BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Southern States Utilities, Inc. and Deltona Utilities, Inc. for Increased Water and Wastewater Rates in Citrus, Nassau, Seminole, Osceola, Duval, Putnam, Charlotte, Lee, Lake, Orange, Marion, Volusia, Martin, Clay, Brevard, Highlands, Collier, Pasco, Hernando, and Washington Counties.	)	Docket No. 920199-WS Filed: April 6, 1992

SOUTHERN STATES' MOTION FOR
<u>STAY OF ORDER NO. PSC-93-0423-FOF-WS</u>

SOUTHERN STATES UTILITIES, INC. ("Southern States"), by and through its undersigned counsel, hereby requests the Commission to enter a stay of that portion of Order No. PSC-93-0423-FOF-WS ("Final Order") requiring a refund, with interest, of the difference between originally approved and revised interim rates pending disposition of all motions for reconsideration filed in this proceeding. In support of its Motion for Stay, Southern States states as follows:

1. On March 22, 1993, the Commission issued its Final Order in this proceeding. Southern States and Intervenor CYPRESS AND OAK VILLAGES ASSOCIATION ("COVA") timely filed motions for reconsideration of the Final Order. On April 2, 1993, OFFICE OF PUBLIC COUNSEL ("Public Counsel") filed a motion requesting an extension of time until April 19, 1993 to file its motion for reconsideration. On April 5, 1993, Southern States filed its response in opposition to Public Counsel's request for extension of time.

2. The Final Order requires Southern States to refund, with interest, interim revenues collected by Southern States pursuant to Order No. PSC-92-0948-FOF-WS issued November 8, 1992 which exceed the revised interim revenue requirements reflected in the Final Order. Total annual interim revenue requirements ordered pursuant to Order No.

PSC-92-0948-FOF-WS were $16,347,596 for water and $10,270,606 for wastewater. Total annual revised interim revenue requirements reflected in the Final Order, at 105-106, are $15,277,225 for water and $9,990,709 for wastewater. In addition, the Final Order sets out rate design parameters to be followed by Southern States in implementing the refund and requires Southern States to obtain approval of the refund rates before implementing the refund. <u>See</u> Final Order, at 106, 110.

3. Rule 25-30.360(2), Florida Administrative Code, clearly contemplates stays of orders requiring refunds pending disposition of motions for reconsideration. The Rule provides, in pertinent part:

> Unless a stay has been requested in writing and granted by the Commission, a motion for reconsidereation of an order requiring a refund will not delay the timing of the refund. <u>In the event that a stay is granted pending reconsideration, the timing of the refund shall commence from the date of the order disposing of any motion for reconsideration</u>. [Emphasis supplied.]

The Commission's current policy and interpretation of Rule 25-30.360(2), F.A.C., is to grant a requested stay of a Commission-ordered refund pending disposition of a motion for reconsideration. <u>See</u> copy of page 9 of Order No. PSC-93-0455-NOR-WS issued March 24, 1993 attached hereto as Exhibit "A".

4. The logic supporting the Commission's policy of granting stays of refunds pending disposition of motions for reconsideration is compelling. It would be senseless to require the temporary distribution of a refund pending reconsideration when the Commission is fully aware that the utility is entitled to an automatic stay and

retention of the revenues should it seek judicial review.[1]

WHEREFORE, Southern States respectfully requests the Commission to enter an Order granting a stay of the provisions of Order No. PSC-93-0423-FOF-WS requiring Southern States to refund interim revenues collected pursuant to Order No. PSC-92-0948-FOF-WS which exceed revised interim revenues reflected in the Final Order pending disposition by the Commission of all motions for reconsideration filed in this proceeding. Southern States further requests the Commission to stay any enforcement procedures with respect to the above-referenced refund until a determination is reached on the instant stay request.

Respectfully submitted,

KENNETH A. HOFFMAN, ESQUIRE
Messer, Vickers, Caparello,
Madsen, Lewis, Goldman & Metz, P.A.
P. O. Box 1876
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and

[1]Southern States would be entitled to a mandatory stay pending judicial review under Rule 25-22.061(1)(a), F.A.C. Indeed, the Commission has held that the mandatory stay provision of Rule 25-22.061 (applicable to Commission-ordered rate reductions and refunds) applies equally to a motion for stay pending reconsideration. See In re: Review of the requirements appropriate for Alternative Operator Services and Public Telephones, 89 FPSC 4:190, 191 (Order No. 21051 issued April 14, 1989).

BRIAN P. ARMSTRONG, ESQUIRE
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(407) 880-0058

Attorneys for Southern States Utilities, Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing Southern States' Motion for Stay of Order No. PSC-93-0423-FOF-WS was furnished by hand delivery (*) and/or U. S. Mail, this 6th day of April, 1993, to the following:

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By: ______________________
KENNETH A. HOFFMAN, ESQ.

3120
1158

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Proposed Revisions to Rules 25-30.020, 25-30.025, 25-30.030, 25-30.032, 25-30.033, 25-30.034, 25-30.035, 25-30.036, 25-30.037, 25-30.060, 25-30.111, 25-30.135, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; NEW RULES 25-30.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 to 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, and 25-30.475; AND REPEAL OF RULE 25-30.441, F.A.C., Pertaining to Water and Wastewater Regulation	DOCKET NO. 911082-WS ORDER NO. PSC-93-0455-NOR-WS ISSUED: 03/24/93

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
THOMAS M. BEARD
SUSAN F. CLARK
JULIA L. JOHNSON

NOTICE OF RULEMAKING

NOTICE is hereby given that the Commission, pursuant to section 120.54, Florida Statutes, has initiated rulemaking to amend proposed revision to Rules 25-30.020, 25-30.025, 25-30.030, 25-30.032, 25-30.033, 25-30.034, 25-30.035, 25-30.036, 25-30.037, 25-30.060, 25-30.111, 25-30.135, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; New Rules 25-30.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 to 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, and 25-30.475; and Repeal of Rule 25-30.441, Pertaining to Water and Wastewater Regulation.

The attached Notice of Rulemaking will appear in the April 2, 1993 edition of the Florida Administrative Weekly. A hearing will be held at the following time and place:

EXHIBIT "A"

DOCUMENT NUMBER-DATE
03239 MAR 24 93
FPSC-RECORDS/REPORTING

3121

The effect will be to eliminate an issue at hearings and to reduce regulatory cost.

Rule 25-30.135 is revised to clarify what information must be made available for customer inspection and to specify the location where this information is to be available.

Rule 25-30.320 is revised to tighten the restrictions on disconnection of service for fraudulent use.

Rule 25-30.335 is revised to remove obsolete language, clarify the standard information that is required on customer bills and to require utilities to bill the base facility charge to customers regardless of usage. The effect is to standardize the rules applicable to the different industries.

Rule 25-30.360 is revised to codify the PSC's policy of granting a stay of a refund pending reconsideration, and the policy on unclaimed refunds, to reduce rate case expense and staff's workload.

Rule 25-30.430 is revised to transfer the provision on prepared testimony to another more appropriate rule, and to codify current PSC practice.

Rule 25-30.432 is created to codify the procedure for determining certain engineering issues in rate cases. This will result in fewer issues to be addressed at hearing and reduced rate case expense.

maturity date, in this case 20 to 30 years from issue. Many retiree medical payments will become payable within the next two decades, requiring the purchase of bonds with shorter maturities, which currently yield less than 8%. In addition, some retiree medical payments will become payable beyond a thirty-year horizon, forcing the reinvestment of maturing bond principal into, most likely, lower yielding shorter-term bonds in order to meet payments soon to become payable.

Given these realities, there are no sound investment principles that I am familiar with that will form a basis to set the discount rate above the current yield of long-term corporate or utility bonds.

Q. **MS. MONTANARO HAS SUGGESTED THAT AN ADJUSTMENT TO SSU'S FAS 106 COSTS SHOULD BE MADE BECAUSE THE PERCENT MARRIED ASSUMPTION USED IN THE CALCULATION OF THOSE COSTS IS UNREASONABLE. DO YOU CONSIDER THE ASSUMPTION USED FOR THE PERCENTAGE OF RETIREES MARRIED OF 85% TO BE REASONABLE?**

A. Yes, but allow me to clarify exactly what this assumption is depicting and how it is applied in an actuarial projection. This assumption is depicting the percentage of retirees who will be married <u>at retirement</u> when benefits commence and coverage is elected for their spouses. Indeed, it is only at the time when an employee retires that a dependent spouse can gain coverage under the plan. Consequently, it is at that point in time that the assumption is applied in an actuarial projection. Each person eligible for benefits is subject to his or her own mortality from that point forward. Thus, with each successive year after retirement the percentage of a given generation of retirees who are married will decrease as both participants and spouses begin to die.

Q. **IN HER TESTIMONY, MS. MONTANARO INDICATED THAT ONLY ABOUT 50% OF RETIREES CURRENTLY HAVE SPOUSE COVERAGE. DO YOU AGREE WITH THIS FINDING?**

A. Yes I do. Looking at a current retiree census will easily establish that fact although I would note that the current retiree population is not a statistically significant sample. In any event the fact that 50% of current retirees are married is not inconsistent with the assumption that 85% of employees will be married at retirement and elect spouse coverage at that time.

Q. **PLEASE EXPLAIN WHY THERE IS NO INCONSISTENCY.**

A. The explanation lies in the phrase "at retirement". As I noted earlier, for any existing group of retirees, the percentage who are married at any point <u>after</u> retirement will be <u>less</u> than the percentage who <u>were</u> married at retirement. Using our actuarial demographic software, we modelled an emerging retiree and retiree spouse population, subjecting them to mortality at rates equal to those assumed in the actuarial valuation. Based on a single retirement age of 62, we assumed that 85% of retiring employees were married and elected spouse coverage at retirement. When the composition of the growing retiree and retiree spouse group stabilized after a number of years, we found that of those retirees and retiree spouses still collecting benefits, between 50% and 60% were retirees still married with a covered spouse, which is consistent with the observation made by Ms. Montanaro.

Q. MR. NEUWIRTH, SPEAKING AS AN ACTUARY, IS THERE ANY BASIS FOR MS. MONTANARO'S ADJUSTMENT FOR THE MARITAL DEPENDENCY ASSUMPTION?

A. None whatsoever. The 85% assumption is not only reasonable but is a very common actuarial assumption. The proposed adjustment was based on an incorrect understanding of an actuarial application.

Q. THE LAST ASSUMPTION FOR WHICH MS. MONTANARO IS PROPOSING AN ADJUSTMENT IS THE RETIREMENT AGE ASSUMPTION. FIRST, DO YOU CONSIDER THE RETIREMENT AGE ASSUMPTION INITIALLY USED IN THE ACTUARIAL VALUATION TO BE REASONABLE, AND IF SO, WHY?

A. Based on my conversation with the actuary performing the valuation, I consider the assumption to be quite reasonable. No single retirement age assumption was used but rather rates of retirement were used. A retirement rate for an age is the probability an employee will retire at that age, provided he or she has not yet retired.

The retirement rates utilized inherently assume that the vast majority of employees (90.4%) will retire at age 60 or later, a large majority (73.2%) will retire at age 62 or later and nearly a third (32.8%) of all retiring employees will retire at age 65 or later. The average expected retirement age produced by the assumed retirement rates is 62.5. These statistics depict a reasonable expectation of future retirements, and, in fact, were based on an experience study performed on the pension plan in which SSU employees participated.

Q. **MR. NEUWIRTH, SPEAKING AS AN ACTUARY, IS THERE ANY BASIS FOR MS. MONTANARO'S ADJUSTMENT FOR THE RETIREMENT AGE ASSUMPTION?**

A. None whatsoever. It appears that the proposed adjustment is based on an incorrect understanding of the calculation of liabilities under FAS 106. Ms. Montanaro is apparently confused about the difference between the point at which full accrual of benefits occurs and the point at which benefits commence, i.e. the assumed retirement age.

Q. WILL YOU DISTINGUISH FOR US THE DIFFERENCE BETWEEN THE FULL ACCRUAL OF BENEFITS AND THE ASSUMED RETIREMENT AGE?

A. The best way to distinguish these concepts is with a short example. Consider an employee who was hired at age 25. Based on the assumed retirement rates, on average the employee will retire at age 62.5 after 37.5 years of service. The Accumulated Postretirement Benefit Obligation, or more simply the "APBO", under Financial Accounting Standard No. 106 for this person will be the actuarial present value of the portion of all future benefits that have been earned to date, assuming that such benefits will commence at age 62.5. The accounting statement requires that benefits be considered fully earned or accrued as of the date those benefits would first be available, i.e. the earliest allowable retirement age, which is age 55 in this case. This does not mean we're assuming benefits will commence at age 55; indeed, we're assuming they will commence at age 62.5. Rather, this means that this person will earn 1/30th of future benefits assumed to commence age 62.5 for each year of service rendered between the ages of 25 and 55. Consequently, this person's APBO at age 40, for example, will be the actuarial present value of 1/2 of the benefits assumed to commence at age 62.5, since 15 years of the 30 possible years of service to age 55 have been rendered. In summary, the point at which the full accrual of benefits is supposed to occur tells an actuary what portion of future benefits will be considered to have been earned to date. The retirement age assumption tells the actuary when those earned future benefits will become payable.

Q. HOW WERE YOU ABLE TO TELL THAT THESE CONCEPTS WERE CONFUSED IN MS. MONTANARO'S PROPOSED ADJUSTMENT FOR THE RETIREMENT AGE ASSUMPTION?

A. Ms. Montanaro appears to be under the incorrect impression that benefits are assumed to commence at 55 rather than age 62.5 (on average), and consequently was analyzing how many "benefit years" to expect for employees retiring at various ages beginning at age 55. After she had claimed that no employees retired prior to age 60, she targeted what she thought were benefits which are always assumed to be payable between age 55 and 60 but had never been realized. Consequently, her proposed adjustment was to have the following effect, as she stated in her testimony: "This (adjustment) removes five years of benefit costs which have historically not been used". As we now know, benefits between age 55 and 60 are not heavily taken into account in the valuation in the first place, since benefits are assumed to begin at age 62.5 on average in the actuarial projections.

Q. **MR. NEUWIRTH, AS A CONCLUSION TO YOUR TESTIMONY IN THE AREA OF ACTUARIAL ASSUMPTIONS, PLEASE SUMMARIZE YOUR FINDINGS.**

A. Regarding the discount rate assumption, I consider the initial choice of 8% to be reasonable and have explained why if anything 8% may be considered somewhat high.

Regarding the marital dependency assumption, I have testified that, given my actuarial experience, the assumption that 85% of retiring employees are married at retirement and elect spouse coverage is not only reasonable but a very common assumption. Furthermore, I have explained how this assumption could naturally lead to the observation which incorrectly formed the basis for Ms. Montanaro's proposed adjustment.

Regarding the retirement age assumption, based on my conversation with the actuary who performed the valuation, I believe the retirement rates used in the valuation were reasonable. Furthermore, I believe that Ms. Montanaro's proposed adjustment was based on a misunderstanding of the difference between the point of full accrual of benefits and the point at which benefits commence. The adjustment in fact attempts to eliminate the payment of future benefits that were not assumed to be payable in the first place.

Q. **DO YOU HAVE ANY OTHER COMMENTS ON MS. MONTANARO'S TESTIMONY?**

A. Yes. In her testimony Ms. Montanaro made an adjustment to recognize that the company has been analyzing alternatives to their current plan. Ms. Montanero based her adjustment on "Proposed Plan 2" presented in the Actuarial Study of May 29, 1992. I believe that there is no logical basis for using "Proposed Plan 2" in developing SSU's FAS 106 costs, because "Proposed Plan 2" was never *adopted* by Southern States Utilities and was never *communicated* to employees. As I said earlier, FAS 106 requires that the "substantive plan", that is, the plan as understood by the parties to the exchange transaction - the employer and the employees - shall be the basis for the accounting.

Q. **IN YOUR OPINION WOULD "PROPOSED PLAN 2" HAVE BEEN A REASONABLE PLAN DESIGN ALTERNATIVE FOR SSU TO IMPLEMENT?**

A. No. In my opinion the implementation of "Proposed Plan 2" would have had very negative employee relations consequences and would have placed SSU at a severe competitive disadvantage relative to other utilities in the labor market.

Q. **PLEASE EXPLAIN WHY YOU SAY THIS.**

A. The key cost containment element of "Proposed Plan 2" would have been the introduction of a $10,000 lifetime benefit maximum for retirees over age 65. This sort of provision would undoubtedly cause alarm among employees because their post-65 coverage would simply not be sufficient to pay for a catastrophic illness and more importantly, even in the absence of a catastrophic illness, it is likely that benefit maximum would be reached long before the employee dies thereby leaving the retiree with no employer provided medical coverage at a time when he could least afford to buy his own. In addition to the employee relations aspect, such a plan provision is simply not competitive. Our firm maintains a data base of the retiree medical plans of approximately 1,000 corporations nationwide. Included in that data base are 77 utilities, eight of whom are in Florida. <u>None</u> of those 77 utilities has a lifetime benefit maximum of $10,000. Furthermore, of the eight Florida utilities, none have a lifetime maximum less than $750,000.

Q. **CLEARLY, THOUGH, SSU WAS LOOKING AT WAYS TO CONTAIN THE COST OF ITS RETIREE MEDICAL PLAN. WERE ANY COST CONTAINMENT MEASURES ACTUALLY ADOPTED BY SSU?**

A. Yes. Instead of "Proposed Plan 2" SSU chose to adopt and communicate alternative cost containment measures. Those measures included increasing the deductible from

$100 to $200, decreasing the percentage of costs paid by SSU for non-approved providers from 80% to 70%, significantly increasing retirees' monthly contributions and eliminating the $750 Special Accident benefit.

Q. **IN LIGHT OF THIS, DO YOU THINK THAT INSTEAD OF MS. MONTANARO'S PROPOSED ADJUSTMENT THERE SHOULD BE AN ADJUSTMENT TO SSU'S FAS 106 COSTS TO REFLECT THE COST CONTAINMENT MEASURES THAT WERE ADOPTED BY SSU?**

A. No. I believe no adjustment to the FAS 106 costs is necessary. First of all, one aspect of the cost containment measures adopted by SSU was already reflected in the FAS 106 cost in that the actuarial valuation included an assumption that monthly retiree contributions would increase each year to keep pace with the increase in medical costs. Secondly, although reflecting the other cost containment measures adopted by SSU as of 1/1/93 would serve to reduce the FAS 106 costs, this adjustment would be approximately offset by the fact that, all things being equal, 1993 FAS 106 costs would be expected to be higher than 1992 FAS 106 costs.

In other words, by submitting the 1992 FAS 106 costs, SSU was in effect understating the actual impact of FAS 106 on the company when SSU adopts the new standard in 1993. The technical reason this occurs can be seen by considering how the liability for a given active employee changes from one year to the next. This is appropriate here because the vast majority of covered individuals at SSU are active rather than retired. Let's take, for example, an employee aged 45 as of 1/1/92 who is assumed to retire and begin receiving benefits at age 62 (i.e. on 1/1/09). The total present value of his benefits as of 1/1/92 (and thus the amount that ultimately will be reflected under FAS 106) is calculated by first determining the stream of benefit payments he will receive beginning at age 62 and then discounting that stream of payments back 17 years to 1/1/92. Now on 1/1/93 this employee is one year older and thus one year closer to retirement. The projected stream of payments is the same as before but the liability has grown because we are discounting that stream for 16 years instead of 17 years. The liability on 1/1/93 for this employee would therefore be expected to exceed the 1/1/92 liability by a percentage equal to the annual discount rate. In the case of SSU that would suggest that expected 1/1/93 FAS 106 liabilities will be approximately 8% higher than those shown as of 1/1/92. Now of course the example I've given is very much oversimplified, but in the absence of actuarial gains or losses, that is about the percentage increase you would expect to see. It turns out that the cost containment measures undertaken by SSU might be expected to produce reductions in FAS 106 costs of approximately the same amount which would offset the increase I have just described, but would not warrant a downward adjustment.

Q. **THE POINT HAS BEEN RAISED THAT SSU HAS NOT TAKEN APPROPRIATE STEPS TO REDUCE THEIR FAS 106 LIABILITY BY REDESIGNING THEIR PLAN. WOULD YOU CARE TO COMMENT?**

A. To address this point Godwins has recently undertaken a comparative benefits study and found that, after considering the cost containment efforts that SSU has made, SSU provides postretirement benefits which are very much in line with those provided by other utilities both in Florida and throughout the country as a whole. In particular, we compared the retiree medical benefits provided to SSU employees to those provided to employees of other utilities both in Florida and on a national basis.

Q. **WHAT METHODOLOGY DID YOU USE TO COMPARE THE RETIREE MEDICAL BENEFITS PROVIDED BY SSU TO THOSE PROVIDED BY OTHER UTILITIES?**

A. We used what we call the Benefit Level Indicator or "BLI" methodology to compare the benefits at SSU to others. This methodology was developed by Godwins specifically to make comparisons between the levels of retiree medical benefits of different companies without reference to actual claim experience of current retirees.

Q. **HAS THIS METHODOLOGY EVER BEEN USED IN PROCEEDINGS OF THIS KIND?**

A. Yes. Our firm recently performed a comparative study for GTE of California using the BLI methodology. That study was submitted to the California Public Utilities Commission (CPUC) as part of GTE's filing before the Commission.

Q. **DID THE CPUC ACCEPT THE FINDINGS OF THAT STUDY AS VALID?**

A. Yes.

Q. **PLEASE EXPLAIN THE BLI METHODOLOGY.**

A. As I noted earlier, the BLI methodology provides a way to compare the benefit levels of different sets of retiree medical plan provisions without reference to actual claims experience.

A plan's Benefit Level Indicator is defined as the percentage of total medical claims incurred by an employer's retirees that will be reimbursed by the employer's benefit program. This definition applies only to a specific plan (e.g. the plan for which the employer's active employees may become eligible) and the BLIs are based on current levels of medical costs and Medicare reimbursement. In order to calculate the BLI of a given employer's postretirement medical plan, one needs the plan provisions and an anticipated frequency distribution of medical charges broken down by type of charge and size of charge.

The frequency distributions which Godwins uses were developed from a claims data base based on the experience of 40,000 retirees who participate in employer sponsored postretirement medical programs. For pre- and post-65 claimants, frequency weights, monetary weights, hospital/drug/other service ratios and Medicare reimbursements by type have been developed.

A particular plan's gross BLI is computed by determining how much the plan would reimburse at each claim amount in the distribution. The reimbursement amount is determined separately for each type of charge, e.g. hospital, drug, etc. Medicare reimbursement is taken into account explicitly for each type of charge based on the form of Medicare integration in the plan. Each reimbursement is then divided by the corresponding claim to obtain a reimbursement ratio. These ratios are then weighted by the claim amount weights in the distribution to determine the gross BLI.

Per retiree contribution rates are then compared to per retiree claim amounts and that ratio is used as an offset to the gross BLI to determine the final net preand post-65 BLIs (the pre- and post-65 benefit plans are considered separately). The pre- and post-65 BLIs can be analyzed independently or can be weighted and combined to derive an overall BLI for a given program.

Q. **WHAT COMPANIES WERE INCLUDED IN YOUR COMPARATIVE ANALYSIS?**

A. We compared SSU's retiree medical plan to those of 77 other utilities throughout the United States. Florida utilities comprised 8 of those 77 companies. A complete list of those utilities is included as Exhibit ___ (PJN-2) to my testimony.

Q. **WHAT WERE THE RESULTS OF YOUR ANALYSIS?**

A. Because plan provisions both at SSU and other utilities vary so significantly between benefits offered to retirees under age 65 and to those over age 65 we calculated BLIs for both the pre-65 plan and the post-65 plan for each company. The pre-65 BLI for SSU was found to be 0.7607 while the post-65 BLI was determined to be 0.1226. The average pre-65 BLI for the eight other Florida utilities for whom we had plan provisions was 0.7198 while the average post-65 BLI was 0.2905. Nationally, the average utility's pre-65 BLI was 0.7771 and it's post-65 BLI was 0.2445.

Q. **WHAT DO YOU CONCLUDE FROM THESE RESULTS?**

A. My conclusion is that SSU's program as a whole provides somewhat lower benefits to retirees than the average plan of other utilities both in Florida and in the country as a whole. On a national basis both SSU's pre-65 and post-65 BLIs are below the average BLIs. With respect to Florida utilities, while it's true that SSU's pre-65 BLI is slightly higher than the average (0.7607 vs. 0.7198), the Company's post-65 program is far less generous than the average (0.1226 vs. 0.2905). When the BLIs are ranked by company SSU's pre-65 BLI ranks below three other Florida utilities and higher than five. SSU's post-65 BLI ranks lowest of all Florida utilities in the survey.

Q. **COULD YOU DESCRIBE THE FACTORS AFFECTING THE RESULTS OF YOUR STUDY?**

A. The most striking result of the study was how low the level of benefits provided to SSU retirees over the age of 65 was compared to retirees over age 65 at other Florida utilities. There were two main reasons for this. First of all, the method by which SSU's plan integrates with Medicare, which is known as Benefit Carve-Out provides the lowest benefit to the retiree relative to the other available methods (Coordination of Benefits and Expense Carve-Out). Only three of the eight Florida utilities use the Benefit Carve-Out approach. Three use Expense Carve-Out and two use the Coordination of Benefits approach. Second, and more importantly, the required post-65 retiree contributions at SSU are by far the highest of all the Florida utilities in the study. In fact, four of the other eight utilities required no contributions from their post-65 retirees.

Q. COULD YOU BRIEFLY SUMMARIZE YOUR OPINION AS TO THE COST CONTAINMENT MEASURES ADOPTED BY SSU AND HOW SSU'S POSTRETIREMENT MEDICAL BENEFITS NOW COMPARE WITH THOSE PROVIDED BY COMPANIES WITH WHOM SSU COMPETES FOR LABOR?

A. Like many other companies, SSU has taken significant steps to reduce costs by adopting and communicating specific cost containment measures such as increasing the deductible amount, decreasing SSU's reimbursement percentage for non-approved providers and significantly increasing retirees' monthly contributions. These cost containment efforts were the result of SSU's analysis of various plan design alternatives. In the course of this analysis, SSU considered and rejected "Proposed Plan 2" as an alternative. As I noted, I believe "Proposed Plan 2" was appropriately rejected by SSU, because its key feature (a $10,000 lifetime benefit maximum) would have been unique and uncompetitive compared with the plan of benefits offered by other utilities. Furthermore, it would have resulted in a significant loss of coverage for post-65 retirees thus causing significant employee relations problems.

In terms of how SSU's benefits now compare with other utilities, I have described the benefit study performed by our firm. Based on that study, it is my opinion that among those utilities who provide postretirement medical benefits, SSU's program (after taking into consideration the cost containment measures that the company actually adopted), is on balance somewhat less generous than the average program both within Florida and nationally. This is attributable to the combination of a fairly average plan of benefits with the most restrictive available method of Medicare integration and extremely high retiree contributions for those over age 65.

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

A. Yes.

Actuarial Valuation of the Retiree Health and Death Benefits Provided by the SSU Services, Inc.

January 28, 1992

MILLIMAN & ROBERTSON, INC.

Actuarial Valuation of the Retiree Health and Death Benefits Provided by the SSU Services, Inc.

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MILLIMAN & ROBERTSON, INC.

Actuaries and Consultants

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Brookfield, Wisconsin 53005
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January 28, 1992

SSU Services, Inc.
1000 Color Place
Apopka, FL 32703

Attention: Ms. Roxan R. Haggerty

RE: **Actuarial Valuation of the
Retiree Health and Death Benefits**

Ladies & Gentlemen:

We have completed an actuarial valuation of the retiree health and death benefits for SSU Services, Inc. The results of our calculations are set forth in the following report, as are the actuarial assumptions on which our calculations have been made. We have relied on the basic employee data as submitted by your office.

As the results, discussions, conclusions and recommendations of this report are considered, it is important to remember that these results are based on projections of future claims experience. These projections are particularly sensitive to changes in certain assumptions. While we have included numbers which demonstrate the impact of a change in the medical cost trend assumption, the scope of this study does not permit analysis of the potential variability associated with other assumptions (such as retirement decrements), nor does it deal with possible external changes (such as Medicare Catastrophic Coverage or National Health Insurance). The results, therefore are intended as a guide, not as a prediction. They should give management a sense of the magnitude of the financial obligation.

Ms. Roxan R. Haggerty
January 28, 1992
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On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, amplifying Opinions and supporting Recommendations of the American Academy of Actuaries.

In our opinion, the individual assumptions used are reasonably related to the experience of the plan and to reasonable expectations, and represent our best estimate of anticipated experience under the Plan.

Sincerely,

Thomas K. Custis, F.S.A.
Consulting Actuary

Paul W. Withington

Paul W. Withington
Actuarial Assistant

TKC/PWW/bh

Actuarial Valuation of the
Retiree Health and Death Benefits
Provided by the
SSU Services, Inc.

I. INTRODUCTION AND SUMMARY OF RESULTS

This report presents the results of an actuarial valuation of the health and life insurance plans covering the retirees of SSU Services, Inc. This valuation was based on census data as of July of 1991 for the active employees and as of November 1991 for the retired employees. Our calculations include employees not covered by the pension plan but eligible for the health and death benefits. See Appendix B for our treatment of these employees. The liabilities are all expressed as of January 1, 1992 and the expense and cost figures reflect amounts applicable to 1992.

A. Valuation Method

In December of 1990, the Financial Accounting Standards Board (FASB 106) issued its long-awaited final rules regarding "Employers' Accounting for Post-Retirement Benefits Other Than Pensions". These rules require private employers to accrue the costs of post-retirement benefits over the periods when service is provided by employees rather than on a pay-as-you-go basis after the employee retires.

FASB 106 has introduced some new terminology which is summarized below:

- The Expected Post-Retirement Benefit Obligation (EPBO) is defined as the actuarial present value of benefits expected to be paid to or on behalf of employees. The EPBO is relevant only as the basis for determination of APBO (see below).

- The Accumulated Post-Retirement Benefit Obligation (APBO) is defined as the portion of EPBO allocated to service rendered prior to the measurement date, based on the accrual period defined by the accounting standards. The APBO is the basic obligation for determination of costs and liabilities.

- The Net Periodic Post-Retirement Benefit Cost (NPPBC) is defined as the amount recognized in an employer's financial statements as the cost of a post-retirement benefit plan for a period. Components of the NPPBC include service cost, interest cost, actual return on plan assets, gain or loss, amortization of unrecognized prior service cost, and amortization of the unrecognized transition obligation or asset.

B. Summary of Results

The results presented in this report are estimates since there is some uncertainty associated with each of the assumptions used. Because of the uncertainty of the yearly increase in annual claim costs, we have shown results under an alternate trend scenario of +1% as would be required for disclosure purposes under FASB 106.

Following are the results based on our assumptions as to future trend rates. The presentation is modeled after the standard disclosure requirements set forth in FASB 106. We have shown the results net of the employee contributions expected to be received in the future. We have shown the results based upon the current plan provisions as of January 1, 1992. These provisions are all described in Section II.

The table sets forth the funded status which would be reported at January 1, 1992:

	Medical Benefits	Death Benefits	Total
Expected Post-Retirement Benefit Obligation	$11,678,973	$266,439	$11,945,412
Accumulated Post-Retirement Benefit Obligation (APBO)	6,034,055	193,786	6,227,841
Present Value of Future Employee Contributions Toward APBO	967,450	0	967,450
Employer APBO Net of Employee Contributions	5,066,605	193,786	5,260,391
Plan Assets at Fair Value	0	0	0
Employer APBO in Excess of Plan Assets	5,066,605	193,786	5,260,391
Unrecognized Net Gain From Past Experience Different From That Assumed and From Changes in Assumptions	0	0	0
Prior Service Cost Not Yet Recognized in Net Periodic Post-Retirement Benefit Cost	0	0	0
Unamortized Transition Obligation	5,066,605	193,786	5,260,391
Accrued Post-Retirement Benefit Cost	0	0	0

Upon adoption of FASB 106, the employer has the option of immediately recognizing the total liability rather than posting an unrecognized transition obligations.

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Net period post-retirement benefit cost projected for 1992 would include the following components:

	Medical Benefits	Death Benefits	Total
Service Cost - Benefits Attributed to Service During the Period	$ 648,900	$14,875	$ 663,775
Interest Cost on Accumulated Post-Retirement Benefit Obligation	404,171	15,503	419,674
Actual Return on Plan Assets	0	0	0
Amortization of Transition Obligation Over 20 Years	253,330	9,689	263,019
Net Amortization and Deferral	0	0	0
Net Periodic Post-Retirement Benefit Cost	1,306,401	40,067	1,346,468

The weighted-average health care cost trend rate used in determining the accumulated post-retirement benefit obligation was 8.8%. This trend rate was applied to both the total annual claim costs for the medical coverages and the employee contributions. Experience different from that assumed in our trend assumption will significantly impact the results of this study. In order to provide a relevant picture of the impact of the trend assumption to both the annual claim costs and the employee contributions, we have provided the impact of a 1% change in the trend for the annual claim costs separately and for both the annual claim costs and employee contributions.

The death benefit of $10,000 for retirees was assumed to remain constant.

These are illustrated as follows:

1% Increase in Trend Rate on Annual Claim Costs Only

	Medical Benefits	Death Benefits	Total
Accumulated Post-Retirement Benefit Obligation	$882,346	$ 0	$882,346
Net Periodic Post-Retirement Benefit Cost	301,840	0	301,840

1% Increase in Trend Rate on Both Claim Costs and Employee Contributions

	Medical Benefits	Death Benefits	Total
Accumulated Post-Retirement Benefit Obligation	$737,393	$ 0	$737,393
Net Periodic Post-Retirement Benefit Cost	252,290	0	252,290

The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 8.0 percent. This represents the interest rate used to determine the present value of the claims anticipated to occur in the future for retired members.

II. CURRENT MEDICAL COVERAGE

COVERAGE FOR RETIREES

Eligibility: Employees who are at least fifty-five (55) years of age or older who are retiring from the Company with at least five (5) years of service with the Company.

Medical Benefits:

- Generally 80% coinsurance for other provider
- 90% coinsurance for Great West Hospital/Physician
- Deductible = \$0 for Great West care
  = \$100/\$300 for other
- Out-of-Pocket Maximum = \$5,000/\$10,000
- Health care review service
- Medicare carve-out of benefits

Medical Contributions:

• Employee Only	\$15
• Employee Plus One Dependent	\$50
• Employee Plus Two Dependents	\$70
• Employee Plus Three or More Dependents	\$90

Death Benefits:

- \$10,000 Life Insurance Benefit

III. FUTURE MEDICAL COST INCREASES

The present value of future retiree medical benefits depends on the relationship between the assumed annual trend in health care cost increases and the discount rate. Because expenses are based on present value calculations, the expense calculations are affected by both of these assumptions. The level of benefits paid out each year also depends on the annual trend assumption.

Long-range trend assumptions were selected based on the assumed long-term relationship with the discount rate. Our estimates are based on the following assumptions:

Discount Rate	= 8.0%
Long Range Weighted Average Trend Rate	= 8.8%

Clearly, the basic relationships between these assumptions are subject to variation. Their absolute levels could also vary significantly from those assumed. However, since it is the relationship between the trend and discount rate that affects the magnitude of the obligations, varying their absolute values while keeping the same spread would not produce dramatic changes in the general patterns produced by the assumptions shown in this report.

For purposes of determining the trend increase on the health plan cost to the employer, we applied a trend factor starting at 12% and grading down to 8% after a period of 8 years.

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NET PERIODIC COST TERMINOLOGY

The terminology utilized in calculating the net periodic post-employment benefit cost is described below.

A. Service Cost

This represents the cost of the portion of an employee's benefit deemed to be earned in the current year. In pension plans where a benefit is earned during each year of service, it is relatively easy to visualize the Service Cost as being the cost for each participant of the benefit earned in the current year. In a program such as a post-retirement life or health insurance plan, this cost cannot be easily related to the benefit formula. Instead the Service Cost was calculated so that the total value of a participant's benefit would be accrued in equal units over his total service to the earlier of expected retirement or full eligibility. Thus if an employee's total projected service to retirement (or full eligibility, if earlier) was 30 years, 1/30th of the value of the expected post-retirement benefit obligation would be the Service Cost. This would be the annual cost over the long term if (1) the Service Cost attributable to the past had been full funded, and (2) interest were earned at the assumed rate on the accumulated post-retirement benefit obligation.

B. Interest Cost

This represents the amount of investment income which would be earned if the employer had previously funded the total Service Cost for past periods. This is offset by actual investment returns on the qualified pension plans, since they have been funded. On unfunded plans such as the retiree life and health insurance plans, there is no offsetting actual investment return and so this represents an additional expense. Since the SSU Services, Inc. plans were not funded, the assets to cover these liabilities remain on the corporate balance sheet and the investment income they generate is included in earnings.

C. Amortization Accruals

To the extent that actual past costs differ from the Service Costs that should have been accrued in the past, that difference as of the effective date of the new rules is to be amortized over the average future working lifetime of employees expecting to benefit under the SSU Services, Inc. plans or 20 years, if greater. Since these are unfunded plans, there is an obligation which is to be accrued.

Appendix B
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Actuarial Valuation of the Retiree Health and Death Benefits Provided by the SSU Services, Inc.

Summary of Census Data

	7/1/91 Pension Data	1/1/92 Estimate
ACTIVE		
Number	340	460*
Average Age	-	40.6
RETIREES		
Number	9	9
Average Age	-	66.8

*Includes those employees who are eligible for health and life benefits but are not in the pension plan.

SUMMARY OF ACTUARIAL ASSUMPTIONS

Investment Return: 8.0% compounded annually.

Mortality Rates: 1971 Group Annuity Mortality Male Table for males and 1971 Group Annuity Mortality Male Table set back six years for females.

Termination Rates: Special rates based on the Company's recent past experience.

Retirement Rates:

Age	Probability of Retirement
Less than 55	0%
55-59	2
60-61	10
62	30
63-64	20
65 and Over	100

Percentage Married: 85% with the spouse three years younger.

1992 Annual Claim Costs: The annual claim costs of benefits utilized in the projections are summarized below:

Annual Claim Costs as of January 1, 1992	
Age 65 - Single	$ 970
Age 65 - Family	$1,930

Appendix C
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Increase in Benefits Costs by Year ("Trend"): Annual per capita benefit costs were projected to grow each year due to increases in the cost of health care attributable to inflation, utilization and changes in the types of services provided. This is referred to as "trend" in the report. The trend rate assumed was a graded schedule as shown below:

Year	Medical Trend Rate
1992	12.0%
1993	11.5
1994	11.0
1995	10.5
1996	10.0
1997	9.5
1998	9.0
1999	8.5
After 1999	8.0

Retiree Contributions: Current retiree contribution rates were also assumed to increase at the medical trend rate.

EXHIBIT PJN-2

SOUTHERN STATES UTILITIES

- Southern States Utilities

AVERAGE BLI FOR SOUTHERN STATES UTILITIES

PRE-65: .7607

POST-65: .1226

FLORIDA UTILITIES

- Florida Cities Water Co.
- Florida Power
- Florida Power & Light
- Gulf Power
- Orlando Utilities Commission
- Palm Coast Utility Corp.
- Sunray Utilities
- Tampa Electric Co.

AVERAGE BLI FOR FLORIDA UTILITIES

PRE-65:	.7198
POST-65:	.2905

OTHER UTILITIES

- Allegheny Power
- American Electric Power
- Ameritech Info. Tech. Corporation
- Arizona Public Service
- Arkansas Power & Light
- AT&T
- Bell Atlantic
- Bell South
- Boston Edison
- Brooklyn Union Gas
- Browning-Ferris
- Carolina Power & Light
- Centel
- Central LA Electric
- Cincinnati Bell
- Coastal
- Columbia Gas System
- Commonwealth Edison

- Consolidated Edison
- Consolidated Natural Gas
- Consumers Power
- Delmarva Power & Light
- Detroit Edison
- Duke Power Co.
- Duquesne Ligth Co.
- El Paso Natural Gas
- Entergy
- Florida Cities Water Co.
- General Public Utilities
- Georgia Power
- GTE
- Hawaiian Electric
- Indianapolic Power, Light
- Iowa Electric
- Iowa Illinois Gas
- Kansas City Power & Light
- Louisville Gas & Electric
- Michigan Consolidated Gas

- Northeast Utilities
- Northern States Power
- Nynex
- Ohio Edison Company
- Omaha Public Power Distr.
- Pacific Gas & Electric
- Pacific Power
- Pacific Telecom.
- Pacific Telesis Group
- Panhandle Eastern Corp
- Penn Power & Light
- Portland General Electric
- Potomac Electric Power Co
- Public Service Company of Colorado
- Public Service Company of New Mexico
- Public Service Electric & Gas
- Salt River Project
- Scana Corporation
- Sierra Pacific Power
- SONAT

- Southern California Edison
- Southern California Gas
- Southern New England Telephone
- Southwestern Bell Corp
- Tenneco Inc.
- Texas Utilities
- Transco Energy
- Tucson Electric Power
- US West Inc
- Valero Energy Corp
- Virginia Power
- Wisconsin Electric

AVERAGE BLI FOR ALL UTILITIES

PRE-65:	.7771
POST-65:	.2445