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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of :
 :
 : DOCKET NO. 940109-WU
Petition for Interim and :
Permanent Rate Increase in :
Franklin County by St. George :
Island Utility Company, Ltd. :
 :

SECOND DAY - AFTERNOON SESSION

VOLUME 5

Pages 586 through 747

PROCEEDINGS: HEARING

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

DATE: Thursday, July 21, 1994

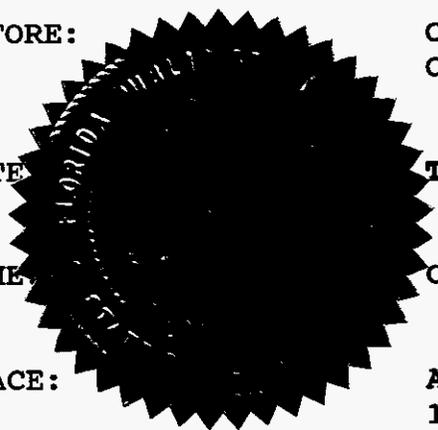
TIME: Commenced at 9:15 a.m.

PLACE: Apalachicola Community Center
1 Avenue E
Apalachicola, Florida

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting
SYDNEY C. SILVA, CSR, RPR.
Official Commission Reporters

APPEARANCES:

(As heretofore noted.)



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STATE OF FLORIDA
PUBLIC SERVICE COMMISSION

I N D E X

WITNESSES - VOLUME 5

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P R O C E E D I N G S

(Hearing reconvened at 9:15 a.m.)

(Transcript follows in sequence from Volume

4.)

CHAIRMAN DEASON: Call the hearing back to
order.

Mr. Pfeiffer, redirect?

GENE D. BROWN

resumed the stand as a witness on behalf of St. George
Island Utility Company, Ltd., and, having been
previously sworn, testified as follows:

REDIRECT EXAMINATION

BY MR. PFEIFFER:

Q Good afternoon, Mr. Brown.

There has been some testimony that the St.
George Island Utility Company has failed to pay some of
its bills and obligations. What is the reason for that?

A Lack of funds.

Q Do you know what the allowable operating and
maintenance expenses were for St. George Utility that
resulted from the 1989 rate case?

A Not offhand.

Q Well, if the Commission has taken public
recognition of the final order in that case, and I would
say to you that the total number -- amount of operating

1 expenses is \$125,253, and I know that Mr. McLean had
2 asked you some "would you believe me" questions, would
3 you believe me that that's the amount of operating
4 expenses in that order?

5 A That sounds familiar.

6 COMMISSIONER KIESLING: Can I get you both to
7 get a little closer to the mikes? With this rain and
8 thunder, I am having trouble hearing you.

9 WITNESS BROWN: Okay.

10 COMMISSIONER KIESLING: Thank you.

11 MR. PFEIFFER: Well, it is almost
12 disconcerting looking at you with the rain behind you.
13 (Laughter)

14 COMMISSIONER KIESLING: Steve, I'll try to
15 figure that one out. (Laughter)

16 MR. PFEIFFER: I mean, you look like you're in
17 a waterfall.

18 MR. McLEAN: The Citizens, we can see you
19 fine.

20 WITNESS BROWN: So can I. (Laughter)

21 Q (By Mr. Pfeiffer) If in the order and the
22 documents supporting it \$16,813 were allocated for
23 employee pensions and benefits, would that include a
24 pension program?

25 A I don't think we had much discussion back then

1 about a pension fund. I think that would include
2 benefits like health insurance and other type benefits;
3 but I would also, I guess, if you were going to put it
4 somewhere, that's where it would be.

5 Q Did you have a pension program in 1987?

6 A No.

7 Q Under "Insurance, General Liability," there's
8 a figure \$3,987. Is that enough money to provide
9 insurance for St. George Island Utility, liability
10 insurance?

11 A No.

12 Q How do you know that?

13 A For the last several months, and before that
14 as far back as last summer, I started negotiating to
15 purchase insurance. And we had estimates as high as
16 \$35,000. And all the companies around Tallahassee were
17 not familiar with it and they were higher; but we
18 finally, through Mr. Seidman's help, we found a company
19 in Fort Lauderdale that has agreed to insure us for a
20 total of around \$13,000 or \$14,000, which is now in
21 effect.

22 Q Is that an annual premium?

23 A Yes. And we have paid all the casualty and
24 liability and property insurance and we've paid the
25 first quarter of workman's comp. We paid about \$9,000

1 and we have three more quarters of workman's comp to pay
2 in advance each quarter.

3 Q You did that recently?

4 A We did that a month or two ago, something like
5 that, we finally put it into effect.

6 Q How is it you were able to pay for insurance
7 company recently but you were not able to pay for
8 insurance -- excuse me, insurance policies recently,
9 liability insurance, but you were not able to pay
10 before?

11 A My affiliated companies put additional money
12 in the Utility company to pay for this and a number of
13 other expenses that needed to be handled.

14 Q And would it surprise you to learn that in the
15 1990 or 1989 order zero dollars were allocated for
16 workers compensation insurance?

17 MR. McLEAN: Objection, leading.

18 CHAIRMAN DEASON: Mr. Pfeiffer?

19 MR. PFEIFFER: It was certainly a leading
20 question and I'll concede that. However, Your Honor, I
21 am not sure how to ask the witness the question other
22 than --

23 Q (By Mr. Pfeiffer) Well, do you know how much
24 was allocated?

25 A Zero.

1 Q Okay. With regard to Mary LaBatt, while she
2 was with St. George Island Utility, did she from time to
3 time travel and get compensated for travel?

4 A She was compensated for all her travel.

5 Q Do you know how much she was compensated, what
6 the rate of compensation for her mileage was?

7 MR. McLEAN: Objection, relevance.

8 CHAIRMAN DEASON: Mr. Pfeiffer, there was an
9 objection of relevance.

10 MR. PFEIFFER: Well, there was a lot of
11 questions on cross examination about whether 20 cents or
12 28 cents a mile is an appropriate mileage exaction for
13 travel; and certainly Public Counsel has suggested that
14 20 cents is appropriate, and I thought this might be an
15 interesting fact.

16 CHAIRMAN DEASON: Objection overruled.

17 A I think she billed us and was paid 28 cents a
18 mile.

19 Q (By Mr. Pfeiffer) Do you know how much IRS --
20 excuse me, the Internal Revenue Service -- allows for
21 mileage for deduction purposes?

22 A Seems like it's 29 cents a mile.

23 Q Are there any reasons why mileage costs for
24 St. George Island Utility employees would reasonably be
25 larger, higher, than might typically be the case for

1 travel expenses?

2 A If you have added in --

3 MR. McLEAN: Objection. Objection,
4 cumulative. The witness spoke extensively about that
5 when he was permitted to explain his endless answers.

6 CHAIRMAN DEASON: Objection overruled.

7 A I think with regard to the administrative
8 office employees in Tallahassee, their mileage could
9 reasonably be calculated somewhat closer to the IRS
10 rules, which I think is still too low, as evidenced by
11 the fact that IRS approves it.

12 But I think the people on the island have to
13 have a four-wheel drive vehicle. And you have to
14 operate it to stop and start in the sand, you have the
15 repack the wheel bearings, you have a lot of corrosive,
16 damaging effects on a vehicle. And they are constantly
17 reading, taking samples, going to wells, it's all
18 stop-and-start, working in sand. And you just can't --
19 I have always driven a four-wheel drive truck, still do,
20 and it just costs more. Gas is more, maintenance is
21 more, everything is more for a four-wheel drive truck.
22 Especially, like you read 1,200 meters, you constantly
23 stop and start.

24 That's a lot different than a state employee
25 driving to a seminar in Tampa, or going to a hearing or

1 coming down here. It's just not apples and apples.

2 Q Do you have any philosophy with regard to
3 whether it should cost your employees to use their
4 private automobiles for St. George Island Utility
5 business?

6 A I think they should be fairly and fully
7 compensated for use of their automobiles.

8 Q Do you know whether from time to time Hank
9 Garrett's vehicle, his four-wheel drive truck, is used
10 by other employees?

11 A Yes, it is used. We previously had two
12 employees using two vehicles; we now have three
13 employees using two vehicles. But when Hank is in the
14 office and his vehicle is there, it is used almost on a
15 daily basis by other employees because it is a Company
16 vehicle which is available for their use. But we have
17 two field men and one truck plus Hank's truck, so Hank's
18 truck is still in use, even if he is not using it.

19 Q When you say it is a Company vehicle, do you
20 mean that in the sense that the Company owns it?

21 A I mean it in the sense that under our
22 agreement he must make that vehicle available to the
23 Company for Company purposes. And that includes use by
24 him as well as the field people if they need it. Which
25 they do from time to time.

1 Q Mr. Brown, do you have Exhibit 9 in front of
2 you? It says GDB-3, perhaps, in the upper right-hand
3 corner.

4 (Witness provided document.)

5 A I do now.

6 Q During cross examination by Public Counsel,
7 there was some indication that this document had been
8 produced by St. George Island Utility in accordance with
9 a discovery request.

10 A Yes.

11 Q Can you think of any reason why the check
12 attached to that document is not a cancelled check?

13 A As I said before, we have to or we do now keep
14 everything simultaneous with the occurrence. This was a
15 retainer agreement and a simultaneous check; it was put
16 in the file under the proper account number; and this
17 check apparently was copied before it left the office
18 and was attached to the retainer agreement -- which I
19 note here was attached to the deposition of Withers, not
20 Brown, as a deposition. That was an issue before.

21 Q Well, I don't believe that's at issue,
22 Mr. Brown.

23 A But anyway, that's how that happened. I never
24 looked at it to see if we --

25 Q At my request, did you make an effort to get a

1 copy of a cancelled check faxed down to you last night?

2 A Yeah. We ended last night with a discussion
3 of this, so I had Ms. Chase call the office and ask them
4 to fax it to the island to see that it had been
5 negotiated, which I knew it had.

6 Q Mr. Brown, looking at the face of the check
7 that you had faxed down to you, are there any
8 differences between it and the check that's appended to
9 the document?

10 A Well, it's got the bank numbers indicating it
11 has been processed by the bank where they add their
12 numbers to the right on the bottom; it's got a "Paid"
13 stamp on the front, and it's got Barbara Withers'
14 signature on the back for deposit at her bank.

15 MR. PFEIFFER: All right. There was some
16 questioning with regard to a memorandum from you to
17 Frank Seidman.

18 Mr. Chairman, I'm not exactly sure how to
19 handle this. I have an original, and I think that the
20 fact that this is an original has some probative value
21 of its own in this case; however, I cannot make an
22 original original copy and I did want to ask some
23 questions from the document, if I might.

24 MR. McLEAN: We'll join in a stipulation if
25 you would like that the document that was provided to us

1 is indeed authentic and survives any objections that we
2 had in that regard.

3 MR. PFEIFFER: Well, I was troubled by a great
4 deal of questioning on cross examination with regard to
5 the fact there is a different date on the first page of
6 the document than from the page headings of the
7 document. I think there was certainly a suggestion that
8 something untoward was happening and I simply would like
9 to remove any suggestion of that from the record.

10 CHAIRMAN DEASON: If you will provide the
11 witness what you consider to be the original and then
12 ask questions to the witness, I think the record will be
13 clear. Mr. McLean, if he wishes, may inspect the
14 document.

15 MR. PFEIFFER: Have you seen it?

16 MR. MCLEAN: Thank you, Steve. I don't need
17 to see it again, I don't think.

18 (Witness provided document.)

19 Q (By Mr. Pfeiffer) Does that appear to be the
20 original of the memorandum, Mr. Brown?

21 A It appears to be.

22 Q What is the date on the front of the document?

23 A 1-18-94.

24 Q And what are the dates on the pages of the
25 document?

1 A Each page seems to have January 17, '94, as a
2 date.

3 Q Can you think of any explanation for that?

4 A I dictated it, it was probably typed the next
5 day. It's fairly long. I don't really know the reason
6 that happened but I didn't notice it.

7 All I know is I dictateed the memo, I didn't
8 really read it, we were in a hurry, I probably glanced
9 over it, I didn't notice when it was faxed to
10 Mr. Seidman that it had a cover date.

11 It was probably dictated on the 17th; and just
12 thinking out loud, it was probably typed and finalized
13 on the 18th. And I'm not a computer literate person,
14 but probably somebody forgot to change the date on all
15 the follow-up pages.

16 Q Thank you, Mr. Brown.

17 There were questions with regard to accounting
18 services and what you are now planning to do in order to
19 provide St. George Island Utility with accounting
20 services --

21 MR. MCLEAN: I'm going to object to that,
22 because that's one area into which I would never
23 inquire.

24 MR. PFEIFFER: He spent a great deal of time
25 talking about the amount of money being paid to

1 Ms. Withers, the existing employee, and the new
2 employee.

3 MR. MCLEAN: I know what he spent a lot of
4 time talking about, but none of that was in response --
5 let me finish my objection, if you will.

6 MR. PFEIFFER: I'm sorry, Harold.

7 MR. MCLEAN: The witness talked a great deal
8 about those sort of things but it certainly wasn't in
9 response to any of the questions I asked him. None of
10 the questions I asked would have opened the door as to
11 any of that.

12 Because the one thing I don't want to hear
13 about and would never ask a question about and did not
14 ask a question about is, what are they going to do next?
15 That's irrelevant to this case.

16 CHAIRMAN DEASON: Mr. Pfeiffer?

17 MR. PFEIFFER: The only point I wanted to make
18 is that I felt that from the answers in cross there may
19 have been some inference left that the Utility is now
20 asking for more money for accounting services than is
21 listed in the MFRs. This is the only point I wish to
22 make.

23 MR. MCLEAN: The only point in response to
24 that that I would like to observe is what they're trying
25 to do is offer additional evidence for those things, and

1 it's too late for that because they had a direct case
2 and they're going to have a rebuttal case.

3 CHAIRMAN DEASON: I'm going to allow the
4 questions. There was answers given in response to
5 questions; now, whether those answers were directly
6 responsive to the questions or added, that may be the
7 case, but I do remember the witness giving testimony in
8 that area and I'm going to allow the limited redirect
9 for the purpose as stated by Mr. Pfeiffer.

10 Q (By Mr. Pfeiffer) Mr. Brown, are you asking
11 for more money for accounting services in this rate
12 proceeding than has been set out in the Minimum Filing
13 Requirements?

14 A No, I'm asking for that amount of money,
15 because it is going to take that to pay about half of
16 what it is costing to do the accounting.

17 The accountant who was referred to by the PSC
18 Audit Staff as being inexperienced has now been
19 discharged and I have hired a new full-time accountant
20 who used to work for the Company when the records were
21 as close as they could be. And she costs \$40,000 a
22 year.

23 Q But you're not asking for that amount of money
24 in this proceeding, are you, Mr. Brown?

25 A No. I'm suggesting that that's what it takes

1 to do the job right. When I filed this case, I thought
2 we had adequate accounting services. I have now
3 determined that we did not have adequate accounting
4 services to do the job the way it needs to be done for
5 this process and I'm asking for what the original
6 request was, which will pay about half of what the cost
7 is going to be and currently is, because she has worked
8 for us for six weeks, six or seven weeks now.

9 Q Thank you.

10 A The inexperienced accountant, as the Staff
11 said, is phased out.

12 Q With regard to your contracts with
13 Ms. Withers, do you believe that oral agreements that
14 you have had with Ms. Withers are enforceable
15 agreements?

16 A I think an oral agreement with Ms. Withers is
17 better than most written agreements I've had with other
18 people. Whether it is enforceable, it is probably
19 easier to enforce a written agreement, but I have seen
20 more litigation over written agreements than I have
21 verbal agreements between friends.

22 Q Is there any question between you and
23 Ms. Withers as to the enforceability of the agreements
24 that you had with her before they were reduced to
25 writing?

1 A I don't think so. I don't think that that
2 written agreement changed anything. As I said before,
3 we have done two retainer agreements. She prepared them
4 because both she insisted that she do it based on the
5 CPA standards. We did them both at the request of the
6 Staff of the PSC.

7 We are going to endeavor to have everything
8 documented that we do from now on. I learn as I go what
9 is expected. I've learned a lot in this case.

10 Q Are there benefits to the Utility of a
11 debt-to-equity conversion -- excuse me, that's not the
12 question I wanted to ask. I should ask you: Are there
13 benefits to the Utility's customers of a debt-to-equity
14 conversion?

15 A I think that the debt-to-equity conversion is
16 a prerequisite to long-term secure financing for the
17 Company to enable it to be placed on a sound financial
18 footing which will allow it to continue to provide safe
19 and reliable water service, which I think is a benefit
20 to the customers.

21 I think it has been able to do that over the
22 past two or three years through a lot of stressful
23 management and financial contributions, but I don't
24 think that -- that can't continue forever. I frankly
25 feel like we've done our part through the commitments

1 we've made to bring the service up to a level. But I
2 think, now that it is up to that level, I think we have
3 met our part of the bargain and I think now we're asking
4 the Commission to take a hard look at it and give us
5 reasonable rates so that we can get a return and get it
6 refinanced and stop having the problems we've had in the
7 past.

8 Q If the consequences of that conversion are too
9 severe for them, will the partners approve it?

10 A I don't know. I think if I convince them that
11 it is in their best interests, they'll approve it.

12 I may have to take the second phase of that
13 persuasion by pointing out that the only other
14 alternative would be for Leisure Properties to foreclose
15 and take it over and start all over again. And all the
16 partners would be out totally if we did that, if we
17 don't convert the debt to equity, if we foreclose the
18 mortgage. I don't think it will come to that.

19 Q During the questioning by Mr. McLean, there
20 was one question that I was somewhat unclear of. In
21 response to one question, you answered that you were now
22 only seeking \$1,000 for attorney fees. What is the
23 period of that \$1,000? I'm asking you, is it monthly,
24 annual, what?

25 A Monthly, \$12,000 a year.

1 Q All right. And with regard to the agreement
2 between St. George Island Utility and Gene Brown, PA,
3 the written addendum to retainer agreement, was there an
4 agreement between the Utility and Gene Brown, PA, prior
5 to the time that that addendum was executed?

6 A Yes.

7 Q Was it an oral agreement?

8 A I guess it was oral. I agreed with myself in
9 my mind. I don't know that we talked it out like we
10 used to do in speech class where you play both parts. I
11 don't even remember the left hand shaking with the
12 right.

13 Q All right. In response to some of the
14 questions in the exhibit dealing with attorneys fees,
15 there's a reference in the summary sheet of a firm,
16 Apgar, Pelham and Pheiffer, P-H-E-I-F-F-E-R. Is that a
17 misprint?

18 A If that's the way to spell your name, it must
19 be. I'm not a good speller, either.

20 Q That's me, Mr. Brown?

21 A That's you.

22 Q Thank you. With regard to the lease agreement
23 between Amaretta Bay --

24 A Armada Bay.

25 Q -- Armada Bay Corporation and St. George

1 Island Utility, did the execution of that lease
2 agreement change anything?

3 A No.

4 Q Was it your intent to create any relationship
5 that did not previously exist?

6 A No. My attempt was to reduce to writing the
7 relationship that existed; because nobody could ever
8 understand why we had a month-to-month agreement and I
9 finally decided it was better to spell it out and write
10 it down so everybody could see it. And I'm committed to
11 continue to operate that way because I can see that
12 that's necessary and required.

13 Q Did you feel that that was needed?

14 A I did not feel that was needed. I don't --
15 the enforceability of a tenancy at will, almost,
16 month-to-month, under the statutes -- I mean, there's
17 not much to enforce if either party can walk away. But
18 it is good to spell it all out.

19 Q As to advances that you or companies that you
20 are associated with have made to the Utility, why didn't
21 you go to a bank to get those loans?

22 A I don't have good credit, the Utility company
23 doesn't have good credit. There is no source of
24 funds -- somebody mentioned yesterday, why don't we just
25 get some investors and put up the money and then maybe

1 get paid down the road? But there are no investors that
2 would invest in this Utility company, there's no bank
3 that would loan this Utility company money. Nobody that
4 I know of would ever put money in this Company.

5 Q Well --

6 A Except me and my family, they're the only
7 people I've found that have been willing to make that
8 kind of commitment.

9 Q Are you taking any risk?

10 A I think we take a big risk that all the cash
11 that's been put in there over the past several years
12 will be lost. It's a risk, gamble, whatever you want to
13 call it. If we don't get adequate rates and don't get
14 it refinanced, I think there's a big chance of losing
15 all of that.

16 Q There was some question about the name of the
17 trustee. Does Union Trust Bank sound correct as the
18 trustee of the pension fund?

19 A I probably said First Union. Union Trust
20 Bank?

21 Q Yes, sir.

22 A That sound familiar.

23 Q You talked about a --

24 A See, the people in my office handled all that.
25 But Union Trust I'm sure is the trustee now. I resigned

1 and they agreed to take over.

2 Q All right. And with regard to improvements,
3 you talked about a water hammer problem. What is a
4 water hammer problem?

5 A Water hammer is a short term phrase for surges
6 in pressure which can damage pipes and cause problems.
7 And it bothered Hank quite a bit; and we talked about it
8 and we redesigned, with the help of Les Thomas, we have
9 redesigned some preliminary designs or previously
10 permitted designs to provide variable speed drives on
11 both our new high speed pumps to minimize if not totally
12 eliminate the water hammer problem. That costs another
13 \$15,000, \$16,000 for those drives, but it is well worth
14 it.

15 Q In your direct testimony, there was some
16 testimony with regard to a hurricane and hurricanes in
17 1985. Did those hurricanes have a negative impact --
18 excuse me.

19 What if any impact did those hurricanes have
20 on development activities on St. George Island?

21 A They brought development to a complete halt
22 there for a while. The water was out for a period of
23 days. The electrical power was out for weeks. The
24 bridge was out for over a year; there was a little
25 temporary bridge, but I think it took the state about a

1 year and a half or two years to get it repaired.

2 And people were a little reluctant to develop
3 property on the island, even if they could get through
4 those problems. Because these hurricanes, they don't
5 happen every year, but when they happen, it has a
6 dampening effect on development activities for a few
7 years.

8 And that impacted the Utility company
9 because --

10 Q Tell me how it impacted the Utility. That was
11 going to be my question.

12 A Well, up until that time, Leisure Properties
13 has been funding the operating losses of the Utility
14 company through its cash flow operation, because it was
15 a successful developer and had lots of cash flow and
16 profits. But the hurricane had a tremendous impact on
17 Leisure, and Leisure was thereby not able to continue
18 making the same level of loans and advances to the
19 Utility company.

20 And that was coupled with some litigation and
21 financial stress with former partners and banks and
22 everybody else. There was a period that the bank had
23 had a half interest and nobody knew who was going to end
24 up in control or owning this Utility company. Or nobody
25 was sure.

1 Q With regard to engineering service, is there
2 any distinction between St. George Island Utility's use
3 of Wayne Coloney and its use of other engineers, such as
4 Les Thomas?

5 A We use Wayne Coloney on a very limited basis.
6 I try to use him to consult with, he's a long-time
7 friend, I have the utmost confidence in him. I call
8 him, I meet with him when I have meetings with
9 agencies -- the water management district, the other
10 day, I take him, he's articulate, he knows what he is
11 doing.

12 But he's a consulting, forensic, advising
13 engineer. He used to be a nuts-and-bolts, grind-it-out,
14 sit-down-and-do-the-work engineer, but now he's too
15 high-priced and too busy, so I have a \$75-an-hour
16 engineer that I've just hired.

17 I've used Baskerville-Donovan; they've done
18 good work for me over the years. For one reason or
19 another, DEP seem to not ever agree with the reports
20 that Baskerville writes. I think their reports are
21 direct, but that's one of the factors that led me to
22 make a change. I still have confidence in Baskerville;
23 but for whatever reason, I just wanted to get a fresh
24 face to take a fresh look at it, even though I expect
25 Les Thomas to agree with Wayne Coloney and Baskerville

1 in their conclusions.

2 But I think that's a cost-effective way to
3 operate. Because, as I said before, Les Thomas is
4 always available, he'll sit down with you and get it
5 done. And I think some of this work that's been done
6 over the last few weeks couldn't have been done by a big
7 engineering firm, or it would have been more difficult,
8 because they have a lot more clients and a lot more
9 considerations.

10 Q Is there any reason why pay raises are
11 important to the customers of St. George Island Utility?

12 A I can think of several.

13 Q What are they?

14 A I think it's important to the customers of St.
15 George Island Utility that we are able to maintain good,
16 competent, dedicated employees, such as Hank Garrett and
17 Sandra Chase and Kenneth Shiver and the other people.
18 And if you don't pay them well, they aren't going to
19 stay. And we have a good management and team of
20 employees and I think it is important you keep them.

21 And Class C operators, Hank is going to school
22 to get his Class B license, Kenneth is trying to get his
23 Class C, and those people are in demand. If you don't
24 pay them, they're going to go somewhere else. They
25 don't want to, but you have to pay them. And this

1 Company could not have made the progress without these
2 employees.

3 Q There has been some testimony regarding
4 improvements at the utility. Are any of those
5 improvements matters that were not included as operating
6 and maintenance costs or other costs from the 1989 rate
7 case?

8 A I don't know that any of those expenses were
9 operating and maintenance expenses. The third well was
10 mandated in the '89 case as a capital expenditure
11 addition to plant. The plant improvements -- the high
12 speed pumps, variable speed drives, the altitude
13 valves -- none have been mandated to anybody. That is
14 an initiation by Hank Garrett and myself.

15 I remember we were standing out there talking
16 about, "How can we get redundancy?" And Hank said what
17 he would like to see is a new motor. Because we had
18 both been there when that one burned out and we were out
19 for some time; and it is not pleasant to be on St.
20 George Island without water if you're the manager of the
21 water company and we are never going to let that happen
22 again.

23 Hank and I decided to try to start building
24 redundancy so that if one system goes out, like one
25 engine on a twin engine plane, it will continue to fly.

1 And Hank and I decided that we needed a new pump and we
2 initiated that. And that's probably the first time
3 recently that we have gotten ahead of the curve in terms
4 of doing something because we know it needs to be done
5 rather than doing it because DEP or somebody suggested
6 it.

7 Q Is the cross-connect program a program that
8 was part of the operating and maintenance expense from
9 the 1989 case?

10 A No. I don't remember ever hearing about the
11 cross-connection program until after the '89 case and
12 certainly after the '87 test year.

13 The first recollection I have is when I
14 started meeting with my engineers and Cliff McKeown
15 around this same period of time after '87 in which he
16 pointed out this was a responsibility of ours and we
17 have been trying to meet it ever since.

18 We are now meeting that requirement, I think,
19 but it takes a full-time person to do it -- a full-time
20 administrative person plus people working on the island.

21 Q And one last question --

22 CHAIRMAN DEASON: Let me ask, Cliff McKeown,
23 is that an employee of DEP?

24 WITNESS BROWN: Yes, sir, he's the field man
25 and the man that's been involved with the Utility

1 company for many years. He's a Staff witness we have
2 stipulated in.

3 CHAIRMAN DEASON: That's the same? Okay.

4 WITNESS BROWN: Yes, sir. Cliff McKeown, he
5 has been involved with this Company since it started.

6 Q (By Mr. Pfeiffer) Same fellow.

7 And one last question, and again with regard
8 to transportation allowance. Do you know whether
9 employees need to pay more for their insurance because
10 their automobile is used for work-related purposes?

11 A Yes, they definitely do. And I have
12 instructed and my employees will keep adequate records
13 from now on because we're going to make that a
14 requirement. But, unfortunately maybe for us, we didn't
15 do it in any detail during the test year but we are
16 going to do it from now on.

17 MR. PFEIFFER: I have no further questions.

18 CHAIRMAN DEASON: Commissioner Kiesling has a
19 question.

20 COMMISSIONER KIESLING: I just want to be sure
21 that I understand that the time records that were marked
22 as Exhibit 15 --

23 WITNESS BROWN: Okay.

24 COMMISSIONER KIESLING: -- are these time
25 records of you doing your management duties of the

1 Utility or are these time records of Gene Brown, PA?

2 WITNESS BROWN: Up until about two or three
3 weeks ago, I always made a distinction by writing "L" or
4 "M." And if you will notice, the ones that are legal
5 have an "L" and they have, "Matter," they have "Legal
6 work," or "Rate case work," or whatever.

7 Within the last two or three weeks, we were in
8 such a hurry and it just seemed like everything meshed
9 together, we were working full-time on the rate case and
10 trying to keep the Company going at the same time, I
11 just started writing "L/M" for basically the full day.
12 But that is not my practice and I don't intend to
13 continue doing that. I intend to keep records
14 distinguishing as I did from the beginning of this year.

15 This is just a partial exhibit here. I have
16 given Staff and Public Counsel the records from
17 January 1st up to date and they all make that
18 distinction.

19 COMMISSIONER KIESLING: Thanks, that's all I
20 wanted to know. I just wanted to understand the code.
21 Thank you.

22 WITNESS BROWN: Okay.

23 CHAIRMAN DEASON: Thank you. Exhibits?

24 MR. McLEAN: Yes, sir. Citizens move 9
25 through 15.

1 CHAIRMAN DEASON: Without objection, Exhibits
2 9 through 15 are admitted.

3 MR. PIERSON: Staff moves 17.

4 CHAIRMAN DEASON: Without objection, 17 is
5 admitted.

6 MR. PFEIFFER: And Exhibit 16 is a late-filed
7 that we will be submitting.

8 CHAIRMAN DEASON: That's correct.

9 (Exhibit Nos. 9 through 15 and 17 received in
10 evidence.)

11 CHAIRMAN DEASON: Thank you, Mr. Brown.

12 WITNESS BROWN: Thank you.

13 (Witness Brown excused.)

14 - - - - -

15 MR. PFEIFFER: That concludes the direct
16 testimony of St. George Island Utility.

17 CHAIRMAN DEASON: And we'll take five minutes
18 while we transition into Public Counsel's direct case.

19 (Brief recess.)

20 - - - - -

21 CHAIRMAN DEASON: If I could have everyone's
22 attention, please? If everyone will take your places,
23 please? Thank you, call the hearing back to order.

24 Mr. McLean?

25 MR. MCLEAN: The Citizens call Kimberly H.

1 Dismukes.

2 KIMBERLY H. DISMUKES

3 was called as a witness on behalf of the Citizens of the
4 State of Florida and, having been duly sworn, testified
5 as follows:

6 DIRECT EXAMINATION

7 BY MR. McLEAN:

8 Q Would you state your name, please, ma'am?

9 A Kimberly H. Dismukes.

10 Q And your place of employment?

11 A The Office of Public Counsel.

12 Q In what capacity are you employed, ma'am?

13 A I'm a legislative analyst.

14 Q Have you composed and arranged to be filed
15 direct testimony in this case?

16 A Could you repeat it? There was rustling of
17 papers, I didn't hear it.

18 Q Sure. It's a fairly standard question.

19 A I know.

20 Q Have you prepared and caused to be filed
21 direct testimony in this case?

22 A Yes.

23 Q And are there exhibits affixed to that
24 testimony?

25 A Yes.

1 Q Now with respect to the testimony, do you have
2 any changes, deletions, corrections or the like?

3 A Yes, I do.

4 Q Could you say what they are, please?

5 A Yes. I really need to talk about the exhibit,
6 because the testimony is affected by the exhibit.

7 Q You can do both at the same time.

8 A Okay.

9 Q The same question with respect to the
10 exhibits.

11 A Okay. We just passed out a revised Schedule
12 27. And basically all I did here was I had
13 double-counted an adjustment. It was pointed out in
14 Mr. Seidman's rebuttal testimony; I removed the
15 double-counting and just ran the calculations through.
16 So the change is, instead of a rate decrease of about
17 \$19,000, this schedule shows a rate increase of about
18 \$15,000.

19 Q So you agree with Mr. Seidman on that issue,
20 his having brought that to your attention; is that fair?

21 A Yes.

22 Q Okay.

23 A I'm not done.

24 Q Sorry.

25 A As a result of that, you need to turn to, if

1 you turn to Page 74 of my testimony, Line 13, the word
2 "decrease" should read "increase." And the \$13,539
3 figure should be changed to \$15,455.

4 And then I have I guess it's a correction, a
5 clarification, on Page 31 of my testimony. There's a
6 discussion here about Ms. Withers and the use of
7 Ms. Withers in '92 and '93. I said that they did not
8 pay or use Ms. Withers' services. What I am doing is
9 just revising the fact that the Utility apparently did
10 use Ms. Withers in 1993 and 1992; however, I did not see
11 any records or any bills for payment. So that part of
12 my testimony stands.

13 Q Is that the end of your revisions?

14 A Yes.

15 Q Okay. Were I to ask you the same questions as
16 listed in your testimony today, would your answers be
17 the same and would you give the same supporting
18 schedules in response thereto?

19 A Yes.

20 Q You also filed supplemental testimony; is that
21 correct?

22 A Yes.

23 Q Are there schedules associated with the
24 supplemental testimony?

25 A Yes, there are.

1 Q If I asked you all the questions listed in the
2 supplemental testimony, would your answers and schedules
3 be the same as they are?

4 A Yes.

5 MR. McLEAN: Okay. May we have the exhibits
6 marked for identification, please, Mr. Chairman?

7 CHAIRMAN DEASON: Yes. The exhibits attached
8 to the prefiled testimony will be identified as Exhibit
9 18, and the exhibits attached to the supplemental
10 prefiled testimony will be identified as Exhibit No. 19.

11 MR. McLEAN: Mr. Chairman, the Citizens move
12 the testimony into the record as though read.

13 CHAIRMAN DEASON: Without objection, both the
14 original and the supplemental testimony will be so
15 inserted.

16 (Exhibit Nos. 18 and 19 marked for
17 identification.)

18

19

20

21

22

23

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25

1 Q. What is your name and address?

2 A. Kimberly H. Dismukes, 111 West Madison Street, Room 812, Tallahassee,
3 Florida, 32399-1400.

4 Q. Do you have an appendix that describes your educational and occupational
5 history and your qualifications in regulation?

6 A. Yes. Appendix I, attached to my testimony, was prepared for this purpose.

7 Q. Do you have an exhibit in support of your testimony?

8 A. Yes. Exhibit 8(KHD-1) contains 27 schedules which support my testimony.

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to respond to certain portions of St. George
11 Island Utility Company, Ltd., (SGU, the Utility, or the Company) request to
12 increase rates by \$428,201, or 136%.

13

14 My testimony is organized into seven sections. In the first section of my
15 testimony I address the Company's instant rate request relative to the request
16 made in the recently dismissed case, Docket No. 930770-WU. In the second
17 section of my testimony I examine the Company's relationship with its affiliates
18 and adjustments necessary to recognize these relationships. In the third part of my
19 testimony I address several adjustments that should be made to the Company's
20 requested test year revenues and expenses. In the fourth section, I address rate
21 base issues. In the fifth section, I discuss capital structure issues. In the sixth
22 section, I present the calculation of the Company's revenue requirements taking

1 into consideration my recommendations. Finally, in the seventh section of my
2 testimony, I address the Public Service Commission Staff's (Staff's) audit of St.
3 George Island Utility Company, Ltd.

4 **Q. Do you have any comments you would like to make before addressing the**
5 **first issue?**

6 A. Yes. Due to several discovery problems that arose throughout the course of this
7 proceeding, it is the expectation of the Office of the Public Counsel that
8 additional supplemental testimony may be filed as discovery is completed and the
9 issues developed further. For example, substantial discovery concerning the
10 Company's affiliates and the original cost of the Company's water assets was still
11 outstanding at the time my testimony was completed.

12 **Q. Let's turn to the first section of your testimony. Would you compare the**
13 **instant rate request to the one requested by the Company in Docket 930770-**
14 **WU?**

15 A. Certainly. I have made this comparison on schedule 1 of my exhibit. As shown
16 on this schedule, in Docket No. 930770-WU the Company requested a rate
17 increase of \$203,512. In the instant case, the Company has requested a rate
18 increase of \$428,201. This represents an increase of \$224,689, or 110%, over the
19 request made just a few months earlier. A comparison between the two cases
20 shows that the Company's requested rate base has decreased by \$12,047, its
21 revenues have stayed the same, and its operation and maintenance expenses have
22 increased by \$207,125.

1 Q. Did something extraordinary happen to cause the Company's rate request to
2 increase by so much?

3 A. No. The test year in both cases is the same--December 31, 1992. The rate base
4 is largely the same and the test year revenue level did not change. The major part
5 of the increase can be attributed to numerous proforma adjustments made to the
6 Company's test year operating expenses.

7

8 Schedule 2 of my exhibit sets forth the detail of the expense increases requested
9 by the Company. As shown on this schedule, the largest increase, \$85,091, is in
10 the category contractual services-other. Most of this increase relates to expenses
11 the Company alleges it will incur to comply with the Department of
12 Environmental Protection (DEP) requirements. For example, the Company alleges
13 that DEP has mandated that immediate arrangements be made for a ground
14 storage maintenance program. The Utility has estimated that its storage
15 maintenance program will cost \$22,409 a year. Likewise, SGU has increased its
16 water testing expenses by \$23,909 because of alleged DEP requirements for
17 increased and more reliable water quality testing.

18

19 The next largest increase, \$48,000, is in the category contractual services-
20 management. This increase represents a management fee for the services of Gene
21 Brown.

22

1 The Company has also increased expenses for the amortization of several studies,
2 which SGU claims are necessitated by the requirements of the DEP or the
3 Northwest Florida Water Management District. The Company has estimated that
4 another system analysis will cost approximately \$15,852 per year, that a revised
5 system map, plus amortization of the initial system map, will cost about \$6,310
6 per year, that an aerator analysis will cost \$4,290 per year, and that a hydrology
7 study will cost \$9,000 per year. In addition, the Company is requesting \$6,000
8 per year to conduct a \$30,000 fire protection study. In total these adjustments are
9 \$34,674 higher than they were in the case that was dismissed.

10
11 Another notable increase, \$27,824, is in the category of pensions and benefits.
12 This expense increase is claimed for health insurance, the addition of a pension
13 plan, and for employee education and training.

14
15 The differences between the instant rate request and the one that was dismissed
16 by the Commission is largely, if not entirely, related to the Company's additional
17 proforma adjustments.

18 **Q. This seems excessive. Have you evaluated any other information which**
19 **suggests that the Company's expense levels are extravagant?**

20 **A.** Yes, I have. I have made two comparisons of the Company's expense levels to
21 those of other Class B utilities in the State of Florida. The first comparison,
22 shown on schedule 3, compares the O&M expenses requested by the Company

1 to the O&M expenses allowed by the Commission in two recent Class B rate
2 cases--Jasmine Lakes Utilities Corporation (Jasmine Lakes) and Mad Hatter
3 Utility, Inc. (Mad Hatter). Since these two utilities are of a size similar to the
4 Company and the Commission just recently evaluated their operation and
5 maintenance expenses for reasonableness, a comparison of their expense levels
6 to that of SGU is informative. As shown on this schedule, even though SGU is
7 the smallest of the three utilities examined, its requested level of expenses is
8 considerably higher than Mad Hatter or Jasmine Lakes. For example, on a per-
9 ERC basis, the Commission allowed Jasmine Lakes to recover total O&M
10 expenses of \$209 per ERC. The Commission allowed Mad Hatter to recover \$162
11 per ERC. These compare to the Company's request of \$547 per ERC.

12
13 Most expenses requested by SGU are noticeably higher than the amounts allowed
14 for Jasmine Lakes and Mad Hatter. In particular, salaries and wages (\$125/ERC
15 versus \$21/ERC and \$46/ERC, respectively), salaries and wages - officers¹
16 (\$49/ERC versus \$15/ERC and \$16/ERC, respectively), pensions and benefits
17 (\$35/ERC versus \$9/ERC and \$2/ERC, respectively), contractual services -
18 accounting (\$23/ERC versus \$1/ERC and \$11/ERC, respectively), contractual
19 services - legal (\$24/ERC versus \$2/ERC and \$6/ERC, respectively), contractual
20 services - other (\$99/ERC versus \$14/ERC and \$10/ERC respectively), general

21 ¹The Company classified the management fee paid to Mr. Brown through Armada Bay Company as
22 contractual services - management. For comparative purposes, this expense was reclassified to salaries and
23 wages - officers.

1 liability insurance (\$17 versus \$2/ERC and \$2/ERC, respectively), property
2 insurance (\$16/ERC versus \$1/ERC and \$2/ERC, respectively), bad debt expense
3 (\$6/ERC versus \$1/ERC and \$2/ERC, respectively), and miscellaneous expenses
4 (\$25/ERC versus \$6/ERC and \$7/ERC, respectively), are all at least twice as
5 high per ERC as allowed by the Commission for these other two companies.

6 **Q. What is the next comparison that you made?**

7 **A.** The next comparison is shown on schedule 4. This analysis examines SGU's
8 requested level of O&M expenses compared to the O&M expenses incurred by
9 all other Class B utilities regulated by the Commission. Pages 1 through 3 of this
10 schedule show the dollar level of expenses incurred by each utility compared to
11 SGU. As depicted on this schedule, of the 19 utility companies shown, SGU
12 ranks first in total operation and maintenance expenses. In contrast, SGU ranks
13 only sixteenth in size--when the number of customers is used as the size variable.

14
15 Pages 4 through 6 of this schedule make the same comparison, but on a per-
16 customer basis. As can be seen from reviewing this schedule, SGU's requested
17 expenses are significantly higher than almost all of the Class B utilities regulated
18 by the Commission. The last column on page 6 of this schedule shows the
19 average for all of the Class B utilities listed. Again, SGU's requested expenses
20 are significantly higher than the expenses incurred by the average Class B utility.
21 In total, SGU has requested O&M expenses of \$541 per customer. This compares
22 to only \$183 per customer for the average Class B utility.

1 Expenses that are exceptionally high when compared to the average Class B water
2 utility include: salaries and wages at \$118 per customer versus \$41 per customer;
3 pensions and benefits at \$33 per customers versus \$6 per customer; contractual
4 services - accounting at \$22 per customer versus \$5 per customer; contractual
5 services - legal at \$23 per customer versus \$3 per customer; contractual services -
6 other at \$93 per customer versus \$17 per customer; general liability insurance
7 at \$16 per customer versus \$2 per customer; other insurance at \$15 per customer
8 versus \$2 per customer; bad debt expense at \$6 per customer versus \$2 per
9 customer and miscellaneous expenses at \$23 per customer versus \$8 per
10 customer.

11 **Q. Aren't there differences between the utilities that would explain these large**
12 **discrepancies?**

13 **A.** While there are certainly differences between the utilities that would explain
14 some variation between the SGU figures and the figures for the industry average,
15 such large discrepancies should be carefully examined by the Commission. The
16 sheer magnitude of the difference in cost per customer between the average Class
17 B water utility and St. George Island Utility Company, Ltd. should alarm the
18 Commission. The Commission should carefully and thoroughly evaluate those
19 expense categories which are significantly above the industry average, and
20 question the Company concerning these large discrepancies.

21 **Q. Let's turn to the next section of your testimony. Would you please discuss the**
22 **issue of affiliate transactions?**

1 A. Yes. Mr. Gene Brown, the manager and effective owner of St. George Island
2 Utility Company, Ltd., is associated with numerous (eight) other entities. Most,
3 if not all of these companies, operate out of the same administrative office as
4 SGU. These other companies currently appear to have no paid staff, other than
5 possibly Mr. Brown and his assistant Ms. Chase.

6
7 The two companies which appear to have the most significant operations, other
8 than SGU, are Armada Bay Company and Gene D. Brown, P.A. The former
9 company is a management services company, of which Mr. Brown is president,
10 secretary, director and management consultant. This company supposedly
11 manages SGU. During the test year, the Company is requesting that Armada Bay
12 Company be paid \$48,000 for the management services provided by Mr. Brown.

13
14 The second company is Mr. Brown's law practice of which Mr. Brown is
15 president, secretary, and director. The Company is requesting that Mr. Brown
16 be compensated for \$24,000 of non-rate case related legal services to be rendered
17 to the Company. In addition, the Company has requested recovery of \$20,000
18 associated with legal services provided by Mr. Brown in connection with
19 litigating the instant rate case.

20
21 The other companies which operate out of SGU's Tallahassee administrative
22 offices include the Tallahassee Yacht Club, Inc., which is apparently inactive;

1 Plantation Realty, Inc., a real estate marketing company, which is supposedly
2 inactive; G. Brown & Company, which is supposedly inactive; St. George's
3 Plantation, Inc., which is the corporate general partner of Leisure Properties,
4 Ltd.; Leisure Development, Inc., which is also a corporate general partner of
5 Leisure Properties, Ltd.; and Leisure Properties, Ltd., which is the general
6 partner of St. George Island Utility Company, Ltd. [Response to OPC's
7 Interrogatory 12.]

8 **Q. Are there any costs shared between SGU and these other companies?**

9 A. SGU has no formal mechanism to either allocate or assign costs between the
10 Utility and these other companies. The Company, however, did assign a few costs
11 to the nonutility entities. Specifically, SGU assumed that Ms. Chase, Mr.
12 Brown's assistant, worked 11.25 hours for Mr. Brown and his other affiliates,
13 and 33.75 hours for the Utility. Based upon this assumption, the Utility paid
14 \$24,000 of Ms. Chase's salary and Mr. Brown's law office paid \$8,240. In
15 addition to this assignment of costs, as a proforma adjustment, SGU assigned
16 50% of the cost of the electricity to SGU and 50% to the law office. This split
17 may be based upon the fact that SGU's office accounts for 750 square feet and
18 the law office, which is directly above SGU office, also accounts for 750 square
19 feet.

20
21 The Company also has assigned some of the lease cost of the office space to Mr.
22 Brown's other affiliates. Currently, the Utility's office is leased from Armada Bay

1 Company for \$750 a month. There is no written lease agreement between the
2 Utility and Armada Bay Company. Mr. Brown, apparently through Armada Bay
3 Company, has a lease/purchase agreement with Three Over, Inc. for both the
4 office space occupied by the Utility as well as Mr. Brown's law office and other
5 businesses. According to the lease agreement, the monthly rental rate is \$625.00,
6 plus \$150 per month for ad valorem taxes, and \$125 per month for association
7 dues. [Gene Brown Late Filed Deposition Exhibit 3.] Using these figures implies
8 that 83%² of the cost of the total office space is charged to SGU and 17% is
9 charged to Mr. Brown's other affiliates.

10 **Q. Do you believe these cost assignments are adequate?**

11 A. No, I do not. The administrative staff of SGU and Mr. Brown assist with the
12 management and operation of Mr. Brown's other companies. For example, the
13 Utility receptionist and other support staff answer the phone for SGU as well as
14 other companies. Likewise, his staff runs errands for Mr. Brown and his other
15 companies. They make copies and send and receive faxes for Mr. Brown's other
16 companies. Despite this, all salaries, wages, and benefits for SGU's
17 administrative support staff (except Ms. Chase) are paid by the Utility. There is
18 no allocation of costs between the Utility and Mr. Brown's affiliates.

19
20 These other companies also use the same telephone line, fax machine, copier, and

21 ²\$625.00 + \$150.00 + \$125.00 = \$900.00. \$750 / \$900 = 83%.
22

1 cellular phone as the Company. With the exception of the cellular phone, all are
2 used free of charge. It is interesting to note that the copier and fax machine were
3 previously owned by Armada Bay Company. They were sold to SGU in 1992--the
4 test year. Prior to the test year, the management fee of \$48,000 per year charged
5 to the Utility included the use of the copier, fax machine, and some billing
6 software. These assets are now owned by SGU, but there was no reduction in the
7 management fee charged to SGU.

8
9 SGU is also charged for 100% of storage space rented at Fort Knox, despite the
10 fact that there are records from Mr. Brown's other businesses stored at this
11 facility. [Mr. Brown's Deposition, pp. 43-44.]

12 **Q. Does the Company keep records to properly account for the sharing of**
13 **facilities and personnel?**

14 A. No. There is no maintenance of time records, copying logs, or fax logs which
15 would allow the Commission to objectively determine how much time is spent on
16 SGU operations versus the non-utility operations.

17 **Q. What adjustment do you recommend?**

18 A. I recommend that some of the common costs which are entirely charged to the
19 Utility be allocated to Mr. Brown's affiliates. The Commission has several
20 options in this regard, since SGU provided no documentation supporting its
21 implicit assertion that 100% of most costs should be charged to SGU. The
22 Commission for example, could use a 50%/50% sharing, as this is how the

1 Company chose to split its electric bill. The Commission could use a sharing of
2 75% to the utility/25% to other affiliates, as was done with Ms. Chase's salary.
3 While either of these allocations would be defensible, I believe that it would be
4 appropriate to allocate a larger share of costs to the utility operations.

5
6 My initial recommendation is to allocate 10% of most common costs to Mr.
7 Brown's affiliated companies. The two exceptions include the health and pension
8 benefits assigned to Ms. Chase which I have allocated 25% to Mr. Brown's
9 nonutility affiliates, and the office rent, which I have allocated 50% to Mr.
10 Brown's non-utility affiliates.

11
12 I have allocated 25% of Ms. Chase's health benefits to the nonaffiliates because
13 this is the same allocation percentage used by SGU to allocate Ms. Chase's
14 salary. Her health benefits should follow her salary.

15
16 I have allocated 50% of the office rent ($\$10,800 \times 50\% = \$5,400$) to Mr.
17 Brown's affiliates because approximately 50% of the office space is occupied by
18 Mr. Brown's law office which is upstairs from SGU's office. Although Ms.
19 Chase occupies a portion of the law office space, she does perform work for
20 SGU, I believe that there is space for Ms. Chase to function out of the downstairs
21 office. In addition, Mr. Brown's office upstairs is much nicer than the office

22

1 downstairs--with a fire place and dormer windows. Presumably, even through
2 both spaces have the same square footage, the upstairs office could rent for more
3 than the downstairs office. For these reasons, I believe that a 50% allocation of
4 the rent expense to Mr. Brown's affiliates is reasonable.

5
6 As shown on schedule 5, this results in allocating salaries and wages of \$3,214,
7 payroll taxes of \$332, pensions and benefits of \$1,260, office rent of \$3,717, and
8 miscellaneous expenses (telephone expenses, office supplies, etc.) of \$2,165 to
9 Mr. Brown's affiliates.

10
11 As shown on this schedule, I have also allocated 10% of the cost of office
12 furniture and equipment and the related accumulated depreciation and depreciation
13 expense to Mr. Brown's affiliates. It is appropriate to allocate a portion of this
14 plant and equipment to Mr. Brown's affiliates, because this equipment was used
15 by Mr. Brown's other businesses during the test year.

16 **Q. Let's turn to the third section of your testimony. What adjustments have you**
17 **made to the Company's test year revenues and expenses?**

18 **A.** I recommend several adjustments. Specifically, I recommend increasing test year
19 revenues and expenses to bring them up to a 1993 level, reducing salaries and
20 wages, reducing pensions and benefits, reducing contractual services, reducing
21 insurance expenses, reducing transportation expense, reducing bad debt expense,
22 reducing miscellaneous expense, reducing the Company's amortization proforma

1 adjustment, reducing expenses for unaccounted for water, reducing rate case
2 expense, reducing maintenance expense, and increasing taxes other than income
3 taxes.

4 **Q. Let's discuss these separately. Would you begin with your adjustment to test**
5 **year revenue and expenses for growth?**

6 **A. Yes.** Although SGU has requested the use of a 1992 historical test year, data for
7 1993 is available to use as a test year. The Commission has the option of
8 updating the test year to the more recent 1993 test year, or making adjustments
9 to the 1992 test year to make it more comparable to 1993. The Company's
10 requested test year level of expenses are designed to bring the Company's expense
11 level to a 1993 or 1994 level. Many of the Company's proforma adjustments are
12 for expenses that were not incurred during the historical 1992 test year, but for
13 expenses anticipated to be incurred during 1993 or in most instances in 1994. For
14 this reason, I believe the Commission should update the Company's test year
15 level of revenue, expenses and rate base to be more consistent with a 1993 test
16 year.

17
18 I chose to make adjustments to the 1992 test year for the 1993 growth in revenue,
19 expenses, and rate base, rather than completely revise the test year for two
20 reasons. First, this approach is easier to understand and compare to the
21 Company's request and avoids the problem of eliminating proforma adjustments
22 that were booked by the Company in 1993. For example, one of the Company's

1 proforma adjustments is to recognize \$6,276 of bad debt expense. The Company
2 booked this bad debt expense in 1993. Likewise, the Company is requesting a
3 proforma adjustment for contractual services - accounting. The Company booked
4 this expense in 1993. To avoid the confusion of ascertaining which expenses in
5 1993 were proforma adjustments in 1992, I believe that it would be easier to just
6 adjust the 1992 data to bring it up to a 1993 level.

7
8 Second, this approach avoids the problem of reviewing all of the 1993 expenses
9 for reasonableness. Both the Staff and I have focused on 1992 expenses because
10 this was the test year filed by the Company. The Staff, through its audit, has
11 recommended several adjustments to SGU's expenses. Likewise, I have proposed
12 adjustments to the Company's 1992 expenses. To be consistent with these
13 adjustments, it is necessary to use the 1992 level of expenses, but adjust them up
14 to a 1993 level.

15
16 Unless the Commission adopts the growth adjustments that I propose, it will set
17 the Company's revenue increase effectively using the 1992 levels of revenues and
18 investment with the 1993/94 level of expenses. If the Commission sets rates using
19 the method proposed by the Company, a mismatch will result which will
20 significantly overstate the Company's revenue requirement.

21 **Q. What is the first growth adjustment that you recommend?**

22 **A. Page 1 of schedule 6 summarizes the adjustments that I propose. The first**

1 adjustment is for revenue growth. The Company had considerable revenue growth
2 during 1993. As shown on page 2 of schedule 6, during 1993 the Company's
3 revenues increased by \$35,094. Accordingly, I have increased the Company's
4 1992 historical test year revenue by \$35,094. This adjustment will put the
5 Company's revenues at a level more consistent with the requested level of test
6 year expenses.

7 **Q. What adjustment did you make to expenses?**

8 A. I have made adjustments to four expenses to recognize the increase in customers
9 and usage between 1992 and 1993. All other expenses have been adjusted by the
10 Company to bring them to a 1993 or 1994 level. As such, it was not necessary
11 to adjust these other expenses. According to the Company's response to OPC's
12 interrogatory 22, the Company's customers increased by 5% from 1992 to 1993.
13 In addition, I took into consideration the 3% inflation rate that took place in
14 1993. Accordingly, I increased three 1992 expense accounts by 8% and one by
15 5%. Specifically, I increased purchased power by 5%³ which results in an
16 increase to expenses of \$908; I increased chemical expenses by 8% which results
17 in an increase to expenses of \$271; I increased materials and supplies by 8%
18 which results in an increase to expenses of \$1,246; and I increased miscellaneous
19 expenses by 8% which results in an increase to expenses of \$940. In total I
20 increased expenses by \$3,365. A summary of these adjustments is depicted on

21 ³Purchased power was increased by only 5% because the rates charged by electric utility which serves
22 the Company are largely fixed.

1 page 2 of schedule 6.

2

3 In addition to adjustments to operation and maintenance expenses, I also adjusted
4 the level of depreciation expense to be consistent with the level of 1993 plant that
5 I will discuss in the next section of my testimony. My adjustment to depreciation
6 expense recognizes the Company's average 1993 level of investment. My
7 adjustment also takes into consideration the correct depreciation rates as set forth
8 in Chapter 25-30.140 of the Commission's rules. The depreciation rates used by
9 the Company appear to be those of a Class C utility. The ones that I have used
10 are for a Class B utility. Since the latter depreciation rates are lower than the
11 former, my adjustment to depreciation expense is a reduction of \$9,801.

12 **Q. What adjustment have you made to the Company's salaries and wages?**

13 **A.** I have made two adjustments, as shown on Schedule 7. The first adjustment is to
14 reduce the overall level of salaries requested by the Company. The Company
15 gave its employees considerable pay increases effective the December 1, 1993,
16 and has requested recovery of this level of expense. As shown on schedule 7, the
17 Company increased the salary of Mr. Garrett by 39%, the salary of Mr. Shiver
18 by 5%, the salary of Ms. Hills by 7% and the salary of Ms. Chase by 51%. For
19 these four employees, the average increase in salaries is 26%. In my opinion,
20 these pay increases are excessive and unnecessary given today's economic
21 environment. In at least two recent water and wastewater cases, the Commission
22 voted to hold the level of pay increases to less than 5%. The adjustment that I

1 propose holds the level of pay increase for the Company's employees to 5%. As
2 shown on schedule 7, this adjustments reduces the Company's requested salary
3 expenses by \$15,586.

4
5 I also reduced the proposed salary for the second field assistant. Prior to the rate
6 request the Company was operating with 1.75 to 2 persons in the field--Mr.
7 Hank Garrett and Mr. Kenneth Shiver. The Company's requested level of salaries
8 includes the full-time employment of a second field assistant. Although the
9 Company claims that this person will become full-time, he only worked part-time
10 for the first part of 1994. It would seem reasonable to assume that this additional
11 field person might be needed on a full-time basis during the tourist season, but
12 that during the off-peak period he would not be needed at all, or on a much more
13 limited basis. Accordingly, I have included the salary of this field assistant, but
14 only on a part-time basis. This adjustment reduces the Company's test year
15 salaries by \$8,320. In total my adjustment to salaries and wages is \$23,906.

16 **Q. You have not proposed an adjustment to the \$48,000 management fee**
17 **charged for the management services provided by Mr. Brown. Would you**
18 **explain why?**

19 **A.** Yes. Later in my testimony I propose some adjustments which reduce the level
20 of compensation paid to Mr. Brown which effectively reduces this management
21 fee. If the Commission does not adopt these later adjustments, then it may be
22 necessary to directly adjust the management fee.

1 My adjustment to the Company's salaries and wages to some degree reduces the
2 overall level of salaries and wages, and can be viewed as having an impact on the
3 management fee paid to Armada Bay Company. In particular, Ms. Chase was
4 paid by Armada Bay Company in 1990, 1991, and 1992. The \$48,000
5 management fee charged during those years apparently included the salary paid
6 to Ms. Chase. During 1990, 1991, and 1992, Armada Bay Company paid Ms.
7 Chase \$7,408, \$30,160, and \$20,912, respectively. For purposes of determining
8 its test year level of salaries, the Company moved the payment of the major
9 portion of Ms. Chase's salary from Armada Bay Company to SGU.
10 Consequently, a portion of the percentage pay increase reflected on schedule 7
11 is associated with this shift payment of Ms. Chase's salary. Accordingly, a
12 portion of the salary disallowed by my 5% limitation on pay increases reflects this
13 shift in payment and can be viewed as lowering the compensation paid for
14 management services provided by both Mr. Brown and Ms. Chase.

15
16 If the Commission does not adopt my proposed salary adjustments and the
17 subsequent adjustments that I propose, then it should consider making an
18 adjustment to the management fee charged by Armada Bay Company. As I
19 understand the situation, the management fee is primarily paid to Mr. Brown for
20 his management services. In my opinion, there are several reasons why the
21 Commission can and should adjust this fee. First, until 1994 Mr. Brown did not
22 keep time records of the time that he spent working for Armada Bay Company

1 on tasks related to the Utility. Under the circumstances, this failure in and of
2 itself should be reason enough to disallow all management fees. Second, Mr.
3 Brown, through Armada Bay Company did not bill the Utility for services
4 rendered. Thus, there is no record of what services were performed. Third, a
5 portion of Mr. Brown's time is spent dealing with problems that were caused by
6 poor management practices in the past. In my opinion, customers should not be
7 charged for the time needed to solve problems that resulted from the Utility's
8 failures. These costs should be absorbed by the stockholders, not ratepayers.
9 Fourth, a review of Mr. Brown's time records indicates that he spends time on
10 efforts that are not directly related to SGU--like going to court on matters
11 dealing with his mother's estate. Fifth, if Mr. Brown's management fee is
12 combined with his legal fees and other benefits, his total compensation package
13 is excessive for a utility the size of St. George Island Utility Company, Ltd.

14 **Q. What is Mr. Brown's total compensation and what adjustment would you**
15 **propose if the Commission does not adopt your other recommendations?**

16 **A.** Mr. Brown's requested total compensation plus benefits is \$80,700, plus an
17 additional \$20,000 to process the instant rate case. Amortizing the latter expense
18 over 4 years indicates that Mr. Brown's total compensation including rate case
19 expense is \$85,700. In my opinion, this level of compensation is excessive for a
20 utility which has consistently been in violation of the Department of
21 Environmental Protection's regulations and the Commission's rules and
22 regulations, and for a water utility the size of SGU.

1 Given the obvious problems with this utility, its repeated violations, and its size,
2 I believe it would be reasonable for the Commission to reduce this total overall
3 level of compensation by 50%--or by \$42,850.

4 **Q. Would you discuss the Company's requested test year legal expenses?**

5 **A.** Yes. The Company is requesting a proforma adjustment to legal expenses of
6 \$24,000. According to the Company this adjustment is to compensate Mr. Brown
7 for anticipated legal services based upon a \$2,000 per month retainer. Mr. Brown
8 gave the following explanation about his requested legal expenses:

9 ...the utility has entered into a retainer agreement
10 with my professional association, Gene D. Brown,
11 P.A., under which the utility is obligated to pay
12 \$2,000 per month. This covers all legal services
13 that the utility may require, except extraordinary
14 matters such as this rate case and substantial
15 litigation that cannot be handled by me alone. As
16 part of this retainer agreement, I keep detailed time
17 records covering all legal matters which I handle
18 for the utility company. This time is billed to the
19 utility at \$150 per hour which is my standard hourly
20 rate, but I have agreed to waive all fees in excess of
21 \$24,000 per year. [Brown Testimony, pp. 31-2.]

22 Mr. Brown goes on to state that based upon a his time records, which he kept for

1 only four to six weeks in 1992, at \$150 an hour, his fees would substantially
2 exceed his retainer of \$24,000.

3 **Q. Has Mr. Brown always charged SGU a retainer of \$24,000?**

4 A. No. According to a retainer agreement between Gene D. Brown, P.A. and the
5 Company, prior to January 1, 1993, Mr. Brown charged SGU \$1,000 per month.
6 Effective January 1, 1993, Mr. Brown revised his retainer agreement and is now
7 charging SGU \$2,000 per month. (It is unclear when this retainer agreement was
8 revised, however, it was effective January 1, 1993.)

9 **Q. What is the basis of Mr. Brown's assertion that SGU requires legal services
10 that amount to \$24,000 annually?**

11 A. Apparently Mr. Brown's support for this lies with the time records he maintained
12 for a period of just four to six weeks during 1993. During the remainder of 1993
13 and all of 1992, Mr. Brown kept no records of the legal services that he provided
14 to the Company. Furthermore, Mr. Brown rendered no bills to the Company for
15 legal services rendered. Therefore, it is virtually impossible for this Commission
16 to evaluate the reasonableness of the Company's requested legal expenses of
17 \$24,000.

18

19 It is interesting to note that in his deposition, Mr. Brown indicated that while he
20 did not keep detailed time records for work performed for SGU, he did keep

21

22

1 detailed time records for his other clients. [Brown Deposition, p. 126.]

2 **Q. Have you reviewed the time records maintained by Mr. Brown in 1993 and**
3 **1994?**

4 A. Yes, I have. Several of the items which Mr. Brown included in his 1993 time
5 records did not necessarily require the expertise of a lawyer. As such it is
6 difficult to determine precisely how much time was really spent by Mr. Brown
7 acting as a lawyer on behalf of SGU. A review of the time records for 1994
8 indicate that, of the time claimed for working on utility legal matters, a great
9 percentage dealt with the attempted settlement of the DEP problems. As I stated
10 earlier, I do not believe that the costs associated with these problems should be
11 passed on to customers. The problems SGU encountered with respect to DEP
12 were largely the result of prior failures of the Utility's management. During
13 1994, Mr. Brown also spent time working on the Commission's show cause order
14 concerning the Company's failure to pay its regulatory assessment fees in a timely
15 manner. If the Utility had paid its regulatory assessment fees on time, this legal
16 service would not have been incurred. Again, I do not believe that the cost
17 associated with this service should be charged to ratepayers.

18

19 In my opinion, a review of the tasks performed by Mr. Brown in 1994 in his
20 capacity as a lawyer, do not support his request for a retainer of \$24,000 per year
21 for legal services.

22 **Q. What about the legal fees incurred during the test year by outside lawyers.**

1 **Do these support the Company's requested level of expenses?**

2 A. No, they do not. Most of the legal fees charged during the test year can be
3 considered nonrecurring or not appropriate for recovery from ratepayers. For
4 example, Mr. Brown hired outside counsel to represent the Company before the
5 Commission concerning the Commission revocation proceeding. If Mr. Brown
6 had better managed SGU during the late 1980's and early 1990's he might not
7 have been faced with the revocation hearing. In addition, it is unlikely that the
8 Company will continually be faced with such proceedings in the future. Mr.
9 Brown also hired outside counsel to represent his mother concerning a judgment
10 and second mortgage which was in jeopardy due to the Commission's actions to
11 remove Mr. Brown as manager of SGU. It is not clear why SGU should pay for
12 counsel to represent Mr. Brown's mother.

13 **Q. Do you believe that Mr. Brown's request for \$24,000 in legal fees is**
14 **reasonable?**

15 A. No, I do not. His hourly fees equate to an annual salary of \$312,000. Mr. Brown
16 should be viewed as in-house counsel, not outside, expert legal counsel, since he
17 has no experience representing any other utilities. This equivalent annual salary
18 is considerably more than the salary of in-house legal counsel of other much
19 larger water and wastewater utilities.

20
21 The expense the Company is requesting is also considerably more than what the
22 Commission allowed in the most recent Class B water and wastewater rate

1 proceeding. In that proceeding, the Commission found that legal expenses of
2 \$2,854 per year was a reasonable amount of recurring legal expenses. This
3 amount would cover the legal cost of a pass-through or index filing. [Order No.
4 920148, p. 17.]

5
6 Comparing the Company's request to the amount spent by other Class B water
7 utilities as depicted on page 6 of schedule 4 also indicates that the amount
8 requested by the Company is excessive. As shown, the average Class B utility
9 incurred legal expenses of \$3 per customer. This would equate to legal expenses
10 for SGU of \$3,141 per year.

11
12 I recommend that the Commission allow the Company to recover legal expenses
13 of \$3,000 annually. As shown on schedule 8, this reduces the Company's request
14 by \$21,000.

15 **Q. Would you please discuss the next adjustment you recommend?**

16 **A.** Yes. This adjustment is reflected on schedule 9 and deals with the Company's
17 request for \$34,356 for pensions and benefits. The Company's request is
18 comprised of \$25,200 for health benefits to employees, at \$300 per employee;
19 \$6,156 for a pension plan which is based upon a utility contribution of 5% of
20 salaries; and \$3,000 for educational expenses.

21
22

1 The Company's \$300 per employee for health benefit is a monthly amount paid
2 to employees for insurance. The Company does not require any written proof that
3 the employee actually used the money to pay for health insurance. The
4 Company's requested expense is based upon paying seven employees \$300 per
5 month. I have adjusted this amount to \$300 per month for four employees. These
6 four employees are the full-time salaried employees of the Company. In my
7 opinion, it is only necessary for the Company to provide health benefits to its
8 full-time salaried employees. It is unusual for a small business, such as this
9 utility, to pay health benefits to hourly and part-time employees. It is interesting
10 to note that the workpapers supporting the Company's adjustment only show
11 health insurance for five persons--Mr. Garrett, Ms. Hills, Mr. Shiver, Ms.
12 Chase, and Mr. Brown, not the seven shown on the Company's MFRs.

13
14 My adjustment removes the health benefits for SGU's office assistant who is an
15 hourly employee, although she allegedly works 40 hours a week, and the new
16 field assistant employed by the Company. The latter employee has only been
17 working on a part-time basis and as such I do not believe that it is necessary to
18 pay a health benefit to this individual. Finally, I have excluded the health benefit
19 paid to Mr. Brown. Since he is not an employee of SGU, the Company should
20 not pay for his health insurance. This expense is more properly paid by Armada
21 Bay Company.

22

1 With respect to the pension benefit, I have not allowed any of this expense. The
2 Company's pension plan, like many of its other proforma expenses, was not
3 effective until January 1, 1994. As I understand the plan, the Company has
4 committed to its employees (through a written memo) that it will contribute 5%
5 of their salaries to the Company's proposed pension plan. There is, however, no
6 legal or contractual obligation for the Company to make this contribution.
7 Furthermore, the Company has been operating for many years without offering
8 a pension plan to its employees. In addition, one of SGU's full-time employees
9 who is eligible for the pension plan had little knowledge of the plan. During her
10 deposition, Ms. Hills answered the following questions:

11 Q. Tell me if this is consistent with your
12 understanding. Mr. Brown has established some
13 sort of retirement account, or profit sharing
14 account, or something of that nature, are you aware
15 of that?

16 A. A little.

17 Q. I want you to tell me all that you know
18 about it and how it benefits you, if it does?

19 A. I know very little about it. I do know it
20 covers the employees and I didn't handle setting
21 that up.

22 Q. Some money is put aside for you?

1 A. I don't know, because I didn't handle that.

2

3 Q. Do you know whether it has begun yet or
4 not?

5 A. I don't know.

6 Q. How did you happen to know anything about
7 it, was it explained to you by anyone in the office
8 or did you happen to run across it?

9 A. Both.

10 Q. What was explained to you about it, what
11 were you told about it?

12 A. That we were getting one.

13 Q. But you don't know what the one was that
14 you were getting?

15 A. I saw paperwork.

16 Q. And was it explained to you that it would
17 continue for as long as you were an employee of
18 the company?

19 A. I don't know that.

20

21 Q. I'm trying to get something of a handle on
22 how much information was provided to you. Now,

1 to hear you say that you don't know leads me to
2 believe that you were not told, is that a fair
3 assumption?

4 A. Well --

5 Q. You weren't told a whole lot?

6 A. Right. [Deposition of Ann Hills, pp. 33-5.]

7

8 If this pension plan was such a valuable benefit to the Company's employees I
9 would have expected Ms. Hills to be much more familiar with the plan and its
10 benefits, since management would have thoroughly informed its employees of this
11 added benefit.

12

13 Like other expenses that I will discuss later in my testimony, I am concerned that
14 the Commission will allow recovery of this pension expense through customer
15 rates but the Company will never make the contributions. Under the
16 circumstances the contingent nature of this pension plan should concern the
17 Commission. Any contribution is totally within the control of Mr. Brown. If the
18 Commission finds it appropriate to grant the Company recovery of this expense,
19 then I recommend that it allow collection of this money only if the money is put
20 in an appropriate escrow account.

21

22 In summary, as depicted on schedule 9, my adjustments reduce the Company's

1 requested proforma expense for pensions and benefits by \$16,956.

2 **Q. What adjustment do you recommend for contractual services - accounting?**

3 A. As shown on schedule 10, I recommend that the Commission disallow \$6,000 for
4 expenses related to services allegedly to be provided by Ms. Withers, a tax
5 accountant.

6
7 Mr. Brown's sole justification for the \$6,000 expense for Ms. Withers' services
8 is that she provides tax advice and other complicated or more sophisticated
9 accounting matters. The \$6,000 expense is based upon a retainer of \$500 per
10 month which was "effective January 1, 1993." Although the retainer was effective
11 January 1, 1993, it is important to recognize that SGU did not pay or use Ms.
12 Withers in 1993--the Utility made its first payment to Ms. Withers on January 30,
13 1994, for \$3,000. This payment was for 1/2 of the 1993 retainer. Although the
14 retainer agreement was effective January 1, 1993, the agreement has no date,
15 and, in fact, was not prepared until February 1994. [Withers Deposition, p. 16.]

16
17 Despite the fact that Ms. Withers has been associated with Mr. Brown and his
18 companies since the 1970's the Company did not use her services during 1992 or
19 1993. [Gene Brown Late Filed Deposition Exhibit 6.] Ms. Withers testified in
20 her deposition that the 1993 retainer was used to pay old outstanding bills of the
21 Utility that had never been paid--she actually rendered no services to the Utility
22 in 1993. [Withers Deposition, p. 9.] This leads to the question of whether or not

1 on a going-forward basis there is a need for the \$6,000 retainer SGU alleges will
2 be paid to Ms. Withers. It also raises the question of whether or not the retainer
3 is designed to recover prior period expenses. Clearly, the Commission should not
4 allow SGU to raise rates for purposes of paying out-of-period expenses.

5
6 The Company, in my opinion, has not adequately supported its request for this
7 expenses. The circumstances of the retainer agreement and payment are
8 questionable and do not in my opinion support approval of this expense.
9 Accordingly, I recommend that the Commission disallow the \$6,000 expense
10 associated with the retainer for Ms. Withers.

11 **Q. What is the next adjustment that you examined?**

12 **A.** The next adjustment that I examined was the Company's request for \$85,091 for
13 contractual services - other. The Company's requested expenses are broken down
14 into four components: \$22,409 for a tank maintenance program; \$37,493 for a
15 pipe cleaning program; \$23,909 for testing services; and \$1,280 for employee
16 uniforms.

17
18 With the exception of testing expenses, none of these expenses or any portion
19 thereof, was incurred by the Company during the test year or 1993. These
20 requested expenses are all new expenses which the Company maintains must be
21 incurred to properly operate and maintain the system.

22

1 I have evaluated the adjustments proposed by the Company and I have made some
2 changes, based upon what I believe to be errors in the Company's calculations.

3
4 Concerning the tank maintenance program, the Company alleges that the DEP
5 mandated immediate arrangements for a ground storage maintenance program and
6 that ongoing maintenance is necessary to preserve the integrity of the elevated
7 tank. The need for maintenance of the ground storage tank was addressed by the
8 DEP in a letter to Mr. Brown dated November 30, 1993 and resulted from an
9 inspection which took place in August 1993. The DEP identified eleven
10 deficiencies with the Company's water system, one of those being the ground
11 storage tank. The DEP wrote:

12 Leaks are becoming more and more apparent in the
13 sides of the Ground Storage Reservoir, Rule 17-
14 555.350(1), FAC. Seek a suitable NSF approved
15 sealant. Submit a description of this sealant to the
16 Department for approval prior to its application.
17 This must be scheduled as soon as possible so that
18 drawing down the reservoir does not interfere with
19 peak water usage periods.

20 In support of its requested proforma adjustment the Company provided a bid

1 submitted by Eagle Tank Technology Corporation⁴.

2

3 It is clear from reviewing the bid that a portion of the cost attributed to the
4 proposed maintenance program is to rehabilitate the tank. Eagle Tank Technology
5 Corporation wrote: "As we discussed before, we have to return these tanks to a
6 certain order to place them on our maintenance program." My reading of this
7 sentence indicates that certain remedial work needs to be performed so that Eagle
8 Tank Technology Corporation can properly maintain these tanks.

9

10 In my opinion, the cost of this remedial work should not be charged to customers.
11 The need for this extra maintenance was apparently caused by the poor
12 management and failure of the Company to properly maintain this equipment in
13 the past. I do not believe that the Company's customers should bear this cost.
14 Such costs are more properly charged to the Company's stockholders. According
15 to Eagle Tank Technology Corporation the cost of this remedial work is \$51,958,
16 or \$8,660 over a six year period. I have removed this cost from the Company's
17 requested proforma expense adjustment.

18

19 I also recommend that if the Commission approves this expense, which I do not
20 necessarily endorse, that it require the monies be collected and placed into an

21 ⁴The Company also apparently obtained another bid to maintain the elevated storage tank. This estimate
22 was \$45,000 and obtained from Jack Ethridge Tank Company. The Company apparently provided this bid
23 to the Staff, but it was not submitted as support for its proforma adjustment.

1 escrow account with an independent escrow agent. As the Company incurs the
2 expense, it can be paid from the escrow account. I am concerned that, as with
3 other expenses, the Commission may approve the requested expense, but SGU
4 will never incur and/or pay the expense.

5 **Q. Would you address the pipe cleaning program?**

6 **A.** Yes. According to the Company a "continuous distribution cleaning program is
7 necessary to maximize pressure, detect leaks and control turbidity." [Minimum
8 Filing Requirements, p. 36.] The Company accordingly increased test year
9 expenses by \$37,493. The Company's estimate is based upon a bid for these
10 services from Professional Piping Services, Inc. The Company apparently
11 obtained no other quotes for this service. My primary recommendation is to not
12 allow this expense because the Company only obtained one bid and has no signed
13 contract.

14

15 My alternative recommendation is to allow a portion of the expense. According
16 to the bid, over a 10-year period the cost of the pipe cleaning would amount to
17 \$350,880, or \$35,040 annually. To this amount the Company added \$2,453 to
18 clean the transmission line across the bridge. I have reduced this latter amount by
19 50%. Mr. Brown stated in his deposition that the Utility was attempting to obtain
20 a grant to pay for half of this expense.

21

22 Again, I recommend that if the Commission approves this expense, which I do

1 not necessarily endorse, it should only allow the Company to collect increased
2 rates for this expense if the money is put in an appropriate escrow account. Once
3 the services are rendered the fees can be paid from the escrow account.

4 **Q. Would you discuss the Company's \$23,909 adjustment for testing services?**

5 **A.** Yes. The Company stated that:

6 DEP requirements for increased and more reliable
7 water quality testing necessitated contracting for
8 testing services with a different laboratory and
9 arranging for pickup and transportation of samples.

10 [Ibid.]

11 A review of the bid submitted by Savannah Laboratories and the testing schedule
12 indicates that the Company included in its cost estimate as an annual expense
13 testing for six items that are only required triennially. As shown on schedule 11,
14 in my alternative recommendation I have reduced this estimate by \$1,870 to
15 account for this discrepancy. My primary recommendation is to disallow this
16 expense because the Company obtained only one quote for this service and has
17 no signed contract. Like the other expenses in this category, I recommend that
18 any increased rates associated with this expense be put in an appropriate escrow
19 account.

20 **Q. Your next adjustment is to reduce the Company's proforma insurance**
21 **expense by \$36,502. Would you address this adjustment?**

22 **A.** Yes. The Company submitted only one bid for general liability, workmen's

1 compensation, and property insurance. That bid totaled \$36,502 as depicted on
2 schedule 12. I recommend that the Commission disallow all of this proposed
3 expense because the Company only received one bid for this insurance, the
4 Company has not maintained this type of insurance in the past, and the Company
5 has failed to obtain this insurance since its historical test year.

6

7 If the Commission does approve this expense, I recommend that the money be
8 placed in an escrow account.

9 **Q. Would you discuss your adjustment to transportation expenses?**

10 **A.** Yes. My adjustment to this category of expense is shown on schedule 13.
11 According to the Company. SGU has no vehicles and the proforma expense
12 adjustment provides a weekly allowance for employees to perform required
13 duties.

14

15 The Company proposes to pay Mr. Garrett \$100 per week, or \$5,200 per year;
16 Ms. Hills \$25 per week, or \$1,300 per year; Mr. Shiver \$50 per week or \$2,600
17 per year; Ms. Chase \$50 per week, or \$2,600 per year, and Mr. Brown \$75 per
18 week, or \$3,900 per year. The Utility checked the reasonableness of its request
19 by examining the number of miles these expenses represented at 28 cents a mile.

20

21 As shown on schedule 13, in total, at 28 cents a mile SGU's request amounts to
22 55,714 miles per year. Using 20 cents a mile, which is what the State of Florida

1 allows for travel, equates to 78,000 miles per year: 26,000 for Mr. Garrett, 6,500
2 for Ms. Hills, 13,000 for Mr. Shiver, 13,000 for Ms. Chase, and 19,500 for Mr.
3 Brown. In my opinion, these mileage estimates appear unnecessarily high,
4 especially for the office workers. I find it hard to believe that these individuals
5 use their vehicles to this extent just to run errands to the bank, post office, PSC,
6 and to pick up materials and supplies. Mr. Brown maintains that he must
7 occasionally travel to the Island, meet with developers, lenders and regulators.

8 **Q. Has the Company provided any support for its estimate?**

9 A. No, it has not. Ms. Chase, Ms. Hills, and Mr. Brown all testified in their
10 depositions that they maintained no records of the miles that they drove on behalf
11 of SGU. The Company admitted that it has no records to document or substantiate
12 its mileage estimates. [Response to OPC's Request for Admissions No. 20.]

13 **Q. What do you recommend?**

14 A. I recommend that the Commission disallow the proposed mileage expenses for
15 Ms. Chase, Ms. Hills, and Mr. Brown. In my opinion, the Commission should
16 not endorse this kind of extravagant behavior. I see no reason why the employees
17 of SGU should not be required to keep detailed records of their mileage and
18 submit for reimbursement of actual miles driven on a weekly or monthly basis.
19 I do not believe that the Commission should grant this expense without any
20 documentation. To do so would be to endorse poor management practices.
21 Furthermore, with respect to Mr. Brown, since he is not an employee of SGU,
22 I see no need for the Utility to pay for his alleged travel expense. This expense

1 is more properly borne by Armada Bay Company from the \$48,000 it already
2 pays Mr. Brown.

3

4 Maintenance of travel records is the established norm in government and in the
5 private sector. Neither the employees nor the Commissioners themselves are
6 permitted reimbursement of travel expenses without justification. Any lesser
7 standard for the Company should be rejected.

8

9 It should also be noted that the travel payments to employees, taken with the total
10 lack of substantiating travel records, could render the payments to the employees
11 liable to federal income taxation. In addition, the payments could render the
12 Company liable for failure to withholding social security payments.

13

14 With respect to the employees stationed on the Island, I am also hesitant to allow
15 expenses for which the Company has no documentation or support. However, it
16 is easier to envision the need for a travel allowance for these employees. Since
17 the Company has failed to make any attempt to estimate this expense, I
18 recommend that the Commission only allow one-half of the Company's request.
19 This should induce the Company to properly document such expenses in the
20 future.

21

22

1 Accordingly, as shown on schedule 13, I have reduced the Company's adjustment
2 by \$11,700.

3 **Q. What adjustment do you recommend with respect to the Company's bad debt**
4 **expense?**

5 A. As shown on schedule 14, the Company has requested recovery of \$6,276 for bad
6 debt expense. The analysis performed by the Company to substantiate its bad debt
7 expense adjustment is confusing at best. I have included this support as pages 2
8 and 3 of schedule 14. A review of this document shows that the Company
9 apparently listed each customer that had a bad debt outstanding as of 12/31/92
10 and as of 12/31/93. A reasonable reading of this document is that between 1992
11 and 1993 the Company had no additional bad debt expense. This indicates that the
12 Company significantly overstated its annual recurring bad debt expense. In
13 addition, the bad debt analysis listed for 1992 appears to be a cumulative amount
14 and not just the bad debt expense that was incurred during the test year.

15

16 Mr. Brown, Ms. Chase, and Ms. Hills were questioned about this document
17 during their depositions. It became blatantly evident that the Utility could not
18 support the \$6,276 expense based upon the limited information provided in this
19 document. Mr. Brown indicated in his deposition that if this item became an issue
20 in the rate case, he would present additional information to support SGU's bad
21 debt request. During his deposition, Mr. Brown was asked if an analysis such as
22 the one presented on pages 2 and 3 of schedule had been performed for 1990 and

1 1991. His response was "no, not to my knowledge". [Brown Deposition, p. 125.]

2

3 In response to OPC's interrogatory 19, the Company responded that no bad debt
4 expense was separately booked in 1988, 1989, 1990, 1991, and 1993. The
5 Company, however, noted in its response that there was a bad debt expense in
6 every year.

7

8 While I do not disagree with the Company that it incurs bad debt expense, I do
9 not believe that its analysis supports a recurring bad debt expense of \$6,276.
10 Since the Company was unable to adequately explain what this number represents,
11 the Commission, in my opinion, would be justified in disallowing the entire
12 expense. Nevertheless, I recommend that the Commission allow the Company
13 one-fourth of the amount requested. I chose one-fourth because the resulting bad
14 debt expense equals an amount similar to the average bad debt expense for Class
15 B water utilities. As shown on schedule 14, I have reduced the Company's
16 request by \$4,707.

17 **Q. What is your adjustment to miscellaneous expenses?**

18 **A.** As shown on schedule 15, I have reduced the Company's requested miscellaneous
19 expenses by \$6,831. My adjustment is comprised of three components. First, I
20 reduced the Company's request for a cellular phone for Mr. Brown. I do not
21 believe that this expense is necessary for Mr. Brown to function in a effective and

22

1 efficient manner. Furthermore, since Mr. Brown is not employed by SGU, this
2 expense is more properly paid for by Armada Bay Company, not SGU. In
3 addition, the Company has no basis for assuming that Mr. Brown's use of the
4 cellular phone is devoted 50% to SGU and 50% to other activities. Accordingly,
5 I recommend that the Commission disallow \$1,200 of miscellaneous expenses
6 associated with Mr. Brown's cellular phone.

7
8 Second, I reduced the Company's expense to recover increased corporate filing
9 fees associated with Leisure Properties, Ltd. According to the Company, in the
10 past, it had not charged the cost of filing the Leisure Properties, Ltd., annual
11 report to SGU. Apparently, the Company now believes these fees should be
12 charged to SGU. I disagree. I do not see the efficiency of the organization as it
13 is now structured. I see no advantage to the ratepayers of having Leisure
14 Properties, Ltd., be the general partner of St. George Island Utility Company,
15 Ltd. Since the Company has not been able to attribute any benefit to the
16 customers of SGU for the current organizational structure which results in added
17 costs, I do not believe that the additional cost of filing the annual report should
18 be passed onto ratepayers. Accordingly, I have reduced the Company's
19 adjustment by \$576.

20
21 Third, I have removed from the test year the nonutility, nonrecurring, and not
22 supported miscellaneous expenses. These expenses are set forth in the Staff's

1 audit at page 46. An example of the expenses included in this category includes,
2 bridge tolls which no longer exist, a newspaper advertisement for a piece of
3 property (nonutility), repair of Marilyn D. Brown's automobile (nonutility), and
4 Federal Express charges that were unsupported. As shown on schedule 15, I have
5 reduced the Company's expense expenses by \$3,544.

6
7 Fourth, I have reduced miscellaneous expenses by \$1,511 for non-recurring and
8 non-utility telephone charges. In the Company's response to OPC's POD No. 17
9 in Docket No. 930770-WU, the Company provided the telephone bills for which
10 it is requesting recovery in this proceeding. Of those bills, \$918 was for the law
11 office's telephone line. These expenses should not be recovered from ratepayers.
12 In addition, the Company incurred \$741 for non-recurring installation charges.
13 These expenses should be amortized over five-years. Accordingly, I have reduced
14 the Company's expenses by \$1,511.

15 **Q. What is the next group of adjustments that you propose?**

16 A. As shown on schedule 16, I recommend that the Commission reduce the
17 Company's request to recover \$41,452 in deferred expenses by \$27,745.

18
19 The Company's amortization adjustment is comprised of five components:
20 \$15,852 for a system analysis, \$6,310 for a system map, \$4,290 for an aerator
21 analysis, \$9,000 for a hydrological study, and \$6,000 for a fire protection study.

22 **Q. Would you address the system analysis request?**

1 A. Certainly. According to the Company the DEP required the Company to perform
2 a system analysis in 1992. The Company now claims that the DEP is again
3 requiring it to prepare a complete revision in 1994. Based upon this experience,
4 the Utility claims that the initial cost of the first system analysis should be
5 amortized over two years.

6 **Q. Do you agree with the Company?**

7 A. No, I do not. The Company claims that DEP is requiring a complete, revised
8 system analysis in 1994. As such the Company anticipates preparing a system
9 analysis every 2 years. I believe that it is premature to assume that the DEP will
10 require a complete system analysis every two years. In addition, I question why
11 a revision to the existing system analysis should cost as much as the initial
12 analysis. I would expect a revised system analysis to cost considerably less than
13 the initial system analysis due to the fact that much of the data and analysis has
14 already been gathered and performed by the engineer. The Company has obtained
15 no bids for the performance of this work. [Response to OPC's Document
16 Request 56.]

17
18 In response to the Staff's Audit Request No. 20, the Company produced the DEP
19 correspondence which it asserts requires it to update the 1992 system analysis.
20 My reading of this correspondence indicates that some revision to the system
21 analysis has been requested by the DEP, but not an entirely revised analysis.
22

1 In my opinion, the Company has failed to support this proposed adjustment or the
2 amortization period. Accordingly, I recommend that the Commission require the
3 Company to amortize this expense over a five-year period not two-years. I believe
4 that under the circumstances, the five-year amortization, which is the
5 Commission's rule, is more reasonable than the two-year amortization period
6 requested by the Company. I also recommend that if the Commission allows this
7 expense, it should be collected and deposited into an appropriate escrow account
8 for distribution when the services are rendered.

9 **Q. Would you please discuss your recommendation concerning the aerator**
10 **analysis?**

11 **A.** Yes. In 1992 the DEP required the Company to perform an aerator analysis. The
12 Company claims that the DEP is now requiring a complete revision in 1994.

13
14 My interpretation of the DEP requirements is somewhat different than the
15 Company's. Specifically, on November 30, 1993, the DEP wrote Mr. Brown and
16 indicated that there was a deficiency with respect to the report on hydrogen
17 sulfide removal.

18 The Report on Hydrogen Sulfide Removal required
19 by the Partial Final Judgement has been reviewed.

20 The conclusions presented in the report are not
21 adequately documented and cannot at this time be
22 substantiated.

1 On December 23, 1993, Mr. Brown responded to this part of the DEP's letter.
2 ...[W]e are negotiating with our engineers,
3 Baskerville-Donovan, regarding a number of items,
4 including the need to revise, supplement, and
5 finalize the hydrogen sulfide report.

6 My reading of this correspondence indicates that there were deficiencies with the
7 original report that need to be rectified. In my opinion, the Company's ratepayers
8 should not be required to bear the additional cost to correct these deficiencies.
9 Furthermore, I do not believe that the circumstances support a two year
10 amortization for the cost of the original study. If the study had been conducted
11 properly in the first place, it appears that there would be no need to conduct a
12 revised study. Accordingly, I recommend that the Commission amortize the cost
13 of the initial study over five years, not two years.

14 **Q. What is your recommendation with respect to the hydrological study?**

15 A. In Production of Document Request No. 58, the Office of the Public Counsel
16 requested that the Company provide all quotes obtained from engineers to
17 perform this study. The Company responded that it had no written quotes. Since
18 the Company was unable to produce any documents to support this cost estimate,
19 I recommend that the Commission not allow the expense. I do not believe that it
20 would be a good policy for the Commission to accept unsupported and
21 undocumented proforma adjustments. I have accordingly reduced the Company's
22 request by \$9,000. This is one-fifth of the requested cost of the hydrology study.

1 If the Commission does approve this expense, I recommend that it be subjected
2 to the escrow requirements that I have mentioned earlier.

3 **Q. What is your recommendation with respect to the fire protection study?**

4 A. In Production of Document Request No. 60, the Office of the Public Counsel
5 asked the Company to provide all documents substantiating the \$30,000 cost of
6 the fire protection study. The Company's response was that it had no written
7 estimates. Since the Company was unable to produce any documents to support
8 this cost estimate, I recommend that the Commission disallow the expense.
9 Again, I do not believe that the Commission should accept unsupported and
10 undocumented proforma adjustments. I have accordingly reduced the Company's
11 request by \$6,000. If the Commission does approve this expense, I recommend
12 that it be subjected to the escrow requirements that I have mentioned earlier.

13 **Q. Would you discuss your adjustment for unaccounted for water?**

14 A. Yes. According to the Company's Minimum Filing Requirements the Company
15 experienced 15.27% of unaccounted for water during 1992. It is my
16 understanding that the Commission usually finds that unaccounted for water in
17 excess of 10% as unacceptable. In response to the Staff's interrogatory 7, the
18 Company gave the following reasons for exceeding 10% unaccounted for water:

19 The utility's unaccounted for water is not greater
20 than 10%. According to a recent independent study
21 and analysis by the Florida Rural Water
22 Association, the utility's lost water figure is

1 approximately 2% after full implementation of the
2 leak detection program implement jointly by Florida
3 Rural Water Association and the utility. [Response
4 to Staff Interrogatory 7.]

5 Since the Company has reduced its unaccounted for water to just 2% I believe
6 that for consistency the Commission should reduce chemical and purchased power
7 expenses to reflect the lower amount of water that must be pumped or treated on
8 a going-forward basis. In addition, during the test year the Company had three
9 tank overflows which caused the loss of 435,000 gallons. According to the
10 Company the problems that caused these tank overflows have been corrected and
11 are not expected to occur in the future. [Response to Staff Interrogatories 10 and
12 11.] Since the Company knew about these leaks they were not recorded as
13 unaccounted for water. Accordingly, I believe that chemical and purchased power
14 expenses should be adjusted to remove the costs associated with this lost water.

15
16 Schedule 17 of my exhibit shows the calculations for adjusting chemical and
17 purchased power expenses for unaccounted for water in excess of 2% and for the
18 435,000 gallons of water lost due to tank overflows. As depicted on this schedule,
19 I recommend that chemical expenses be reduced by \$538 and that purchased
20 power expenses be reduced by \$2,888.

21 **Q. Would you explain your adjustment to rate case expense?**

22 **A.** Yes. As shown on schedule 18, the Company is requesting recovery of \$105,039

1 in rate case expenses. The Company's request includes the cost of the case which
2 was dismissed, the cost of using a consultant to prepare MFRs which were
3 subsequently not used, as well as the estimated cost to litigate the instant case. I
4 recommend for several reasons that the Commission only allow the Company to
5 recover \$49,238 of its requested rate case expense.

6
7 First, I have reduced the Company's request to recover \$50,000 for fees for
8 Management & Regulatory Consultants, Inc. to \$25,000. In the Company's case
9 that was dismissed the Company indicated that the fees for this consultant would
10 be \$25,000. The Company described the services as follows:

11 Prepare Final MFR - Rate Base, Net Operating
12 Income, Cost of Capital, Rate Engineering (part);
13 coordinate filing; direct & rebuttal testimony;
14 respond to discovery; assist with and attend pre -
15 and post - hearing proceedings and filing.
16 [Minimum Filing Requirements, Docket No.
17 930770-WU, p. 39.]

18 For the instant case the Company is requesting \$50,000. The services are
19 described as follows. For \$30,000 this consultant's services were described as:

20 Prepare Final MFR - Rate Base, Net Operating
21 Income, Cost of Capital, Rate, Engineering (part);
22 coordinate filing, prepare direct testimony.

1 [Minimum Filing Requirements, p. 48.]

2 For an additional \$20,000 this consultant's services were described as:

3 Prepare rebuttal testimony; respond to staff &
4 intervenor discovery; assist with and attend pre -
5 and post - hearing proceedings and filing; testify at
6 hearing. [Ibid.]

7 Comparing the descriptions between the dismissed case and the instant case
8 indicates that the services to be provided are the same, the fee just increased by
9 \$25,000. The Company has not explained why it was necessary or prudent for
10 this consultant's fees to double. Undoubtedly, some of the additional cost is
11 related to the fact that after the first case was dismissed the Company
12 substantially revised its MFRs and refiled testimony. Despite Public Counsel's
13 request, the Company has failed to provide information concerning what portion
14 of the cost of the dismissed case will be removed from the Company's request for
15 rate case expense. In response to OPC's interrogatory 13, the Company indicated
16 that it will

17 ...seek recovery for part of the expenses incurred in
18 connection with the prior rate case, but only to the
19 extent that such expenses reduced the expenditures
20 that would otherwise have to have been made in
21 connection with the instant proceeding. [Response
22 to OPC Interrogatory 13.]

1 In response to this same interrogatory the Company indicated that rate case
2 expense through December 2, 1992 for Management & Regulatory Consultants
3 was \$21,114. This would be the portion of Management & Regulatory
4 Consultant's fee expended on the dismissed case.

5 **Q. Why have you reduced rate case expense by \$25,000 when only \$21,114 was**
6 **expended on the dismissed case?**

7 **A. My recommendation is only partly based on my belief that the Commission**
8 **should not allow the Company to recover the rate case expense associated with**
9 **the dismissed case. I also believe that the Commission should hold the Company**
10 **to its first estimate of the rate case expense for this consultant. This apparently**
11 **was the Company's or its consultant's best estimate of what it would cost to**
12 **litigate a rate case before the Commission. Absent the cost of the dismissed case,**
13 **there have been no unusual circumstances that would warrant a doubling of rate**
14 **case. I believe that the Company should have obtained an estimate and firm bid**
15 **for the services to be rendered by its consultants. The Company, however, failed**
16 **to obtain such information. [Response to OPC's Document Request 23.] Failure**
17 **to obtain firm bids and estimates, barring unusual events, does nothing to**
18 **encourage consultants to hold down their fees. If it is understood in the industry**
19 **that consultants routinely recover all expenses and fees billed to a utility, there**
20 **is no incentive for the Company to negotiate tough contracts with its consultants.**

21
22 In my opinion, the Commission should hold the Company to its original \$25,000

1 estimate of the rate case expense for Management & Regulatory Consultants. The
2 Company and its consultant should have known the approximate cost of litigating
3 a rate case for this utility. The Company has failed to demonstrate that doubling
4 the fees for this consultant is reasonable. The Company did not obtain an estimate
5 or bid from this consultant for services to be performed. In addition, the fees
6 requested for this consultant include expenses associated with a rate case that was
7 dismissed. For these reasons, I recommend that the Commission disallow \$25,000
8 of rate case expense related to the estimate for Management & Regulatory
9 Consultants.

10 **Q. What is your recommendation with respect to the fees for Rhema Business**
11 **Service Associates (Rhema)?**

12 **A.** As depicted on schedule 18, I recommend that the Commission only allow
13 recovery of \$3,601 of the \$14,402 requested. Rhema was originally hired by the
14 Company to prepare the Company's MFRs and to provide expert accounting
15 testimony. At some point, Mr. Brown changed his mind and hired Management
16 & Regulatory Consultants. The work performed by Rhema was primarily for the
17 preparation of draft MFRs for a test year period ending September 30, 1992.
18 These MFRs were apparently provided to Management & Regulatory Consultants
19 for their use in putting together the MFRs for the test year ending December 31,
20 1992.

21
22 According to Mr. Seidman, president of Management & Regulatory Consultants,

1 he did use the information provided in the MFRs prepared by Rhema.
2 Nevertheless, there was clearly considerable information that would not have been
3 usable due to the different test periods involved. In addition, Mr. Seidman
4 testified at his deposition that although he was provided with an electronic version
5 of the MFRs prepared by Rhema, he did not use it because he preferred to use
6 his own format and style. Accordingly, all data had to be reentered into a
7 spreadsheet program.

8
9 In my opinion, much of the work that was prepared by Rhema was duplicated by
10 Management & Regulatory Consultants. These duplicative costs should not be
11 borne by ratepayers. I have estimated that three-fourths of the fees charged by
12 Rhema were duplicated by costs incurred by Management & Regulatory
13 Consultants. Accordingly, I recommend that the Commission disallow \$10,801
14 of the fees and expenses requested for Rhema Business Service Associates.

15 **Q. What do you recommend with respect to the \$20,000 of legal fees requested**
16 **for the services provided by Mr. Brown?**

17 **A.** I recommend that the Commission disallow these fees in total. Through
18 November 10, 1993, Mr. Brown billed SGU \$10,860 associated with the
19 dismissed rate case. Clearly this expense should not be passed onto ratepayers.
20 In addition, a review of the description of services rendered indicates that it was
21 not necessary for an attorney to render them. They could have easily have been
22 provided by Mr. Brown in his management capacity, which would have caused

1 no incremental rate case expense to be charged to customers. The following is a
2 sample of work descriptions which Mr. Brown billed as legal at \$150/hour, rather
3 than management time. In my opinion these services did not require the expertise
4 and additional expense of a lawyer.

5
6 Review of old files from '89 rate case -- research --

7 work with Frank Seidman Re: MFRs;

8
9 Work with Staff & Frank S. Re: MFRs --

10 work on prefiled testimony;

11
12 Work on rate case;

13
14 Work with Frank S. and Staff Re: MFRs -- work

15 on prefiled testimony;

16
17 Work on MFRs with Frank S. and Staff;

18
19 Final review & filing of rate case -- including
20 compilation of maps, exhibit, etc.

21
22 Meeting with PSC auditor re: rate case. [Response

1 to OPC Document Request 26.]

2 **Q. So far your reasoning accounts for \$10,000 of the \$20,000 requested. Why do**
3 **you believe the remaining \$10,000 should not be allowed?**

4 **A. Generally, with small Class B utilities such as St. George Island, the manager or**
5 **owner brings some expertise, other than management, to SGU which serves to**
6 **reduce costs relative to what it would cost if this skill were not available through**
7 **the manager/owner. For example, the owner might be a licensed plant operator**
8 **in which case he or she would not need to hire an operator for the Utility. Or,**
9 **the manager might work in the office and in the field answering customer's**
10 **questions, reading meters, operating the plant, and performing minor repairs.**

11

12 In the case of St. George Island Utility Company, Ltd., Mr. Brown's non-
13 management skill that can be used to reduce costs to SGU is his legal expertise.
14 In my opinion, compensation for this expertise should be included in the overall
15 compensation package provided to the owner/manager. Accordingly, I
16 recommend that the Commission not allow any additional rate case expense for
17 the legal services provided by Mr. Brown, but include this in his total
18 compensation package, which under my recommendation amounts to
19 approximately \$48,000 per year.

20

21 In summary, as shown on schedule 18, I recommend that the Commission reduce

22

1 the Company's requested rate case expense by \$55,801.

2

3 I would also note that other adjustments to the Company's requested rate case
4 expense may be necessary as the Company submits additional invoices to support
5 its request.

6 **Q. Would you discuss your next adjustment?**

7 A. Yes. As shown on schedule 19, I recommend that the Company reduce test year
8 expenses by \$2,665 incurred by the Company to repair an old generator. [Brown,
9 Late Filed Deposition Exhibit 4.] The Company's test year rate base includes the
10 cost of a new generator. During the test year the Company incurred \$2,665 to
11 repair its old generator. With the new generator, this expense should not be
12 recurring.

13 **Q. Would you address your adjustment to taxes other than income taxes?**

14 A. Yes. My adjustment to taxes other than income taxes takes into consideration my
15 adjustment to salaries and wages and my adjustment to test year revenue. I
16 reduced payroll taxes by \$2,470 and I increased regulatory assessment fees by
17 \$2,872. As shown on schedule 20, the combined effect of these two adjustments
18 is to increase taxes by \$403.

19 **Q. Let's turn to the fourth section of your testimony. What rate base issues are
20 you addressing?**

21 A. I will address three issues: the original cost of the St. George Island Utility
22 Company's water system, the rate base effect of my proposed growth adjustment,

1 and an adjustment to Contributions in Aid of Construction (CIAC).

2 **Q. The first issue you mentioned concerned the original cost of the Company's**
3 **water plant. Wasn't this issue decided by the Commission in the Company's**
4 **last case, Docket No. 871177-WU?**

5 **A. The Commission had to reach some decision in the last case in order to set the**
6 **Company's rate base. However, in that case, the Commission expressly indicated**
7 **that if other evidence was presented which contradicted its decision, it would**
8 **readdress the issue of the original cost of the Company's water assets.**

9
10 In Docket No. 871177-WU, the Commission established the value of the
11 Company's rate base using an original cost study. The Commission did not favor
12 use of the original cost study, but felt that using it was better than allowing a rate
13 base of zero.

14
15 In its decision the Commission noted the appropriate method to determine the
16 original cost of a system and why this method could not be used for St. George
17 Island Utility Company, Ltd.

18 The appropriate method to determine the original
19 cost of a system is by analysis of the utility's books
20 and records and the original source documentation
21 in support thereof. During the audit of SGI, the
22 Staff auditor was informed that the original records

1 had been lost, thrown away or had simply
2 disappeared. Since SGI could not locate its books
3 and records and supporting documentation, it
4 submitted instead an original cost study in support
5 of its proposed rate base. [Order No. 21122, p. 6.]

6 In its order the Commission explained that it historically has been cautious in
7 using an original cost study to determine the amount of plant investment. Such
8 situations have usually applied to very small systems where extreme
9 circumstances existed. The Commission elaborated on its dissatisfaction with
10 SGU:

11 Given the size of SGI, the fact that its owner is also
12 a developer and that it has consistently remained
13 under the same ownership, its failure to maintain
14 original source documentation for review by this
15 Commission or any other governmental agency is
16 unacceptable. We cannot help but wonder how the
17 records were available for independent accounting
18 firms to perform annual audits and consistently
19 issue unqualified opinions, when the same records
20 are unavailable for this proceeding. [Ibid., p. 7.]

21 Despite its warnings and concerns the Commission used the Company's original
22 cost study to determine the level of investment to include in rate base in the last

1 case. Nevertheless, the Commission warned that this finding did not prevent it
2 from using other evidence in the future to set the level of investment.

3 ... although we will use SGI's original cost study,
4 we stress that our action should not be construed to
5 imply that a utility can justify investment
6 unsupported by original source documentation with
7 an original cost study. Further, if at any time in the
8 future, evidence is produced which reflects that our
9 analysis of SGI's investment is incorrect, we may,
10 of course, readdress the issue of SGI's level of
11 investment. [Ibid.]

12
13 The Commission's order in the last case expressly indicated that the issue of the
14 original cost of the water system was not foreclosed from adjustment in future
15 rate cases.

16
17 Even with the plain language in the Commission's order, the Company has
18 consistently objected to the Citizens' document requests and interrogatories
19 pertaining to information that might prove fruitful in evaluating this issue.

20 **Q. Has the Company located the documents needed to determine the level of**
21 **plant investment using original source documentation?**

22 **A. No. In fact, in response to the Citizens' Request for Admissions the Company**

1 admitted that the Utility does not have the records to establish the total original
2 cost of the Utility's investment in the water system at the time it was devoted to
3 public service. [Response to OPC's Request for Admissions, Item 1.]

4 **Q. Do you believe that some adjustment is necessary relative to what the**
5 **Commission allowed in the last case?**

6 A. Yes. I have reviewed several documents which indicate that the cost of the water
7 system was significantly less than the amount claimed by the Company and less
8 than the amount approved by the Commission in the Company's last rate case.

9 **Q. Would you please give some background information about how the water**
10 **system was purchased**

11 A. Yes. Leisure Properties, Ltd., a major developer on the island, built the water
12 system from 1976 to 1978. In 1979, Mr. Brown and Mr. Stocks created St.
13 George Island Utility Company, Ltd. for purposes of owning and operating the
14 water utility. In 1979, Leisure Properties, Ltd., sold the water system to St.
15 George Island Utility Company, Ltd. for \$3,000,000.

16
17 For tax and book purposes SGU recorded the value of its assets at \$3,000,000.
18 This sale apparently caused the IRS to audit the tax returns for SGU and Leisure
19 Properties for the tax years 1979 through 1982. The IRS prepared an appraisal
20 of the water system as of 12/31/79 and concluded that its value was only
21 \$1,550,000 compared to the Company's reported value of \$3,000,000. Prior to
22 trial the Company and the IRS reached a settlement setting the tax basis of SGU

1 assets at \$2,212,482 as of December 31, 1979.

2 **Q. What did the Company claim in the last case and what did the Commission**
3 **allow?**

4 A. In the last case the Company claimed that the current replacement cost of SGU
5 plant was \$3,109,689 and that the original cost was \$2,551,010. The
6 Commission, after making several adjustments to the Company's original cost
7 study, determined that the level of investment that should be allowed in rate base
8 for the year ending December 31, 1987 was \$2,167,138.

9 **Q. What information have you examined which indicates that the plant in**
10 **service allowed in the last case was too high?**

11 A. Leisure Properties, Ltd. financial statements for the year ending 1979, as well as
12 other years, set forth the investment in the water system at an amount much lower
13 than the amounts claimed by SGU. Leisure Properties, Ltd.'s 1979 financial
14 statements show that as of December 1979 the investment in the water system was
15 only \$830,145 with accumulated depreciation of \$22,660. These figures were
16 also substantiated by Ms. Barbara Withers who was the controller for Leisure
17 Properties from 1976 to 1986. In an affidavit filed by Ms. Withers in Docket No.
18 871177-WU, she indicated that the \$807,485 figure on Leisure Properties'
19 balance sheet was the "investment in the water system and represent[ed] the
20 financial cost basis Leisure had in the water system as 12/31/79 according to its
21 audited financial statements." [Barbara Withers, Affidavit, filed March 16, 1989,
22 Docket No. 871177-WU.]

1 In addition to this information, the Company apparently solicited an engineering
 2 appraisal of the water system in July 1978. I have attached this study as schedule
 3 22 to my exhibit. According to Mr. Brown, this appraisal was prepared for
 4 purposes of selling the water system. The engineering study showed that the
 5 estimated replacement cost of the water system as of July 1978 was \$908,000.

6 This cost estimate was broken down as follows:

7		
8	Production Well	\$ 20,000
9		
10	Raw Water Transmission Line	348,794
11		
12	Water Storage Reservoir,	
13	Pumping Station and Office	202,177
14		
15	Water Distribution System	232,712
16		
17	Engineering Service	58,065
18		
19	Owner Administration	<u>46,200</u>
20		
21	Replacement Cost	\$908,000
22		

23 **Q. The estimate provided in the engineering study is higher than what was on**
 24 **Leisure Properties' books as of December 1979. Can you explain this**
 25 **difference?**

26 A. Yes, in part. First, the engineering study was an estimate, in which case, one
 27 would not expect it to match precisely with the cost data on the books of Leisure
 28 Properties. Second, the engineering study estimated the replacement cost of the
 29 plant, not the original cost of the plant. Replacement cost is generally higher than

1 original cost due to inflation and other factors. If the figures in the engineering
2 study are adjusted to remove the impact of inflation and other factors which
3 caused the cost of the plant to increase from the time the facilities were installed
4 until July 1978, a lower original cost estimate is obtained.

5
6 Specifically, the engineering study used the change in the Engineering New
7 Record Construction Cost Index to adjust the 1976 contract amounts to a June
8 1978 level. If this adjustment is removed, the estimated original cost of the
9 system is \$851,180. This figure is remarkably close to the original cost data
10 contained in Leisure Properties financial statements. In my opinion, it
11 corroborates the original cost information shown in Leisure Properties' financial
12 statements.

13 **Q. How can the Commission use this information to adjust the Company's**
14 **investment in the instant case?**

15 A. Schedule 21 of my exhibit sets forth the calculations to adjust the Company's rate
16 base in the instant proceeding. The level of investment the Company is requesting
17 in this case, used as a base, the December 1987 amount allowed by the
18 Commission in Docket No. 871177-WU. Thus, using the plant investment data
19 as of 1979 and bringing it up to a December 1987 level, will result in an
20 adjustment needed in the instant case.

21
22 Specifically, as shown on schedule 21, I started with the book cost of the system

1 as of December 31, 1979 as depicted on Leisure Properties' financial statements.
2 As shown, the booked cost was \$830,145. To this amount I made additions to
3 plant as set forth by Ms. Withers in her affidavit filed in the last case. As shown
4 on this schedule, Ms. Withers indicated that between year-end 1979 and 1987
5 SGU added \$543,705⁵ of new plant.

6
7 I performed the same calculations for the year ending 1986 so that I could arrive
8 at an average plant in service figure which could be readily compared to the
9 analogous figures allowed by the Commission in Order No. 21122.

10
11 As shown on schedule 21, the original cost information provided in the financial
12 statements of Leisure Properties and in the affidavit of Ms. Withers indicate that
13 the average original cost of the plant in 1987 was \$1,371,582. The average
14 balance of accumulated depreciation was \$259,501. The average net book value
15 of the Utility's plant in service as of December 1987 was \$1,112,081. These
16 compare to the Commission's allowed amounts of: \$2,167,138 for plant in
17 service, \$410,019 for accumulated depreciation, and \$1,757,119 for net plant.

18
19 As shown on this schedule, the Commission needs to reduce the Company's plant

20 ⁵Ms. Withers' affidavit shows additions to plant from January 1, 1979 to December 1987 to be
21 \$612,948. Exhibit 1 to her affidavit shows additions to plant from December 1979 to December 1987 to
22 be \$543,705.
23

1 in service by \$795,557, increase accumulated depreciation by \$150,518, for a
2 reduction to net plant and rate base of \$645,038. In addition, test year
3 depreciation expense should be reduced by \$21,480. The analysis that I have
4 performed indicates that the amount of plant in service allowed by the
5 Commission in the Company's last case was overstated. The Company has
6 provided documentation which substantially refutes the information relied upon
7 by the Commission in Docket No. 871177-WU. Accordingly, it would be
8 appropriate for the Commission to reduce the Company's rate base by \$645,038.

9 **Q. Why should the Commission rely on the information that you presented to**
10 **adjust rate base to its original cost when you have not relied upon original**
11 **source documentation?**

12 **A.** As the Commission made clear in the last case, the Company does not have the
13 documents needed to reconstruct the original cost of the water system. The
14 documents were lost or thrown away. Nevertheless, there are some reliable
15 contemporaneous Company documents which indicate that the cost of the plant
16 is much less than what the Company claimed and what the Commission allowed
17 in the last case. In my opinion, since the Company cannot produce the documents
18 necessary to establish the original cost of the water system, the Commission
19 should resolve this question in favor of the consumer when setting the Company's
20 rate base. To do otherwise, would be to reward the Company for losing or
21 disposing of documents which it is required to maintain. In my opinion, this
22 would not be a good policy for the Commission to establish. It would only serve

1 to encourage companies to dispose of documents which show a low original cost
2 system. Utilities could then prepare an original cost study and earn a return on
3 an inflated rate base. Clearly, such behavior should not be encouraged by the
4 Commission.

5 **Q. Would you discuss your rate base adjustment for growth?**

6 A. Yes. My adjustment is reflected on page 4 of schedule 6. As shown, my
7 adjustment reduces the Company's test year rate base by \$190,062.

8
9 To be consistent with my adjustment to increase test year revenues and expenses
10 to a 1993 level, I developed an average 1993 rate base using the Company's final
11 1993 general ledger. My recommended adjustments take into consideration two
12 adjustments that the Commission would need to make if the Commission does not
13 adopt my 1993 rate base.

14
15 First, the Company booked \$10,875 of investment to account 330.4 in 1992,
16 associated with some sheet metal for a possible future storage tank. In response
17 to OPC's interrogatory 10, the Company indicated that this cost should not be
18 included in its rate base. The Company removed this investment from its 1993
19 plant balances, but it remains in the 1992 balances. Accordingly, if the
20 Commission does not adopt my recommendation to adjust the Company's rate
21 base to the 1993 level, then it should reduce the Company's rate base by \$10,875.

22

1 Second, my recommended adjustments take into consideration the new
2 depreciation rates which I addressed earlier in my testimony. These rates affect
3 the balance of accumulated depreciation. If the Commission does not adopt my
4 recommendation, then it would need to accordingly adjust the 1992 rate base to
5 take into consideration the correct depreciation rates.

6 **Q. If you adjusted the rate base to bring it up to the 1993 level, why is your
7 adjustment negative?**

8 A. As can be seen from reviewing this schedule, the primary reason for the negative
9 adjustment is the increase in CIAC. From 1992 to 1993 the Company's CIAC
10 exceeded their additions to plant. Accordingly, while my adjustment does
11 recognize an increase in plant investment in excess of \$100,000 this is offset by
12 an increase in CIAC in excess of \$200,000.

13 **Q. What is your next adjustment?**

14 A. My next adjustment is shown on schedule 23. It is a two-pronged adjustment
15 depending upon the rate base selected by the Commission. If the Commission
16 uses a 1992 rate base, then the Company's CIAC should be increased by
17 \$109,440. If the Commission uses the growth-adjusted rate base, then CIAC
18 should be increased by \$65,000.

19 **Q. Would you explain each of these adjustments?**

20 A. Yes. The first adjustment which is applicable to either rate base concerns a
21 \$65,000 contribution made by the St. George Island Homeowners Association
22 (Homeowners) in 1992 to settle two lawsuits between the Homeowners and Gene

1 Brown. The settlement stated:

2 The Association will pay Brown and affiliates the
3 sum of \$100,000 as follows....These funds will be
4 used as follows: (a) \$35,000 will be paid to Stanley
5 Bruce Powell for his legal fee in representing
6 Brown and affiliates in the above-referenced
7 litigation; and (b) \$65,000 will be advanced to the
8 St. George Island Utility Company, Ltd. to be used
9 strictly for capital improvements to enhance and
10 increase the flow and pressure of the St. George
11 Island water system, including the installation of a
12 new altitude valve and high speed turbine pump
13 pursuant to the recommendations of Baskerville-
14 Donovan, the utility's engineers. [Settlement
15 Agreement, September 3, 1992.]

16 In his deposition, Mr. Brown testified that he did not treat these funds either as
17 advances for construction or as a contribution in aid of construction. According
18 to Mr. Brown he did not treat this as a contribution because it was not a
19 contribution, but a loan from affiliates.

20 I agreed, as part of this settlement agreement in the
21 final negotiations, to make it more acceptable to the
22 membership who was meeting the next day. I said,

1 "Don't feel like I'm going to take this money and
2 go to Las Vegas, but I'm having to put large sums
3 of my personal money and money from these
4 affiliated companies into the utility company, which
5 some day will benefit everybody on the island." So,
6 since I was already putting more than 65,000 into
7 the utility as a loan or advance, I threw that in to
8 make it more acceptable. It was my idea, and they
9 approved it and said great. [Brown Deposition, pp.
10 241-42.]

11 Unlike Mr. Brown, my reading of the settlement agreement suggests that the
12 money given to Mr. Brown was for the sole purpose of improving the water
13 system and that such funds should be treated either as cost free capital and
14 included in the capital structure at a zero cost, or as a contribution in aid of
15 construction. I recommend that the Commission treat this \$65,000 as a
16 contribution. My interpretation of the settlement agreement is consistent with the
17 findings of the Staff in their Audit. In Audit Exception 19, the Staff auditor's
18 opinion was: "The \$65,000 is to be considered CIAC and should have been
19 recorded as reflected. CIAC should be increased by \$65,000."

20 **Q. What is the next adjustment to CIAC that you recommend?**

21 **A.** The next adjustment is only necessary if the Commission does not adopt my
22 growth-adjusted rate base. The adjustment to increase CIAC by \$44,440 was

1 booked by the Company in 1993 and taken into consideration in developing my
2 recommended rate base.

3
4 In December 1991, the Company received a contribution of \$44,440 from
5 Covington. This contribution, however, was not recorded on the Company's
6 books until May 1993. Accordingly, it is not reflected in the Company's 1992
7 average rate base. According to Mr. Brown, who thought that the \$44,400 was
8 reflected in the Company's 1992 average rate base, it should be, if it was not.

9 Yes. I mean, I'm assuming it is. I haven't gone
10 through and analyzed it, but it's supposed to be,
11 and I feel certain that it is. If it hasn't, it should be.

12 I mean, it's money that we received prior to the test
13 year, and it is clearly CIAC, and it should come off
14 of rate base. [Brown Deposition, p. 271.]

15 Accordingly, if the Commission does not use my recommended 1993 rate base,
16 then it should reduce the Company's test year rate base by \$44,440.

17 **Q. Let's turn to the fifth section of your testimony. What is your recommended**
18 **overall cost of capital?**

19 **A.** As shown on schedule 24, the capital structure that I recommend results in an
20 overall cost of capital of 7.82% compared to the Company's request of 8.07%.

21 **Q. What is the first adjustment that you recommend to the Company's capital**
22 **structure?**

1 A. The first adjustment that I recommend concerns the 12% note to Alice Melton
2 with an average outstanding balance of \$85,865. This indebtedness originally
3 arose out of monies owed by Leisure Properties to Pruitt, Humphress, Powers &
4 Monroe Advertising Agency (Pruitt, Humphress) for advertising services
5 performed by Pruitt Humphress for Leisure Properties. Leisure Properties could
6 not pay Pruitt Humphress so Leisure Properties issued a note to Pruitt Humphress
7 for the monies owed. Pruitt Humphress then pledged the note and a property
8 mortgage to Sun Bank. Pruitt Humphress defaulted on the note and the Sun Bank
9 sued Pruitt Humphress and Leisure Properties/Gene Brown for the default on the
10 promissory note of \$234,000. This lawsuit resulted in a settlement between Sun
11 Bank, Pruitt Humphress, and Leisure Properties/Gene Brown. The settlement
12 provided, in essence, that Leisure deed to Pruitt Humphress four lots on St.
13 George Island valued at \$250,000; that Leisure's debt owed to Pruitt Humphress
14 was \$287,500; that the transfer of lots to Pruitt Humphress would reduce the debt
15 owned to \$137,500; and that the note was to be in the name of Gene Brown, G.
16 Brown & Company, and St. George Island Utility Company, Ltd. The settlement
17 agreement was effective in July 1988.

18
19 Subsequently, Pruitt Humphress sued Gene Brown, G. Brown & Company, St.
20 George Island Utility Company, Ltd., St. George's Planation, Inc., Leisure
21 Properties, Ltd., and Leisure Development (Gene Brown, et. al.) for their failure
22 to make the first and subsequent monthly interest payments. This lawsuit resulted

1 in a judgement against Gene Brown, et. al. which was subsequently purchased by
2 Mr. Brown's mother, Alice Melton, on February 25, 1992.

3
4 From these transactions and events it is not at all clear why the debt owed to Ms.
5 Melton appears on the books of SGU. The debt originally arose from Leisure
6 Properties failure to pay for advertising services. According to Mr. Brown,
7 however, at some time in 1989 or 1990, SGU was assigned this indebtedness of
8 Leisure Properties, in exchange for which Leisure Properties reduced the debt the
9 Utility owed it.

10
11 For purposes of establishing the Company's capital structure, I have removed this
12 debt. While it is possible that Leisure Properties reduced the amount of debt SGU
13 owed it by the amount of Leisure Properties' debt assigned to SGU, there has
14 been no proof of this provided by SGU. In addition, the Company could provide
15 no promissory note or other debt instrument in support of the monies owned to
16 Ms. Melton. [Brown, Late Filed Deposition Exhibit 12.] Accordingly, unless the
17 Company provides uncontroverted evidence that this debt was properly exchanged
18 and that it properly belongs on the books of the Company, the Commission
19 should remove \$85,865 from the Company's capital structure.

20
21 If SGU does prove that it is appropriate to treat the Alice Melton debt as it has,
22 then the Commission should reduce the interest rate on the debt to 6%. This is

1 the interest rate on the debt owed by SGU to Leisure Properties. The interest rate
2 on the Alice Melton debt is 12%. Thus, the effect of what the Company did was
3 to exchange \$137,500 of 6% utility-owned debt for \$137,500 of 12% Leisure
4 Properties-owned debt. It would be patently unfair for this Commission to require
5 ratepayers to pay a higher overall cost of capital because SGU exchanged debt it
6 owed for debt owed by one of its affiliates. Accordingly, if the Commission does
7 not adopt my primary recommendation, it should substitute 6% for the 12%
8 interest rate used to determine the Company's embedded cost of debt. This
9 recommendation would reduce the Company's embedded cost of long-term debt
10 from 7.68% to 7.48%.

11 **Q. Do you have any other recommendations concerning the Company's capital
12 structure?**

13 **A.** Yes. I recommend that the Commission only include in the Company's capital
14 structure the short-term debt that currently exists on the Company's books.
15 According to the Company's response to OPC's Interrogatory 29, the Company
16 has retired several of short-term notes. Specifically, as shown on page 1 of
17 schedule 24, the Company has paid off its debt concerning Wallace Pump #1,
18 Rhema Business Services, Ardman, Pruitt Humphress, Wallace Pump #2, and
19 Harris 3M. Removing this debt and allowing 1993 average balance for the
20 remaining short-term debt reduces the cost of short-term debt from 12.17% to
21 11.81%.

22 **Q. What is the effect of your recommendations?**

1 A. As depicted on page 3 of schedule 24, my recommendation produces a long-term
2 debt ratio of 78.97%, a short-term debt ratio of 5.39%, and a customer deposit
3 ratio of 15.63%. Using these ratios that the cost rates that I recommend, indicates
4 that the Company's overall cost of capital is 7.82%. This compares to the
5 Company's request of 8.07%.

6 **Q. Let's turn to the next section of your testimony. Would you please summarize
7 your recommendations concerning the Company's revenue requirement?**

8 A. Yes. Schedule 25 of my exhibit summarizes the adjustments that I propose so far.
9 Schedule 26 of my exhibit depicts my recommended rate base. As shown, the
10 adjustments that I recommend produce a rate base of \$98,425. Schedule 27 of my
11 exhibit sets forth my recommended net operating income and the Company's
12 revenue requirement. As shown, the adjustments that I propose produce a
13 revenue ^{increase \$15,455} ~~decrease~~ of ~~\$13,539~~. This compares to the Company's request to increase
14 revenue by \$428,201.

15 **Q. Let's turn to the last section of your testimony. Would you discuss the Staff's
16 audit of the Company?**

17 A. Yes. In large part I endorse the conclusions and recommendations found in the
18 Staff's audit. Assuming that the facts are true as stated in the audit, I support
19 adoption of the following Audit Exceptions and the auditors' recommendations:
20 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 17, 19, 20, 21, 22, 23, 24, 25, 26, 27, and
21 28.

22 **Q. Does this complete your direct testimony prefiled on May 25, 1994?**

A Yes, it does.

1 Q. What is your name and address?

2 A. Kimberly H. Dismukes, 111 West Madison Street, Room 812, Tallahassee,
3 Florida, 32399-1400.

4 Q. Are you the same Kimberly H. Dismukes that prefiled direct testimony in this
5 case on May 25, 1994?

6 Q. Do you have an exhibit in support of your supplemental testimony?

7 A. Yes. Exhibit 19(KHD-2) contains 2 schedules which support my supplemental
8 testimony.

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to provide additional information and evidence
11 concerning the original cost of the water system owned by St. George Island
12 Utility Company, Ltd., (SGU or the Company). Because of discovery disputes,
13 the additional information was not available at the time my prefiled testimony was
14 prepared.

15 Q. What additional information would you like to offer at this time?

16 A. In its first, second, third sets of Production of Documents (PODs) to the
17 Company, the Office of the Public Counsel (OPC) attempted to obtain additional
18 information that it believed was relevant to the issue of the original cost of
19 utility's assets. These POD requests are attached as schedule 1 to my
20 supplemental testimony.

21

22 OPC attempts to obtain additional information on this important subject were met

1 with frustration: first by objections from the Company, and then by the
2 Company's apparent failure to maintain the records requested.

3 **Q. What documents did you request for which the Company asserts it has no**
4 **documents?**

5 **A. The Citizen's PODs 13, 14, 21, 71, 72, 100, and 101. As shown in schedule 1,**
6 **POD 13 stated:**

7 Provide all correspondence, memos, and documents
8 in the Company's possession, custody or control
9 which address the 1979 IRS Audit and Settlement
10 with the Company.

11 **POD 14 stated:**

12 Provide a copy of the 1979 IRS Audit.

13 **POD 71 stated:**

14 Provide any and all documents used by the IRS,
15 which is in the possession of the Company, which
16 set the basis for the IRS's view that the value of the
17 plant and equipment sold to St. George Island was
18 less than \$3.0 million, in 1979.

19 **POD 72 stated:**

20 Provide any and all documents used by the
21 Company which set the basis for its view that the
22 value of the plant and equipment sold to St. George

1 Island was \$3.0 million, in 1979. (This is with
2 respect to the IRS claim that the value was some
3 \$1.5 million.)

4 As shown in schedule 2 attached to my supplemental testimony, to all of these
5 POD requests, except POD 72, the Company responded that it did not have the
6 documents requested.

7
8 As indicated in my direct testimony, Leisure Properties, Ltd., built the water
9 system from 1976 to 1978. In 1979, Leisure Properties, Ltd., sold the water
10 system to St. George Island Utility Company, Ltd. for \$3,000,000. For tax and
11 book purposes SGU recorded the value of the water system at \$3,000,000. This
12 transaction apparently caused the IRS to audit the tax returns for SGU and
13 Leisure Properties for the tax years 1979 through 1982. The audit resulted in a
14 difference between the claims of SGU/Leisure Properties as to the value of the
15 assets sold and SGU. The IRS claimed the value to be only \$1.5 million while
16 SGU maintained that it was \$3.0 million. In the Company's last rate case, the
17 Commission to some degree relied upon this IRS information in setting the rate
18 base. Specifically, the Commission stated:

19 SGI also produced evidence of the original cost of
20 \$2,657,212, based upon an audit by an independent
21 accounting firm. In addition, SGI produced
22 evidence of an original cost of \$2,200,000 based

1 upon a settlement of litigation with the Internal
2 Revenue Service (IRS). In that case, SGI had
3 claimed a cost of \$3,000,000 while [the] IRS had
4 appraised its value at \$1,550,000. We believe that
5 a reasonable approximation of the original cost
6 would be a value within this range of estimates.

7 [Order No. 21122, p. 7.]

8 OPC requested the information concerning the IRS audit and the Company's
9 claims with respect thereto, to gain a better understanding of exactly what
10 information was presented to the Commission in the last rate case and ascertain
11 its validity, if any, to the instant case. Despite the Company's apparent
12 production of some of this information in the last case, the Company has
13 evidently lost, misplaced, or destroyed the documents since then. Accordingly,
14 as a result of the Company's failure to maintain these records, I was unable to
15 evaluate this information and provide any relevant conclusions to the
16 Commission.

17 **Q. What was the Company's response to POD 72?**

18 **A. In response to POD 72, the Company provided the Promissory Note from St.**
19 **George Island to Leisure Properties and the Mortgage Deed. These two**
20 **documents provide absolutely no proof that the value of the plant and equipment**
21 **sold to St. George Island was \$3.0 million as originally alleged by the Company.**

22 **Q. What did the remaining POD's request?**

1 A. POD 21 asked for the Company's/Leisure Properties' income tax returns and
2 associated workpapers for the years 1978 through 1986. POD 100 requested
3 Leisure Properties' detailed schedules maintained by the partnership with respect
4 to installment sales and profit/losses on installment sales. POD 101 requested the
5 general ledger of Leisure Properties of the years 1976 through 1980. Each of
6 these documents was requested to attempt to obtain additional contemporaneous
7 documents concerning the original cost of water system at the time it was sold to
8 SGU. Unfortunately, as shown in schedule 2, the Company responded that neither
9 it nor Leisure Properties had the documents requested, except for the 1985 tax
10 return for SGU and the 1986 tax return for Leisure Properties.

11

12 I find it interesting that some of these document were also produced in the
13 Company's last rate case, but have since disappeared. Some of the tax returns are
14 in the possession of Public Counsel through its participation in the last rate case.
15 However, they were requested in the instant case to ensure that there would be
16 no question by the Company as to the veracity, completeness, and legitimacy of
17 the documents.

18

19 The Office of the Public Counsel intends to use the tax returns at the hearings.
20 The other documents requested, which were not maintained, while possibly
21 relevant to the issue of the original cost of the system, can not be used for this
22 purpose.

1 Q. What do you conclude regarding the lack of additional documents concerning
2 the original cost of the Company's water system?

3 A. The Office of the Public Counsel attempted to obtain additional contemporaneous
4 documentation from the Company concerning the original cost of the water plant
5 at the time it was sold to SGU. The Company has not been able to provide this
6 information. As such, I believe that the best contemporaneous documentation
7 concerning the original cost of the water plant is that which is contained in my
8 prefiled direct testimony. Under the circumstances, I do not believe that it would
9 be appropriate for the Commission to rely either upon the rate base that it
10 established in the last case, or on another original cost study, should the utility
11 attempt to present one.

12 Q. Does this complete your supplemental testimony prefiled on July 12, 1994?

13 A. Yes, it does.

14

1 MR. MCLEAN: Mr. Chairman, we tender the
2 witness for cross.

3 CHAIRMAN DEASON: Mr. Pfeiffer?

4 CROSS EXAMINATION

5 BY MR. PFEIFFER:

6 Q At Page 6 of your prefiled testimony, you have
7 stated that St. George Island Utility and Mad Hatter and
8 Jasmine are similar in size. What do you mean by that?

9 A Basically --

10 CHAIRMAN DEASON: Mr. Pfeiffer, I hate to
11 interrupt but, Ms. Sanders, do you have questions for
12 this witness?

13 MS. SANDERS: No, sir, I don't.

14 CHAIRMAN DEASON: No questions. Very well.

15 MR. PFEIFFER: Thank you.

16 MS. SANDERS: Thank you.

17 A As far as size go, I was relating that from a
18 number of customers perspective.

19 Q (By Mr. Pfeiffer) And with regard to Schedule
20 4, you state that St. George Island is 16th in terms of
21 size of the utilities that you have listed there.
22 That's on Page 7 of your testimony. What do you mean by
23 that?

24 A That they're 16th? No, you're correct, I do
25 say that. I'm not questioning that.

1 Q "In terms of size," what do you mean by that?

2 A They were --

3 Q I guess I'm focusing on the word "size."

4 A I'm sorry. Again, the reference to size is by
5 using the number of customers as your size basis.

6 Q So you feel that St. George Island Utility has
7 the 16th highest number of customers?

8 A No, no, they were -- probably not. They were,
9 out of the 19, okay, they were at the bottom, okay? So
10 they were one of the smaller, I believe.

11 Q Well, your testimony was, "In contrast,
12 SGU --"

13 A Let me just read it.

14 Q It's Lines 12 and 13.

15 A I know what it is. (Pause)

16 Yeah. And they are smaller than the rest of
17 the utilities in Schedule 4. They have the highest
18 level of expenses, okay, but they are 16th in a ranking
19 of from 1 to 19, they are 16th, so they are on the
20 bottom, they're small; 1 would be the highest, 16th
21 would be lower.

22 Q I didn't mean to spend very much time with
23 this. Again, you had just said "the smallest," and what
24 you mean is the 16th in terms of size, not the smallest?

25 A No.

1 Q One of the smaller?

2 A One of the smaller, yes.

3 Q All right. And in your opinion is the number
4 of customers the most relevant factor in determining the
5 cost of operating a utility?

6 A No, I wouldn't say it is one of the -- the
7 most relevant factor, I do think it is a relevant
8 factor.

9 Q What other factors might be considered in
10 determining the cost of operating a utility in
11 comparison with other utilities?

12 A How well run the utility is. A well-run
13 utility typically would cost less to run than a poorly
14 run utility. The size of the distribution system or the
15 size of the service territory. The level of water
16 pumped and treated, number of gallons treated. The
17 physical location of the utility; for example, North
18 Florida the labor is cheaper than it is in South
19 Florida. The degree to which the utility is currently
20 operating under the requirements of DEP, whether or not
21 they're in compliance with those requirements. (Pause)

22 That's what comes to mind at the moment.

23 Q Would the distance of the source of water from
24 the customers be a relevant factor? (Pause)

25 A To some degree, yes.

1 Q Would the length of the distribution system be
2 a relevant factor?

3 A I mentioned that.

4 Q Well, you had said "size of service
5 territory," and is that --

6 A I said first the distribution and transmission
7 system, and then I also said the size of the service
8 territory.

9 Q Would the configuration of the territory be
10 relevant?

11 A I'm not real sure I know what you mean by
12 "configuration of the territory."

13 Q Well, if the territory is square, would that
14 have any impact as opposed to a territory that is
15 linear?

16 A It might.

17 Q Would the fact that the territory is a barrier
18 island have any impact?

19 A Yes.

20 Q Would lack of exclusivity have any impact? By
21 that, I mean where the customers have a choice of
22 whether to hook up or to use wells, would that have an
23 impact?

24 A It may have some impact in terms of
25 cross-connection. I don't really see how it would have

1 an impact in terms of costing the utility more to run
2 the company.

3 Q Well, if the utility has an obligation to
4 serve customers and, therefore, needed to place pipe in
5 service but could not count on other customers along
6 that pipe connecting to the system, would that have
7 impact? (Pause)

8 A Could you repeat the question, please?

9 Q The fact that a utility needs to lay pipe in
10 order to serve a customer that it is required to serve
11 but cannot count on customers along that pipe other than
12 the customer they're required to serve connecting to the
13 system, would that have impact on the cost of operating
14 and maintaining the utility?

15 A Yes, it has an impact on almost all utilities,
16 they have that situation.

17 Q You mean customers are not required to connect
18 with all utilities?

19 A No. You have a situation where there are lots
20 that are not connected but the utility has to lay pipe
21 in the ground, they don't know whether or not a customer
22 is ever going to be served.

23 Q Well, if a utility had exclusive territory and
24 there was a lot not connected, would that mean that
25 simply there was no house there, no structure there?

1 A That's correct.

2 Q All right. But if there was a structure there
3 and that customer was not required to connect, would
4 that have an impact on the cost of operating the
5 utility?

6 A It would have an impact on the amount of plant
7 that's in the ground relative to the number of customers
8 that you have.

9 Q And would the amount of plant that's in the
10 ground relative to the number of customers that you have
11 have an impact on the cost of operating and maintaining
12 a utility?

13 A I'm trying to look at it from an incremental
14 standpoint and I don't really see, other than the
15 cross-connection problem, why it would cost the utility
16 a great deal more whether or not that customer has a
17 well and is hooked to the system or is supplied water
18 from the utility.

19 Q Would the existence of large peak load spikes
20 have an impact?

21 A It might have some impact, but I'm not really
22 sure how.

23 Q Well, if the utility is required to maintain
24 and develop facilities that served a brief time episode
25 because of peak load spikes and would not be selling

1 water during other times, would that have an impact on
2 the cost of operating and maintaining a utility?

3 A It would have an impact in terms of the
4 overall level of investment that the utility has and it
5 would have perhaps an impact on your O&M, but I don't
6 really see how. Because your amount of water that you
7 pump is a variable number, and that number and the
8 amount of chemicals that you put in varies as a result
9 of the number of gallons that you pump. So I'm trying
10 to figure out -- what I don't see is the fact that the
11 utility peaks on three days of the year, how that
12 incrementally increases this utility's expenses relative
13 to a utility that has a more even flow. I don't see the
14 incremental increase in the expenses.

15 Q Do you know of any -- I didn't mean to
16 interrupt you if you're not finished, please proceed.

17 A I can see how they may be required to have
18 more storage capacity, something along those lines, in
19 order to keep the water so that they can supply that
20 capacity on those peak days.

21 Q You know of no maintenance issues that would
22 arise on account of peak load spike, of a peak load
23 spike kind of a service area?

24 A That's correct. I can't, I can't think of one
25 right now.

1 Q And you did talk a little bit about
2 cross-connect issues?

3 A Yes.

4 Q What would give rise to the need for a
5 cross-connect or a cross-connect program?

6 A I'm not sure I understand the question.

7 Q Well, does the existence of drinking water
8 wells that could -- I don't want to say the word
9 "pollute," but could take water from those wells into
10 the utility system, is that the sort of thing that would
11 give rise to the need for a cross-connect program?

12 A Yes.

13 Q And is that something that is more likely to
14 happen when a utility does not have an exclusive area
15 where customers can use drinking water wells than a
16 utility that does not?

17 A I have been involved in other cases where
18 there is a considerable concern because the utility has
19 a lot of wells for irrigation purposes and there is a
20 tremendous amount -- not "tremendous" is perhaps not the
21 best word, but there's a lot of expense associated with
22 the cross-connection control program. So I don't know
23 that the unique nature of this utility as you are
24 characterizing it with respect to the fact that a
25 customer can have a fresh water well is any different

1 from other utilities that have customers that have wells
2 for irrigation purposes.

3 In fact, you may have a utility that has
4 customers that have more wells for irrigation purposes
5 than this utility has customers with wells, as they call
6 it, for competitive purposes or whatever, because you
7 don't have irrigation on the island. So relatively
8 speaking, this utility may actually be in better shape
9 than some other utilities.

10 Q How about any of the utilities that you have
11 used for comparison purposes in this case?

12 A Jasmine Lakes is a good example of a utility
13 that has quite a few wells for irrigation purposes. The
14 cross-connection control problem was an issue in that
15 proceeding. The utility had growth in customers over a
16 several-year period but no growth in revenues, and the
17 reason for that was the fact that so many customers had
18 installed wells for irrigation purposes and the utility
19 would therefore have no revenue growth.

20 Q Would the question of whether a utility was
21 serving a built-out community as opposed to a developing
22 community have impact on the cost of operating and
23 maintaining the utility?

24 A Yes.

25 Q What kind of impact would that be?

1 A I think any time that a utility is undergoing
2 growth there's going to be a tendency to have to incur
3 more expenses to maintain the system and contact the
4 customers or set the customers up, hook up the wells,
5 hook up the meters, et cetera. Where with a built-out
6 system, you don't have those costs being incurred.

7 Q How about legal fees?

8 A I think, legal fees, that's a tough one. I
9 can see an argument where perhaps a utility that is
10 built out may not incur as much legal fees as a utility
11 that is not built out, but I can also see the inverse or
12 the reverse of that. I mean, it really depends on
13 what's happening with the particular utility.

14 In the case of St. George, you have a
15 situation where the Utility has been involved in a lot
16 of litigation and had a lot of problems with the
17 agencies that regulate them and so, therefore, they have
18 tended to incur relatively high legal expenses compared
19 to other utilities.

20 Q Doesn't St. George Island Utility also have
21 high expenses in relation to negotiation of developer
22 agreements?

23 A Part of Mr. Brown's time reported on his time
24 sheet is associated with negotiating developer
25 agreements. I'm not so sure that that is an expense

1 that should be included as an operating expense because
2 it is really related to plant investment and I think a
3 more logical place would be to capitalize that cost and
4 put it in with the plant when the plant goes into
5 service.

6 Q So you've discussed a lot of things that would
7 be relevant in determining the cost of operating and
8 maintaining a utility, correct?

9 A Yes.

10 Q And do you, with regard to all the utilities
11 that you have used for comparisons purposes in Exhibits
12 3 and 4, do you know whether any of these factors apply
13 to any of those utilities?

14 A Well, I think many of the factors -- I mean,
15 all of the factors apply to them. If you're asking me
16 whether or not I have personal knowledge of each and
17 every one of the factors for each and every one of those
18 utilities, no, I do not.

19 Q Do you have personal knowledge of any of those
20 factors with regard of any of those utilities?

21 A I have personal knowledge with respect to some
22 of those factors for Jasmine Lakes and Mad Hatter and
23 St. George Island.

24 Q Does Jasmine Lakes, is that the name?

25 A Yes.

1 Q Does Jasmine Lakes serve a barrier island
2 community?

3 A No, it does not.

4 Q Is the source of water that Jasmine Lakes
5 draws from near or remote from the area it serves?

6 A Near.

7 Q What is the configuration of the service area
8 of Jasmine Lakes? (Pause)

9 A I'm trying to recall. I know I drove around
10 the service territory but I'm getting it confused with
11 Mad Hatter. (Pause)

12 I don't recall. I mean, it was a typical
13 residential neighborhood, houses close together.

14 Q Relatively square or rectangular in
15 configuration?

16 A It wasn't long and narrow.

17 Q Did Jasmine Lakes Utility have an exclusive
18 arrangement within its territory? Do all customers
19 within the territory have to hook to the utility?

20 A I believe so.

21 Q Does Jasmine Lakes Utility have large peak
22 load periods?

23 A No.

24 Q Does Jasmine Lakes Utility purchase its water?

25 A Yes.

1 Q Does that have an impact on rates?

2 A It should make your rates a little bit higher.

3 Q Why is that?

4 A Why is that? Because you're paying for the
5 overhead associated with the agency from which you are
6 purchasing the water from and you are also paying for
7 that from the company that is providing the water
8 service because they act as a wholesaler.

9 Q A much larger company, a much larger water
10 source, a much larger service area for the utility from
11 which Jasmine Lakes is purchasing water?

12 A Yes, that's correct. The body that they are
13 purchasing water from is selling water to a lot more
14 customers, yes, that's correct.

15 Q So even under your criteria for comparing the
16 utilities, Jasmine Lakes would not be a relevant
17 comparison with St. George Island Utility?

18 A I don't think I said that.

19 Q I'm asking you that question.

20 A No --

21 Q Would Jasmine Lakes be a relevant comparison
22 with St. George Island Utility in terms of costs, since
23 it purchases its water from a system of different size?

24 A Well, I think if you -- I mean, you definitely
25 have to take that into consideration that they're going

1 to have purchased water that shows up on their income
2 statement as an expense as opposed to having those
3 expenses spread out in other categories. However, if
4 you look at the bottom line, the cost for that endeavor
5 is in the bottom line total operation and maintenance
6 expense.

7 Q So you could take a large utility and have --
8 excuse me, a large water supplier and you could have a
9 company that bought water from it, and you could say
10 incrementally that the cost of operating the larger
11 utility could be used for comparison purposes against
12 another utility of the same size as the purchasing
13 utility?

14 A I'm not sure I followed your question. But
15 I'm not saying that you look at anything incrementally,
16 I'm saying you look at all the expenses if you want to
17 compare the expenses of Jasmine Lakes to St. George
18 Island.

19 Q What about Mad Hatter, is its source of water
20 close to the customers?

21 A Yes.

22 Q What is the configuration of the service area?

23 A I don't mean to be smart when I say it is not
24 long and narrow; but I don't know if it was a square, or
25 if it was a circle or if it was a rectangle, and you

- 1 tend to want me to put them in that term.
- 2 Q Relatively compact and contiguous?
- 3 A Relatively, yes.
- 4 Q Not a barrier island?
- 5 A Not a barrier island
- 6 Q Not a linear service area?
- 7 A No.
- 8 Q Does Mad Hatter have an exclusive arrangement
9 within its service area?
- 10 A I believe so, yes.
- 11 Q Does Mad Hatter have an existence of large
12 peak load spikes?
- 13 A I don't believe so.
- 14 Q Does Mad Hatter have significant cross-connect
15 issues?
- 16 A I don't believe so.
- 17 Q Is Mad Hatter a built-out community or a
18 developing community?
- 19 A I don't recall.
- 20 Q I didn't ask you that question about Jasmine
21 Lakes, but could you answer that question with regard to
22 Jasmine Lakes?
- 23 A I believe Jasmine Lakes is built out.
- 24 Q Any other of these utilities you have any
25 personal knowledge of any of these factors about other

1 than Jasmine Lakes and Mad Hatter?

2 A I know a little bit about Forrest Hills
3 Utilities, only because it is a sister company to
4 Jasmine Lakes. I have not seen their service territory.
5 I may have one time looked at their flow data, but I
6 don't have any recollection of that at this time.

7 Q Any others?

8 A No, sir.

9 Q And with regard to St. George Island Utility,
10 is its source of water remote from its customers?

11 A Yes.

12 Q The water has to be piped across St. George
13 Sound, in fact, correct?

14 A Yes.

15 Q And What is the configuration of its service
16 area?

17 A Long and narrow.

18 Q Is it a barrier island?

19 A Yes, it is.

20 Q Does it have large peak load spikes?

21 A Yes.

22 Q Is "spikes" a word we use in your business,
23 "peak load spikes"? Or have I made that up?

24 A Sounds okay to me.

25 Q All right. Does St. George Island have

1 exclusive arrangements within its territory so that its
2 customers must hook up to St. George Island Utility?

3 A Apparently not, except within the Plantation.
4 It is my understanding that they're not allowed to have
5 wells in the Plantation.

6 Q Does anybody have wells in the Plantation
7 anyhow?

8 A I think Mr. Brown may have represented that
9 there were a few in the Plantation.

10 Q Does St. George Island Utility have
11 significant cross-connect issues?

12 A That's been a concern that's been raised in
13 this case, yes. (Pause)

14 Q You had done a comparison of St. George Island
15 Utility's operating and maintenance expenses in this
16 proceeding as compared to the one that was filed and
17 dismissed during 1993. Can you tell me what table it
18 is? I momentarily lost my ability to count.

19 A I believe it's Schedule 2. Schedule 1 and
20 Schedule 2.

21 Q Thank you. Were the expenses in that case
22 ever evaluated or determined appropriate by the Public
23 Service Commission?

24 A No.

25 Q What is the primary difference in the two rate

1 cases?

2 A The primary difference in the two rate cases
3 is the addition of \$171,855 of operation and maintenance
4 expenses.

5 Q The so-called pro forma adjustments?

6 A Yes.

7 Q And is it your testimony that none of these
8 pro forma expenses is justified?

9 A No.

10 Q So whether the changes are appropriate or not
11 would depend upon whether the pro forma expenses and
12 expense items are appropriate or not, correct?

13 A I believe the answer to that is yes.

14 Q Well, you have some, "I believe the answer is
15 yes"?

16 A I just had trouble following it. If you want
17 to ask me again and I can give you a direct yes, I'll
18 give you a direct yes.

19 Q Whether the additional operating and
20 maintenance expense items that are set out in the new
21 rate proceeding are justified or not would depend on
22 whether the pro forma expenses are justified or not?

23 A Yes.

24 Q Do you agree that St. George Island Utility
25 was given permission to file this rate case based on an

1 historic test year?

2 A I believe that the Company filed for a test
3 year approval of a test year of December 31, 1992. And
4 that was approved. Then the case was dismissed. And
5 then I know we think -- I believe it was raised a little
6 bit of an issue during the the agenda concerning
7 dismissal of the case. And the Staff, I believe,
8 informed the Utility that if it filed by January 31,
9 1994? 3?

10 Q Excuse me.

11 A 1994.

12 Q I mean, I admonish my own client not to do
13 that. I thought you were looking at someone across the
14 room to --

15 A Oh, no, I was just looking. I do that.
16 Usually I look up there and ask for help, but.

17 (Laughter)

18 Q Good luck.

19 A It really doesn't help very much. (Laughter)

20 Anyway, I believe that it was kind of
21 represented that if you all filed by January 31st that
22 they wouldn't take exception to approving a December 31,
23 1992, test year.

24 Q But you do dispute that decision?

25 A Yes.

1 Q And the purpose of adjustments that you have
2 made -- and what exhibit is that?

3 A 6.

4 MR. McLEAN: Mr. Pfeiffer, pardon me. Does
5 the witness base adjustments on that comparison that you
6 just mentioned? I'm not sure that she has so testified.

7 MR. PFEIFFER: I asked her what the exhibit
8 was.

9 CHAIRMAN DEASON: I'm sorry, is there an
10 objection?

11 MR. McLEAN: Well, there's an objection for, I
12 think, an inadvertent assertion that she testified that
13 there are adjustments.

14 MR. PFEIFFER: I thought I asked her what the
15 exhibit number was.

16 MR. McLEAN: That's okay, then I misunderstood
17 what he said.

18 Q (By Mr. Pfeiffer) Was it your purpose in
19 developing that exhibit, Ms. Dismukes, to basically make
20 this a 1993 instead of a 1992 test year?

21 A It updated the 1992 test year for growth in
22 revenue and expenses and investment that occurred in
23 1993.

24 Q So you would base revenue on 1993?

25 A Revenue is on precisely 1993, that's correct.

1 Q And you would base expenses on 1993?

2 A Well, expenses are not on 1993. Expenses are
3 on 1992, okay? With adjustments to, I believe, three
4 categories -- one, two, three, four categories of
5 expenses for growth.

6 Q So you had simply --

7 A I haven't finished my answer.

8 Q It sounded like a period.

9 A It was a period, but it wasn't a long pause.

10 Q I will never interrupt you knowingly,
11 Ms. Dismukes. Please proceed.

12 A I made adjustments to 1992 expenses for those
13 expense categories to get them to a 1993 level. The
14 remaining 1992 expenses that the Utility incurred during
15 the test year were left intact. I did not pick up the
16 1993 overall level of expenses.

17 Q And you took some 1992 expenses and you
18 performed some calculations to turn them into 1993
19 expenses.

20 A Yes. Basically what I did was I took the 1992
21 expenses and I applied an inflation and growth
22 adjustment to them to get them to the 1993 level. And
23 the reason, as I explained in my testimony, for using
24 1992 as opposed to 1993 is because a lot of effort had
25 been expended already on evaluating the Company's 1992

1 expenses to make sure that what was in there was
2 reasonable.

3 And, in addition, the Utility had numerous pro
4 forma adjustments to its 1992 test year. Some of those
5 pro forma adjustments were booked on the Utility's books
6 in 1993 and to go completely into a 1993 level -- 1993
7 expenses would have been, A, confusing; and B, the
8 numbers had not been thoroughly evaluated.

9 Q Did you use any actual 1993 expense numbers?

10 A No.

11 Q So we've got 1993 actual revenues and
12 projected 1993 expenses?

13 A If you want to look at it that way, that's
14 fine. I wouldn't tend to call them projected. I guess
15 they're projected.

16 I didn't do a projected test year as one would
17 normally do a projected test year. I took the 1992
18 level of expenses for those categories that the Company
19 already didn't have pro forma adjustments to get them up
20 to a 1993 or 1994 level and I gave the Utility allowance
21 for inflation and growth. That simple.

22 Q And am I just way out to lunch here saying
23 that that's a projection?

24 A Well, it's a projection in the sense that
25 you're right, it is not the actual 1993 expenses.

1 Q Has there been an audit performed on the 1993
2 expenses of St. George Island Utility?

3 A That's why I didn't use the 1993 expenses.

4 Q Has there ever been an audit performed with
5 regard to the 1993 revenues?

6 A No. Much more concerned about the level of
7 expenses and the dollars that would be included in the
8 expenses than I would the amount of revenues that the
9 Utility was reporting.

10 Q I'm sorry? Perhaps I didn't understand. What
11 did you just say?

12 A I said when you go into the rate-setting
13 process, the ratemaking process, the expenses are the
14 area where there is more concern with than the revenues.
15 There's a higher probability that there's going to be a
16 disallowance in the expense level than there is in the
17 amount of revenues that are booked. There may be
18 expenses that are incurred that are unreasonable, out of
19 period, et cetera. It is not as common to find
20 unreasonably incurred revenue.

21 Q Have any Minimum Filing Requirements volumes
22 been prepared with regard to 1993 revenues or expenses?

23 A No.

24 Q Do you regard it as important for the Utility
25 to keep good personnel?

1 A Yes.

2 Q In fact, have personnel issues been problems
3 for this Utility in the past -- by "this Utility," I
4 mean St. George Island Utility. Have there been
5 problems in the past?

6 A He's had personnel problems, yes.

7 Q Is longevity important?

8 A Yes.

9 Q Why?

10 A Well, I think because it creates -- I'm not
11 quite sure of the word I'm thinking of --
12 employer/employee loyalty. The employer and the
13 employee learn how to work together better the longer
14 they have been working together. They learn more about
15 the system, the operations of the Utility.

16 Q Can a Class C operator be easily replaced for
17 St. George Island Utility for the salary that was paid
18 to Mr. Garrett in 1992?

19 A I don't know what the employment market is on
20 St. George Island or Apalachicola. I know there are
21 people employed with the Apalachicola water system that
22 make considerably less than what Mr. Garrett is
23 currently making and less than what Mr. Garrett was
24 making in 1992.

25 Q Jasmine Lakes? Is that one?

1 A One what?

2 Q Where someone is making less.

3 A I believe so. (Pause)

4 William Bennett would be the closest person
5 comparable to Mr. Garrett; and the Commission allowed
6 and I believe the utility requested \$27,300.

7 Q Do you think Mr. Garrett would stay with the
8 Utility for \$27,000?

9 A I don't know.

10 Q Do you think it's important for Mr. Garrett to
11 stay with the Utility?

12 A Yes, I do.

13 Q And you heard that in this proceeding from all
14 manner of sources?

15 A Yes, that everybody has been very pleased with
16 Mr. Garrett.

17 Q So you think it would be important for this
18 Utility to reward Mr. Garrett and compensate him in a
19 manner that he would stay with the Utility within some
20 level of reason?

21 A Yes.

22 Q And perhaps he should be paid more than a
23 utility -- more than \$27,000?

24 A Yes.

25 Q Do people in Apalachicola generally work seven

1 days a week?

2 A I doubt it.

3 Q You have quarreled with the notion of a second
4 full-time field person.

5 A Yes.

6 Q Why is that?

7 A The reason -- I don't like the word "quarrel."
8 But the reason I took issue with it was that I didn't
9 think that the Utility supported, that they needed, the
10 second field assistant on a full-time basis.

11 I looked at the time records and the payroll
12 records during the test year and I believe in 1993 to
13 get a sense for how many field employees the Utility was
14 using. And, based upon that, during some of that time
15 period -- now I don't recall precisely what year it
16 was -- Mr. Shiver wasn't even employed full-time. He
17 wasn't even being cut a paycheck that was of a full-time
18 amount.

19 And so I concluded from that that during the
20 two years prior to 1994 the Utility was operating with
21 between 1.75 and 2 field employees. So I questioned the
22 need for another full-time field person.

23 Now, in addition to that, the second field
24 assistant only worked part-time up through May of this
25 year; and I questioned why, if the Utility needed a

1 full-time person as they are representing that they do,
2 why they wouldn't have employed their field assistant
3 full-time from January of 1994.

4 Q Do you agree that this Utility needs to have
5 personnel on call 24 hours a day, seven days a week?

6 A I don't think they need to be sitting on the
7 island 24 hours a day, seven days a week, but they
8 definitely need to have somebody that can -- somebody
9 that can be reached.

10 Q 24 hours a day, seven days a week?

11 A Yes.

12 Q Do you know how many hours a day it takes for
13 the field staff to deal with the cross-connect program?

14 A No.

15 Q Do you know how many hours a day it takes for
16 the field staff to deal with the hydrogen sulfide
17 issues?

18 A No.

19 Q And incidentally, hydrogen sulfide is what we
20 call sulfur water? You understood that, too?

21 A No.

22 Q You didn't understand that?

23 A I didn't know that.

24 Q Okay. Do you know how many hours a day the
25 field staff is required to deal with the leak detection

1 program?

2 A No.

3 Q And although it is not an everyday occurrence,
4 I suppose a couple days a month, do you know how many
5 hours a day in total it would take for the field staff
6 to read and record meters?

7 A No.

8 Q Do you know how many hours a day it requires
9 field staff to deal with flushing of the system?

10 A No.

11 Q You have indicated that in the business office
12 of St. George Island Utility in Tallahassee that there's
13 room for Ms. Chase downstairs?

14 A That's correct.

15 Q Where would you put her?

16 A In the office that is currently being occupied
17 by Fiona.

18 Q Where would you put Fiona?

19 A I would put Fiona -- we need a map.

20 Q Indeed.

21 A There's a desk next to or catercornered to the
22 reception's desk, the second receptionist's desk.

23 Q Who sits there now?

24 A Sits where?

25 Q At that desk next to the receptionist's desk.

1 A Nobody that I'm aware of.

2 Q Isn't that where --

3 A It's where I sat.

4 Q Isn't that where Ms. Drawdy would normally
5 sit?

6 A I think Ms. Drawdy, when she came in, she sat
7 at the receptionist's desk. I believe I'd seen her
8 stuff was sitting there when I had come in before.

9 Q So where would the receptionist sit?

10 A You have no receptionist.

11 Q Is there a secretary or someone who has that
12 position?

13 A No, you have Ann Hills, who occupies one of
14 the desk downstairs in the office. She's your
15 billing/customer service person. Then you have another
16 desk that's comparable, it is like a receptionist's
17 desk; as you walk in the front door there's no
18 receptionist or secretary that sits there. (Pause)

19 Q How many desks are there?

20 A Three.

21 Q How many people are there full-time?

22 A Well, let me just back up a minute. Are we
23 talking about the front part of the office excluding the
24 office that Fiona is in?

25 Q You can count that.

1 A Okay, then there would be four desks.

2 Q What's the number of square feet downstairs?

3 A 750.

4 Q And is there anything else housed in that
5 downstairs office other than these desks for people?

6 A There's a copier and some filing cabinets in
7 another area and there is a bathroom.

8 Q A fax machine?

9 A There's a fax machine in the closet.

10 Q And the staircase?

11 A There is a staircase, yes.

12 Q You have allocated rental between the Utility
13 and the so-called affiliates at 50% for upstairs, 50%
14 for downstairs; correct?

15 A Yes.

16 Q Do you know if the lessor has any expenses
17 other than the expenses that you have recited in your
18 direct testimony?

19 A I'm not aware of any.

20 Q What expenses have you recited in your direct
21 testimony?

22 A The actual lease expense and I believe
23 property taxes.

24 Q Is there a membership fee?

25 A Not that I'm aware of.

1 Q Who has responsibility for maintenance?

2 (Pause)

3 Who is responsible for maintenance?

4 A I don't know who is responsible for
5 maintenance. I believe that the Utility paid something
6 to maintain something on the office during the test
7 year.

8 Q Was that part of the allocation that you made
9 for rental, or do you know?

10 A No. That maintenance expense would not have
11 been allocated.

12 Q Have you made any analysis of the market rate
13 for office space similar to the space that's occupied by
14 St. George Island Utility in the first floor of that
15 building?

16 A No.

17 Q What would be the square foot rate that would
18 be charged to St. George Island Utility under your
19 estimate of rentals?

20 A It is \$7 and some cents.

21 Q In order to get that leased, are you aware
22 whether Armada Bay Company has had to buy an option to
23 purchase?

24 A I don't know that they had to do that, I know
25 that they elected to do that.

1 Q Well, in your experience, would the purchase
2 of an option to purchase have an impact on lease
3 payments?

4 A I calculated that and I think it worked out to
5 be about \$6 a month.

6 Q Yeah. I asked you a question.

7 A I said yes, and I calculated the impact of
8 that and I worked out to be about \$6 a month.

9 Q But you have allocated none of the cost to
10 purchase to St. George Island Utility in this case?

11 A No, but we'll be happy to take \$6 a month.

12 Q On Page 21 of your testimony, you indicated
13 that Mr. Brown would receive an additional \$20,000 to
14 process the instant rate case.

15 COMMISSIONER KIESLING: What page was that
16 again?

17 MR. PFEIFFER: I'm sorry, Page 21, Line 16.

18 COMMISSIONER KIESLING: Thank you.

19 A Yes.

20 Q (By Mr. Pfeiffer) Do you still think that's
21 true?

22 A Well, Mr. Brown has now represented that he is
23 not requesting any legal fees for his services in this
24 rate case.

25 Q Has Mr. Brown ever requested legal fees for

1 his services in this rate case beyond what his retainer
2 arrangement with the Utility is?

3 A Well, he sent himself a bill for \$10,000 for
4 his services in the rate case. He also had an agreement
5 with himself for his services in the rate case. So
6 based upon that -- and it is a little interesting that
7 the retainer agreement for his services in the rate case
8 says that he will not exceed \$20,000 unless Public
9 Counsel gets involved, and the \$20,000 matches the
10 amount that is in the MFRs. So from that I made the
11 inference that Mr. Brown was requesting compensation for
12 his legal services.

13 Q Do you know what it says in the MFRs about the
14 rate attorney, who it would be?

15 A I don't have that with me.

16 Q Well, I know that Public Counsel, the attorney
17 for Public Counsel at some point gave you a "would you
18 believe" thing. Would you believe me if I told you the
19 MFRs said "to be determined"?

20 A Yes, I would believe you.

21 Q And would you believe that the culprit now for
22 that \$20,000 is me?

23 A Yes.

24 Q You indicated that some of Mr. Brown's time
25 records from 1993 did not require the expertise of a

1 lawyer?

2 A That's correct.

3 Q Who should make that determination?

4 A Mr. Brown? I guess Mr. Brown.

5 I mean, if you look at his time records, he
6 has things on there like, "Review the annual report and
7 meet with his staff"; and I really don't think that a
8 lawyer needs to work on the Utility's annual report, but
9 I may be wrong.

10 Q How much legal expense was authorized by the
11 Public Utility Commission, by the PSC, for Mad Hatter
12 Utility?

13 A I believe it was \$8,700.

14 Q And how much would you allocate for St. George
15 Island Utility?

16 A Allocate?

17 Q How much money would you allocate for St.
18 George Island Utility for legal fees on an annual basis?

19 A I am not allocating anything, but --

20 Q What word should I be using?

21 A Recommending? How much am I recommending?

22 Q How much are you recommending should be
23 allocated? (Laughter)

24 A I know what you are trying to get at, and it's
25 \$3,000.

1 Q Is it your testimony that the Utility should
2 not have gotten legal assistance with regard to the
3 regulatory assessment issues?

4 A No.

5 Q Is it your testimony that the Utility should
6 not have gotten legal assistance with regard to the DEP
7 matters?

8 A No.

9 CHAIRMAN DEASON: Are you saying no, they
10 should not have gotten --

11 WITNESS DISMUKES: No, that's not my
12 testimony.

13 CHAIRMAN DEASON: It's not your testimony?

14 WITNESS DISMUKES: Right.

15 MR. PFEIFFER: Thank you, I appreciate that.
16 There may have been a problem with my questions.

17 Q (By Mr. Pfeiffer) Is it your testimony that
18 the Utility should not have obtained legal service -- do
19 you believe the Utility should have obtained legal
20 services with regard to the revocation proceeding?

21 A Yes.

22 Q Does the fact that St. George Island Utility
23 has -- is licensed and has licensing issues regarding
24 its consumptive use permit with the water management
25 district give rise to any feeling that St. George Island

1 Utility may need more legal service than other
2 utilities?

3 A I don't see how that relates to the need for
4 more legal services than another utility.

5 Q Well, have you ever been through a consumptive
6 use permitting proceeding at a water management
7 district?

8 A No.

9 Q Are they proceedings that don't require the
10 attention of a lawyer?

11 A Well, we asked Mr. Brown when he went to the
12 Northwest Florida Water Management District concerning
13 his consumptive use permit whether he went there as a
14 lawyer or as a manager, and his answer in his deposition
15 was that he went there as a manager. So I'm not aware
16 of the fact that you need a lawyer for that but perhaps
17 you do.

18 Q Would you accept a "would you believe" from me
19 on that one?

20 A Yes.

21 Q Okay. Would you believe you do?

22 A Yes.

23 Q Apparently Jasmine Lakes Utility has only
24 something like \$3,000 allocated to legal expenses,
25 correct?

1 A Yes.

2 Q Is that why you picked out \$3,000 for St.
3 George Island Utility?

4 A Well, no, I did it on two bases. One was the
5 Commission's decision in the Jasmine Lakes case where
6 basically the utility had requested more legal expenses
7 and the Commission's decision was that they felt for a
8 utility of this size that \$3,000 in legal expenses was
9 plenty to process a normal -- the normal events that
10 would come before the Commission.

11 And in addition to that, I also looked to the
12 comparison on my Schedule 4, I believe, to see what the
13 average for the Class B utilities was on a per-customer
14 basis. So I used a combination of both of those to come
15 up with the legal expense for this Utility.

16 Q Let's just look at Jasmine Lakes. As a
17 purchaser of water, isn't it true that Jasmine Lakes
18 would have considerably less regulatory responsibility
19 than a utility that mines its own water?

20 A Well, in that particular case, one of the
21 issues was that the utility wanted a lot of legal
22 expenses because they wanted to monitor the rate that
23 they were being charged by the county. In fact, I think
24 they had a lawsuit against the county because they were
25 trying to get their rate lower. And the Commission

1 disallowed that and didn't believe it was appropriate
2 for ratepayers to pay for that utility to monitor the
3 activities of the county.

4 So I don't think I can necessarily agree with
5 your answer.

6 Q There would be no proceedings in front of the
7 water management district for a utility like Jasmine
8 Lakes?

9 A I don't believe so.

10 Q And a utility like Jasmine Lakes would have no
11 need to negotiate developer agreements?

12 A Right, since they are close to being built out
13 or I think they are built out.

14 Q And a utility like Jasmine Lakes would not
15 have legal issues dealing with hookups?

16 A That's correct.

17 Q How about Mad Hatter? Mad Hatter would have,
18 apparently, issues potentially with the water management
19 district, or do you know?

20 A Yes.

21 Q Would they have issues regarding developer
22 agreements?

23 A Yes.

24 Q Because it is a developing community?

25 A Well, no, I just -- they -- I'm just trying to

1 recollect. They did have developer agreements, I do
2 recall getting developer agreements. They had -- I
3 don't think it was in the context of creating new
4 developer agreements, my recollection just isn't that
5 good on that.

6 Q Do you know what Mad Hatter's actual legal
7 expenses were for 1992?

8 A Their actual legal expenses?

9 Q Yes.

10 A No.

11 Q Would you look at Page 1 of 6 of your
12 Schedule 4 and see if you can tell me that?

13 A Well, that's not the actual.

14 Q What is that?

15 A The amount that was allowed by the Commission.

16 Q I thought the chart read "Class B Water
17 Utilities comparison of 1992 operation and maintenance
18 expense per customer."

19 A That's correct.

20 Q What was the 1992 operation and maintenance
21 expense per customer? I'm looking at a column,
22 "Contractual Services, Legal," under Mad Hatter Utility,
23 on that page I cited, Page 1 of 6. I'm looking at a
24 number, I would like you to tell me what that number is.

25 A That number is 11,289.

1 Q What's it mean?

2 A What does it mean?

3 Q Yes.

4 A If you will bear with me for just a moment.

5 (Pause) You are right, that would be the amount that
6 the utility actually incurred in 1992. I apologize.

7 Q Forgiven.

8 A Thank you.

9 Q Would you say that of the utilities, Jasmine
10 Lakes and Mad Hatter, that Mad Hatter is more like St.
11 George Island Utility in terms of legal needs than
12 Jasmine Lakes is? (Pause)

13 A I really hate to draw that comparison. Both
14 utilities had problems. Mad Hatter was perhaps a little
15 bit more like St. George Island because it had been in
16 trouble with DEP, it had to actually shut down its
17 sewage --

18 Q No way that Jasmine Lakes would be in trouble
19 with DEP, is there?

20 A I didn't say Jasmine Lakes. I said Mad
21 Hatter. If I did, I misspoke, I'm sorry.

22 Q I'm sorry, I just got excited. Go ahead.

23 A Anyway, I'm saying if I had to say which one
24 was more comparable in terms of legal expenses, I would
25 probably say Mad Hatter; but I just can't really give

1 you a good feel on that one.

2 Q They do, after all, have issues with the water
3 management district on an ongoing basis?

4 A Well, I don't know if it is on an ongoing
5 basis; I don't know if they have exceeded their
6 consumptive use permit, as this Utility has, so they may
7 not need to --

8 Q Is this Utility exceeding its consumptive use
9 permit today?

10 A Well, they got a temporary -- I don't know if
11 "temporary" is the right word, but yes, they were
12 exceeding their consumptive use permit. And they
13 received, I don't know what it is called, but the water
14 management district gave them something to continue to
15 operate even though they were exceeding what it was.

16 Q It is a permit, it's called a permit.

17 A Temporary permit? I don't think they've
18 gotten -- Gene is saying they have, so. They got their
19 permit completely reviewed, I don't know. I know at one
20 time they were exceeding their consumptive use permit.

21 Q Do you oppose a pension program for the
22 employees of St. George Island Utility?

23 A No, I do not.

24 Q What is wrong with the pension program that
25 has been proposed by St. George Island Utility? My

1 client just tugged at my elbow and said what's wrong
2 with the pension program they have in place?

3 A I don't know what pension program they have in
4 place. I do know the pension program that they proposed
5 in the MFRs and the documents that they have provided to
6 us with respect to the pension program, that's what I
7 will respond to.

8 Q All right.

9 A My big concern about the pension plan is the
10 fact that the Utility controls the funds that are
11 deposited into the pension plan. I'm concerned that
12 this Commission may grant the Utility the revenues to
13 recover the expenses associated with the pension plan
14 and that that money will in the future never be
15 deposited into the pension plan for use for retirement
16 for employees. That's my primary concern with the
17 pension plan.

18 I also --

19 Q How would we rectify that?

20 A -- hadn't finished my answer.

21 I had mentioned in my deposition that I felt
22 like the fact that there was no prerequisite time period
23 that an employee had to be employed prior to being
24 eligible for the plan was not a particularly good part
25 of the plan. I think that it would be more prudent if

1 there was a one-year eligibility requirement.

2 The document that I reviewed had Mr. Brown's
3 name as the trustee on it. Now I realize that they are
4 saying something else.

5 I believe those were my major concerns with
6 respect to the pension plan.

7 Q With regard to the eligibility issue, are you
8 aware of any requirement of law with regard to pension
9 plans, or any requirement of rules of the Public Service
10 Commission, or any requirement of any regulatory
11 requirement whatever that requires this sort of
12 eligibility requirement criteria that you are imposing?

13 A No. I'm looking at it from the standpoint of
14 a good business decision. I just don't think that if
15 you have employee turnover that it would make good sense
16 to make a contribution when you wouldn't have to if that
17 employee leaves. You will have made the contribution,
18 okay? But it will not go to that employee because they
19 have left. It will go back into the pension plan.

20 But from the ratepayers' standpoint, depending
21 on how you look at it, the money would have been put
22 into the pension plan. That's my concern.

23 Q Are you part of any pension plan?

24 A Yes.

25 Q Was there a one-year withholding requirement

1 on eligibility for your participation in the pension
2 plan?

3 A Depends on which pension plan you're talking
4 about. At Ben Johnson Associates, yes, there was a
5 one-year requirement that you had to fulfill before you
6 were eligible with the pension plan.

7 With the State of Florida, no, there is no
8 eligibility requirement but you have to work there for
9 ten years before you get a dime.

10 Q There is a vesting requirement?

11 A Yes.

12 Q But the State does pay in?

13 A Yes.

14 Q Even though an employee might leave?

15 A That's correct.

16 Q Is that imprudent?

17 A I never said it was imprudent.

18 Q I'm sorry, I thought you used the word
19 "imprudent."

20 A No, I said good business practice.

21 Q You think it's a bad business practice by the
22 State?

23 A Well, I don't think I used the word "bad." I
24 just said I think it would be better, okay, if they had
25 the one-year eligibility requirement. Because then you

1 don't have the problem with the turnover, you're not
2 making a contribution for somebody that is not going to
3 be with you for a while. That's pure and simple. And
4 this Utility, with the exception of the last since 1992
5 or '91, has had quite a bit of turnover.

6 Q What's the purpose of a pension program from
7 the point of view of an employer, in terms of keeping
8 employees?

9 A I'm not sure --

10 Q Does a pension plan have a significant role in
11 ensuring that employees stay with an employer?

12 A I don't know that "significant" is
13 necessarily -- I don't know if it is a significant role.
14 It definitely does have some impact on an employee; it
15 would have some impact on an employee's longevity,
16 willingness to work for a company.

17 Q Have you ever been part of any enterprise that
18 made a proposal to manage St. George Island Utility?

19 A Are you speaking of Ben Johnson Associates?

20 Q Have you ever been part of any enterprise that
21 made a proposal to manage St. George Island Utility?

22 A Yes.

23 Q What enterprise was that?

24 A Ben Johnson Associates.

25 Q When was that?

1 A I believe it was in the fall of 1991.

2 Q What was your role?

3 A I don't believe I had any role in the --

4 Q Excuse me, I should have is asked, "What was
5 your role in Ben Johnson Associates," and I interrupted
6 you because I had not communicated.

7 What was your role at Ben Johnson Associates?

8 A My title was vice president and senior
9 research consultant. Do you want to know what my
10 responsibilities were, what I did?

11 Q You were also a part owner?

12 A Yes, I was a small owner.

13 Q Significant responsibilities in the
14 corporation?

15 A Yes.

16 Q How much did Ben Johnson and Associates
17 propose to charge to manage St. George Island Utilities?

18 A The figure that has been thrown around is
19 \$6,000 a month.

20 Q Do you dispute that?

21 A I don't. I was not at the meeting where the
22 proposal was made --

23 Q Do you dispute that \$6,000 was the amount that
24 Ben Johnson and Associates --

25 A I'm not disputing it. I just said I wasn't --

1 I said that's the number that's been thrown around. I
2 don't know that it is in writing. It may be in writing,
3 I wasn't at the meeting where the proposal took place.

4 Q Did Ben Johnson Associates make a proposal to
5 handle a rate case for St. George Island Utility while
6 you were there? (Pause)

7 A Yes, I think so.

8 Q How much did Ben Johnson Associates estimate
9 that a rate case would cost?

10 A The letter -- and I assume what you are
11 talking about was a letter that was sent to Capital City
12 National Bank. The representation in the letter was
13 that it would cost between \$150,000 and \$200,000 to
14 process a rate case for this Utility. That was based
15 upon some information that was provided, I believe, by
16 the Public Service Commission Staff. It was not based
17 upon Ben Johnson's personal knowledge of what it cost to
18 process a rate case.

19 Q Have you ever heard him say that it would be
20 more than that?

21 A No.

22 Q Have you ever heard him say that the
23 management proposal was \$6,000 per month?

24 A I think in his deposition I think that number
25 was mentioned, I believe it was, yes.

1 Q In fact, he testified that that was the number
2 while he was under oath in the deposition, correct?

3 A I believe you're right.

4 CHAIRMAN DEASON: Mr. Pfeiffer, how much more
5 do you have for this witness?

6 MR. PFEIFFER: Certainly more than an hour.

7 CHAIRMAN DEASON: Okay, we'll go ahead and
8 take a --

9 MR. PFEIFFER: She was almost going to cry,
10 Chairman Deason. (Laughter)

11 CHAIRMAN DEASON: We're going to take a
12 15-minute recess.

13 (Brief recess.)

14 (Transcript continues in sequence in Volume
15 6.)

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