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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION



In re: Investigation Into the)
Appropriate Rate Structure for)
SOUTHERN STATES UTILITIES, INC.)
for all Regulated Systems in)
Bradford, Brevard, Citrus, Clay,)
Collier, Duval, Hernando,)
Highlands, Lake, Lee/Charlotte,)
Marion, Martin, Nassau, Orange,)
Pasco, Putnam, Seminole, St.)
John's, St. Lucie, Volusia, and)
Washington Counties.)
_____)

DOCKET NO. 950495-WS

FILED: February 12, 1996

DIRECT TESTIMONY OF BUDDY L. HANSEN
ON BEHALF OF SUGARMILL WOODS CIVIC ASSOCIATION, INC.

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FPSC-RECORDS/REPORTING

1 Q. PLEASE STATE YOUR NAME AND ADDRESS?
2 A. My name is Buddy L. Hansen and my address is 13
3 Wild Olive Court, Homosassa, Florida, 34446.
4 Q. WHAT IS YOUR POSITION WITH THE SUGARMILL WOODS
5 CIVIC ASSOCIATION, INC.?
6 A. I am a member of the Utility Committee which has
7 the responsibility for the Sugarmill Woods Civic
8 Association, Inc. (SMWCA, formerly COVA)
9 intervention in Docket No. 950495-WS.
10 Q. HOW LONG HAVE YOU BEEN A PROPERTY OWNER AT SMWCA?
11 A. My wife and I purchased a lot in Sugarmill Woods
12 (SMW) in November 1977.
13 Q. WHEN DID YOU BECOME A RESIDENT OF SMW?
14 A. We had a home built in 1979 and moved into it on
15 December 17 of that year, and we have been a full-
16 time resident ever since that date.
17 Q. WHEN DID YOU BECOME INVOLVED IN WATER AND SEWER
18 ACTIVITIES AT SMW?
19 A. In 1980 when Twin County Utilities, Inc. (TCU), the
20 former owners of the utility, filed for a staff
21 assisted rate case, Docket No. 800524-WS.
22 Q. WHAT OTHER CASES HAVE YOU PARTICIPATED IN AT SMW?
23 A. Docket No. 840206-WS filed in 1984 for a rate
24 increase by TCU, Proposed Agency Action. COVA

1 intervened and negotiated a private settlement on
2 water at favorable terms with the utility.

3 Our next intervention was in the Certificate
4 of Transfer from TCU to SSU, Docket No. 881339-WS
5 in 1988 and 1989. Several issues were raised and
6 settled to our satisfaction, except for our
7 concerns about SSU's intentions on uniform rates.
8 In effect, the Public Service Commission stated
9 that SSU had not then asked for uniform rates, so
10 it would be inappropriate to rule on that issue.

11 COVA intervened in SSU's request for uniform
12 rates in Docket No. 900329-WS covering 34 systems
13 in 7 counties. The PSC denied the rate request and
14 SSU lost on appeal to the Court.

15 More recently, we intervened in Docket No.
16 920199-WS and the so-called generic study, Docket
17 No. 930880-WS.

18 I have played a major role for SMW in all of
19 the above cases which I believe qualifies me to
20 testify in this current rate case, Docket No.
21 950495-WS.

22 **Q. WHAT ARE YOUR EDUCATIONAL QUALIFICATIONS?**

23 A. I graduated from Oregon State College in 1949 with
24 a degree in mechanical engineering. I have
25 attended many technical seminars throughout my

1 engineering career. Prior to retirement, I had
2 professional engineering licenses in New Jersey and
3 Michigan.

4 Q. WHAT IS YOUR PROFESSIONAL EXPERIENCE?

5 A. Most of my career was with General Motors starting
6 as a college-graduate-in-training in plant
7 engineering at a manufacturing plant. Later
8 assignments were as a plant layout supervisor and
9 production engineer.

10 In 1963, I was promoted to the GM
11 Manufacturing Staff in Detroit which consisted of
12 project analysis, budget reviews, capacity studies,
13 and forward planning plus related capital
14 expenditure forecasts.

15 In 1965, I transferred to Pontiac Motor
16 Division as a Assistant Superintendent of Plant
17 Engineering. I had a wide range of assignments and
18 at the time of my retirement on January 1, 1980, I
19 had engineering responsibility for all water,
20 sewer, natural gas, steam and compressed air
21 utilities, plant environmental, noise abatement and
22 many other OSHA activities, and design
23 responsibility for many manufacturing facilities.

24 Q. DO YOU HAVE THE SUPPORT OF THE RESIDENTS OF SMW?

1 A. Yes, on January 29, 1996, the SMWCA presented me
2 with a CITIZEN OF THE YEAR AWARD for 1995 for my
3 work on SSU rate cases.

4 Q. WHAT IS SMWCA'S POSITION ON THE UNIFORM RATES THAT
5 SSU HAS REQUESTED?

6 A. SMWCA strongly opposes uniform rates in this or any
7 other rate case. The rates should be based on cost
8 of service in order to be fair and equitable.

9 For the 1996 projected test year sales
10 revenue, stand-alone versus uniform rates, SMW
11 subsidy cost is \$649,497 for water and \$632,749 for
12 sewer. The total uniform rate subsidy cost to us
13 is \$1,282,246 higher than the total stand-alone
14 sales revenue of \$1,347,001. That is a 95%
15 increase which SSU is asking SMW residents,
16 including those who may be on Medicaid, to give to
17 someone with a luxurious home in another
18 subdivision--totally unreasonable.

19 Q. WHAT IS YOUR RESPONSE TO THOSE WHO SAY, "YOUR TURN
20 WILL COME."

21 A. It will never happen in my lifetime and it is
22 already too late for many who started paying a
23 subsidy in September 1993.

24 For 1992 through 1996, SSU shows capital
25 expenditures of \$2.4 million for SMW. They also

1 claim a \$1.1 million reduction in sewer CIAC to
2 correct a prior mathematical error. That is a
3 total swing of \$3.5 million; yet despite that
4 increase in rate base, depreciation and other
5 associated costs, our subsidy cost shows an
6 increase of 143% over the 1991 test year subsidy
7 cost for SMW in Docket No. 920100-WS of \$528,425.

8 SSU would like to convey the impression that
9 our turn will come. In a September 16, 1993 letter
10 to Senator Ginny Brown-Waite, Bert T. Phillips,
11 President, SSU, stated that "In Sugar Mill Woods,
12 for example, our five year capital expenditure plan
13 calls for \$4 million in environmental improvements,
14 and at" The record shows that from 1991
15 through 1996, SSU will have spent about \$2.4
16 million on capital projects, most of which were
17 wrongly classified as Regulatory Mandate instead of
18 a proper classification as Growth at SMW. There
19 are usually about 60 homes under construction in
20 SMW at any given time. In fact, growth pays for
21 itself here at a higher level than in most other
22 subdivisions served by SSU. Our turn will never
23 come.

24 Bill Talbott, PSC, was carbon copied on the
25 noted Phillips' letter.

1 Q. HOW DO YOU INTERPRET FUNCTIONALLY RELATED WITH
2 REGARD TO UNIFORM RATES?

3 A. As an engineer, I think there is more to it than
4 just "functionally related"--it appears to be a
5 part, but not all of the equation. The key phrase
6 in 367.021(11) is ". . . may include a combination
7 of functionally related facilities and land."
8 Taken as a whole, I would give it this test for
9 SMW. Does any change in the operation of SSU/SMW's
10 facilities have an affect on the facilities of any
11 other SSU system? The answer for SMW is no and we
12 are not functionally related to other SSU systems.

13 Let's step back in time for a minute: Rosemont
14 and Rolling Green were at one time two separate and
15 distinct facilities--neither one had any affect on
16 the facilities of the other system and they were
17 not functionally related. However, when the two 4"
18 wells in Rolling Green had to be taken out of
19 service, the two systems were interconnected in May
20 1992. SSU spent about \$244,000 to upgrade the
21 Rosemont facility and interconnect with Rolling
22 Green.

23 We now have two functionally related
24 facilities--any change in one could affect the
25 other. As I recall, the residents of Rosemont were

1 very unhappy about subsidizing Rolling Green until
2 they became the beneficiary of a subsidy in Docket
3 920199-WS.

4 SMW is not part of a combination of
5 functionally related facilities and land.

6 **Q. DO YOU BELIEVE THAT THE MODIFIED STAND-ALONE RATES**
7 **ARE AN ACCEPTABLE ALTERNATIVE IN THIS DOCKET?**

8 A. In Docket No. 920199-WS, we agreed that the
9 modified stand-alone (benchmark capped) rates were
10 an acceptable alternative to uniform rates based on
11 subsidy cost of 5% or less to SMW customers to help
12 out the so-called horror cases. Call it altruism,
13 charity or just common sense, it took considerable
14 soul searching to move off of stand-alone rates to
15 a 5% subsidy.

16 Affordability is an issue to any of our
17 residents who may have a mate that has been in a
18 nursing home for several years. They have
19 exhausted their savings and have had to resort to
20 Medicaid. I know this to be a fact. My next door
21 neighbors sold their home at about the time the
22 husband's health became a serious problem. The
23 bottom line is that the wife now lives in the
24 subsidized housing at Homosassa Commons and the
25 husband's assignable income plus medicaid covers

1 his nursing home care. The "kick in the teeth" is
2 that the 38 units in Homosassa Commons are served
3 by the SSU owned Spring Gardens water and sewer
4 system which pays a substantial subsidy. SSU
5 bought the utility from the people that owned and
6 still own the subsidized housing.

7 To anyone who may be taking a subsidy cost
8 lightly, what would you do if someone were to lift
9 your credit card and begin making purchases using
10 your number? At what level of a false charge would
11 you become upset and cancel the card--\$1 per month,
12 \$5 per month, \$10 per month, \$25 per month or \$50
13 per month? Would you give any thought as to the
14 financial circumstances of the person taking your
15 money? On the other hand, will your turn ever
16 come?

17 **Q. WHAT IS THE PROJECTED 1996 TEST YEAR SUBSIDY COST**
18 **TO SMW FOR THE CAPPED VERSUS STAND-ALONE**
19 **ALTERNATIVES?**

20 A. Based on the projected 1996 test year sales
21 revenue, with the modified stand-alone rates
22 (capped), SMW would pay an annual subsidy of
23 \$275,977. This is a 20.5% increase over the
24 required sales revenue for water and sewer of
25 \$1,347,001.

1 Q. IS A SUBSIDY COST INCREASE OF 20.5% OVER STAND-
2 ALONE RATES ACCEPTABLE TO SMWCA? IF NOT, DO YOU
3 HAVE AN ALTERNATE PROPOSAL?

4 A. It is not acceptable on a long-term basis. In
5 fact, even our previously committed level of up to
6 5% should be replaced with a more equitable
7 approach that will cover hardship cases.

8 United Telephone of Florida has a LifeLine
9 Assistance Plan, which provides some relief to
10 customers who receive: Aid to Families with
11 Dependent Children (AFDC), Food Stamps, Medicaid,
12 or Supplemental Security Income (SSI). The purpose
13 of the program is to make telephone service more
14 accessible to customers who otherwise might not be
15 able to afford service.

16 Qualified residential subscribers who apply
17 for LifeLine receive a federal credit of \$3.50 per
18 month with matching funds from United Telephone for
19 a total of \$7.00 per month.

20 The Department of Health & Rehabilitative
21 Services has an emergency one-time \$200 payment
22 available for heating based on income guidelines
23 which are \$685 per month of income for a one-member
24 household and \$920 per month for a two-member
25 household.

1 These programs are based on a demonstrated
2 need; whereas, with the water and sewer uniform or
3 modified stand-alone rates, there is no criteria to
4 relieve the low-income customer from subsidizing a
5 high-income customer. This is grossly unfair.

6 Our 5% guideline limit applied to individual
7 circumstances of need would be acceptable if
8 matching funds were provided from other sources,
9 and if SSU were to administer the program at no
10 cost.

11 **Q. DO YOU AGREE WITH SSU'S 90.46% USED & USEFUL FOR**
12 **THE SMW TREATMENT AND DISPOSAL PLANT?**

13 **A. No, for two reasons:**

14 1. SSU has understated the treatment plant
15 capacity at 0.400 MGD for 1996 as compared to the
16 original design capacity of 0.500 MGD. I find no
17 FDEP order in the MFRs requiring the change;
18 instead, I find FDEP Permit No. CD09-242735 issued
19 on June 23, 1994 with an expiration date of April
20 1, 1995 for an increase in capacity to 0.700 MGD.
21 The work is described as follows:

22 Expansion of a 0.500 MGD Type I oxidation
23 ditch by re-rating the existing oxidation
24 ditch to a permitted capacity of 0.700
25 MGD and the addition of a new clarifier,

1 dual chlorine contact chambers and sludge
2 processing and handling system with
3 chlorinated effluent to a 1.5 mg holding
4 pond and then to a 53.35 acre restricted
5 access spray irrigation site.

6 On March 21, 1995, the expiration date was moved to
7 December 31, 1995 at the request of SSU.

8 SSU's Plant-in-Service Addition schedule for
9 project expenditures shows nothing for this in 1994
10 but does for 1995, Project No. 93CW255 for WWTP
11 IMPROVEMENTS classified as for Regulatory Mandate.
12 It would seem that by the end of 1995, the capacity
13 should have been up to 0.700 MGD, or at the very
14 latest, early in the 1996 projected test year.

15 2. SSU is significantly increasing the load
16 on the plant by going to a projected 1996 test year
17 and then adding a five year margin reserve--good
18 grief, at my age, I debate about even buying green
19 bananas. Now we are looking at a load on the
20 treatment plant for the year 2001 to determine the
21 U & U.

22 Just correcting the capacity rating to 0.700
23 MGD and using the average daily flow with a five
24 year MR--361,821 G.P.D., reduces the U & U from
25 90.16% to 51.69%.

1 I even object to the use of the normal 18-
2 month MR with a projected test year; that's 2-1/2
3 years. What would be the plant load at that time?
4 Certainly, the U & U will be less than for year
5 2001.

6 **Q. DO YOU AGREE WITH SSU'S CLASSIFICATION OF THE WWTP**
7 **IMPROVEMENTS AS REGULATORY MANDATE?**

8 A. No, I do not agree with the classification. The
9 \$875,038 project may have some part that relates to
10 a Regulatory Mandate but most of it would appear to
11 be for Growth.

12 SSU in their PR releases, likes to boast about
13 all their environmental expenditures, most of which
14 appear to be over-stated and misclassified. In my
15 opinion, they would create a better image if they
16 were to live up to the Truth in Advertising concept
17 as one of our residents noted at the Public Hearing
18 on January 24, 1996.

19 **Q. IS THE THREE YEAR MARGIN RESERVE ON WATER PLANT**
20 **ACCEPTABLE TO SMWCA?**

21 A. No, it appears to be another ploy by SSU to run up
22 the U & U at our expense. With the 1996 projected
23 test year plus the three year MR, we are looking at
24 the capacity demand for 1999.

1 The water plant at SMW has been at 100% U & U
2 ever since the 1991 test year in Docket No. 920199-
3 WS. SSU has been using up the fire protection
4 reserve in SMW to provide for growth. It would
5 seem that SSU should have insisted on a mandate
6 prohibiting growth until additional capacity had
7 been installed. The truth of the matter is that it
8 appears to be SSU's policy to keep plant capacity
9 at as close to 100% U & U as possible.

10 SSU says that they need the extended MR for
11 wastewater and water plant because it takes such an
12 extended and long time to get a rate case processed
13 and approved. By now, one would think that SSU
14 should know that they are the cause for the delay.
15 It appears that their MFRs are rushed and prone to
16 error in their favor. They continue to introduce
17 controversial items that cause delay. Capital
18 expenditure forecasts have traditionally been
19 overstated and/or later dropped capital projects.

20 I find very little improvement since Docket
21 No. 900329-WS when Commissioners Gunter and Easley
22 were critical of SSU in Order No. 24715. Here are
23 some comments from page 5 of the order:

24 Most troubling perhaps, was that the
25 utility's construction budget showed

1 the errors in the utility's own
2 projections. (Discusses budget and
3 performance) The record
4 shows that the planned improvements
5 were either not made, delayed beyond
6 the test year, or more or less
7 expensive than projected.

8 **Q. DO YOU HAVE SOME RECENT EXAMPLE WHERE SSU'S CAPITAL**
9 **FORECASTS AND SUBSEQUENT EXPENDITURES ARE**
10 **INCOMPATIBLE?**

11 A. Yes, in Docket No. 930880-WS, Late Filed Hearing
12 Exhibit No. 32, on line 420, SSU showed
13 construction of a 1 MG GST with expenditures of
14 \$550,000 in each year for 1994 and 1995. By
15 comparison, in Docket No. 950495-WS SSU is
16 forecasting construction of a 0.5 MG GST with
17 Service Pumps in 1996 for \$715,903 and classified
18 as Regulatory Mandate.

19 First of all, the classification is wrong; it
20 should be Growth.

21 Secondly, the size of the storage tank changed
22 as did the installation date. What assurance do we
23 have that 1996 is a firm date? The U & U, F-5
24 Schedule shows that the High Service Pumps are at
25 100% with a footnote indicating that if the

1 calculated percentage exceeds 100% with MR, then
2 100% is requested.

3 It does not make sense to drop from a 1.0 MG
4 to a 0.5 MG GST and I am pleased to see that the
5 Staff is checking that out.

6 Line 428 of Exhibit No. 32 from Docket No.
7 930880-WS shows the addition of a new well in each
8 of the following years: 1993, 1995 and 1997 at
9 \$250,000 for each year. There have been no new
10 wells installed at SMW since 1992 and none are
11 currently forecast. With the installation of the
12 GST, the U & U drops from 100% to 71.46% including
13 the three year MR--through year 1999. That's proof
14 to support Gunter & Easley.

15 We are sitting right on top of this and know
16 what is happening here, but what about the General
17 and Miscellaneous Plants that are allocated to the
18 individual systems such as SMW?

19 **Q. DOES THE 0.500 MG GST MEET CITRUS COUNTY ORDINANCE**
20 **NO. 86-10 FOR WATER STORAGE FOR FIRE PROTECTION AT**
21 **SMW?**

22 **A.** Probably not. It appears that at least 0.600 MG of
23 storage is required depending on the Citrus County
24 Utilities Division and the Citrus County Public

1 Works Manual. Certainly, the residents of SMW
2 would feel more secure with the 1.0 MG GST.

3 For economies of scale, the 1.0 MG GST appears
4 prudent for the combined domestic and fire flow
5 demand.

6 Q. DO YOU THINK THAT SSU'S WATER CONSERVATION PROPOSAL
7 FOR TARGETED COMMUNITIES WILL PRODUCE WATER SAVINGS
8 OF 35,040,000 GALLONS PER YEAR AT SMW?

9 A. I do not think so for the following reasons:

10 1. SSU has lost its level of trust with the
11 residents of SMW. Their adverse publicity and the
12 distortions about SMW has turned the people against
13 them. In rate comparisons, SSU consistently shows
14 us in a bad light by failing to bring out that most
15 customers here have a 1" meter, yet SSU publicly
16 shows comparative costs for 10,000 gallons usage
17 for a 5/8" x 3/4" meter. They try to convey that
18 SSU is the savior of the environment and the
19 aquifer, but they do nothing more than any other
20 law abiding utility would do. In fact, some of
21 their cable driven wells may result in poor Quality
22 water and a degradation of the aquifer. We may
23 have an expert witness on that. If SSU were to say
24 that they are in the business to sell water and to
25 please use more of it, water usage in SMW would

1 plummet overnight. I am sorry to say that our
2 relationship is that bad.

3 2. We have a fair amount of new construction
4 which, for some considerable period of time, have
5 had the devices for water saving that SSU is
6 promoting. Many of the older homes have already
7 made retrofits.

8 3. The residents have already scaled back due
9 to uniform rate pricing and an arbitrary 10%
10 reduction at a cost of \$97,360 is not feasible. It
11 seems to me they should cease and desist trying to
12 paint SMW as the bad guys for using too much water,
13 when in fact, some of the systems that we subsidize
14 have a higher level of usage than SMW.

15 4. We are not facing a water crisis at SMW.
16 The two monitoring wells at the northwest corner of
17 SMW property showed no appreciable water drop in
18 the water table during periods of water growth
19 according to SWIFTMUD. That is not to say that the
20 residents here are opposed to conservation; we
21 support it. Has SSU asked to have the allowable
22 Lost and Unaccounted for Water raised or lowered?
23 As I recall, it is to have it raised.

24 5. We would support expenditures to reduce
25 leakage and unaccounted for water at SMW which

1 together exceed over 10%. If they are having to
2 repair a lot of leaks and they guess on the amount
3 of leakage to make the unaccounted for water look
4 good, the problem does not get solved. Spend the
5 \$94,360 replacing the old, leakage prone, 1-1/2"
6 valves at SMW.

7 **Q. DO YOU BELIEVE THAT PRICE ELASTICITY IS PROPER AND**
8 **RIGHT IN THIS RATE CASE?**

9 A. Under the right conditions, the idea has merit.
10 But here, it is too inequitable, will impose too
11 many hardships on low income customers, and comes
12 on top of what was already established as
13 conservation rates in Docket No. 920199-WS.

14 Customers with low water usage, such as Apache
15 Shores in Citrus County, are presumed to have the
16 same elasticity factor as those with high usage,
17 such as Druid Hills in Seminole County. In each
18 case, the need for water conservation may be vastly
19 different. Also, the income level could vary
20 between these and other systems.

21 In SMW, we have low income, medium income, and
22 high income. As in Homosassa Commons which is
23 served by Spring Gardens, we likely have residents
24 on Medicaid. On the other hand, reportedly an

1 anonymous benefactor from SMW made a \$1 million
2 contribution to a local parochial school.

3 Under either stand-alone or modified stand-
4 alone rates, the elasticity factor should vary by
5 system and possibly other factors, such as in SMW
6 where about 77% of the residential customers have
7 1" meters. Some low users, such as Apache Shores--
8 1994 average usage 1,893 gallons per month, already
9 have high water gallonage charges, \$10.10 per
10 thousand gallons on stand-alone rates.

11 Also, it just seems too much like a ploy to
12 run up gallonage charges by the utility. System-
13 wide with uniform rates the gallonage charge
14 without the elasticity factors would be \$1.93 as
15 compared to \$2.16 with the elasticity factor--a
16 difference of \$0.23 per thousand gallons. With an
17 average residential usage of 8,014 gal/mo, that is
18 \$1.84/mo. So, we end up pressuring the people on
19 water conservation who can least afford it.

20 The net result for SSU is that probably only
21 25% of the forecasted 877,203,435 gallons for 1996
22 will actually be saved which will result in
23 windfall profits of \$1,421,071. (877,203 MG x 75%
24 x \$2.16/MG)

1 One thing I agree with Dr. Whitcomb on is in
2 his Exhibit (JBW-2), page 32, Table 4-1, Water
3 Utility Guidelines, Discussion 3A:

4 This guideline is based on a review
5 of the financial statements and
6 budgets of the water utilities for
7 which Brown and Caldwell has
8 conducted rate studies. The
9 justification for this guideline is
10 that the price of selling water
11 should equal the true cost of
12 supplying water. In other words,
13 the true cost of water should not be
14 masked by subsidies. (Emphasis
15 added.)

16 Dr. Whitcomb in Table 4-2 makes an identical
17 statement for sewer.

18 **Q. DID SSU EVER REVISE THEIR CUSTOMER BILLING TO SHOW**
19 **DAILY AVERAGE WATER USE FOR THE CURRENT AND PRIOR**
20 **YEAR MONTHS?**

21 **A.** Yes they have, starting with the billing for
22 September 1995 usage. They also improved the
23 format which has made the sewer billing more
24 understandable.

1 We need one more thing: A reference daily
2 usage for the month such as for all of SMW
3 residential. This would be especially helpful to
4 new residents who may have had high usage for two
5 or three months to establish a lawn and they need
6 to know what is normal. That may help bring some
7 of the other high users in line with what is
8 expected of them. Invariably, when I receive a
9 call complaining about an extra high bill, the
10 reason is high usage through some failure in their
11 lawn sprinkler system--some sprinkler heads have
12 been broken or blown off, the system recycled or
13 maybe the timer failed to advance. Some of these
14 conditions are difficult to check since most lawn
15 irrigation occurs at night when domestic use is at
16 a minimum. Anything to flag the problem would be
17 appreciated.

18 **Q. DO YOU BELIEVE THE WEATHER NORMALIZATION CLAUSE TO**
19 **BE FEASIBLE AS PROPOSED BY SSU?**

20 A. Before I answer that, I have a question on some
21 rebates and a surcharge that Ludsen quoted on pages
22 25 and 26, respective lines 21 and 22, and 1 and 2.
23 He refers to rebates of \$183,825, \$299,684 and a
24 surcharge of \$488,330 which are from Line 52 of the
25 example WNC forms which reads: ACTUAL REVENUES

1 (WITH WNC) (OVER) UNDER TARGET. It appears that in
2 the context of his testimony, he should have quoted
3 from Line 50: WNC REVENUES (REBATE)/SURCHARGE.
4 Those figures are all rebates of \$193,341, \$224,667
5 and \$292,280--no surcharges. From a practical
6 standpoint, the geographic distance between systems
7 is too great for a homogeneous rain and weather
8 pattern which even varies within SMW.

9 The meter reading time varies by system and
10 location. The meters are read throughout the
11 month. Note my attached Exhibit (BLH-1) which
12 shows the SSU WATER METER READING SCHEDULES for the
13 original uniform rate systems. The time element is
14 too diverse to be making financial commitments
15 based on weather.

16 I also took a look at the meter reading dates
17 at my residence. Exhibit (BLH-2) shows a meter
18 reading variance of as high as 6 days or +20% for a
19 given month. The WNC requires a look-back at past
20 months and a wait for a couple of months before
21 making the adjustment for a rebate or surcharge.
22 Unless the monthly reading dates are consistent,
23 the comparison between months will not be accurate
24 enough to go with the WNC.

1 Another thing, it is too complicated and its
2 application sounds screwy--it's like a Catch 22 or
3 an oxymoron. The WNC should not be implemented.

4 **Q. SSU'S SUMMARY OF WASTEWATER SERVICE AVAILABILITY**
5 **CHARGES SHOWS A MAIN EXTENSION CHARGE OF \$280 UNDER**
6 **PRESENT CHARGES. HAS THIS BEEN PREVIOUSLY APPROVED**
7 **BY PSC HEARING AND ORDER?**

8 A. I do not believe that it is an approved charge. It
9 may be included in the tariff sheets, but to my
10 knowledge, the only approved CIAC charges were for
11 the \$1,700 sewer service availability charge which
12 stated in the SMW Public Offering Statement and in
13 Land Sales Contracts that this was to cover the
14 cost of both the collection lines and the disposal
15 plant. In the 1985 rate case, the Commission
16 considered lowering it but did not do so. In that
17 same Docket No. 840206-WS, a \$280 water line
18 capacity charge was established.

19 **Q. THERE IS A SUBSTANTIAL AMOUNT OF PREPAID CIAC AT**
20 **SMW--\$280 FOR WATER AND \$1,700 FOR SEWER. IF THESE**
21 **CHARGES ARE REDUCED IN THIS DOCKET, SHOULD SSU BE**
22 **REQUIRED TO MAKE REFUNDS?**

23 A. As I recall, this subject was discussed in Docket
24 No. 840206-WS and refunds would have created a
25 problem for the developer. The situation here is

1 that both the Public Offering Statement and the
2 Land Sales Contracts state that the \$280 water and
3 the \$1,700 sewer charges shall be paid when the
4 infrastructure is completed to a sold lot, or if it
5 is already in place to an unsold lot, the charges
6 are due upon purchase of the lot. We have a
7 mixture of unsold lots, some on lines that were not
8 contributed by the developer, and over 1,000 lots
9 that are on lines which were being constructed by
10 the developer at the time of the sales agreement
11 between TCU and SSU. When these lines were
12 completed, they were turned over to SSU as
13 contributed lines.

14 These unsold lots have been purchased by
15 Lehigh Acquisition Corporation--80% owned by
16 Minnesota Power Company.

17 The sales agreement had provisions of the
18 developer to recover some of their costs by being
19 able to make 700 free connections (\$1,700 plus
20 \$280) at the rate of up to 200 per year with a 15
21 year time limit. An additional 1,000 connections
22 could be made at a cost not to exceed \$575. As I
23 recall, this was a split of 1,000 at SMW and 600 at
24 Burnt Store.

1 I believe some reconciliation of this
2 situation is in order. Furthermore, as part of the
3 TCU purchase agreement, in addition to cash there
4 was \$700,000 of no-cost preferred stock redeemable
5 at the rate of \$550 per ERC for new connections.
6 What is the present status?

7 It is our position that those people who have
8 prepaid CIAC and have not built on the lot, should
9 receive a refund. This should include any second
10 or third owners since the prepaid CIAC is always a
11 factor in lot sales.

12 If stand-alone rates were approved by the PSC,
13 I suggest that it would be prudent to let the CIAC
14 charges stand but to rebalance and reallocate them
15 between water and sewer. This would not entail any
16 refunds and be more representative and fair to the
17 utility. That would bring sewer into a more
18 profitable position on rate base.

19 **Q. MS. KIMBALL IN HER TESTIMONY REFERS TO A**
20 **MATHEMATICAL MISTAKE IN SMW WASTEWATER CIAC WHICH**
21 **CAUSED A OVERSTATEMENT OF \$1,116,283 IN DOCKET NO.**
22 **920199-WS. DO YOU KNOW ANY OF THE PARTICULARS OF**
23 **THAT MISTAKE?**

24 **A.** No, I do not. I believe that our counsel, Mike
25 Twomey, has an interrogatory out on that, but as of

1 now, I have seen no response. It is a very
2 complicated situation here on CIAC, and we do not
3 take that sizeable a correction lightly. It would
4 seem appropriate for Staff and/or OPC to audit the
5 SMW CIAC account going back to the audit for the
6 Certificate of Transfer, Docket No 880139-WS.

7 **Q. DO YOU HAVE ANY OTHER COMMENTS ON SMW CIAC?**

8 A. Yes, I have a question regarding Schedule A-11 (S)
9 as to why there were no sewer CIAC additions for
10 1995 and 1996 plus only nominal amounts in other
11 years? By comparison, Schedule A-11 (W) shows
12 substantial additions for all years including 1995
13 and 1996. I don't understand this since the
14 charges are much higher for sewer.

15 **Q. DO YOU HAVE A PROBLEM WITH SSU'S CALCULATION OF**
16 **NUMBER OF YEARS TO DESIGN CAPACITY, SCHEDULES NO.**
17 **11 (W) AND 11 (S) OF VOLUMES VIII ON SERVICE**
18 **AVAILABILITY CHARGES?**

19 A. Yes, on line 11 of each of those schedules, Current
20 ERC's with Margin Reserve, it includes the 77% of
21 1" meters plus others larger than the 5/8" x 3/4"
22 meters. So the total ERCs are much greater than if
23 the meters were of all the same small meter size
24 with a 1 ERC rating. These are then subtracted
25 from the total lot ERCs, each rated as 1 ERC. For

1 example, a SMW residence with a 1" meter is rated
2 at 2-1/2 ERCs, but the lot only has an ERC rating
3 of 1. That is not apples-to-apples and neither is
4 SSU's calculations to determine Number of Years to
5 Design Capacity--it is grossly understated and
6 could have a bearing on service availability
7 charges.

8 **Q. DO YOU BELIEVE THAT CIAC SHOULD BE IMPUTED ON**
9 **MARGIN RESERVE?**

10 A. Yes, I see no reason to change the standard
11 practice of the PSC and which is also supported by
12 OPC. If not imputed, the existing customers are
13 charged with paying for future growth which is
14 contrary to County Comprehensive Plans in
15 conformance with the Growth Management Act.

16 **Q. DO YOU SUPPORT THE USE OF HYDRAULIC ANALYSIS TO**
17 **DETERMINE THE USED AND USEFUL FOR WATER**
18 **DISTRIBUTION LINES AT CITRUS SPRINGS, PINE RIDGE,**
19 **MARION OAKS, AND SUNNY HILLS?**

20 A. No. The worst case example is Pine Ridge where the
21 calculated U & U is increased by 23.30% to 100%
22 with hydraulic analysis. Marion Oaks about triples
23 and the other two systems approximately double.

24 So what is going to happen at Pine Ridge? Is
25 SSU going to put a moratorium on growth until line

1 capacity can be increased? As I recall, Pine Ridge
2 has a fairly high growth rate which should be
3 maintained and not stifled by SSU.

4 On a stand-alone basis, the excessive rates
5 will depress property values and slow growth. Is
6 that the planned scenario so that Lehigh
7 Acquisition Corporation can come in and buy the
8 unsold lots at bargain prices? They got a good buy
9 at SMW in their bid of \$4.0 million in 1995 for
10 about 1,250 lots and 40 acres of commercial
11 property. Reportedly, they plan to be aggressive
12 in the merchandising of the property.

13 Whether it is stand-alone, modified stand-
14 alone, or uniform rates, we object to the hydraulic
15 analysis of the determination of U & U for water
16 lines. It imposes too great a burden on existing
17 customers. It runs up the rate base for greater
18 profit and requires existing customers to pay the
19 depreciation and taxes for facilities which would
20 normally be assigned to the Allowance for Funds
21 Prudently Invested account allocated to future
22 customers. It may also create growth management
23 problems; however, SSU professes expertise in that
24 area.

1 SMWCA is outraged by Mr. Cirello, President
2 and C.E.O., who in a September 8, 1995 letter to
3 Lt. Governor MacKay stated that they could provide
4 growth management with their single tariff pricing.
5 It appears that SSU customers are but pawns in a
6 scheme to hedge their bets on uniform rates. See
7 Exhibit (BLH-3).

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A. Yes it does.**

SSU WATER METER READING SCHEDULES.

Sample Size: Prior Uniform Rate Systems.

COUNTY	WATER SYSTEM	WEEK METERS ARE READ				
		1st	2nd	3rd	4th	LAST
Brevard	Kingswood			X		
	Oakwood			X		
Citrus	Apache Shores			X		
	Citrus Springs Utilities	X	X	X	X	X
	Crystal River Highlands			X		
	Golden Terrace				X	
	Gospel Island	X				
	Oak Forest	X				
	Pine Ridge Utilities				X	
	Point O' Woods		X			
	Rolling Green/Rosemont	X				
	Sugarmill Woods	X				X
Clay	Keystone Heights	X				
	Lakeview Villas	X				
	Postmaster Village	X				
Collier	Marco Shores	X				
Duval	Beacon Hills			X		
	Woodmere		X			
Highlands Lake	Leisure Lakes			X		
	Carlton Village		X			
	East Lake Harris Est.		X			
	Fern Terrace		X			
	Friendly Center		X			
	Grand Terrace		X			
	Hobby Hills		X			
	Holiday Haven			X		
	Imperial Mobile Terrace	X				
	Morning View	X				
	Palisades Country Club	X				
	Palms Mobile Home Park	X				
	Picciola Island	X				
	Piney Woods					X
	Quail Ridge	X				
	Silver Lake Est./Western Shores			X	X	
	Skycrest					X
Stone Mountain	X					
Sunshine Parkway			X			
Venetian Village	X					
Marion	Citrus Park		X			
	Marion Oaks		X	X		
	Salt Springs					X
	Samira Villas					X
Martin	Fisherman's Haven		X			
	Fox Run	X				
	Leliani Heights	X				

COUNTY	WATER SYSTEM	WEEK METERS ARE READ				
		1st	2nd	3rd	4th	LAST
Nassau	Amelia Island			X		
Orange	Daetwyler Shores					X
	Holiday Heights				X	
	Lake Conway Park			X		
	University Shores		X			
	Westmont			X		
Osceola	Bay Lake Estates	X				
	Fountains		X			
	Intercession City		X			
	Lake Ajay Estates			X		
	Pine Riodge Estates		X			
	Tropical Park				X	
	Windsong		X			
	Pasco	Palm Terrace	X			
Putnam	Zephr Shores			X		
	Beecher's Point			X		
	Hermits Cove		X			
	Interlachen Lake/Pk Manor	X		X		
	Palm Port	X				
	Pomona Park			X		
	River Grove	X				
	River Park		X			
	Saratoga Harbour/Welaka			X		
	Silver Lake Oaks	X				
Seminole	St. Johns Highlands			X		
	Wootens			X		
	Apple Valley	X				
	Chuluota					X
	Dol Ray Manor				X	
	Druid Hills				X	
	Fern Park		X			
	Harmony Homes		X			
	Lake Brantley	X				
	Lake Harriet Estates	X				
Volusia	Meridith Manor	X				
	Deltona Utilities	X	X	X	X	X
	Jungle Den			X		
Washington	Sugar Mill		X			
	Sunny Hills Utilities	X				

Source: MFR's Volume VI, Book 1 of 2, F-1 Schedules.

11/20/95

VARIANCE IN METERED DAYS BY MONTH vs CALENDAR DAYS PER MONTH
 AT SMW RESIDENCE, 13 Wild Olive Ct.

CALENDAR MO. DAYS	METERED DAYS PER MONTH & YEAR									
	1991		1992		1993		1994		1995	
	VARIANCE		VARIANCE		VARIANCE		VARIANCE		VARIANCE	
	DAYS	%	DAYS	%	DAYS	%	DAYS	%	DAYS	%
Jan 31	-1	-3.2%	-1	-3.2%	-2	-6.7%	-3	-9.7%	0	0
Feb 28	0	0	0	0	+1	+3.6%	0	0	+2	+7.1%
Mar 31	0	0	-4	-12.9%	-3	-9.7%	-1	-3.2%	-2	-6.5%
Apr 30	+2	+6.7%	+3	+10.0%	+4	+13.3%	-2	-6.7%	+2	+6.7%
May 31	0	0	-2	-6.5%	-4	-12.9%	0	0	-1	-3.2%
Jun 30	-2	-6.7%	+4	+13.3%	+6	+20.0%	-2	-6.7%	-1	-3.3%
Jul 31	+1	+3.2%	-2	-6.5%	-5	-16.1%	+3	+9.7%	+1	+3.2%
Aug 31	+3	+9.7%	-1	-3.2%	-1	-3.2%	-3	-9.7%	-1	-3.2%
Sep 30	-3	-10.0%	+4	+13.3%	+2	+6.7%	+4	+13.3%	+3	+10.0%
Oct 31	+2	+6.5%	-4	-12.9%	-2	-6.7%	-3	-9.6%	-2	-6.5%
Nov 30	-1	-3.3%	-2	-6.7%	0	0	0	0	-1	-3.3%
Dec 31	+3	+9.7%	0	0	+3	+9.7%	-3	-9.6%	-2	-6.5%

EMPHASIS ADDED TO SIGNIFICANT READING-DATE VARIANCES.

11/20/95

FILE



Southern States Utilities • 1000 Color Place • Apopka, FL 32703 • 407/880-0008

EXHIBIT NO. (BLH-3)

September 8, 1995

The Honorable Buddy McKay
Lieutenant Governor
The Capitol
Tallahassee, FL 32399-0001

Dear Governor McKay:

I appreciate your taking the time to meet with me and members of my team on Wednesday, August 30. The discussion was productive and the exchange of ideas valuable for all of us.

It was apparent that we have a common interest in directing growth to the more water rich, interior portions of the State through pricing mechanisms. As indicated, we have proposed a rate structure to the Florida Public Service Commission that would have customers in areas requiring advanced water treatment technologies, generally coastal communities, pay the marginal cost of providing that service.

At the same time, our single tariff approach for the remaining customers helps to support growth in areas of low density by averaging costs among all customers. Otherwise, with a small base of customers, adding or improving the plant creates excessive rates when those costs are borne by that community alone. Those high rates become a disincentive for community development.

As Florida's largest private water and wastewater utility, we are fully aware of our responsibilities in the preservation and management of the State's water resources. In that regard, we pledge to work with you and Mr. Estus Whitfield, who attended our meeting, as you deem appropriate.

Again, thank you for meeting with us and I look forward to hearing from you in the future.

Very truly yours,

SOUTHERN STATES UTILITIES, INC.

John Cirello, Ph.D., P.E.
President and C.E.O.

JCS

