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REPLY TO: **Tallahassee**

July 22, 1992

Mr. Steve Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0850

HAND DELIVERED

Re: FPSC Docket No. 920199-WS

Dear Mr. Tribble:

Enclosed for filing in the above-referenced docket on behalf of Southern States Utilities, Inc. and Deltona Utilities, Inc. are an original and fifteen copies of the prefiled direct testimony of the following:

- ACK ✓ 1. Arend J. Sandbulte, 13 pages of testimony; 08052-92
- AFA 2 2. Bert T. Phillips, 29 pages of testimony with Exhibits 08057-92
APP BTP-1 through BTP-2;
- CAF 3. Forrest L. Ludsen, 33 pages of testimony with Exhibits 08058-92
CMU FLL-1 through FLL-6;
- CTR 4. Charles L. Sweat, 23 pages of testimony with Exhibits 08055-92
EAG CLS-1 through CLS-2;
- LEG 1 5. Scott W. Vierima, 13 pages of testimony with Exhibit 08056-92
L I er's 4 SWV-1;
- CLC 6. Charles K. Lewis, 29 pages of testimony; 08057-92
- REH 7. Gary S. Morse, 15 pages of testimony with Exhibits GSM-1 08058-92
S G 1 through GSM-3;
- WAB 8. Helena Loucks, 17 pages of testimony with Exhibits HL-1 08059-92
WEM through HL-6;
- 9. Joseph P. Cresse, 7 pages of testimony with Exhibits 08060-92
JPC-1 through JPC-3;

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FPSC-BUREAU OF RECORDS

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08052 JUL 22 1992
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Mr. Steve Tribble
July 22, 1992
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10. Gerald C. Hartman, 22 pages of testimony with Exhibits
GCH-1 through GCH-2; and 08061-92

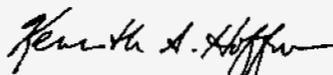
11. Bruce E. Gangnon, 7 pages of testimony. 08062-92

In addition, also enclosed are fifteen copies of this letter and the Certificate of Service for the above-identified testimony.

Please date stamp the extra copy of this letter enclosed to indicate this filing and return the copy to me.

Thank you for your assistance in the processing of this filing, and please call if there are any questions or further requirements.

Sincerely,



Kenneth A. Hoffman

KAH:sb\920199.tlt

Enclosures

cc: Parties of Record
Brian P. Armstrong, Esquire

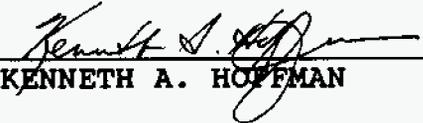
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Prefiled Direct Testimony of Arend J. Sandbulte, Bert T. Phillips, Forrest L. Ludsen, Charles L. Sweat, Scott W. Vierima, Charles K. Lewis, Gary S. Morse, Helena Loucks, Joseph P. Cresse, Gerald C. Hartman, and Bruce E. Gangnon on behalf of Southern States Utilities, Inc. and Deltona Utilities, Inc. in Docket No. 920199-WS has been served by hand delivery(*) and/or U.S. Mail on July 22, 1992 to the following parties of record:

Matthew Feil, Esq.*
Cathy Bedell, Esq.*
Division of Legal Services
Fla. Public Service Commission
101 E. Gaines Street
Tallahassee, FL 32301

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BY:


KENNETH A. HOFFMAN

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DIRECT TESTIMONY OF AREND J. SANDBULTE
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
on behalf of
OF SOUTHERN STATES UTILITIES, INC.
AND DELTONA UTILITIES, INC.
DOCKET NO. 920199-WS

DOCUMENT NUMBER-DATE
08052 JUL 22 1992
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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

6 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

7 A. My position is Chairman, President and Chief
8 Executive Officer of Minnesota Power.

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

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

1 named Vice President and Chief Financial Officer
2 in 1976 and Senior Vice President, Finance and
3 Administration, and Chief Financial Officer in
4 1978. In 1980, I was named Executive Vice
5 President and Chief Financial Officer, and in
6 1983, I was appointed to the Chief Operating
7 Officer position in addition to retaining the
8 earlier positions. In 1984, I became President
9 and Chief Operating Officer. In 1988, I was
10 elected President and Chief Executive Officer,
11 and in 1989 was named to my current position of
12 Chairman of the Board, President and Chief
13 Executive Officer.

14 My primary responsibilities in my current
15 position are to provide overall leadership and
16 direction to the Company and to guide development
17 of appropriate long-range strategic plans. I
18 lead and work with the Board of Directors and
19 provide guidance to the Company's Group Vice
20 Presidents in managing the strategic, tactical,
21 and day-to-day activities assigned to them.

22 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES**
23 **OR ASSOCIATIONS?**

24 **A. I am a Registered Professional Engineer in the**
25 **states of Minnesota, North Dakota and Wisconsin**

1 and a member of the Institute of Electrical and
2 Electronic Engineers (IEEE).

3 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA
4 PUBLIC SERVICE COMMISSION OR ANY OTHER REGULATORY
5 BODY?

6 A. I have not testified before the Florida Public
7 Service Commission. However, I have testified
8 before state and federal regulatory authorities
9 on numerous occasions including each of Minnesota
10 Power's electric utility rate cases since 1975
11 before the Minnesota Public Utilities Commission
12 (MPUC) and the Federal Energy Regulatory
13 Commission and its predecessor, the Federal Power
14 Commission. Generally, I have testified in
15 matters of overall Company policy as well as rate
16 design, rate of return and similar matters. I
17 have also testified before several other
18 regulatory agencies on matters of power plant
19 siting, certificates of need and transmission
20 line routing. I have also testified before the
21 Wisconsin Public Service Commission concerning
22 rates sought by Minnesota Power's Wisconsin
23 utility subsidiary, Superior Water, Light & Power
24 Company.

25 Q. WHAT HAS BEEN THE EXTENT OF YOUR INVOLVEMENT WITH

1 **THE PLANNING FOR AND MANAGEMENT OF MINNESOTA**
2 **POWER'S INVESTMENT IN SOUTHERN STATES UTILITIES,**
3 **INC. AND DELTONA UTILITIES, INC.**

4 A. I have been extensively involved in Minnesota
5 Power's diversification efforts since they began
6 in 1983. Currently, I am Chairman of the Board
7 of all 7 of Minnesota Power's directly held
8 subsidiaries. In addition, in my capacity as
9 Chief Executive Officer of Minnesota Power, I am
10 responsible for the implementation of business
11 and growth strategies for the entire corporation,
12 including our diversification strategies.

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. I will (1) briefly describe Minnesota Power, the
16 nature of its business and its service territory,
17 (2) describe Minnesota Power's philosophy
18 regarding diversification into the Florida water
19 and wastewater industry and (3) discuss our
20 future plans in Florida.

21 **Q. COULD YOU PLEASE PROVIDE A BRIEF DESCRIPTION OF**
22 **MINNESOTA POWER, ITS BUSINESS AND ITS SERVICE**
23 **TERRITORY?**

24 A. Yes. Minnesota Power's operations are classified
25 into three broad areas: "Core", "Core Support",

1 and "Diversification." Our Core business
2 provides electric service throughout northern
3 Minnesota and northwest Wisconsin. Minnesota
4 Power serves 120,000 retail electric service
5 customers and supplies wholesale power to 14
6 municipalities as well as to our Wisconsin
7 subsidiary Superior Water, Light & Power Company.
8 Over one-half of Minnesota Power's electric
9 revenues are derived from just nine large
10 industrial customers in the iron ore processing
11 and papermaking industries.
12 Our Core Support businesses are businesses that
13 bear a reasonably direct and beneficial
14 relationship to Minnesota Power's core electric
15 operations and are located in their geographic
16 vicinity. For example, our 50% joint venture
17 participation in the Lake Superior Paper
18 Industries paper mill in Duluth, Minnesota
19 created an estimated 2,000 jobs in our electric
20 service territory and added a large electric
21 service customer to our system. Other Core
22 Support businesses include a North Dakota coal
23 mining company, a company pursuing cogeneration
24 opportunities with our industrial customers, a
25 company that manufactures utility vehicles

1 (aerial and digger units), and a company that is
2 pursuing business opportunities in energy
3 efficiency, resource conservation, solid waste
4 management and pollution prevention.
5 Minnesota Power considers its involvement in
6 water and wastewater utilities in Florida and in
7 North and South Carolina to be Diversification.
8 The goal to be achieved by engaging in these
9 operations is to provide solid earnings from
10 enterprises that are geographically, financially
11 and operationally diverse from economic cycles
12 that may affect our core electric business. Of
13 course, the customers served by these water and
14 wastewater operations receive the benefits of our
15 experience in a regulated industry, our
16 commitment to the environment, and, to date, our
17 presence as a source of significant capital
18 financing through equity infusions.
19 Our goal for the year 2000 is that the Core
20 activities provide 50% of earnings, Core Support
21 provide 20% of earnings and Diversification
22 provide 30% of earnings.

23 **Q. WHAT IS YOUR ASSESSMENT OF THE PROSPECTS OF**
24 **MATERIAL EARNINGS GROWTH IN MINNESOTA POWER'S**
25 **CORE UTILITY OPERATIONS FOR THE FORESEEABLE**

1 **FUTURE?**

2 A. Let me say first that we are targeting 5%

3 earnings growth annually for the 1990s.

4 Minnesota Power's core electric operations are

5 expected to remain relatively stable with slow

6 earnings growth in the foreseeable future.

7 Annual electric load growth of approximately one

8 percent is predicted with a stable or slightly

9 declining industrial base. Most of our earnings

10 growth is therefore expected to come from Core

11 Support and Diversification activities, and we

12 expect to invest heavily in these activities to

13 produce that growth. Water and wastewater

14 businesses are expected to grow the most through

15 natural growth and acquisitions.

16 **Q. HOW HAS MINNESOTA POWER'S MANAGEMENT BEEN**

17 **EVALUATED BY MINNESOTA REGULATORS?**

18 A. I believe Minnesota regulators are well satisfied

19 with the performance of Minnesota Power's

20 management. We have been able to maintain low

21 rates while providing reliable and

22 environmentally sound electric service. I also

23 believe we have a very good working relationship

24 with our Minnesota regulators which is an

25 important part of our "partnership" strategy with

1 all Minnesota Power stakeholders, including
2 customers, shareholders and regulators.

3 Q. PLEASE DESCRIBE THE PHILOSOPHY OF MINNESOTA POWER
4 BEHIND ITS DIVERSIFICATION INTO THE FLORIDA WATER
5 AND WASTEWATER INDUSTRY.

6 A. Consistent with the needs and goals I expressed
7 previously, our diversification strategy involves
8 businesses meeting one of two tests: (1) either
9 they are in a regulated industry or (2) they must
10 bear a reasonably direct and beneficial
11 relationship to our "core" electric power
12 business.

13 The purpose of what we call our Diversification
14 activities, namely the water and wastewater
15 utility businesses in Florida, North Carolina and
16 South Carolina, is to provide solid earnings from
17 enterprises that are geographically, financially
18 and operationally diverse from economic cycles
19 that may affect our core electric business. We
20 feel that we know how to operate regulated
21 utility businesses and believe that our
22 experience in doing so will result in profitable,
23 well-managed utility businesses in those states.

24 Q. IS MINNESOTA POWER CONSIDERING EXPANDING ITS
25 WATER AND WASTEWATER UTILITY BUSINESS IN FLORIDA

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THOUGH THE ACQUISITION OF OTHER UTILITIES?

A. Yes, as I stated earlier, we want our water and wastewater businesses to contribute 30% of earnings by the year 2000. As can be seen through our recent acquisition of Lehigh Utilities, Inc. (Lehigh) in 1991 and our efforts to consolidate the numerous other water utility holdings that we have acquired in Florida over the last few years, which I will refer to collectively as "Southern States," Minnesota Power is always looking for opportunities to expand its water and wastewater utility business in Florida. We would like to expand our water operations on a systematic basis if other water utility businesses can be acquired at a reasonable cost and if such systems are compatible with our diversification goals and existing water systems.

Q. WHAT DEGREE OF AUTONOMY DOES THE EXISTING MANAGEMENT OF SOUTHERN STATES HAVE CONCERNING THE OPERATIONS OF THE FLORIDA WATER AND WASTEWATER SYSTEMS?

A. The existing management of Southern States has a high degree of autonomy and control regarding the day-to-day operations of the Florida water and

1 wastewater systems. The President of Southern
2 States, Bert Phillips, and all of the senior
3 management personnel of those utilities are
4 located in Apopka, Florida. This management team
5 is responsible for running the entire water and
6 wastewater operation, including making decisions
7 on capital improvements, system operations and
8 all aspects of customer service.

9 Q. WHAT ARE MINNESOTA POWER'S FUTURE PLANS
10 CONCERNING SOUTHERN STATES AND THE FLORIDA WATER
11 AND WASTEWATER INDUSTRY IN GENERAL?

12 A. Minnesota Power's primary plan concerning
13 Southern States is to establish Minnesota Power
14 as a long-term presence in Florida's water and
15 wastewater utility industry. Our primary goal
16 is to provide reliable water and wastewater
17 utility service at reasonable rates, in a manner
18 consistent with environmental concerns, and earn
19 a fair return on investment. We recognize that
20 increasingly stringent environmental standards
21 and relatively rapid customer growth will
22 require, as in the recent past, significant
23 investments in capital improvements in Southern
24 States' water and wastewater systems. In
25 exchange for our investments in capital

1 improvements, we expect that Southern States will
2 be allowed to earn a reasonable return on the
3 money invested.

4 Q. IN LIGHT OF THE APPROXIMATELY EIGHT YEAR HISTORY
5 OF MINNESOTA POWER'S DIVERSIFICATION EFFORTS IN
6 THE FLORIDA WATER AND WASTEWATER INDUSTRY, WHAT
7 IS YOUR OVERALL ASSESSMENT OF THE FUTURE
8 PROSPECTS OF SOUTHERN STATES?

9 A. I am confident that we have the right
10 organization, the right businesses, the right
11 people, and the right strategy to continue to
12 improve our past performance. Our progress to
13 date has not been easy. We are attempting to
14 combine over 100 small and medium size water and
15 wastewater systems into a larger, more efficient
16 organization. In a sense, we are bringing order
17 to what otherwise would be a somewhat chaotic
18 patchwork of water and wastewater systems. Our
19 overall assessment of the future prospects of our
20 Florida operations is optimistic. We believe
21 that our continued efforts will result in
22 improved customer service and water quality,
23 reasonable prices for our customers, and a fair
24 return on our investment.

25 Q. IF SOUTHERN STATES IS NOT GRANTED THE RATE

1 **INCREASES THEY SEEK IN THIS PROCEEDING, WHAT DOES**
2 **THE FUTURE HOLD FOR SOUTHERN STATES?**

3 A. Without the requested rate relief to allow
4 Southern States to continue to make investments
5 in their operations, the future prospects of the
6 company are not good. Southern States has
7 significant revenue requirement deficiencies that
8 should be recognized in this proceeding. Without
9 rate increases, Southern States simply will not
10 have sufficient financial strength to continue to
11 meet the capital and operational requirements
12 that are being imposed upon it by federal, state
13 and local laws, ordinances, rules and
14 regulations. Without rate relief, I believe
15 there could be significant deterioration in both
16 the quality of service and an inability of
17 Southern States to attract needed low-cost
18 capital for required capital projects.

19 Q. **COULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

20 A. Yes. The highlights of my testimony are as
21 follows:

22 1. Minnesota Power views the Southern States
23 operations as key components in its overall
24 corporate strategy. We believe that our
25 experience in running regulated utility

1 operations has benefited Southern States and
2 its customers.

3 2. Minnesota Power's ultimate goal for Southern
4 States is that the company provide superior
5 customer service, which in turn requires
6 Southern States to continue to upgrade
7 facilities to meet water quality standards
8 and customer growth. In exchange for this
9 commitment, Minnesota Power, the source of
10 a significant portion of the funding of such
11 upgrades, expects a fair return on its
12 investment.

13 3. The rate increases requested by Southern
14 States are absolutely necessary to allow the
15 company to meet its goal of improved
16 customer service. Without rate relief,
17 Southern States will not have the financial
18 strength to make necessary system upgrades
19 or operate its systems properly, and access
20 to lower cost financial markets will remain
21 impossible.

22 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

23 A. Yes, it does.