as an ongoing expense on
3 the basis of the retainer agreement. My understanding
4 of Ms. Withers' testimony during her deposition was
5 that she did not send a bill at the end of each month
6 because she knew the utility company did not then have
7 the money to pay the bill, as indicated by the fact
8 that she still had not been paid for some old
9 statements rendered to the utility company. Barbara
10 Withers has been working for this utility since she
11 filed the original application for a PSC certificate in
12 the late 70's. She continues to constantly assist the
13 utility company, and I have no doubt that she spends an
14 average of 5 hours per month or 60 hours per year on
15 utility company matters. In any event, our actual
16 accounting expenses are now more than double the
17 expenses requested in this rate case, and it would be
18 unreasonable to cut the allowed expenses below the
19 figure of \$22,640 per year as the total requested in
20 this rate case.

21

22 **Q. Has the utility actually incurred an expense for the**
23 **revised system map and the revised aerator analysis?**

24 **A. Yes. This expense has been incurred and the**
25 **documentation has been provided to the PSC audit staff.**

1 The revised map and aerator analysis will be completed
2 during this month, as confirmed by the testimony of Ted
3 Bidy, of Baskerville-Donovan.

4

5 Q. Does Armada Bay Company manage anything other than the
6 utility company?

7 A. No.

8

9 Q. Are any of your other affiliates active?

10 A. No, except for the law firm, which is inactive for all
11 intents and purposes.

12

13 Q. Do you agree that part of the utility company's overall
14 costs should be allocated to the other affiliates as
15 suggested by Ms. Dismukes?

16 A. No. The affiliates do not use any of the utility's
17 assets or personnel except as set forth in the written
18 lease and operating agreement attached as Exhibit "B."
19 This arrangement is more than fair to the utility
20 company, and it should not be disturbed. The office
21 furniture referred to by Ms. Dismukes in her testimony
22 is located on St. George Island or in storage. As
23 shown by the attached lease and operating agreement,
24 none of this furniture is in the Tallahassee office.

25

1 Q. Do you agree that the expense for testing services
2 should be disallowed because you only received one
3 quote as alleged by Ms. Dismukes?

4 A. No. There are only two testing labs in this entire
5 geographic area, and we have received quotes from and,
6 indeed, have used both labs. We need authority to use
7 Savannah Labs because they are more competent and
8 efficient, as shown by the loss of our samples by the
9 other lab, and by the off-the-record admonitions given
10 to us by the DEP personnel. However, I do agree with
11 Ms. Dismukes that the \$23,909 figure for Savannah Labs
12 should be decreased by \$1,870.

13

14 Q. Why do you believe that you and the other employees
15 should be entitled to a transportation allowance?

16 A. In my 25 years of managing companies, I have exhausted
17 every possibility regarding transportation expenses.
18 At one time, we had several vehicles owned by the
19 utility company. This was a nightmare, and it resulted
20 in extremely high and uncontrollable transportation
21 expenses. I have also required employees to keep
22 travel logs in the past, but this became a bookkeeping
23 nightmare which required many hours of additional
24 employee time to monitor, police and account for the
25 mileage claimed by various employees. Based upon all

1 of this experience, and based upon my personal
2 knowledge that I, Sandra Chase and Ann Hills use our
3 respective vehicles on a day-to-day basis, I decided to
4 pay a straight allowance to each employee in an amount
5 that I believe is reasonable and can be supported by
6 any objective analysis of the travel that all of us are
7 required to perform as shown by our sworn testimony.
8 Someone recently stated that this arrangement was a
9 violation of the IRS rules, but I do not believe this
10 to be true. So long as the utility company is making a
11 bona fide arms length payment to an employee, this is
12 acceptable and deductible utility company expense. The
13 individual employee may have a problem in not keeping a
14 log because the amount received may be considered as
15 salary or income, rather than a reimbursable expense.
16 However, I cannot be responsible for the tax problems
17 of every employee. My responsibility is to manage the
18 utility company in a cost effective manner, and our
19 travel allowance is cost effective and reasonable. All
20 three of us in the Tallahassee office are required to
21 have a vehicle every day to perform our job, and it is
22 not reasonable for the Commission to totally disallow
23 this expense based upon the individual employee's lack
24 of a travel log. I go to the island approximately once
25 per week, and I constantly make trips throughout the

1 day to various agencies, such as DEP, PSC, Water
2 Management District and others, as well as to our
3 various consultants, including Barbara Withers, Wayne
4 Coloney, Ted Bidy, Les Thomas, Jim Stidham, bankers,
5 and others that are involved in utility company matters
6 on a day-to-day basis. Anyone who is familiar with our
7 Tallahassee operation knows that all three of us have
8 to use our vehicles every day on a continuing basis,
9 and it is not fair or reasonable to disallow this as a
10 valid, ongoing expense.

11

12 Q. Do you agree with Ms. Dismukes' assertion that your
13 rate case expense recovery should be limited to the
14 estimates set forth in your original MFR's, including
15 the \$25,000 figure for Frank Seidman?

16 A. No. Before I hired Mr. Seidman, I interviewed other
17 potential consultants. However, I never found one that
18 would agree to take this case on a fixed fee. If a
19 consultant had agreed to a fixed fee of \$25,000 in this
20 case, I would have questioned whether he or she was
21 intelligent enough to handle this case in the first
22 place. There is no way that any responsible
23 professional would or should agree to fix a fee based
24 upon time which is so dependent upon action of others,
25 including Public Counsel. When I earlier hired Ms.

1 Dismukes and her firm, Ben Johnson & Associates to
2 begin working up a rate case on behalf of this utility,
3 neither Ms. Dismukes nor her partner, Ben Johnson, ever
4 indicated that they would consider representing this
5 utility company as a consultant in a rate case before
6 the Florida Public Service Commission for a fixed fee.
7 Indeed, as shown by the comprehensive analysis prepared
8 by Ms. Dismukes and Ben Johnson for Capital City First
9 National Bank, the fees estimated for this particular
10 case were estimated to be in the \$150,000 to \$200,000
11 range, although the report filed by Ben Johnson &
12 Associates, with Ms. Dismukes' assistance, stated that
13 the actual fees could be substantially greater.

14

15 Q. Did the utility company receive a \$65,000 contribution
16 from the St. George Island Homeowners' Association in
17 1992 as alleged by Ms. Dismukes?

18 A. No. Some of my other affiliates and I settled a major
19 lawsuit with the homeowners' association by a
20 conveyance of substantial real property and the
21 relinquishment of a claim for damages relating to
22 matters totally unrelated to the utility company. The
23 utility company was not a party to either the
24 litigation or to the agreement. When the agreement
25 between the association and the other affiliates was

1 being drafted the night before it was to be approved by
2 the association's membership, I suggested the inclusion
3 of a clause stating that the affiliates would loan or
4 advance \$65,000 of the money received from the
5 association to the utility company so that the utility
6 company would have the necessary funds to make certain
7 improvements to the water system. There was never any
8 intent by anyone that this would be any type of
9 contribution from the association to the utility
10 company. Instead, it was a cash payment for the
11 conveyance of land and other valuable considerations
12 directly to the non-utility affiliates. When the money
13 was received by the affiliates, it was then loaned or
14 "advanced to the St. George Island Utility Company" as
15 specified in the agreement. I carefully used the word
16 "advanced" rather than "contribution," because they
17 have a distinctly different meaning, both in law and
18 accounting. These funds have always been viewed and
19 booked as a loan to be repaid by the utility company.
20 That is the way this transaction has been consistently
21 handled for all purposes, including IRS tax reporting
22 purposes. It would be unreasonable and punitive to
23 arbitrarily treat this \$65,000 as a "contribution"
24 without any proof or any indication that this was ever
25 the intent of the parties to the transaction.

1 Q. Do you believe connection fees should be escrowed?

2 A. No. that would cause tremendous problems and would make
3 it practically impossible to properly manage the
4 utility, as shown by the past experience with similar
5 escrow accounts.

6

7 Q. What is your overall impression of Ms. Dismukes'
8 testimony?

9 A. It appears that she has gone to great lengths to
10 manipulate the numbers in every possible way toward a
11 predetermined goal of reducing the utility's income
12 stream without regard to the ongoing impact on utility
13 operations. In my opinion, this is not necessarily in
14 the best interest of the utility's customer represented
15 by Public Counsel, since the utility must have adequate
16 revenue to continue the high level of service which it
17 has achieved. For example, she has "played with the
18 numbers" to make it appear that the operator on the
19 island received a 39% annual raise, when his actual
20 annual increase in compensation was only 2-3%. This
21 was not her attitude when she was taking the utility
22 company's money as a rate case consultant for this
23 utility before the same Public Service Commission. By
24 the same token, she has now concluded that Armada Bay's
25 management contract is excessive and should be reduced

1 to \$2,000 per month. This was obviously not her
2 opinion on the eve of the test year in November of 1992
3 when she and her co-owner/partner, Ben Johnson, made a
4 written proposal to this utility and Capital City First
5 National Bank to manage this same utility company
6 during the same upcoming period of time for a fee of
7 \$6,000 per month, plus all other expenses. In other
8 words, this management job was worth \$6,000 per month
9 when Ms. Dismukes was in the "real world" to receive
10 the money, but it is now only worth \$2,000 per month
11 on a theoretical basis when she needs to achieve a
12 predetermined goal of reducing rates without regard to
13 utility company service obligations. We must have
14 adequate revenue if those obligations are to be
15 adequately met.

16

17 Q. Does that conclude your testimony?

18 A. Yes, it does.

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CHAIRMAN DEASON: Ms. Sanders.

MR. McLEAN: Mr. Chairman, I have some argument to offer with respect to the documents which were just identified. I notice Mr. Pfeiffer has not moved them into evidence at this point.

MR. PFEIFFER: Well, I had thought that the practice was not to move documents into evidence until after the witness' testimony was completed.

MR. McLEAN: Another practice is not to interrupt counsel when he is in the middle of his sentence. I understand that that's not -- that we don't normally do it that way, but this might be a good time to hear argument, since I certainly have no plan to ask any questions on any of them. If my arguments with respect to their admissibility are received at this time, I think by the time that we get to issue of whether they are admissible we are going to be in a hurry.

CHAIRMAN DEASON: Any objection to take up the admissibility of the just identified exhibits at this time?

MR. PIERSON: No, sir.

CHAIRMAN DEASON: Ms. Sanders.

MS. SANDERS: No, sir.

CHAIRMAN DEASON: Mr. Pfeiffer.

MR. PFEIFFER: We would be happy to offer the

exhibits that would be Number 52 through 60 and 43-A.

CHAIRMAN DEASON: Okay. And, Mr. McLean, I take it you object to those exhibits?

MR. McLEAN: Yes, sir.

CHAIRMAN DEASON: Please state your objections.

MR. McLEAN: I think there were two of them responsive to a Staff request, we have no objection to those. There was one which is the traditional supplemental filing of rate case expense, and that's fine. I think we do that all the time.

CHAIRMAN DEASON: Okay. Now, that would be 43-A.

MR. McLEAN: I believe so.

CHAIRMAN DEASON: Let's take care of all that while we can. I believe that was 43-A. If there is no objection to the admission of 43-A, we will go ahead and do that at this time. 43-A, therefore, without objection, is admitted.

(Exhibit Number 43-A received into evidence.)

CHAIRMAN DEASON: Do you know the other exhibit which was responsive to the Staff request?

MR. McLEAN: No, sir. And for that matter, I don't know that it was responsive to a Staff request. I simply take them at their word.

CHAIRMAN DEASON: Mr. Pierson, do you know what other exhibits were responsive to Staff's request?

MR. PIERSON: Mr. Chairman, a number of these exhibits were identified by Staff as being necessary in order to support the utility's requests. For instance, the insurance documents.

MR. McLEAN: That's a different question entirely.

CHAIRMAN DEASON: Did you request a late-filed exhibit?

MR. PIERSON: No, sir, not on the record.

CHAIRMAN DEASON: All right, Mr. McLean, you may continue.

MR. McLEAN: Well, the point is the introduction of these documents at this time, I think, reaches the very integrity of this process. They were given the opportunity to file a rebuttal case, which they did. First of all, they filed a direct case. We spent a great deal of time and resources criticizing and evaluating that direct case, and filed our direct case. And they responded to that. At this point, under the guise of supplemental exhibits, they are filing something of a new rebuttal case. It's one which we have not had the opportunity to respond to. In each instance, those exhibits tend to bolster weak evidence which they provided in the rebuttal case. To take an example, they say, "Well, we are going to incur insurance expense." And we say, "You have no contract, you have no obligation, you have no receipts." That's what we say in our case.

In their rebuttal they make some vague reference to that criticism, and then today they bring documents authored by people outside this entire process to say that they do have the obligation, that they have paid, and that they have sought bids and so forth. Our opportunity to respond to that in any meaningful way is virtually nonexistent. I would like to have quizzed Mr. Brown in discovery, and his other employees, about the validity of a lot of these notions which are presented in these documents. The problem here is that this is a new rebuttal case to which we have had no opportunity to respond. My opportunity here, as counsel, is to fish through these documents with limited help from one analyst without any kind of professional help outside of our office to evaluate their meaning and to determine their truth, veracity, and so forth. I can't talk to any of these people who wrote them.

The short of it all is that it seriously diminishes the effectiveness of our point of entry into the administrative process. You should reject it on the basis that they could have presented this in their rebuttal case and failed to do so. After all, we have a test year in this process, and we are talking about contracts and obligations which were incurred since one of our hearings in this case. But in any case, 1994, we have a clarification from Eagle Tank, which is allegedly a clarification of a letter which

is in their rebuttal testimony, which itself is a clarification of the contract which Ms. Dismukes reviewed and evaluated and found wanting.

So if you're going to receive this kind of evidence, you say to the Citizens, you are simply not going to have an opportunity to evaluate this evidence. And, by the way, you say the same thing to your Staff. Your Staff doesn't have the opportunity to look at these documents and ascertain whether they are meaningful or otherwise. We have no opportunity to discover, as I said, and the bottom line, Commissioners, is that it seriously diminishes the effectiveness of our point of entry into this administrative process. Thank you.

CHAIRMAN DEASON: Ms. Sanders.

MS. SANDERS: No comment.

CHAIRMAN DEASON: Mr. Pfeiffer, do you care to respond to the objection?

MR. PFEIFFER: In each instance, Mr. Deason, the documents -- and Commissioner -- the documents supplement exhibits that are in the prefiled rebuttal testimony. They are documents that reflect transactions that happened after the rebuttal testimony was filed. In each instance, they relate to pro forma programs that the utility is seeking to implement in order to improve its services to the customers of St. George Island Utility. And in each instance, they

reflect that the amount of money that would be paid for the pro forma program in order to implement it will be less than had been reflected in previous documents that had been provided to the Commission. We think that the documents serve only to better serve the customers of the utility, and are directly in response to inquiries that were made from Staff, although Staff did not make a request for late-filed exhibits with respect to any of these, except I think for Number 43-A, and perhaps for Number 60, and for the document that we had asked to be marked as 16 and then withdrew. However they were issues that were raised in discussions with Staff, and that concerned Staff, and they serve only, Your Honor, to improve service and to improve implementation of those pro forma programs that are we believe, vitally important to the improvement of service to the customers of these utilities. And in most cases are services that we all agree ought to be performed and ought to be performed at the least possible cost.

MR. McLEAN: May I respond?

CHAIRMAN DEASON: Yes, please.

MR. McLEAN: That Staff asked for them is nice. That Staff likes these things, that's very nice. Staff and the Citizens are pretty close together in this case. But that is not necessarily so. The functions of the Office of Public Counsel is not to sit back and observe Staff go about

its criticism of the case, we are full-fledged intervenors entitled to due process, and due process is the notion from which my argument flows. Where Mr. Pfeiffer says supplement, I ask you to substitute the term bolster. It does not supplement testimony, it bolsters it. It gives it supposed credibility which it lacked in the first instance. And Mr. Pfeiffer says these events took place after the rebuttal testimony, that's exactly what is wrong with them. They took place almost two years after the test year, as well. They don't belong in the test period of this utility. Pro forma is a gratuity adjustment to begin with, and to bolster a gratuity with another gratuity doesn't strike me as the way this Commission ought to do business. As I said, I think it reaches the integrity of this process. Thank you.

CHAIRMAN DEASON: Mr. Pfeiffer, do you care to respond?

MR. PFEIFFER: Well, I would say, again, Your Honor, that the alternative to not having these exhibits in evidence would be to have the utility asking for more money to support pro forma programs than it needs. And we think it better to ask for money that would serve the purposes that would be less expensive to the customers.

CHAIRMAN DEASON: Mr. Pierson.

MR. PIERSON: Mr. Chairman, I have nothing really

to say, except both parties have good points. And Staff did inform the utility that we would like to see some of these documents, particularly the insurance expense and the CIAC, Number 60, and we did talk about that Late-filed Number 43.

CHAIRMAN DEASON: Ms. Helton.

MS. HELTON: Chapter 120 says that hearsay evidence may be used for the purpose of supplementing or explaining other evidence, but it shall not be sufficient in itself to support a finding unless it would be admissible over objection in civil actions. And I think it's important to remember here, too, that the utility had the burden of proof when it filed its direct case. And remember, too, what the purpose of rebuttal is.

CHAIRMAN DEASON: Commissioner Kiesling.

COMMISSIONER KIESLING: Well, I just want to be sure that I understood Ms. Helton's -- the import of what you said. Am I correct that you believe that these documents according to statute and the standards should not be admitted?

MS. HELTON: I think -- I haven't had the opportunity to see the exhibits which these exhibits that were passed out were supposed to supplement, so I don't know that I could give a fair opinion as to whether they do supplement it or not.

COMMISSIONER KIESLING: Okay. I'm just talking

about pure admissibility and the right to cross examine.

MS. HELTON: In my opinion, if they supplement what has already been filed, then they should be admitted.

MR. McLEAN: If the only objection were hearsay. Thank you.

COMMISSIONER KIESLING: Mr. Chairman, I believe that the objections are well taken, partially because this information should have been made available long before now. It should have been filed with the requested pro forma adjustments, and the fact that the first time that it's presented is here today, to me completely denies Office of Public Counsel the opportunity to examine these documents and do any meaningful cross examination on them.

CHAIRMAN DEASON: I appreciate that input. To me it's a question of what is fair to the parties in the process. And as I have stated many times before today, the Commission follows a rather rigorous process in hearing these cases. We go through the time and effort of having a prehearing process, we identify issues, we identify positions on those issues, we identify witnesses, and what issues those witnesses are going to address. We identify exhibits to witness' testimony, we require the prefiling of testimony. We specify dates. All within an attempt to put everyone on notice as to what the procedure is going to be. It strikes me that filing such substantive exhibits at this

late date, realizing that this hearing is already -- this is the fourth day of hearing, and if we had concluded this hearing on time we wouldn't even be here today. That filing such substantive exhibits at such a late date is not in the spirit of the prehearing process that we follow in all attempts to put all parties on notice as to exhibits and witnesses. I know that from time to time we allow corrections to testimony, and we do allow some limited supplemental testimony and exhibits, primarily for matters which arise outside of the normal course of events.

It seems to me that the exhibits which have been moved at this time go to the very heart of the case which is before us, and that this is the type of evidence which should have been either part of the direct case, and if not part of the direct case, should have been prefiled as part of the rebuttal testimony. And it was not done in either case here. And it is an attempt to have this substantive information entered at this extremely late date. And I think my observation is in agreement with your observation, Commissioner, and I'm going to ask Ms. Helton, is there any -- if I were to deny these exhibits for those reasons is there anything that I would be doing that would be contrary to any law, rule, or --

MS. HELTON: I believe that it's your discretion as the presiding officer to deny the admission of those

exhibits.

CHAIRMAN DEASON: Therefore, accordingly to what I just stated, I will deny the admissibility of Exhibits 52 through 61. Those exhibits are not admitted.

COMMISSIONER KIESLING: 61 is the prefilled rebuttal exhibits.

CHAIRMAN DEASON: You're correct. Through 60. 61 is the prefilled rebuttal exhibits.

Mr. Brown is tendered for cross examination.

MR. McLEAN: Mr. Commissioner, I have two exhibits to pass out.

(Transcript following in sequence with Volume 10.)