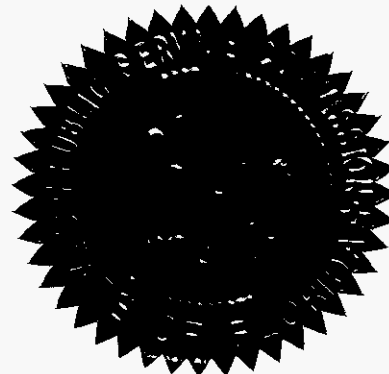


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 100104-WU

In the Matter of:

APPLICATION FOR INCREASE IN WATER  
RATES IN FRANKLIN COUNTY BY WATER  
MANAGEMENT SERVICES, INC.



VOLUME 3

Pages 215 through 386

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PROCEEDINGS: HEARING

COMMISSIONERS  
PARTICIPATING: COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER NATHAN A. SKOP  
COMMISSIONER ART GRAHAM

DATE: Wednesday, October 6, 2010

TIME: Commenced at 9:32 a.m.  
Concluded at 11:41 a.m.

PLACE: St. George Island Volunteer Fire  
Department  
324 East Pine Avenue  
St. George Island, Florida

REPORTED BY: LINDA BOLES, RPR, CRR  
Official FPSC Reporter  
(850) 413-6734

APPEARANCES: (As heretofore noted.)

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## I N D E X

## WITNESSES

NAME:	PAGE NO.
ANDREW T. WOODCOCK	
Continued Cross Examination by Ms. Scoles	218
Cross Examination by Mr. Sayler	224
Redirect Examination by Mr. McGlothlin	233
DONNA RAMAS	
Direct Examination by Mr. McGlothlin	243
Prefiled Direct Testimony Inserted	248
Cross Examination by Ms. Scoles	325

EXHIBITS

1  
2  
3  
4  
5  
6  
7  
8  
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81

243

82

243

83

218

## P R O C E E D I N G S

(Transcript follows in sequence from  
Volume 2.)

**COMMISSIONER SKOP:** Good morning. We're going to reconvene the technical portion of the hearing. And where we left off was we were on the cross-examination of Witness Woodcock. But before we resume that, I'd look to Staff to enter Exhibit 83.

**MR. JAEGER:** Yes, Commissioner.

**COMMISSIONER SKOP:** Is Staff going to formally enter that?

**MR. JAEGER:** Okay. Staff moves that Mr. Bean's SGI Civic Club letter be entered into the record.

**COMMISSIONER SKOP:** Any objection?

**MS. SCOLES:** No, Chairman.

**COMMISSIONER SKOP:** All right. Hearing none, show it done.

(Exhibit 83 admitted into the record.)

And, Ms. Scoles, you're recognized to proceed.

**MS. SCOLES:** Thank you, Chairman.

**CONTINUED CROSS EXAMINATION**

**BY MS. SCOLES:**

**Q.** Mr. Woodcock, good morning.

**A.** Good morning.

**Q.** Are you doing okay this morning?



1           **A.**    I am.

2           **Q.**    Good.  You may remember that we talked a  
3 little bit yesterday about the lot count method that you  
4 had used.

5           **A.**    Yes.

6           **Q.**    I want to ask a question or two about that to  
7 make sure I understand your answers.

8                    Is it your testimony that plant should be  
9 removed from the used and useful calculation if a  
10 customer on a particular lot no longer takes service  
11 from the Utility?

12           **A.**    Okay.  Can you repeat that?

13           **Q.**    Sure.  Would it be your testimony that plant  
14 should be removed from the used and useful calculation  
15 if a customer on a particular lot at one time did take  
16 service from the Utility but then chooses to disconnect  
17 and not to take service?

18           **A.**    Let me say that the used and useful  
19 calculation is a percentage.  So I'm not looking to  
20 remove plant or remove a dollar item at that point of  
21 the used and useful calculation.

22                    However, if there is a lot that is on a, that  
23 is adjacent to a line of the utility and it is not  
24 receiving service from that utility, then I would remove  
25 it from the used and useful calculation.

1           **Q.**    So I believe your, the answer to my question  
2 would be yes then as, as you have qualified?

3           **A.**    Yes, I have qualified.    Correct.

4           **Q.**    Okay.  Would you agree that the Utility still  
5 has to provide service to that lot when and if the  
6 customer decides to hook back up at some point in the  
7 future?

8           **A.**    I believe pursuant to the certificate, yes,  
9 they would.  Yes.

10          **Q.**    Would the Utility still have the obligation to  
11 provide fire protection to that lot, even if they're no  
12 longer taking service?

13          **A.**    Yes, they would.

14          **Q.**    So while the Utility has prudently invested in  
15 plant in order to serve the customers in its service  
16 territory, you are recommending that the Utility be  
17 denied recovery for that investment; is that correct?

18          **A.**    Can, can you restate that?

19          **Q.**    Sure.  So while the Utility -- in this case  
20 we're talking about the lines are there to serve the  
21 customers.  So if the Utility has prudently invested in  
22 that plant in order to serve the customers in that  
23 service territory, based on what we've talked about here  
24 this morning, you're recommending that the Utility be  
25 denied recovery for that investment.

1           **A.**    Are we talking about just these customers that  
2 are on potable water wells?

3           **Q.**    The customers who may choose to take service  
4 or not take service.

5           **A.**    I'm not sure I'm following your question.  
6 When I do the used and useful calculation, it's on the  
7 lot-to-lot method with the lots that are adjacent to the  
8 lines of the potable water system.  If there is a  
9 customer of the Utility there, then that is considered  
10 used and useful.  If there is a blank lot or a vacant  
11 lot, let's say, adjacent to that line, I would consider  
12 that non used and useful.  If there is, as we seem to  
13 have some limited cases here in this service area, a  
14 potable water well that provides service to a house that  
15 also happens to be adjacent to a water line, I would say  
16 that they should be removed from the used and useful  
17 calculation.  So it's not going to count in the  
18 denominator as a lot that is adjacent to a Utility line,  
19 nor is it going to be considered in the numerator as a  
20 customer of the Utility.

21           **Q.**    And the Utility is not going to get recovery  
22 for that portion of the investment.

23           **A.**    Well, completely removing those lots from the  
24 calculation would basically -- how should I say this --  
25 increase the used and useful because it would be

1 removing that lot from the denominator of the, of the  
2 used and useful calculation. In other words, it  
3 wouldn't be considered as a lot adjacent to the Utility  
4 lines. So the used and useful would essentially go up  
5 slightly as a result. So the Utility would be  
6 recovering from that investment to the extent that the  
7 used and useful increases as a result of that  
8 adjustment.

9 Q. Okay. I'm not sure I followed your response.

10 I believe you said yesterday that you have  
11 quite a bit of experience with municipal systems; is  
12 that right?

13 A. Correct.

14 Q. And as we've alluded to this morning, here  
15 you're recommending a non used and useful adjustment.

16 A. For this Utility?

17 Q. For this Utility.

18 A. Yes.

19 Q. Okay. Based on your experience, how do  
20 municipal utilities finance non used and useful plant?

21 A. Used and useful, rate base is not a concept in  
22 government utility ratemaking.

23 Q. Oh, okay. So in your area of expertise  
24 there's not, there's not used and useful plant or non  
25 used and useful plant?

1           **MR. McGLOTHLIN:** Object to the form of the  
2 question. The witness has never said his expertise is  
3 limited to municipal utilities.

4           **COMMISSIONER SKOP:** Ms. Scoles, to the  
5 objection. Or if you'd restate, please.

6           **MS. SCOLES:** I'll move on.

7 **BY MS. SCOLES:**

8           **Q.** Okay. Mr. Woodcock, based on your  
9 recommendation in this case that the needed capital  
10 improvements not be included in rates, how should the  
11 Utility here, Water Management Services, obtain the  
12 funds that it needs to competitively bid, engineer and  
13 construct those needed capital improvements?

14           **A.** I am not objecting to the projects being  
15 included into rate base. What I'm objecting to is the  
16 use of engineering planning level cost estimates as the  
17 documentation to be included into that rate base.

18           **Q.** Okay. And based on that, how should the  
19 Utility obtain the funds it needs to competitively bid,  
20 engineer and construct those improvements?

21           **A.** I'm sorry. Can you repeat that last part?

22           **Q.** Sure. Based on the statement that you just  
23 made summarizing your recommendation for us, how should  
24 Water Management Services obtain the funds it needs to  
25 competitively bid, engineer and construct the capital

1 improvement projects?

2           **A.** I am not a Utility financial planner. I, I  
3 don't even know if that's within my realm of expertise  
4 to, to say, although I think it's been established in my  
5 cross-examination yesterday that with at least  
6 government-owned utilities generally you seek to  
7 increase revenues to cover debt service or use a  
8 pay-as-you-go capital funding mechanism.

9           **Q.** Do you have any suggestions for Water  
10 Management Services on how they could obtain the  
11 financing to do the improvements?

12           **A.** Are they retaining my services?

13                   (Laughter.)

14           **Q.** I'm not sure they have the money for that,  
15 but.

16           **A.** I, I will say that as far as a regulated  
17 entity that Water Management Services coming to the  
18 Public Service Commission in this manner for a rate  
19 increase seems to be the appropriate mechanism to go  
20 down that road.

21           **MS. SCOLES:** All right. Thank you,  
22 Mr. Woodcock. I don't have anything further, Chairman.

23           **COMMISSIONER SKOP:** All right. Thank you.  
24 Staff.

25                                   **CROSS EXAMINATION**

1 **BY MR. SAYLER:**

2 Q. Good morning. Just a brief line of questions.  
3 Good morning, Mr. Woodcock.

4 A. Good morning.

5 Q. My name is Erik Sayler. How are you?

6 A. Good. Thank you.

7 Q. If you have a copy of your testimony, if  
8 you'll turn to your Exhibit ATW-5.

9 A. I have it.

10 Q. Would you agree that ATW-5 is essentially your  
11 comparison of the PBS&J Alternative 2 and 3, and then  
12 you have created an Alternative 3 adjusted; is that  
13 correct?

14 A. That is correct.

15 Q. And to summarize Alternative 2, Alternative  
16 2 that PBS&J recommended was essentially constructing a  
17 new ground storage tank on adjacent property that the  
18 Utility would have to purchase; is that correct?

19 A. That is Alternative 2?

20 Q. Uh-huh.

21 A. Yes.

22 Q. And then Alternative 3 is demolishing the  
23 existing tank and building a new tank on the same  
24 location; is that correct?

25 A. That is correct.

1           Q.    If the Utility went with Alternative 2, the  
2 additional property -- excuse me.  If additional  
3 property were to be purchased for Alternative 2, would  
4 there be additional property taxes to be paid by the  
5 Utility on an annual basis?

6           A.    I would assume that there would be.  Yes.

7           Q.    All right.  Would you agree that Alternative  
8 2 includes a few extra items that are not included in  
9 Alternative 3?

10          A.    Yes, it does.

11          Q.    And I believe on your testimony, page 10, to  
12 summarize, Alternative 2 includes -- if you want to turn  
13 to page 10.

14          A.    I'm there.

15          Q.    All right.  Alternative 2 includes relocating  
16 a high service pump on the roof of the new tank,  
17 relocating the emergency generator.  And one of the  
18 reasons for the higher cost of the tank was presumably  
19 due to a reinforced tank roof to support the relocated  
20 pump service equipment and to provide for a dual wall  
21 wet well; is that correct?

22          A.    That is correct.

23          Q.    And your Alternative 3 adjusted basically  
24 includes those three items in the Alternative 2.

25          A.    Yes, it does.  It may include a few others.



1 I'd have to check. But those are the main ones, yes.

2 Q. All right. And would you agree that one of  
3 the main differences between the price of Alternative  
4 2 and Alternative 3 is that more than just a wall  
5 within, within the Alternative 3 configuration making it  
6 a dual wet well configuration; is that correct?

7 A. I'm sorry. Can you restate that?

8 Q. Yes. Let me do that. Alternative 3, excuse  
9 me, Alternative 2 is a dual wet well. So essentially  
10 there's some sort of divider within the tank itself to  
11 create two different chambers; is that correct?

12 A. Correct.

13 Q. Alternative 3 is just a single wet well or a  
14 common wet well. There's no divider wall.

15 A. No divider wall. That is correct.

16 Q. So one of the main differences between 2 and 3  
17 is that it's not just having two cavities, but there  
18 must be some sort of reinforcing within Alternative 2 to  
19 be able to support the high capacity service pumps on  
20 the roof; is that correct?

21 A. Yes, that is correct. Yes.

22 Q. Okay. Now can you give the Commission just an  
23 understanding of why it is important or why the Utility  
24 is proposing to move the pumping equipment for the new  
25 storage tank on top of the -- or just aboveground, I

1 should say?

2           **A.**    Okay.  And I'm going to assume that the  
3 regulation came into effect after this Utility was  
4 built.

5           **Q.**    Which regulation is that?

6           **A.**    The regulation I'm about to talk about.

7           **Q.**    Okay.

8           **A.**    Just a little preface there.  DEP now requires  
9 a certain level of operation in the event of a flood for  
10 utilities.  And I don't have the specific rule in front  
11 of me, but basically it says the Utility has to keep  
12 operating in the event of a 100-year flood.

13                   Now we're in a coastal environment.  Right now  
14 the high service pumps are basically located on the  
15 ground.  The flood elevation in 100 years is  
16 significantly higher than that.  So if you're going in  
17 and you're making some major adjustments to this Utility  
18 system and the water treatment plant, DEP is going to  
19 require that the water treatment plant meet these new  
20 regulations, and, therefore, the pumps need to be  
21 elevated above that 100-year floodplain.

22                   Now what PBS&J is recommending in their  
23 alternative is to basically locate those on the top of  
24 the tank because they're going to be putting a new tank  
25 there.  So the, the reason why those are, those pumps

1 are on top of the tank is to address that regulation.

2 Q. And subject to check, that DEP regulation is  
3 set forth in Rule 62-555.320(4), *Florida Administrative*  
4 *Code*; is that correct?

5 A. Subject to check. Yes.

6 Q. Subject to check. All right. Thank you very  
7 much for your time this morning.

8 COMMISSIONER SKOP: Thank you. Questions from  
9 the bench?

10 COMMISSIONER GRAHAM: A quick one.

11 COMMISSIONER SKOP: Commissioner Graham,  
12 you're recognized.

13 COMMISSIONER GRAHAM: Good morning,  
14 Mr. Woodcock.

15 THE WITNESS: Good morning.

16 COMMISSIONER GRAHAM: As far as the new pumps  
17 that you're talking about, is it cheaper to get a, a  
18 more reinforced tank to put the pump on top or would it  
19 be cheaper to build another platform to put the pumps up  
20 at that height?

21 THE WITNESS: You raise a very good point.  
22 The -- when you're putting the pumps up high like that,  
23 you're going to need to have a different type of pump.  
24 It's a vertical turbine type pump. And for that type of  
25 pump you need to have a deep wet well for the impellers

1 to go down into. So one can be designed, a separate  
2 independent structure. However, it would also have to  
3 contain a certain volume of water for the pumps to  
4 actually draw the water out and get it into the system.

5 With what's being proposed in the PBS&J  
6 report, they're actually making one consolidated  
7 structure. I can't tell you right now if one  
8 alternative would be significantly cheaper than the  
9 other. But with what PBS&J is recommending, there's a  
10 certain, I guess, structural simplicity there in the  
11 fact that you're incorporating two functions in one  
12 structure.

13 **COMMISSIONER GRAHAM:** So there is actually an  
14 option 4 then.

15 **THE WITNESS:** It would be an option, yes. It  
16 can be done. I can't tell you right now if it would be  
17 economically advantageous or not to do that.

18 **COMMISSIONER GRAHAM:** Okay. That's all.

19 **COMMISSIONER SKOP:** Thank you. Any additional  
20 questions?

21 All right. Mr. Woodcock, I just have a few  
22 questions. In the instant case you testified that the  
23 applicant is seeking to have proposed capital projects  
24 included in the rate base; is that correct?

25 **THE WITNESS:** Correct.

1                   **COMMISSIONER SKOP:** Okay. In your  
2 professional opinion, is it appropriate to include such  
3 capital projects in rates when such capital projects  
4 have not been yet placed in service?

5                   **THE WITNESS:** They can be when they're not  
6 placed in service. In fact, I'm thinking of the KW  
7 Resort Utilities where the facilities were actually  
8 under construction at the time of the rate case. They  
9 weren't physically placed into service, but there was a  
10 contractor retained and there were invoices and  
11 documentation for the cost. So there was a reasonable  
12 cost to be included into rate base at that time.

13                   **COMMISSIONER SKOP:** Okay. Was KW actually  
14 providing service at that time in that case, that  
15 specific case?

16                   **THE WITNESS:** Yes, they were.

17                   **COMMISSIONER SKOP:** Okay. All right. And you  
18 mentioned with the storage tank, Staff asked a question  
19 about the property taxes, and previously you said  
20 economically you were indifferent. Would that change  
21 your opinion if property taxes were included and  
22 recovered in rates?

23                   **THE WITNESS:** It definitely is something to  
24 consider that I hadn't. You kind of leave the capital  
25 side of the equation and then move over into more of the

1 operation side.

2 Yes, I think it would. I think that the  
3 operational impact there would, it should be considered.

4 **COMMISSIONER SKOP:** Okay. And when you were  
5 asked questions about the funding of capital projects,  
6 you indicated that, I guess, your expertise is not in  
7 capital structure; is that correct?

8 **THE WITNESS:** What do you mean by capital  
9 structure?

10 **COMMISSIONER SKOP:** Well, in terms of applying  
11 the capital structure, how -- when you were asked the  
12 question of how Waste Management -- I mean, not Waste  
13 Management, I'm sorry -- Water Management Services would  
14 fund such capital projects, you were asked a line of  
15 questions regarding that. And you kind of indicated  
16 that, I believe, that your expertise really wasn't in  
17 capital structure of how those projects would be funded;  
18 is that correct?

19 **THE WITNESS:** Exactly.

20 **COMMISSIONER SKOP:** But those, those projects  
21 just holistically could be funded with debt or they  
22 could also be funded with equity or retained earnings;  
23 is that correct?

24 **THE WITNESS:** Yeah, or any, any type of  
25 funding mix.

1                   **COMMISSIONER SKOP:** Okay.

2                   **THE WITNESS:** Generally that determination of  
3 the optimal funding mix is outside of my realm of  
4 expertise.

5                   **COMMISSIONER SKOP:** Okay. All right. Very  
6 well.

7                   All right. Any additional questions from the  
8 bench before we move on?

9                   Okay. Mr. McGlothlin, you're recognized for  
10 redirect.

11                   **MR. MCGLOTHLIN:** Thank you.

12                                   **REDIRECT EXAMINATION**

13                   **BY MR. MCGLOTHLIN:**

14                   Q. Mr. Woodcock, I want to begin with one of the  
15 questions that was put to you this morning while it's  
16 still fresh in our minds, and, and I do this simply for,  
17 to make sure that the record is clear on your response.

18                   With respect to the subject of your use of the  
19 lot count method in the used and useful calculation,  
20 counsel asked you whether you were testifying that plant  
21 should be removed from the calculation if the customer  
22 took service at one point but no longer does. And in  
23 your answer you replied that you did not do that.  
24 Instead you modified the numerator in the, in the  
25 calculation.

1           And then there was a question, "Then your  
2 answer is yes, as qualified?" And you said, "Yes, as  
3 qualified." Please elaborate on what your qualification  
4 was with respect to that question and answer.

5           **A.** Okay. The question, as I understood it, is if  
6 somebody were to disconnect from the system and go on to  
7 a private potable well, is the Utility out that  
8 investment that they had provided to serve the customer?

9           In making the adjustments that I make, when  
10 that customer, all else being the same, actually  
11 disconnects from the system, they're not considered, in  
12 my adjustment not considered a lot that is adjacent to  
13 the water line. So the used and useful would go up by  
14 some marginal amount, so there would not be a loss  
15 there.

16           **Q.** But in your, in your calculation would you  
17 remove plant from the, from the amount included in the  
18 calculation?

19           **A.** In my calculation it would just be a  
20 percentage, and that percentage would increase.

21           **Q.** Now in your original calculation did you  
22 attempt to quantify those losses that would be removed  
23 under that approach?

24           **A.** In my original calculation in my testimony I  
25 did not.



1           **Q.** Did you have occasion to revisit that  
2 calculation to determine what impact such an adjustment  
3 would make on your conclusions?

4           **A.** I did. I did.

5           **Q.** Would you give the Commission the benefit of  
6 that?

7           **A.** Sure. In, it was Mr. Brown's rebuttal  
8 testimony, he said there are approximately 35 private  
9 potable wells that are within his service area. So what  
10 I did is I subtracted those 35 lots from the denominator  
11 of the used and useful. As the denominator gets  
12 smaller, used and useful goes up. But when I made that  
13 calculation, I found that it made a less than 1 percent  
14 difference. We're talking about 35 lots over a total of  
15 3,300 in the, in the service area. So there was a  
16 negligible amount due to that adjustment.

17           **Q.** Now going back to earlier questions, you were  
18 asked to agree that PBS&J that prepared the planning  
19 level estimates contained in that report is a peer to  
20 the company you work for. Do you remember that question  
21 and answer?

22           **A.** Yes.

23           **Q.** Does the fact that those estimates were  
24 prepared by an outfit that you consider to be a peer  
25 modify your position with respect to whether those

1 estimates provide adequate support to include the pro  
2 forma adjustments in rate base?

3 **A.** No, they do not. My, my issue is not the  
4 quality of the engineering behind the estimates. It's  
5 that the estimates themselves are being used in rate  
6 base.

7 **Q.** And you were asked whether in preparing your  
8 testimony you became familiar with and considered the  
9 used and useful calculation that was employed in the  
10 last rate case, and you said you did; correct?

11 **A.** I did consider it.

12 **Q.** Would you explain why after considering that  
13 you determined that the lot-to-lot approach is the  
14 appropriate one to use in this case?

15 **A.** Sure. I recognized from the initial filing in  
16 the MFR what the previous determination on the used and  
17 useful of the lines had been, recognizing that that was  
18 a case that happened many years ago. I came in my first  
19 time having looked at this system, I evaluated what I  
20 thought all were the pertinent aspects of the system,  
21 and decided that the lot-to-lot count method was the  
22 most effective for this rate case.

23 **Q.** And you were asked a series of questions that  
24 asked whether you considered such things as fire flow  
25 along a narrow island and the existence of shallow wells

1 made any difference to you. Can you explain why after  
2 considering those factors you continued to use the  
3 lot-to-lot methodology?

4 **A.** Well, it is the unique characteristics of the  
5 service area. And I recognize that there is a, due to  
6 the length of the island that there is a lot of  
7 investment in place in lines to reach customers.

8 I did not include shallow wells in my direct  
9 testimony with respect to the 35, which I think we've  
10 already discussed. However, in looking at this system  
11 and in comparing it to other systems that have been in  
12 coastal communities that I've done used and useful  
13 calculations for that provide fire flow, I found no  
14 reason to deviate from the lot-to-lot method.

15 **Q.** You were also asked another series of  
16 questions about the PBS&J work product, and in your  
17 response you described it as a series of individual  
18 technical memoranda that had been packaged together. Do  
19 you remember that question and answer?

20 **A.** Yes.

21 **Q.** And then you were asked whether that work  
22 product fulfilled the same function as a standard study,  
23 and you said it would.

24 **A.** Yes.

25 **Q.** Do you remember that question and answer?

1 What is the standard function of such a study?

2 A. Well, in the case of the technical memoranda,  
3 it actually covers a, a broad spectrum of operational  
4 and capital planning issues. Usually you'll find, you  
5 know, documents generally just relate to either capital  
6 planning or O&M. This is kind of a combination of both  
7 due to the, due to the nature of it. It is the type of  
8 study the Utility should periodically undertake to  
9 evaluate their system.

10 Q. Is the function of such a standard work  
11 product to support values for inclusion in rate base?

12 A. No.

13 Q. And you were asked about the exhibit that you  
14 prepared to provide a more apples-to-apples comparison  
15 of the alternatives for the storage tank that were  
16 addressed by the PBS&J work product.

17 A. Yes.

18 Q. And you were careful to say in one of your  
19 answers that using his numbers, referring to the PBS&J  
20 analyst, you worked up a more functional equivalent  
21 scenario. Do you remember that?

22 A. Yes.

23 Q. Why did you emphasize that you were using his  
24 numbers?

25 A. I've conducted no independent study on the

1 Utility system. And while I recognize that the work  
2 done in the PBS&J report seems reasonable and within  
3 engineering, professional engineering, you know,  
4 industry standards, if I were looking at this system and  
5 to go to a certain level of detail, I might have  
6 personally come up with different solutions or different  
7 cost estimates, and I have not done that as part of my  
8 review.

9 Q. Now with respect to the excerpts from studies  
10 that you prepared and were provided in response to  
11 discovery requests, one was from the City of Bartow;  
12 correct?

13 A. Yes, it was.

14 Q. And the other was also a municipality;  
15 correct?

16 A. Yes. The City of Orange City.

17 Q. Now you were asked whether there are some core  
18 principles that governmental entities and regulated  
19 utilities might have in common. Do you remember that  
20 question?

21 A. Yes.

22 Q. Are there some core differences between  
23 governmental entities and regulated utilities?

24 A. Absolutely.

25 Q. Would you describe what you believe to be the

1 differences to the Commission?

2           **A.** Well, I think the primary pertinent difference  
3 is ownership of the utility, whether it's investor owned  
4 or whether it's government owned, and the Public Service  
5 Commission regulation as a result.

6           Government-owned utilities are, are regulated  
7 in their rates by the governing board of the government  
8 or the authority, should it happen to be a water  
9 authority or other not-for-profit organization. They  
10 are not subject to rate cases as investor-owned  
11 utilities are before the Commission. There is no  
12 concept of used and useful. There is no rate of return  
13 that goes to the owner because the owner is, the Utility  
14 system is the city; therefore, there is no rate base.  
15 The entire rate base used and useful rate of return  
16 component that you would be familiar with in an  
17 investor-owned utility just simply does not apply with  
18 government utilities. It is, it is a nonissue.

19           **Q.** Bearing in mind those differences, and  
20 referring again to the two studies that have been  
21 excerpted, is there anything that you said in those  
22 reports with respect to governmental entities that is  
23 inconsistent or contradictory to the testimony you  
24 provided to the Commission with respect to a regulated  
25 Utility?

1           A.    No, it isn't.

2           Q.    In some of the answers you gave the  
3 Commissioners you referred to a mix of financing  
4 methods, and I think those would include use of debt or  
5 equity, and you've also referred to something called pay  
6 as you go.  Would you describe more fully what pay as  
7 you go means?

8           A.    Sure.  Pay as you go is essentially a type of  
9 capital funding using cash that's on hand.  And  
10 generally what I find, at least in the government arena,  
11 is that there's a mix between pay as you go -- in other  
12 words, you've got money in the bank you pull out to pay  
13 for assets and debt.  The exact mix of that is dependent  
14 upon a lot of factors, a lot of which is outside of my  
15 realm of expertise.  But essentially pay as you go is,  
16 is, is using the cash that's on hand to fund capital  
17 improvements.

18          Q.    Counsel for the Utility asked you a couple of  
19 hypothetical questions.  I want to ask a hypothetical  
20 also.

21                    Assume a utility that has no equity but over  
22 time has invested \$1.2 million in non-utility associated  
23 companies.  If the utility had instead retained some or  
24 all of that money that's been invested in non-utility  
25 entities --

1           **MS. SCOLES:** Objection, Chairman. This is  
2 beyond the scope.

3           **COMMISSIONER SKOP:** Mr. McGlothlin, to the  
4 objection.

5           **MR. MCGLOTHLIN:** I think the witness has  
6 alluded to the fact that while he's not a capital  
7 planner, he was asked questions about the mixed  
8 financing alternatives. He was also asked by counsel  
9 whether he had any recommendations with respect to how  
10 this utility could go about financing the engineering  
11 necessary to fund, to fund for the improvements.

12           **MS. SCOLES:** And I believe his response was it  
13 was beyond his expertise and, therefore, he could not  
14 offer anything.

15           **COMMISSIONER SKOP:** I believe that was his  
16 response. We can ask the court reporter to read that  
17 back, but I'm going to sustain the objection. If you  
18 could please move on.

19           **MR. MCGLOTHLIN:** All right.

20           If I could just have a second. I think I'm  
21 through. I want to just consult my notes for a second.

22           (Pause.)

23           That concludes my questions.

24           **COMMISSIONER SKOP:** All right. Very well. If  
25 we could take up exhibits.



1           **MS. SCOLES:** Chairman, I need to request that  
2 we move Exhibits 81 and 82 into the record, please. 81,  
3 I believe, was the City of Bartow report; 82, the Orange  
4 City report.

5           **COMMISSIONER SKOP:** Very well. Any  
6 objections?

7           **MR. MCGLOTHLIN:** No objection. I believe  
8 Mr. Woodcock's exhibits have already been admitted.

9           **COMMISSIONER SKOP:** All right. Very well.  
10 Those, 81 and 82 will be admitted into the record.

11           **MS. SCOLES:** Thank you, Chairman.

12           (Exhibits 81 and 82 admitted into the record.)

13           **COMMISSIONER SKOP:** All right. Mr. Woodcock,  
14 you may step down. And I believe, Mr. McGlothlin, if  
15 you would call your next witness.

16           **MR. MCGLOTHLIN:** Call Donna Ramas.

17           **COMMISSIONER SKOP:** Very well. Ms. Ramas,  
18 you've been previously sworn; correct?

19           **THE WITNESS:** Correct.

20           **COMMISSIONER SKOP:** All right. Thank you.

21                           **DONNA RAMAS**

22 was called as a witness on behalf of the Citizens of the  
23 State of Florida and, having been duly sworn, testified  
24 as follows:

25                           **DIRECT EXAMINATION**

1 **BY MR. McGLOTHLIN:**

2 Q. Please state your name and business address  
3 for the record.

4 A. My name is Donna Ramas, and my business  
5 address is 15728 Farmington Road, Livonia, Michigan.

6 Q. By whom are you employed?

7 A. Larkin & Associates.

8 Q. Ms. Ramas, at OPC's request, did you prepare  
9 testimony to be presented to the Commission in this  
10 docket?

11 A. Yes, I did.

12 Q. Do you have before you the document captioned  
13 Direct Testimony of Donna Ramas on behalf of the  
14 Citizens of the State of Florida?

15 A. Yes, I do.

16 Q. Do you have any changes or corrections to  
17 make?

18 A. I have a few minor corrections mainly of a  
19 typographical type nature.

20 The first one is on page 11, line 7. In that  
21 sentence there where I refer to December 31st, 2004,  
22 that should be 2003. And then on line 12 where I have  
23 the number 5 ½ years, that should be 6 ½ years.

24 The next correction is on page 64 of my  
25 testimony, line 21. Where I have the 3.81 percent, that

1 should be 3.85 percent.

2 And there are a couple of typographical errors  
3 within the exhibits also I'd like to correct. The first  
4 one, if you go to the back of my testimony, Exhibit  
5 DR-1, page 3 of 20, on line 11 where it says, "Assumes  
6 42 hours," that should be "40 hours." And then on lines  
7 11 and 12, that reference to OPC Interrog 12 should be  
8 deleted.

9 And then a final correction. If you go to my  
10 Exhibit DR-4, page 1 of 1, the last two lines of that  
11 exhibit, I inadvertently copied the titles over from  
12 further above in that exhibit. So where it says,  
13 "Increase in investment in associated companies," that  
14 should be "Decrease in notes receivable associated  
15 companies." And that's the end of my corrections.

16 But I did have one additional item pointed out  
17 in my testimony that I did not adjust for. Within my  
18 testimony I had raised that I had a concern with the  
19 timeliness of the payments of the 401K plan, but I've  
20 subsequently gone back and reviewed the general ledgers  
21 for 2010 and 2009 in more detail and also read  
22 Mr. Brown's rebuttal testimony on this issue. And I  
23 agree that the payments into the 401K plan were made  
24 within the legal requirements for the payments, so I no  
25 longer have a concern with the timing of the 401K plan

1 payments.

2 **MS. SCOLES:** I'm sorry. Is there a page  
3 reference, Chairman?

4 **THE WITNESS:** I discuss it in my testimony  
5 beginning at the bottom of page 40, line 25, through  
6 page 41, line 9. That's where I discuss that I have a  
7 concern with the 401K plan payment timing. But, again,  
8 I didn't recommend an adjustment. And since then, based  
9 on more information I've reviewed and a review of  
10 Mr. Brown's testimony, I no longer have that concern.

11 **BY MR. McGLOTHLIN:**

12 **Q.** Are those all of your changes?

13 **A.** Yes, they are.

14 **Q.** As corrected and modified by you orally, do  
15 you accept the, do you adopt the questions and answers  
16 contained in this document as your testimony to the  
17 Commissioners?

18 **A.** Yes, I do.

19 **MR. McGLOTHLIN:** I request that the prefiled  
20 testimony of Donna Ramas be inserted at this point.

21 **COMMISSIONER SKOP:** All right. Very well.  
22 The corrected prefiled testimony of Donna Ramas will be  
23 entered into the record as though read.

24 **BY MR. McGLOTHLIN:**

25 **Q.** And, Ms. Ramas, did you also prepare and are

1 you sponsoring the exhibits, the exhibits that are  
2 attached to your testimony?

3 **A.** Yes, I did.

4 **Q.** Those have already been admitted.  
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**DIRECT TESTIMONY**  
**OF**  
**DONNA RAMAS**

On Behalf of the Office of Public Counsel  
Before the  
Florida Public Service Commission  
Docket No. 100104-WU

I. INTRODUCTION/BACKGROUND/SUMMARY

**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory analyst at Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

**Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.**

A. Larkin & Associates, PLLC, is a Certified Public Accounting Firm. The firm performs independent regulatory consulting, primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings.

**Q. MS. RAMAS, WOULD YOU PLEASE SUMMARIZE YOUR**

**REGULATORY EXPERIENCE AND QUALIFICATIONS?**

1  
2 A. I graduated with honors from Oakland University in Rochester, Michigan in 1991.  
3 I have been employed by the firm of Larkin & Associates, PLLC, since 1991. As  
4 a certified public accountant and regulatory consultant with Larkin & Associates,  
5 PLLC, my duties have included the analysis of utility rate cases and regulatory  
6 issues, researching accounting and regulatory developments, preparation of  
7 computer models and spreadsheets, the preparation of testimony and schedules  
8 and testifying in regulatory proceedings. I have submitted testimony in over sixty  
9 (60) regulatory proceedings in various jurisdictions in the United States of  
10 America, including several proceedings before the Florida Public Service  
11 Commission. I have also developed and conducted five training programs on  
12 behalf of the Department of Defense - Navy Rate Intervention Office on  
13 measuring the financial capabilities of firms bidding on Navy assets and one  
14 training program on calculating the revenue requirement for municipal owned  
15 water and wastewater utilities. Additionally, I have served as an instructor at the  
16 Michigan State University - Institute of Public Utilities as part of their Annual  
17 Regulatory Studies programs.

18  
19 **Q. HAVE YOU PREPARED AN EXHIBIT FURTHER DETAILING YOUR**  
20 **QUALIFICATIONS AND EXPERIENCE?**

21 A. Yes. I have attached Appendix I, which is a summary of my regulatory  
22 experience and qualifications.

23  
24 **Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS**  
25 **PROCEEDING?**

1 A. Larkin & Associates, PLLC was retained by the Florida Office of Public Counsel  
2 (OPC) to review the rate case filing submitted by Water Management Services,  
3 Inc. (WMSI or Company). Accordingly, I am appearing on behalf of the OPC.  
4

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

7 A. I am presenting the OPC's overall recommended revenue requirement in this case.  
8 I also sponsor adjustments to the Company's proposed rate base and operating  
9 income, as well as adjustments to the Company's proposed calculation of its  
10 weighted long debt rate.  
11

12 **Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR**  
13 **RECOMMENDATIONS IN THIS CASE?**

14 A. Yes. I have prepared Exhibit\_\_(DR-1), which consists of Schedules A, B, C and  
15 D with supporting Schedules B-1 through B-8 and Schedules C-1 through C-5.  
16 These schedules present the OPC's overall recommended revenue requirement as  
17 well as the supporting calculations and additional information for several of the  
18 adjustments that I am recommending within this testimony.  
19

20 **Q. ARE ANY ADDITIONAL WITNESSES SUBMITTING TESTIMONY ON**  
21 **BEHALF OF THE OPC?**

22 A. Yes. Andrew Woodcock is also submitting testimony in this case on behalf of the  
23 OPC. I have reflected the impact of Mr. Woodcock's recommendations in my  
24 summary schedules presented in Exhibit\_\_(DR-1).  
25



1 **Q. WHAT DOES YOUR SCHEDULE "A" TITLED "CALCULATION OF**  
2 **REVENUE REQUIREMENT" SHOW?**

3 A. Schedule A presents the revenue requirement calculation at this time giving effect  
4 to all of the adjustments I am recommending in this testimony, as well as the  
5 impacts of the recommendations of OPC witness Andrew Woodcock. The  
6 operating income adjustments presented on Schedule A can be found on Schedule  
7 B. Schedules B-1 through B-8 provides supporting calculations for my  
8 recommended adjustments to net operating income. The adjustments presented  
9 on Schedule A which impact rate base can be found on my Schedule C, with  
10 supporting calculations provided on Schedules C-1 through C-5. Schedule D  
11 presents my recommended overall rate of return in this case.

12  
13 **Q. BASED ON THE OPC'S REVIEW AND ANALYSIS, WHAT IS THE**  
14 **REVENUE REQUIREMENT FOR WMSI?**

15 A. As shown on Schedule A, Column 5, line 1, the OPC's recommended adjustments  
16 in this case results in a recommended increase in operating revenues of \$78,419.  
17 This is approximately \$563,000 less than the revenue increase requested by  
18 WMSI of \$641,629.

19  
20 **Q. HOW WILL THE REMAINDER OF YOUR TESTIMONY BE**  
21 **ORGANIZED?**

22 A. I will first address various problems and concerns with WMSI's affiliated  
23 transactions and relationships. I then present my recommended adjustments to  
24 WMSI's adjusted test year operating income, followed by my recommended  
25 adjustments impacting WMSI's requested rate base. Finally, I address the

1 requested long term debt cost rate presented by WMSI, and recommend several  
2 adjustments to the determination of the long term debt cost rate to include in this  
3 case.

4 II. PROBLEMS/CONCERNS WITH AFFILIATED TRANSACTIONS  
5 AND RELATIONSHIPS

6 **Q. WOULD YOU PLEASE GIVE A BREIF SUMMARY OF THE**  
7 **RELATIONSHIPS BETWEEN WMSI, BROWN MANAGEMENT GROUP,**  
8 **AND GENE BROWN?**

9 A. Yes. Gene D. Brown is the President and Chief Executive Officer of Water  
10 Management Services, Inc. In addition to being the President and CEO of WMSI,  
11 he also owns the controlling interest in WMSI and makes all final operating  
12 decisions as they pertain to WMSI. Mr. Brown also has effective day-to-day  
13 control over WMSI. The Application in this case shows that St. George Island  
14 Utility Co., Ltd. owns 85% of WMSI's stock, and an additional 10% is owned by  
15 Brown Management Group. Gene D. Brown and Marilyn B. Brown own 54%  
16 ownership interest in the various entities that are included in the St. George Island  
17 Utility Co., Ltd.

18  
19 Based on the response to OPC Interrogatory 12, Brown Management Group, Inc.  
20 ("BMG") is a corporation that "holds and manages investments of Gene Brown,  
21 all of which are passive", and Gene Brown is the sole owner of BMG. Thus, Mr.  
22 Brown is in control of both WMSI and BMG.

23  
24 **Q. HAS THE MANAGEMENT OF WMSI BY GENE BROWN BEEN AN**

1           **ISSUE IN PAST CASES BEFORE THE FLORIDA PUBLIC SERVICE**  
2           **COMMISSION?**

3    A.     Yes, it has. In Order No. PSC-94-1383-FOF-WU, the Commission stated at page  
4           47 that “It appears that Mr. Brown’s past actions have contributed to the financial  
5           problems of the utility.” The Order cites several instances at pages 47 through 50  
6           in which Mr. Brown’s actions was a concern, including, but not limiting to, Mr.  
7           Brown using utility property as collateral to secure loans for non-utility purposes,  
8           the utility not paying ad valorem taxes for a number of years, the utility not being  
9           continuously covered for general liability or workers compensation insurance,  
10          and problems with getting a well on-line. In that decision, the Commission  
11          reduced the amount of management fees from Mr. Brown to be included in rates.

12  
13    **Q.     IS THERE REASON TO BE CONCERNED WITH HOW THE UTILITY**  
14          **IS CURRENTLY BEING MANAGED?**

15    A.     Yes. During the test year in this case and subsequently, WMSI has been very late  
16          in making many of its payments. WMSI was assessed a penalty by the Florida  
17          Public Service Commission (FPSC) for not paying its Regulatory Assessment  
18          Fee for the period July 1, 2009, through December 31, 2009, by the February 1,  
19          2010 due date. Based on a review of the Company’s 2009 general ledger that  
20          was provided in response to OPC POD 3, it appears that WMSI did not submit  
21          the federal income tax withholdings and FICA and medicare taxes on a timely  
22          basis. In fact, the 2009 general ledger shows \$3,085.53 booked to account  
23          236.30 – Accrued Taxes – Federal W/H on September 30, 2009, for an  
24          “Estimated Tax Penalty – QTR 9/30/09” and an additional \$3,500 booked to the  
25          account on December 31, 2009, for “IRS 941 Penalty 12/31/09.” The accounts

1 payable account in the 2009 general ledger also shows that on October 7, 2009,  
2 the Company paid \$1,940.97 to the United States Treasury for a "Penalty –  
3 6/30/09". While the penalties have not been booked in above-the-line accounts  
4 and are not included in the test year expenses in the Company's filing, it is still a  
5 great concern that the Company is incurring many penalties.

6  
7 Additionally, based on a review of the expenses recorded during the test year and  
8 subsequently, coupled with a review of the accounts payable balances, there are  
9 long delays in making many payments for utility related services. For example,  
10 on September 30, 2009, the company booked an expense for an invoice from  
11 Rowe Drilling Company for \$14,489.90. The Company's 2010 general ledger  
12 shows that \$10,000 was paid on this invoice on May 10, 2010, more than seven  
13 months after the invoice was received.

14  
15 During 2009 and 2010, WMSI was also unable to make two of its principal and  
16 interest payments on its outstanding loan with the Florida Department of  
17 Environmental Protection and resorted to refinancing the loan terms. This will  
18 be addressed in further detail later in this testimony.

19  
20 **Q. DID THE COMPANY INCUR ANY NEW COSTS OR COSTS NOT**  
21 **RELATED TO ITS WATER OPERATIONS DURING THIS PERIOD IN**  
22 **WHICH IT WAS APPARENTLY FACING FINANCIAL CONSTRAINTS?**

23 **A.** Yes. As will be discussed later in this testimony, during the 2009 test year, Gene  
24 Brown granted significant increases in the salaries of two of his employees. Mr.  
25 Brown also implemented a new executive deferred compensation plan during

1 2009 with a related expense recorded on the Company's books of \$80,000.  
2 During 2009, WMSI also filed an Application for authority to provide Wastewater  
3 Service to St. George Island, incurring \$52,851 of costs that it deferred on its  
4 books and now wants to recover from its water customers. Each of these issues  
5 will be addressed later in this testimony. These actions are questionable,  
6 particularly in consideration of the fact that WMSI has not been paying its bills in  
7 a timely manner and is incurring associated penalties and late fees.

8  
9 **Q. DURING THE LAST FEW YEARS, WHAT LEVEL OF CASH**  
10 **TRANSACTIONS OR TRANSFERS OCCURRED BETWEEN WMSI,**  
11 **BGM AND GENE BROWN?**

12 A. In Exhibit\_\_(DR-2) and Exhibit\_\_(DR-3), I am providing a listing of all entries  
13 recorded on WMSI's general ledger in its various cash accounts for transactions  
14 that identify either Gene D. Brown or Brown Management group for 2009 and  
15 2008, respectively. As is readily apparent from a review of these exhibits, there  
16 were numerous entries recorded on WMSI's books for both debits and credits to  
17 the various WMSI cash accounts associated with Gene D. Brown and Brown  
18 Management Group, Inc. A debit entry in the listing would signify an increase in  
19 WMSI's cash account, whereas a credit entry is a decrease in the cash balance.  
20 The listing for 2009 provided as Exhibit\_\_(DR-2) is 5 pages long, while the  
21 listing for 2008 is 4 pages. As shown on the final page of Exhibit\_\_(DR-2),  
22 during 2009 WMSI had a total of \$434,775 in cash going out to Gene D. Brown  
23 with \$50,103 coming in from him in that period, resulting in a net amount going  
24 out identified as to Gene D. Brown of \$384,672. During that same period, a total  
25 of \$109,441 is shown as going out to Brown Management Group, while \$362,964

1 is shown as coming in, or debiting WMSI's cash account, from BMG. The net  
2 result taking into account both BMG and Gene Brown is that \$131,038 more went  
3 out of the WMSI cash account than came in from both Gene Brown and BMG  
4 combined. This is during a period of apparent financial constraint for WMSI.

5  
6 Exhibit \_\_ (DR-3) shows that during 2008, WMSI had a total of \$389,725 in cash  
7 going out to Gene D. Brown with \$16,250 coming in from him in that period,  
8 resulting in a net amount going out identified as to Gene D. Brown of \$373,475.  
9 During that same period, a total of \$103,050 is shown as going out to Brown  
10 Management Group, while \$215,029 is shown as coming in, or debiting WMSI's  
11 cash account, from BMG. The net result taking into account both BMG and Gene  
12 Brown is that \$261,496 more went out of the WMSI cash account than came in  
13 during 2008 from both Gene Brown and BMG combined. Over the two year  
14 period, the combined result would be that \$392,534 more dollars left the WMSI  
15 cash accounts and went to either Gene Brown or BMG. Again, this analysis is  
16 based on all of the transactions to the cash accounts listed in WMSI's general  
17 ledgers for 2008 and 2009 that were identified as either Gene D. Brown or Brown  
18 Management Group.

19  
20 **Q. ARE THERE ANY ADDITIONAL ACCOUNTS ON WMSI'S BOOKS**  
21 **THAT CHANGED DURING THAT PERIOD THAT WOULD CAUSE**  
22 **CONCERN REGARDING THE AFFILIATED RELATIONSHIPS?**

23 A. Yes. On Exhibit \_\_ (DR-4) I show the balance recorded on WMSI's books in  
24 Account 123.00 – Investment in Associated Companies at various points in time.  
25 As shown on this exhibit, the balance of Investment in Associated Company

1 recorded on WMSI's books increased from a January 1, 2008, beginning balance  
2 of \$924,617 to \$1,213,905 as of the December 31, 2009, test year end and  
3 \$1,262,402 as of June 30, 2010. The Investment in Associated Company  
4 recorded on WMSI's books increased by \$337,785 over the period January 1,  
5 2008, through June 30, 2010. One must question the prudence of WMSI  
6 increasing its investment in affiliated entities during a period in which it was  
7 unable to pay many of its bills on time and during the period in which it was  
8 unable to pay two principal payments on an outstanding loan with the Florida  
9 Department of Environmental Protection.

10  
11 Also of concern is that on July 21, 2008, \$85,000 went out of one of WMSI's  
12 cash accounts to "SMC Investment Properties." As part of the same journal entry,  
13 Account 123.00 – Investment in Associated Companies was increased by the  
14 \$85,000, with the transaction description shown as "SMC investment Properties –  
15 Loan to SMC." This \$85,000 is included in the increase in Investment in  
16 Associated Companies referenced above. Based on some research, it appears  
17 SMC Investment Properties, Inc. was incorporated by Sandra Chase, who is the  
18 Vice President and Secretary of WMSI, in 2006. At the time this testimony is  
19 being filed, OPC is in the process of pursuing this transaction further through  
20 discovery.

21  
22 Additionally, as shown on Exhibit\_\_(DR-4), as of the end of the test year,  
23 December 31, 2009, WMSI also had a note receivable from an Associated  
24 Company balance of \$100,000. This also causes prudence concerns in a period in  
25 which WMSI is under apparent cash constraints.

1 Q. ABOVE YOU INDICATE THAT THE INVESTMENT IN ASSOCIATED  
2 COMPANIES RECORDED ON WMSI'S BOOKS INCREASED BY  
3 \$337,785 BETWEEN JANUARY 1, 2008, AND JUNE 30, 2010. DID  
4 SIMILAR LEVELS OF INCREASE OCCUR IN PRIOR YEARS?

5 A. Based on a review of the Annual Reports filed with the Florida Public Service  
6 Commission, the balance in Account 123 – Investment in Associated Companies  
7 was \$0 on December 31, <sup>2003</sup>~~2004~~. During 2004, the balance increased from \$0 to  
8 \$110,532. During 2005, the amount of Investment in Associated Companies  
9 increased by \$535,316 to \$645,848. During 2006 and 2007, the balance increased  
10 by \$127,586 and \$151,183, respectively, resulting in a December 31, 2007,  
11 balance of \$924,617. The amount of WMSI's Investment in Associated  
12 Companies over the <sup>6 1/2</sup>~~5-1/2~~ year period ended June 30, 2010, has increased from \$0  
13 to \$1,262,402.

14  
15 Q. ARE THERE ADDITIONAL TRANSACTIONS BETWEEN WMSI AND  
16 BMG BEYOND THE APPARENT FREQUENT TRANSFERS OF CASH,  
17 NOTE RECEIVABLE FROM BMG AND THE INCREASE IN THE  
18 INVESTMENT IN BMG?

19 A. Yes. There appears to be frequent transfers of assets between WMSI and BMG,  
20 particularly in the area of vehicles and transportation equipment. Later in this  
21 testimony I will reference several instances in which assets were transferred from  
22 WMSI to BMG that are of particular concern, such as those involving a backhoe  
23 trailer and a vehicle.

24  
25 On Exhibit\_\_(DR-5) I provide copies of two exhibits submitted by WMSI in



1 response to OPC interrogatories 8 and 13. OPC Interrogatory 8 asked WMSI to  
2 provide a list of all assets that were owned by WMSI that have been sold or  
3 transferred to other entities, affiliates, persons or parties for the period December  
4 31, 1992, to date. Based on that response, between 1999 and 2009, three vehicles  
5 were sold or traded to ABC (a past affiliated entity), a backhoe trailer was sold to  
6 BMG (which will be discussed later in this testimony), the St. George Island  
7 apartments above the WMSI island office were sold to Brown Management  
8 Group, and lots were sold to "ABC/BMG".

9  
10 The information provided indicates that the lots that were sold to ABC/BMG on  
11 November 1, 2007, were valued at \$236,000 on WMSI's books and sold for  
12 \$454,429 for a gain of \$192,752. It does not appear from information that I have  
13 seen that this gain on sale of utility assets was ever passed on to WMSI's  
14 customers. I recommend that WMSI be required to provide additional  
15 information regarding the lot sales to BMG during 2007 to determine if the gain  
16 should be passed on to WMSI's customers.

17  
18 As will also be addressed later in this testimony, WMSI sold its administrative  
19 office in Tallahassee in 2005. According to the response to OPC Interrogatory  
20 54, WMSI "...decided to sell its administrative office to produce cash flow  
21 needed for operating revenue and it did not have sufficient funds to purchase  
22 another office." WMSI is now leasing an administrative office in Tallahassee  
23 from Brown Management Group at an annual expense of \$18,000.

24  
25 Later in this testimony I recommend several adjustments pertaining to

1 transactions between WMSI and BMG as well as a recommended allocation of  
2 labor and rental costs from WMSI to BMG.

3  
4 **III. ADJUSTMENTS TO OPERATING INCOME**

5 **Allocation of Employee Costs to Affiliated Operations**

6 **Q. PREVIOUSLY IN THIS TESTIMONY YOU IDENTIFIED CONCERNS**  
7 **YOU HAVE WITH THE AFFILIATE RELATIONSHIPS AND WITH THE**  
8 **TRANSACTIONS OCCURRING BETWEEN WMSI AND BROWN**  
9 **MANAGEMENT GROUP. HAS THE COMPANY ALLOCATED ANY OF**  
10 **THE LABOR RELATED COSTS IN ITS FILING TO ANY OF THE**  
11 **AFFILIATED ENTITIES?**

12 **A.** No, it has not. The labor costs for all of WMSI's employees are allocated 100%  
13 to WMSI's regulated operations. According to the responses to OPC  
14 Interrogatory 12, there is no allocation of cost from WMSI to Brown Management  
15 Group. In the response, the Company also indicated that Gene D. Brown and  
16 Sandra Chase each work approximately two hours per week for all of the various  
17 entities owned by Gene Brown and that this two hours is "outside the 40+ hour  
18 week that they work for WMSI." The response also indicates that Bob Mitchell,  
19 who is WMSI's controller, works approximately two hours per week for Brown  
20 Management Group and some of the other entities owned by Mr. Brown.  
21 However, the Company has allocated no salary and wage cost to Brown  
22 Management Group for these employees.

23  
24 **Q. SHOULD ANY OF THE SALARIES, WAGES AND BENEFIT COSTS**  
25 **FOR THE INDIVIDUALS THAT ALSO PERFORM SERVICES FOR**

1           **BROWN MANAGEMENT GROUP BE ALLOCATED TO BROWN**  
2           **MANAGEMENT GROUP AND REMOVED FROM UTILITY**  
3           **OPERATIONS?**

4    A.    Yes. WMSI's captive water customers should not be required to subsidize Brown  
5           Management Group, Inc.'s operations in any way. It is not reasonable to allocate  
6           zero labor costs to Brown Management Group for the WMSI employees who also  
7           perform work associated with Brown Management Group, Inc. The response to  
8           OPC Interrogatory 12 indicates that Brown Management Group is "A corporation  
9           that holds and manages investments of Gene Brown, all of which are passive."  
10          Judging by the level of transactions on the Company's books associated with  
11          Gene Brown personally and with Brown Management Group, Inc., it is not  
12          reasonable to assume that Mr. Brown, Ms. Chase and Mr. Mitchell work only  
13          approximately two hours per week for Brown Management Group and that all of  
14          these hours are above and beyond a normal full work week. It is also not  
15          reasonable to assume that Ms. Chase and Mr. Mitchell are performing services  
16          that are benefiting Brown Management Group, Inc. free of charge to Mr. Brown  
17          and to Brown Management Group, Inc. Previously in this testimony I discussed  
18          the level of cash transactions that occur between WMSI, Brown Management  
19          Group, Inc. and Gene Brown which were based on a review of the Company's  
20          General Ledgers that were provided in this case. Additionally, I also addressed  
21          asset transfers between WMSI and Brown Management Group, Inc. Also  
22          discussed is the fact that the amount of investment in associated companies  
23          recorded on WMSI's books has increased by \$337,785 between the period  
24          January 1, 2008, through June 30, 2010, with the June 30, 2010, balance on  
25          WMSI's General Ledger being \$1,262,402.

1 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND FOR ALLOCATING**  
2 **LABOR RELATED COSTS TO THE AFFILIATE OPERATIONS, OR TO**  
3 **BROWN MANAGEMENT GROUP, INC.?**

4 A. My recommended adjustment is presented on Schedule B-1. This schedule lists  
5 the amount included in the adjusted 2009 test year for the salaries, health  
6 insurance and 401(k) plan pension expenses for Gene Brown, Sandra Chase and  
7 Bob Mitchell. Each of these individuals is also involved in providing services to  
8 Brown Management Group. As mentioned previously, the purported function of  
9 Brown Management Group, Inc. is to manage the investments of Gene Brown.  
10 In this schedule, I have incorporated my recommended adjusted salary for Sandra  
11 Chase who is the Vice President and Secretary for WMSI. This adjustment will  
12 be addressed later in this testimony. As shown on line 10 of Schedule B-1, the  
13 salaries and benefits for these employees in the adjusted test year are \$257,752.

14  
15 While the Company has indicated that Mr. Brown and Ms. Chase, as well as Mr.  
16 Mitchell, work only approximately two hours per week on Brown Management  
17 Group related matters, this does not appear to be a reasonable estimate of their  
18 time. Bob Mitchell is the controller of the Company. Previously as Exhibit  
19 \_\_ (DR-2) and Exhibit \_\_ (DR-3), I provided a listing of the recorded cash  
20 transactions between WMSI, Brown Management Group, and Gene D. Brown.  
21 This is all of the amounts recorded on WMSI's General Ledger during 2008 and  
22 2009 for cash being transferred between the accounts of these three entities or  
23 individual. Given the extensive amount of transfers between the various cash  
24 accounts of these entities, it is not realistic to assume that only two hours per  
25 week are dedicated by the Company's controller and Mr. Brown associated with

1 the Brown Management Group, or other non-regulated related operations. As  
2 shown on Schedule B-1, I recommend that 12.5% of the salary and benefit costs  
3 associated with the three employees identified be allocated to affiliates and not be  
4 included in WMSI's utility operating expenses. This 12.5% factor was derived  
5 assuming that each of these employees would dedicate about five of every 40  
6 hours of their time focused on affiliated and non-regulated matters. As shown on  
7 line 14 of Schedule B-1, this results in a recommended reduction to the employee  
8 costs of \$32,219.

9 Allocation of Rent to Affiliated Operations

10 **Q. ARE THERE ANY ADDITIONAL EXPENSES RECORDED ON WMSI'S**  
11 **BOOKS DURING THE TEST YEAR THAT YOU RECOMMEND BE**  
12 **ALLOCATED TO AFFILIATED OPERATIONS?**

13 A. Yes. Mr. Brown, Ms. Chase, and Mr. Mitchell all work out of the Company's  
14 Tallahassee offices. These offices are owned by Brown Management Group, Inc.,  
15 and 2009 test year expenses recorded on the Company's books include \$18,000  
16 for the payment to Brown Management Group for rental expense on these offices.  
17 Consistent with my recommendation that 12.5% of Mr. Brown, Ms. Chase and  
18 Mr. Mitchell's salaries being allocated to affiliated operations, I also recommend  
19 that 12.5% of the rent expense associated with the Tallahassee office be allocated  
20 to affiliated entities. This results in a \$2,250 reduction to test your rent expense  
21 and is shown on Schedule B-2.

22  
23 **Q. HAS THE COMPANY ALWAYS RENTED THIS FACILITY FROM**  
24 **BROWN MANAGEMENT GROUP?**

25 A. No, it has not. According to the response to OPC Interrogatory 54, WMSI owned its

1 own administrative office until 2005 at which point it sold its administrative office.  
2 The Company indicated in their response to 54© that WMSI decided to sell its  
3 administrative office to produce cash flow needed for operating revenue and that it did  
4 not have sufficient funds to purchase another office. At that same time, the Company  
5 entered into an agreement to rent administrative offices from Brown Management  
6 Group, Inc. Presumably this would also increase cash flow to Mr. Brown through  
7 regular monthly payments now being made to BMG in the form of rent expense. I am  
8 not sure of the date in which Brown Management Group acquired the administrative  
9 offices that are now being rented to WMSI.

10  
11 Accounting Services Expense

12 **Q. WMSI'S FILING INCLUDES AN ADJUSTMENT TO INCREASE THE**  
13 **LEVEL OF ACCOUNTING SERVICES COSTS THAT WERE**  
14 **RECORDED DURING THE TEST YEAR. COULD YOU PLEASE**  
15 **DISCUSS THIS ADJUSTMENT?**

16 A. During the 2009 test year the Company recorded accounting fees of \$4,225.  
17 These include costs associated with tax return preparation and various accounting  
18 and bookkeeping assistance. These payments were made to Barbara Withers,  
19 CPA. Ms. Withers has prepared the Company's tax returns for many years. It  
20 also includes a cost associated with Ms. Withers' preparation of an accounting  
21 manual on behalf of the Company that identifies certain accounting policies and  
22 procedures. As part of its request in this case, the Company has proposed that the  
23 annual account services expense be increased to \$18,000 per year, resulting in an  
24 increase in the test year expenses of \$13,775. According to the direct testimony  
25 of Gene Brown, at page 17, the proposed accounting services contract would

1 assure that the Company has priority access to a high level certified public  
2 account for an average of 10 hours per month. The contract is set up as a monthly  
3 retainer payment of \$1,500, which the Company contends is better for its cash  
4 flow. Mr. Brown's testimony also indicates that any unused hours are credited to  
5 the months during which more hours are required.

6  
7 In response to OPC POD 34 and 35, the Company provided a copy of the  
8 accounting engagement letter that discusses the new retainer arrangement. Based  
9 on this letter, the utility would pay Ms. Withers' firm \$1,500 per month beginning  
10 January 15, 2010. Ms. Withers' would then bill against that retainer at the end of  
11 each month and those would be adjusted to the retainer at the end of each calendar  
12 year. The difference would be set as a credit for work to be done in the following  
13 year or a payment if the actual services exceed the retainer amounts. Based on a  
14 review of the 2010 General Ledger as well as invoices provided in response to  
15 OPC POD 36, the Company has been booking the \$1,500 per month as an  
16 expense on its books during 2010; however, it has not been regularly paying those  
17 balances. The response to OPC POD 36 shows that as of June 30, 2010, the total  
18 retainer billing on a monthly basis would have been \$9,000 and the Company had  
19 only paid \$1,500 as of that period.

20  
21 **Q. HOW DOES THE PROPOSED ANNUAL ACCOUNTING SERVICES**  
22 **EXPENSE REQUESTED BY THE COMPANY OF \$18,000 COMPARE TO**  
23 **THE HISTORIC LEVEL OF ACCOUNTING COSTS INCURRED?**

24 A. On Schedule B-3 I provide the annual amount of accounting fees incurred by the  
25 Company from outside firms or consultants by year for the period 2005 through

1 2009. This response shows that the costs have varied in the last five years;  
2 however, none have come close to approaching the \$18,000 annual cost level  
3 requested by the Company. In fact, the highest amount of accounting fees cost  
4 incurred by the Company for outside consultants or firms was \$10,626 in 2005,  
5 and that included fees associated with setting up a new fixed asset and  
6 depreciation program. The next highest level was the amount incurred on the  
7 Company's books during 2009, which included costs associated with Ms. Withers  
8 preparing an accounting manual on behalf of the Company. Over the past five  
9 years, the average accounting fees incurred by the Company has been \$3,667.

10

11 **Q. IN YOUR OPINION, HAS THE COMPANY JUSTIFIED THIS**  
12 **SIGNIFICANT PROJECTED COST INCREASE ASSOCIATED WITH**  
13 **OUTSIDE ACCOUNTING FEES AND SERVICES?**

14 A. No, it has not. In fact, the Company has an in house controller whose duties  
15 include accounting and bookkeeping activity as well as responsibility for the  
16 General Ledger, payroll, payroll tax returns, preparation of financial statements,  
17 as well as other accounting type services. The Company also has an office  
18 administrator who assists the controller in the day to day accounting functions.  
19 The Company has not justified the need for a significant increase in the amount of  
20 assistance it will require from an external certified public accounting firm.

21

22 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND?**

23 A. As shown on Schedule B-3, I recommend that the accounting expenses contained  
24 in the Company's adjusted test year be reduced by \$14,333 to reflect the five year  
25 average cost of \$3,667. The Company has not justified a cost above the historic



1 average level. Additionally, as previously mentioned, the historic period I used in  
2 deriving the average includes some non-recurring type costs as these costs  
3 fluctuate from period to period. As shown on Schedule B-3, the historic costs that  
4 were used in deriving the average include costs associated with setting up the new  
5 fixed asset and depreciation program, the cost associated with Ms. Withers'  
6 preparation of an accounting manual on behalf of the Company, as well as costs  
7 associated with a valuation study of the water system that was conducted in 2007.  
8 Thus, it is my opinion that using the five-year average level would set a  
9 reasonable level going forward. The Company has not justified an amount above  
10 this level.

11  
12 Engineering Services Expense

13 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S REQUEST AS IT**  
14 **PERTAINS TO THE INCREASE IN ENGINEERING SERVICES**  
15 **EXPENSES?**

16 A. The Company has proposed that the amount of engineering services expense  
17 recorded on its books during the 2009 test year of \$27,500 be increased by  
18 \$20,500 to allow for an annual expense level of \$48,000. This amount would be  
19 based on paying the engineering firm PBS&J a retainer of \$4,000 per month,  
20 resulting in an expenditure of \$48,000 per year to be used for engineering  
21 services. According to Mr. Brown's testimony in this case, at page 15, the  
22 Company must have access to high quality engineering services on a consistent  
23 basis, and its proposed \$48,000 per year annual cost would assure that the  
24 Company would have a priority with a firm such as PBS&J in order for them to  
25 "continue providing a high level service and maintenance of all of our

1 operations." PBS&J is the firm that recently completed the water system  
2 evaluation on behalf of the Company and provided an extensive report on its  
3 findings.

4  
5 **Q. IS THE \$48,000 REQUESTED ANNUAL EXPENSE LEVEL FOR**  
6 **ENGINEERING SERVICES CONSISTENT WITH THE LEVEL OF**  
7 **COSTS THE COMPANY HAS HISTORICALLY INCURRED FOR THIS**  
8 **TYPE OF SERVICES?**

9 A. No, it is not. In OPC Interrogatory 25, the Company was asked to provide the  
10 amount of engineering services cost the Company has incurred for non-capital  
11 engineering work for each year from 2005 to date. WMSI responded that "There  
12 are no non-capital engineering expenses for 2005 through 2008." As previously  
13 mentioned, the Company recorded on its books \$27,500 of expense in the 2009  
14 test year for engineering services costs charged to expense.

15  
16 **Q. WHY DID THE COMPANY INCUR SUCH A HIGH ENGINEERING**  
17 **EXPENSE LEVEL IN 2009?**

18 A. The costs recorded by the Company in its books in 2009 are associated with  
19 PBS&J conducting the complete water system evaluation on behalf of the  
20 Company and making recommendations based on its evaluation. A complete  
21 evaluation of this type would be non-recurring in nature. While the evaluation  
22 would typically be an expense item, one would expect that the majority of any  
23 engineering costs and expenditures incurred by the Company on a regular basis  
24 would be capital in nature and would be specific to capital projects, such as the  
25 pro forma projects proposed by the Company in this case. Engineering costs

1 associated with projects such as those proposed by the Company would be  
2 capitalized as part of the project cost and would not be recorded as an expense on  
3 the Company's books.

4  
5 **Q. WHAT ADJUSTMENT SHOULD BE MADE TO THE AMOUNT OF**  
6 **ENGINEERING SERVICE COSTS TO INCLUDE IN EXPENSE IN**  
7 **WMSI'S FILING?**

8 A. Since the engineering service expenses recorded on the Company's books during  
9 the historic test year are non-recurring in nature, as they were associated with the  
10 complete water system evaluation, I recommend that these non-recurring costs be  
11 amortized over a five-year period. This is consistent with Rule 25-30.433(8)  
12 which states that "Non-recurring expenses shall be amortized over a 5-year period  
13 unless a shorter or longer period of time can be justified." Thus, I recommend  
14 that these non-recurring expenses that fell within the test year in this case be  
15 amortized over a period of five years. As a completed evaluation of the water  
16 system has recently been completed, future engineering services would likely be  
17 of a capital nature and not something that would be recorded as an expense on the  
18 Company's books. Based on discussions I have had with OPC's engineering  
19 witness, Andrew Woodcock, it would be more typical that engineering  
20 expenditures would be capital in nature, particularly as the Company has recently  
21 completed the water system evaluation.

22  
23 **Q. WHAT ADJUSTMENT NEEDS TO BE MADE TO THE COMPANY'S**  
24 **FILING TO REFLECT YOUR RECOMMENDATION?**

25 A. As shown on Schedule B-4, the Company's proposed adjusted test year

1 engineering expenses should be reduced by \$42,500. This would allow for an  
2 annual amortization of \$5,500 for the non-recurring engineering service expenses  
3 incurred by the Company during the test year.

4  
5 DEP Refinancing Costs

6 **Q. ON SCHEDULE B YOU HAVE AN ADJUSTMENT TO REMOVE \$2,500**  
7 **FROM TEST YEAR EXPENSES IDENTIFIED AS "REMOVE NON-**  
8 **RECURRING DEP REFINANCING CONSULTING COSTS". COULD**  
9 **YOU PLEASE EXPLAIN WHY YOU ARE REMOVING THESE COSTS?**

10 A. According to the response to OPC Interrogatory 51, test year expenses charged to  
11 Account 636-Contractual Services-Other, includes \$2,500 paid to Sigma Project  
12 Solution LLC on December 14, 2009. The response identifies these costs as  
13 "DEP Refinancing Consulting". I recommend that the \$2,500 of consulting costs  
14 for the DEP Refinancing be removed from test year expenses because these are  
15 non-recurring costs and these costs should not be passed onto the Company's  
16 customers.

17  
18 The Company currently has a loan outstanding with the Department of  
19 Environmental Protection at a low interest rate of approximately 2.99%. This  
20 loan was used at the time that the Company was required to replace the water  
21 main that provides service to St. George Island. As part of the Company's  
22 response to OPC POD 8, it provided a copy of Amendment No. 3 to its loan  
23 agreement under the State Revolving Fund Program. According to this  
24 amendment to the loan, Water Management Services, Inc. had requested a  
25 restructuring of the loan as a result of "worsening economic conditions." As part

1 of this restructuring, the semi-annual loan payments that were due on November  
2 15, 2009, and on May 15, 2010, were reduced to zero with interest accruing and  
3 added to the outstanding balance of the loan due. The refinancing resulted in the  
4 semi-annual loan payments resuming beginning on November 15, 2010 at a  
5 payment requirement of \$147,751 on a semi-annual basis, or twice per year, for  
6 remaining loan payment numbers 15 through 60. Apparently, the Company did  
7 not have the cash necessary to pay the November 2009 and May 2010 loan  
8 payments that were due. The cost incurred by the Company for assistance in  
9 refinancing this loan should be removed from the test year and should not be  
10 passed on to customers.

11  
12 **Q. WHY SHOULD THEY BE REMOVED FROM THE TEST YEAR?**

13 A. First, they should be non-recurring refinancing costs. Second, the Company's  
14 customers should not be harmed through an increase in expenses as a result of the  
15 Company being unable to adequately manage its cash flow. As indicated near the  
16 beginning of this testimony, there has been a significant level of cash transfers  
17 between the WMSI's books, Brown Management Inc. and Gene Brown. As  
18 shown in Exhibit \_\_ (DR-3), during 2008 the amount of cash going out of the  
19 various cash accounts on the Company's General Ledger identified as going to  
20 either Gene D. Brown or Brown Management Group exceeded the amount of cash  
21 coming into the utility from these two entities by more than \$260,000. During  
22 2009 the amount of cash going out to either Gene D. Brown or Brown  
23 Management Group exceeded the amount of cash coming in from those entities  
24 based on an analysis of the Company's 2009 General Ledger, by approximately  
25 \$131,000. As shown on Exhibit \_\_ (DR-4), the amount recorded on WMSI's

1 General Ledger in Account 123-Investment and Associated Companies increased  
2 by \$337,785 between the period January 1, 2008, and June 30, 2010.  
3 Additionally, as shown in the same exhibit, as of December 31, 2009, the amount  
4 of notes receivable from associated companies recorded on WMSI's books was  
5 \$100,000. Clearly, it causes the OPC great concern to see the investment in  
6 associated companies increasing and to also see that there are notes receivable  
7 from associated companies still outstanding during the same period that the  
8 Company was unable to pay its debt obligation on the DEP loan. The Company's  
9 customers should not be harmed by incurring increased costs as the result of  
10 Company management not adequately managing its cash flow and in the decision  
11 by the President of the Company, Gene D. Brown, to transfer utility cash funds  
12 between WMSI's cash accounts, his personal account and the account of Brown  
13 Management Group, Inc.

14  
15 As will be addressed later in this testimony under the discussion of rate case  
16 expense, the Company has deferred additional charges from Sigma Project  
17 Solutions, LLC. To the extent that any of these charges are associated with  
18 refinancing costs, they should also be excluded from rate case expenses to be  
19 recovered from customers.

20  
21 Contract Labor Costs

22 **Q. AS PART OF ITS ADJUSTMENTS TO THE SALARIES INCLUDED IN**  
23 **THE 2009 TEST YEAR, WMSI REMOVED SOME CONTRACT LABOR**  
24 **COSTS. WOULD YOU PLEASE DISCUSS THESE ADJUSTMENTS?**

25 **A.** Yes. As part of the Company's salary expense adjustment shown on MFR

1 Schedule B-3, pages 4 and 5, the Company removed \$6,000 for contractual  
2 services performed by Hank Garrett during 2009. The reason provide was that  
3 Mr. Garrett is now a full time employee of WMSI and the Company has added his  
4 labor costs on an annualized level in this case. Additionally, the Company  
5 removed the contractual service fees paid to Charles Painter for \$6,366, as he will  
6 not be providing these services in 2010. During the 2009 test period there was a  
7 turnover of both employees and contractual labor used by WMSI. The  
8 Company's salary and wage adjustment reflects the annual level of salary and  
9 wage cost associated with the current employees, and removes the employees that  
10 left the Company's services during 2009, as well as removing the contractual  
11 services that the Company will no longer be using.

12  
13 **Q. DID THE COMPANY CORRECTLY ADJUST FOR THE**  
14 **CONTRACTUAL LABOR COST IN ITS FILING?**

15 A. Not entirely. In its Adjustment 12g shown on MFR Schedule B-3, page 4 of 5,  
16 the Company removed \$6,000 for the contractual services performed by Hank  
17 Garrett. However, as shown on Company Schedule B-9, the actual amount of  
18 payments to Hank Garrett for his services during the test year was \$7,250. In  
19 response to OPC Interrogatory 50 the Company agrees that its adjustment to  
20 remove his fees should have been for \$7,250 instead of \$6,000. I have reflected  
21 the removal of the additional \$1,250 of contractual service costs on Schedule B.

22  
23 Out of Period Costs

24 **Q. IN COMPANY WITNESS FRANK SEIDMAN'S TESTIMONY, AT PAGE**  
25 **4, HE INDICATES THAT HE MADE MINOR CORRECTIONS TO**

1           **EXPENSES FOR "EXPENSES INCURRED DURING THE TEST YEAR**  
2           **BUT NOT BOOKED UNTIL THE FOLLOWING QUARTER." ARE**  
3           **THERE ANY ADDITIONAL ADJUSTMENTS THAT NEED TO BE**  
4           **MADE TO INSURE THAT TEST YEAR COSTS ONLY INCLUDE COSTS**  
5           **ASSOCIATED WITH THE 2009 TEST YEAR?**

6    A.    Yes. According to the response to OPC Interrogatory 51, test year expenses  
7           include \$1,305 charged from Management & Regulatory Consultants, Inc. for the  
8           preparation of the 2008 PSC annual report. Additionally, on December 31, 2009,  
9           the Company recorded \$5,000 for charges from Management & Regulatory  
10          Consultants, Inc. for the 2009 annual report. This \$5,000 was based on a retainer  
11          and according to the Company's 2010 General Ledger the Company received a  
12          refund of \$1,893 of the \$5,000 retainer that was paid. Thus, test year expenses  
13          include costs associated with the 2008 annual report as well as costs associated  
14          with the 2009 annual report, part of which had been refunded to the Company in  
15          the following period. Consequently, an adjustment must be made so that test year  
16          expenses only reflect an annual level of costs associated with its annual report  
17          preparation.

18  
19    **Q.    WHAT ADJUSTMENT SHOULD BE MADE?**

20    A.    Test year expenses include a total of \$6,305 to Management and Regulatory  
21          Consultants, Inc. for the annual report preparation. However, based on the  
22          amounts paid during the test year and the subsequent refund for some of those  
23          amounts received in 2010, the actual costs for the 2009 annual report preparation  
24          would have been \$3,107. The expenses recorded in the test year for annual report  
25          preparation should be reduced by \$3,198 in order that only an annual level of



1 these expenditures are incorporated in the adjusted test year. I have reflected this  
2 adjustment to remove \$3,198 on Schedule B.

3  
4 Rate Case Expense

5 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE**  
6 **PROJECTED RATE CASE EXPENSE INCORPORATED IN THE**  
7 **COMPANY'S FILING?**

8 A. Yes. In its filing, WMSI estimates that the rate case expense associated with this  
9 proceeding will be \$228,613, and is amortizing this projected cost level over a  
10 four-year period. WMSI MFR Schedule B-10 provides a listing of the projected  
11 cost that the Company will incur as part of this case. I am recommending that  
12 several of the costs included by the Company be removed. WMSI MFR Schedule  
13 B-10 shows projected costs associated with the legal counsel retained by the  
14 Company in this case, Radey, Thomas, Yon & Clark, P.A., as well as the  
15 projected cost for Frank Seidman of M&R Consultants, Inc. for assistance in this  
16 case. Frank Seidman has submitted prefiled testimony in this case on behalf of  
17 the Company. However, in addition to these legal costs and rate case assistance  
18 costs, WMSI also included costs that it has identified as being "preliminary" in  
19 nature. The Company included \$3,340 of charges from the firm Rose, Sundstrom  
20 and Bentley, PA which is identified as "preliminary legal counsel". Also included  
21 is \$9,348 for the assistance of Robert Nixon of Carlstedt, Jackson, Nixon &  
22 Wilson, CPAs, which has been identified as "preliminary rate case evaluation".  
23 In other words, WMSI switched legal counsel and accounting assistance that it  
24 retained for this case after an initial evaluation was conducted. I recommend that  
25 these preliminary costs be removed and not recovered from customers as part of

1 the rate case expenses.

2

3 **Q. DID YOU INQUIRE WHY THESE PRELIMINARY COSTS WERE**  
4 **INCURRED AND THE NATURE OF THE COSTS?**

5 A. Yes. OPC Interrogatory 56 asked the Company to explain why costs were being  
6 included for two separate legal firms, one as preliminary legal counsel and one as  
7 the current legal counsel, as well as why costs were included for two rate case  
8 consulting firms, one of which was identified as preliminary rate case evaluation.  
9 In response to OPC Interrogatory 56(a), the Company stated that "The  
10 'preliminary legal counsel' included a high level analysis of WMSI's position as  
11 well as work in trying to find financing for WMSI." The response also indicated  
12 that this information was needed for WMSI to make a decision regarding how to  
13 proceed with the case. In response to sub-part (b), the Company indicated that  
14 Radey, Thomas, Yon & Clark PA had "No special expertise in locating funding  
15 sources for a water utility, but was able to work with WMSI on a payment  
16 schedule that allowed the Company to proceed with highly qualified legal  
17 counsel." The response also indicated the Company's position that there was no  
18 overlap or waste of costs. Assisting a Company in finding financing is not a rate  
19 case expense. Additionally, as previously mentioned in this testimony, many of  
20 the financing problems or concerns for the Company are the result of affiliated  
21 transactions and relationships which have left the Company in an oft times  
22 precarious financial situation.

23

24 Regarding the "preliminary rate case evaluation" assistance from the CPA firm,  
25 the Company indicated that "The Carlstedt firm did preliminary work in analysis

1 that was useful to Rose, Sundstrum in their financing efforts and to WMSI in  
2 preparing the case for filing." The response also indicated that before the MFRs  
3 were prepared, WMSI determined that it would be more cost effective to use  
4 M&R Consultants rather than the Carlstedt firm because M&R Consultants had  
5 done the Company's annual reports and was familiar with WMSI. However, this  
6 explanation does not justify the inclusions of costs for the preliminary work or  
7 analysis done by the Carlstedt firm. Ratepayers should not pay for two different  
8 accounting firms and two different legal firms to assist in the preparation of a  
9 case particularly, when the Company decided to switch firms during the  
10 preparation stages. Consequently, I recommend that these preliminary legal costs  
11 and preliminary rate case evaluation costs be removed.

12

13 **Q. HAVE YOU PREPARED A SCHEDULE SHOWING YOUR**  
14 **RECOMMENDED ADJUSTMENTS TO THE COMPANY'S PROPOSED**  
15 **RATE CASE EXPENSE?**

16 A. Yes. My recommended adjustments are shown on Schedule B-5. As shown on  
17 lines 2 and 3 of this schedule, I removed the preliminary legal costs of \$3,340 and  
18 the preliminary rate case evaluation cost of \$9,348. The removal of these costs  
19 result in an adjusted rate case expense of \$215,925 which results in an annual  
20 amortization expense of \$53,981. This is \$3,172 less than the proposed annual  
21 amortization incorporated in the Company's filing.

22

23 **Q. DOES THE FLORIDA PUBLIC SERVICE COMMISSION TYPICALLY**  
24 **ALLOW THE RATE CASE EXPENSES IN RATE CASES TO BE TRUED**  
25 **UP TO ACTUAL COSTS LATER IN THE PROCEEDINGS?**

1 A. In several prior proceedings in which I have been engaged, I have noted that Staff  
2 has asked for an update of the rate case expenses incurred as well as the invoices  
3 supporting those costs in order to evaluate the level of rate case expense to allow.  
4 If that is done as part of this case, certain costs that have been deferred by WMSI  
5 as rate case expense on its books should be excluded.

6 In response to OPC Request for Production of Document No. 49, the Company  
7 provided copies of pages from its general ledger listing out all of the rate case  
8 costs that have been deferred to date, as well as invoices for the services provided  
9 to date. Included in the information provided was a charge of \$2,500 from Sigma  
10 Project Solutions, LLC, which was recorded on the Company's 2010 General  
11 Ledger on February 12, 2010 as part of the deferred rate case costs. There is also  
12 a charge from the same firm for \$2,056.42 booked on March 12, 2010. The  
13 invoices from Sigma Project Solutions, LCC provided with OPC POD 49 merely  
14 identify the \$2,500 as a "retainer" and identify the \$2,056.42 as a "reconciliation  
15 in addition to retainer." No further information was provided on the invoices  
16 regarding what services were provided by Sigma Project Solutions, LLC, or how  
17 those services in anyway pertains to rate case expense. However, based on the  
18 Company's response to OPC Interrogatory No. 51, Sigma Project Solutions LLC  
19 was the Company's DEP' refinancing consultant. Such costs are not related to the  
20 rate case expense and should not be amortized as part of rate case expense and  
21 recovered from customers. Other charges from this firm have been addressed  
22 previously in this testimony. If the Commission does allow a true up of the rate  
23 case expense to actual at a later phase of this proceeding, then the cost charged to  
24 the deferred rate case expense associated with invoices from Sigma Project  
25 Solutions LLC should be excluded from that true up.

1 **Q. IF THE COMMISSION DOES, IN FACT, ALLOW A TRUE UP OF THE**  
2 **RATE CASE EXPENSES AT A LATER PHASE OF THIS CASE, SHOULD**  
3 **ANY ADDITIONAL ADJUSTMENTS BEYOND THE ONE IDENTIFIED**  
4 **ABOVE BE CONSIDERED?**

5 A. Yes. Later in this testimony under the rate base section, I discuss the Company's  
6 proposed pro forma plant additions as well as the OPC's recommendation that  
7 they be removed at this time due to lack of supporting documentation for  
8 proposed cost. To the degree that the Company's failure to provide a reasonable  
9 level of support for its pro forma plant additions result in higher rate case  
10 expenditures being required, ratepayers should not be harmed by this. The lack of  
11 supporting information will be addressed further later in this testimony as well as  
12 the testimony of OPC engineering witness Andrew Woodcock. If the Company's  
13 failure to provide a reasonable amount of supporting documentation results in it  
14 incurring a higher level of rate case expense, those higher level of expenses  
15 should not be passed onto the Company's customers. The customers should not  
16 be penalized for the inability for the Company to meet a reasonable burden of  
17 proof in this case.

18

19 **Q. DID THE COMPANY REMOVE THE AMORTIZATION EXPENSE**  
20 **ASSOCIATED WITH ITS PRIOR RATE CASE?**

21 A. No, it did not. Test year expenses recorded in Account 666-Regulatory  
22 Commission Expense-Rate Case Amortization includes \$24,184 associated with  
23 the amortization of the prior rate case, which was a limited proceeding. The  
24 Company made no adjustment to remove this amount that is imbedded in the  
25 historic test year in this case. This amount has now been fully amortized and the

1 outstanding balance is zero. As shown on Schedule B, line 8, I have removed this  
2 amortization expense associated with the prior rate case from the 2009 test year  
3 expenses. While the Company has indicated in response to OPC Interrogatory 57  
4 that the amortization expense for the prior rate case is "...not included in the  
5 requested rate case amortization expense", it has not made an adjustment to  
6 remove this amortization that is incorporated in the 2009 historic test year O&M  
7 expense amounts. Thus, an adjustment must be made to remove these now fully  
8 amortized costs.

9  
10 Reduction to Salary Expense

11 **Q. YOU PREVIOUSLY DISCUSSED AN ADJUSTMENT TO ALLOCATE**  
12 **CERTAIN EMPLOYEE COSTS TO AFFILIATED OPERATIONS. ARE**  
13 **YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO THE**  
14 **AMOUNT OF SALARY AND WAGE EXPENSES INCLUDED IN THE**  
15 **COMPANY'S ADJUSTED TEST YEAR?**

16 A. Yes. I am recommending that the salary of two positions be reduced from the test  
17 year level to remove excessive percentage wage increases that were granted to  
18 these two employees in the test year.

19  
20 **Q. COULD YOU PLEASE ELABORATE?**

21 A. Yes. The Company's Vice President and Secretary, Sandra Chase, was granted a  
22 significant increase in salary between 2008 and 2009. During 2008, based on the  
23 response to OPC Interrogatory 39, Ms. Chase's base wages were \$59,000. In  
24 2009 her base wages were increased by \$11,000 to \$70,000 per year. This is an  
25 increase of 18.6%. When questioned during his August 10, 2010 deposition,

1 WMSI President Gene Brown did not provide adequate justification for this  
2 significant wage increase other than his thoughts that she deserved the increase.  
3 He indicated that there was no significant change in her job function or  
4 responsibility at the time this increase was granted. Additionally, this increase  
5 was granted during a time of apparent financial difficulties for WMSI.

6  
7 Between 2008 and 2009, the base wages of the Company's operations and office  
8 manager, Brenda Molsbee, was increased from \$45,981 to \$60,000. This is an  
9 increase of approximately 30% in a one year period. During the deposition of Mr.  
10 Brown, he was asked to provide support for this significant increase in her wage.  
11 As Late-Filed Exhibit No. 21, Mr. Brown provided what he contended was a  
12 comparative salary survey. This consisted of a hand jotted note identifying what  
13 Hank Garrett, a WMSI operator, who used to be employed by a different  
14 company, made per year at that other company. To this amount he also added on  
15 the note the amount of benefits and indicated that these with the mileage  
16 reimbursement equated to over \$70,000 annually. The note, which is being  
17 provided as Exhibit\_\_(DR-6), also indicated that these amounts were per "Nita  
18 from Hank". Nita would be Brenda N. Molsbee. No further justification for this  
19 30% wage increase was provided.

20  
21 Should Mr. Brown choose to grant such significant percentage increases to his  
22 employees, such significant increases in salaries and wages should not be passed  
23 onto the Company's customers, particularly in a period of apparent financial  
24 difficulty for WMSI and considering the economic climate during the period in  
25 which these wage increases were granted. Wage increases of 18.6% and 30%

1 during a period of high unemployment is not reasonable or justified, particularly  
2 without a significant expansion of the employee's duties and responsibilities.  
3

4 **Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING?**

5 A. As shown on Schedule B-6, I recommend that the wage increase for each of these  
6 two employees in going from the 2008 salaries to the test year level be limited to  
7 an increase of 3% each. Given the economic climate and the high unemployment  
8 rate, wage increases of 3% should be more than reasonable for the test year in this  
9 case. As shown on Schedule B-6, this results in a recommended reduction to  
10 salaries and wages included in the test year of \$21,870.  
11

12 Executive Deferred Compensation Plan Expense

13 **Q. WHAT AMOUNT IS INCLUDED IN THE 2009 TEST YEAR FOR**  
14 **ACCOUNT 604-EMPLOYEE PENSIONS AND BENEFITS?**

15 A. The expenses recorded during the 2009 test year in Account 604-Employee  
16 Pensions and Benefits expense totaled \$130,569. In the prior year, 2008, the  
17 Company recorded \$52,751 of employee pension and benefits expense on its  
18 books. In other words, the costs increased by \$77,818 between 2008 and 2009  
19 with the cost more than doubling during that period.  
20

21 **Q. DID THE COMPANY'S TESTIMONY ADDRESS THIS SIGNIFICANT**  
22 **INCREASE IN EMPLOYEE PENSION AND BENEFIT COSTS IN THE**  
23 **TEST YEAR?**

24 A. No, it did not. In OPC Interrogatory 47, the Company was asked what caused this  
25 significant increase. In response the Company indicated that "Gene Brown and



1 Sandra Chase qualified for WMSI's executive deferred compensation plan in  
2 2009, which increased the employee pension and benefit account." The response  
3 to OPC Interrogatory No. 56 shows that the Company recorded \$40,000 of  
4 expense in the test year for Gene Brown executive deferred compensation plan  
5 costs and \$40,000 for that same plan for Sandra Chase, resulting in \$80,000 being  
6 included in the 2009 test year expenses for this new plan. This purported new  
7 deferred executive compensation plan was new in 2009.

8  
9 **Q. SHOULD THIS SIGNIFICANT INCREASE IN EMPLOYEE PENSION**  
10 **AND BENEFIT COSTS ASSOCIATED WITH THIS NEW EXECUTIVE**  
11 **DEFERRED COMPENSATION PLAN BE INCLUDED IN RATES THAT**  
12 **ARE RECOVERED FROM CUSTOMERS?**

13 A. No, they should not. As shown on Schedule B-7, I recommend that the entire  
14 \$80,000 included in the 2009 test year be removed.

15  
16 **Q. PREVIOUSLY IN THIS TESTIMONY YOU RECOMMENDED AN**  
17 **ADJUSTMENT TO THE AMOUNT OF SALARY INCLUDED IN THE**  
18 **CASE FOR SANDRA CHASE. IS THIS \$40,000 EXECUTIVE DEFERRED**  
19 **COMPENSATION PLAN EXPENSE ASSOCIATED WITH MS. CHASE**  
20 **IN ADDITION TO THE SALARY YOU HAVE ALREADY ADJUSTED?**

21 A. Yes, it is. This is above and beyond the \$70,000 that was included for Ms. Chase  
22 in the 2009 test year in this case. If one were to include this executive  
23 compensation plan for Ms. Chase, her salary would effectively be \$110,000 in the  
24 test year, which is clearly a significant increase from her 2008 salary of \$59,000.

25

1 **Q. IS THIS PURPORTED NEW EXECUTIVE DEFERRED**  
2 **COMPENSATION PLAN BEING FUNDED BY THE COMPANY?**

3 A. No, it is not. The Company has not in anyway funded this plan. Rather, it has  
4 merely booked the \$80,000 in expense on its books.

5

6 **Q. DID YOU REQUEST A COPY OF THE DOCUMENTS ASSOCIATED**  
7 **WITH THIS NEW EXECUTIVE DEFERRED COMPENSATION PLAN?**

8 A. Yes. The Company provided a copy of the Water Management Services, Inc.  
9 executive deferred compensation plan in response to OPC POD 51. I am  
10 including a copy of that plan that was provided by the Company as Exhibit  
11 \_\_ (DR-7). The documentation provided indicates that "The purpose of the plan is  
12 to provide deferred compensation to a select group of management and highly  
13 compensated employees through an unfunded "top hat" arrangement exempt from  
14 fiduciary, funding, vesting, and plan termination insurance provisions of Title I  
15 and Title IV of the Employee Retirement Income Security Act ("ERISA")." The  
16 document goes on to state that it has adopted this plan "...to provide employees  
17 with the opportunity to defer compensation they are unable to defer or receive  
18 under the Company's tax qualified cash or deferred compensation plan (WMSI  
19 401(k) Plan), because of the limits on deferrals imposed by Sections 401(k) and  
20 402(g) of the Internal Revenue Code ("Code")." In other words, based on this  
21 plan documentation, apparently WMSI is providing Mr. Brown and Ms. Chase  
22 \$40,000 each of additional compensation that is being deferred. However, this  
23 plan is not in anyway being funded by the Company. According to Section 3 of  
24 the plan documents, an employee who is eligible for the plan, which would be Mr.  
25 Brown and Ms. Chase, can "...elect to defer the receipt of Compensation by

1 completing a deferral election form provided or approved by the Board." It also  
2 states that an "...eligible Employee may elect to defer any whole percentage or  
3 fixed dollar amount of his or her Compensation." In other words, based on this  
4 document, it appears as though Mr. Brown and Ms. Chase have been granted a  
5 \$40,000 increase in their compensation that they are deferring. The significant  
6 increase in compensation for Mr. Brown and Ms. Chase should not be passed on  
7 to the Company's customers. The plan document also indicates that the plan is  
8 unfunded and that "no eligible employees shall have preference over any general  
9 creditor of the Company with the regards to the amount accrued in such  
10 employee's accounts." It also indicates that the plant is unsecured and that no  
11 trust or similar arrangement is intended or created as a result of the  
12 implementation of this new plan.

13  
14 **Q. HOW WAS THE ANNUAL AMOUNT OF \$40,000 FOR MR. BROWN AND**  
15 **MS. CHASE DETERMINED BY MR. BROWN?**

16 A. Mr. Brown was asked the question regarding how the amount was derived during  
17 his August 10, 2010 deposition. The amount was essentially derived by  
18 determining an amount to pay Mr. Brown and Ms. Chase on a monthly basis for  
19 the rest of their projected remaining lives upon their retirement. The estimated  
20 total payment that apparently Mr. Brown would like to provide for himself and  
21 Ms. Chase throughout their retired years were then essentially totaled up and  
22 divided by the remaining participating years during which each of them will  
23 continue to be employed by WMSI. However, as previously indicated these funds  
24 are not being set aside and they are not being invested with an outside party.

25

1 **Q. SHOULD THESE PROJECTED COSTS BE PASSED ON TO**  
2 **CUSTOMERS?**

3 A. No, they should not. It would not be fair to ask customer to pay what would  
4 essentially be a \$40,000 increase in both Ms. Chase's salary and Mr. Brown's  
5 salary through their utility rates. Additionally, while the Company is requesting  
6 from customers this annual level of expense it appears it has no intention of  
7 funding this cost. This significant increase in employee benefit expense, which  
8 more than doubles the benefit costs recorded by the Company in its books, should  
9 be disallowed.

10

11 Key Man Life Insurance Expense

12 **Q. ARE THERE ANY ADDITIONAL COSTS INCLUDED IN THE TEST**  
13 **YEAR ASSOCIATED WITH THE PURPORTED EXECUTIVE**  
14 **DEFERRED COMPENSATION PLAN?**

15 A. Yes. Included in Account 659-Insurance-Other Expense in the 2009 test year is  
16 \$12,015 for a Key Man insurance policy. According to the Company's response  
17 to OPC Interrogatory 55, the Company added the Key Man insurance "To help  
18 the Company survive if it lost the person who manages and is most  
19 knowledgeable about the company." The response also indicated that Gene  
20 Brown is the "Key Man" that is insured on the policy. While the response  
21 indicates that the purpose of the policy is to help the Company survive if it were  
22 to lose Gene Brown, this is not what the funds are to be used for, based on a copy  
23 of the policy itself. WMSI provided a copy of the Key Man Life Insurance  
24 policy in response to OPC POD 48. The policy itself provides for life insurance  
25 on Gene D. Brown totaling \$800,000. The beneficiary provision of the policy

1 indicates that the proceeds that would result from the insured's death ". . . will be  
 2 payable in one sum to Sandra M. Chase, Trustee(s) of the Water Management  
 3 Services, Inc. Employee benefit trust dated May 21, 2008, or the successor(s) in  
 4 the trust beneficiary." Thus, the proceeds that would be received under the life  
 5 insurance policy on the life of Gene Brown would go to the referenced trust. The  
 6 Company provided a copy of the Water Management Services, Inc. Employee  
 7 Benefit Trust that was dated May 21, 2008, in its response to Late-Filed Exhibit  
 8 No. 18. The trust document in Section 5 indicates that the "primary purpose of  
 9 this trust is to provide additional cash asset to and for the benefit of the plan to  
 10 insure that it remains actuarially sound to guarantee that all employees of WMSI  
 11 will receive the benefits provided for the in the successor plan." Thus, the Key  
 12 Man insurance policy is apparently to cover employee benefit costs upon the  
 13 death of Mr. Brown and not for the continuing financing of the utility's  
 14 operations. During his deposition Mr. Brown indicated that the trust will be used  
 15 to fund the 401(k) plan and deferred compensation plan and that the purpose is to  
 16 protect its employees. It clearly will not be used to fund the ongoing utility  
 17 operations, but rather to fund employee retirement deferred compensation plan.

18

19 **Q. WHAT IS YOUR RECOMMENDATION WITH REGARDS TO THE KEY**  
 20 **MAN LIFE INSURANCE POLICY?**

21 A. I recommend that this cost be excluded and not passed onto the Company's  
 22 customers. I have removed this cost on Schedule B, line 12, reducing test year  
 23 expenses by \$12,015.

24

25 **Q. YOU MENTION ABOVE THAT WMSI IS NOT FUNDING THIS**

1           **DEFERRED COMPENSATION PLAN. DO YOU HAVE ANY**  
2           **CONCERNS OF THE COMPANY'S FUNDING OF ITS 401(K) PLAN?**

3    A.    Yes. Based on a review of the Company's 2009 and 2010 General Ledgers, it  
4           does not appear that the Company is promptly funding its 401(k) plan pension  
5           accruals. Based on a review of the 2009 General Ledger, the Company provided  
6           a check to Charles Schwab on September 11, 2009, for all of the 2008 pension  
7           accruals. It does not appear based on the review of the 2010 General Ledger that  
8           was provided that the Company has funded any of the 2009 pension accruals  
9           through June 30, 2010.

10  
11           Employee Training Costs

12    **Q. ARE THERE ANY ADDITIONAL ADJUSTMENTS YOU ARE**  
13           **RECOMMENDING TO NORMALIZE COSTS THAT ARE INCLUDED IN**  
14           **THE HISTORIC TEST YEAR ENDED DECEMBER 31, 2009?**

15    A.    Yes. The amount of employee training costs recorded by the Company during the  
16           historic test year ended December 31, 2009, was significantly higher than the  
17           level of employee training costs incurred in prior years. As shown on Schedule  
18           B-8, the employee training costs were \$125 in 2007, \$262 in 2008 and \$2,822 in  
19           the 2009 test year.

20  
21    **Q. WHAT CAUSED THE 2009 EMPLOYEE TRAINING COSTS TO BE SO**  
22           **MUCH HIGHER THAN THE COSTS INCLUDED IN THE PRIOR**  
23           **YEARS?**

24    A.    According to the response to OPC Interrogatory No. 48, 2009 employee training  
25           costs recorded on the Company's books included \$1,903 for costs associated with

1 Gene Brown traveling to San Francisco to attend a seminar conducted by the  
2 American Water Works Association. Additionally, the cost of the seminar was  
3 \$795. Thus, the test year expenses include \$2,698 associated with Mr. Brown's  
4 attendance and related travel to this seminar.

5  
6 **Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO NORMALIZE**  
7 **THESE COSTS?**

8 A. Yes. I recommend that the test year employee training costs be adjusted to reflect  
9 the average level incurred for the past three years, 2007 through 2009. This  
10 would result in an allowed cost level based on the three-year average of \$1,070  
11 and a reduction to the 2009 test year expenses of \$1,752. While I acknowledge  
12 the level of training costs can fluctuate from year to year, the 2009 training costs  
13 were greatly impacted by the \$1,900 of travel costs for Mr. Brown to travel to San  
14 Francisco to attend the seminar.

15  
16 Removal of Wastewater Certificate Application Costs

17 **Q. ARE ANY ADDITIONAL COSTS INCORPORATED IN THE**  
18 **COMPANY'S FILING ASSOCIATED WITH PRIOR REGULATORY**  
19 **PROCEEDINGS THAT NEED TO BE ADJUSTED?**

20 A. Yes. WMSI deferred \$52,851 of costs associated with its Wastewater Certificate  
21 Application that was filed with the Commission in Docket No. 090189-SU. In the  
22 application, which was filed during the test year on April 15, 2009, WMSI  
23 proposed to both install and provide wastewater service to St. George Island. On  
24 December 17, 2009, WMSI entered a Notice of Dismissal that was granted by the  
25 Commission and it withdrew its request. The Company is now requesting that the

1 cost it incurred associated with that application of \$52,851 be recovered from  
2 ratepayers over a period of five years. The Company has included the requested  
3 amortization expense of \$10,570 in its filing, as well as inclusion of the deferred  
4 costs as part of its working capital calculations. These costs should be removed  
5 and not passed on to the Company's water customers.

6  
7 **Q. WHY DO YOU RECOMMEND THAT THESE COSTS BE REMOVED?**

8 A. The Company's application and proposal to provide wastewater service to St.  
9 George Island has nothing to do with its provision of water service to its water  
10 customers. These are non-utility costs that should be written-off to non-utility  
11 accounts. The Company's water customers should not be forced to pay for the  
12 costs associated with Mr. Brown's decision to attempt to expand WMSI's services  
13 to include the provision of wastewater services. The application was ultimately  
14 withdrawn, and the water customers of the Company should not be burdened with  
15 the costs associated with Mr. Brown's decision to attempt to expand his operations  
16 into a new area.

17  
18 **Q. WHAT ADJUSTMENTS ARE NECESSARY TO REMOVE THE COST**  
19 **ASSOCIATED WITH THE WASTEWATER CERTIFICATE**  
20 **APPLICATION?**

21 A. As shown on Schedule B, amortization expense should be reduced by \$10,570 to  
22 remove the Company's proposed amortization of the deferred costs. Additionally,  
23 as shown on Schedule C-4, working capital should be reduced by \$35,603 to  
24 remove the inclusion of the projected unamortized balance of the deferrals from  
25 working capital. These are non-utility costs that should not be passed onto the



1 water customers.

2

3 IV. ADJUSTMENTS TO RATE BASE

4 Reversal of Proposed Pro Forma Utility Plant Additions

5 **Q. WMSI HAS REQUESTED A SIGNIFICANT LEVEL OF PRO FORMA**  
6 **PLANT ADDITIONS IN THIS CASE. WOULD YOU PLEASE BRIEFLY**  
7 **DISCUSS THE COMPANY'S REQUEST?**

8 A. Yes. The Company has requested to include post-test year future plant additions  
9 totaling \$2,202,481 in this case. On Company Schedule A-3, page 2 of 2, it has  
10 broken out this requested \$2.2 million as follows: \$156,156 to relocate a portion  
11 of a 12-inch supply main from the bridge to the main island; \$272,250 for various  
12 water plant process improvements; \$450,000 to acquire land for a new storage  
13 tank and water treatment; \$970,900 to replace the existing ground storage tank  
14 and aerators; \$330,675 to replace or rehabilitate electrical equipment; and \$22,500  
15 to upgrade distribution system components. As part of these various plant  
16 addition projects and improvements, the Company has also reflected pro forma  
17 plant retirements in its filing totaling \$180,409. The net impact on plant in  
18 service that is proposed by the Company is an increase in plant in service of  
19 \$2,022,072.

20

21 Of the assets the Company would be required to retire as part of its various plant  
22 addition and improvement projects, only \$47,742 of that has been depreciated,  
23 leaving a net undepreciated balance for these retirements of \$132,667. The high  
24 portion of undepreciated balance to original cost for many of the assets WMSI is  
25 proposing to retire is due to the fact that many of these plant assets were installed

1 in 2004. They have only been depreciated for approximately six years on the  
2 Company's books. As part of its filing, the Company is proposing to recover the  
3 net undepreciated balance as prudently retired plant resulting in a requested  
4 annual amortization of \$12,879.

5  
6 **Q. HAS THE COMPANY FULLY SUPPORTED ITS PROPOSED PRO**  
7 **FORMA PLANT ADDITIONS IN THIS CASE?**

8 A. This issue is addressed by OPC engineering witness Andrew Woodcock. As  
9 indicated in Mr. Woodcock's testimony, the Company has not provided a  
10 reasonable level of support for the cost projections that it has incorporated in this  
11 case for its proposed additions. Prior to allowing for pro forma plant additions  
12 that go beyond the end of the test year, a reasonable level of support for the  
13 estimates associated with those costs should be provided. The Company has  
14 provided no bids or detailed analysis of the cost projections associated with each  
15 of its proposed plant additions in this case. Again, this is discussed in further  
16 detail in the testimony of Mr. Woodcock. As part of the Commission's decision in  
17 this case, it should not essentially give the Company a blank check for extremely  
18 high level cost projections that it has incorporated in this case for these plant  
19 additions. The Company should be required to provide a reasonable level of  
20 support for the proposed pro forma plant additions prior to any of them being  
21 allowed for inclusion in rate base in this case.

22  
23 **Q. HAVE YOU MADE AN ADJUSTMENT TO REFLECT THE REMOVAL**  
24 **OF THE THESE UNSUPPORTED PRO FORMA PLANT ADDITIONS?**

25 A. Yes. As shown on Schedule C-1, page 1 of 2, I reflect the reversal of each of the

1 Company's proposed additions to plant in service as well as the reversal of the  
2 associated pro forma plant retirements incorporated in this case. Additionally, all  
3 of the related adjustments, such as the adjustment for pro forma accumulated  
4 depreciation and pro forma depreciation expense are also reversed on Schedule C-  
5 1, page 1 of 2.

6  
7 **Q. WHAT ADDITIONAL ADJUSTMENTS ARE NECESSARY TO REVERSE**  
8 **THE COMPANY'S PROPOSED PRO FORMA PLANT ADDITIONS AND**  
9 **TO REMOVE ALL IMPACTS FROM THIS CASE?**

10 A. As shown on Schedule C-1, page 1, line 23, the Company's proposed amortization  
11 of prudently retired plant should also be removed at this time. Additionally, the  
12 amount included for the projected increase in property taxes associated with the  
13 pro forma plant should also be removed. These pro forma plant additions as well  
14 as all of the associated adjustments included in the filing by the Company should  
15 not be allowed before such time as the cost are fully justified and supported.

16  
17 **Q. DO YOU HAVE ANY CONCERNS WITH THE COMPANY'S**  
18 **CALCULATION OF ITS PROPOSED AMORTIZATION OF THE PLANT**  
19 **TO BE RETIRED?**

20 A. Yes. In calculating its proposed amortization of the plant to be retired, the  
21 Company appears to have used the formula required by Rule 25-30.433(9) in  
22 determining the amortization period for recovery, with one exception. In  
23 calculating the amortization period, the Company used the rate of return of  
24 5.01%, which is based on the "final requested interest rate from limited  
25 proceeding Dkt. No. 000694-WU". The Commission's rule states that the amount

1 to be used in the formula calculation is ". . . an amount equal to the rate of return  
2 that would have been allowed on the net invested plant that would have been  
3 included in rate base before the abandonment or retirement." The early  
4 retirements of these plant items that are being proposed by the Company in this  
5 case will not occur until the time that the proposed pro forma plant additions are  
6 added. If any recovery of this proposed early retired plant is allowed for as part  
7 of this proceeding, the rate of return proposed to be used in this calculation by the  
8 Company of 5.01% should be replaced with the rate of return that is adopted by  
9 the Commission in this case. As will be addressed later in this testimony, the  
10 OPC is recommending a rate of return in this case of 3.85%. Using the  
11 Company's proposed calculation shown on Schedule B-3, page 5 of 5, if one  
12 replaces the 5.01% rate of return used by the Company in its calculation with the  
13 OPC's recommended 3.85% rate of return, the impact would be a \$1,552  
14 reduction in the proposed amortization.

15  
16 **Q. WHAT IMPACT ON THE REVENUE REQUIREMENT DOES THE**  
17 **REMOVAL OF THE PROPOSED PRO FORMA PLANT ADDITIONS**  
18 **ALONG WITH ALL OF THE RELATED ADJUSTMENTS HAVE IN THIS**  
19 **CASE?**

20 **A.** On Schedule C-1, page 2 of 2, I have estimated the impact on WMSI's requested  
21 revenue requirement that resulted from the removal of the unsupported pro forma  
22 plant additions in this case, as well as the related impacts on accumulated  
23 depreciation, depreciation expense, amortization of retired plant, and property  
24 taxes. In other words, this schedule shows the impact of removing all of the  
25 adjustments made by the Company associated with its pro forma plant additions.

1 This would also include reversal of the proposed plant retirements. Using the  
2 OPC's recommended rate of return in this case of 3.85%, the impact is a \$149,033  
3 reduction to revenue requirement. Each of the impacts of reversing these  
4 adjustments has been flowed through my summary schedules, specifically  
5 Schedules A, B and C in this case and has been reflected in the OPC's overall  
6 revenue requirement in this case. However, I also presented Schedule C-1, page 2  
7 of 2, so that the Commission can see the impact that is specifically related to the  
8 reversal of the Company's proposed pro forma plant adjustment.

9  
10 Remove Affiliate Asset From Utility Plant

11 **Q. YOU PREVIOUSLY MENTIONED IN THIS TESTIMONY THAT YOU**  
12 **HAVE SEVERAL CONCERNS WITH THE TRANSFER OF ASSETS**  
13 **BETWEEN THE UTILITY OPERATIONS AND BROWN**  
14 **MANAGEMENT GROUP, INC. ARE YOU RECOMMENDING ANY**  
15 **SPECIFIC ADJUSTMENTS IN THIS CASE ASSOCIATED WITH ANY**  
16 **ASSETS THAT HAVE BEEN TRANSFERRED?**

17 A. Yes. Several transactions the Company has entered into between with its affiliate,  
18 Brown Management Group, and even an outside party with regard to backhoe  
19 trailers that were, at one point, on the utility's books and records are highly  
20 questionable. The Company's response to OPC Interrogatory 1 shows that during  
21 2005 WMSI purchased two separate backhoe trailers, one for \$7,007.85 and one  
22 for \$16,022.08. The relevant pages are provided as Exhibit\_\_ (DR-8).

23  
24 The same response shows that the Company sold one of these trailers, the one  
25 valued at \$7,007.85, in 2006. The response to OPC Interrogatory No. 8 indicates

1 that this 2006 sale of the trailer was sold to All Pro Trailers for a price of \$5,000.  
2 In response to deposition questions as Late-Filed Exhibit No. 5, being provided as  
3 Exhibit\_\_ (DR-9), Mr. Brown provided a cash deposit slip showing that on March  
4 30, 2006, \$5,000 in cash was deposited into one of WMSI's bank accounts for the  
5 sale of the Econoline backhoe trailer. During 2006, the \$7,007.85 trailer that was  
6 purchased in 2005 was removed from the Company's books. The information  
7 provided by the Company in Late-Filed Exhibit No. 5 indicates that this  
8 \$7,007.85 trailer was an Econoline backhoe trailer that was purchased from  
9 Stonehenge Trailers.

10  
11 OPC POD 21 asked the Company to provide all documents that pertain to the sale  
12 or transfer of any asset that were previously owned by WMSI that have been sold  
13 or transferred to other entities, affiliates or persons since December 31, 1992. As  
14 part of that response, WMSI provided a bill of sale indicating that on December  
15 22, 2009, WMSI was selling its rights, interest and title of the 2005 Econoline  
16 trailer to Brown Management Group. The response included a copy of the  
17 certificate of origin for the vehicle associated with the Econoline trailer that was  
18 purchased from Stonehedge Enterprises as well as the value of the backhoe trailer  
19 on its books and an associated sale price of \$4,005.51. Apparently, based on this  
20 document, the Company has shown that it sold the Econoline trailer that was  
21 purchased from Stonehenge Enterprises in 2005 to Brown Management Group in  
22 2009. These pages from OPC POD 21 are being provided as Exhibit\_\_ (DR-10).  
23 As indicated above, on the Company's books it shows that the Econoline trailer  
24 that was purchased from Stonehenge was sold and removed from the Company's  
25 books in 2006. This is shown on Exhibit\_\_ (DR-8), which is an excerpt from

1 WMSI's response to OPC Interrogatory 1.

2  
3 Even more perplexing are the transactions that have occurred with the second  
4 trailer that was purchased in 2005, specifically the backhoe trailer that was  
5 acquired from All Pro Trailers for \$16,022.08. The information provided by the  
6 Company in response to OPC Interrogatory No. 1, shows that the Company sold  
7 this trailer in 2009. The response to OPC Interrogatory No. 8 indicates that this  
8 sale in 2009 was made to Brown Management Group. That same response shows  
9 the sale price as \$4,005.51. This is the same amount that was identified in  
10 response to OPC POD-21 associated with a December 22, 2009, sale of the  
11 Econoline trailer from WMSI to Brown Management Group, Inc. However, in  
12 Late-Filed Exhibit No. 5, WMSI indicated that on December 22, 2009, it sold the  
13 backhoe trailer to Brown Management Group for \$10,000. However, it appears  
14 this trailer was in fact sold by WMSI in 2007.

15  
16 **Q. PLEASE EXPLAIN.**

17 **A.** During the deposition of Gene Brown on August 10, 2010, the OPC questioned  
18 Mr. Brown regarding the backhoe trailers as well as the purchase and sale of those  
19 trailers. Mr. Brown agreed to provide a late-filed exhibit addressing the  
20 acquisition of a backhoe and the transactions associated with the backhoe trailers.  
21 As a result, Mr. Brown provided Late-Filed Exhibit No. 5. I am attaching this  
22 late-filed exhibit as Exhibit \_\_ (DR-9). As indicated above, the December 22,  
23 2009, sales amount for the backhoe trailer sale to Brown Management Group is  
24 identified in that late-filed exhibit as \$10,000, and this is inconsistent with  
25 amounts the Company booked on its books during 2009. However, based on the

1 information provided at the last page of Late-Filed Exhibit No. 5, apparently  
2 Water Management Services, Inc. actually sold this trailer effective March 31,  
3 2007. This sale appears to be signed by Gene Brown as President of Water  
4 Management Services, Inc. and is dated March 31, 2007. As shown on the second  
5 to last page of the late-filed exhibit, on August 18, 2010 Gene D. Brown as  
6 President of Water Management Services, Inc., signed a bill of sale indicating that  
7 for the price of \$10,000 WMSI transferred a 2006 Imperial trailer to Brown  
8 Management Group, Inc. The bill of sale indicates that "This bill of sale is given  
9 to document the transfer and three party exchange which occurred on March 31,  
10 2007, simultaneously with the transfer shown by Ex. 'A' attached." The bill of  
11 sale also indicates that Mr. Brown is making this effective March 31, 2007, and  
12 that it was actually signed on August 18, 2010, which is after the August 10, 2010  
13 deposition of Mr. Brown.

14  
15 Also with Late-Filed Attachment 5, the Company provided the actual entries that  
16 were made on its books at December 22, 2009, to record the sale of the backhoe  
17 trailer from WMSI to Brown Management Group. However, the same page  
18 provided indicates that a different accounting entry should have been made  
19 showing the sale as of March 31, 2007. This purportedly corrected entry is  
20 identified as being to record the sale of the backhoe trailer to Brown Management  
21 Group. The Company then provided a correcting entry on the same page. The  
22 description of the correcting entry states "To record sale of 48KP30HD backhoe  
23 trailer to Brown Management Group on 3/31/07 instead of 12/22/09 with  
24 gain/loss on sale recognized". The amounts identified as the balance of this trailer  
25 in plant in service in the entry and correcting entry is the \$16,022.08 backhoe



1 trailer that the Company identified in response to Citizen's POD No. 21 as having  
2 been sold on December 22, 2009, to Brown Management Group, Inc. for an  
3 amount of \$4,005.51.

4  
5 Clearly, there has been a lot of conflicting information provided by the Company  
6 with regard to these trailers, and it is clear that the Company is moving assets in  
7 and out of its affiliate, Brown Management Group, Inc. Clearly, it is  
8 inappropriate that this trailer stayed on the utility's books through December 22,  
9 2009, when apparently it was sold to a third party in 2007. Additionally, the  
10 transfer of the Certificate of Title associated with the trailer that was provided in  
11 Late-Filed Exhibit No. 5 identifies Water Management Services, Inc. as the seller,  
12 not Brown Management Group, Inc. These transactions further highlight the  
13 great concerns the Office of Public Counsel has regarding the level of transactions  
14 and the transfer of assets between WMSI and Brown Management Group, Inc.

15  
16 **Q. ARE YOU RECOMMENDING ANY ADJUSTMENT ASSOCIATED**  
17 **WITH THESE TRAILERS?**

18 A. The information provided by the Company in Late-Filed Exhibit No. 5 indicates  
19 that this asset should have been written off of WMSI's books as far back as 2007.  
20 Also shown in the information is the fact that depreciation expense recorded in  
21 the test year on the Company's books included \$2,670.35 associated with this  
22 trailer that apparently was sold back in 2007. On Schedule C-2, I have made  
23 adjustments to remove the amount that was included in plant in service and  
24 accumulated depreciation on the Company's books during the test year for the  
25 trailer, and have also removed the depreciation expense of \$2,670. Clearly, the

1 Company should not earn a return on this asset that it did apparently did not own  
2 during the test year.

3  
4 Removal of Two Vehicles from Rate Base

5 **Q. WOULD YOU PLEASE PROVIDE A BRIEF SUMMARY OF THE**  
6 **VEHICLE COSTS THAT ARE INCLUDED IN THE TEST YEAR IN THE**  
7 **COMPANY'S FILING?**

8 A. The Company's adjusted test year in this case includes three company owned  
9 vehicles that are included in plant in service and two vehicles that the Company is  
10 leasing, for a total of five vehicles. Additionally, the Company has also included  
11 lease costs associated with a John Deere "Gator" vehicle that the Company has  
12 essentially purchased through a lease arrangement. By including this leased John  
13 Deere vehicle, the Company has essentially included costs associated with six  
14 vehicles for use by its eight employees. In its filing, the Company annualized the  
15 impact of two new vehicle leases that it entered into during the test year, as well  
16 as the impact of the lease associated with John Deere utility vehicle.

17  
18 As part of its rate base adjustment shown on MFR Schedule A-3, page 2, the  
19 Company removed 50% of the cost included in rate base associated with the 2008  
20 GMC Sierra pickup truck that is used by Gene Brown and a 2007 Chevrolet  
21 Tahoe that is used by Sandra Chase. The Company has indicated in its response  
22 to OPC Interrogatory 5 that 50% of these two vehicles were used for utility  
23 related work.

24  
25 **Q. HAS THE COMPANY JUSTIFIED ITS POSITION THAT 50% OF THE**

1           **USAGE OF THE 2008 GMC SIERRA PICKUP TRUCK ASSIGNED TO**  
2           **MR. BROWN AND 50% OF THE USE OF THE 2007 CHEVROLET**  
3           **TAHOE USED BY SANDRA CHASE ARE UTILIZED FOR WMSI WORK**  
4           **PURPOSES?**

5       A.    No, it has not. The Company has been unable to provide any mileage records and  
6           in fact, does not keep track of such mileage. As justification for the need for Mr.  
7           Brown to have a Company owned vehicle, the Company indicated in response to  
8           OPC Interrogatory 5 that Mr. Brown averages four trips per month to St. George  
9           Island. The response also indicated that the vehicle is used for personal use as  
10          needed. There was no detailed discussion of why Mr. Brown needs to have the  
11          use of a Company owned vehicle.

12  
13          With regards to the 2007 Chevrolet Tahoe that is utilized by Sandra Chase, the  
14          Company merely indicated, "It is estimated that 50% of the use is for WMSI".  
15          The response also indicated that Ms. Chase averages one trip per month to St.  
16          George Island. The Company provided no further support or justification for the  
17          need of Ms. Chase to have Company owned vehicle.

18  
19       **Q.    WHAT IS THE COST ON THE COMPANY'S BOOKS OF THE 2008 GMC**  
20       **SIERRA WHICH WAS UTILIZED BY MR. BROWN DURING THE TEST**  
21       **YEAR?**

22       A.    The original cost on WMSI's books on this vehicle that is recorded in plant in  
23           service is \$41,870, with the unamortized balance in the test year in this case being  
24           \$26,750, as well as an annual depreciation expense of \$6,978. As previously  
25           mentioned, the Company removed 50% of these costs from the test year as non-

1 used and useful. On Schedule C, I have removed the remaining 50% balance  
2 from plant in service and accumulated depreciation, and on Schedule B I removed  
3 the remaining depreciation expense that is incorporated in the Company's adjusted  
4 test year. It is my recommendation that all of these costs be disallowed. The  
5 provision of the use of this vehicle is an extra perquisite or benefit that is provided  
6 to Gene Brown that is not necessary. The Company has not justified the work  
7 related mileage or the percentage of work related usage that it has left in this case.  
8 This is a personal vehicle that is used by Gene Brown and should not be included  
9 on the utility's books.

10  
11 I would also like to note that according the Company's 2010 General Ledger  
12 provided in response to OPC POD 3, on March 10, 2010 this Sierra truck was  
13 sold to Brown Management Group. During his August 10, 2010 deposition, Mr.  
14 Brown indicated that the sale of this vehicle to Brown Management Group was a  
15 management decision. He also indicated that this is no longer his primary vehicle  
16 and instead a 2008 Chevrolet Tahoe is his primary vehicle. The 2010 General  
17 Ledger shows that on the same day the GMC Sierra was sold to Brown  
18 Management Group, WMSI recorded an entry to purchase a 2008 Chevrolet  
19 Tahoe for \$42,579.52. This vehicle is now being used by Mr. Brown as his  
20 primary vehicle. Based on the deposition of Mr. Brown, Brown Management  
21 Group still owns the 2008 GMC Sierra. As previously mentioned in my  
22 testimony, the Company has indicated in response to OPC Interrogatory that  
23 Brown Management Group, Inc. is a corporation that holds and manages the  
24 investments of Gene Brown, all of which are passive. Given that all of these  
25 investments are passive, I am unsure of the reasons for Brown Management

1 Group, Inc. buying and retaining the vehicles from WMSI while at the same time  
2 WMSI purchasing a new vehicle to be assigned to Gene Brown.

3

4 **Q. WHAT AMOUNT IS INCLUDED IN THE FILING FOR THE 2007**  
5 **CHEVROLET TAHOE THAT IS UTILIZED BY SANDRA CHASE?**

6 A. The test year plant in service included on the Company's General Ledger includes  
7 \$30,413 for this vehicle, with an average test year undepreciated balance of  
8 \$26,189. The depreciation expense recorded during the test year on this vehicle  
9 was \$5,069. The Company removed 50% of these amounts on its Schedule A-3,  
10 page 2 of 2, as non-used and useful. On Schedule B I have removed the  
11 remaining 50% of the amount included in plant in service and in accumulated  
12 depreciation, and on Schedule B I removed the remaining depreciation expense  
13 from the test year. The Company has not provided any information that would  
14 justify Ms. Chase needing a Company owned vehicle for her use on a full time  
15 basis. Additionally, based on documentation provided by the Company, this  
16 vehicle is not even owned by WMSI. It is titled to Sandra Chase.

17

18 **Q. WHAT HAS LED YOU TO THE CONCLUSION THAT THIS VEHICLE**  
19 **IS ACTUALLY OWNED BY SANDRA CHASE AND NOT OWNED BY**  
20 **WMSI?**

21 A. OPC POD 27 asked the Company to provide a copy of the invoices for all of the  
22 Company owned vehicles. I am attaching the documentation that was provided  
23 with the response that pertains to the 2007 Chevrolet Tahoe that is assigned to  
24 Sandra Chase as Exhibit\_\_ (DR-11). As shown on the last page of this exhibit, the  
25 vehicle was purchased by Sandra Chase with a delivery date of June 18, 2008.

1 She is identified as the owner and purchaser of this vehicle. Also shown on this  
2 exhibit is a lien and title information sheet from Envision Credit Union that shows  
3 Sandra Chase as the owner of the vehicle, and indicates that a lien was assigned to  
4 the vehicle by Envision Credit Union on February 18, 2009. The name of the  
5 borrower that is identified is Sandra Chase, with Dan Chase as the co-borrower.  
6 This loan is discussed in further detail at the end of this testimony under the  
7 section pertaining to long-term debt costs. Also provided was a copy of a fund  
8 advance voucher paid to Sandra Chase and Dan Chase on the vehicle from  
9 Envision Credit Union on February 18, 2009, at an annual percentage rate of  
10 5.75% for a loan amount of \$20,000.

11  
12 As part of the POD response, the Company also provided a Bill of Sale that was  
13 signed by Sandra Chase that states "In consideration of the sum of twenty  
14 thousand dollars (\$20,000), receipt of which is hereby acknowledged, Sandra M.  
15 Chase hereby sells all of her rights, title and interest to Water Management  
16 Services, Inc. in the following vehicle." This bill of sale then identifies the 2007  
17 Chevrolet Tahoe and indicates it is subject to the lien in favor of Envision Credit  
18 Union. This bill of sale is signed by Sandra Chase and is dated February 18,  
19 2009. While the Company has apparently provided a bill of sale that was signed  
20 by Ms. Chase, Mr. Brown agreed in his deposition that the title on the vehicle is  
21 still in the name of Ms. Chase. Additionally, the documentation provided shows  
22 that the loan on the vehicle was provided to Ms. Chase, not to WMSI. Mr. Brown  
23 did indicate in his August 10, 2010 deposition that the Company is making  
24 payments on the loan, however, the vehicle was initially acquired by Ms. Chase,  
25 is used by Ms. Chase and is still titled to Ms. Chase as well as the loan being

1 shown as being the obligation of Ms. Chase.

2

3 **Q. HOW IS THIS VEHICLE RECORDED ON THE COMPANY'S BOOKS?**

4 A. The Company's 2008 General Ledger that was provide in response to OPC POD  
5 3, shows that the Company increased its transportation equipment account in plant  
6 in service by \$30,413 on June 18, 2008, for the used 2007 Chevrolet Tahoe. This  
7 is the date that Ms. Chase purchased the vehicle in her own name as shown on the  
8 final page of Exhibit \_\_ (DR-1). While the Company has purportedly provided a  
9 bill of sale indicating that Ms. Chase has sold her rights and interest to WMSI for  
10 the vehicle, that bill of sale indicates that those rights were sold for \$20,000 on  
11 February 19, 2009, not for \$30,413 in June of 2008.

12

13 This vehicle should be removed fully from this case for several reasons. First, as  
14 demonstrated above, the Company does not actually own this vehicle and the lien  
15 is not in the Company's name. Additionally, the Company has not justified the  
16 need for Ms. Chase to have a Company owned vehicle. Thus, I am  
17 recommending that all of the cost be removed from the test year.

18

19 **Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH THE LEVEL OF**  
20 **TRANSPORTATION RELATED COSTS RECORDED DURING THE**  
21 **TEST YEAR?**

22 A. Yes. There were numerous amounts booked by WMSI during the test year  
23 associated with the purchase of gas and mileage reimbursements to employees.  
24 Since the Company does not keep mileage logs, I was unable as of this time to  
25 evaluate the reasonableness of those costs.

1        Offset to State Park Assets for Transfer of Rental Rights

2        **Q.    ARE YOU RECOMMENDING ANY ADDITIONAL ADJUSTMENTS TO**  
3        **THE PLANT IN SERVICE BALANCE IN THIS CASE?**

4        A.    Yes. During 2006, the Company increased plant Account 331-Transmission and  
5        Distribution Mains by \$227,977 for work that was performed by Scruggs  
6        Contracting, Inc. ("Scruggs") at the State park on St. George Island. While the  
7        total amount owed to Scruggs Contracting, Inc. for the State park project was  
8        \$227,977, which is the amount the Company booked to plant in service in 2006,  
9        the Company actually paid \$100,000 less for this project. I recommend the  
10       amount included in plant in service in Account 331-Transmission and Distribution  
11       Main be reduced by \$100,000.

12  
13       **Q.    HOW DID IT RESULT THAT THE COMPANY PAID SCRUGGS \$100,000**  
14       **LESS FOR THE PROJECT THAN WHAT IT OWED FOR THE**  
15       **PROJECT WORK?**

16       A.    On Exhibit \_\_ (DR-12), I am including a copy of relevant documents that were  
17       provided by WMSI in response to OPC POD21 regarding this transaction.  
18       According to a Memo of Agreement between Water Management Services, Inc.  
19       and Scruggs Contracting, Inc. that was made in 2006, WMSI received a \$100,000  
20       credit on the bill that was owed to Scruggs as a result of WMSI assigning its  
21       rights, title and interest in and to certain leases between WMSI and Nextel as well  
22       as WMSI's rights, title and interest in and to any further cell tower leases that may  
23       be negotiated for equipment to be placed on the Company's elevated tank site. In  
24       other words, in lieu of being required to pay Scruggs \$100,000, WMSI assigned  
25       all future rental income associated with outside entities attaching assets on



1 WMSI's elevated tank to Scruggs. This elevated tank is included in rate base and  
2 is being paid for by WMSI's water customers. Absent the assignment of these  
3 future lease payments and lease rights to Scruggs, ratepayers would have received  
4 the benefit of any rental income due to the fact that the rental income is a result of  
5 items being attached to utility owned property that is include rate base. Since  
6 ratepayers will no longer receive the benefit of current and future rental income  
7 associated with the attachments to the elevated tank, at a minimum the benefit of  
8 the \$100,000 offset to the State park project cost should be reflected as an offset  
9 to plant in service in this case. The amount included in plant in service associated  
10 with the State Park Project should not exceed the amount that was actually paid  
11 by WMSI for that project, particularly as the Company has given up the future  
12 rental rights on another utility related asset.

13  
14 **Q. WHAT ADJUSTMENT IS NEEDED TO REFLECT YOUR**  
15 **RECOMMENDATION?**

16 A. As shown on Schedule C-2, I recommend that plant in service be reduced by  
17 \$100,000. I have also removed the amount included in depreciation expense in  
18 the 2009 test year on the \$100,000 plant balance, which would be \$2,326.  
19 Additionally, I have removed the estimated build up of accumulated depreciation  
20 on the \$100,000 that would have occurred from 2006 through 2009. The net  
21 impact is a \$93,023 reduction to rate base and a \$2,326 reduction to depreciation  
22 expense. I also recommend that the Commission require the Company to write-  
23 off \$100,000 of the balance included in Plant Account 331-Transmission and  
24 Distribution Main to insure that the Company does not receive future recovery on  
25 these costs.

1 **Q. IS THERE AN ALTERNATIVE APPROACH THE COMMISSION**  
2 **COULD TAKE WITH REGARDS TO THIS ISSUE?**

3 A. Yes. The Commission could also consider amortizing the \$100,000 associated  
4 with WMSI's sale of the rental income rights to ensure that the amounts are  
5 flowed to ratepayers over a future period of time. This would compensate them  
6 for the lost revenues. This would be an alternative to reducing plant in service by  
7 the \$100,000.

8

9 **Q. HOW DID THE COMPANY ACCOUNT FOR THE \$100,000 ON ITS**  
10 **BOOKS?**

11 A. In Late-Filed Exhibit No. 16, the Company provided the accounting treatment of  
12 the \$100,000 offset to the amount it owed Scruggs. When the item was booked  
13 on June 30, 2006, the Company debited accounts payable-Scruggs for the  
14 \$100,000 and credited miscellaneous income by \$100,000. The description  
15 provided with the entry on the Company's ledger states "To record forgiveness of  
16 \$100,000 of debt in return for a leasehold interest given Scruggs." The Company  
17 should not be permitted to earn a return on this \$100,000 that it has included in  
18 plant in service in this case.

19

20 Working Capital

21 **Q. THE COMPANY'S FILING INCLUDES \$181,157 IN RATE BASE FOR**  
22 **WORKING CAPITAL. ARE YOU RECOMMENDING ANY**  
23 **ADJUSTMENTS TO THIS AMOUNT?**

24 A. Yes. I am recommending six separate adjustments to the Company's proposed  
25 working capital balance. Each of my adjustments is shown on Schedule C-4.

1 **Q. WOULD YOU PLEASE DESCRIBE EACH OF THE ADJUSTMENTS TO**  
2 **WORKING CAPITAL YOU ARE RECOMMENDING?**

3 A. Yes. As shown on Schedule C-4, I am recommending total reductions to the  
4 Company's working capital request of \$133,213, resulting in an adjusted working  
5 capital for inclusion in rate base of \$47,944. Each of my recommended  
6 adjustments is presented below:

- 7 • As discussed previously in this testimony, the Company's proposed deferred  
8 Wastewater Certificate Application cost should be rejected and these should  
9 have been written-off as non-utility costs on the Company's books.  
10 Consequently, I have removed the \$35,603 average test year balance the  
11 Company included in working capital in its request.
- 12 • The Company's working capital request includes the average unamortized  
13 debt discount and expense balance of \$112,034. These debt costs are  
14 included in the Company's capital structure and in the calculation of the long-  
15 term debt rate being applied in this case. As a result, they should not also be  
16 included in the working capital request otherwise double recovery of these  
17 costs would occur.
- 18 • The total balance of the unamortized prior rate case expenses included in  
19 working capital of \$17,983 should be removed. While the Company has  
20 indicated in its response to OPC Interrogatory 64 that this balance should be  
21 reduced by \$5,891 to a level of \$12,092, it is my position that the entire  
22 balance should be removed. This amount is fully amortized and working  
23 capital should not include both the average costs that are projected for the  
24 current rate case and the unamortized balance during the test year of the cost  
25 of the prior rate case. Since I have left the average balance of the projected

1 current rate case expense in working capital, the balance associated with the  
2 prior rate case should be excluded.

3 ● As previously discussed in this testimony, I have recommended that the  
4 Company's proposed rate case expense in this docket be reduced by \$3,172 to  
5 remove the costs associated with the preliminary evaluation. Consequently,  
6 50% of this amount should also be reduced from the working capital request.  
7 This results in a recommended reduction in the average balance included in  
8 working capital for the current rate case of \$1,586.

9 ● As discussed previously in this testimony, I have recommended that the cost  
10 included in the test year for the Key Man Life Insurance policy of \$12,016 be  
11 removed and instead be treated as non-utility costs. I have assumed that the  
12 prepaid insurance balance included by the Company in working capital would  
13 include 50% of this annual expense level reflecting that on average half of the  
14 total annual cost would be prepaid during the year. Consequently, I have  
15 reduced working capital by \$6,008 to remove my estimated prepaid insurance  
16 amount from working capital associated with this insurance.

17 ● Finally, the Company has reduced its working capital request by \$40,000  
18 identified as operating reserves. This is the average amount the Company  
19 would have recorded on its books as the liability for its proposed executive  
20 deferred compensation plan costs. As those deferred compensation plan costs  
21 should be disallowed, I have also removed the Company's offset to working  
22 capital for the average balance, which increases working capital by \$40,000.

23  
24 Non-Used and Useful Plant Adjustment

25 **Q. OPC WITNESS ANDREW WOODCOCK'S TESTIMONY INDICATES**

1           **THAT ONLY 54.9% OF THE COMPANY'S DISTRIBUTION SYSTEM IS**  
2           **USED AND USEFUL. HAVE YOU QUANTIFIED THE IMPACT OF HIS**  
3           **FINDINGS?**

4    A.    Yes. On Schedule C-5, I have quantified the impact of removing 45.1% of the  
5           Transmission and Distribution mains recorded in Account 331.4 as non-used and  
6           useful. This is based on the recommendation of OPC witness Woodcock. As  
7           shown on Schedule C0-5, plant in service should be reduced by \$1,059,878 and  
8           accumulated depreciation should be reduced by \$472,904 to reflect the impact of  
9           Mr. Woodcock's recommendation, resulting in a net reduction to rate base of  
10          \$586,975. Additionally, depreciation expense should be reduced by \$16,912 to  
11          remove the non-used and useful portion. In deriving the impacts, I have also  
12          taken into consideration the non-used and useful adjustment incorporated in  
13          WMSI's filing to Account 331.4.

14  
15          V.    RATE OF RETURN - REVISIONS TO LONG TERM DEBT COST  
16                AND RATES

17    **Q.    ARE YOU RECOMMENDING ANY REVISIONS TO THE RATE OF**  
18           **RETURN PRESENTED BY WMSI IN THIS CASE?**

19    A.    Yes. I am recommending several modifications. WMSI has proposed an overall  
20           rate of return of 5.01%, which incorporates an average long term debt rate of  
21           4.99%. I am recommending an overall rate of return for WMSI of <sup>3.85</sup>~~3.81~~%, which  
22           incorporates a long term debt rate of 3.78%. In deriving the long term cost rate of  
23           3.78%, I incorporated three separate modifications to the Company's calculation  
24           of its long term debt cost.

25

1 **Q. WHAT SPECIFIC ADJUSTMENTS DO YOU RECOMMEND?**

2 A. My recommended modifications to the calculation of the long term debt cost rate  
3 are presented on page 2 of Schedule D. On this page, I first present the  
4 Company's proposed calculation of the long term debt cost rate, followed by my  
5 recommended calculations. The first modification I recommend is that the  
6 amount included for a loan with Envision Credit Union be disallowed. The  
7 Company's calculation included a 13-month average outstanding balance for this  
8 loan of \$15,711 at a cost rate of 5.75%. The entire amount of this loan should be  
9 removed in determining the long term debt rate.

10

11 **Q. WHY SHOULD THIS LOAN BE REMOVED?**

12 A. This loan is with an employee of WMSI, not WMSI. As indicated previously in  
13 this testimony, the Company has included in plant and service the cost associated  
14 with a 2007 Chevrolet Tahoe that is actually owned by Sandra Chase. I am  
15 providing the long term debt support documentation provided by the Company in  
16 response to OPC POD 8 that is specific to this Envision Credit Union loan as  
17 Exhibit\_\_(DR-13). Based on the actual loan documentation provided by the  
18 Company, the loan with Envision Credit Union is for the 2007 Chevrolet Tahoe  
19 that is owned by Sandra Chase and the loan is made out to Sandra Chase, with  
20 Dan Chase as co-borrower on the loan. During his August 10 deposition, WMSI  
21 President Gene Brown indicated that WMSI is making the payments on this loan.  
22 However, it is clear from the documentation that has been provided that the loan  
23 has been made to Sandra Chase and is associated with the vehicle that is also  
24 owned by Sandra Chase. Consistent with my recommendation previously  
25 addressed in this testimony that the entire cost of the 2007 Chevrolet Tahoe be

1 removed from plant in service, the debt cost included by the Company in  
2 calculating its long term debt rate should also be removed. This removal is  
3 reflected on line 8 of Schedule D, page 2 of 2.

4  
5 **Q. WHAT IS THE NEXT ADJUSTMENT YOU ARE RECOMMENDING TO**  
6 **THE CALCULATION OF THE LONG TERM DEBT COST RATE?**

7 A. As shown on line 9 and in footnote (b) of Schedule D, page 2 of 2, I recommend  
8 that the Capital City loan reflected in the Company's schedule be removed. The  
9 Company's filing incorporated a 13-month average outstanding balance for the  
10 loan of \$27,492 at a cost rate of 6.61%. Based on the long term debt loan  
11 documentation provided in response to OPC POD 8, this loan is for the 2009  
12 GMC Sierra that was used by Gene Brown during the 2009 test year. As  
13 indicated previously in this testimony, I recommend that this vehicle be removed  
14 from plant in service. Additionally, I recommend that the associated debt be  
15 removed in determining the cost of long term debt to incorporate in the filing.  
16 This vehicle, as well as the associated loan, is for the benefit of the President of  
17 WMSI and should not be the burden of ratepayers.

18  
19 **Q. WHAT IS THE FINAL ADJUSTMENT YOU ARE RECOMMENDING TO**  
20 **THE CALCULATION OF THE LONG TERM DEBT COST RATE?**

21 A. In its filing at MFR Schedule D-5 Interim, WMSI shows that during the test year  
22 it had a loan outstanding with Gulf State Bank with the 13-month average  
23 principle amount outstanding during the test year being \$2,849,020. To the best  
24 of my knowledge, this loan is still in place. The rate on that loan with Gulf State  
25 Bank is 4.25%. In its calculation of the proposed long term debt cost rate on

1 MFR Schedule D-5, the Company has proposed to replace this 4.25% cost rate  
2 loan with Gulf State Bank with a loan with Citizen's State Bank of \$5 million at a  
3 cost rate of 6.65%. According to the direct testimony of WMSI witness Gene  
4 Brown, at page 8, this new loan will be used to pay for the proposed pro forma  
5 plant additions that are incorporated in this case as well as to refinance ". . . all of  
6 the utility's existing debt except the state revolving fund loan administered by  
7 DEP which was used for the new supply main." Mr. Brown further indicates that  
8 it is ". . . necessary and prudent to refinance all of our existing debt at current  
9 market rates, except for the state revolving fund loan which is at 3%." As shown  
10 on Schedule D, page 2 of 2, at line 10, I recommend that the proposed Citizen's  
11 State Bank loan at a projected cost rate of 6.65% be removed and instead be  
12 replaced with the actual test year 13-month average outstanding balance of the  
13 loan with Gulf State Bank at a rate of 4.25%. In other words, I am recommending  
14 that the currently existing loan should be reflected in the test year cost of debt  
15 with the projected new loan removed from the test year.

16  
17 **Q. WHY DO YOU RECOMMEND THAT THIS REVISION BE MADE?**

18 A. I am recommending that the proposed new loan be replaced in determining the  
19 long term debt cost rate with the existing loan for several reasons. First, the  
20 Company is proposing to refinance the existing loan with a significantly higher  
21 cost loan. Thus, I do not understand how the Company can contend that it is  
22 prudent to refinance the existing debt at the current market rates, particularly as it  
23 is projecting that the current market rates are substantially higher than the existing  
24 rate it currently has. Additionally, the Company has not supported the proposed  
25 cost rate on the new debt that it has incorporated in its filing.



1 Q. WHAT INFORMATION HAS THE COMPANY PROVIDED TO  
2 SUPPORT THE 6.65% COST RATE INCORPORATED IN ITS  
3 CALCULATIONS?

4 A. The bank loan commitment letter provided by WMSI in response to OPC POD-7  
5 is being provided with this testimony as Exhibit\_\_(DR-14). The Company  
6 provided a copy of its "conditional written commitment" from Citizen's State  
7 Bank dated May 14, 2010. The document from Citizens State Bank indicates that  
8 the bank has agreed to make a \$5 million loan to WMSI, provided that certain  
9 conditions are met. These conditions include that the Commission grant a rate  
10 increase to the Company that will allow it to pay the debt service on the loan in  
11 addition to all of the Company's ordinary and reasonable expenses, that the United  
12 States Department of Agriculture provide the bank with at least an 80% guarantee  
13 for the loan, and that the Florida Department of Environmental Protection agree to  
14 subordinate its lien on WMSI's supply main so that Citizens State Bank would  
15 have first lien against all of WMSI's assets, including all of its revenue and cash  
16 flow. The document indicates that the purpose of the loan would be to provide  
17 funds to repay all of WMSI's debt except for the DEP state revolving fund loan  
18 and to finance construction of approximately \$2.2 million of new capital  
19 improvements. In addressing the term and the rate for the loan, Citizens State  
20 Bank indicates that "The term and rate for the loan will be based upon market  
21 conditions in effect at the time of written commitment after the above-referenced  
22 conditions are met." No additional information or elaboration on what the rates or  
23 the term on the loan would be was provided in the document. When asked in his  
24 August 10, 2010 deposition, Gene Brown said that the bank told him the rate  
25 would be no less than 6.25%. However, he had no documentation to confirm this

1 amount. WMSI has provided no support for the 6.65% rate incorporated in its  
2 filing. Additionally, the 6.65% rate seems high considering current market  
3 conditions.

4

5 **Q. ARE THERE ANY ADDITIONAL REASONS YOU RECOMMEND**  
6 **REMOVING THE PROJECTED NEW LONG TERM DEBT AND**  
7 **REPLACING IT WITH THE EXISTING DEBT BALANCE**  
8 **OUTSTANDING AND DEBT RATE?**

9 A. Yes. As previously indicated in this testimony and also supported by the  
10 testimony of OPC witness Andrew Woodcock, the Company has not provided a  
11 reasonable level of support for the pro forma plant additions it has incorporated in  
12 this case. The main purpose of the proposed new debt is to finance the  
13 construction of the new capital improvements. The OPC has recommended that  
14 the plant additions associated with the capital improvements be rejected by the  
15 Commission until such time as the Company can provide a reasonable level of  
16 support. Consistent with that recommendation, the proposed new debt to finance  
17 those plant additions should also be excluded. The test year outstanding debt  
18 balance and cost rates should be utilized in determining the overall effective long  
19 term debt cost rate to incorporate in this case.

20

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

22 A. Yes.

1 BY MR. McGLOTHLIN:

2 Q. Have you prepared a summary for the  
3 Commissioners?

4 A. I would like to give a brief summary of my  
5 testimony.

6 Q. Please proceed.

7 A. Okay. Thank you. In this case I present the  
8 OPC's overall recommended revenue increase for this  
9 Company, and that's based on the recommendations I'm  
10 making in my testimony, coupled with the quantifications  
11 of the recommendations of OPC Witness Andy Woodcock.

12 In this case, the Company is requesting an  
13 increase in rates of \$641,629. In getting to that  
14 amount, the Company began with a historic test year  
15 ended December 31st, 2009, and it made a significant  
16 number of adjustments to that actual historic period in  
17 deriving its revenue requirements in this case. Most of  
18 those adjustments -- I address many of them in my  
19 testimony. A lot of them have to do with the pro forma  
20 plant additions. That's for the future projected plant  
21 additions they're requesting in this case, as well as  
22 some, many requested cost increases of costs that go  
23 above and beyond historic levels that have been incurred  
24 by this Company.

25 I looked at all the Company's adjustments made

1 in this case, and my recommendations, coupled with the  
2 impact of Mr. Woodcock's recommendations, resulted in  
3 OPC's recommended revenue requirement presented in my  
4 testimony of \$78,419. That's the recommended increase  
5 based on my testimony. That may not include some of the  
6 adjustments that have been brought forward from the  
7 Prehearing Order based on some staff recommendations.  
8 Those are not included in the \$78,000 presented in my  
9 testimony.

10 I begin my testimony really first addressing  
11 some concerns with affiliated relationships with this  
12 Company. I think in this case it's very important to  
13 consider what has been, how this Company has been  
14 managed, especially because of the fact the Company is  
15 coming in and requesting some plant additions that go  
16 beyond the test year that would not be what you would  
17 typically see in a company, and they've effectively  
18 requested this special treatment, different treatment.

19 So when I evaluated that issue, I looked into  
20 one of the reasons why the Company would have needed to  
21 get advanced approval or try to get advanced recovery of  
22 these projects, and it has to do with the cash needs of  
23 the Company. So within my testimony I, I point out  
24 several concerns that I saw based on review of data  
25 responses in the general ledger in the Company's filing

1 with some of the way the Company, particularly the cash  
2 has been managed by this Company.

3 In my testimony I address three different  
4 areas within the general ledger that would, that led me  
5 to concerns with the level of affiliated transactions  
6 and how the cash is flowing in and out of this Company.  
7 I provide two different exhibits specifically related to  
8 the Company's cash accounts.

9 The first one is Exhibit DR-2. For 2009, I  
10 list from a review of the Company's general ledger all  
11 the cash that's both gone out of the WMSI to either  
12 Brown Management Group or Mr. Brown personally and the  
13 cash coming back in. I acknowledge some of that is  
14 related to Mr. Brown's salary and the rent expense on  
15 the building. But if you look at all the transactions  
16 that's in that exhibit, there's over 290 cash transfers  
17 in and out of this Company. Salaries and rent can't  
18 explain that. There's a lot of cash interaction going  
19 in and out almost on a daily basis with this Company  
20 between the three entities.

21 I also provide as Exhibit DR-3 a similar cash  
22 analysis from the Utility's cash accounts, and that  
23 shows 220, or 202 transfers in and out and it's a  
24 four-page long exhibit.

25 This caused me a great deal of concern, as

1 pointed out in my testimony, because during the 2009  
2 test year the Company was late on making many payments  
3 to vendors, and at the same time they had to refinance a  
4 loan because they were unable to pay a debt obligation  
5 on the DEP loan they have. And that's a favorable loan  
6 to the Company. It's a very low interest rate which  
7 does benefit the Company. So I had concerns that with  
8 all the cash transactions back and forth over the last  
9 five years that there could have been some jeopardy  
10 placed on that loan that is a very beneficial rate to  
11 the Company.

12 The next general ledger account I point out a  
13 significant concern with is Account 123, which is  
14 investment in associated companies. And what that shows  
15 is that from the period January 1st, 2004, through the  
16 middle of 2010 the balance in that account went from \$0  
17 to \$1,262,402. And, again, this is a time of serious  
18 cash constraints, it looks like, for this Utility, yet  
19 at the same time the investment in associated companies  
20 has increased significantly.

21 Another account that caused me some concern is  
22 that the Company on its books, as pointed out in my  
23 testimony, has a note receivable from associated, or a  
24 note receivable from associated companies on its books.  
25 That means that the Company has essentially made a note

1 payable with Brown Management Group, and Brown  
2 Management Group owes that money back to this Utility.  
3 As of December 31st, 2009, there was still a \$100,000  
4 balance outstanding and shown on WMSI's books as owed  
5 from that affiliate company.

6 And, again, I also point out frequent, some  
7 frequent transfers of assets between Brown Management  
8 Group and the Utility and point out, you know, a concern  
9 with some of these. There's a lot of vehicles going  
10 back and forth, as pointed out in my testimony.

11 I also point out that the Utility sold its  
12 offices in 2005 and then began renting instead offices  
13 that are owned by Brown Management Group at that time,  
14 and that rent expense is now in the test year. These  
15 things all in my opinion have to be taken into  
16 consideration by the Commission in evaluating, for  
17 example, if the Company needs advanced funding of any  
18 capital projects that it's requesting in this case prior  
19 to those projects being placed in service and being used  
20 and useful to serve customers.

21 After making an introduction in my testimony  
22 where I go over some of the concerns I found with the  
23 affiliate relationships, I then recommend some specific  
24 adjustments. One is I recommended that some of the  
25 employee costs in this case be allocated to the

1 affiliated entities and Brown Management Group. None of  
2 the salaries or benefits of any of the employees are, or  
3 rent expense is going to that affiliated entity. And  
4 when you look at the number of transactions going back  
5 and forth on the Company's books between them and Brown  
6 Management Group, as well as the other relationships  
7 between them, I don't, I don't think it's realistic to  
8 assign zero cost to those groups for those employee  
9 services. So I recommended an adjustment to do that.

10 I then looked over all the pro forma  
11 adjustments to expenses. The Company has many  
12 adjustments in its filing where it's increased expenses  
13 or requesting an increase in expenses from the historic  
14 test year level. Many of those I've left in place, and  
15 I reviewed the documentation provided by the Company and  
16 didn't take issue with those, such as some maintenance  
17 contracts they have. But I did recommend a reduction  
18 for the accounting services expense. It goes well  
19 beyond the historic level of accounting services they've  
20 utilized. And the Company has a full-time, as I point  
21 out in my testimony, a full-time controller as well as  
22 an assistant. So I instead recommended that the  
23 accounting expenses be based on an historic average  
24 level going forward.

25 For engineering services expense, I also



1 recommended a reduction to that. And then I recommended  
2 the amount incurred during the test year which was  
3 associated with the evaluation of the water system be  
4 amortized over a five-year period.

5 One of the -- another adjustment I did that's  
6 sort of larger in nature is the Company in 2009 began a  
7 new deferred compensation plan for two of its officers.  
8 What the Company did on its books in 2009 is they  
9 expensed a total of \$80,000, \$40,000 for Mr. Brown and  
10 then another \$45,000 or, I'm sorry, \$40,000 for the Vice  
11 President of the Company, for this new executive  
12 deferred compensation plan they put in place. I  
13 recommend that this be disallowed. It's not a funded  
14 plan. And if you read the plan itself, it equates to  
15 additional compensation going to these employees which  
16 the employees elected to defer. And, again, that's in  
17 the historic test year expenses and that's part of what  
18 led to the book loss in the test year.

19 **THE COURT REPORTER:** To the what, book?

20 **THE WITNESS:** Book loss. So I recommended  
21 that that be removed, as well as a Key Man life  
22 insurance policy. I also recommend that the Company's  
23 request to recover from the water customers the costs  
24 associated with its wastewater certification  
25 application, that that not be recovered from water

1 customers. That's not a water cost that their customers  
2 should have to bear. That was a management decision by  
3 the Utility to try to pursue that line of business, and  
4 customers shouldn't have to fund that.

5 I also removed the costs associated with the  
6 Company's pro forma plant additions in this case.  
7 That's based -- I recommend that, as well as  
8 Mr. Woodcock also recommended those be removed. The  
9 Company hasn't supported the cost levels or provided a  
10 reasonable level of cost projections in detail to  
11 include in rates to be charged to customers at this  
12 time.

13 I also recommend some -- in addition to  
14 removing the pro forma plant additions, there are many  
15 related adjustments the Company made in this case.  
16 They, as a result of that, they will have to early  
17 retire some plants, so they requested some recovery of  
18 those early retirement costs. They requested property  
19 tax expense and some other adjustments related to that.  
20 So as part of my adjustment I also reversed those  
21 adjustments.

22 And, in addition, the Company had requested a  
23 revision in its long-term debt rates that goes into  
24 calculating the overall rate of return. They included  
25 within that a projected cost for the new loan that they

1 would need to take out to finance the construction  
2 projects; however, the, the loan commitment letter  
3 doesn't identify what the cost rate would be and there  
4 isn't any certainty at this time of what that rate would  
5 be. So instead I recommend that the long-term debt cost  
6 and overall rate of return in this case be based on the  
7 currently existing debt with the few minor adjustments I  
8 recommended to that. And that concludes my summary.

9 **MR. MCGLOTHLIN:** The witness is available for  
10 cross.

11 **COMMISSIONER SKOP:** Thank you.

12 Ms. Scoles, you're recognized for  
13 cross-examination.

14 **CROSS EXAMINATION**

15 **BY MS. SCOLES:**

16 **Q.** Good morning, Ms. Ramas.

17 **A.** Good morning.

18 **Q.** My name is Lisa Scoles, and I'm here on behalf  
19 of the Utility. And I do have a few questions for you  
20 about your prefiled testimony which you have in front of  
21 you; is that right?

22 **A.** Correct.

23 **Q.** Okay. Appendix 1 of your direct testimony  
24 includes your education and experience; is that right?

25 **A.** Yes, it does.

1           Q.    And in looking at that, it appears to me that  
2 you have essentially spent your entire professional  
3 career with Larkin & Associates. Is that fair to say?

4           A.    Yes, it is.

5           Q.    It also appears that you frequently provide  
6 consulting services for consumer advocacy agencies.  
7 Would that be fair as well?

8           A.    Predominantly consumer advocacy agencies, but  
9 also for commission or board staffs.

10          Q.    And I see that you appear to have experience  
11 in calculating revenue requirements for municipal  
12 utilities; is that correct?

13          A.    Yes. I've done several cases involving  
14 municipal utilities, and I actually prepared and  
15 conducted a training program for the Department of  
16 Defense, Navy Rate Intervention Office, on determining  
17 revenue requirements for municipal entities.

18          Q.    Okay. Have you ever consulted with a  
19 regulated utility on consumer demand, cash flows and  
20 obtaining financing?

21          A.    No. As I agreed to earlier, my work has been  
22 predominantly for consumer advocates and commission  
23 staffs.

24          Q.    Have you ever been employed by a regulated  
25 utility?

1           **A.**    No, I have not.

2           **Q.**    Have you ever managed a regulated utility?

3           **A.**    No.

4           **Q.**    Okay.  On page 4 of your testimony, lines 15  
5 and 16, and I believe you mentioned this in your summary  
6 as well, even with all the recommended, all the  
7 adjustments that you are recommending, you are  
8 recommending an increase in the operating revenues for  
9 Water Management Services; is that correct?

10          **A.**    Yes.  That's correct.

11          **Q.**    This figure here on line 16, \$78,419, does not  
12 consider any of the capital improvement projects; is  
13 that correct?

14          **A.**    None of the pro forma capital improvement  
15 projects.  Correct.

16          **Q.**    Okay.  Would you agree that if the capital  
17 improvements are determined to be necessary in order for  
18 the Utility to remain in service, that those capital  
19 improvements would have to be paid for?

20          **A.**    Yes.  I agree that in order to make  
21 improvements, you have to pay for those improvements.  
22 Yes.

23          **Q.**    Would you also agree that they would be paid  
24 for by a rate increase?

25          **A.**    At such time those assets are used and useful

1 to serve customers, typically then a rate increase would  
2 go into place. During the time they're being  
3 constructed, for an investor-owned utility typically  
4 you'd use debt or equity to finance those, or a  
5 combination thereof.

6 Q. What about this Company, Water Management  
7 Services, will it need a rate increase to pay for those  
8 capital improvements?

9 A. Will it need an increase to pay for them?  
10 I've done many rate cases, and it's not my opinion that  
11 they need a rate increase in advance to pay for them  
12 prior to construction. They can do as other utilities  
13 do and use, say, a combination of debt and equity.

14 One example is they could perhaps bring some  
15 of the funds back in that have gone to affiliated  
16 entities over years to help finance part of that funding  
17 as equity while the construction is being done, and then  
18 they could request ratepayer recovery after those, the  
19 actual costs are known, they've been invested, and those  
20 investments are being used and useful and serving the  
21 Utility's customers.

22 Q. So if I understand your response, at some  
23 point a rate increase is appropriate.

24 A. Yes. OPC agrees, or the engineering witness  
25 has agreed that these projects -- he agrees there's a

1 need for the projects. And I agree that once they're  
2 used and useful, that the prudent costs incurred to put  
3 those in place should then be recovered from customers.  
4 Yes.

5 Q. Okay. I'd like to talk for a minute about  
6 your recommendations regarding the engineering services.  
7 I want to make sure I understand what it is exactly  
8 you're recommending.

9 Let's turn, if you would, with me to page 20  
10 of your testimony, and your discussion of this topic  
11 begins on line 12 there with the heading.

12 A. I'm there.

13 Q. Your actual response then is line 16. Help me  
14 understand this. The \$27,500 that is referred to on  
15 page, I mean, excuse me, on line 17, is that the amount  
16 related to the PBS&J report?

17 A. Yeah. That was the amount of all engineering  
18 services that were expensed on the Company's books  
19 during the test year. My understanding is that that's  
20 related to the PBS&J water evaluation report.

21 Q. And you characterize that as a nonrecurring  
22 expense; is that right?

23 A. Yes, I do.

24 Q. Okay. And then the figure below, the 20,500,  
25 was the amount the Utility was requesting for ongoing

1 recurring engineering expenses; is that right?

2 **A.** No. What the Company did is requested to take  
3 that test year level that was incurred of 27,500,  
4 increase that by \$20,500, to instead be allowed an  
5 annual engineering expense level of \$48,000. So it's  
6 \$48,000 that the Company has requested as a going  
7 forward ongoing level of expense.

8 **Q.** For the nonrecurring -- excuse me. For the  
9 recurring expenses you're referring to.

10 **A.** I, I don't agree that those are recurring.  
11 That's the dollar amount the Company has requested going  
12 forward to recover from customers and rates. But, no, I  
13 couldn't agree that those are recurring type engineering  
14 expenses.

15 **Q.** You would agree that the Company is  
16 characterizing them as recurring expenses.

17 **A.** How the Company has characterized it is  
18 they've entered into a retainer agreement with the  
19 engineering firm for \$4,000 a month, and then various  
20 services would be provided going forward under that.  
21 I'm not sure I've seen anywhere where the Company has  
22 indicated that that would be a constant going forward  
23 recurring level.

24 **Q.** Okay. The 27,500 associated with the PBS&J  
25 report, you are recommending that that be amortized over



1 five years; is that right?

2 A. Yes. I'm recommending the amount incurred in  
3 the test year associated with that be amortized over  
4 five years.

5 Q. So that would be -- and, of course, I'm a  
6 lawyer, so that means I'm terrible at math -- but I  
7 believe that would be 5,500 a year for five years; is  
8 that right?

9 A. Yes. That's correct.

10 Q. Okay. So if you would, turn with me to your  
11 schedule that refers to this, which is I believe Number  
12 1, page 2, excuse me, your Exhibit Number 1, page 2.

13 A. Actually the adjustment I've quantified for  
14 that is Exhibit DR-1, page 6 of 20. Is that what you're  
15 referring to perhaps? Schedule B-4 is the indication at  
16 the top underneath the page number.

17 Q. Well, if you would go with me, I just want to  
18 see if I'm off-base here. On DR-1, page 2, line number  
19 4 says, "Reduction to engineering services expense." Do  
20 you see that?

21 A. Oh, yeah. That's the dollar amount of the  
22 adjustment that's quantified on page 6 of 20. Yes.

23 Q. The amount there of 42,500 --

24 A. Yes.

25 Q. -- am I correct that you have taken the

1 48,000, which was the figure from the Utility, and have  
2 taken out the amortization amount, the 5,500 a year for  
3 the study, and that leaves the 4,250, is that right,  
4 excuse me, 42,500?

5 A. In essence what I've done is reflected my  
6 recommendation, recommended annual level of the  
7 \$5,500 and subtracted out the amount that the Company  
8 has flowed through its minimum filing requirements,  
9 which is the full 48,000. So in order to get to the  
10 \$5,500 I'm recommending, you would have to reduce the  
11 expense in the filing by the \$42,500. Yes.

12 Q. Okay. So essentially the 5,500 that you're  
13 allowing for engineering expenses, all of that relates  
14 to the PBS&J study.

15 A. Yes. The amortization of that would allow for  
16 a reasonable annual level of expense going forward in my  
17 opinion.

18 Q. So am I understanding it correctly then that  
19 you are recommending that no money be allowed for  
20 ongoing engineering services?

21 A. I wouldn't agree with that. As I point out in  
22 my testimony, and, again, this is based on discussions I  
23 had with Mr. Woodcock, which is also indicated in my  
24 testimony, most engineering services that would be  
25 incurred by this Utility would be capital in nature.

1           For example, as I also point out, for the  
2 three years before the test year in this case the  
3 Company booked zero engineering costs as expense on its  
4 books. So any engineering services that would have been  
5 received during that period would have been capitalized  
6 by the Company.

7           So my recommendation would still allow a going  
8 forward of engineering related costs related to capital  
9 program that you would capitalize as part of the plant  
10 additions.

11           **Q.** Okay. Now I'm really confused. Where is the  
12 figure in your exhibits that allows for the ongoing  
13 engineering expenses separate and apart from the  
14 5,500 that's being amortized over five years for the  
15 PBS&J study?

16           **A.** Well, again, as I indicated, most engineering  
17 type services would go into plant. And such time that  
18 such plant is placed into service and then incorporated  
19 into rates in the future, you would then have those  
20 engineering costs as part of that plant that's on the  
21 Company's books.

22           Also I'm allowing, by amortizing the amount  
23 incurred in the test year, that means going into this  
24 Company each year will be \$5,500 that it could utilize  
25 towards paying for recurring type engineering expenses

1 that are not capital in nature.

2 Q. Are you recommending that the 27,500 be  
3 capitalized if the improvements are made?

4 A. No, I haven't recommended that, and the  
5 Company didn't treat it that way on its books. I would  
6 have to ask OPC's engineering expert if those would be  
7 the type of costs that would be capitalized as part of  
8 the pro forma plant additions or not. But, again, I'd  
9 want to consult with an engineer to see if those would,  
10 should be capitalized because he's much more familiar  
11 with that study than I am.

12 Q. And you did say in responding to my question  
13 earlier that most, you envision most of engineering  
14 expenses to be capital in nature, which indicates that  
15 sometimes there will be some that are not.

16 A. Correct.

17 Q. Am I right in understanding that there is not  
18 an allowance in your testimony for those noncapital  
19 ongoing engineering expenses?

20 A. Well, in my testimony I have allowed, by  
21 amortizing the actual amount incurred, I'm allowing  
22 \$5,500 per year to be included in expenses for this  
23 Company. Those --

24 Q. I'm sorry. Is that a yes or a no?

25 A. Yes. I am allowing some expense to be

1 recovered from customers that can be used for funding  
2 engineering.

3 Q. Beyond that amortized from the PBS&J study.

4 A. No, not beyond the 5,500 --

5 THE COURT REPORTER: Okay. Repeat that again.

6 Excuse me.

7 MS. SCOLES: Based on your preparation --

8 COMMISSIONER SKOP: Hold on. Hold on.

9 THE COURT REPORTER: Repeat your answer,  
10 please.

11 THE WITNESS: No, not beyond that  
12 \$5,500 amortization.

13 COMMISSIONER SKOP: Ms. Scoles, you may  
14 proceed.

15 MS. SCOLES: I'm sorry.

16 BY MS. SCOLES:

17 Q. Based on your preparation for this case, are  
18 you aware that Water Management Services does not have  
19 an engineer on staff?

20 A. Yes, I'm aware of that.

21 Q. Is it your testimony that there are no normal  
22 recurring legitimate costs for engineering associated  
23 with running a regulated water utility?

24 A. Regulated water utilities do incur engineering  
25 costs. But, again, as I indicate in my testimony,

1 typically those type of costs are capital and go towards  
2 capital projects of a company.

3 Q. So it is your testimony that the only time a  
4 utility should need engineering services would be  
5 related to a capital project and those costs would be  
6 amortized?

7 A. There may be other instances where additional  
8 engineering costs are incurred that would not be capital  
9 in nature.

10 Q. Okay. But those are not allowed for  
11 necessarily here in your testimony.

12 Are you aware that Water Management Services'  
13 last rate case, that in that last rate case, and I'm  
14 talking about the full-blown rate case 16 years ago,  
15 that ongoing engineering services were allowed in the  
16 amount of over \$4,000 a year?

17 A. I have read that order but I don't recall  
18 having read that. I guess I wouldn't be surprised.  
19 But, again, I didn't participate in that case.

20 Q. Do you think things have changed significantly  
21 since that case such that the Utility no longer has need  
22 for those ongoing engineering services?

23 A. Well, I know for the last three years prior to  
24 the test year the Company had zero expense on its books  
25 for outside engineering services. I'm not saying that

1 means they didn't have engineering advice and help; just  
2 if they did, they must have been capitalized and not  
3 expensed.

4 Q. Or obtained at no cost.

5 Let's switch gears, if you don't mind. Let's  
6 turn to page 64 of your testimony. And I'll be jumping  
7 around. I apologize for that. And this is the section  
8 that you corrected earlier that return -- that relates  
9 to rate of return. Do you see where I am, Ms. Ramas?

10 A. Yes, I do.

11 Q. Just to be crystal clear, you are recommending  
12 a 3.85 percent rate of return; is that correct?

13 A. Yes, I am.

14 Q. Does that represent profit?

15 A. No, because this Utility in both its MFR  
16 filings and also I'm agreeing with, the amount of debt  
17 on this Company's books exceeds the equity, so there is  
18 no equity return for this Company and that there's no  
19 equity invested in it.

20 Q. Okay. So you would agree that that is really  
21 to pay debt service.

22 A. Yes. Debt service, and there's a small  
23 component for the interest on customer deposits on top  
24 of that.

25 Q. Okay. Is it your position that if the Public

1 Service Commission accepted all of your recommended  
2 adjustments, that Water Management Services would earn  
3 3.85 percent in 2011?

4 A. When you establish rates for an investor-owned  
5 utility, the Commission isn't setting a guaranteed level  
6 of return that the utility will achieve. It's setting  
7 rates allowing a company the ability to achieve a  
8 certain rate of return. But there's no guarantee in  
9 ratemaking. A lot will change between now and 2011.  
10 There may be, you know, employee turnover, new expenses,  
11 some costs will drop off. I can't tell you what this  
12 Company will earn in 2011.

13 Q. I'm sorry. So was your answer no?

14 A. Maybe if you could repeat the question.

15 Q. Is it, is it your testimony that if the  
16 Commission accepted all of your recommended adjustments,  
17 that the Company would earn 3.85 percent in 2011?

18 A. I can't say yes or no because I can't  
19 guarantee what decisions the Company will make between  
20 now and then. My adjustments give the Company the  
21 ability, based on the plant that's used and useful to  
22 serve customers, to earn a return of 3.85 percent. So  
23 it gives them the ability to do so.

24 Q. Would it be fair to say that, as we discussed,  
25 there's no allowance for engineering expenses beyond the



1       PBS&J study being amortized? So in 2011 if the Company  
2       has need for engineering services and there's nothing  
3       allowed for that, then the actual rate of return is  
4       going to be less than 3.85 percent.

5           **A.**    It would depend on the nature of those  
6       engineering services, if they're capitalized costs or  
7       expenses. And, again, it also depends on other things  
8       that change for this Utility in the meantime.

9           **Q.**    So I believe I understand you to say that it's  
10      possible, maybe likely that they would, the Utility  
11      would not be earning 3.85 percent in 2011 depending on  
12      the circumstances.

13          **A.**    I don't agree that that's what I said.

14          **Q.**    Okay. Are you saying it is possible the  
15      Utility will not earn 3.85 percent in 2011?

16          **A.**    Oh, it's very possible it will not earn  
17      3.85 percent, but it's also possible it could earn more  
18      than 3.85 percent.

19          **Q.**    Does your recommended 3.85 percent include any  
20      allowance for inflation?

21          **A.**    No. In setting rates for this Company, we  
22      used, the Company and myself have used the historic test  
23      year that's adjusted for certain adjustments going  
24      forward. There was no inflation adjustment included in  
25      those.

1           **Q.**    Okay.  Would you agree that the 3.85 percent  
2 would barely cover the Utility's debt service?

3           **A.**    Actually for this Utility, they've, management  
4 of this Company has allowed the debt volume to grow in  
5 excess of the amount that the Utility actually has  
6 originally invested in the plant.  So the rate of return  
7 in this case is being applied to the rate base and it  
8 doesn't cover all the debt of this Company because some  
9 of that debt is above and beyond the amount the Utility  
10 actually initially invested in the system.

11          **Q.**    So -- I'm sorry.

12          **A.**    So a 3.85 percent return on the rate base may  
13 not cover all this Company's debt costs.

14          **Q.**    Okay.  Would you agree that with 3.85 percent,  
15 if there is any inflation or deviation at all, and based  
16 on what you just said, the Utility is not going to be  
17 able to service its debt?

18          **A.**    Well, I said they may not be able to service  
19 this debt because of the fact the debt is exceeding the  
20 amount they have invested in this Company.  And, again,  
21 that's built up over many years by the management of  
22 this Company.

23                    A lot occurs between rate cases.  This  
24 Commission has traditionally used historic test year in  
25 setting water rates.  So in addition to inflation

1 pressures, there may be cost savings. There's other  
2 things that offset that. You can't look at just  
3 inflation or one item in insulation going out into the  
4 future because we're dealing with a historic test period  
5 here.

6 **Q.** Do you believe that the 3.85 percent you've  
7 recommended would be sufficient to attract capital on a  
8 going forward basis?

9 **A.** It depends on what kind of capital you're  
10 talking about. When you're dealing with an  
11 investor-owned utility that has many shareholders, those  
12 shareholders prior to purchasing more shares or  
13 investing in a company will look at overall  
14 profitability of a company and the overall allowed rate  
15 of return by the Commission.

16 This Utility is essentially 100 percent debt  
17 financed, so I would agree that an outside investor  
18 would be discouraged when they see that it's all funded  
19 by debt and that your recovery is based on your debt  
20 rate.

21 **Q.** And that the rate of return is 3.85 percent.

22 **A.** Yeah. That would discourage, again, outside  
23 investors or potential future shareholders from  
24 investing in the company.

25 **Q.** Okay. Assume for a minute, if you would, that

1 the need for the capital -- I'm sorry. Assume for a  
2 moment, and we've talked about this a little bit  
3 already, the need for the capital improvements that have  
4 been recommended by PBS&J, would the Utility be able to  
5 borrow the funds it needs to make those improvements  
6 with a 3.85 percent return?

7 **A.** I don't think the 3.85 percent return has  
8 anything at all to do with the ability to get future  
9 debt. What has impacted the owners of the Utility's  
10 ability to get future debt is the way they have managed  
11 debt and cash for this Company over many years. That  
12 3.85 percent rate shouldn't impact an outside potential  
13 lender in evaluating whether or not to lend funds.  
14 They're going to look at the overall financial position  
15 of the Company and the capital in the Company, not  
16 necessarily a rate of return.

17 **Q.** I thought I understood your previous answer to  
18 be that outside lenders would be discouraged looking at  
19 that 3.85 percent.

20 **A.** I was just -- I wasn't talking about lenders  
21 at that point. I was talking about investors in the  
22 ownership of the Company. That -- when I was discussing  
23 it, I specifically premised that as outside investors in  
24 the Company, not as lenders. That's different.

25 **Q.** So you do not believe that a lender would be

1 discouraged by that 3.85 percent rate of return?

2 **A.** Again, a lender should look at the overall  
3 company as a whole. And you would want -- a lender, I  
4 agree a lender would want some kind of assurance that  
5 there would be the ability to pay that debt. That is  
6 something that's taken into consideration.

7 **Q.** Do you think a determination by the Commission  
8 that the capital improvements were needed would be an  
9 assurance that a lender might look for?

10 **A.** Yes. If the Commission came out in my opinion  
11 in this decision -- and, again, we're not recommending  
12 that this be put into rate base at this time. We don't  
13 think the Company's had a reasonable level of support  
14 for the amounts of this. But if the Commission were to  
15 come out in its decision and say, yes, we do agree these  
16 are prudent costs that are needed, and at such time that  
17 these improvements are made, the prudently incurred  
18 costs will be allowed to be collected from customers as  
19 well as the associated debt costs, that would give a  
20 lender some assurances in my opinion that there will be  
21 recovery from customers to fund those costs.

22 **Q.** Assume for a moment, and heaven forbid that  
23 this were to happen, but that there would be a  
24 catastrophic event on the island and the water system  
25 would need to be extensively repaired. Do you think the

1 Utility could borrow the money that it would need to do  
2 those repairs with the 3.85 percent return?

3 A. Again, in borrowing money to make repairs,  
4 it's not only the return that's set in the, in rates  
5 from the Commission that's evaluated, it's the overall  
6 financial position of the Company and the capital of the  
7 Company that would be considered. Because, again,  
8 typically, you know, the capital would be what you use  
9 as collateral.

10 Q. All right. Let's jump around some more, if  
11 you don't mind. Let's turn to page 32 of your  
12 testimony. And I'm looking specifically at lines 8  
13 through 10, and this is a section where you start  
14 talking about some of the capital improvements.

15 On line 8 through 10 you refer to, let's see,  
16 you state that to the degree that the Utility's lack of  
17 for the capital improvements results in a higher rate  
18 case expense, that ratepayers should not be harmed by  
19 this. Is that a fair summary of your position?

20 A. Yes, it is.

21 Q. Okay. And you're looking for, in your  
22 testimony you talk about the need for support, and I'm  
23 quoting here, supporting documentation; is that correct?

24 A. Yes. As discussed here in my testimony, it's  
25 mine and the engineering, engineers, engineering expert

1 in this case's opinion the Company did not provide a  
2 reasonable level of support for the proposed  
3 \$2.2 million of capital additions.

4 Q. Right.

5 A. And it's my opinion, as I state here, that  
6 ratepayers shouldn't be harmed because of rate case  
7 expense ultimately being higher because the Company did  
8 not meet a reasonable level of proof when it came in and  
9 filed this case.

10 Q. Wouldn't you agree that whatever additional  
11 supporting documentation is obtained and then provided,  
12 there will be some rate case expense associated with  
13 getting that additional documentation and support?

14 A. Not necessarily. I mean, the additional  
15 support is something that the Company management could  
16 get from outside engineering firms that goes towards the  
17 construction cost of those projects, and then that would  
18 be capitalized as part of the construction cost of those  
19 projects. I'm not sure that it would necessarily result  
20 in an increase in rate case expense. I assume the  
21 Company would have the ability to provide that  
22 additional supporting information to staff or the OPC or  
23 the Commission without having to involve, say, outside  
24 counsel or other assistance in gathering the information  
25 and support.

1           Q.    So it's your position there would not be an  
2 increase in rate case expense to obtain this additional  
3 information? Am I understanding that?

4           A.    Well, there will now because of the method the  
5 Company chose to seek recovery of these costs. They  
6 came in and requested them without a reasonable level of  
7 support. We've gone through a full rate case review.  
8 The Company has hired experts to put its MFRs together,  
9 including what I, in my opinion is an unsupported level  
10 of cost. And now we're going to incur more rate case  
11 expense if the Commission, if this is now somehow split  
12 into separate proceedings because now we're going  
13 through multiple stages for this process. So that will  
14 increase the level of rate case costs that will be  
15 incurred.

16          Q.    So if the Utility had gotten that additional  
17 documentation, done competitive bids or whatever six  
18 months ago, that would not have increased the rate case  
19 expense as we sit here today?

20          A.    Not necessarily. Because, again, getting that  
21 additional engineering -- going through the engineering  
22 phase of the project as part of the cost that's being  
23 capitalized as part of the project, the Company is going  
24 to incur that cost irregardless. That's not necessarily  
25 a rate case expense. That's a cost of prudently pricing



1 out the project and is a normal expense or capital cost  
2 of the Company.

3 Q. Okay. Ms. Ramas, were you here yesterday  
4 afternoon when Mr. Woodcock was testifying and answering  
5 some cross-examination questions?

6 A. Yes, I was.

7 Q. Did you hear him say that getting additional  
8 support for the capital improvement projects would have  
9 some costs associated with it?

10 A. Yes, it would.

11 Q. Would you agree that to spend additional money  
12 to get additional support for capital improvement  
13 projects the Utility would pretty much have to be  
14 committed to making those improvement projects?

15 A. Yes. It would be wise to be committed to  
16 making those projects before getting the quotes and the  
17 engineering, the detailed engineering work done on those  
18 projects.

19 Q. Based on your experience, in order to proceed  
20 to that level of commitment, would you say that a  
21 utility would need to start lining up financing to make  
22 sure it is in a position to proceed with the projects?

23 A. Either lining up financing or using equity  
24 from the owner/investor of the company.

25 Q. Based on your experience, if the utility is

1 going to line up financing, would you say that potential  
2 lenders would want some assurance that the utilities  
3 will have the revenues and fees to support that  
4 financing?

5 **A.** Yes, I would agree.

6 **Q.** Now in the case of a regulated utility like  
7 Water Management Services that does not have sufficient  
8 capital on hand and that needs outside financing, what  
9 could be done to assure a potential lender that revenues  
10 and fees are going to be forthcoming?

11 **A.** Again, in my opinion this company is in a  
12 unique position in that over the years a lot of funds  
13 have gone out of this company and into associated  
14 companies, as I point out in my testimony. So part of  
15 that's what's causing the unique position of this  
16 company in that they have a lot more debt on their books  
17 than they do the amount of original cost to the plant.  
18 So that does cause an additional concern for lenders, a  
19 significant additional concern where they will want some  
20 assurance --

21 **Q.** But my question is what can be done to assure  
22 --

23 **MR. McGLOTHLIN:** Excuse me. The witness was  
24 in the process of answering.

25 **THE WITNESS:** Yes. And, again --

1                   **COMMISSIONER SKOP:** All right.

2                   **MS. SCOLES:** Go ahead. I'm sorry, Chairman.

3                   **COMMISSIONER SKOP:** You may conclude your  
4 answer before the next question.

5                   **THE WITNESS:** Okay. Thank you.

6                   What I was saying is that, yes, because of the  
7 circumstances that management has allowed this company  
8 to get into, an outside lender, in my opinion, should  
9 try to get some sort of assurance they'll be able to  
10 recover their debt. Otherwise, it's going to be hard to  
11 find someone that will loan those costs. And as I  
12 stated earlier, the Commission has the option of coming  
13 out in its order and saying that we agree these costs  
14 are prudent. And once these prudent -- once it's been  
15 determined that the costs have been prudently incurred  
16 and are used and useful in serving customers, we will  
17 allow the recovery of those costs and the related debt  
18 costs.

19                  **Q.** Okay. We talked earlier about your experience  
20 with municipal utilities. In your experience do  
21 municipal utilities usually proceed with large  
22 expenditures such as capital improvements without first  
23 getting approval from that municipality's governing  
24 body?

25                  **A.** In the municipal cases that I've done you do

1 have to have -- well, typically you have to have  
2 approval. It depends on how the municipal entity is  
3 structured and what kind of autonomous authority the  
4 government agency may give that unit within the  
5 government. But, yeah, if there's going to be a large  
6 level of expenditure, you would expect to see either the  
7 funding lined up for that or a finding that there is a  
8 need for that project.

9 Q. Assuming the regulatory body, the municipal  
10 governing body gave approval, have you seen cases where  
11 that approval is given based on engineering planning  
12 estimates with an understanding that there would be some  
13 sort of a true up at the end?

14 A. Well, again, you're dealing with municipal and  
15 entities, which are a complete apples-to-oranges  
16 comparison. You can't compare how capital costs are  
17 recovered and structured for a municipal entity to an  
18 investor-owned utility.

19 For example, included in this Company's rates  
20 is depreciation expense. If this were a government  
21 agency or a municipal entity, what would happen is any  
22 funds to be, capital related funds such as depreciation  
23 expense are recovered, those have to be set aside  
24 typically into a capital fund that's only used to  
25 finance future capital projects. So you really can't

1 compare the two. They're so substantially different  
2 than just the basic methodology of how the rates are set  
3 that I don't think you could do a valid comparison of  
4 how a municipal entity is financed as compared to how  
5 you do capital and planning for a water, a regulated  
6 investor-owned utility.

7 Q. I'm sorry. But I missed the answer to my  
8 question, which was asking if you have seen approval of  
9 capital improvements by a municipality based on the  
10 engineering estimates and engineering study?

11 A. What I've seen of municipal entities, and, in  
12 fact, I've recently done a municipal case where the  
13 company will have, you'll allow a recovery of capital  
14 costs as part of the monthly bill you collect from  
15 customers, and those are set aside into a capital fund  
16 and could only be used for capital projects. And then  
17 either the city, or in the recent case I did, the  
18 regulatory board, prior to any funds being taken out of  
19 that to be spent towards the projects, you have, you  
20 would have to have approval. And, again, it can vary  
21 from municipal entity to entity.

22 Q. And the approval was given based on the  
23 engineering estimates and report; is that, is that what  
24 you're saying?

25 A. No. What happens is typically when you have a

1 municipal entity, you set rates based on a cash needs  
2 analysis approach and not a, a utility approach that you  
3 would use for an investor-owned utility. So over time  
4 there's always capital amounts that are collected and  
5 set aside into a capital account, and as you need to  
6 withdraw those funds, they go out. But that doesn't  
7 necessarily mean that rates are set by a municipal  
8 agency tying in dollar for dollar projected future  
9 capital costs. Typically you have a high level  
10 projected capital need. But I would agree that those  
11 are based on your future projected capital needs, which  
12 are estimates that would come from engineers.

13 Q. Okay. I think I have it. All right. Well,  
14 let's shift gears again, if you don't mind. Page 36,  
15 I'm looking at lines 13 and 14 of your testimony, and  
16 this refers to the executive deferred compensation. And  
17 if I'm understanding this correctly, Ms. Ramas, you're  
18 recommending that the entire \$80,000 for the deferred  
19 compensation be removed; is that correct?

20 A. That's correct.

21 Q. Have you ever been involved in your experience  
22 in establishing pensions?

23 A. You mean as far as developing pension plans?

24 Q. Yes.

25 A. No, I have not.

1           **Q.**   And would you characterize yourself as a  
2 pension expert?

3           **A.**   Not for developing pension plans. I do review  
4 pension and retirement related costs in every rate case  
5 I do. So I'm experienced with reviewing pension plans  
6 and the actuarial calculations going into them, but I do  
7 not consider myself a pension expert in establishing and  
8 developing plans.

9           **Q.**   Okay. Would you agree that employee benefits  
10 like an employee deferred compensation plan can help  
11 encourage and retain quality employees?

12          **A.**   Yes. If you give what I consider to be an  
13 excessive benefit to employees, of course that's going  
14 to encourage them to work for you and to stay with you.

15          **Q.**   I'm speaking generally here. Generally would  
16 you say that employee benefits like an employee deferred  
17 compensation plan help encourage and retain quality  
18 employees?

19          **A.**   That's one of many factors that could help  
20 retain and attract employees, yes.

21          **Q.**   If such a plan does indeed help retain quality  
22 employees, would you agree that it would be a legitimate  
23 cost of service that should be included in rates?

24          **A.**   If the type of plan is reasonable for  
25 inclusion in rates, for example, the 401K plan, then,

1 yes, it should be recovered in rates. But I don't agree  
2 that you should allow to be charged to the Utility's  
3 customers any and all potential type costs that you may  
4 want to pay to your employees. Just because you're  
5 giving a generous benefit item to your employees doesn't  
6 mean that ratepayers should have to pay it.

7 Q. Let's turn, if you would, to page 43 of your  
8 testimony. I'm looking at lines 4 and 5. Tell me when  
9 you're there, Ms. Ramas.

10 A. I'm there.

11 Q. All right. Do you see the last sentence there  
12 that starts on line 4 and continues to line 5? And I'm  
13 quoting now, you say, "These costs should be removed and  
14 not passed on to the Company's water customers." And I  
15 believe that's referring to the wastewater certificate  
16 which begins on page 42; is that correct?

17 A. Yes.

18 Q. On that same page, lines 8 through 10, and  
19 again I'm, bear with me, I'm going to read that  
20 sentence. It's on, starting on line 8, "The Company's  
21 application and proposal to provide wastewater service  
22 to St. George Island has nothing to do with its  
23 provision of water service to its water customers." Do  
24 you see where I'm reading from, Ms. Ramas?

25 A. Yes, I do.



1           **Q.**    So is it your testimony that providing water  
2 service and wastewater service are completely unrelated?

3           **A.**    They're two completely separate and distinct  
4 separate services, yes. You may have, some utilities do  
5 offer both water and wastewater services, but they're  
6 completely different services being provided.

7           **Q.**    Would you agree that the Utility has an  
8 obligation to provide service if there is a public need  
9 for both water and wastewater?

10          **A.**    No. This Utility has an obligation under its  
11 certificate to provide water service to customers. I  
12 don't believe there's a legal obligation of this Utility  
13 to provide any wastewater service to the customers on  
14 this island.

15          **Q.**    Even if there is a recognized need for  
16 wastewater service?

17          **A.**    Well, if there's a recognized need, that still  
18 isn't this water utility's legal obligation to provide  
19 that service.

20          **Q.**    Would you agree that if there is to be both  
21 water and wastewater service, it is more efficient to  
22 have both of those services provided by one provider?

23          **A.**    There would be efficiencies if it's provided  
24 by a well run company.

25          **Q.**    So your answer is yes?

1           **A.**    There could be, yes, there could be  
2 efficiencies, particularly in the area of administrative  
3 type costs.

4           **Q.**    Isn't it true that providing a wastewater  
5 system could benefit a utility's water customers by  
6 retaining water customers that might otherwise leave the  
7 system?

8           **A.**    Could you restate that question?

9           **Q.**    Sure.  Would you agree that providing a  
10 wastewater system could benefit a utility's water  
11 customers by retaining water customers that might  
12 otherwise leave the system?

13          **A.**    There, there could be some benefit if more  
14 customers are retained.  But, again, you would have to  
15 look if that benefit exceeds the cost associated with  
16 that.

17          **Q.**    Would you agree that providing a wastewater  
18 system could benefit existing water customers by  
19 maintaining and expanding potentially the base upon  
20 which fixed costs are recovered?

21          **A.**    It could.  But, again, you'd have to look at  
22 the overall cost of operating both, and your question  
23 assumes that there is a wastewater system to which those  
24 costs are being allocated.  That is not the case here.

25          **Q.**    Would you agree that a wastewater system could

1 improve the ecology and environment of an area for the  
2 benefit of the customers?

3 **A.** Oh, there can be benefits to a wastewater  
4 system if it's found to be needed, but I don't know all  
5 the facts and circumstances in this case. But I agree,  
6 if it's found that there are significant environmental,  
7 say, concerns where water, a wastewater system is  
8 definitely needed in an area, then of course there's  
9 benefits to inputting a wastewater system.

10 **Q.** Based on your testimony, is it your  
11 recommendation for regulatory policy in Florida that a  
12 water utility should never pursue the possibility of  
13 wastewater service because providing that service does  
14 not benefit the water customers?

15 **A.** I didn't say that. Investor-owned utilities  
16 have the option of looking into whether or not they want  
17 to go forward with a wastewater type system. And if one  
18 is gone forward with, the cost of doing that would be  
19 recovered from wastewater customers. However, that  
20 doesn't give regulated utilities the right to look into  
21 putting in a wastewater system and recover those costs  
22 from water customers should that business decision that  
23 they made not go through.

24 **Q.** So they should never get recovery for pursuing  
25 a wastewater certificate?

1           **A.** I didn't say that. If you pursue a waste --  
2 if you pursue a wastewater certificate through  
3 completion and put a wastewater system into place, you  
4 would recover that cost from your wastewater system  
5 customers.

6           **Q.** Okay. So they should not recover if  
7 circumstances change and the county decides not to  
8 pursue the sewer system?

9           **MR. MCGLOTHLIN:** There's no basis for the  
10 element in the question that says circumstances change.  
11 I object to the form of the question.

12           **COMMISSIONER SKOP:** Ms. Scoles, can you  
13 restate?

14           **MS. SCOLES:** I'll move on, Chairman.

15           **COMMISSIONER SKOP:** Thank you.

16 **BY MS. SCOLES:**

17           **Q.** In your testimony, Ms. Ramas, as part of your  
18 reasoning for removing the costs associated with the  
19 wastewater certificate, you indicate that water  
20 customers should not pay for the cost of, and I'm  
21 quoting here, "Mr. Brown's decision to attempt to expand  
22 his operations." And I'm quoting from page 43, lines 15  
23 through 16. Does that sound like what's in your  
24 testimony?

25           **A.** Yes, it does.

1           Q.    When you filed your testimony, were you aware  
2 that several of the Utility's commercial customers had  
3 approached the Utility about putting in a wastewater  
4 system?

5           A.    I saw contentions to that effect, and I had  
6 read some of the information that was filed in the  
7 docket filed by the Company for the wastewater  
8 certificate. So I was aware that the Company has made  
9 that contention, yes.

10          Q.    Did you hear the customer testimony here  
11 yesterday morning?

12          A.    Yes, I did.

13          Q.    Did you hear the comment that was made that at  
14 least one island restaurant had been temporarily shut  
15 down due to sewer issues?

16          A.    Yes, I heard that testimony. I also heard the  
17 subsequent testimony that the issue was corrected and  
18 that that is now operating.

19                    Again, it's my position that the cost  
20 associated with looking into this certificate is not  
21 related to the operation of the water system in this  
22 case and should not be passed on to the Company's water  
23 customers.

24          Q.    Okay. That's beyond the scope of my question.  
25 But when you filed your testimony, were you aware that

1 Franklin County had asked the Utility to make a  
2 presentation about putting in a wastewater system?

3 A. I was aware of it. I'm trying to recall if I  
4 was aware of that prior to me filing my testimony or  
5 not. But, again, it doesn't change my opinion at all.  
6 I am aware of that now.

7 Q. All right. Well, let's continue to move  
8 forward on -- if you would turn with me, Ms. Ramas, to  
9 page 54 of your testimony. And I'm specifically looking  
10 at lines 7 through 9, and I'm actually going to read  
11 just a little portion of this. Beginning sort of in the  
12 middle of line 8 it says Ms. -- well, I'll just begin at  
13 the beginning of line 8 to make things easy.

14 OPC Interrogatory 5, Mr. Brown indicates --  
15 I'm sorry. Let me just start again.

16 Line 7, "The Company indicated in response to  
17 OPC Interrogatory 5 that Mr. Brown averages four trips  
18 per month to St. George Island." Do you see where I'm  
19 reading, Ms. Ramas?

20 A. Yes, I do.

21 Q. Okay. In spite of my fumblings, you found  
22 where I was, so I'm glad.

23 Your testimony does not dispute that Mr. Brown  
24 averages four trips a month to St. George Island; is  
25 that right?

1           **A.** No, I didn't say that I questioned the number  
2 of trips he makes.

3           **Q.** The Utility proposed that 50 percent of the  
4 costs associated with the vehicle driven by Mr. Brown be  
5 removed. Do you recall that?

6           **A.** Yes, I do.

7           **Q.** But looking at page now 55 of your testimony,  
8 line 4, you're recommending that all of the costs  
9 associated with that vehicle be disallowed; is that  
10 correct?

11          **A.** Yes. Those are all the costs that I discuss  
12 in the prior few lines, which is the plant in service,  
13 accumulated depreciation and depreciation expense. Yes.

14          **Q.** So am I correct that it is your recommendation  
15 that Mr. Brown, the CEO and President of Water  
16 Management Services, have a transportation allowance of  
17 zero even though it is undisputed that he averages four  
18 trips to the island a month on Utility business?

19          **A.** First of all, I'm not sure that I saw anything  
20 in that response that said all four trips per month are,  
21 were on Utility business. And, again, I've removed the  
22 cost associated with this, over a \$40,000 vehicle, from  
23 customers. There are still costs in the test year  
24 associated with Mr. Brown's use of the vehicle; his gas  
25 costs and other costs are on the Company's books in the

1 test year. I'm removing the, the cost of the vehicle  
2 itself and the related depreciation expense.

3 Q. So your response to my question is, yes, it is  
4 your recommendation that the transportation allowance  
5 for Mr. Brown be zero?

6 A. It's my recommendation that the allowance for  
7 the amount in plant in service and depreciation expense  
8 for that specific vehicle be disallowed. Yes.

9 Q. And therefore be zero; is that correct?

10 A. Yes.

11 Q. Okay. All right. I want to try to figure  
12 that out. Are you suggesting then that whenever  
13 Mr. Brown needs to travel to the island on Utility  
14 business, respond to a Utility emergency, whatever, that  
15 he should rent a vehicle, spend an hour going to  
16 Enterprise and filling out the paperwork and get in the  
17 vehicle and then driving down here, and then when his  
18 business concludes, he drives back and goes to the  
19 rental company and turns the car back in and goes  
20 through that rigmarole; is that your recommendation?

21 A. No, it's not.

22 Q. What if Mr. Brown needs to interface with some  
23 of the many agencies that the Utility deals with, DEP,  
24 the Water Management District, the PSC, his bankers, and  
25 that necessitates some travel?



1           **A.**    What should he do?

2           **Q.**    What should he do?  He has no travel allowance  
3 now.  How -- what does he do?

4           **A.**    He can do like many of us do when we have to  
5 meet with, say, bankers or other work-related stuff or  
6 pick up supplies for the office and drive our own  
7 personal vehicle to do so.

8                        Again, when looking at this recommendation,  
9 you have to take my testimony as a whole into  
10 consideration where I point out that this Utility that  
11 has only eight employees has six vehicles.  In my  
12 opinion, that's not a needed -- they haven't  
13 demonstrated the need for that many vehicles and for  
14 Mr. Brown to have a Utility-owned and funded vehicle.

15           **Q.**    I'm not understanding you to say that you're  
16 taking issue with the other vehicles driven by Utility  
17 employees on the island servicing customers, reading  
18 meters and so forth, am I?

19           **A.**    No.  I left in the full cost for the leased  
20 vehicles on the island.

21           **Q.**    But yet you're referring to those.

22           **A.**    But I think what should be considered is you  
23 have eight employees and six vehicles for this company.

24           **Q.**    But we're speaking about Mr. Brown's vehicle  
25 specifically, and that's what I would like to focus on.

1           **A.**    He could do --

2           **Q.**    So the bottom line is -- I'm sorry.  Continue.  
3           I don't mean to interrupt you.

4           **A.**    Oh, he could do, as some other employees do,  
5           and that's that he document, use his personal vehicle,  
6           document his mileage specifically related to  
7           work-related trips so that those documents are there to  
8           support the amount of work-related travel, and then some  
9           reimbursement based on the actual work-related travel  
10          would be reasonable.

11          **Q.**    And you believe that would be a lesser number  
12          than the 50 percent that the Utility has proposed?

13          **A.**    Since the Company has not kept travel logs and  
14          documents, I have no way of knowing that.

15          **Q.**    Well, speaking of that, let's turn to page 58  
16          of your testimony where you do state -- I'm sorry.  I'm  
17          looking at the very bottom of the page, line 24, where  
18          you essentially say what you just said.  "Since the  
19          Company does not keep mileage logs, I was unable as of  
20          this time to evaluate the reasonableness of those  
21          costs."  And do you see where I'm reading, Ms. Ramas?

22          **A.**    Yes, I do.

23          **Q.**    Okay.  What exactly do you mean by mileage  
24          logs here?

25          **A.**    By mileage logs, I mean a tracking and keeping

1 track of the business nature of the trip, the amount of  
2 miles for that trip. This is common for any company,  
3 not only regulated utilities, but particularly for  
4 companies where employees are reimbursed for miles or  
5 where for your income tax return you may have a certain  
6 portion of a vehicle cost that you're deducting on your  
7 income tax return associated with work-related mileage.  
8 I think it's fairly common to keep mileage logs when  
9 you're doing work-related trips. It's nothing -- I  
10 don't think there's anything unique about mileage  
11 reimbursements. It's just a matter that should be  
12 documented.

13 Q. Okay. You're referring to mileage  
14 reimbursements, which to my mind means an individual  
15 using their own personal vehicle and then seeking  
16 reimbursement. Am I understanding that correctly?

17 A. Yes. And, again, in this section of my  
18 testimony it asks if I have any additional concerns with  
19 the level of transportation related costs recorded  
20 during the test year. This is all transportation costs  
21 that I'm addressing here within this section.

22 Q. Right. I understand that. So when you're  
23 looking for mileage logs, would you then be looking for  
24 mileage logs for Utility-owned or leased vehicles or  
25 just the personal vehicles being used for Utility

1 business?

2           **A.**    There's no reason a company can't keep both of  
3 those.  Again, when they fill out their corporate tax  
4 return, there is a section within that tax return where  
5 you split out between personal use of company vehicles.  
6 There's another issue in that if there's personal use  
7 coming from Company-owned vehicles, you also have to  
8 report that as income on W-2s.  So that's all stuff that  
9 should be tracked and documented for Company-owned  
10 vehicles under IRS regulations, and I think is just a  
11 prudent business thing to do.

12           **Q.**    Well, speaking of that, when you prepared your  
13 testimony, were you aware that the Utility has a policy  
14 that Utility vehicles can only be used for Utility  
15 related travel?  And that is part of Staff's Number 27  
16 on their Composite Exhibit List.

17           **A.**    I believe the Company may have a policy to  
18 that effect for the vehicle, leased vehicle on the  
19 island, of which I've left 100 percent of those costs in  
20 this test year.  However, if they have that policy for  
21 the Company-owned vehicles that are being used by  
22 management of the Company in Tallahassee, then they're  
23 not keeping in compliance with that policy because they  
24 are allowing personal use of those vehicles.

25           **Q.**    But the Utility proposed that only 50 percent

1 of those costs be --

2 **A.** The Company removed 50 percent, not of the  
3 cost but of the plant in service that's on the books.

4 **Q.** Right. Okay. When you prepared your  
5 testimony, were you aware that field employees do keep  
6 travel records for mileage driven by them using their  
7 personal vehicles for Utility related travel, and that  
8 mileage logs for Utility employees Jessica Blankenship,  
9 Bobby Mitchell and Nita Molsbee for 2009 and 2010 were  
10 produced by the Utility in response to Staff's Second  
11 Request for Production of Documents Request Number 11 on  
12 September 7, 2010?

13 **A.** I'm not sure I was aware of that at the time I  
14 filed my testimony because the OPC had asked some  
15 discovery requesting travel logs and none were provided  
16 in the response. But then subsequent to me filing my  
17 testimony, I did see where the, some trip logs were  
18 provided for, I believe it was Ms. Blankenship, I may  
19 get her name wrong, but for the field employees and for  
20 the office assistant. But, again, I didn't remove the  
21 vehicles that are used by the island employees.

22 **Q.** Were you aware that the Utility has provided  
23 additional information regarding the vehicles in  
24 response to Staff's Interrogatories 33, 39 and 66?

25 **A.** Perhaps if you show me those. I do recall,

1 I've read all the information, responses to Staff's data  
2 request, I've seen some additional information as far as  
3 employees' use of their own vehicles for utility work.  
4 But if you want me to say I was aware of specific ones,  
5 it would be easier if you showed those to me.

6 Q. I don't think that's necessary.

7 All right. Well, let's move forward again, if  
8 you would with me, on page 67 of your testimony, please,  
9 Ms. Ramas.

10 A. I'm there.

11 Q. All right. I'm looking specifically at lines  
12 9 through 13. And this is the section talking about  
13 some loans, the Citizens, proposed Citizens State Bank  
14 loan. And specifically on lines 9 through 13 you  
15 recommend that the proposed Citizens State Bank loan be  
16 removed and replaced with the actual test year 13-month  
17 average outstanding balance on the loan with Gulf State  
18 Bank. Is that a fair characterization?

19 A. Yes, it is.

20 Q. If we assume that the capital improvements  
21 recommended by PBS&J are needed to provide quality  
22 service and avoid a catastrophic failure, is this  
23 adjustment appropriate?

24 A. Yes, it is. Because, again, these, those  
25 assets are not in service, they're not used and useful

1 in serving customers at this time. And as I point out  
2 several places in this section of testimony, that  
3 6.65 percent rate isn't supported by any documentation  
4 at all. The Company provided a bank loan commitment  
5 letter saying that if certain numerous conditions were  
6 met by the Utility, then they could obtain a loan at  
7 market rates. There's nothing in there saying what the  
8 market rates are.

9 So, no, I don't agree that that 6.65 percent  
10 is a reason, there's a reasonable level of support for  
11 that to include it in determining the long-term debt  
12 rate to use in this case.

13 Q. If we assume that the capital improvements are  
14 needed, would you agree that there would need to be  
15 recognition of the new loan at the appropriate rate?

16 A. At a future time, yes. I agree that once  
17 those assets are put into place, the Company would have  
18 the ability to come back in with those actual amounts  
19 and request recovery of those, as well as the associated  
20 debt costs on that.

21 MS. SCOLES: Chairman, I don't have anything  
22 further for Ms. Ramas.

23 COMMISSIONER SKOP: All right. Very well.  
24 Staff, you're recognized, and we're going to take a  
25 brief break at 11:30.

1                   **MR. JAEGER:** Yes, Chairman. Staff has no  
2 cross for Ms. Ramas.

3                   **COMMISSIONER SKOP:** Okay. All right.  
4 Questions from the bench?

5                   All right. I do have a few.

6                   Ms. Ramas, on pages 8 through 10 of your  
7 direct testimony you discuss cash in flows and out flows  
8 for Mr. Brown and Brown Management Group.

9                   **THE WITNESS:** Uh-huh.

10                  **COMMISSIONER SKOP:** And also I believe that's  
11 on Exhibits DR-2 and DR-3 also.

12                  **THE WITNESS:** Yes.

13                  **COMMISSIONER SKOP:** What, what in a nutshell  
14 were your conclusions on the cash flow in and out of  
15 WMSI?

16                  **THE WITNESS:** I guess what I would consider a  
17 conclusion I had based on that is that there's a  
18 constant shifting of funds between WMSI, Brown  
19 Management Group and Mr. Brown personally. There's  
20 constant flow of cash going in and out of the various  
21 cash accounts.

22                  And in addition, as I indicate in my  
23 testimony, from the period January 2008 through mid 2010  
24 much more has gone out of the Company and into either  
25 Mr. Brown or Brown Management Group than has come into



1 the Utility. Part of that would be accounted for for  
2 Mr. Brown's wages and some of that would also be for the  
3 rent expense. But you have substantially more going out  
4 over that two and a half year period than what is  
5 associated with those two items.

6 In the same section of testimony I also  
7 discuss an \$85,000 that was identified in the ledger as  
8 an invest -- as funds going to SMC Investment  
9 Properties. Subsequent to that, the Company provided  
10 more information in Mr. Brown's rebuttal testimony on  
11 that. But essentially another \$85,000 of cash came out  
12 of WMSI, went up to Brown Management Group, which was  
13 then used to invest in some real estate jointly with SMC  
14 Investment Properties.

15 **THE COURT REPORTER:** I'm sorry. I couldn't  
16 hear the end of that.

17 **THE WITNESS:** Oh, which was used to invest in  
18 property with SMC Investment Properties. And those cash  
19 accounts, I mean, I looked at that general ledger in a  
20 lot of detail because another concern I had is there was  
21 substantial settlement proceeds received during 2008 by  
22 WMSI on an issue related to that bridge, the main that  
23 went across the bridge. So I was kind of perplexed on  
24 why the Utility wasn't able to pay some of these loans  
25 when it got that significant settlement in 2008.

1           And I went through and spent a lot of time  
2 tracing that cash back and forth between the various  
3 cash accounts and the investment in associated company  
4 account and other accounts. And some of that money that  
5 was received did go to pay, pay part of the payment that  
6 was due on some of the debt, but some of that cash also  
7 went out during that time to Mr. Brown and Brown  
8 Management Group. So the more I looked at cash and  
9 what's gone back and forth from the cash accounts, the  
10 more concern I have that the Utility is -- or  
11 essentially money is being taken out of this Utility and  
12 put into other entities. And that's one of the reasons  
13 why you have that substantial growth in the investment  
14 in associated companies on the Company's books.

15           **COMMISSIONER SKOP:** Okay. And to that point,  
16 if I can turn your attention to DR-2, excuse me, DR-4 on  
17 page 1 of 1, and I believe you -- on that exhibit it  
18 shows the delta change in investment in associated  
19 company during the test year; is that correct?

20           **THE WITNESS:** Yeah. During the test year and  
21 some other periods. Yes.

22           **COMMISSIONER SKOP:** Okay. All right. So it  
23 seems as if during the test year the investment in  
24 associated companies increased by \$53,202; is that  
25 correct?

1                   **THE WITNESS:** Yes.

2                   **COMMISSIONER SKOP:** Okay. And the increase in  
3 investment during the period from 1/1/08 through  
4 June 30th of 2010 has increased by almost \$340,000; is  
5 that correct?

6                   **THE WITNESS:** Yes.

7                   **COMMISSIONER SKOP:** Okay. All right. If I  
8 could turn your attention to DR-1, please. And just so  
9 I understand, I think this provides a summary of the  
10 adjustments that you've recommended within the scope of  
11 your testimony to various accounts; is that correct?

12                   **THE WITNESS:** Yes. DR-1 is actually all of  
13 the, consists of all the adjustments that I made that  
14 would impact the revenue requirement.

15                   **COMMISSIONER SKOP:** Okay.

16                   **THE WITNESS:** And basically all of the  
17 adjustments that impact operating income are shown on  
18 page 2 of 20.

19                   **COMMISSIONER SKOP:** Okay.

20                   **THE WITNESS:** And then all of my adjustments  
21 that impact the rate base of the Company are shown on  
22 page 12 of 20.

23                   **COMMISSIONER SKOP:** Okay. On page 2 of 20 for  
24 line item 9 where you've made a recommendation for  
25 reduction to rate case expense, do you see that?

1           **THE WITNESS:** Yes, I do.

2           **COMMISSIONER SKOP:** And I may have missed  
3 that, but it lists the basis for that or the reference  
4 Schedule B-5. Was that B-10? Did I miss that in the  
5 errata or is that, should that be 10, be Schedule B-10?

6           **THE WITNESS:** Let me check. Just a moment.

7           No. I'm sorry. The reference on the side is  
8 my schedule numbers.

9           **COMMISSIONER SKOP:** Okay. Sorry.

10          **THE WITNESS:** So that's my Schedule B-5, which  
11 is on page 7 of 20.

12          **COMMISSIONER SKOP:** Okay. And in your direct  
13 testimony, and I can get to the page where you discuss  
14 that adjustment, I believe it's at Page 28, if my  
15 failing memory serves me correctly. Yeah, I believe at  
16 28 you discuss your recommended adjustments to projected  
17 rate case expense incorporated in the Company's filing.

18          **THE WITNESS:** Yes.

19          **COMMISSIONER SKOP:** The reduction you  
20 recommended as shown on DR-1, page 2 of 20, is \$3,172.  
21 And the question I have, in light of the Company's  
22 submittal with what's been marked for identification as  
23 Exhibit 71, have you had the opportunity to review that  
24 recommended deduction in light of Exhibit 71?

25          **THE WITNESS:** This deduction should still be

1 made because what this does is remove some preliminary  
2 rate case expense that's associated with other firms  
3 that were hired. The Company did not choose to continue  
4 and process the full case with those firms.

5 **COMMISSIONER SKOP:** Right.

6 **THE WITNESS:** So you would still need to make  
7 that reduction because that is still included. Those  
8 costs are still included in the Company's update. If --  
9 I know in some cases Staff has updated rate case expense  
10 up to or through the hearing.

11 **COMMISSIONER SKOP:** Okay.

12 **THE WITNESS:** So if, if an adjustment such as  
13 that is made in this case, you would still have to make  
14 sure that this amount is removed.

15 **COMMISSIONER SKOP:** Okay. And then on page 28  
16 you indicated that the estimated rate case expense for  
17 the proceeding is \$228,613. Is that correct?

18 **THE WITNESS:** Yeah. That's the amount that  
19 was requested in the Company's MFRs.

20 **COMMISSIONER SKOP:** Okay. Because the reason  
21 I asked that, I think in Exhibit 71 the revised total  
22 has gone up to about 268,000 in terms of projected  
23 through completion. So I just wanted to make sure I had  
24 an understanding of what your scope of your analysis  
25 embodied in relation to --

1                   **THE WITNESS:** Yes. My adjustment would still  
2 need to be made.

3                   **COMMISSIONER SKOP:** Okay. All right. Thank  
4 you. All right.

5                   Just two more questions. On page, on page 54  
6 of your direct testimony you discuss, or you begin your  
7 discussion of the 50 percent use of vehicles by  
8 Mr. Brown and Ms. Chase. And I think that a lot of  
9 discussion has focused on Mr. Brown's vehicle, so I'm  
10 going to skip that and look at the one that deals with  
11 Ms. Chase.

12                   You mentioned that originally, I believe, in  
13 the loan application for the purchase of the vehicle  
14 that that vehicle was titled and the loan was made out  
15 to Ms. Chase and I believe her husband, Dan Chase; is  
16 that correct?

17                   **THE WITNESS:** Yeah. The vehicle is titled to  
18 Ms. Chase. And then the loan, I believe her husband  
19 co-signed with her on the loan for the vehicle.

20                   **COMMISSIONER SKOP:** Okay. So that vehicle was  
21 never titled in the name of the Company; is that  
22 correct?

23                   **THE WITNESS:** That's correct.

24                   **COMMISSIONER SKOP:** Okay. Yet the Company  
25 made an entry for the cost of that vehicle on its

1 accounting, on the financial books?

2 **THE WITNESS:** Yeah. It put the original full  
3 cost of that vehicle on its books, and it's been putting  
4 the debt payments on that vehicle on its books also.

5 **COMMISSIONER SKOP:** Okay. And do you know  
6 what the, I guess the original cost of the vehicle of  
7 the, Ms. Chase's vehicle, do we know what that was?

8 **THE WITNESS:** Yes. If you can give me a  
9 moment, I can find it. The amount the Company booked to  
10 plant for that when it was, at the date it was acquired  
11 was \$30,413. And I show that on page 56, line 7.

12 **COMMISSIONER SKOP:** Okay. And then continuing  
13 on 57, Ms. Chase subsequently provided the Company a  
14 bill of sale in the amount of \$20,000 assigning some  
15 portion of the vehicle, if not all of it, back to WMSI;  
16 is that correct?

17 **THE WITNESS:** Yeah. That's what the, the  
18 amount that was indicated on that item signing over  
19 title that the Company provided was the \$20,000.

20 **COMMISSIONER SKOP:** Okay. But that's not the  
21 50 percent of the original acquisition cost.

22 **THE WITNESS:** No, it's not.

23 **COMMISSIONER SKOP:** Okay. And that vehicle is  
24 still titled in the name of Ms. Chase. So ownership  
25 from a legal sense has not been transferred to WMSI; is

1 that correct?

2 **THE WITNESS:** No, not to the best of my  
3 knowledge.

4 **COMMISSIONER SKOP:** And the loan has not been  
5 assumed by WMSI; is that correct?

6 **THE WITNESS:** Not based on any documents I've  
7 seen.

8 **COMMISSIONER SKOP:** Okay. Based on your  
9 review of the personal use vehicles that are recorded on  
10 the Company's books and the subsequent transactions that  
11 may have assigned those back to the Company, again,  
12 there's a lot of information and I'm trying to digest it  
13 in laymen's terms, are these to be considered in your  
14 professional opinion arm's length transactions?

15 **THE WITNESS:** Absolutely not.

16 **COMMISSIONER SKOP:** Okay. All right. And  
17 when you were asked questions about keeping mileage logs  
18 for personal vehicles, I think in a line of questioning  
19 from Ms. Scoles you mentioned that there are IRS  
20 requirements to, and tax filing requirements that had to  
21 deal with the personal versus the business use of  
22 vehicles; is that correct?

23 **THE WITNESS:** Yeah. For the, for the  
24 Company-owned vehicles that are being used by employees  
25 for personal use there are requirements with the IRS for



1 certain records to be kept.

2 **COMMISSIONER SKOP:** Okay. And I think just  
3 one final question. If I could turn your attention to  
4 DR-14, please. And can you briefly describe what DR-14  
5 is?

6 **THE WITNESS:** What this is is the Company had  
7 indicated that it had a, essentially a bank loan  
8 commitment for the financing, that it would use for the  
9 financing of its pro forma plant addition. So we had  
10 requested a copy of that bank loan commitment letter.  
11 So this is the full support that the Company has -- the  
12 Company hasn't provided anything beyond this for that  
13 new debt that it's proposed in its MFRs.

14 **COMMISSIONER SKOP:** Let's take a look at that  
15 proposed bank loan commitment. That commitment is for  
16 the principal amount of \$5 million; is that correct?

17 **THE WITNESS:** Yes.

18 **COMMISSIONER SKOP:** Okay. And pursuant to  
19 provision or paragraph 1 on that commitment letter, the  
20 bank is requiring that the PSC grant a rate increase  
21 sufficient to pay the debt service on the loan in  
22 addition to all the other ordinary expenses of the  
23 Company; is that correct?

24 **THE WITNESS:** Yes. That --

25 **COMMISSIONER SKOP:** Okay. All right. And the

1 bank is also requiring that the Department of  
2 Agriculture provide Citizens with an 80 percent  
3 guarantee on the loan; is that correct?

4 **THE WITNESS:** Yes.

5 **COMMISSIONER SKOP:** Okay. And provision 3  
6 specifically seems to indicate that the Florida  
7 Department of Environmental Protection must agree to  
8 subordinate its lien on WMSI's supply main so that  
9 Citizens will have a first lien against all of the  
10 Utility's assets, including all of its revenues and cash  
11 flow.

12 Is -- do you -- with respect to the proposed  
13 subordination, is that the low interest DEP loan that  
14 you mentioned to bring the supply over to, from the  
15 mainland to the island?

16 **THE WITNESS:** Yes, it is.

17 **COMMISSIONER SKOP:** Okay. Do you know if DEP  
18 has agreed to subordinate that loan?

19 **THE WITNESS:** I don't know that.

20 **COMMISSIONER SKOP:** Okay. But the loan that  
21 DEP provided, I guess that would be funded through state  
22 money; is that correct?

23 **THE WITNESS:** I guess I'm not sure where the  
24 DEP gets the funds for the loans it makes. I would  
25 assume it was from the state.

1           **COMMISSIONER SKOP:** Okay. All right. And  
2 apparently the purpose of the loan is to provide funds  
3 to repay all of WMSI's debt except for the FDEP state  
4 revolving fund loan and to finance construction of  
5 approximately \$2.2 million of new capital improvements.

6           I think a question arose during the testimony  
7 yesterday about the sources and uses of the loan  
8 proceeds. Has any -- have you looked at that  
9 specifically in terms of the principal amount versus the  
10 retirement of debt versus the capital projects in  
11 relation to the principal amount?

12           **THE WITNESS:** Yeah. I looked at the total of  
13 \$5 million that they have in this commitment letter.  
14 And if you take the full projected costs that the  
15 Company included in its filing for the pro forma  
16 additions of \$2.2 million and then if you look at the  
17 Company's interim exhibits that show the amount of debt  
18 on the Company's books during, at the end of the test  
19 year or during the test year in this case, that if you  
20 take all of the outstanding debt obligations and take  
21 out the principal amount that's outstanding for the DEP  
22 loan, you get very close to that \$5 million.

23           **COMMISSIONER SKOP:** Okay. Where it says the  
24 purpose of the loan is to provide funds to repay all of  
25 WMSI's debt except for the FDEP state revolving fund

1 loan, is that a different loan than the one you looked  
2 at?

3 **THE WITNESS:** I assume when they say except  
4 the FDEP state revolving fund loan, I guess I had  
5 assumed that that was the outstanding balance on the DEP  
6 loan that's at that like 2.99 percent interest rate.

7 **COMMISSIONER SKOP:** Okay. But it says --

8 **THE WITNESS:** If it is something different,  
9 then I'm not aware of what it is.

10 **COMMISSIONER SKOP:** Okay. I guess because  
11 what I'm, what I'm trying to figure out here, it says  
12 5 million for the principal amount, it says we're going  
13 to, you know, pay off debt except for the DEP loan.

14 **THE WITNESS:** Uh-huh.

15 **COMMISSIONER SKOP:** And then finance 2.2. So  
16 I'm trying to look at, you know, if you have 5 million  
17 in principal and you retire debt and you have a capital  
18 project, that that sums up to the 5 million requested.  
19 Because what I don't see here is a specific requirement  
20 that the loan proceeds or specific detail with  
21 specificity as it does for the requirements as to this  
22 loan will be paid, this loan will be paid, this loan  
23 will be paid, and this remaining principal amount will  
24 be specifically and only used for the proposed capital  
25 projects. Is it your --

1           **THE WITNESS:** Yeah. It'd be nice if it were  
2 worded in such a way to guarantee that if they do get  
3 these funds, that's all that it's used for is to pay off  
4 existing debt.

5           When I read this I guess I took it as seeing  
6 as they had to pay off all Utility debt with it other  
7 than the DEP loan and then use the rest to finance the  
8 construction costs.

9           **COMMISSIONER SKOP:** But your analysis to get  
10 to the 5 million principal amount subsumed that it would  
11 pay off the DEP loan; is that correct?

12           **THE WITNESS:** No, it did not. I took all debt  
13 excluding the DEP loan and added to that the 2.2 million  
14 projected pro forma cost to get to the 5 million. So  
15 the DEP loan balance outstanding, which is --

16           **COMMISSIONER SKOP:** The low interest one that  
17 you --

18           **THE WITNESS:** Yeah. And it's almost  
19 \$3 million, I want to say, would have to be added to  
20 this to get to the total debt. It would be the  
21 5 million plus around 3 million.

22           **COMMISSIONER SKOP:** Okay. All right. Very  
23 well. And I apologize because the acoustics in here are  
24 not optimal, so I missed that distinction. So I  
25 appreciate you clarifying that.

1           One thing in relation to the schedule that you  
2 previously stated on DR-4, which shows the investment in  
3 associated company, would it be correct to acknowledge  
4 based on the commitment letter that nowhere in that  
5 commitment letter is the Company required to pledge its  
6 investment in its affiliate operations?

7           **THE WITNESS:** No. That's nowhere in the  
8 commitment letter.

9           **COMMISSIONER SKOP:** Okay. But what is in the  
10 commitment letter is that the state's lien would be  
11 subordinated to a position lower than that of the bank  
12 making this financial commitment; is that correct?

13          **THE WITNESS:** I'm sorry. Could you repeat  
14 that?

15          **COMMISSIONER SKOP:** Yes. Okay. Let me step  
16 back. Nowhere in this commitment letter is a  
17 requirement that they pledge the investment in the  
18 affiliated companies as protection for this proposed  
19 loan; is that correct?

20          **THE WITNESS:** No. You're correct.

21          **COMMISSIONER SKOP:** Okay. But what is  
22 happening, instead of, you know, tapping the, the  
23 investment in the affiliates, is that the bank expects  
24 that the Florida Department of Environmental  
25 Protection's loan, i.e. the state loan, would be

1 subordinated to a position less than that of the bank  
2 making this commitment; is that correct?

3 **THE WITNESS:** Correct.

4 **COMMISSIONER SKOP:** Okay. All right. Thank  
5 you.

6 **THE WITNESS:** You're welcome.

7 **COMMISSIONER SKOP:** Any other questions from  
8 the bench?

9 Okay. Mr. McGlothlin, you're recognized for  
10 redirect. Actually at this point let's take a brief  
11 ten-minute break because we've been going for about two  
12 hours, and give the court reporter a break, if not the  
13 Commissioners that need one. And we'll resume in ten  
14 minutes. Thank you.

15 (Recess taken.)

16 (Volume 3 concluded at 11:41 p.m.)

17 (Transcript continues in sequence with Volume  
18 4.)

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STATE OF FLORIDA        )  
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COUNTY OF LEON        )


CERTIFICATE OF REPORTER

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 15<sup>th</sup> day of October, 2010.

  
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