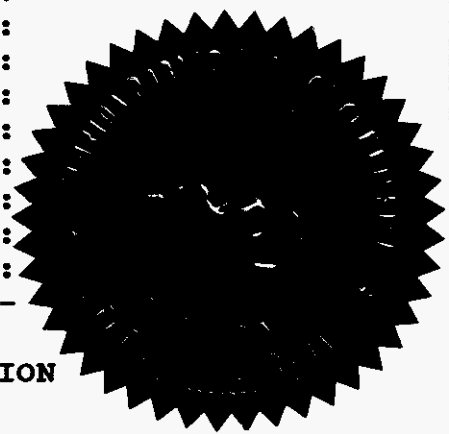


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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : DOCKET NO.

Application for a rate increase and :
 increase in service availability charges: : 950495-WS
 by SOUTHERN STATES UTILITIES, INC. for :
 Orange-Osceola Utilities, Inc. in :
 Osceola County, and in Bradford, Brevard:
 Charlotte, Citrus, Clay, Collier, Duval, :
 Highlands, Lake, Lee, Marion, Martin, :
 Nassau, Orange, Osceola, Pasco, Putnam, :
 Seminole, St. Johns, St. Lucie, Volusia :
 and Washington Counties. :



FIRST DAY - LATE MORNING SESSION

VOLUME 2

Pages 115 through 219

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN SUSAN F. CLARK
 COMMISSIONER J. TERRY DEASON
 COMMISSIONER JULIA L. JOHNSON
 COMMISSIONER DIANE K. KIESLING
 COMMISSIONER JOE GARCIA

DATE: Monday, April 29, 1996

TIME: Commenced at 9:00 a.m.

PLACE: Betty Easley Conference Center
 Room 148
 4075 Esplanade Way
 Tallahassee, Florida

REPORTED BY: SYDNEY C. SILVA, CSR, RPR
 Official Commission Reporter
 (904) 413-6732

APPEARANCES:
 (As heretofore noted.)

I N D E X

WITNESSES - VOLUME 2

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P R O C E E D I N G S

1
2 (Hearing reconvened at 11:55 a.m.)

3 (Transcript follows in sequence from
4 Volume 1.)

5 CHAIRMAN CLARK: Let's call the hearing back
6 to order. Are the mikes on? Good, thank you.

7 Mr. Sandbulte, I was a bit premature, we
8 apparently have at least one other member of the
9 public that wants to testify and then we'll go to the
10 technical case after we conclude that.

11 Mr. Beck, you indicated there was another
12 person from the public here to testify?

13 MR. BECK: Yes, Madam Chairman. Mr. Lonnie
14 Eberhard.

15 CHAIRMAN CLARK: Eberhard?

16 Mr. Eberhard, I don't think you were sworn
17 in, were you?

18 WITNESS EBERHARD: No.

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LONNIE EBERHARD

1
2 was called as a witness on behalf of the Citizens of
3 the State of Florida and, having been duly sworn,
4 testified as follows:

5 WITNESS EBERHARD: Good morning. I'm sorry,
6 I didn't know all the protocol and get on the slate
7 when I was supposed to.

8 CHAIRMAN CLARK: Don't worry about it. Go
9 ahead.

10 WITNESS EBERHARD: Just one thing. I'm
11 Lonnie Eberhard, E-B-E-R-H-A-R-D. I represent the
12 Island Country Club, 500 Nassau Court, Marco Island,
13 Florida 33937.

14 One issue, Ms. Clark was sent a letter by
15 the president of my club, Bill Roth. One issue that
16 we hope that the Commissioners and what have you would
17 understand, our interest is the rate increase of
18 effluent water. Our current rate right now is 30
19 cents per thousand, which is our interim rate, which
20 was 25 cents per thousand. The new increase is going
21 supposedly to 87 cents per thousand gallons, which is
22 an increase of 334%, which we feel is a little unjust.

23 I am from corporate America and I understand
24 that the cost of doing business has increased over the
25 past few years here; but 300% or 334% seems a little

1 unjust, especially when some of our competitor golf
2 courses in the area using the same or similar effluent
3 water for the same 250,000 gallons per day is our
4 average at the Island Country Club that we use, we use
5 that average, the City of Naples for the same amount
6 of water would only cost them \$3,125. And that is an
7 unlimited amount of water.

8 In Collier County, except Marco Island, the
9 same amount of water would cost \$11,830. Our water
10 this present year, 1995, cost us \$23,660. With the
11 rate increases, neither the City of Naples or Collier
12 County except Marco Island would increase. Our
13 increase would change our budget to \$79,170.

14 I just want to Chairman and the rest of the
15 Commissioners to understand this seems to be a little
16 unjust for an increase.

17 We do understand that the residents of Marco
18 Island are asking SSU to run effluent lines down
19 Collier Boulevard and there is going to be some
20 expense on their part. We've been a long customer of
21 SSU for effluent water and for potable water --
22 actually, we're one of two customers they have
23 currently for effluent water. And we just would like
24 that to be understood and heard at this point.

25 CHAIRMAN CLARK: Thank you, Mr. Eberhard.

1 Let me see if there are any questions.

2 Mr. Beck?

3 MR. BECK: No questions.

4 CHAIRMAN CLARK: Mr. Twomey or Mr. Jacobs?

5 MR. TWOMEY: No questions.

6 MR. JACOBS: No questions.

7 CHAIRMAN CLARK: Mr. Armstrong?

8 MR. ARMSTRONG: No questions.

9 CHAIRMAN CLARK: Staff?

10 MR. JAEGER: No questions.

11 CHAIRMAN CLARK: Commissioners?

12 COMMISSIONER KIESLING: I just have one.

13 When you say "effluent water," you're talking about
14 reuse water, right?

15 WITNESS EBERHARD: That is correct.

16 CHAIRMAN CLARK: I think there are no
17 questions of you, Mr. Eberhard. Thank you very much
18 for coming up to testify in this proceeding.

19 Let me just as a caution ask if there are
20 any more members of the public that were here to
21 testify? I don't see anyone else indicating they were
22 here to participate by way of providing public
23 testimony.

24 With that, we will -- Mr. Shreve?

25 MR. SHREVE: Madam Chairman, Ms. Demello

1 came up to me a minute ago, had been contacted by a
2 customer who said they wanted to come in later. It
3 was my understanding that you had earlier said that
4 any customers coming in later could still testify
5 during the hearing?

6 CHAIRMAN CLARK: Well, that's certainly not
7 my preference, Mr. Shreve. It seems to me that we had
8 reserved the first part of this proceeding to take
9 their testimony; I'm simply concerned that, if we
10 indicate that, we'll have a floodgate of customers and
11 it will delay our expeditious processing of this case.

12 But having said that, please don't tell
13 people to come up and testify; but if somebody is up
14 here, we will certainly take brief testimony.

15 MR. SHREVE: I think everyone had been
16 informed that routinely the public testimony would be
17 the first day, today.

18 CHAIRMAN CLARK: Yes.

19 MR. SHREVE: However, if anyone calls in and
20 wishes to testify, I'll put them in touch with
21 Ms. Demello and we'll see where that goes.

22 CHAIRMAN CLARK: Yeah. I think they should
23 indicate that the time for public testimony is over.

24 MR. SHREVE: Will they be allowed to
25 testify?

1 CHAIRMAN CLARK: If they do come up here,
2 we'll make some accommodation for them. But please do
3 not encourage them to come.

4 MR. SHREVE: Madam Chairman, I'm not. I'm
5 just raising the fact that different people are
6 calling in. And we have up to this point, everyone
7 has been advised that routinely it will be handled the
8 first day.

9 CHAIRMAN CLARK: Okay. Thank you,
10 Mr. Shreve.

11 All right. I think we're ready to begin the
12 technical portion of the hearing. I think there are
13 no other preliminary matters to take up. What I would
14 like to do is ask all those people who will be
15 witnesses in this proceeding that are here now to be
16 sworn in at the same time I swear in Mr. Sandbulte.

17 I would also ask the attorneys, to the
18 extent your witnesses aren't here and when they come
19 up to testify, you've got to let me know that they
20 haven't been sworn in and need to be sworn in at that
21 time.

22 Everyone who is here who will be a witness
23 please stand and raise your right hand.

24 (Witnesses collectively sworn.)

25 CHAIRMAN CLARK: Thank you, you may be

1 seated.

2 Mr. Armstrong?

3 MR. ARMSTRONG: Thank you, Madam Chair.

4

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5

AREND J. SANDBULTE

6 was called as a witness on behalf of Southern States
7 Utilities, Inc. and, having been duly sworn, testified
8 as follows:

9

DIRECT EXAMINATION

10 BY MR. ARMSTRONG:

11 Q Mr. Sandbulte, do you have before you 9
12 pages of prefiled direct testimony that was filed in
13 this proceeding?

14 A Yes, I do.

15 Q Do you have any changes to that prefiled
16 testimony?

17 A No.

18 Q If I were to ask you the questions contained
19 in that prefiled testimony, would your answers be the
20 same?

21 A Yes.

22 MR. ARMSTRONG: Madam Chair, we would
23 request that the 9 pages of prefiled direct testimony
24 of Mr. Sandbulte be incorporated into the record as
25 though read.

1 CHAIRMAN CLARK: The prefiled testimony of
2 Mr. Arend Sandbulte, numbering 9 pages, will be
3 inserted in the record as though read.

4 MR. ARMSTRONG: Thank you.

5 Q (By Mr. Armstrong) Mr. Sandbulte, you are
6 sponsoring five exhibits with your prefiled testimony;
7 is that correct?

8 A Yes.

9 Q Do you have any changes you need to make to
10 those exhibits?

11 A No.

12 MR. ARMSTRONG: We request that those
13 exhibits be identified as composite, I believe it's
14 Exhibit 62.

15 CHAIRMAN CLARK: Mr. Pruitt, is that it?

16 MR. PRUITT: That's correct.

17 COMMISSIONER KIESLING: Could I just get a
18 clarification. My copy of the testimony has six
19 exhibits attached. Are there five or are there six?

20 WITNESS SANDBULTE: I'm sorry, I have six.

21 MR. ARMSTRONG: Six exhibits, thank you.
22 There are six exhibits in that composite.

23 CHAIRMAN CLARK: Okay. I have Exhibits
24 AJS-1 through 6; is that correct?

25 MR. ARMSTRONG: That's correct.

1 CHAIRMAN CLARK: Okay, we will mark them as
2 Composite Exhibit 62.

3 (Composite Exhibit No. 62 marked for
4 identification.)

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Arend J. Sandbulte and my business address is Minnesota
3 Power & Light Company (Minnesota Power, MP or the Company), 30
4 West Superior Street, Duluth, Minnesota 55802.

5 Q. IN WHAT CAPACITY ARE YOU EMPLOYED?

6 A. My position is Chairman and Chief Executive Officer of Minnesota Power.

7 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
8 PROFESSIONAL BACKGROUND AS WELL AS YOUR
9 RESPONSIBILITIES IN YOUR CURRENT POSITION.

10 A. I am a 1959 graduate of Iowa State University with a Bachelor of Science
11 degree in Electrical Engineering. I also obtained a Master's degree in
12 Business Administration from the University of Minnesota in 1966. I
13 began my career as a rate engineer with Northern States Power Company
14 in 1959. I moved to Minnesota Power in 1964 where I originally served
15 in a similar capacity. I was promoted to financial assistant in 1965, and
16 to Director of the Budgets and Research Department in 1966. I was
17 named Assistant Vice President - Research and Corporate Planning in 1972
18 and became Vice President - Corporate Planning in 1974. I was named
19 Vice President and Chief Financial Officer in 1976 and Senior Vice
20 President, Finance and Administration, and Chief Financial Officer in
21 1978. In 1980 I was named Executive Vice President and Chief Financial
22 Officer, and in 1983 I was appointed to the Chief Operating Officer

1 position in addition to retaining the earlier positions. In 1984 I became
2 President and Chief Operating Officer. In 1988 I was elected President
3 and Chief Executive Officer, and in 1989 was named Chairman of the
4 Board, President and Chief Executive Officer. In May 1995 I relinquished
5 my title of President to my successor.

6 My primary responsibilities in my current position are to provide
7 overall leadership and direction to the Company and to guide development
8 of appropriate long-range strategic plans. I lead and work with the
9 Minnesota Power Board of Directors and provide guidance to the
10 company's top executive officers in managing the strategic activities
11 assigned to them.

12 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES OR**
13 **ASSOCIATIONS?**

14 A. I am a Registered Professional Engineer in the states of Minnesota, North
15 Dakota and Wisconsin and a member of the Institute of Electrical and
16 Electronic Engineers (IEEE).

17 **Q. ARE YOU A MEMBER OF ANY TRADE ASSOCIATIONS?**

18 A. I am currently President and member of the board of The Association of
19 Electric Illuminating Companies (AEIC), a 108 year old national
20 association of about 80 electric utilities which deals with
21 engineering/technical issues for the electric utility industry. I was until
22 recently a member of the Board of Directors of the Edison Electric

1 Institute (EEI), the investor-owned utilities trade association. I also serve
2 as a member of the EEI Policy Committee on Environmental Affairs and
3 am past chairman, dealing with such matters as global warming, electro-
4 magnetic fields and other environmentally related issues. I was also until
5 recently a member of the Governmental Affairs Committee of EEI. I am
6 also a board member and past president of the North Central Electric
7 Association (NCEA), a regional electric utility association dealing with
8 various issues facing electric utilities in the midwest.

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY**
10 **AGENCY?**

11 A. Yes. I have testified on three occasions before the Florida Public Service
12 Commission (FPSC) relative to our various water and wastewater
13 operations which are now collectively known as Southern States Utilities,
14 Inc. (SSU). I have testified in every rate case Minnesota Power has filed
15 since the Minnesota Public Utilities Commission (MPUC) was formed in
16 1975, including the most recent case which was filed in 1994 (a total of
17 seven different rate cases). I have also testified before the Federal Energy
18 Regulatory Commission (FERC), and its predecessor, the Federal Power
19 Commission. Finally, I have also testified before the Public Service
20 Commission of Wisconsin concerning rates sought by Minnesota Power's
21 Wisconsin utility subsidiary, Superior Water, Light and Power Company.

22 Generally, I have testified in matters of overall Company policy,

1 as well as rate design, rate of return and similar matters. I have also
2 testified before several other Minnesota regulatory agencies on matters of
3 power plant siting, certificates of need and transmission line routing.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. The purpose of my testimony is to provide an overview of Minnesota
7 Power's investment in SSU, to summarize shareholder concerns about that
8 investment, and to confirm that our ability to continue to commit funds to
9 SSU is based to a large degree on receiving fair, reasonable and timely
10 rate relief. Provided this goal is met for Minnesota Power and its
11 investors, we can and will continue to provide financial support necessary
12 for facilities upgrades and the continued superior level of service that SSU
13 customers have begun to expect.

14 **Q. PLEASE DESCRIBE MINNESOTA POWER'S OWNERSHIP IN**
15 **SSU.**

16 A. Minnesota Power owns 100% of Topeka Group, Inc. (Topeka) which in
17 turn owns 100% of SSU. Minnesota Power's equity investment in SSU
18 at year-end 1994 was \$78 million, roughly 14% of Minnesota Power's
19 consolidated common equity of \$562 million as of the same date.
20 Minnesota Power is a publicly owned Minnesota corporation whose stock
21 is traded on the New York Stock Exchange.

22 It is important to understand that while SSU does not have any

1 publicly traded shares, it does receive considerable attention from
2 Minnesota Power shareholders, investment analysts and securities rating
3 agencies because of its significance to the consolidated or overall
4 Minnesota Power operations.

5 **Q. HOW WOULD YOU CHARACTERIZE THE RETURNS EARNED**
6 **BY SSU FROM THE PERSPECTIVE OF THE MINNESOTA**
7 **POWER SHAREHOLDER?**

8 A. The opinion of Minnesota Power shareholders of the returns we have been
9 experiencing from our investment in SSU has been similar to the opinions
10 rendered by the securities rating agencies and analysts who rate and
11 critique Minnesota Power's securities.

12 One of my duties is to meet with the securities rating agencies such
13 as Standard & Poor's and Moody's. As indicated in Exhibit 6 (AJS-1),
14 Exhibit 6 (AJS-2) and Exhibit 6 (AJS-3), the agencies have
15 continually indicated that our Florida water operations' performance has
16 been "sluggish," "lagging" and inadequate. I also frequently meet with and
17 review reports of investment analyst professionals who similarly indicate
18 their disappointment with our water and wastewater results and look
19 forward to rate relief. Copies of several of these reports are included in
20 Exhibit 6 (AJS-4), Exhibit 6 (AJS-5) and Exhibit 6 (AJS-6).

21 **Q. WHY SHOULD SSU'S CUSTOMERS BE CONCERNED ABOUT**
22 **THE RETURN EARNED BY MINNESOTA POWER'S**

1 **SHAREHOLDERS?**

2 A. Customers will be adversely impacted if SSU's access to capital
3 diminishes or its cost of capital increases.

4 The impact can be expected to follow the course outlined in Dr.
5 Morin's pre-filed direct testimony. Dr. Morin explains that if shareholders
6 do not believe that the authorized return on equity is sufficient to reflect
7 the risk of their investment in SSU, they will be less inclined to purchase
8 Minnesota Power's stock and more inclined to direct Minnesota Power's
9 management to forego further equity investment in SSU. The ultimate
10 effect of these shareholder reactions will be to force SSU to rely more on
11 debt financing to meet its capital needs. A need to resort to debt financing
12 is made more pressing given SSU's limited retained earnings as a result
13 of poor past financial performance. As SSU relies more on debt financing,
14 SSU's capital structure will become more leveraged, and, as noted by Dr.
15 Morin, SSU's future cost of debt will rise, adversely affecting customer
16 rates. As leverage and debt costs rise, Minnesota Power shareholders will
17 face even greater uncertainty about future dividends and earnings from
18 SSU. Ultimately, according to Dr. Morin, to ensure that SSU has
19 continued access to capital to meet its needs, equity investors will require
20 even higher rates of return, again adversely affecting customer rates.

21 In addition to the customer benefits of a strong equity base for debt
22 financings and capital program funding, supportive MP investors and

1 management have historically provided:

- 2 1. Financial guarantees necessary to obtain borrowed funds that would
3 be otherwise unobtainable or obtainable only at a significantly
4 higher cost. Credit support in the form of subordination
5 agreements, continuing ownership covenants, and collateral pledge
6 agreements has also been provided on various SSU obligations.
- 7 2. Consolidated insurance coverages with Minnesota Power policies,
8 at significant savings to SSU.
- 9 3. Other non-invoiced benefits, such as access to proven human
10 resource, training, audit and safety policies programs and personnel,
11 as outlined in Mr. Vierima's direct testimony.

12 **Q. HOW IS THE HIGH ENVIRONMENTAL COMPLIANCE CAPITAL**
13 **SPENDING PROGRAM OF SSU RELATED TO INVESTOR**
14 **RETURNS?**

15 A. Any capital invested which is not included in a rate proceeding will have
16 an immediate effect of lowering the utility's return on equity invested in
17 such facilities. As SSU's witnesses will demonstrate, SSU has invested an
18 annual average of \$24 million in utility facilities primarily to comply with
19 applicable laws and standards. This is a significant level of capital
20 investment for a utility the size of SSU. To put this in perspective, SSU
21 is investing \$24 million in plant when equity investment in SSU is \$78
22 million. Minnesota Power is investing \$27 million in electric utility

1 operations at a time when Minnesota Power's electric utility equity capital
2 is \$257 million. Like SSU's investments to comply with laws such as the
3 Clean Water Act and the Safe Drinking Water Act and resulting
4 regulations, in the 1970's and 1980's Minnesota Power was required to
5 make significant investment in utility facilities to comply with the Clean
6 Air Act. During the period in which these significant investments were
7 being made, Minnesota Power was forced to seek rate relief from state
8 regulators. Although rate increase applications were more frequent than
9 we would have preferred, we believe the timely filing and administration
10 of those proceedings, the use of projected test years, the ability to recover
11 total revenue requirements in one filing and finally, and perhaps most
12 important, the approval of sufficient levels of rate relief by our regulators
13 to reflect our large capital investments enabled us to make prudent
14 investments in utility equipment which ultimately satisfied all
15 environmental requirements.

16 **Q. WHAT HAVE BEEN THE FINANCIAL COMMITMENTS OF**
17 **MINNESOTA POWER TO SSU?**

18 **A.** The capital expenditures for all SSU plants, from 1992 through 1996, will
19 total \$110 million. As Dr. Morin indicates in his direct testimony, relative
20 to the equity investment of \$76 million in 1992, this capital requirement
21 was, and continues to be, very substantial. I do not dispute the necessity
22 of SSU's capital investments. These investments are driven principally by

1 environmental requirements and customer growth, and we support these
2 endeavors. However, speaking for our shareholders, returns realized have
3 been lackluster at best. Over the past five years, SSU's earned return on
4 equity from continuing operations has been less than 3%. By any
5 measure, and regardless of the explanations, this has not been an adequate
6 return.

7 **Q. DO YOU SUPPORT THE 12.25% RETURN ON EQUITY**
8 **REQUESTED IN THIS PROCEEDING?**

9 A. Yes. The 12.25% return developed by Dr. Morin is shown to adequately
10 compensate SSU for the risks associated with this industry in general and
11 this operation in particular. The documentation that Mr. Vierima provides
12 on SSU's extensive capital additions since 1992 heightens the concern of
13 receiving adequate compensation for capital invested.

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

15 A. Yes, it does.

1 Q (By Mr. Armstrong) Mr. Sandbulte, do you
2 have a brief summary of your testimony?

3 A Yes, I do.

4 Q Could you please provide that now?

5 A Yes, I'd like to provide that summary
6 statement.

7 I would like to summarize briefly some
8 points and issues related to my direct testimony.
9 This summary will center around the need for and
10 expectation that we will receive fair treatment and be
11 given reasonable rate relief and that we will have a
12 reasonable opportunity to earn the return on common
13 equity granted by the Commission.

14 I believe the Florida Supreme Court stated
15 very succinctly and well the kind of treatment to
16 which we are entitled. In the February 29, 1996,
17 decision regarding GTE Florida --

18 MR. TWOMEY: Objection.

19 A -- the court stated --

20 MR. TWOMEY: Beyond the scope of his direct
21 testimony, Madam Chair.

22 CHAIRMAN CLARK: Mr. Armstrong?

23 MR. ARMSTRONG: Solely his testimony he
24 gives a general overview of the case from the
25 perspective of the shareholders as well as the

1 customers, Madam Chair; and he was going to what he
2 sees as the standard of fairness.

3 CHAIRMAN CLARK: Mr. Twomey?

4 MR. TWOMEY: Well, if you want to let this
5 go with every witness, the purpose of what he is
6 allegedly doing at the moment is summarizing the
7 testimony which, the prefiled testimony, which only
8 consists of 9 pages of text. He's going to summarize
9 it. There's nothing in --

10 CHAIRMAN CLARK: Mr. Armstrong, can you tell
11 me what part of his prefiled testimony he is
12 summarizing at this point?

13 MR. ARMSTRONG: As I indicated, I believe
14 Mr. Sandbulte's testimony is an overview; and what he
15 is referring to is the need for fair and reasonable
16 rate relief to Minnesota Power shareholders as a
17 result of this rate proceeding.

18 CHAIRMAN CLARK: Okay. I think referring in
19 any way and citing to that case is probably beyond
20 what is filed in his direct testimony as I read it.

21 MR. ARMSTRONG: He certainly didn't address
22 that case in his testimony.

23 CHAIRMAN CLARK: I don't think he did. To
24 that extent, if you would please summarize the
25 testimony you have filed.

1 A I believe utility ratemaking is a matter of
2 fairness and that equity requires fair treatment for
3 both ratepayers and utilities. It is under this
4 guideline that SSU and ultimately Minnesota Power
5 expects the issues in this case to be resolved by the
6 Commission.

7 We're in the water utility business in
8 Florida and plan to stay in that business. We will
9 depart only if forced out by continuing inadequate
10 regulatory support or by massive condemnation.

11 We must earn and are entitled to earn a
12 reasonable financial return from our business
13 operations. That hasn't happened a single time in any
14 of the last five years; in fact, we've averaged about
15 a zero percent return from operations over that
16 five-year period.

17 Consequently, our bond issue -- bond
18 ratings, that is Minnesota Power's, have declined
19 below the A level into to the triple B range for the
20 first time since I joined the Company over 31 years
21 ago. According to Moody's and S&P, SSU's dismal
22 results are a large contributor to the downgrade.

23 Minnesota Power is determined to return its
24 primary credit rating to the A range. The quality of
25 the FPSC decision in this case will play a key role in

1 determining our full financial strength and whether or
2 not we have a role in Florida. I'm confident you'll
3 give us a reasonable decision and reject forthwith
4 many of the extreme proposals put forth by the OPC and
5 certain intervenors.

6 I would like to point out that if we are
7 forced out of Florida -- which is something I don't
8 want nor expect -- people will still need water
9 service, it won't change governmental rules and
10 regulations or the investment needed to satisfy those
11 rules and regulations. Sooner or later customers will
12 pay the true cost of providing service.

13 We also need to find a way to reduce the
14 atmosphere of confrontation that pervades everything.
15 I didn't say eliminate, but rather reduce. If
16 customers don't pay more in the near term as a result
17 of short-term thinking, they most certainly will in
18 the long term.

19 I ask that the Commission note four key
20 areas or elements which I believe must be part of a
21 fair and equitable rate order. First, I think the
22 FPSC must grant the revenue requirements and rate
23 relief requested to provide SSU a reasonable return on
24 investment and a reasonable opportunity to earn that
25 return.

1 Fairness and common sense must be applied
2 when dealing with used and useful property, projected
3 test year data, plant margin in reserve, and utility
4 versus nonutility categorization of investments, among
5 other issues.

6 Secondly, the FPSC must assess service
7 quality issues based upon legitimate and valid
8 complaints received and reviewed by the Staff of the
9 FPSC, compare SSU quality of service with other FPSC
10 regulated utilities, including electric, gas and
11 telephone whenever possible, and provide SSU a
12 reasonable opportunity to correct deficiencies, if
13 any.

14 Third, the FPSC must reaffirm uniform rates
15 as the most efficient --

16 MR. TWOMEY: Objection.

17 CHAIRMAN CLARK: Just a minute,
18 Mr. Sandbulte, there has been an objection, so let me
19 deal with that.

20 MR. TWOMEY: Madam Chair, Mr. Sandbulte,
21 again, I don't believe he's submitted his rebuttal
22 testimony yet -- not that that's important, because
23 his rebuttal testimony doesn't include this topic
24 either. Mr. Sandbulte is engaged on a discussion of
25 four points --

1 CHAIRMAN CLARK: Let me be clear. What is
2 it you're objecting to?

3 MR. TWOMEY: I object, it is beyond the
4 scope of his direct testimony.

5 CHAIRMAN CLARK: What part specifically?

6 MR. TWOMEY: The discussion of the four
7 points, the uniform rates, what's fair and the rate
8 order, and that type --

9 CHAIRMAN CLARK: Okay. Are you objecting
10 now to the uniform rates, his going into detail about
11 that?

12 MR. TWOMEY: Yes, ma'am.

13 CHAIRMAN CLARK: Okay. I just needed to be
14 clear.

15 MR. TWOMEY: Yes. I would ask you to please
16 caution Mr. Sandbulte that --

17 CHAIRMAN CLARK: You think that's beyond
18 his --

19 MR. TWOMEY: -- to summarize what is there,
20 because he can't summarize what is not there.

21 CHAIRMAN CLARK: Mr. Armstrong?

22 MR. ARMSTRONG: I'm just looking through the
23 testimony at this point. (Pause)

24 I see reference in his testimony to the fact
25 that Mr. Sandbulte believes "the timely filing and

1 administration of proceedings, the use of projected
2 test years, the ability to recover total revenue
3 requirements in one filing and finally, and perhaps
4 most important, the approval of sufficient levels of
5 rate relief by our regulators to reflect our large
6 capital investment enabled us to make prudent
7 investments in utility equipment which ultimately
8 satisfied all regulatory requirements."

9 There he's referring to his experience in
10 Minnesota Power and he's requesting that this
11 Commission give Southern States similar treatment. I
12 don't see anything about uniform rates.

13 CHAIRMAN CLARK: Okay, Mr. Sandbulte. Let's
14 leave uniform rates for somebody else who has
15 testified on that.

16 WITNESS SANDBULTE: Okay, Madam Chair.

17 CHAIRMAN CLARK: Please, again, stick to
18 your prefiled testimony and a summary of that
19 testimony.

20 A Fourth and finally, the FPSC should reaffirm
21 prior decisions regarding gain on sale on property and
22 regarding acquisition adjustments. Specifically as to
23 gain or loss on sale, customers are not owners and do
24 not share in gains --

25 MR. TWOMEY: Madam Chairman.

1 CHAIRMAN CLARK: Just a minute,
2 Mr. Sandbulte.

3 A -- nor pay for losses --

4 MR. TWOMEY: I'm sorry, I don't mean, this
5 is not needed -- that is not in his direct prefiled
6 testimony.

7 CHAIRMAN CLARK: Mr. Armstrong?

8 MR. ARMSTRONG: I believe that -- I know he
9 said uniform rates, I know he said -- that must be in
10 his rebuttal, because I know he said those things.

11 CHAIRMAN CLARK: Okay.

12 MR. ARMSTRONG: Unless you can tell me it's
13 in your direct? Is that in your direct or your
14 rebuttal, Mr. Sandbulte?

15 WITNESS SANDBULTE: Well, I'm trying to give
16 an overview of what we believe constitutes fair
17 treatment and affordable treatment to customers.

18 CHAIRMAN CLARK: Mr. Sandbulte, I appreciate
19 that. But the way we conduct proceedings here is it
20 has to be a summary of your prefiled direct testimony.
21 To the extent it does not cover those things in the
22 prefiled direct testimony, it is in effect
23 supplemental; and we are careful about keeping it to
24 the prefiled direct testimony so there's no surprise
25 to the other parties in terms of information that they

1 are not aware of that is coming into the record comes
2 into the record. So please stick to your direct
3 prefiled testimony.

4 MR. ARMSTRONG: Madam Chair, I am just
5 recalling what the problem is. Madam Chair, at first
6 Mr. Sandbulte, we had the possibility of direct and
7 rebuttal coming in together; and I believe what he has
8 done is a summary of both. And that is not the case.
9 So I apologize, I should have reviewed it.

10 CHAIRMAN CLARK: Okay.

11 A Okay, Madam Chair, thank you very much.

12 In conclusion, since that was the last of my
13 four points, we pledge ourselves to stay focused on
14 providing quality service at affordable prices for all
15 our customers while earning a reasonable return for
16 our investors. We respectfully ask the Commission's
17 help in achieving that outcome.

18 That concludes my summary statement.

19 CHAIRMAN CLARK: Thank you. The witness is
20 tendered for cross examination?

21 MR. ARMSTRONG: Yes, Madam Chairman.

22 CHAIRMAN CLARK: Okay. Mr. Beck?

23 MR. BECK: Thank you, Madam Chairman.

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CROSS EXAMINATION

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BY MR. BECK:

Q Good afternoon, Mr. Sandbulte.

A Good afternoon.

Q One of your responsibilities is to meet with securities rating agencies such as Standard & Poor's and Moody's, is it not?

A Yes.

Q And you've attached a number of rating sheets from those corporations to your testimony, have you not?

A Yes, I have.

Q You would agree that the rating agencies are concerned with much more than just your utility or water and sewer utility operations, would you not?

A Yes.

Q Could you turn to your Exhibit AJS-1. And would you please refer to the second page, Page 2 of 2.

A That's AJS-1 Page 2 of 2?

Q Yes.

A All right.

Q I'm going to try to go sequentially through your exhibits to do this.

About the middle of the second page of your

1 exhibits there's a discussion about the Company named
2 ADESA, do you see that?

3 A Yes.

4 Q First of all, could you tell us, what does
5 ADESA Corporation do?

6 A ADESA Corporation is engaged in the auto
7 auction business.

8 Q Is it used auto auction business?

9 A Excuse me?

10 Q Is it used automobiles that they auction?

11 A They provide a marketplace for used
12 automobiles for manufacturers, leasing companies and
13 car dealers.

14 Q And, in fact, on the middle of Page 2 of 2
15 of your Exhibit 1 says, "The planned acquisition of
16 ADESA will be funded by the liquidation of almost 60%
17 of Minnesota Power's 280 million investment
18 portfolio." Do you see that?

19 A Yes.

20 Q How much did Minnesota Power pay for ADESA
21 Corporation?

22 A 167 million.

23 Q That wasn't for 100% interest, was it?

24 A No, 80% interest.

25 Q What percent interest do you have now, is it

1 somewhat in excess of 80%?

2 A It's 83% currently.

3 Q And a little further down in the exhibit
4 they said -- it says that there's a tangible net worth
5 of less than \$45 million for ADESA; is that right?

6 A That's right.

7 Q Did you spend more than \$100 million for
8 goodwill in purchase of ADESA?

9 A Yes, for a going concern.

10 Q Would you agree that security analysts are
11 somewhat concerned about that?

12 A That's one of two concerns they have. The
13 other is the water business.

14 Q Could you turn to your AJS-2, Exhibit 2?

15 A All right.

16 Q This is from Duff and Phelps, is that right?

17 A Yes.

18 Q And about halfway down it says, "D&P
19 attributed the downgrade to Minnesota Power and
20 Light's changing financial fundamentals profile"; is
21 that right?

22 A That's right.

23 Q They talk about a weaker investment
24 portfolio performance. Could you tell us a little bit
25 about that, what concern that is to the securities

1 analysts?

2 A You mean the part that follows immediately
3 after the "weak operations in water"?

4 Q Yes. You've underlined that for us. I
5 would like to discuss some of the things you didn't
6 underline. It talks about a weaker investment
7 portfolio --

8 A Okay. The portfolio performance -- this was
9 written in March of 1995. The portfolio in 1994
10 experienced a loss on one investment which was written
11 off in 1994 and affected 1994 results.

12 Q What percentage return are you earning on
13 your investment portfolio?

14 A Now, or then, or?

15 Q Well, both.

16 A In 1994?

17 Q Yes. Let's start with that.

18 A I would say the return earned after tax was
19 in the 6% area.

20 Q How about 1995?

21 A After tax, about 8.5 or 9.

22 Q After that, there's a mention of your
23 stagnant electric service territory economy and the
24 previously depressed paper prices which negatively
25 impacted the Company's investments in that industry.

1 You would agree that that is another concern of
2 security analysts, wouldn't you?

3 A It was of Duff and Phelps.

4 Q Could you tell us a little bit about your
5 stagnant electric service territory economy?

6 A I think that's related in 1994. In 1995, we
7 had substantial growth which is continuing into 1996.
8 We are heavily dependent on the steel and the paper
9 business, which had very good years in '95 and '96.

10 Q Could you turn to your Exhibit 3.

11 A All right.

12 CHAIRMAN CLARK: Mr. Beck, let me ask a
13 question. Mr. Sandbulte, what percentage of your
14 electric business is commercial or industrial?

15 WITNESS SANDBULTE: In terms of revenue,
16 it's about -- of electric revenue -- about 60%
17 industrial, 30% commercial and residential, and the
18 balance is all other.

19 CHAIRMAN CLARK: Okay, so 60% is industrial?

20 WITNESS SANDBULTE: Approximately.

21 CHAIRMAN CLARK: Okay.

22 Q (By Mr. Beck) Mr. Sandbulte, the fact that
23 in excess of 60% of your electric customers are
24 industrial is another concern of security analysts, is
25 it not?

1 A Well, we have long-term contracts to offset
2 that but that is a concern that they mention, yes.

3 Q In fact, if you turn to Exhibit 4 at the
4 bottom where the asterisk --

5 A I thought we were on 3.

6 Q Yes. I'm going to go to 4, though, since
7 Chairman Clark mentioned that.

8 At the bottom of your Exhibit 4, that's
9 exactly the concern that's mentioned by security
10 analysts, is it not, 62% electric retail electric
11 revenues well above the industry average of 25%?

12 A Yes, this is a concern of AG Edwards.

13 CHAIRMAN CLARK: Mr. Beck, if you are going
14 to leave that, let me know. I wanted to ask a
15 question on that.

16 MR. BECK: Please do.

17 CHAIRMAN CLARK: I wondered, you indicated
18 that -- well, it indicates here 62% of your retail
19 electric revenues in 1993 came from industrial. Can
20 you tell me if those rates are at parity? In other
21 words, do you earn the same rate of return; if your
22 rate of return is, say, 13% as fixed by the Minnesota
23 Commission, is that the rate you earn from industrials
24 and is that the rate you earn from commercial and
25 residential, or is there a lack of parity there?

1 WITNESS SANDBULTE: The industrial pays
2 slightly above the overall rate of return; but because
3 it is so big, it isn't a large increment. The
4 residential is significantly subsidized by the
5 industrial. There is no subsidy from the commercial.

6 CHAIRMAN CLARK: Where does the subsidy come
7 from then?

8 WITNESS SANDBULTE: From the industrial. I
9 said it was moderately higher, but it is a large base
10 compared to the residential base --

11 CHAIRMAN CLARK: Okay. So it is a low
12 percentage but it's a high subsidy in terms of the
13 revenue received -- it results in a larger percentage
14 to the residential customers?

15 WITNESS SANDBULTE: Yes, I think that's, I
16 don't know the degree, but it's typical of most
17 electric utilities where they see a cross class
18 subsidy between large and small consumers.

19 CHAIRMAN CLARK: Okay, thanks.

20 Q (By Mr. Beck) Mr. Sandbulte, a little bit
21 higher on Exhibit 4, where it says, "Above industry
22 average earnings payout ratio could lead to below
23 average near term dividend growth"?

24 A Where is that? I'm sorry, where is it?

25 Q A little bit below the middle of your

1 Exhibit 4?

2 A Okay, I see it.

3 Q Would you agree that yet another concern of
4 security analysts about the securities at Minnesota
5 Power is your payout ratio, your dividend payout
6 ratio?

7 A It is for some, yes.

8 Q And here for AG Edwards they were concerned
9 about your 99% payout ratio compared to an industry
10 average of about 78%; is that correct?

11 A Well, that was the year affected by that
12 loss that I mentioned to you earlier.

13 Q What is your payout ratio now?

14 A About 90%. A little over 90% for '95.

15 Q Could I ask you to go back to your
16 Exhibit 3.

17 A Yes.

18 Q About a third of way down on your exhibit,
19 it said that, if I'm reading this correctly, that your
20 investment in ADESA Corporation equaled about 30% of
21 Minnesota Power and Light's common equity; is that
22 correct?

23 A That would be approximately right.

24 Q That's a correct assessment by the security
25 analysts?

1 A Well, if it were all funded with equity,
2 that would be correct.

3 Q And would you agree with the analysts that
4 that increases your risk profile?

5 A Not on a consolidated basis, I would not,
6 no.

7 Q Could you turn to your Exhibit 5, please.

8 CHAIRMAN CLARK: Let me just ask a question
9 on that point. But this analyst apparently thought
10 that did increase your risk profile?

11 WITNESS SANDBULTE: Yes, this analyst did.
12 Some analysts did. Others think the integration of
13 ADESA into Minnesota Power and the diversification
14 strengthens the Company.

15 CHAIRMAN CLARK: Okay.

16 Q (By Mr. Beck) Could you turn to your
17 Exhibit 5, please?

18 A Yes, I have it.

19 Q And in the first full paragraph, toward the
20 end of there they were forecasting a 1995 payout of
21 107% for Minnesota Power and Light?

22 A Well, that didn't turn out to be right.

23 Q Turned out to be about 90%?

24 A Right.

25 Q Could you go about two-thirds of the way

1 down where it talks about Lehigh Acquisition?

2 A Okay.

3 Q You purchased Lehigh Acquisition from the
4 Resolution Trust Corporation, did you not?

5 A Yes.

6 Q You got about a 60% discount off the book
7 value for the assets, did you not?

8 A Approximately that, yes.

9 Q And this Commission allowed you to take that
10 entire discount and apply it to your land acquisition
11 portion of your business there, did it not?

12 A Yes, I think that was in reflection of the
13 risks of utility versus real estate businesses.

14 Q And none of the discount went to the utility
15 operations, is that right?

16 A Well, I don't know if none. Essentially
17 none, if not none.

18 Q Is it correct there this analyst's opinion
19 that Lehigh Acquisition earned 56% return on equity in
20 1994?

21 A Risk/reward, you know.

22 I mean, this business of liquidating real
23 estate is the business that a lot of people have
24 gotten into difficulty with; and in that particular
25 year, yes, we did earn that much.

1 Q And you would agree that taking the entire
2 discount through your land operations enhanced your
3 return on equity over what it would have been
4 otherwise?

5 MR. ARMSTRONG: Objection. I don't see that
6 would be in the scope of any testimony of
7 Mr. Sandbulte. We have identified this as an issue
8 and we have witnesses identified, and they certainly
9 aren't Mr. Sandbulte.

10 CHAIRMAN CLARK: Mr. Beck.

11 MR. BECK: Mr. Sandbulte's exhibit about the
12 risk profile of Minnesota Power, one of their big
13 positives is the 56% return on E from Lehigh
14 Acquisition.

15 CHAIRMAN CLARK: I think I'll allow the
16 question.

17 MR. ARMSTRONG: Thank you.

18 Q (By Mr. Beck) Could you answer the
19 question, Mr. Sandbulte?

20 A What's the question?

21 Q (By Mr. Beck) As I recall, the question is,
22 did not allowing the discount to be taken entirely by
23 the land operations enhance your return on equity for
24 Lehigh Acquisition over what it would have been
25 otherwise?

1 A Yes.

2 Q Could you turn to your Exhibit 6, please.

3 A All right.

4 Q Under the area about halfway down,

5 "Important Points"?

6 A All right.

7 Q It says, "Despite management's continued
8 optimism for the Company's recently announced purchase
9 of an 80% stake in the ADESA Corporation, we remain
10 unconvinced that management's optimistic expectations
11 will be met," does it not?

12 A Yes.

13 Q And would you agree that perceptions such as
14 that by security analysts have played a part in the
15 ratings of Minnesota Power's securities?

16 A Well, I was talking about bond ratings
17 earlier, I think, and this is not a bond rating house.
18 I don't think they look at Donaldson, Lufkin and
19 Jenrette and ask them what they think about Minnesota
20 Power before their ratings. This is a stock rating by
21 an analyst; this is not a bond rating, which I think
22 we were talking about earlier, with S&P and Moody's at
23 least. Duff and Phelps --

24 Q What is your purpose for putting in the
25 security analyst of your common equity attached to

1 your testimony?

2 A What's that?

3 Q What is the purpose then of including the
4 security analysts' view of your common equity?

5 A Well, you indicated that affected our
6 rating. I thought you were referring back to the
7 rating of the bonds. Which rating are you referring
8 to?

9 Q Well, I gather what you are saying is this
10 refers to your common equity; is that right?

11 A Right.

12 MR. BECK: Okay. You've answered my
13 question. Could I have an exhibit marked for
14 identification, please?

15 CHAIRMAN CLARK: Yes, Mr. Beck. I think the
16 next in line is Exhibit 63. It is a document which
17 has a cover page titled "October 9, 1995, Standard &
18 Poor's Creditweek" and has attached to it rating
19 updates from Standard & Poor's will be marked as
20 Exhibit 63.

21 (Exhibit No. 63 marked for identification.)

22 Q (By Mr. Beck) Mr. Sandbulte, could you take
23 a moment and look through Exhibit 63.

24 A All right.

25 Q Standard and Poor's is one of the -- I'm

1 sorry. Tell me when you are ready. (Pause)

2 A Okay, I think I have the gist of it.

3 Q Standard & Poor's is one of the security
4 analyst firms that you work with, is it not?

5 A I'm sorry, I'm having trouble hearing you.

6 Q Is Standard and Poor's one of the companies
7 you meet with?

8 A They're a bond rating house, that's the
9 purpose we meet with them, yes.

10 Q Okay. One of the items listed is the highly
11 unfavorable weather for Florida water utilities. Do
12 you see that?

13 A Yes.

14 Q Have you had discussions with the security
15 analysts or bond rating agencies concerning the effect
16 of weather on your water utilities?

17 A Yes.

18 Q What is it that you have been telling them
19 about the weather affecting your water utilities?

20 A That it's been rainier than normal.

21 Q And what effect does that have on the water
22 utilities operations?

23 A Reduces consumption.

24 Q And that in turn reduces the earnings of the
25 utility; is that right?

1 A Yes.

2 Q Okay. You also see a concern about ADESA's
3 ambitious expansion plans listed in this exhibit. Do
4 you see that?

5 A Yes.

6 Q Okay. Would you agree that ADESA's business
7 operations continue to be a concern of security
8 analysts and bond rating agencies?

9 A I think they're waiting for a performance to
10 be demonstrated, that's right.

11 MR. BECK: Could I have another exhibit
12 marked for identification, please?

13 CHAIRMAN CLARK: Mr. Sandbulte, while he's
14 passing that out, let me ask you to look at Exhibit 63
15 again. And it indicates, when it is talking about
16 Southern States, it says, "Earnings continue to suffer
17 because of high capital spending levels."

18 Does that "high capital spending levels"
19 refer to spending for improvements in plants or does
20 it also include spending to purchase facilities?

21 WITNESS SANDBULTE: You mean to acquire
22 facilities?

23 CHAIRMAN CLARK: Yes.

24 WITNESS SANDBULTE: No. I think they're
25 talking about a capital expenditure budget which is

1 running for over 20 million a year for a company that
2 has revenues of 60 million a year. That's a much
3 higher ratio than, for instance, our electric
4 utilities would have.

5 CHAIRMAN CLARK: But you don't think it has
6 any reference to acquiring new properties?

7 WITNESS SANDBULTE: No, I don't think so.

8 CHAIRMAN CLARK: Okay. I have before me a
9 document entitled, "March 11, 1996, Standard & Poor's
10 Creditweek," which references Minnesota Power and
11 Light. That will be marked as Exhibit 64.

12 (Exhibit No. 64 marked for identification.)

13 Q (By Mr. Beck) Mr. Sandbulte, can you tell
14 me when you have finished reviewing this portion of
15 the exhibit concerning Minnesota Power and Light
16 Company.

17 A Okay.

18 Q Toward the bottom of the left-hand column,
19 it says "Management intends to focus on cutting costs,
20 reducing regulatory reliance, and making strategic
21 acquisitions/divestitures." do you see that?

22 A Yes.

23 Q Have you been telling the bond rating
24 agencies that your water utilities will be cutting
25 costs?

1 A Well, that's certainly a continuing goal
2 that we have, yes.

3 Q What efforts are you taking now to see
4 Southern States cut costs?

5 A There's a constant effort to achieve goals
6 established for cost control. There is no special
7 program that I could describe right now, perhaps
8 Mr. Cirello could, but I don't have any special
9 programs under way for SSU.

10 Q Is Minnesota Power putting any constraints
11 on Southern States' expense levels for 1996, for
12 example?

13 A Not outside of their budget, their profit
14 plan.

15 Q Are you making them live in 1996 at the same
16 level of expense as they did in 1995, for example?

17 A I don't think I can compare the two. I
18 don't know what the exact numbers are, '96 versus '95,
19 you would have to ask somebody in the Company.

20 Q Another item listed there is "reducing
21 regulatory reliance." Could you please comment on how
22 you are going about that.

23 A Excuse me, I was writing something down.

24 Well, I'm just simply saying I hope we don't
25 have to go through one of these rate cases again in

1 the next several years, so we are doing whatever we
2 can to try to make that happen -- increase revenues or
3 through growth, continuing to be in a costcutting
4 mode.

5 Q Next item listed there is "making strategic
6 acquisitions/divestitures." Could you comment on
7 Southern States' program there?

8 A This is talking Minnesota Power and Light.
9 I don't think SSU, as far as I know, has a strategic
10 acquisition program other than the small systems that
11 they might be buying.

12 As I said at the outset, we're in the water
13 utility business to stay; and we have the option, as
14 indicated on the Palm Coast Utilities, at the
15 Minnesota Power level.

16 Q Are there any divestitures that you see
17 coming up from Southern States?

18 A No. Not unless they are forced by
19 condemnation.

20 Q You'll agree even here as recently as last
21 month that the rating agencies continue to be
22 concerned about the performance of your used car
23 auction business, did it not?

24 A Yes, because of a cold winter, snowy
25 conditions, what not, what have you, that affected

1 short term results.

2 MR. BECK: I have one more exhibit, please,
3 to be marked for identification.

4 CHAIRMAN CLARK: Before you, while you are
5 doing that, I would like to ask a question.

6 When you -- when this summary says, "making
7 strategic acquisitions and divestitures," it is your
8 testimony that refers to Minnesota Power and Light,
9 not to Southern States; is that correct?

10 WITNESS SANDBULTE: Yes. I have not seen
11 any plans for any significantly sized -- which is the
12 ones I would see -- strategic acquisitions. Nor do I
13 know of any plans to make any divestitures. We have
14 opposed divestitures, we sent letters to -- "we"
15 meaning Minnesota Power -- sent letters to several
16 parties recently where it was being intimated
17 apparently that we might be interested in selling some
18 facilities. And we said in no uncertain terms that we
19 were not.

20 CHAIRMAN CLARK: Okay. Further up where it
21 says, "The anticipated improvement is attributed to
22 management changes which should lead to better
23 strategic planning and improved earnings," does that
24 have any relevance to Southern States?

25 WITNESS SANDBULTE: I think it does, with

1 the addition of Mr. Cirello.

2 CHAIRMAN CLARK: Okay. Just so I'm clear,
3 with respect to how you went about identifying and
4 then purchasing systems, you said you had overall no
5 strategic plan as to how you would do that?

6 WITNESS SANDBULTE: Well, it's kind of an
7 opportunity business. I mean, we want to grow the
8 water business. A few years ago, we said we wanted to
9 really buy systems, and we did buy a lot of systems.

10 The systems are not available these days,
11 generally speaking, from municipal governments. In
12 fact, there's condemnation, such as in the case of
13 VGU -- or threat of condemnation. So there just is
14 not a market right now --

15 CHAIRMAN CLARK: So as a system became
16 available you would purchase it?

17 WITNESS SANDBULTE: Yeah. Our strategy was
18 to grow the water business through acquisition. Now
19 it's going to have to be more in the area of running
20 what we have, occasional acquisitions, and perhaps
21 providing other services to municipal government, for
22 instance, in the water management business.

23 CHAIRMAN CLARK: Did you ever turn down a
24 sale, an opportunity to buy a plant?

25 WITNESS SANDBULTE: Well, sure, we have made

1 proposals on GDU facilities, for instance, where we
2 got outbid by Charlotte County. We were interested in
3 those, but they were way off in left field as far
4 as --

5 CHAIRMAN CLARK: The price?

6 WITNESS SANDBULTE: Excuse me?

7 CHAIRMAN CLARK: The price was off in left
8 field?

9 WITNESS SANDBULTE: Right.

10 CHAIRMAN CLARK: When you looked at them,
11 did you sort of look at them in terms of how that they
12 could be integrated into your current system and the
13 impact they would have on the need to seek rate
14 increases?

15 WITNESS SANDBULTE: Well, any significant
16 premium we would pay would generally tend to make the
17 purchase uneconomic. I mean, we did buy
18 Orange-Osceola and, as I recall, there was a small
19 premium there.

20 CHAIRMAN CLARK: By "premium," you mean a
21 price over rate base.

22 WITNESS SANDBULTE: Positive acquisition
23 adjustment.

24 That's my recollection; I guess, you know,
25 others can correct me if I'm wrong. But certainly in

1 the case of GDU I think the prices were multiple of
2 book, so.

3 CHAIRMAN CLARK: What I'm trying to get at
4 is if you had, if you sort of had some criteria you
5 looked at when you knew a plant or a system was coming
6 available for purchase, that you looked at it in terms
7 of both growing the water or wastewater business but
8 also in terms of what capital expenditures would need
9 to be made and how that would translate into rates
10 both for that system and the systems you already
11 owned.

12 Was there any kind of analysis that would
13 take that into account?

14 WITNESS SANDBULTE: As I said, I think it's
15 kind of an opportunity-based business. Certainly the
16 negative acquisition adjustment policy of the
17 Commission is a positive factor in making
18 acquisitions -- in other words, for troubled systems,
19 generally speaking, when available.

20 CHAIRMAN CLARK: But the answer to my
21 question, is it no?

22 What I'm saying is when it came available
23 and you saw that you had the opportunity to purchase
24 it and you had sort of settled on a price you would
25 pay for it, did you then look and say, "Well, what

1 else? What is going to be needed in terms of
2 improvement to this facility and what is the impact
3 going to be on rates of our other systems if we
4 continue to have uniform rates?"

5 Was there ever that kind of analysis done?

6 WITNESS SANDBULTE: Sure. We have analyzed
7 every acquisition from that standpoint. I mean, what
8 is the current state of the plant? What does it need
9 near term, intermediate, long-term?

10 That's been looked at on every system, such
11 as Orange-Osceola, for example, was the most recent
12 one.

13 CHAIRMAN CLARK: And then sort of looked at
14 that and looked at your current holdings and sort of
15 determined what impact that would have on the rest of
16 the customers and also the need for a rate increase,
17 did you look at that?

18 WITNESS SANDBULTE: Yes. It's been our
19 general impression that, you know, somebody, as I said
20 in the opening statement, is going to provide this
21 water service. So we are equipped, I think, to
22 provide it because of our size, our critical mass and
23 so forth.

24 And while we would not be interested in
25 buying a system that would produce a huge revenue

1 requirement increase, and we haven't, we would be
2 interested in any systems that are priced around book
3 value and assuming they didn't have some extraordinary
4 baggage that goes with them.

5 CHAIRMAN CLARK: Thank you.

6 Mr. Beck, you have handled out exhibit which
7 is titled, "8-K Report Submitted by Minnesota Power
8 and Light to the Securities and Exchange Commission,
9 dated January 8, 1996." That will be marked as
10 Exhibit 65.

11 (Exhibit No. 65 marked for identification.)

12 Q (By Mr. Beck) Mr. Sandbulte, if you could
13 take a moment to look at that and let me know when you
14 have completed looking at it.

15 A Okay.

16 Q What is your general understanding of the
17 purpose of an 8-K Report submitted to the Securities
18 and Exchange Commission?

19 MR. ARMSTRONG: Objection. Madam Chair, I
20 don't see any relevance of this report. I have read
21 the entire thing through; there's no issue that I can
22 in any conceivable way identify this exhibit to in
23 this hearing, this prehearing order. And obviously
24 the question strikes of having total irrelevance to
25 any issue in the prehearing order.

1 CHAIRMAN CLARK: Mr. Beck?

2 MR. BECK: Madam Chairman, I believe if the
3 witness is allowed to answer he will say it is
4 comprised of investors of significant events affecting
5 the Company. And surely that's within the parameters
6 of Mr. Sandbulte's testimony.

7 CHAIRMAN CLARK: Would you state again the
8 relevance this document, Mr. Beck?

9 MR. BECK: For one thing, it will be
10 expectation of investors and what the Company is
11 telling investors with respect to the interim rate
12 increase.

13 CHAIRMAN CLARK: And that is testing the
14 credibility of his statements in his prefiled
15 testimony with regard to the financial health of the
16 Utility?

17 MR. BECK: Yes.

18 CHAIRMAN CLARK: All right, I will allow the
19 witness to be questioned about this exhibit.

20 MR. ARMSTRONG: Thank you.

21 A The question again was what is the purpose
22 of the 8-K?

23 Q (By Mr. Beck) Yes.

24 A I think the 8-K is generally intended to
25 inform investors of significant events affecting the

1 applicant or the person who does the filing.

2 Q And the 8-K was drafted by Minnesota Power
3 and/or its affiliates; is that right?

4 A Yes.

5 Q On the first full paragraph, if you could
6 look at the last sentence? It says, "The revenue
7 increase represents 94% of the amount required by SSU
8 based on a 1994 historical test year"?

9 A Yes.

10 Q What is the purpose of telling that to
11 investors?

12 A Because the interim rates request was put in
13 on the basis of a '94 historical test year.

14 Q But why are you telling them it's 94%? Is
15 that to give investors confidence in what you are
16 getting out of the Commission?

17 A Well, this filing doesn't allow us to talk
18 about projected test year so we put it in historical
19 terms. This is the basis upon which the Commission
20 granted the increase.

21 Q I think you're not understanding my
22 question. Why are you telling investors that you got
23 94% of the amount required based on a '94 historical
24 test year?

25 A Well, that's a factual statement, that's

1 what it is. Isn't that a significant event? I mean,
2 that's what we are supposed to report on.

3 CHAIRMAN CLARK: Mr. Beck, are you asking
4 why they chose 1994 --

5 MR. BECK: No.

6 CHAIRMAN CLARK: I'm sorry.

7 MR. BECK: Why, 94 being a high percent, I'm
8 trying to ask him if the message they're sending to
9 the investors is they're getting the bulk of what they
10 are asking.

11 Q (By Mr. Beck) Is that the purpose of your
12 statement?

13 A No. The purpose is to inform them of a
14 significant event and to report factual information.

15 Q How do you develop the \$7.9 million figure
16 related to your interim increase?

17 A According to our calculation, the increase
18 was about 8.5 million, our request.

19 Q About 8.5?

20 A On a '94 test year basis.

21 Q Who would be the person at Southern States
22 who could answer questions about how that was
23 developed? Unless you know.

24 A Unless I know how it was developed, you
25 mean?

1 Q Yes.

2 A Mr. Vierima, possibly?

3 MR. BECK: Mr. Sandbulte, that's all I have
4 at this time. It is my understanding when cross
5 examination is completed I'll be allowed to call
6 Mr. Sandbulte as my own witness.

7 CHAIRMAN CLARK: I seem to recall that that
8 was the plan.

9 We will take a break at this time and we
10 will come back at, let's go ahead and come back at
11 1:30.

12 MR. ARMSTRONG: Madam Chair, just a quick
13 one. For the benefit of Public Counsel, if they will
14 address that question -- without waiving any relevant
15 objection, if they would address that kind of question
16 to Mr. Ludsen, I think they'd be getting a forthcoming
17 answer, full and complete answer, on the 7.9 million.

18 CHAIRMAN CLARK: Okay. We'll take a lunch
19 break to 1:30. I have indicated to the parties, I
20 hope, that it would be acceptable if you bring your
21 lunch back into the hearing room. It's our intention
22 to take about a half an hour each day for lunch so you
23 can get your lunch and bring it back here and eat it
24 here. We do have a lot of witnesses to cover within
25 the two-week period.

1 With that, we're adjourned until 1:30.

2 (Thereupon, lunch recess was taken from
3 12:50 p.m. to 1:30 p.m.)

4

5 CHAIRMAN CLARK: We'll call the hearing back
6 to order. Mr. Twomey?

7 MR. TWOMEY: Thank you, Madam Chairman.

8 **CROSS EXAMINATION**

9 BY MR. TWOMEY:

10 Q Good afternoon, Mr. Sandbulte.

11 A Good afternoon.

12 Q The Page 9 of your prefiled direct
13 testimony, you indicate that, at Line 9, Page 9, that
14 the 12.25% return on equity developed by Dr. Morin is
15 adequate to compensate SSU for the risk associated
16 with industry, correct?

17 A Yes.

18 Q Do you believe that?

19 A Yes.

20 Q Okay. Now, Chairman Clark asked you a
21 question about Minnesota Power, and she asked you
22 whether or not your rates at Minnesota Power reflected
23 parity; do you recall that?

24 A Yes.

25 Q And I think you said, did you not, that the

1 industrial and perhaps commercial classes paid above
2 parity on equity and, as a result, subsidized the
3 residential; is that correct?

4 A Within classes, yes.

5 Q I'm sorry, sir?

6 A Within classes. It is a single integrated
7 system, different classes of customers.

8 Q Right. But I want to be sure I understand
9 what you are saying. You testified to us in response
10 to the Chairman's questions that industrial paid a
11 little bit more than parity, right?

12 A Right.

13 Q Therefore, residential paid a little bit
14 less than parity?

15 A Correct.

16 Q There was a interclass subsidy, right?

17 A Right.

18 Q Now the -- I don't know that the Chairman
19 asked you, but I would like to, if I may, if you know.
20 And that is, how much approximately above parity were
21 your industrial customers' rates in the last rate
22 case?

23 A I don't remember exactly. It was a small
24 percentage.

25 Q But it wouldn't be -- let me ask you this.

1 What approximately was your last authorized return on
2 equity in your Minnesota Power case?

3 A About 11.75%.

4 Q Okay. Was your industrial classification
5 above 20% or 25% on parity?

6 A No.

7 Q Do you think that the Minnesota Commission
8 or whoever set those rates would allow you,
9 Mr. Sandbulte, to have a rate classification that
10 returned 100% or 200% or 300% on equity?

11 A Well, we're talking two different things.
12 We're talking about a single integrated system in one
13 case and we're talking interclass rate design in the
14 other. I don't see the relevance or the connection.

15 Q I'm sorry. I wasn't -- I don't think I was
16 talking about any of those things. I asked you, do
17 you think the Minnesota Commission would let you
18 charge any of your customers rates that returned to
19 them 100%, 200%, 300% or more on equity on what you
20 had invested to serve them?

21 A How do you define what's invested to serve
22 them?

23 Q On however they -- on however they do the
24 rate setting in Minnesota.

25 A So using an integrated system, single system

1 approach, on that basis they would not allow a 200% or
2 figure like that because you wouldn't have such an
3 animal in the first place.

4 Q It would be unduly discriminatory, wouldn't
5 it, Mr. Sandbulte? Isn't that why --

6 A A customer --

7 Q Sir?

8 A It would be what?

9 Q Unduly discriminatory. Isn't that why the
10 Commission wouldn't allow it, such a return?

11 A As an interclass subsidy, you're talking
12 about?

13 Q Yes, sir.

14 A A single integrated system?

15 Q Yes, sir.

16 A It would require negative rates I guess in
17 some areas, so I think they probably would complain
18 about that.

19 Q Okay. If it is fair to ask you this, what
20 percentage above parity should a Commission stop rates
21 as being unduly discriminatory? Do you have a view?

22 A Under a single integrated system?

23 Q Yes, sir.

24 A Well, I don't have an exact number. I guess
25 if everybody is served off the same system, the

1 subsidy issue or the parity issue should be relatively
2 narrow.

3 Q Would you accept as fair from this
4 Commission in its final rate order a return on equity
5 to Southern States of 12.5% from each system that is
6 provided service?

7 A Well, that would be the same result as
8 getting 12.5% on the single integrated system.

9 Q Yes, sir. Let me modify that and say, would
10 you accept as reasonable to you 12.5% return on equity
11 from each of the facilities or systems that you own if
12 the return was based on rates set on each of those
13 systems? Do you follow me?

14 A Yeah, I follow you. We also said in my
15 opening statement that we --

16 COMMISSIONER GARCIA: Hang on one second, I
17 didn't follow you. Explain that a little?

18 MR. TWOMEY: Yes, sir, I would be happy to
19 try. My question to Mr. Sandbulte is: If he is
20 looking for 12.5% total return on his equity, would he
21 be satisfied if he got the 12.5% based upon rates set
22 for each system, that is, stand-alone rates, that
23 returns 12.5% from each system?

24 A I said in my opening statement that I also
25 wanted to see affordable rates. And I don't think

1 that that would be fair; it wouldn't be equitable; and
2 I would want more than just 12.5 across-the-board on
3 each individual system if I understand you correctly.

4 Q (By Mr. Twomey) So your answer is that you
5 wouldn't accept that?

6 A Well, I would like to see affordable rates
7 be a part of this. We have to live with these
8 customers.

9 Q Do you think -- do you think that if the
10 record in this case shows, Mr. Sandbulte, that any of
11 my clients or any other facilities or systems, as I
12 like to call them, customers of yours, have to pay in
13 excess of 100% or 200% return on equity that that's
14 fair?

15 A That wouldn't happen under an integrated
16 single system approach.

17 Q I see. Now, I'm going to try and not ask
18 you any of the same questions that Mr. Beck asked you
19 but I want to go through your attachments to your
20 testimony, Mr. Sandbulte.

21 And I want to ask you, first, isn't it true
22 that the purpose of your testimony or one purpose was
23 to attempt to show that the reason Wall Street or the
24 bond analysts were disappointed with Minnesota Power
25 was the treatment you were receiving down here as a

1 result of your rate applications? Is that what you
2 were trying to show?

3 A Well, I think I, as I said in my opening
4 statement, we've averaged a zero percent return over
5 the last five years and that's a problem we have to
6 correct. We're entitled to a 10% return no matter
7 what people think of ADESA or anybody else.

8 Q Right. But isn't it true -- and, again, not
9 to reiterate what Mr. Beck asked you -- that you, in
10 the text of your prefiled testimony, you ignored any
11 mention of the other factors that Wall Street viewed
12 with disapproval of Minnesota Power; isn't that
13 correct?

14 A I was trying to illustrate that the issue
15 before this body has to do with our earning zero
16 percent return over the last five years. And that
17 what we are earning on our other business doesn't
18 really, I don't think, impact this Commission. We're
19 entitled to a fair return, as the courts have said.
20 Equity and fairness.

21 Q Yes, sir. On Page 4 of your testimony, you
22 say, beginning at Line 17, that, "Minnesota Power's
23 equity investment in SSU at year end 1994 was 78
24 million, roughly 14% of Minnesota Power's consolidated
25 common equity of the 562 million as of this same

1 date."

2 Now, that -- let me ask you. How much of
3 the ADESA purchase was equity?

4 A Well, we paid 167 million. And we acquired
5 some debt; we applied some additional leverage; so
6 some of that, it's not all equity, I would say
7 probably 125 million, something like that.

8 Q Then it follows that Minnesota Power's
9 equity investment in ADESA is substantially larger
10 than your equity investment in Southern States
11 Utilities, correct?

12 A Yes.

13 Q Can I ask you, on referring to your
14 Exhibit 1, Mr. Sandbulte, Page 2 of 2?

15 A Okay.

16 Q There is the statement that, "MP's financial
17 performance continues to be adversely impacted by weak
18 water utility performance exacerbated by a one-time
19 write-off in 1994 of securities investments." Let me
20 make sure I understand that.

21 The write-off in securities investments was
22 not related to water utilities; is that correct?

23 A That's correct.

24 Q Can you tell us what the one time write-off
25 was?

1 A Yes. There was an investment, we have about
2 a \$200-plus million portfolio, or we had at that time.
3 And one of the investments was not managed by the
4 outside manager in accordance with plans. There are
5 lawsuits currently pending; a trustee made a report;
6 but the net result was we took a \$10 million pretax
7 write-off. And we have some recovery coming back, I
8 think, but it isn't determinable as to what that would
9 be at this time.

10 Q Okay, sir. Now Mr. Beck asked you a
11 question and I'm not sure I heard the answer
12 completely. I think he asked you to the effect of
13 whether or not the purchase of -- whether you thought
14 the purchase of ADESA increased or decreased your risk
15 profile.

16 A I think it decreases our risk profile.

17 Q So your testimony then is that you disagree
18 with the statement on Page 2 of 2 of your Exhibit 1
19 that the proposed acquisition of ADESA will
20 substantially alter the risk profile of MP, increasing
21 the percentage of nonregulated assets from 13% to more
22 than 20%. Is that correct?

23 MR. ARMSTRONG: Objection. Madam Chair,
24 we've allowed a great deal of exploration of things
25 that are totally extraneous to this case. Obviously,

1 it's not Minnesota Power's return on equity that's at
2 issue but rather the return on equity which they are
3 entitled to as a result of this rate case for Southern
4 States operations as the shareholders of Southern
5 States.

6 We've given a quite a bit of latitude on a
7 totally irrelevant and extraneous matter. I think
8 that we have -- I don't know, but we are just
9 rehashing what Public Counsel did. We have given them
10 wide latitude at this point; but we object at this
11 point to any further questions in this regard.

12 CHAIRMAN CLARK: Mr. Twomey?

13 MR. TWOMEY: I will speed it up, Madam
14 Chair. But again, this is the sum and substance as I
15 see it of Mr. Sandbulte's direct testimony is to
16 suggest to this Commission and the parties that their
17 current status in Wall Street in the eyes of the bond
18 rating community is disappointing and that if you read
19 just the text of his prefiled direct that that
20 disappointment in the eyes of Wall Street is solely
21 attributable to the treatment this Utility has had at
22 the hands of this Commission, namely, that it hasn't
23 got enough money out of my clients and Mr. Shreve's
24 clients.

25 CHAIRMAN CLARK: Is there a question

1 pending?

2 MR. ARMSTRONG: There was one that I
3 objected to.

4 CHAIRMAN CLARK: What was that question,
5 Mr. Twomey?

6 MR. TWOMEY: I think I asked him whether --
7 I forget the question. Maybe we can ask the court
8 reporter to read it back?

9 CHAIRMAN CLARK: Do you want to rephrase it
10 or would you like the court reporter to read it back?

11 MR. TWOMEY: No, that's okay. I'll go on.

12 CHAIRMAN CLARK: Okay.

13 COMMISSIONER GARCIA: Do you withdraw your
14 question?

15 MR. TWOMEY: Yes, sir.

16 Q (By Mr. Twomey) In Exhibit 65 that was
17 passed out by Mr. Beck, just briefly, Mr. Sandbulte,
18 the form 8-K to the Securities and Exchange Commission
19 which reports a \$7.9 million increase as a result of
20 interim rates, if you can, how do you square that \$7.9
21 million with the approximately \$5.9 million that's
22 been reported on occasion and as shown in Pages 3
23 and 4 of the prehearing order?

24 A My understanding, subject to you asking
25 people closer to it than I am, is that the new or the

1 interim rates produced \$7.9 million on an annual basis
2 over what the previous rates produced net/net.

3 Q Okay. So the 5.9 would apparently be
4 incorrect?

5 A I don't know where the 5.9 came from.

6 Q Okay. You remain, as you say in your
7 prefiled testimony, the CEO of Minnesota Power,
8 correct?

9 A No. I was at the time this was filed.

10 Q Oh. So --

11 A I -- maybe that was an oversight when I
12 accepted the testimony. But as of January, I
13 announced my retirement a year ago and I became
14 Chairman of the Board or I am Chairman of the Board at
15 this point.

16 Q Okay. So that on Page --

17 A I'm sorry, I didn't mean to mislead you.

18 Q Yes, sir. No, I wanted to check on that
19 because I thought I had read a report. So on Page 1
20 of your testimony would say that you are still the
21 Chairman?

22 A That's correct.

23 Q But you are not the Chief Executive Officer?

24 A No. Under a transitional plan announced a
25 year ago, I relinquished the title of President back

1 last May and the CEO title at the end of January. And
2 I'm going to be retiring fully at the end of May.

3 Q Who is the CEO now?

4 A Edwin Russell.

5 Q Mr. Russell? Now, if you would look at
6 cross examination Exhibit 64, I think it was, the
7 March 11, 1996, Standard & Poor's Creditweek?

8 A Yes.

9 Q Mr. Beck asked you a question about
10 management changes, and I think you responded that
11 that was due in part to Dr. Cirello?

12 A Yes.

13 Q Let me ask you this, Mr. Sandbulte. In the
14 Exhibit 64 under the Minnesota Power and Light Company
15 section, the anticipated improvement attributed to
16 management changes which should leave to better
17 strategic planning and improved earnings, that's
18 talking about Minnesota Power's management, not SSU;
19 is that correct?

20 A Well, I think it's talking about the
21 management within the Company, whether it is within a
22 subsidiary or the parent company. It would be a sub
23 sum of all of those parts, presumably, of the
24 management changes. I would be part of it, that's
25 true.

1 Q Yes, sir. Part of that, part of that is
2 reflecting the addition of Mr. Russell; is that
3 correct?

4 A Yes.

5 Q Okay.

6 A I mean, that's Standard & Poor's opinion.

7 Q One second. (Pause) Mr. Beck or the
8 Chairman, somebody, brought out the fact that you paid
9 a substantial amount of money for the goodwill of
10 ADESA, right? In excess of \$100 million, right?

11 A Yes.

12 Q Now, let me ask you, Mr. Sandbulte. If you
13 know, with respect to your capital investments in
14 Florida made by Southern States Utilities, do you have
15 as a utility any net goodwill you pay for your Utility
16 assets?

17 A Would that be reflected, you mean, as an
18 acquisition adjustment?

19 Q Yes, sir.

20 A The forbidden topic?

21 Q I don't want to interrupt, but my question
22 is net, the whole operation is --

23 A I don't, it's probably not a big figure, I
24 don't know exactly what it is. The goodwill on the
25 books of SSU?

1 Q Yes, sir.

2 A Is that what are you talking about? Subject
3 to check, I don't think there's a sizable goodwill in
4 the books.

5 But it's a different business with the going
6 concern approach of ADESA; it is not asset-driven like
7 the utility is asset-driven. It is not rate base
8 oriented, it is a business that is driven by revenues,
9 cash flow and earnings; and that's not a function
10 necessarily of so-called rate base.

11 Q Yes, sir. Last question. Do you, given
12 your extensive experience in the industry, do you
13 think that your regulated businesses are more risk
14 prone?

15 A Excuse me?

16 Q Are your regulated operations -- that is,
17 your electric utilities and your other regulated
18 operations -- are they more risky or less risky than
19 your nonregulated?

20 A Well, I think the integration of all of it
21 is less risky than an electric utility standing by
22 itself, if I may.

23 The water business has turned out to be
24 risky, zero return so far in five years, or at least
25 for the last five years. We find out there has been

1 some other stuff going on behind the scenes. So I
2 have a lot of concerns in that area.

3 I think that the electric business, coupled
4 with the investment securities business, we're in the
5 reinsurance business, and ADESA, which is a strong
6 cash flow generator, is a stronger entity -- and
7 including SSU, given rate relief -- than the
8 traditional Minnesota Power, which was plain vanilla
9 electric.

10 Q What do you mean you say you found out
11 things going on behind the scenes?

12 A Well, I have been reading some depositions
13 that indicate maybe some matters considered down here
14 in the past weren't all on the up and up.

15 Q Hum. Which ones are those?

16 A Well, the deposition given by Mr. Gatlin
17 relating to the head of the OPC.

18 Q Hum. Are you going to testify about this
19 later, or do we --

20 A I don't know. Not in this proceeding, I
21 don't think. Maybe in another proceeding.

22 MR. TWOMEY: That's all I have.

23 CHAIRMAN CLARK: Thank you, Mr. Twomey. I
24 wanted to follow up on something before we went to
25 further cross examination while I have it on my mind.

1 Mr. Sandbulte, you indicated there -- I
2 think at some point you said that there have been a
3 decline in revenues over the last five years having to
4 do with SSU's revenues in Florida. Have you made that
5 statement? Or what statement have you made with
6 regard to the revenues or the rate of return for SSU?

7 WITNESS SANDBULTE: I don't recall making a
8 revenue statement. One statement I made at the outset
9 was that we had averaged zero ROE on invested capital
10 on average over the last five years from water
11 operations, from operating the water utilities.

12 CHAIRMAN CLARK: Okay. To what do you
13 attribute that zero return on equity over the last
14 five years?

15 WITNESS SANDBULTE: I attribute it in part
16 to the issue that Mr. Twomey just raised relative to
17 what happened in 1990 and '91 when our rate case was
18 tossed out. That has had a stair step effect and it's
19 cost us \$5 million if I can assume that the Staff
20 recommendation would have been adopted by the
21 Commission had it not been for what appears to be
22 inappropriate interference.

23 CHAIRMAN CLARK: All right. So you had a
24 rate case in 1992 that, had it gone forward, things
25 would have been different?

1 WITNESS SANDBULTE: We had a rate filing in
2 '90 that resulted in the case being thrown out by
3 Commissioner Gunter in '91.

4 CHAIRMAN CLARK: And then when did you file
5 your next case?

6 WITNESS SANDBULTE: We filed the gigacase in
7 '93; and that case was resolved, I guess, in '94. And
8 then we filed again in '95, and here we are.

9 CHAIRMAN CLARK: So was -- I understand then
10 up until 1994 it may have been, according to your
11 view, for lack of rate relief.

12 What about '94 forward?

13 WITNESS SANDBULTE: Okay. We're in a rising
14 cost industry, we're on a historic test year. We are
15 being haircut, haircut, nicked-and-dimed, whatever,
16 by used and useful rules. Criteria not applied to
17 electrics.

18 Lot count, for example, we have 100 lots, 80
19 houses, 80% used and useful. There's no electric
20 utility that would be treated that way. That's the
21 kind of thing that has eroded our earnings; and then
22 coupled that with the fact that it's a rising cost
23 industry, we haven't kept up.

24 CHAIRMAN CLARK: All right. I want to take
25 the used and useful out separately.

1 WITNESS SANDBULTE: Okay.

2 CHAIRMAN CLARK: I seem to recall some
3 testimony from a witness that hasn't been on the stand
4 yet that indicated when you looked at your purchase
5 price you took into account used and useful in
6 acquiring utilities. So is it still your testimony
7 that used and useful attributed to not earning your
8 rate of return after 1994?

9 WITNESS SANDBULTE: Well, I'm not sure that
10 we understood the full ramifications of used and
11 useful going back to the time when we made our water
12 acquisitions. When we were putting a lot of
13 investment into reclaimed water, for example, which
14 someone else will testify as to the rate base
15 treatment of that.

16 CHAIRMAN CLARK: All right. It would be a
17 result of the capital expenditures, then, you have
18 made since '94, not anything the Commission did with
19 respect to rate relief -- except, I guess in your
20 view, with respect to used and useful?

21 WITNESS SANDBULTE: Well, with respect to
22 used and useful. With respect to historic test years.

23 CHAIRMAN CLARK: Now you --

24 WITNESS SANDBULTE: What I'm talking about
25 is the fact that we are trying to establish a base

1 upon which to base the rates in the '90/'91 case. We
2 had to revert and go to a historic test year again in
3 the '93 case because we got the case tossed out in
4 '90/'91.

5 CHAIRMAN CLARK: In '90/'91 you used a
6 projected test year?

7 WITNESS SANDBULTE: I think we did. Or at
8 the very least, we were trying to establish the
9 historical base and the credibility of budgets and
10 things like that upon which to base a forward test
11 year in the subsequent case. Which we didn't do,
12 obviously, because the case was never settled. I
13 mean, it was dismissed.

14 CHAIRMAN CLARK: Let me restate it and see
15 if you agree with it.

16 Then your view is that you were hampered
17 somewhat in the '93/'94 case in terms of the evidence
18 and case you could make for a revenue requirement by
19 the fact that your 1990 case was thrown out?

20 WITNESS SANDBULTE: Yes, from the standpoint
21 of the test year that we would have used in the
22 '93/'94 case.

23 CHAIRMAN CLARK: Then what test year would
24 you have used in '93/'94 if the '90 rate case had not
25 been thrown out?

1 WITNESS SANDBULTE: A forward test year as
2 opposed to a historic test year.

3 CHAIRMAN CLARK: And it's your testimony
4 because that was thrown out you had to use a historic
5 test year as opposed to a projected test year?

6 WITNESS SANDBULTE: Well, I'm not sure when
7 the legislation was adopted which covered the
8 extension or the provision that water utilities could
9 use forward-looking test years. But we didn't feel we
10 could go into the rate case in the '93/'94 case not
11 having -- with all the concern about these fragmented
12 systems, there wasn't good data in every case, and so
13 forth and so on, that we could go in with a historic
14 test year immediately and expect to that be credible.

15 CHAIRMAN CLARK: You're not making a
16 distinction between interim rates and permanent rates,
17 are you?

18 WITNESS SANDBULTE: No, no.

19 CHAIRMAN CLARK: So it's your view that you
20 were hampered somewhat in your 1994, the case that was
21 decided in 1994, with respect to what you could ask
22 for; and that resulted in you earning a zero rate of
23 return?

24 WITNESS SANDBULTE: Well, that would be part
25 of it. It is also a rising cost industry, a lot of

1 capital investment, as I mentioned I think earlier in
2 response to your question, where we are investing in
3 SSU as a whole over \$20 million a year. That's a
4 higher number, relatively speaking, much higher number
5 than our electric company or most electric companies
6 these days I think are investing.

7 We went through the rising cost era in
8 electric in the '70s, pollution control, all that
9 stuff. Well, that's what is happening in water today,
10 safe drinking water, Clean Water Act, so on and so
11 forth. So the fact that the water business is getting
12 its turn in the barrel is reality, I think.

13 CHAIRMAN CLARK: In terms of rising cost to
14 provide the service, did you, when you made your
15 determinations to make those investments, did you
16 review the pace of the investment? Did you have no
17 choice but to invest the money?

18 WITNESS SANDBULTE: Well, I don't have the
19 details. My view is and my understanding is that our
20 people do not get capital, nor do they propose capital
21 expenditure, unless there's a mandate from the DEP,
22 for instance, or there's growth-driven construction.

23 We, you know, we have to meet demand. We
24 can't sit here and say, "Sorry, we can't afford it."

25 We have to meet the DEP's requirements.

1 That's another issue that's creating a lag in
2 earnings, if you will, the DEP saying, "You have to
3 provide a certain margin of reserve," and we can only
4 get a much smaller margin of reserve reflected in
5 rates.

6 I mean, those are all things that
7 cumulatively have resulted -- and wet weather, yes.
8 Somebody asked me, wasn't it rainier than normal?
9 Yes. That also had an effect.

10 All of that produced this net zero return on
11 average from operations over the five years.

12 CHAIRMAN CLARK: Let me go back to used and
13 useful. You had made an indication that you didn't
14 understand as well as perhaps you should have the
15 Commission's policy or the law regarding used and
16 useful in the water and wastewater industry when you
17 made your acquisitions; is that correct?

18 WITNESS SANDBULTE: No. I think we
19 understood the law. But a lot of the things have
20 happened, for instance, on reuse and other areas where
21 I think the law says we're supposed to get 100% used
22 and useful on reuse, yet I think the Staff is
23 proposing in this case -- certainly, the intervenors
24 are -- that we get less than 100% used and useful on
25 reuse.

1 I mean, the law is evolving just like our
2 business is evolving. I don't say that we understood
3 every nuance of used and useful in great detail, but I
4 would say this. My belief is that the used and useful
5 criteria have, if anything, been tightened,
6 particularly when we are spending a lot of money or
7 investing a lot of money as compared to what is
8 allowed in the rate base or was allowed in the rate
9 base when we got into the business in the first place.
10 We didn't have reuse; we didn't have some of that
11 stuff.

12 We didn't have as much rising cost, we
13 bought some old systems that were in need of repair.
14 So we put a lot of capital in this business.

15 CHAIRMAN CLARK: I'm getting a little
16 confused, because I think you're comparing different
17 periods or different events.

18 You had indicated you thought some of the
19 reasons that you were not earning the rate of return
20 was the fact that -- up until now -- was the treatment
21 of used and useful. Regardless of what the Staff may
22 recommend in this case. I don't think that's an issue
23 or not a basis on which you can indicate your past
24 revenues were affected by used and useful.

25 I'm trying to understand on what basis you

1 believe that we have -- that the used and useful has
2 affected your rate of return in the past.

3 WITNESS SANDBULTE: Okay. In the case of
4 reuse, as I said --

5 CHAIRMAN CLARK: Were there reuse cases in
6 the 1994? Was that? I don't remember that being an
7 issue.

8 WITNESS SANDBULTE: I don't know.

9 MR. ARMSTRONG: Just for clarity, Madam
10 Chair, the 1991 case was thrown out. We filed again
11 in 1992, using a 1991 test year. That was decided in
12 1993. We keep on talking about '93/'94, but it is
13 really '92/'93, just for clarity.

14 CHAIRMAN CLARK: The last rate case that was
15 decided, it seemed to me how we treated used and
16 useful in that case would have some impact on the rate
17 of return. At least I take that as the meaning of
18 your testimony.

19 What treatment specifically with regard to
20 used and useful had that impact? Were there reuse in
21 that -- in that case?

22 WITNESS SANDBULTE: There certainly are in
23 this current case. And positions take in the current
24 case is another indication -- if they weren't -- I
25 don't know if they existed in '92/'93 or not.

1 CHAIRMAN CLARK: All right. I want to sort
2 of get some specifics on what you base your belief on
3 that there was an improper or you have some concern
4 about how we treated used and useful and how that
5 impacted your rate of return prior to this case.

6 WITNESS SANDBULTE: Well, as I say, if there
7 was used and useful or reuse, I mean, in the '92/'93
8 case, I don't know that. Then that would have been
9 that factor.

10 The lot count approach, which I'm not sure
11 how that was handled into antiquity, but it is
12 certainly inconsistent with the way it is handled in
13 the electric business and the gas business.

14 I mean, it's the same issue: You have
15 pipes, you have wires, you have something running by
16 the front or the back of the lots. We get non used
17 and useful on that end. And maybe we assumed or
18 anticipated or whatever that we could correct that in
19 our minds when we bought the systems, if you go way back.

20 CHAIRMAN CLARK: Let me state it another way
21 and see if this is what you are saying. You assumed
22 when you were acquiring these facilities that used and
23 useful would be treated in the same way it is for
24 electric companies, it would be treated the same way
25 for water and wastewater companies?

1 WITNESS SANDBULTE: In the long run, yes.
2 Because this is an emerging business and going from a
3 very fragmented business to one that has critical mass
4 of its own. Yes, I think that would have been the
5 assumption.

6 CHAIRMAN CLARK: And that assumption
7 impacted the return on equity you were anticipating
8 and what you in fact realized?

9 WITNESS SANDBULTE: We had some used and
10 useful which we acknowledged. Sunny Hills is a good
11 example we talked about this morning. We knew there
12 was some used and useful, yes. The degree of that,
13 that is a changing, a changing scene that we certainly
14 hope to be treated as any other utility using the same
15 set of criteria. Electric --

16 CHAIRMAN CLARK: But it is still your
17 opinion that the way used and useful was treated in
18 the last rate case was a factor that contributed to
19 you not earning the rate of return on equity that you
20 were authorized?

21 WITNESS SANDBULTE: Yes.

22 MR. SHREVE: Okay. Commissioner, If I may?
23 Mr. Sandbulte has raised something we're not totally
24 surprised by. This came up in the prehearing
25 conference where they tried to raise an issue and

1 Commissioner Kiesling left it out, said that it were
2 not to be an issue.

3 They continued and took a deposition at 8:30
4 on Monday morning after the prehearing conference had
5 been on Friday. That deposition had been changed from
6 later in the afternoon on Monday to 8:30 Monday
7 morning. Luckily, most of the parties found out about
8 it even though they weren't told about it when we were
9 here.

10 Evidently, I was out of the room when I
11 thought I heard Mr. Sandbulte make some type of a
12 comment about some type of improprieties on my part?

13 WITNESS SANDBULTE: That's the allegation,
14 yes.

15 MR. ARMSTRONG: Madam Chair, I think this is
16 totally out of order. I mean, the questions were
17 asked of this witness and he responded under oath in
18 response, his best response he could give to the
19 question. I think he was very delicate about a
20 situation that reflected in a deposition. I think we
21 have tried to keep that out.

22 If Mr. Shreve wants to bring that issue into
23 this case, then he's going to have that issue in this
24 case. It was an issue that was raised in terms of the
25 rate case expense that was excluded. We have done

1 everything we could to keep this above board and in
2 the appropriate means to address economic issues and
3 the issues that are substantive in this case --

4 MR. SHREVE: That is not the case --

5 MR. ARMSTRONG: -- and now Mr. Shreve is
6 attempting to bringing something in that we have been
7 trying desperately to keep out of this case.

8 CHAIRMAN CLARK: Thank you, Mr. Armstrong.

9 MR. SHREVE: Then why did they say it? This
10 was not the case and --

11 CHAIRMAN CLARK: Mr. Armstrong, I think he
12 was -- I mean Mr. Shreve, he was responding to
13 questions asked. Is there something you want to
14 request be done at this point? Are you going --

15 MR. SHREVE: I would like to move to strike
16 Mr. Sandbulte's testimony concerning any of those
17 issues. He is not saying that only I had some
18 impropriety -- and I guess Mr. Armstrong and Hoffman
19 were the ones that filled him in on this. He's saying
20 that the Commission dismissed, Commissioner Gunter and
21 Commissioner Easley, dismissed a case from 1991
22 because of a meeting that was alleged --

23 CHAIRMAN CLARK: Mr. Shreve, I'm aware of
24 the debate that went on at the prehearing conference
25 and the fact that it was treated as an issue that was

1 not relevant to this rate case.

2 I take your motion to strike the testimony
3 under advisement. I will look at that and tomorrow
4 we'll take it up again after I have had a chance to
5 look at it and have Mr. Pruitt be briefed on it and
6 see --

7 MR. ARMSTRONG: And, Madam Chair, the
8 Company would like an opportunity to respond as well.

9 CHAIRMAN CLARK: And I will give you that
10 opportunity to respond.

11 MR. ARMSTRONG: Thank you.

12 CHAIRMAN CLARK: But the testimony has been
13 given and now it will be subject to a motion to
14 strike. And I'll rule on that tomorrow after
15 Mr. Pruitt has had an opportunity to read up on this.

16 And at this point we'll go forward with
17 further cross examination of Mr. Sandbulte. I think
18 it's Staff's turn for cross examination.

19 **CROSS EXAMINATION**

20 BY MR. JAEGER:

21 Q Mr. Sandbulte, the approximately \$100
22 million in capital additions since the last rate case
23 were made were under uniform rates; isn't that
24 correct? Since the last rate case --

25 A Yes.

1 Q -- SSU has made about \$100 million under
2 uniform rates?

3 A Yes.

4 Q Does the rate structure have an impact on
5 whether capital expenditures are made?

6 A I think it does. I think to some degree. I
7 mean it is not a -- but I think that we're concerned
8 about rate shock. And as you heard from Sunny Hills
9 this morning, rate shock is an important issue. And
10 we are more inclined not taking into account health or
11 safety but just generally speaking to not raise the
12 rates even further under stand-alone rates as opposed
13 to under uniform rates.

14 MR. JAEGER: That's all I have, thank you.

15 CHAIRMAN CLARK: Commissioners, are there
16 any questions?

17 That concludes your direct testimony. Now I
18 understand at this point you will become an adverse
19 witness of Public Counsel. And Mr. Beck, do you want
20 to conduct your direct examination of this witness?

21 MR. BECK: Yes. I would like to ask that a
22 document be marked for identification.

23 CHAIRMAN CLARK: While that is being passed
24 out, I have been asked by several people how we intend
25 to proceed each day regarding the length of the day we

1 will spend in hearing.

2 It is my intention to go late every evening.
3 You should plan on that. If we are going to break
4 early, we will break at 5:00 and I will give you an
5 indication of that sometime in mid afternoon. But the
6 Commissioners have cleared both their business
7 calendars and social calendars so they can be here and
8 get this proceeding finished in the two weeks that
9 were allotted to it. So I think you need to make your
10 plans accordingly. As I said, if we are planning to
11 break early one day, we'll let you know.

12 We will not reconvene this hearing after
13 tomorrow's agenda, but we will be considering
14 reconvening it after next week's agenda because it
15 looks like a much lighter agenda. Okay?

16 Mr. Beck, we will Mark as Exhibit 66 the
17 document entitled, "January 4, 1996, Memorandum from
18 Blanca S. Bayo Concerning Communications from
19 Lieutenant Governor Buddy MacKay and Secretary of
20 Commerce Charles Dusseau."

21 (Exhibit No. 66 marked for identification.)

22 - - - - -

23

24

25

AREND J. SANDBULTE

1
2 was called as an adverse witness by the Citizens of
3 the State of Florida and, having been duly sworn,
4 testified as follows:

DIRECT EXAMINATION

5
6 BY MR. BECK:

7 Q Mr. Sandbulte, do you have this exhibit in
8 front of you?

9 A Yes.

10 Q Up in the upper right-hand corner I put
11 numbers to try to identify the pages of the exhibit.
12 Do you see them?

13 A Yes.

14 Q Would you turn to Page 4, 4 in a circle in
15 the upper right-hand corner?

16 A All right. Mine doesn't have a 4 -- I guess
17 it's a 4. Is it the letter to Lawton Chiles?

18 Q Yes.

19 A Okay.

20 Q Do you recognize this letter dated
21 November 21, 1995, to Lawton Chiles?

22 A Yes.

23 Q Is it a three-page letter?

24 A Yes.

25 Q Is that your signature at the end of the

1 third page?

2 A Yes.

3 Q Did you send this letter to Governor Chiles?

4 A Yes, I did.

5 Q What input did you get from Southern States
6 personnel regarding this letter?

7 A I drafted the bookends, the beginning and
8 the ending paragraphs, and they drafted the
9 substantive paragraphs in the middle dealing with the
10 specific facts of uniform rates and the Commission's
11 decision to overturn.

12 Q Could you tell me, be more specific. For
13 example, the first page of your letter, which portions
14 were written by you and which --

15 A I wrote all of it.

16 Q All of the first page is yours?

17 A Yes. Yes.

18 Q How about the second page?

19 A All by SSU.

20 Q How about the third page?

21 A I wrote all of that.

22 Q The part beginning, "Governor, I don't
23 believe we are whiners," that was all yours?

24 A That's right.

25 Q Who specifically provided you input into

1 this letter?

2 A I asked for input from SSU. I received it
3 from Ida Roberts by fax.

4 Q Did you get any input from Dr. Cirello?

5 A Well, I talked to him about it when I was
6 down in Florida earlier in November but I didn't get
7 any specific input from him.

8 Q Did he know that you were going to send a
9 letter to Governor Chiles?

10 A Yes.

11 Q And you got input from Ida Roberts; is that
12 correct?

13 A Yes.

14 Q What input did she give you?

15 A Page 2.

16 Q That was written by her?

17 A Well, I don't know if it was written by her,
18 but I was asking her to put together the facts of the
19 uniform rate overturn and have it looked at by
20 appropriate people at SSU and get it back to me.

21 Q How about Mr. Armstrong, did he provide any
22 input to you concerning this letter?

23 A No.

24 Q Did you ask him for any?

25 A No.

1 Q Why not?

2 A Because I worked through Ida Roberts. I
3 asked her to ask anybody who wanted to have input to
4 provide it.

5 Q After your signature page, the third page of
6 your letter, there appears another document that's
7 entitled "Financial Impact of FPSC Order."

8 A Okay.

9 Q Did you write that?

10 A No. I have never seen it, as far as I know.

11 Q You have never seen it before?

12 A No.

13 Q Until today?

14 A Not that I know of.

15 Q Let's go back to the first page of your
16 letter, if we could.

17 At the bottom of the second paragraph, I
18 gather it is your position in this letter to the
19 Governor that with respect to fair regulatory
20 treatment from the Florida Public Service Commission,
21 you have a serious problem; is that right?

22 A Yes.

23 Q And that's what this letter is about to the
24 Governor?

25 A Yes.

1 Q Could you tell me where in this letter
2 there's any mention of the fact that the issue of
3 uniform rates is a pending issue in a pending rate
4 case?

5 A I told the Governor that this was up on
6 reconsideration and we have asked them to
7 reconsider -- on Page 3 -- and that we would seek
8 redress in the courts, if necessary.

9 Q Mr. Sandbulte, would you look at Page 2?

10 A Sure.

11 Q You spent a considerable portion of the
12 second page in this letter talking about the uniform
13 rate versus the stand-alone rate issue, do you not?

14 A Yes.

15 Q And you have told the Governor about the
16 reconsideration from your earlier rate case; is that
17 right? You mentioned that, you told him on Page 3
18 about that?

19 A Reconsider the issue of uniform rates.
20 We've asked the Commission to reconsider its decision
21 on overturning uniform rates.

22 Q Now, let me ask you this. In this present
23 rate case, the issue of uniform rates is at issue, is
24 it not?

25 A Yes.

1 Q Where in your letter do you advise the
2 Governor that the uniform rate issue is a pending
3 matter in this rate case?

4 A I told him that this matter was on
5 reconsideration.

6 Q In the other case, isn't that right?

7 A Okay. Just asked him for some help. I
8 didn't ask him to do anything.

9 Q But nowhere in this letter do you tell him
10 that the uniform rates is an issue this pending rate
11 case --

12 MR. ARMSTRONG: Objection. Objection, Madam
13 Chairman. I think he has asked the same question
14 three times. You can read the letter, it speaks for
15 itself.

16 It talks about uniform rates, it talks about
17 the reconsideration request, it requests information
18 from the Governor's office, saying, "What's the
19 problem, do you want us here in Florida --"

20 CHAIRMAN CLARK: Mr. Armstrong, let me just
21 indicate, I think there has been a miscommunication.

22 The letter itself, Mr. Sandbulte, does not
23 indicate that uniform rates is an issue in this
24 pending case, does it?

25 WITNESS SANDBULTE: I don't even talk about

1 a current rate case.

2 CHAIRMAN CLARK: Okay. I think that's what
3 he was trying to establish.

4 Q (By Mr. Beck) Let's look at Page 3,
5 Mr. Sandbulte. After your statement about believing
6 you're not whiners, you state, "If you believe we're
7 at fault somehow, I hope you tell us what we have done
8 wrong so we have a chance to consider doing things
9 differently." Do you see that?

10 A Sure.

11 Q What are you talking about being at fault
12 somehow?

13 A I asked him if he thought we were at fault.

14 Q Fault at what?

15 A I don't know.

16 Q I guess I don't understand what you are
17 talking about in that portion of the letter. You
18 asked the Governor if he thought you were at fault
19 somehow? I don't understand what you're talking about
20 about being at fault.

21 A The Governor is looking to economically
22 develop this state. We're a key player, I think. I
23 don't know what kind of information he might have that
24 would be helpful to us to correct our faults.

25 Q What makes you think there's someone at

1 fault?

2 A I don't know. "If we're at fault," I said.
3 So, you know, if we're not doing it right, if we're
4 we're not using the right deodorant, tell us.

5 Q Let me go down to the bottom of the second
6 paragraph on Page 3.

7 A Second paragraph?

8 Q Yes, sir.

9 A Or second from the bottom?

10 Q The second paragraph on Page 3 where it
11 talks about "an inconsistent and problematical FPSC
12 decision-making process and record." What are you
13 referring to there?

14 A Well, the process that the Commission went
15 through in 1994/'95 on uniform rates led to a
16 decision, as I recall, to adopt or to affirm that SSU
17 was a single system and therefore uniform rates were
18 appropriate. That, however, was not carried through
19 into October when the Commission reversed itself and
20 said we needed to go back to stand-alone rates.

21 Q And that's the inconsistent and
22 problematical FPSC decision-making process?

23 A Yeah, it's a problem for us. It's a \$10
24 million problem.

25 Q Let's go down to the last sentence on the

1 next paragraph, when you tell the Governor that, "The
2 public-private partnership is just not working and
3 needs to be fixed!" Do you see that?

4 A Yep.

5 Q Are you suggesting that the Governor fix it?

6 A You know, Governor Chiles was at the Florida
7 Council of 100 meeting talking about public-private
8 partnerships, that's the exact words he used. That's
9 why I used it. And we're a private company, in case
10 you have forgotten.

11 Q My question is, were you suggesting to the
12 Governor that he fix it?

13 MR. ARMSTRONG: I think he answered the
14 question. Asked and answered. I think its wonderful
15 to hear Public Counsel attempt so desperately to have
16 his own interpretation of this letter which is so
17 skewed into the record.

18 CHAIRMAN CLARK: Mr. Beck.

19 MR. BECK: I haven't heard an answer to my
20 question.

21 CHAIRMAN CLARK: What was your question
22 again?

23 MR. BECK: Was he suggesting to the Governor
24 that he fix it?

25 CHAIRMAN CLARK: Go ahead, Mr. Sandbulte.

1 A Well, as I said, the Governor was at The
2 Breakers at Marco -- at Palm Beach talking to us about
3 the importance of the public-private partnership in
4 water. That was the topic of the meeting.

5 I, since I had had a chance to shake his
6 hand, I decided to write this letter so I could meet
7 with him. I did ask, you know, to meet with him.
8 Never did.

9 So I don't know if he could fix it or not.
10 But in my view, that matter of requiring a \$10 million
11 refund needs fixing; it was broken.

12 Q (By Mr. Beck) Let's go to the next
13 paragraph, Mr. Sandbulte. You asked for guidance,
14 counsel or constructive criticism the Governor could
15 offer to normalize the current unfortunate situation.
16 What do you mean by "normalize"?

17 A Well, I was concerned about the publicity,
18 for one thing, knowing how adept Mr. Twomey and
19 Mr. Shreve are at getting people to show up and cheer
20 on, "We don't want to send money to Minnesota, yeah,
21 yeah," that sort of thing. So, you know, I wanted to
22 normalize that situation.

23 Q So you were asking the Governor how he could
24 help in that?

25 A Yeah, he's a politician.

1 Q Isn't the gist of this letter is that you're
2 asking the Governor to intercede on your behalf at the
3 Florida Public Service Commission?

4 A Absolutely not. I have been in this
5 business a long time, I know when you do and do not
6 take ex parte communications.

7 He's an elected politician. I can write him
8 anything I want.

9 Q Did you ever ask Ida Roberts or anyone else
10 at Southern States to find out whether Governor Chiles
11 had answered your letter?

12 A Did I ever ask Ida Roberts what?

13 Q To find out whether Governor Chiles had
14 answered your letter.

15 A No.

16 Q You hadn't asked anybody at Southern States
17 to find out about that?

18 A Well, I wrote him the letter; I assumed, I
19 guess, he would send it to me.

20 Q Okay.

21 A I don't know of any response that the
22 Governor has sent. I know of the Lieutenant
23 Governor's letter but --

24 Q But my question, maybe we're just
25 miscommunicating. Did you ask anybody at Southern

1 States to find out if the Governor had answered your
2 letter?

3 A No.

4 Q Did you ever ask anyone to find out what
5 role Southern States employees may have played in the
6 Lieutenant Governor's letter and the Secretary of
7 Commerce's letters?

8 A No.

9 MR. BECK: That's all I have, thank you.

10 CHAIRMAN CLARK: Mr. Twomey?

11 **CROSS EXAMINATION**

12 BY MR. TWOMEY:

13 Q Mr. Beck has brought out, Mr. Sandbulte,
14 that I think he has, he conceded that your letter
15 doesn't address the pending rate case; is that
16 correct?

17 A I didn't intend to.

18 Q Right. Now let me ask you
19 straightforwardly. The Lieutenant Governor has
20 suggested that your Company essentially misled him by
21 not advising him of the pending rate case. And my
22 question to you is: This letter that you sent to
23 Governor Chiles is dated November 21, 1995, which is
24 months after you filed the current case, is it not?

25 A Yes.

1 Q And the question is, why didn't you tell --
2 no. The question is, aside from the letter, did you
3 tell the Governor or the Lieutenant Governor that you
4 had a pending rate case before the Public Service
5 Commission?

6 A Not in this letter, no.

7 Q Did you tell him aside from the letter?

8 A No. I told him that we were reconsidering
9 or asking for reconsideration on this issue. I didn't
10 want to -- you know, I didn't think about any impacts
11 on the current case. This is a issue relative to the
12 \$10 million refund.

13 Q Yes, sir.

14 A Yes, sir.

15 Q Exactly, it is related to the \$10 million
16 refund. And my question to you, the next question, is
17 what distinction can you draw between asking the
18 Governor's help in a case that is pending before this
19 Commission on reconsideration and a new case? Is
20 there any distinction?

21 A I'm just trying to get some information.
22 The Governor, I'm asking if he can help us. What --
23 so do I, is there anything else I should have told
24 him? Or?

25 Q No, but --

1 A I told him about a problem that was
2 affecting the public-private partnership, a \$10
3 million hole, if you will. He was talking about
4 public-private partnerships; and I asked him to do
5 anything he could in terms of advice, guidance,
6 counsel, constructive criticism, and I would meet with
7 him any time or any place. That's it.

8 Q Mr. Sandbulte, isn't it true that
9 "public-private partnership" is a phrase that came out
10 of a book someplace?

11 A I don't know where he got it, he's the one
12 that said it.

13 Q Right. But you are -- Southern States is a
14 regulated utility before this Commission, right?

15 A Sure.

16 Q Mr. Beck got you to concede that you were
17 complaining to the Governor in the first page of your
18 letter that you were not getting fair treatment from
19 this Commission, right?

20 A I can talk to my elected politicians all I
21 want.

22 Q I'm not suggesting you can't, sir.

23 A I think you are.

24 Q But what did you suggest -- what did you
25 think the Governor of the State of Florida could

1 legally do to effect the type of regulation that you
2 receive --

3 MR. ARMSTRONG: Objection.

4 A One thing he could do --

5 MR. ARMSTRONG: Objection, Mr. Sandbulte.
6 the question has been asked and answered three
7 different times. He didn't suggest that the Governor
8 do anything other than provide advise, counsel or
9 information that would assist MP in the future.

10 CHAIRMAN CLARK: I think he's asking a
11 slightly different question as to what he thought the
12 Governor could legally do in this situation and I'll
13 allow the question.

14 A All right. He might consider legislation
15 that would improve the regulatory climate for water
16 utilities. I don't know what he would. That would be
17 a purpose, I think, of a meeting to discuss this
18 issue.

19 I mean, he does propose things to the
20 legislature which effect utilities.

21 - - - - -

22 (Transcript continues in sequence in
23 Volume 3.)

24

25

DOCKET 950495-WIS
EXHIBIT NO. 62
CASE NO. 96-04227

EXHIBIT _____ (AJS-1)

Excerpt - Moody's Investors
Service Rating Notice
3/1/95

Page 1 of 2

New York
Susan Abbott
Managing Director
Energy, Communications, and Spec
Moody's Investors Service
JOURNALISTS: (212) 553-0376
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New York
Paul Fremont
Senior Analyst
Energy, Communications, and Spec
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MOODY'S DOWNGRADES MINNESOTA POWER (SR. TO A3) AND SQUARE BUTTE ELECTRIC COOPERATIVE (SR. UNSEC. TO Baa1).

Approximately \$633.7 Million of Debt Securities Affected

New York, <Rating Date Pending> - Moody's Investors Service is downgrading the credit ratings of Minnesota Power

Company (MP), concluding the rating review initiated on January 15, 1995. The rating action is based on continued sluggish performance at MP's water utility and non-regulated operations and the announcement by the company that it plans to acquire

ADESA Corporation, an auto auction company. Moody's is also downgrading the rating of Square Butte Electric Cooperative, whose ultimate credit support derives from a power sales agreement with MP. Moody's will continue to maintain a negative outlook on both MP and Square Butte pending an improvement in financial protection measurements at MP.

Ratings downgraded are:

-more-

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212 553 4997

PAGE 02

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET 950495 Comp.
NO. 950495 EXHIBIT NO. 62
COMPANY/ SQU/ Sand BUTTE
WITNESS: SSU/ Sand BUTTE
DATE: 4/29/96

DOCUMENT NUMBER-DATE

06013 JUN 28 95

FPSC-RECORDS/REPORTING

Minnesota Power Company's first mortgage bonds and secured pollution control bonds to A3 from A2; shelf registration of senior secured debt to (P)A3 from (P)A2; unsecured pollution control bonds to Baa1 from A3; preferred stock to "baa1" from "a2"; and shelf registration for preferred stock to (P)"baa1" from (P)"a2". In addition, Moody's has downgraded the rating on the company's commercial paper to P-2 from P-1.

Square Butte Electric Cooperative's unsecured pollution control bonds to Baa1 from A3.

MP's financial performance continues to be adversely impacted by weak water utility performance exacerbated by a one-time write-off in 1994 of securities investments. In addition, financial protection measures weakened as interest expense increased 19.6% as a result of increased borrowing by paper operations.

MP has signed a definitive merger agreement to acquire ADESA for \$160 million. The planned acquisition of ADESA will be funded by the liquidation of almost 60% of MP's \$280 million investment portfolio. ADESA, established in 1992, owns and operates 16 automobile auction centers in the US and Canada and provides a wide range of auto related services. Through a separate subsidiary, ADESA also offers financing to purchasers. The risks associated with ADESA include vulnerability to competitive pressures and a level of tangible net worth of less than \$45 million. Additionally, the proposed acquisition will substantially alter the risk profile of MP, increasing the percent of non-regulated assets from 13% to more than 20%.

Minnesota Power is a diversified electric company headquartered in Duluth, Minnesota.

- more -

Excerpt - Duff and Phelps
Credit Rating Company
News Release
3/16/95

Page 1 of 1

CURRENT NEWS

- PAGE 1 OF 1

LBJ 14.03 (DJ) D&P, Minn. Power & Light -2-: Affects \$670M Debt >MPL

* MPL SOLD * /I RIG *

CHICAGO -DJ- Duff & Phelps Credit Rating Co. downgraded the credit ratings of Minnesota Power & Light Co.'s (MPL) first mortgage bonds and collateralized PCRS's to Single-A-Minus from Single-A, preferred stock to Triple-B-Plus from Single-A-Minus and commercial paper to D-1-Minus from D-1, affecting about \$670 million of debt and preferred stock.

The securities are removed from Rating Watch-Down where they were placed on Jan. 12, 1995, said D&P.

D&P attributed the downgrade to Minnesota P&L's changing financial fundamentals and risk profile. Expected improvement in credit protection measures has not materialized, a reflection of the still lagging financial performance of the water utility operations in Florida and the Carolinas, weaker investment portfolio performance, the stagnant electric service territory economy and previously depressed paper prices which negatively impacted the company's investments in that industry.

Additionally, the partial liquidation of Minnesota P&L's investment portfolio to fund the planned acquisition of Adesa Corp. (SOLD), an auto auction company, will reduce liquidity and lower portfolio interest income near term.

/N/C/LBJ/2

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Excerpt.- Duff and Phelps
Credit Rating Company
News Release
1/12/95

Page 1 of 1

MPL - 24 5-8 (N) 13.53 DN 0 5-8 V 268 PAGE 1 OF 2
AI 13.37 (DJ) D&P/Minnesota Power & Light -2:\$670M Debt, Pfd Stk Affected

* MPL * /I BON RTG *

NEW YORK -DJ- Duff & Phelps Credit Rating Co. said it has placed the ratings of Minnesota Power & Light Co. (MPL) on Rating Watch-Down.

Minnesota P&L's first mortgage bonds and collateralized pollution control revenue bonds, or PCRBs, are rated Single-A and the preferred stock Single-A-Minus, D&P said, adding that about \$670 million of debt and preferred stock is affected.

D&P said: "(Minnesota P&L) recently announced a plan to acquire an 80% interest in Adesa Corp. (SOLD), an owner and operator of used-car auctions, for about \$162 million, which would equal about 30% of (Minnesota P&L)'s common equity. (Minnesota P&L)'s initial investment in Adesa Corp. is expected to be financed through internal funds. If the acquisition is consummated, it would further diversify (Minnesota P&L)'s business interests and likely increase its risk profile.

"Adesa Corp. would become a subsidiary of (Minnesota P&L) as a result of the cash acquisition. The two-year-old Adesa Corp. owns and operates 16 auto-auction facilities in the United States and Canada, making it the third-largest auto auction company in North America. Adesa Corp. is expected to continue its expansion strategy through acquisition of additional independent
MPL/N/AI/2 (RETURN=next page,DELETE for new request)

MPL - 24 5-8 (N) 13.53 DN 0 5-8 V 268 PAGE 2 OF 2
AI 13.37 (DJ) D&P/Minnesota Power & Light -2:\$670M Debt, Pfd Stk Affected
(CONTINUED)

For the 12 months ended Sept. 30, 1994, Adesa Corp. had net income of \$7.7 million on revenues of about \$87 million.

"(Minnesota P&L) has sizable investments in non-regulated businesses that include paper manufacturing, coal mining and an investment portfolio. (Minnesota P&L) also has regulated water businesses with holdings in Florida, North Carolina, and South Carolina. Regulatory support for these businesses is uncertain; rate increases in Florida and North Carolina have not allowed adequate returns.

"Minnesota Power & Light Co.'s utility operations provide service to northeastern Minnesota and parts of Wisconsin," the rating agency said.

(END) DOW JONES NEWS 01-12-95
1:37 PM

MPL/N/ (RETURN for headlines, DELETE for new request)

Excerpt - A. G. Edwards
 Research Comments
 1/9/95

Page 1 of 1

RESEARCH COMMENTS/INFO/LSTS/OTHR PG 07 OF 12
 FAVORABLE POSITIONS IT TO MAINTAIN LARGE COMMERCIAL AND INDUSTRIAL CUSTOMERS
 OVER THE LONG TERM.

* LIMITED NEED FOR EXTERNAL FINANCING. MPL'S CAPITAL EXPENDITURE BUDGET FOR
 THE FORESEEABLE FUTURE APPEARS MANAGEABLE. THE UTILITY CONSTRUCTION BUDGET
 FOR THE PERIOD 1994 THROUGH 1998 TOTALS \$334 MILLION, VIRTUALLY ALL OF WHICH
 THE COMPANY ESTIMATES CAN BE INTERNALLY FINANCED. LIMITED NEED FOR EXTERNAL
 FINANCING REDUCES THE COMPANY'S EXPOSURE TO THE REGULATORY PROCESS DURING THIS
 PERIOD.

* NONNUCLEAR FUEL MIX WITH LIMITED EXPOSURE TO CLEAN AIR ACT AMENDMENTS
 (CAAA). MPL'S ELECTRIC FUEL MIX CONTAINS NO NUCLEAR GENERATION. THE UTILITY
 DOES NOT EXPECT TO BE SIGNIFICANTLY IMPACTED UNDER PHASE I OF THE CAAA, AS ITS
 GENERATING UNITS BURN MAINLY LOW SULFUR COAL AND ARE EQUIPPED WITH POLLUTION
 CONTROL DEVICES. THE COMPANY EXPECTS TO MEET PHASE II EMISSIONS LIMITS,
 EFFECTIVE JANUARY 1, 2000, THROUGH FUEL SWITCHING AND THE INCREASED USE OF
 SCRUBBERS THE IMPACT OF COMPLIANCE ON ANNUAL REVENUE REQUIREMENTS IS LIKELY
 TO BE MODEST.

INVESTMENT CONCERNS:

*PROPOSED ACQUISITION OF ADESA, AN AUTO AUCTION BUSINESS.

RLST AID CONT 01/09/95 11:14

RESEARCH COMMENTS/INFO/LSTS/OTHR PG 08 OF 12
 *ABOVE-INDUSTRY AVERAGE EARNINGS PAYOUT RATIO COULD LEAD TO BELOW AVERAGE NEAR
 TERM DIVIDEND GROWTH. MPL'S CURRENT ANNUAL DIVIDEND OF \$2.02 REPRESENTS AN 99%
 PAYOUT OF OUR ESTIMATED 1994 EPS OF \$2.05 VERSUS THE INDUSTRY AVERAGE OF ABOUT
 78%. THE PAYOUT OF BOOK VALUE AT DEC. 31, 1993 WAS 10.1% VERSUS THE IN-
 DUSTRY AVERAGE OF ABOUT 9.3%. GIVEN LIMITED EXPECTATIONS FOR SIGNIFICANT
 EARNINGS GROWTH AT THE ELECTRIC UTILITY, FUTURE DIVIDEND GROWTH WILL BE DE-
 PENDENT ON IMPROVED EARNINGS AT THE WATER UTILITIES AND UTILITY RELATED BUSI-
 NESS.

*NEAR-TERM EARNINGS GROWTH DEPENDS ON CONTINUED REASONABLE RATE REGULATION FOR
 THE WATER UTILITIES. SINCE 1984 WHEN MPL ENTERED THE WATER UTILITY BUSINESS,
 THE COMPANY HAS UPGRADED EXISTING OPERATIONS AND BUILT NEW FACILITIES. THE WA-
 TER OPERATIONS REPORTED A PROFIT FOR 1993 VS A LOSS IN 1992, DUE TO RATE RE-
 LIEF AUTHORIZED BY THE REGULATORS IN FLORIDA AND THE CAROLINAS TO RECOVER
 THESE INVESTMENTS. HOWEVER, IN ORDER TO BRING THE RATE OF RETURN ON INVEST-
 MENTS IN THE WATER UTILITIES UP TO A TYPICAL UTILITY LEVEL, ADDITIONAL RATE
 RELIEF WILL BE REQUIRED WITHIN THE NEXT YEAR OR TWO.

* ELECTRIC CUSTOMER MIX HEAVILY WEIGHTED TOWARD INDUSTRIAL. MPL'S INDUSTRIAL
 CUSTOMER BASE ACCOUNTED FOR 62% RETAIL ELECTRIC REVENUES IN 1993, WELL ABOVE
 THE INDUSTRY AVERAGE OF ABOUT 25%. ELECTRIC SALES TO THE INDUSTRIAL SECTOR ARE
 GENERALLY MORE VOLATILE THAN SALES TO THE COMMERCIAL OR RESIDENTIAL SECTORS
 DUE TO THE SUSCEPTIBILITY OF THESE CUSTOMERS TO ECONOMIC DOWNTURNS IN THE
 RLST AID CONT 01/09/95 11:14

1/13/95

Page 1 of 1

01/13/95 09:22:36

->

218 Kim Lindstrom Page 7

Craig Lucas
Oppenheimer & Co
1/13/95

<u>Company</u>	<u>Date</u>	<u>MODEL Rank</u>	<u>1/12/95 Closing</u>	<u>1994E EPS</u>	<u>1995E EPS</u>	<u>1994E P/B</u>	<u>1995E P/E</u>
MPL	1/25/95	M	24.625	1.82	1.88	1.23	13.1

Dividend maintenance likely.

After review, we are lowering our 1994 earnings estimate to \$1.82 our 1995 estimate to \$1.88. Our 1996 estimate is \$2.22. With long term earnings power of \$2.20, the stock appears fairly valued at current prices. However, a near term earnings crunch, coupled with lingering uncertainty regarding the non-utility operations (in particular Adesa and the water utility), is likely to result in continued price weakness. Compounding the problem, with a forecast 1995 payout of 107%, a dividend cut remains a possibility. As such we consider the stock untimely and fairly valued at \$23.00

We expect MPL's core utility operations to earn \$1.19 on a book of \$9.91 (12% ROE) in 1994, earn \$1.14 in 1995 (11.5% ROE) and earn \$1.14 in 1996 (11.6% ROE).

MPL's portfolio subsidiary took a \$10 million write-off in the first quarter of 1994 and is expected to post only \$0.20 of earnings on \$7.20 of book (3% ROE). In 1995 MPL will use \$162 million of equity from the portfolio to close on the purchase of Adesa. The portfolio should contribute \$0.14 in 1995 (3.33% ROE) and \$0.05 in 1996 (4% ROE). Assuming Adesa is ultimately acquired, we forecast earnings of \$0.11 in 1995 on book of \$0.29 (2% ROE) and earnings of \$0.42 in 1996 (7.14% ROE).

The Lehigh Acquisition (land being sold-off in Florida) will contribute \$0.34 on a book of \$0.63 (56% ROE) in 1994, and should continue to earn strong returns prospectively (\$0.23 in 1995 and \$0.20 in 1996).

We expect water utility operations to contribute \$0.06 in 1994 on a book of \$2.17 (2.59% ROE), contribute \$0.15 in 1995 (5.0% ROE), and earn \$0.21 in 1996 (7% ROE). The water unit earns a sub-par return on equity because of rate base disallowances due to used-and-useful issues. A rate case in 1995 may resolve these issues.

BNI coal should continue contributing \$0.11 per share (1994 book \$0.43, 26% ROE). Minnesota Paper should earn \$0.03 in 1994 on a book of \$1.07 (2.5% ROE), and continue to earn \$0.03 prospectively. Rendfield equipment will continue to be a \$0.04 drag to earnings and Rainy River should be earnings neutral. Recycled Fiber operations will contribute \$0.02 prospectively (1994 book \$1.06, 2% ROE). Corporate overhead is expected to be a \$0.15 drag in 1994 and prospectively.

WR	1/25/95	O	29.25	2.56	2.54	1.22	11.5
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Excerpt - Donaldson, Lufkin
Research Comments
3/3/95

Page 1 of 1

TO: Kim Lindstrom

DONALDSON, LUFKIN & JENRETTE
March 3, 1995

James L. Dobson, CFA (212) 504-2614
Aarti Verma (212) 504-4252

MINNESOTA POWER & LIGHT (MPL: S25 3/4)

Recent Visit with Management Leaves Us (Again) Unconvinced in ADESA Transaction's Strengths;
Maintain Underperform Rating and Estimates.

Range: \$30 - \$24 (FY: Dec.)	Earnings Per Share			P/E Ratios	Quarterly EPS Est.	% Chg.
	Old	New				
1996E	\$2.40			10.7	F1Q \$0.51A vs. 0.64A	-20.3%
1995E	2.20			11.7	F2Q 0.44A vs. 0.46A	-4.3%
1994A	1.92			13.4	F3Q 0.51A vs. 0.61A	-16.4%
1993A	2.20			11.7	F4Q 0.46A vs. 0.49A	-6.1%

Yield: 7.9%

Dividend: \$2.04

Market Cap.: \$804

Avg. Trading Vol.(000): 36

5-Yr. Growth Rate: 2.3%

Book Value: \$20.78

RATING: Underperform

Change: None

VIEWPOINT

Minnesota Power & Light (MPL) currently trades at 11.7 times our 1995 earnings estimate, 1.2 times 1994 book value and a current yield of 7.9%. This compares with DLJ Electric Utility Universe averages of 10.7x, 1.3x and 7.1%, respectively. Our valuation model for MPL is based on no dividend growth over the next three years, 1.9% annually thereafter and a discount rate of 10%. This suggests a fair value for MPL of \$23 per share versus a current price closer to \$26. Due to the high dividend payout ratio, erratic earnings stream and apparent overvaluation, we are maintaining our underperform rating.

IMPORTANT POINTS

Recently, we had an opportunity to visit with the management of MPL in New York. Despite management's continued optimism for the company's recently announced purchase of an 80% stake in the ADESA Corporation, we remain unconvinced that management's optimistic expectations will be met. ADESA owns and operates automobile auctions in the U.S. and Canada, through which used cars and other vehicles are sold to franchised automobile dealers and licensed used car dealers. MPL management expects that ADESA can double the number of auctions it currently owns, while more than doubling revenues and earnings. More than half of the growth is expected to come from acquisitions. Although the prospects for the auto auctioning business are better than the electric utility business, it appears that management is relying on little competition from the other large participants in the auto auctioning business to accomplish a significant number of small acquisitions at attractive prices. Without this, management suggested it would be harder to reach their expansion goals. Returns in the first few years are likely to be about 5%.

We continue to expect the company will file a rate case in Florida for its water utility subsidiaries in 1995. Smaller than expected rate increases for this subsidiary have prevented it from growing beyond a single digit return on equity. Admittedly, a successful outcome in the next case could put the subsidiary on track to earning a better return in Florida. Separately, MPL continues to look for additional water properties to continue to expand this segment of their business.

With the recent rate increase at its electric utility business in Minnesota, earnings from this segment should improve modestly in 1995. Further, the company's paper business should also provide some upward pressure to earnings in 1995, due to better paper prices recently. We are maintaining our earnings estimates of \$2.20 and

DOCKET 950495-WS
EXHIBIT NO. 63
CASE NO. 96-04227

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate)
increase for Orange-Osceola)
Utilities, Inc. in Osceola County,)
and in Bradford, Brevard, Charlotte,)
Citrus, Clay, Collier, Duval,)
Highlands, Lake, Lee, Marion,)
Martin, Nassau, Orange, Osceola,)
Pasco, Putnam, Seminole, St. Johns,)
St. Lucie, Volusia, and Washington)
Counties by Southern States)
Utilities, Inc.)
_____)

Docket No. 950495-WS

Cross Examination Exhibit 63

October 9, 1995 Standard & Poor's Creditweek

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495 EXHIBIT NO. 63
COMPANY/
WITNESS: _____
DATE 4/29/96

MINNESOTA POWER & LIGHT CO.

Analyst Cheryl Richer (212) 208-1877

OUTLOOK REVISED		
	TO	FROM
Status	Neg	Stable
RATINGS AFFIRMED		
Sr sec'd debt		A-
CP		A-2
Pld sik.		BBB+
Total debt about \$757 mil		
OUTLOOK: NEGATIVE		

The outlook revision on the debt ratings of Minnesota Power & Light Co. reflects trends that have created longer-term concerns. Also, the company's financial profile has declined to levels below expected for existing ratings. Standard & Poor's recognizes that this partly results from several nonrecurring events, including:

- A once idle taconite mill, which has returned to service under a long-term contract;
- Poor performance from the investment portfolio; and
- **Highly unfavorable weather for the Florida water utilities.**

Cash flow was impacted negatively in the first half of 1995 by transactions involving the reversal of tax credits, which will be offset for year-end 1995 by transactions in the second half of the year. Additionally, a 21% electric rate increase, effective year-end 1994, is not fully annualized in the 12 months ended June 30, 1995 numbers. Still, funds from operations interest coverage and funds from operations to debt have plummeted to 2.3 times and 11%, respectively, for the same period.

The July purchase of an 80% share of ADESA for \$168 million, funded by a liquidation of investments, was offset by \$118 million of proceeds from the sale of 50%-owned Lake Superior Paper Industries and Superior Recycled Fibers Industries. However, a portion of the cash was used to

pay down debt at Superior Recycled Fibers. Thus the investment portfolio, which enhances liquidity and financing flexibility, was not replenished to the extent that Standard & Poor's had anticipated. ADESA, the third-largest player in the auto auction business, is expected to be profitable. **Yet, there are concerns about ADESA's ambitious expansion plans.** Minnesota Power & Light has indicated that it will infuse \$50 million over the next several years to enhance the business. ADESA currently is well capitalized, and conservatively financed expansion will contribute to the maintenance of Minnesota Power & Light's consolidated credit profile.

In addition, Southern States Utilities Inc. is awaiting interim water utility rates in Florida. The proceedings have hit a snag because of an issue of uniform tariffs versus stand-alone tariffs for the myriad of water systems. Despite strong customer growth in the 3.5% area, earnings continue to suffer because of high capital spending levels, sales volatility resulting from weather, assets excluded from rate base, and regulatory lag.

OUTLOOK Over the next several months, the utility will have to demonstrate that financial parameters will improve substantially, which may entail a commitment to issue common equity, to maintain current ratings.

MOBIL CORP.

Analyst Keith J. Petersen (212) 208-1662

RATINGS AFFIRMED		
Sr unsec'd debt		AA
CP		A-1+
Total debt about \$7.7 bil		
OUTLOOK: STABLE		

The ratings on the debt and commercial paper of Mobil Corp. are affirmed following the announced sale of its plastics division to Terneco Inc. for \$1.27 billion. While Mobil Plastics accounted for nearly 50% of Mobil's chemical operation sales, it represents less than 2% of total sales and less than 4% of operating earnings. Proceeds are expected to be reinvested in Mobil's core upstream and downstream oil and gas-related businesses over the intermediate term.

Mobil's ratings are based on above-average business and financial profiles. Its business risk profile benefits from a large pool of international assets, characterized by a 6.3 billion boe reserve base, a worldwide refining and marketing network, and a diversified chemical unit. Financial flexibility is high, reflecting a conservative capital structure, with leverage near 35%. Diversity has helped mitigate business risk associated with volatile oil and gas prices. Reserve base maintenance should be realized as higher outlays exploit long-term oil and gas production prospects in the North Sea, Nigeria, and Indonesia. The firm is participating in two multibillion-dollar liquefied natural gas projects in Qatar, slated for develop-

ment in the late 1990s. Still, Mobil's large U.S. resource base of heavy oil and natural gas represents current and longer-term development opportunities, although the lower prices and a higher cost structure for heavy oil limits returns.

A large, upgraded worldwide refining and marketing business tempers margin volatility, and Mobil has strong positions in the Pacific Rim and European markets. Pacific Rim operations remain the growth vehicle, with its contribution to operating earnings being the highest of any region over 1990-1993 (37% in 1993). Profitability has improved, but will continue to experience cyclicity as a result of energy price fluctuations. Strong operating cash flow of about \$5 billion, supplemented by asset sales, should fund a large portion of rising capital outlays during the balance of the decade.

OUTLOOK Ongoing restructuring steps should continue to lower operating costs and, together with prospects for higher outputs and stronger product demand, should generate more sustainable earnings and cash flow protection measures over the intermediate term.

DOCKET 950495-WS

EXHIBIT NO. 64

CASE NO. 96-04227

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate)
increase for Orange-Osceola)
Utilities, Inc. in Osceola County,)
and in Bradford, Brevard, Charlotte,)
Citrus, Clay, Collier, Duval,)
Highlands, Lake, Lee, Marion,)
Martin, Nassau, Orange, Osceola,)
Pasco, Putnam, Seminole, St. Johns,)
St. Lucie, Volusia, and Washington)
Counties by Southern States)
Utilities, Inc.)
_____)

Docket No. 950495-WS

Cross Examination Exhibit 64

March 11, 1996 Standard & Poor's Creditweek

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950495 EXHIBIT NO. 64
COMPANY/
WITNESS:
DATE 7/26/96

CORPORATE CONTINUED

sults in solid profitability, with operating margins averaging over 19%. Although the company will lose the cash flow from the lodging segment about 28% of the total in fiscal year ended 1995 Manor Care's funds from operations relative to its debt burden should remain commensurate with the current ratings.

OUTLOOK The rating incorporates the possibility that Manor Care will use some of its financial capacity to build its investment in health care.

MATAHARI INTERNATIONAL FINANCE CO. B.V.

Analysts: Chris Legge, Melbourne (3) 9650-9813.
Jerry Hirschberg, New York (212) 208-1625

RATING ASSIGNED
Prop US\$100 mil nts
(P.T. Matahari Putra
Prima) **BB**
OUTLOOK: STABLE

The rating reflects Matahari International Finance Co. B.V.'s guarantor Matahari Putra Prima's (Matahari) established retailing and distribution systems, the entrenched position of its stores, and the prospective growth of the company's customer base. Aggressive expansion of store numbers likely will be debt-financed, which will inhibit improvements in thin financial ratios.

As the leading department store chain in Indonesia with 70 stores located mainly on the densely populated island of Java, Matahari has established a demonstrable lead over competing chains, including those supported by foreign companies. Merchandising strategy is targeted toward middle income consumers, which equates to a target market of around 25 million people. Expectations of growth in the customer base are founded on continued economic devel-

opment in Indonesia, which lifts an increasing proportion of the population into the target income range, combined with new store development in areas not currently serviced.

Reflecting its well established market position, Matahari's gross margins have been very stable, averaging around 28%, but the rapid growth in store numbers has led to an earnings before interest and tax-to-sales margin varying between 4% and 8%. Operating returns on permanent capital averaging around 10% also reflect the degree of growth, as contribution from new stores lags the investment required.

OUTLOOK The magnitude of lease-financed expansion forecast to occur over the medium term will limit any improvement in financial measures.

MINNESOTA POWER & LIGHT CO.

Analyst: Cheryl Richer, New York (212) 208-1877

OUTLOOK REVISED
Status **Stable Neg**
DOWNGRADED
Sr sec'd debt **BBB- A-**
Pfd stk **BBB BBB+**
RATING AFFIRMED
CP **A-2**
OUTLOOK: STABLE

The downgrades of Minnesota Power & Light Co. (MPL) reflect a deterioration in the company's financial performance. Although MPL's financial profile still is weak for the revised ratings, Standard & Poor's anticipates that financial ratios will strengthen over the next few years. The anticipated improvement is attributed to management changes, which should lead to better strategic planning and improved earnings. Water utility operations, which have been a large contributor to recent poor earnings performance, should be the predominant beneficiary of new leadership. Management intends to focus on cutting costs, reducing regulatory reliance, and making strategic acquisitions/divestitures.

Standard & Poor's is somewhat concerned over poor 1995 performance at ADESA. MPL pur-

chased an 80% interest in this auto auction business in July 1995, which represents roughly 15% of consolidated assets. Volume reductions for the year are blamed on an anomaly in buyer patterns and severe weather conditions, which caused the cancellation of several auctions. While revised ratings incorporate the higher business risk profile of this nonutility entity, ratings reflect expectations that ADESA will pause to digest recent expansions and demonstrate an improvement in financial performance before pursuing new greenfield site construction.

OUTLOOK The outlook anticipates financial improvement.

OIL INSURANCE LTD.

Analysts: Thomas C. Walsh, New York (212) 208-8864, Alan M. Levin, New York (212) 208-1686

RATING ASSIGNED
CPA **A**
UPGRADED
CP **A-1 A-2**

The upgrade of Oil Insurance Ltd. is based on the company's ability to withstand catastrophe loss, its single largest risk.

Oil Insurance enjoys excellent financial flexibility and liquidity due to its contractual pricing agreements with its policyholders, enabling the company to recoup all of its underwriting losses

Standard & Poor's views this as a distinct competitive advantage.

The rating continues to reflect significant catastrophe exposure and the ongoing potential for volatility in earnings, revenue, and capital.

The following are Oil Insurance's strengths:

Contractual break-even: Oil Insurance can contractually recover 100% of underwriting losses

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET 950495-WS

EXHIBIT NO. 65

CASE NO. 96-04227

In re: Application for a rate)
increase for Orange-Osceola)
Utilities, Inc. in Osceola County,)
and in Bradford, Brevard, Charlotte,)
Citrus, Clay, Collier, Duval,)
Highlands, Lake, Lee, Marion,)
Martin, Nassau, Orange, Osceola,)
Pasco, Putnam, Seminole, St. Johns,)
St. Lucie, Volusia, and Washington)
Counties by Southern States)
Utilities, Inc.)
_____)

Docket No. 950495-WS

Cross Examination Exhibit 65

**8-K Report Submitted by Minnesota Power & Light
to the Securities and Exchange Commission on January 8, 1996**

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950495 EXHIBIT NO. 65
COMPANY/
WITNESS:
DATE: 7/29/96

-----BEGIN PRIVACY-ENHANCED MESSAGE-----

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Originator-Key-Asymmetric:

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ACCESSION NUMBER: 000066756-96-000003

CONFORMED SUBMISSION TYPE: 8-K

PUBLIC DOCUMENT COUNT: 1

CONFORMED PERIOD OF REPORT: 19960104

ITEM INFORMATION: Other events

FILED AS OF DATE: 19960108

SROS: AMEX

SROS: NYSE

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME: MINNESOTA POWER & LIGHT CO

CENTRAL INDEX KEY: 000066756

STANDARD INDUSTRIAL CLASSIFICATION: ELECTRIC SERVICES [4911]

IRS NUMBER: 410418150

STATE OF INCORPORATION: MN

FISCAL YEAR END: 1231

FILING VALUES:

FORM TYPE: 8-K

SEC ACT: 1934 Act

SEC FILE NUMBER: 001-03548

FILM NUMBER: 96501762

BUSINESS ADDRESS:

STREET 1: 30 W SUPERIOR ST

CITY: DULUTH

STATE: MN

ZIP: 55802

BUSINESS PHONE: 2187222641

MAIL ADDRESS:

STREET 1: 30 W SUPERIOR STREET

CITY: DULUTH

STATE: MN

ZIP: 55802

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<TYPE>8-K

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Securities and Exchange Commission
Washington, DC 20549

FORM 8-K

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) - January 4, 1996

Minnesota Power & Light Company

A Minnesota Corporation
Commission File No. 1-3548
IRS Employer Identification No. 41-0418150
30 West Superior Street
Duluth, Minnesota 55802
Telephone - (218) 722-2641

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Item 5. Other Events.

On January 4, 1996, the Florida Public Service Commission (FPSC) voted 4-1 to permit Southern States Utilities (SSU), a wholly-owned subsidiary of Minnesota Power & Light Company, to implement an interim rate increase which would result, on an annualized basis, in an increase of \$7.9 million in authorized revenue over revenue from rates currently in effect. SSU expects the interim rates to be effective by February 1, 1996. The revenue increase represents 94 percent of the amount required by SSU based on a 1994 historical test year.

SSU originally requested interim rates in an annualized amount of approximately \$12 million based on a 1995 forward-looking test year. However, by order dated November 1, 1995, the FPSC denied the original request for two reasons: (i) it was based on system-wide rates (which were deemed improper by a court order subsequent to SSU's original filing), and (ii) the FPSC had not yet formulated a policy as to what types of investments and expenses could properly be included in a forward-looking interim test year.

This interim rate action is taken in connection with SSU's request for an \$18 million final revenue increase filed August 2, 1995. Final rates are

anticipated to become effective in the fourth quarter of 1996.

-1-

<PAGE>

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Minnesota Power & Light Company

(Registrant)

January 8, 1996

D.G. Gartzke

D.G. Gartzke
Senior Vice President - Finance
and Chief Financial Officer

-2-

</TEXT>

</DOCUMENT>

</SEC-DOCUMENT>

-----END PRIVACY-ENHANCED MESSAGE-----

DOCKET 950495-WS
EXHIBIT NO. 66
CASE NO. 96-04227

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate
increase for Orange-Osceola
Utilities, Inc. in Osceola County,
and in Bradford, Brevard, Charlotte,
Citrus, Clay, Collier, Duval,
Highlands, Lake, Lee, Marion,
Martin, Nassau, Orange, Osceola,
Pasco, Putnam, Seminole, St. Johns,
St. Lucie, Volusia, and Washington
Counties by Southern States
Utilities, Inc.

Docket No. 950495-WS

Cross Examination Exhibit 66

**January 4, 1996, Memorandum from Blanca S. Bayo
concerning communications from Lieutenant Governor
Buddy MacKay and Secretary of Commerce Charles Dusseau**

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO: 950495 EXHIBIT NO 66
COMPANY/
WITNESS: _____
DATE: 4/29/96

Commissioners
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA

State of Florida



Blanca S. Bayó, Director
Division of Records and Reporting
(904) 413-6770

Public Service Commission

DATE: January 4, 1996

TO: Parties of Record

FROM: Blanca S. Bayó, Director, Division of Records and Reporting *BSB/kj*

RE: DOCKET NO. ~~920199~~ *920199*-WS - Application for rate increase in Brevard, Charlotte/Lee, Citrus, Clay, Duval, Highlands, Lake, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, Volusia, and Washington Counties by Southern States Utilities, Inc., Collier County by Marco Shores Utilities; Hernando County by Spring Hill Utilities; and Volusia County by Deltona Lakes Utilities.
DOCKET NO. 930880-WS - Investigation into appropriate rate structure for Southern States for all regulated systems in Bradford, Brevard, Citrus, Clay, Collier, Duval, Hernando, Highlands, Lake, Lee/Charlotte, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.
DOCKET NO. 950495-WS - Application for rate increase and increase in service availability charges by Southern States for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

This is to inform you that Chairman Clark has reported the following communications in the above referenced dockets.

- Letter from Lieutenant Governor Buddy MacKay dated December 21, 1995. Attached is a letter from Mr. Arend Sandbult, Chairman and CEO of Minnesota Power.
- Letter from Secretary of Commerce Charles Dusseau dated January 2, 1996.

These letters, copies of which are attached, are being made a part of the record in these proceedings. Pursuant to Section 350.042, F.S., any party who desires to respond to an ex parte communication may do so. The response must be received by the Commission within 10 days after receiving notice that the ex parte communication has been placed on the record.

BSB/cp
Attachments
cc: Rob Vandiver/w/letter

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

RECEIVED
DEC 28 1995

DATE: December 28, 1995

TO: Blanca Bayó, Director of Records and Reporting

FROM: Susan F. Clark, Chairman *SFC*

FPSC-RECORDS/REPORTING

RE: Communication from Lieutenant Governor Buddy MacKay regarding Docket Nos. 920199-WS, 930880-WS and 950495-WS

Please find attached a copy of a letter of December 21, 1995, from Lieutenant Governor Buddy MacKay. Attached to the Lieutenant Governor's letter is a letter from Mr. Arend Sandbulte, Chairman and CEO of Minnesota Power. Because these letters address matters relevant to a pending proceeding, it is necessary to place this memorandum and attachment on the record of the above-referenced proceeding pursuant to section 350.042, Florida Statutes. Please give notice of this communication to all parties to the docket and inform them that they have 10 days from receipt of the notice to file a response.

Attachment



OFFICE OF THE LIEUTENANT GOVERNOR

December 21, 1995

Ms. Susan F. Clark, Chair
Public Service Commission
Gunther Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0855

Dear Commissioner Clark:

I have had several discussions recently on the direction of the state's water with the president of Southern State Utilities. They are very interested in being part of the dialogue we are having to protect and preserve one of our most valuable resources.

Although they are not a large player in the overall water management policy discussions presently underway through various legislative and executive office forums, as the state's largest private water utility they play a valuable role in preserving the quality of Florida's water by purchasing and upgrading small, often rural, failed water and wastewater systems.

In addition, I have received a copy of a letter sent to Governor Chiles by Mr. Arend Sandbulte, chairman and CEO of Minnesota Power, that details the current economic impact of recent Public Service Commission decisions on Southern States Utilities.

Mr. Sandbulte, who has joined the Florida Council of 100, because of his interest in supporting our efforts to generate a positive economic development and jobs climate in Florida for businesses and citizens, is very concerned about the regulatory environment at the PSC -- which over the last year have resulted in a year-to-date loss of \$453,749 and reduced the utilities rate of return on investment to -.43 percent.

I realize that your rate making decisions are very complicated and our office would not question those detailed, case specific decisions. However, I would be very concerned if we were to place in serious financial jeopardy a unique private water utility that is providing quality water and wastewater treatment facilities throughout the state.

I would appreciate any information you might be able to provide me on the overall economic and financial consequences facing SSU as outlined in the attached letter so I can respond to Mr. Sandbulte's concerns.

Sincerely,

Buddy MacKay

RECEIVED

DEC 21 1995

Florida Public Service Comm.
Commissioner Clark

KHM/kcr

attachment

Lida Roberts



• **minnesota power** / 30 west superior street / duluth, minnesota 55802-2093 / telephone 218-722-2641

Arund J. Sandbulte - chairman and chief executive officer

November 21, 1995

The Honorable **Lawton Chiles**
Governor, State of Florida
The Capitol
Tallahassee, Florida 32399-0001

Dear Governor Chiles:

I appreciated the chance to see and hear you and Lt. Gov. McKay at the recent Florida Council of 100 meeting at The Breakers. Jim Apthorp originally sponsored my membership in this group so that my company could be represented and participate in activities to help Florida achieve its goals. As an out-of-state member of the Council, I appreciate your interest in public-private partnerships and creating win-win situations for the betterment of Florida and its stakeholders. The topic chosen for the Council of 100 meeting, water resources, was of particular interest to me.

Minnesota Power (MP) is a major stakeholder in Florida through ownership since 1984 of Southern States Utilities (SSU) of Apopka which, with about 150 plants stretching from The Panhandle to Collier County, is the largest investor-owned water and wastewater utility in Florida and follows only the municipal systems of Miami and Jacksonville in overall size. We also own 80 percent of Lehigh Acquisition Corporation, which is in the real estate sales business at Lehigh Acres (near Fort Myers) and Sugar Mill Woods, located north of Tampa. Our Florida utility and real estate assets total some \$408 million, not the largest corporate investor in the state, but by no means the smallest. About 21 percent of Minnesota Power's corporate assets are located in Florida, and we'd like to grow that percentage. Our investment strategy -- earning fair and reasonable profits in Florida -- is based on a vibrant marketplace, with respect to real estate, and based on fair regulatory treatment from the Florida Public Service Commission (FPSC). With respect to the latter, we have a serious problem. Please allow me to explain.

SSU is a vital partner with the State of Florida, the Department of Environmental Protection (DEP) in particular, in not only providing safe drinking water to the company's water customers, but in protecting the state's precious water resources and aquifer through proper wastewater treatment and re-use of reclaimed water. The latter has been and is being accomplished through special reclaimed water projects, aquifer storage and recovery wells, and award-winning conservation programs and, in some instances, by taking over failing systems at the request of Florida regulators and bringing them into compliance because there was no adjacent or willing municipality ready to perform that state purpose.

ALWAYS AT YOUR **SERVICE**

minnesota power

Governor Chiles
November 21, 1995

Page 2

SSU write this page
Received from Ida Roberts

Recently the Florida Public Service Commission reversed a 1993 decision in which they had approved additional revenues for SSU of \$6.7 million to be collected under uniform water and wastewater rates for SSU's customers, a practice used by the majority of states which have considered the issue and by many Florida counties, and one which the Commission long has followed for electric and telephone company customers. The 1993 uniform rate decision was reaffirmed after a year's worth of statewide hearings considering conservation, aquifer protection, centralized SSU services and the affordability issues of "rate shock," which occurs when large capital expenditures are required for environmental reasons on plants with a small number of customers. That is why the Commission's recent order which would require Southern States to revert to so-called "stand-alone" rates is so disconcerting.

One group of customers (whose water usage, by the way, is significantly higher than the state's average usage and whose rates were higher on a uniform versus stand-alone basis) appealed the 1993 decision. The recent FPSC reversal was in response to an order issued by the First District Court of Appeals on that appeal. The appellate court said that the FPSC needed to make a specific legal finding that SSU's operations were "functionally-related" before ordering a uniform rate structure. That finding was made by the FPSC in June 1995 following another year-long proceeding.

However, when the mandate came down from the courts, the FPSC decided not to reopen the original case and incorporate the "functionally-related" finding, stating they were declining to do so "as a matter of policy," without any further explanation. They then proceeded to order retroactive "stand-alone rates" (which could raise water and wastewater bills for many retirees to over \$100 a month), ordered SSU to make refunds of \$8 million to customers of a small number of plants, and said we could not collect any underpaid amounts from other customers resulting from a rate structure the Commission ordered us to institute in 1993.

The impact of this decision on SSU is staggering. If it stands, the financial result will be devastating on SSU's ability to attract financing and continue to make investments in Florida's future. The Commission awarded SSU \$6.7 million in additional revenue in 1993, and now they are asking that \$8 million be refunded. This will create mass confusion and severe financial ramifications with our customers. Monthly bills for homeowners in nearly 100 communities throughout the state will increase, some by as much as 300 percent. And the rates of the high-use water customers who appealed will drop even further, encouraging less conservation concern than ever among these high-use customers.

minnesota power

Governor Chiles
November 21, 1995
Page 3

Governor, I don't believe we are whiners. If you believe we're at fault somehow, I hope you'll tell us what we've done wrong so that we have a chance to consider doing things differently. We want to do the right things and do those things right. If you have any questions about our corporate citizenship record, I invite you to talk to Arne Carlson, Governor of Minnesota. I'm sure he'll tell you Minnesota Power is one of the top corporate citizens in the State of Minnesota, from the multi-faceted standard of dedication to economic development, to outstanding service to utility customers and honesty and integrity in all our business activities.

The FPSC actions of late require us to pursue fair treatment through asking the Commission to reconsider its decisions which affect us so negatively or, if necessary, through the courts. Court action may engender negative publicity for MP; however, we have no choice but to seek fair treatment. We'll not be driven from Florida without a fight, a fight thrust on us by an inconsistent and problematical FPSC decision-making process and record.

We want to help solve Florida's water-related issues, but we can't do so when FPSC decisions create for us violations of loan covenants with our lenders. With the loss of income this FPSC order would produce, our coverage ratio would be well below the minimum required by the loan documents. We simply cannot continue putting \$20 million or more annually into water utility investments, most of it to meet environmental and customer-needs demands, unless we can make a reasonable profit. We certainly can't do so if we are in default with our lenders! This is not a rocket-science issue, but rather one of simple equity and fairness. The public-private partnership is just not working, and it needs to be fixed!

We will continue our efforts to get fair treatment from the FPSC directly or, if it's not forthcoming from them, through the courts. Any advice, guidance, counsel or constructive criticism you can offer to normalize the current unfortunate situation will be appreciated and seriously considered. We are willing to meet anytime, anyplace, with anyone for that purpose.

I hope to hear from you soon.

Sincerely,



Arend Sandbulte

mjk

copy: Lt. Gov. Buddy McKay

cc: Ed Russell; Jim Roberts; John Cirello; Brian Armstrong; Ida Roberts

FINANCIAL IMPACT OF FPSC ORDER**Reversing Uniform Rates and Ordering Refund**

SSU faces potentially severe financial consequences as a result of the FPSC order (PSC-95-1292-FOF-WS, 10/19/95) which reverses its order on uniform rates for SSU (docket number 920199-WS).

- In its final 1993 uniform rate order (docket number 920199-WS) the FPSC authorized additional revenues for SSU of \$6,670,033. On October 19, 1995, the Commission reversed itself on uniform rates and ordered SSU to refund \$8,677,803 to certain customers without providing any provision for recovery of these monies.
- The FPSC authorized return on equity in the 1993 rate order was 12.14 percent. Due to required investments in new plant, rising expenses, and reduced revenues, SSU projects a 1995 return of -0.43 percent. *SSU is losing money at current authorized rates even before considering the impact of an \$8.68 million refund.*
- Through October 1995, SSU has incurred a year-to-date loss of \$453,749. If the FPSC does not reconsider its 10/19/95 order, including the refund, SSU will book an aggregated after-tax loss in excess of \$5 million in 1995. *The company's retained earnings will be wiped out.*
- The following financial and operational consequences have occurred as a result of recent Commission decisions:
 - ◊ SSU has been placed on a credit watch by its principal lenders SunBank, N.A. and CoBank.
 - ◊ SSU's pretax interest coverage is below 1, a level classified as non-investment grade by rating agencies.
 - ◊ The company's primary bonding company, SafeCo Surety, has advised that SSU will be unable to obtain performance bonding for the ordered refund, without parent company indemnification.
 - ◊ The company's liquidity uncertainties are significant and there are serious doubts as to whether SSU can continue to meet operating, construction, and debt service requirements from current revenue.
 - ◊ A proposal for a back-up credit line was withdrawn by a prospective lender.
- SSU is being forced to *relinquish* its role as receiver of Enterprise Utilities Corporation because of the approximately \$1 million needed to provide a new adequate means for effluent disposal and the impact such an investment would have on customers.
- SSU is having to decline a request from the Florida Department of Environmental Protection that SSU take over troubled water and wastewater plants in Tampa.

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

RECEIVED
JAN - 3 1996

DATE: January 3, 1996

TO: Blanca Bayó, Director of Records and Reporting

FROM: Susan F. Clark, Chairman *WJL for SEC* FPSC-RECORDS/REPORTING

RE: Communication from Secretary of Commerce Charles Dusseau regarding Docket Nos. 920199-WS, 930880-WS and 950495-WS

Please find attached a copy of a letter of January 2, 1996, from Secretary of Commerce Charles Dusseau. Because this letter addresses matters relevant to pending proceedings, it is necessary to place this memorandum and attachment on the records of the above-referenced proceedings pursuant to section 350.042, Florida Statutes. Please give notice of this communication to all parties to the dockets and inform them that they have 10 days from receipt of the notice to file a response.

Attachment



FLORIDA DEPARTMENT OF COMMERCE
Secretary Charles Dusseau

9

GOVERNOR
Lawton Chiles

January 2, 1996

Office of the
Secretary
(904) 488-3104
Fax: (904) 922-9150

Economic
Development
(904) 488-6300
Fax: (904) 922-9595

Susan F. Clark, Chairperson
Florida Public Service Commission
Gunther Building
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0855

International Trade
and Development
(904) 486-6124
Fax: (904) 487-1407

Dear Commissioner Clark:

Tourism
(904) 922-8887
Fax: (904) 922-9329

I recently received a copy of a letter sent to Governor Chiles by Mr. Arend Sandbulte, Chairman and CEO of Minnesota Power in Duluth, Minnesota. As you are aware, Minnesota Power owns Southern States Utilities, a water and wastewater utility company based in Apopka. This letter outlined his corporation's concerns regarding the PSC's recent uniform rate ruling pertaining to Southern States Utilities (PSC-95-1292-FOF-WS).

Administrative
Services
(904) 488-9377
Fax: (904) 921-2174

Businesses frequently contact this Department with concerns about regulatory decisions, and the PSC under your leadership has been very supportive of our efforts to ensure a fair and favorable setting for economic development in Florida. Your recent cooperation on the economic development expenditures issue and the telephone area code issue are good examples. However, as you can imagine, one of the basic elements for business survival in any marketplace is a predictable and stable business climate. Without it, business managers are unable to make informed decisions which can often make the difference between business survival and failure. An unpredictable environment, even in a regulated setting, can put tremendous financial pressure on firms such as SSU, which may lead them to rethink their investment in Florida and could cause businesses considering Florida as a site for expansion to go elsewhere.

In this case, I have asked a member of our staff, Nick Leslie, to consult with your staff and with the Water Policy Office in the Department of Environmental Protections. Nick will advise me on the reasoning behind the Commission's order and on what, if any, recourse might be available to Southern States Utilities. Nick can be reached at 487-2568.

FLORIDA

Collins Building
107 West Gaines Street
Tallahassee, Florida 32399-2000

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Susan F. Clark, Chairperson
January 2, 1996
Page Two

As always, I appreciate the cooperation of the Commission and thank you for your attention to this issue.

Sincerely,

A handwritten signature in cursive script that reads "Charles Dusseau". The signature is written in dark ink and is positioned below the word "Sincerely,".

Charles Dusseau
Secretary of Commerce

CD:ss

cc: Governor Lawton Chiles
Jeff Sharkey