

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of : DOCKET NO. 991643-SU
:
APPLICATION FOR INCREASE IN :
WASTEWATER RATES IN SEVEN :
SPRINGS SYSTEM IN PASCO :
COUNTY BY ALOHA UTILITIES, :
INC. :

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VOLUME 8

Pages 1035 through 1122

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER E. LEON JACOBS, JR.
COMMISSIONER LILA A. JABER
COMMISSIONER BRAULIO L. BAEZ

DATE: Thursday, November 2, 2000

TIME: Commenced at 8:00 a.m.
Concluded at 4:58 p.m.

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

REPORTED BY: JANE FAUROT, RPR
Bureau Chief, Bureau of Reporting
Official Commission Reporter



DOCUMENT NUMBER-DATE
14460 NOV-88

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COMMISSIONER JACOBS: Let's go back on the record.

Are you ready to proceed?

MR. WHARTON: Yes. Jason, do you want to do that right now?

MR. FUDGE: Sure. Commissioner Jacobs, earlier when we had the confusion about Mr. Watford's supplemental direct testimony of the questions we had, we did have one question, and we wanted him to provide a late-filed exhibit of the mortgage and the final appraisal. And the parties have agreed that that is okay to provide. And Mr. Watford has agreed to provide that as a late-filed exhibit.

COMMISSIONER JACOBS: Okay. Just a second.

MR. WHARTON: And we are amenable to that.

COMMISSIONER JACOBS: Okay. We will designate that at Exhibit 34. And give me the description again, please, Jason.

(Late-filed Exhibit 34 marked for identification.)

MR. FUDGE: Thirty-four is the final mortgage document and the final appraisal for the new building.

We have asked for a Late-filed Exhibit Number 28

1 and this late-filed exhibit, and we would just like to
2 know time frame for when the utility can provide those
3 exhibits.

4 COMMISSIONER JACOBS: Any idea, Mr. Deterding or
5 Mr. Wharton?

6 MR. WHARTON: Oh, you're asking for a time?

7 COMMISSIONER JACOBS: Yes.

8 MR. WHARTON: Seven days.

9 MR. FUDGE: That's fine.

10 MR. WHARTON: Seven days from today.

11 COMMISSIONER JACOBS: Very well. That's it for
12 staff?

13 MR. JAEGER: Commissioner, generally you state
14 the briefing schedule of the transcripts and just sort of
15 say what is going to happen from here on out.

16 COMMISSIONER JACOBS: Are we done?

17 MR. DETERDING: No, we are not done.

18 MR. JAEGER: We are going to do the motions --

19 MR. WHARTON: No, we are not. We are not even
20 going to go back on the script right now. I want to
21 make --

22 COMMISSIONER JACOBS: Where are we?

23 MR. WHARTON: I want to make a motion.

24 COMMISSIONER JACOBS: Okay.

25 MR. WHARTON: Okay. Commissioners, Aloha wants

1 to make a motion. I want to make a motion ore tenus right
2 now. First of all, it is proper -- I think we just
3 learned that it is proper to make a motion to strike at
4 any time. It can be before or after the evidence has come
5 into the record.

6 COMMISSIONER JACOBS: I don't necessarily agree
7 with that premise, but go ahead and state your motion.

8 MR. WHARTON: Well, then the equivalent position
9 is that I don't believe the motion that we just heard was
10 an appropriate ore tenus motion, Aloha does not believe.
11 And when we acquiesced to Ms. Merchant testifying this
12 morning as a courtesy, Ms. Merchant, who would not yet
13 have testified about the issue of the building, we
14 certainly didn't know or could not anticipate we were
15 depriving ourselves of an ability to make a motion about
16 her testimony, and I want to move to strike her testimony
17 right now.

18 COMMISSIONER JACOBS: Okay.

19 MR. WHARTON: Aloha moves to strike the
20 testimony of Ms. Merchant based on the language in the
21 testimony itself. Ms. Merchant has testified at Page 1,
22 Line 14, "I cannot support a position on the prudence --"
23 well, let me go back.

24 On Page 1, Line 11: "Question: Have you
25 reviewed the utility's request for recovery of the cost of

1 purchasing a new office building?

2 "Answer: To some extent, yes. However, given
3 the amount of time that staff had to review the supporting
4 documentation, I cannot support a position on the prudence
5 of the purchase of this building or whether the requested
6 costs represent the most cost-effective alternative.

7 "Question: Please explain in detail why you
8 cannot take a position at this time?"

9 First of all, to the extent she says, as she
10 does in here several times, we haven't had enough time,
11 that is a gripe against the Commission, not Aloha. We
12 didn't set the schedule in this matter. We made a motion,
13 it was vigorously argued, and it was approved. When
14 Ms. Merchant says I cannot support a position on the
15 prudence of the purchase of this building or whether the
16 requested costs represent the most cost-effective
17 alternative, she has destroyed any materiality of this
18 testimony. There is nothing left to offer in here.

19 If you guys decide that Aloha has not carried
20 its burden, you don't need a staff member to come in and
21 tell you that. You are going to make that decision as a
22 matter of law. And under the Administrative Procedure Act
23 you are not going to put in an order, well, Ms. Merchant
24 thought they didn't put enough information in. You don't
25 need her saying that. What she says in here about 15

1 times is she is concerned. But she has said right up
2 front she has no position on the prudence of the purchase
3 of this building or whether the requested costs represent
4 the most cost-effective alternative.

5 Commissioners, this testimony is irrelevant, it
6 doesn't reach any conclusion that should be relied on by
7 the Commission or could be relied on by the Commission
8 under the Administrative Procedure Act. It is immaterial
9 given her own statement, and we move that it be stricken.

10 COMMISSIONER JACOBS: Before we have a response,
11 which testimony?

12 MR. WHARTON: It is her supplemental, staff
13 supplemental direct.

14 COMMISSIONER JACOBS: Supplemental direct.

15 MR. WHARTON: On the issue of the building.

16 COMMISSIONER JACOBS: Staff.

17 MR. FUDGE: Mr. Wharton, I guess, brought up
18 three points. First, that acquiescing to have Ms.
19 Merchant testify earlier in the day deprived him of his
20 right to cross her on certain issues because of Mr.
21 Burgess' motion to strike.

22 MR. WHARTON: I have never said that. Perhaps,
23 Mr. Fudge, I did not make myself clear. I said to the
24 extent that procedurally it is perceived that we should
25 not be making a motion to strike after she has already

1 been on the stand, not that it deprived us of the right to
2 cross her. Although that is a valid point.

3 MR. FUDGE: Well, his motion is to strike
4 Ms. Merchant's testimony because she does not take a
5 position on the prudence of their building. And that is
6 her position and it is up to the Commission to decide
7 whether or not the building and her testimony has any
8 weight to decide the issue of the cost of the new
9 building.

10 MR. WHARTON: Well, if someone came in off the
11 street and said I don't anything about this case, but I
12 want to testify, we would move to strike --

13 COMMISSIONER JACOBS: Excuse me. Are you done,
14 Mr. Fudge?

15 MR. FUDGE: You just take the testimony at its
16 face value.

17 COMMISSIONER JACOBS: Are you done?

18 MR. FUDGE: Yes, Commissioner.

19 COMMISSIONER JACOBS: Okay, Mr. Wharton.

20 MR. WHARTON: Just that, Commissioner. I think
21 that is a line which could always be used to support any
22 amount of evidence or testimony no matter how immaterial.
23 If someone came in here and they accidentally walked in
24 the wrong room, and they didn't know anything about this
25 case, we wouldn't say, well, you are going to give it the

1 weight it is accorded. Because I don't know what I am
2 going to see in the final order based on this, and don't
3 know what the parties are going to argue. But that
4 statement out of the witness' own mouth takes her out of
5 the realm of any opinions that could assist this
6 Commission. That is what experts do. Experts are allowed
7 to come in and give opinions under the theory that because
8 they have expertise in an area they can assist the finder
9 of fact in matters that it takes an expert to know about.
10 In terms of the facts and the law you all don't need any
11 help. And she says I don't have any opinions on the
12 bottom line.

13 Everything else in terms of whether we have met
14 our direct case or not either comes from your
15 determination of the facts, your determination of the law.
16 It can't come from anything she said after she has made
17 that statement.

18 COMMISSIONER JACOBS: Very well. Mr. Burgess.

19 MR. BURGESS: Commissioner, I believe the -- at
20 least as I understand it, that procedurally this is out of
21 order. I understand that the utility acquiesced to
22 Ms. Merchant going out of order, but as least as far as I
23 understand it, we would be in the same place anyway. We
24 would have offered our motion to strike testimony at the
25 time we were asked is there objection to the testimony

1 being entered into the record as though read. And it
2 would be on supplemental rebuttal testimony. And that is
3 what we objected to. Ms. Merchant's testimony would have
4 been completed anyway. We would have already gone
5 through, and, in fact, have already gone through that
6 phase where everyone was asked whether they objected to
7 Ms. Merchant's testimony being entered into the record as
8 though read. And so we have passed that phase, it seems
9 to me.

10 COMMISSIONER JACOBS: Very well. Commissioners,
11 comments?

12 COMMISSIONER JABER: I don't have a comment, but
13 I can make a motion.

14 COMMISSIONER JACOBS: I have a couple of
15 questions. The motion is to strike her supplemental
16 direct. The prior motion had to with supplemental
17 rebuttal, is that correct, staff?

18 MR. FUDGE: Yes, Commissioner.

19 COMMISSIONER JACOBS: And our rationale on
20 supplemental rebuttal was that it essentially was outside
21 of the scope of the testimony it attempted to rebut, is
22 that correct?

23 MR. FUDGE: Yes.

24 COMMISSIONER JACOBS: As to supplemental direct,
25 does that rationale apply?

1 MR. FUDGE: No, Commissioner. She is free to
2 form any opinion on the cost of the new building. She
3 isn't constrained by someone's prior testimony.

4 COMMISSIONER JACOBS: Okay. Any other
5 questions, Commissioners?

6 COMMISSIONER BAEZ: Yes, I have a question.
7 Mr. Wharton, you seek to strike the totality of
8 Ms. Merchant's supplemental?

9 MR. WHARTON: I really believe, Commissioner
10 Baez, that the only opinion, once you take those two, that
11 is left is have you reviewed -- well, is do you believe
12 the Commission should approve the utility's requested
13 building costs? At this time, no, I believe there are too
14 many unanswered questions. And that is just totally
15 immaterial for a staff witness to say that. That is what
16 you guys decide based on the law.

17 COMMISSIONER BAEZ: And I have a questions for
18 staff. In a practical sense, if this motion is granted,
19 assuming it is granted, where does it leave -- where does
20 it leave the issue as a whole?

21 MR. FUDGE: It leaves the Commission to
22 determine the propriety of the new building based solely
23 on the testimony provided by Mr. Watford.

24 COMMISSIONER BAEZ: Okay.

25 COMMISSIONER JABER: Mr. Watford filed the

1 supplemental direct.

2 MR. WHARTON: I think we are moving who has the
3 last word backwards, Commissioner.

4 COMMISSIONER JABER: I can make a motion.

5 COMMISSIONER JACOBS: I was impressed that we
6 had supplemental rebuttal in this case in the first
7 instance. So I guess --

8 COMMISSIONER JABER: Well, maybe we need to go
9 back and explain why. The issue came up during the course
10 of the prehearing conference, and to allow the issue in
11 fairness dictated allowing rebuttal in. You know, we made
12 it real clear in the prehearing conference that no one was
13 to abuse that. So, you know, I apologize to you all,
14 Commissioner, for having to go through this, because I
15 specifically directed parties not to do this.

16 But, here is my motion. It is to deny Aloha's
17 motion to strike Ms. Merchant's testimony because Ms.
18 Merchant has testified. You make very good points, but I
19 think they are points you need to make in your brief as
20 you summarize the testimony and her argument. That is my
21 motion.

22 COMMISSIONER BAEZ: Second.

23 COMMISSIONER JACOBS: Very well. It has been
24 moved and seconded. Show that the motion is denied
25 without objection. Where are we now?

1 MR. DETERDING: Well, I think where we are is to
2 continue with that portion of Mr. Nixon and Mr. Watford's
3 testimony that has not been stricken in their supplemental
4 rebuttal. And to the extent that it has been stricken,
5 then we wish to proffer it along with their summary on
6 those issues. It would be next to impossible for us to
7 try and -- well, not next to impossible, it would be
8 impossible for us to try and summarize those portions of
9 their testimony that have not been stricken. So I think
10 the simplest way to handle this is simply to say to the
11 extent that it has been stricken, we are proffering the
12 testimony and we are proffering the summaries given by
13 both the witnesses. And we will just move forward in that
14 way if that is the Commission's pleasure.

15 MR. BURGESS: Commissioner, I think that is a
16 fair way to approach it. And we will -- we do object and
17 put on the record our objection to any of that portion
18 which falls into a summary of the rebuttal testimony,
19 recognizing that he is going to give his summary and it is
20 going to be a proffer, just put on the record our
21 objection to that portion of it that is a summary of the
22 rebuttal testimony, the stricken testimony.

23 COMMISSIONER JACOBS: Staff.

24 MR. FUDGE: We have no objections except the
25 ones voiced by the Office of Public Counsel.

1 COMMISSIONER JACOBS: So how do we handle this
2 procedurally?

3 MR. DETERDING: We will just go through the
4 motions of asking him about his having prepared this
5 testimony. And, again, to the extent that it was not
6 stricken, then it is a proffer. And I understand Mr.
7 Burgess' objection to the extent it was stricken and he
8 gives a summary that includes the stricken testimony, he
9 is objecting to that. And I think that is the only easy
10 way to handle it.

11 MR. BURGESS: And I will just brief that if that
12 is necessary when it comes out.

13 COMMISSIONER JACOBS: Very well. Proceed.

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ROBERT C. NIXON

16 was called as a witness on behalf of Aloha Utilities, Inc.
17 and, having been duly sworn, testified as follows:

18

DIRECT EXAMINATION

19 BY MR. DETERDING:

20 Q Mr. Nixon, you have previously been sworn,
21 correct?

22 A Yes.

23 Q You prepared supplemental rebuttal testimony in
24 this proceeding, did you not?

25 A Yes, I did.

1 Q And that supplemental rebuttal consists of six
2 pages?

3 A Yes.

4 Q If I asked you those questions here today, would
5 your answers be the same?

6 A Yes.

7 Q Do you have any changes or corrections to that
8 testimony?

9 A No.

10 Q Did you have any exhibits to that testimony?

11 A Yes.

12 Q Can you briefly describe what those are?

13 MR. BURGESS: Commissioner, now on the exhibits,
14 which I think we moved to strike all the exhibits -- well,
15 that is okay, it's a proffer.

16 BY MR. DETERDING:

17 Q Go ahead, Mr. Nixon.

18 A Yes. I had three exhibits, Exhibit RCN-18, 19,
19 and 20. Exhibit 18 was development of the capital costs,
20 operating income, and depreciation and operating expenses
21 connected with the new office building. And Exhibit 19
22 was a calculation of the revenue requirement and a simple
23 cost comparison comparing the cost per square foot of the
24 space utilized by Aloha with the average and costs of
25 comparable space contained in the Prudential report which

1 I believe was attached to Mr. Watford's direct testimony
2 on this issue.

3 Exhibit 20 was the response prepared by me to
4 Staff's Request for Production of Documents Number 13. It
5 had the same revenue requirement computations, a cost
6 comparison based on incremental cost to the utility with
7 the cost to lease, and that information I referred to
8 earlier from Prudential Realty.

9 Q Do you have any changes to those exhibits?

10 A No.

11 MR. DETERDING: I request that Mr. Nixon's
12 testimony be inserted into the record as though read.

13 MR. BURGESS: And we object to those portions
14 that have been identified and stricken by the Commission's
15 ruling. As well as the --

16 COMMISSIONER JACOBS: Subject to the objections
17 that have been raised, and as previously described in the
18 record, the testimony will be admitted, and those sections
19 that are objection proffered as though read.

20 MR. DETERDING: And I'm unclear whether the
21 ruling covered the exhibits, and if so which ones.

22 COMMISSIONER JACOBS: The ruling didn't, because
23 the objection to the exhibits hadn't been raised at that
24 time.

25 COMMISSIONER JABER: No, my motion did

1 incorporate the exhibits, because Mr. Burgess did move to
2 strike the exhibits. As a matter of fact, in my motion I
3 referred to the exhibits as being dated back when their
4 direct testimony was filed.

5 COMMISSIONER JACOBS: I did not understand that.

6 MR. DETERDING: We proffer those, as well.

7 COMMISSIONER JACOBS: Very well.

8 MR. FUDGE: Commissioner, we are ensure which
9 parts were stricken of Mr. Nixon's testimony, because I
10 think Mr. Burgess only said that --

11 COMMISSIONER JACOBS: If I understood, it was
12 Line 1, Page 1 up to Page --

13 MR. BURGESS: Actually, yes, it would have
14 been -- I defined it as that portion that I did not move
15 to strike, and that was from Page 1, Line 23 through Page
16 3, Line 5. And the balance I would move to strike.

17 COMMISSIONER JACOBS: So only up to Page 3, Line
18 5 is included. Everything after that is stricken.

19 MR. FUDGE: Thank you.

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1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 ALOHA UTILITIES, INC.

3 SEVEN SPRINGS WASTEWATER DIVISION

4 DOCKET NO. 991643-SU

5 SUPPLEMENTAL REBUTTAL TESTIMONY OF ROBERT C. NIXON, C.P.A.

6 Q. Please state your name and professional address.

7 A. Robert C. Nixon, C.P.A., a partner in the accounting firm
8 of Cronin, Jackson, Nixon & Wilson, P.A., 2560 Gulf-To-
9 Bay Boulevard, Suite 200, Clearwater, Florida 33765.

10 Q. Have you previously provided testimony in this
11 proceeding?

12 A. Yes.

13 Q. What is the purpose of this supplemental rebuttal
14 testimony?

15 A. To sponsor Exhibit ____ RCN-18 and ____ RCN-19 related to
16 the cost and utility revenue requirement respectively for
17 purchasing the new office building.

18 Q. Why were these exhibits prepared?

19 A. These exhibits were prepared at the request of Mr.
20 Watford for use in his testimony related to purchase of
21 the new office building and the alternatives which were
22 available.

23 Q. Before you explain these schedules, are they meant to be
24 a full cost/benefit analysis as suggested by Ms. Merchant
25 in her supplemental direct testimony?

1 A. No. In reviewing her testimony, I am not sure what a
2 "cost/benefit analysis" is. As Mr. Watford will testify,
3 Aloha engaged the services of a realtor to look for
4 suitable office space in the Seven Springs service area.
5 It is my understanding that the market for the type and
6 size of space needed by Aloha is very tight and there
7 were not a lot of alternatives available. The purpose of
8 my exhibit was to show the impact on regulatory revenue
9 and provide a simple cost comparison based on an analysis
10 of the market by Prudential-Tropical Realty.

11 Q. You stated that you did not know exactly what was meant
12 by the term "cost/benefit analysis". Why is that?

13 A. I believe the prudent approach in assessing alternatives
14 for new office space is to compare either the cost to
15 lease a comparable property with the full cost of
16 acquiring an office building. Aloha has done this and
17 provided the information to staff. Since the cost would
18 be current annual costs, they are stated at their present
19 values and one can judge if the cost to purchase is
20 reasonable or not.

21 My problem, I suppose, is with the term "benefit". It
22 should be obvious that owning a building, which will meet
23 Aloha's needs for the next 20 years at a cost less than
24 the cost to rent currently, is an obvious demonstration
25 of the benefit of buying. In addition, Aloha's costs

1 should not escalate for annual increases in rent due to
2 changes in the Consumer Price Index (CPI). Over a 10 to
3 15 year period, such automatic increases to the rent,
4 which are standard in all of the leases of properties
5 considered, could be significant.

6 Q. Are there other benefits to be considered beyond simply
7 cost?

8 A. Yes. Mr. Watford will cover these benefits in his
9 testimony. Because of extensive on-site improvements
10 needed to make some of the alternative properties
11 suitable for office space, the benefits of purchasing a
12 building essentially ready to move into without extensive
13 renovation, is an obvious benefit. Mr. Watford will
14 testify on this matter in detail.

15 Q. Please explain your exhibit ____ RCN-18.

16 A. My exhibit ____ RCN-18 computes the additional cost to
17 Aloha for purchasing the Costanza building and occupying
18 6,062 square feet of the total space in the building of
19 8,442 square feet. The information on the revenue
20 requirement is developed on ____ RCN-19.

21 ____ RCN-19 shows the cost of the new office building and
22 land and deducts the cost of the existing leased space
23 (Allstate Insurance) based of square footage. I have
24 then added the cost of improvements, relocation of the
25 phone system, and office furniture and equipment to

1 arrive at a full cost of the new space to Aloha. I then
2 removed one year's accumulated depreciation net of the
3 depreciation on the Allstate leased space to arrive at a
4 net cost to purchase of \$590,232. I have applied the
5 rate of return originally requested in this proceeding to
6 arrive at additional utility operating income of \$54,537.

7 ____ RCN-19 also shows the calculation of net utility
8 depreciation, maintenance, taxes, and insurance net of a
9 full allocation to Allstate Insurance.

10 All of these items are carried over to ____ RCN-18 and
11 result in total additional utility costs of \$84,165
12 before adjustment for existing rent expense and
13 Regulatory Assessment Fees.

14 Q. I notice on ____ RCN-19 that you estimated the cost of
15 land to be \$80,511. Please explain that estimate?

16 A. At the time this exhibit was prepared, I did not have an
17 appraised value for the land. Therefore, I used the
18 assessed value of the land which I understand is
19 generally 80% of market value, and adjusted it
20 accordingly. According to the Pasco County Tax Assessor,
21 property values for commercial property are generally
22 assessed at approximately 80% of market value. I believe
23 this was a reasonable approach.

24 Q. Please explain the cost comparisons?

25 A. I have shown two comparisons. The first is based on

1 additional cost, which equates to \$11 per square foot.
2 I have also shown the total cost of \$84,165, which
3 equates to a cost of \$13.88 per square foot. This
4 compares to the cost to rent comparable space of between
5 \$12.50 and \$14.50 based on an analysis prepared by
6 Prudential-Tropical Realty. Also from that same
7 analysis, the average cost to lease comparable space was
8 \$13.63.

9 Q. Are these comparisons valid?

10 A. The answer is yes and no. The comparisons provide an
11 indication of the cost to Aloha of purchasing the
12 building compared with the market for comparable leased
13 space in the Seven Springs service area. However, it
14 should be noted that the costs shown for Aloha include
15 leasehold improvements, relocating the existing phone
16 system, and \$42,856 of additional office furniture and
17 equipment. The comparables provided by Prudential do not
18 consider the cost of leasehold improvements or additional
19 furniture and equipment necessary to operate a utility
20 office. With this in mind, I believe the comparison
21 indicates that purchasing the building is a prudent and
22 cost effective decision. A more detailed analysis which
23 included all necessary factors for the lease options
24 would show even more clearly that Aloha's choice to
25 purchase was a good one. Mr. Watford has prepared a more

1 complete "cost comparison." My primary purpose was to
2 develop the revenue requirement that results from Aloha's
3 move to new offices.

4 Q. Do you have anything further to add?

5 A. Not at this time, other than to supply our response to
6 the Staff's Request for Production of Documents No. 13
7 for the Commission's information. This is attached as
8 RCN-20.

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1 COMMISSIONER JACOBS: Very well.

2 MR. DETERDING: We tender the witness for cross.

3 MR. BURGESS: No questions.

4 MR. FUDGE: No questions.

5 COMMISSIONER JACOBS: Commissioners? Very well.

6 Any redirect?

7 MR. DETERDING: No.

8 COMMISSIONER JACOBS: Very well. Exhibits. We
9 show the late-filed. And, I'm sorry, I did not identify
10 the other exhibits, 35, the proffered exhibits, and those
11 are RCN-18 and -- I'm sorry, what were numbers on those?

12 MR. DETERDING: 18 through 20, is that correct?

13 THE WITNESS: Yes, that is correct.

14 (Exhibit 35 marked for identification.)

15 COMMISSIONER JACOBS: Very well. You are
16 excused, Mr. Nixon.

17 MR. DETERDING: We call Mr. Watford.

18 - - - - -

19 STEPHEN G. WATFORD

20 was called as a witness on behalf of Aloha Utilities, Inc.
21 and, having been duly sworn, testified as follows:

22 DIRECT EXAMINATION

23 BY MR. DETERDING:

24 Q Mr. Watford, you previously provided rebuttal
25 testimony as well as supplemental direct in this

1 proceeding?

2 A I'm sorry?

3 Q You previously provided rebuttal testimony as
4 well as supplemental direct testimony in this proceeding?

5 A Yes, I have.

6 Q And did you prepare what is entitled
7 supplemental rebuttal testimony of Stephen G. Watford
8 consisting of 41 pages? I apologize, 43 pages, which was
9 prefiled in this case?

10 A Yes, I did.

11 Q If I asked you the questions contained in that
12 testimony, would your answers be the same?

13 A Yes, they would.

14 Q Do you have any changes or corrections to make
15 to that testimony?

16 A No, I don't.

17 Q Did you also prepare exhibits that are attached
18 to that testimony entitled SGW-SR1 through SGW-SR7?

19 A Yes, I did.

20 Q And do you have any changes or corrections to
21 make to those exhibits?

22 A No, I do not.

23 Q Please give us a brief summary of your
24 supplemental rebuttal testimony.

25 A Okay. As you know, this is testimony that was

1 prepared in rebuttal to Ms. Merchant's supplemental direct
2 testimony on the utility's new office building and the
3 considerations of costs associated with the purchase of
4 it. Honestly, we were quite surprised by the testimony of
5 Ms. Merchant on this issue in that she seems to be saying
6 that she has no opinion based upon the lateness of the
7 information provided and that she, in essence, has no
8 opinion.

9 I believe Ms. Merchant has and had all the
10 information in front of her that would allow her to make a
11 decision in this case. I believe that she has more
12 information available to her and had more information
13 available to her to allow her to make a decision as to the
14 prudence of the purchase of this building in this case.
15 We did, and as has been the subject of a lot of discussion
16 here late, attempt to supply some additional information
17 to Ms. Merchant based upon inquiries that she seemed to be
18 making in her direct testimony. And to the extent that we
19 thought she was incorrect in that regard, we attempted to
20 correct the record in that regard.

21 Basically, we were notified in June that our
22 lease would not be renewed at the end of the year. And we
23 then set about what I believe was a prudent course of
24 action, that any business owner or business manager would
25 undertake, and that is to quickly evaluate and determine

1 and work up a list of criteria for the purchase of a new
2 office or the leasing of a new office.

3 Honestly when we started we were looking at
4 leasing, because that is what we had done for many years.
5 We met with a realtor who was a very aggressive realtor in
6 the Pasco County area, handles most of the commercial real
7 estate that is sold in that area, and we met with him and
8 developed a very explicit list of criteria.

9 And that is one of the things about Ms.
10 Merchant's testimony that somewhat puzzled us. She seemed
11 to think, inferring from her testimony, that we would call
12 the realtor on the phone and say, "Go get us a building."
13 Obviously the first question that would come out of the
14 realtor's mouth is how big does it need to be, where does
15 it need to be located, how many offices do you need, what
16 are your needs.

17 And we went through a great deal of refining
18 those needs and those criteria. A lot of those things are
19 things that I would assume would be common sense. Some of
20 the things I just mentioned. Ms. Merchant mentioned in
21 her testimony several things, like how big did it need to
22 be? I guess maybe we assumed that that would go without
23 saying, and that we wouldn't have needed to have
24 delineated in our direct testimony that we told the
25 realtor how big a building we needed. But we have since

1 gone back and tried to fill in some of that information,
2 and Ms. Merchant seemed to feel that was out there that
3 she needed.

4 I just want to hit a couple of the major areas,
5 because as, you know, the testimony was quite extensive.
6 I certainly don't have time to address a lot of it here.
7 She first says that none of this information was provided
8 in the MFRs. She is exactly correct. We did not know the
9 need of the building until approximately five months, I
10 guess it was, after the filing of the MFRs. That is why
11 this has been handled as it was handled as supplemental
12 direct testimony.

13 You know, we understood, I thought, clearly the
14 ruling of Commissioner Jaber as the prehearing officer,
15 and that was that all parties were to cooperate to the
16 greatest extent necessary. This was late to the parties,
17 so to speak, and we realized that we were bringing
18 something in that was late, that wasn't the normal
19 practice of this Commission to allow in, I suppose. But
20 it wasn't anything that we had any knowledge of or knew
21 anything about beforehand.

22 We attempted to the greatest extent possible to
23 keep staff advised along the way. There were multiple
24 submissions of information to the staff updating them on
25 our progress of negotiations on the building, what we were

1 looking at, where we were looking, other optional
2 properties that we looked at, and so forth.

3 The mindset was clearly this, if anything give
4 them more information than what they need. And we feel
5 that we have done so. The fact is we have to have a new
6 office. It's not an option. We are displaced as of
7 December 31st. We have now purchased an office, and an
8 operations building, if you want to call it that. We will
9 be -- as was mentioned here earlier, we only closed on
10 that building three days ago.

11 There is some information that has been asked
12 from me as a late-filed exhibit such as the mortgage, I
13 don't even have that back from the bank yet to provide
14 you. I can give you the details of it, but we will
15 certainly provide that to you as a late-filed. It has
16 been a developing issue, and I think that is the key
17 difference here. It is not something that everybody knew
18 about a long time ago. Certain numbers Ms. Merchant
19 questioned because of why they had changed or how they had
20 changed, we responded to those issues of why they had
21 changed or how they had changed.

22 As you know, if you have done any real estate
23 transactions, those things evolve until you close. That
24 was exactly the same case here. On one hand she complains
25 in her testimony that she is critical of the utility

1 because we in an earlier estimate, which was a very quick
2 off-the-cuff estimate provided back in June, I think three
3 days after we received notice that our lease would not be
4 renewed that, in essence, the costs came in lower than
5 what we had originally said.

6 And then later she says, well, it is now higher
7 than what you said at the intermediate estimate that you
8 gave.

9 MR. FUDGE: Commissioners, I think we have
10 exceeded the five minute benchmark that has been set in
11 this proceeding.

12 COMMISSIONER JACOBS: We are going a bit long.
13 I will allow you one more minute to summarize up your
14 testimony.

15 THE WITNESS: Okay. I guess what I would like
16 to say at this point is we believe that we took every
17 prudent step that was necessary. We had a time frame. We
18 gave the criteria for the location. As a matter of fact,
19 there has been a map that was passed out to you earlier
20 that was used for -- just to be used for demonstration
21 purposes.

22 Obviously I probably don't have the time in a
23 minute here to explain that, but if you look at the map,
24 the red dot is where our existing office is. The green
25 dot is where the new office building we just purchased is.

1 The two things that you see outlined in the black
2 heavy-lined area, the one to the left of the map you have
3 is our small service area, the Aloha Gardens service area.
4 The much larger service area you see to the east or to the
5 right of that with Trinity in the middle of it is our
6 Seven Springs service area.

7 We considered everything that was available to
8 us, trying to keep in mind the convenience to the
9 customers. We have relocated now and will be moving
10 starting on approximately December 15th to our new
11 location. We believe that we will be able to better serve
12 our customers there. We certainly will be centrally
13 located in our large and growing service area.

14 But one thing we did keep in mind, if you look
15 at the map and you notice between the red dot and the
16 green dot, a customer who presently lives in Aloha Gardens
17 and goes to and from that office only has to drive east on
18 Darlington Road there and they will arrive at the new
19 office without having to go -- a lot of these people are
20 elderly, a lot of them really don't like driving,
21 especially on U.S. 19 or any of the major highways. They
22 can get directly to the new location without having to go
23 on any major roads.

24 And where you see the little orange dots that
25 are up at the top of the map, those were the other

1 alternatives and the locations of buildings that we also
2 considered, all of which is contained in my rebuttal
3 testimony, and the ones that obviously were not the best
4 selection for us.

5 And the final point that I guess I would like to
6 make is when we considered all of the options available to
7 us, not only is the one identified by the green dot the
8 one that we chose that we believe best serves the needs of
9 us, the customers and the utility, but it was also by far
10 the cheapest option that we had.

11 COMMISSIONER JACOBS: Very well. Thank you.
12 Mr. Burgess.

13 MR. BURGESS: Is he tendered?

14 COMMISSIONER JACOBS: Yes.

15 MR. BURGESS: I would just reenter my objection
16 to that portion of the summary that subsumed areas of the
17 testimony that had been stricken. And, as I understand
18 it, what we will do is identify that, perhaps, in brief as
19 part of what we object to, if it is an issue of whether it
20 is actually part of the record before this Commission.

21 COMMISSIONER JACOBS: Correct.

22 MR. BURGESS: Thank you. I have no questions.

23 COMMISSIONER JACOBS: Okay. Staff.

24 CROSS EXAMINATION

25 BY MR. FUDGE:

1 Q Mr. Watford, does your new building include a
2 drive-thru window?

3 A No, it does not.

4 MR. FUDGE: Thank you.

5 COMMISSIONER JACOBS: Commissioners? There was
6 one question that I had, and I don't know if it makes that
7 much difference, but it occurs to me your former landlord
8 is an affiliated party, is that correct? And what strikes
9 we is that the exigency of the circumstances came up and
10 no one disputes that it came upon you without notice.
11 That there could have been a way to bring about that
12 notice much earlier if it weren't an affiliated party, I
13 would think.

14 THE WITNESS: Well, I'm glad -- that was one of
15 the many issues I didn't have an opportunity to touch on,
16 but we were given six months notice. A standard
17 commercial lease typically has no notice provisions by a
18 lessor as to a requirement of notice. Normally if there
19 are any options for extension, that burden always lies
20 with the lessee to notify that they intend to renew a
21 future option of their lease. Now, I will grant you,
22 Commissioner, we had been there in excess of 25 years.
23 And, yes, the related-party had furnished us office space
24 at about a quarter of market rate, as a matter of fact,
25 for those years.

1 But to suggest -- I mean, there is no
2 requirement anywhere that I am aware of that -- unless it
3 is a specific issue or a specific, you know, contractual
4 issue within a lease that would require someone to give
5 any advanced notice. When a lease is expiring, a lease is
6 expiring. And actually we were given six months courtesy
7 notice that certainly nobody had to provide us. And, you
8 know, we have accomplished what needed to be accomplished,
9 and we have found alternative location and office space
10 for our company.

11 COMMISSIONER JACOBS: Thank you. Redirect?

12 MR. DETERDING: None.

13 COMMISSIONER JACOBS: Very well. Exhibits.

14 MR. DETERDING: I am proffering Exhibit, I guess
15 it would be 36, which is Mr. Watford's prefiled exhibits
16 to his supplemental direct. Supplemental rebuttal, excuse
17 me.

18 COMMISSIONER JACOBS: So we are clear, and I
19 think I may have said it, but I confused myself, because I
20 was going to check admitting it, but Exhibit 35 was
21 proffered and therefore not admitted. And the same holds
22 true with Exhibit 36. Let me make sure I have the proper
23 identification of Exhibit 36, could you run those down for
24 me.

25 MR. DETERDING: It is SGW-SR2 through SGW-SR7,

1 which were the prefiled exhibits to his supplemental
2 rebuttal testimony.

3 (Exhibit 36 marked for identification.)

4 COMMISSIONER JACOBS: Very well. Thank you.
5 You are excused, Mr. Watford. That is the last witness?

6 MR. DETERDING: Yes.

7 COMMISSIONER JACOBS: Staff, what is the process
8 from here?

9 MR. WHARTON: Well, Commissioners, we have a
10 motion before we get -- Ralph, you were going to do the
11 final matters?

12 We would like to move into evidence Aloha's
13 responses to the staff's fourth set of interrogatories.

14 COMMISSIONER JACOBS: Okay. Any objection?

15 MR. BURGESS: Yes. I object. I don't know what
16 those are, or the sponsoring witness or anything. I don't
17 know what those are, so I object.

18 COMMISSIONER JACOBS: Is there a witness that
19 would sponsor these?

20 MR. WHARTON: Yes. Mr. Watford is right here
21 and could be crossed. They are Aloha's responses to
22 staff's interrogatories on the subject of the building and
23 the declarant is available.

24 COMMISSIONER JACOBS: You weren't served, Mr.
25 Burgess?

1 MR. BURGESS: No, it's not that I was not served
2 with them, it is that it is information that has not been
3 offered in the process of prefiled testimony. So it is
4 not something that I have examined with the idea of it
5 coming into evidence.

6 MR. WHARTON: Unless I am mistaken, we have
7 already had interrogatory responses put into evidence
8 today.

9 COMMISSIONER JACOBS: They can be offered on
10 cross-examination without any prior notice.

11 MR. BURGESS: It wasn't, that is my point. They
12 weren't.

13 MR. WHARTON: But they could have been utilized
14 by Mr. Burgess in cross-examination.

15 MR. BURGESS: That doesn't make it to where -- I
16 mean, we have finished. Everybody has rested. That is
17 where we are right now. We have rested. And the company
18 has, and they have presented their rebuttal and rested,
19 and now they are seeking to offer additional information
20 that I don't have in front of me. I don't know what it
21 is. I know it has been provided as a discovery response,
22 but I have not examined it as part of that which was
23 brought forward to be put in in the normal prefiled
24 process.

25 COMMISSIONER JACOBS: Staff.

1 MR. FUDGE: These responses to the
2 interrogatories are the same items that Mr. Burgess is
3 seeking -- that has been stricken.

4 COMMISSIONER JACOBS: Describe them to me.

5 MR. WHARTON: Well, the testimony was stricken
6 on a very specific premise. I don't think that argument
7 applies to these interrogatories.

8 COMMISSIONER JACOBS: Let's first hear what the
9 interrogatories are.

10 MR. FUDGE: Number 49. It says because the
11 contract for the new building was executed after the
12 filing of Mr. Watford's supplemental direct testimony, is
13 there cause for revising the 86,373 annual mortgage
14 payment, including interest for 6,062 square feet referred
15 to on Page 3, Lines 17 through 20.

16 COMMISSIONER JACOBS: Is that the only one?

17 MR. FUDGE: No, there is -- it goes from 49
18 through 64.

19 COMMISSIONER JACOBS: Same line of questioning,
20 relating to the --

21 MR. FUDGE: It all refers to the building.

22 COMMISSIONER JACOBS: Okay. Your objection goes
23 to --

24 MR. BURGESS: My objection goes to -- at this
25 point, I didn't even bring it with me, bring them with me,

1 so I would have to look at each one. But my objection
2 goes to, right now, basically procedure. I am at a loss
3 as to under what basis they would be brought in. We have
4 all the prefiled testimony. We have looked at it. We
5 have had admitted that which has been proper and all the
6 exhibits, the filed exhibits attached to it. And at this
7 point now he is trying to get additional information in
8 and so I have a problem with that. And further it sounds
9 like specifically it is information that is his part of
10 that which was denied by the Commission as being that
11 which should have been offered by the company in its
12 prefiled direct testimony on the supplemental issues. So
13 to the extent it covers that, I mean, I think it is
14 obviously back-dooring a reversal of the Commission's
15 earlier ruling.

16 COMMISSIONER JACOBS: Last word.

17 MR. WHARTON: And briefly, Commissioner, the
18 reason that argument can't fly is because if anyone had
19 taken advantage of the prehearing officer's ruling setting
20 a new discovery deadline and had taken Mr. Watford's
21 deposition in this case there is no way you all could keep
22 that out under that it is not prefiled. We have already
23 had a bunch of depositions come in in this case under the
24 rule saying the deposition of anyone who is either an
25 expert or over 100 miles away can come in for any purpose.

1 That in and of itself, this is sworn testimony, it is
2 sworn testimony, it could have been used for impeachment
3 purposes. It's in the Commission's files.

4 COMMISSIONER JABER: The procedural order which
5 is supposed to govern this case, Page 6, upon insertion of
6 a witness' testimony, exhibits appended thereto may be
7 marked for identification. After all parties and staff
8 have had the opportunity to object and cross-examine, the
9 exhibit may be moved into the record. All other exhibits
10 may be similarly identified and entered into the record at
11 the appropriate time during the hearing.

12 COMMISSIONER JACOBS: On two grounds. First, I
13 am going to grant the objection for two reasons. One is
14 the scope of the earlier order striking testimony; and,
15 second of all, while I am of the opinion that there could
16 have been a reasonable opportunity granted, at this point
17 in time and at this point in the process I think it would
18 be -- it would probably be untenable for the parties to
19 sufficiently evaluate these in order to have an
20 opportunity to bring your witness back and cross them on
21 this if that were to be their intent.

22 It sound like we have evidence in the record
23 that goes to this, to the extent that it has been accepted
24 and/or proffered. And so for all of those reasons I will
25 grant the motion. I'm sorry, I will allow the objection

1 to those interrogatory responses.

2 MR. WHARTON: Commissioner Jacobs, we just seek
3 to clarify whether SGW-2 through SGW-7 were all stricken.
4 That was Mr. Watford's --

5 COMMISSIONER JACOBS: It was my understanding
6 when I clarified it that that was in the motion that we
7 voted out, and therefore they were stricken. But they
8 were proffered and noted as a proffered exhibit.

9 MR. WHARTON: Without looking at the numbers, we
10 want to move any ones that weren't stricken into the
11 record. Maybe there are none. Is that all of them,
12 Ralph?

13 COMMISSIONER JACOBS: In fact, that was
14 interesting, because we didn't have -- is there an SJR-1
15 (sic)?

16 MR. WHARTON: We would like to move that into
17 the record.

18 MR. FUDGE: That was part of their rebuttal.
19 SGW-SR1 is listed as rebuttal. And I think Mr. Burgess
20 said earlier he was striking SR-1 through 7.

21 MR. BURGESS: Actually, my motion to strike was
22 SR-2 through 7.

23 MR. FUDGE: Okay. So --

24 MR. BURGESS: But I don't know what the
25 Commissioner's ruling was.

1 COMMISSIONER JACOBS: One is not objectionable?

2 Going once --

3 MR. JAEGER: Here is the problem. There is an
4 SGW-1 that was admitted, that is Exhibit 31. But there is
5 an SGW-SR1 that is not admitted.

6 COMMISSIONER JACOBS: Correct.

7 MR. DETERDING: No, that is not true. It was
8 admitted as Exhibit 33.

9 COMMISSIONER JACOBS: I did not identify that as
10 Exhibit 33. What I have for Exhibit 33 is a letter from
11 the landlord and executed real estate purchase agreement,
12 that is what I have as Exhibit 33.

13 MR. DETERDING: That is SGW-1 or SR1, it is the
14 attachment to the direct testimony.

15 COMMISSIONER JACOBS: Which is these two?

16 MR. JAEGER: Marty, we are talking at cross
17 purposes. There are two SGW-1s, a 31 and a 33. That was
18 the August 24th, 2000 Costansa (phonetic) homes letter and
19 executed contract, that was 33; and then there is an SGW-1
20 plus attached page of the Civil Engineering Association,
21 that is the 9/11/10 letter to Watford from Inzbürger
22 (phonetic). So you are right, there are two SGW-1s, and
23 that is 31 and 33. And those are admitted. But there is
24 an SGW-SR1 which is a discovery response to Interrogatory
25 Number 10A. And that is what Steve struck, and that

1 has --

2 COMMISSIONER JACOBS: No, he did not ask for --
3 SGW-SR1 he did not ask to be stricken.

4 MR. JAEGER: It has not been admitted, that is
5 what --

6 COMMISSIONER JACOBS: So let's identify SGW-SR1
7 as Exhibit 37. And without objection, show it admitted.

8 (Exhibit 37 marked for identification and
9 admitted into the record.)

10 MR. DETERDING: Thank you.

11 COMMISSIONER JACOBS: Very well. Now, staff,
12 tell us where we go from here.

13 MR. JAEGER: Pursuant to the CASR, the
14 transcripts are supposed to be filed on 11/8 and then
15 briefs due on all issues on 11/22, and then staff was
16 going to try to get its recommendation out on 1/4 for the
17 1/16 agenda. But transcripts are due in six days, and
18 then the briefs are due on the 22nd.

19 COMMISSIONER JACOBS: Very well. Anything else
20 to come before the Commission today?

21 Well, thank you all very much. This hearing is
22 adjourned.

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REPORTER'S NOTE: As instructed by Commissioner Jacobs, the presiding officer, Mr. Watford's supplemental rebuttal testimony is hereby inserted into the record.

The portion of Mr. Watford's supplemental rebuttal testimony that was struck by the Commission is outlined on Pages 1005 through 1008 of Volume 7 of this transcript.

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 ALOHA UTILITIES, INC.

3 DOCKET NO. 991643-SU

4 APPLICATION FOR WASTEWATER RATE INCREASE OF

5 ALOHA UTILITIES, INC. IN PASCO COUNTY

6 SUPPLEMENTAL REBUTTAL TESTIMONY OF STEPHEN G. WATFORD

7 Q. Please state your name and employment address.

8 A. Stephen G. Watford, Aloha Utilities, Inc., 2514 Aloha Place,
9 Holiday, Florida 34691.

10 Q. In what capacity are you employed by Aloha Utilities, Inc.

11 A. I am the Utility's President.

12 Q. What is the purpose of your supplemental rebuttal testimony?

13 A. To respond to the supplemental direct testimony supplied by
14 the Commission staff's witness, Tricia Merchant, on the
15 subject of the Utility's new office building and the
16 consideration of the costs related thereto in this proceeding.

17 Q. What areas of her testimony require a response?

18 A. I was a bit surprised by the testimony of Ms. Merchant, in
19 that she appears to be critical of the timing of this
20 situation and has suggested that she cannot draw a conclusion
21 based upon the lateness of the information provided. However,
22 I believe Ms. Merchant has had time and opportunity to make
23 herself aware of the facts and circumstances and in fact she
24 has even contacted the realtor who has handled the purchase
25 transaction for us. I do not see how she can suggest that it

1 is inappropriate to consider these costs under the
2 circumstances. Her primary complaint seems to be with the
3 timing of testimony and exhibits and this schedule was in fact
4 established by the Commission to allow consideration of this
5 very issue.

6 I believe perhaps a further explanation of the circumstances
7 which led to moving our offices is in order. Aloha had been
8 considering the possibility of relocating its offices for some
9 time. We had made no concrete plans with regard to such a
10 move, and did not really intend to undertake such a move
11 anytime this year. However, we had been looking at the market
12 and what was available, and therefore, when we were informed
13 in late June that our current landlord would not be renewing
14 our lease, we had a head start on reviewing the market in our
15 area and on attempting to locate alternative office space in
16 the Seven Springs service area.

17 Ms. Merchant first notes that none of this information was
18 included within the projected test year, or in the MFRs. The
19 MFRs were filed at the beginning of February. The Utility at
20 that time had no idea it would be forced to move its offices
21 in ten months. Ms. Merchant further notes that the staff
22 became aware of the change at the end of June, three months
23 after the official date of filing of the MFRs, and five months
24 after the initial filing in this rate case. It is important
25 to note that the staff was informed at the end of June through

1 responses to discovery from the staff of the non-renewal of
2 our lease. We had just, three days prior to that date,
3 received notification from the landlord that our lease would
4 not be renewed. We attempted to provide the staff, in
5 response to Interrogatory No. 10(a), approximately one page
6 and a half of detail concerning the circumstances surrounding
7 the Utility's office situation and the fact that we were now
8 going to be required to relocate our offices. Fortunately for
9 the Utility, we had already done some research into available
10 alternative offices, simply based upon our belief that Aloha
11 would have to move in 2001 or 2002, because of space
12 limitations, the need for additional staffing for which there
13 was no room, and even later to some extent, because of the
14 filing of the ADA suit in May of 2000. We therefore, did
15 provide them some information with that response, but of
16 course it was not in detail, because the Utility did not have
17 any detail at that time, much less any contract for purchase
18 or lease of alternative properties. However, it certainly
19 cannot be said that the Utility did not act as quickly as
20 possible to provide the staff with information concerning the
21 alternatives available to it and the particulars of our
22 situation, as quickly as they became known to us. The
23 discovery response to staff Interrogatory 10(a) and
24 attachments provided on June 30, 2000 is attached hereto as
25 **Exhibit SGW-SR1.**

1 Ms. Merchant next notes that the Utility made some estimates
2 in the June 30, 2000 discovery response that suggested a total
3 cost of \$100,000 to \$150,000 a year for replacement offices.
4 Why that is relevant at this time, I do not know, but it
5 certainly is obvious that it was the Utility's first attempt
6 to estimate the new cost of an office building when we had
7 just learned of the need to immediately find new offices. As
8 it turns out, the actual cost came in much lower and is
9 contained in schedules which Mr. Nixon has prepared at our
10 request. The lower cost result is mainly because we have
11 found a building that was already constructed in a
12 configuration that is well suited to our needs and to a lesser
13 extent because we decided to purchase rather than rent office
14 space. You will note that the alternative rental costs for
15 new office space (which Aloha did not select), are generally
16 within the range of these first estimates.

17 At the time that this discovery response was filed, we listed
18 several properties we were looking at and their approximate
19 cost, location, etc. by supplying staff with the information
20 that our professional realtor had given to us. Based on our
21 discussions with commercial real estate professionals, the
22 estimate was a reasonable one for rental of office space and
23 the information we have gathered since that time supports the
24 estimates as reasonable, had we pursued the rental option.

25 Q. Ms. Merchant expressed concern that you did not develop

1 criteria for the new building and submit it to the realtor.

2 Is this correct?

3 A. No. We did in fact provide the realtor with a list of our
4 needs for new offices, just not in writing. We did in fact
5 discuss with the realtor at length the criteria that we deemed
6 necessary in our office space search.

7 Prior to our engagement of Prudential Tropical Realty, who is
8 known for being at the top of their field of commercial real
9 estate in Pasco County, to locate a suitable building for the
10 offices of Aloha, we developed a list of criteria that we
11 furnished to the realtor so that he could select properties
12 from what was available in the market that would meet our
13 criteria. The following list of criteria were the guidelines
14 that were furnished to the realtor:

- 15 1. The property must be located in the Seven Springs service
16 area which contains 75% of our total customer base
17 currently and 100% of our current and future growth. The
18 closer the building could be located to the Seven Springs
19 Wastewater Treatment Facility the better from an
20 operational point of view, because the Wastewater
21 Treatment Plant is the center of field operations for all
22 of the activity in the field. A location on Seven
23 Springs Boulevard, the main corridor running North and
24 South through our service area, would be desirable for
25 easy access for our customers.

- 1 2. The total amount of space we require presently, we
2 estimate to be approximately 6,000 to 6,500 square feet.
3 However, this will be somewhat dictated by the layout and
4 some of the unique configurations we require, especially
5 as it relates to being able to accommodate our customers.
6 In general, our needs for space were as follows: 9-10
7 offices, conference room, 1 large billing area, 1 large
8 customer service area, a customer service room where a
9 customer having difficulty of any sort could meet with
10 one of our customer service representatives privately;
11 and finally a customer service/payment lobby with the
12 ability to handle four customers simultaneously. The
13 customer service/payment lobby needs to either have a
14 separate entrance or be separated from the rest of the
15 office area for the efficient handling of customers and
16 for ease of ingress and egress.
- 17 3. The building must fully comply with all ADA and public
18 access requirements. Ingress and egress for customers
19 must be convenient.
- 20 4. We would like a building that is professional in
21 appearance. We would prefer a stand-alone building if
22 possible, and would prefer not to be in a retail shopping
23 center because of all the additional traffic generated by
24 such a location which would not contribute to Aloha being
25 able to safely and efficiently deal with its customers

1 and/or its service personnel that have to come and go
2 from the office many times a day.

3 5. Because of the time constraints we have, we prefer a
4 building that is already constructed and that can be
5 modified within the six month time frame to build out the
6 necessary office space we require.

7 These were the parameters given to the realtors as the desires
8 of the Utility in locating a new home for the company. While
9 certainly some of the options presented to us did not meet
10 each and every aspect of the criteria given, you must remember
11 we are working with a relatively narrow market selection with
12 unique requirements.

13 Q. Ms. Merchant is also concerned that Aloha did not provide
14 details concerning the alternative properties available. Can
15 you give some more specifics on these?

16 A. Yes, I will describe each of those properties which we have
17 reviewed as alternatives in detail below:

18 As a result of our directions to the realtor, we were supplied
19 with a list of potential properties for either lease or
20 purchase which met, or came close to, our minimum criteria.

21 I have described below each of those properties and some
22 specifics concerning them and why they were favorable or not
23 favorable under our criteria, and our conclusions as to each.

24 The first property under consideration was a 10,500 square
25 foot parcel that is located in a shopping center on Little

1 Road in our Seven Springs service area. This is identified on
2 my schedule as Center of Seven Springs Parcel No. 1. This
3 schedule is attached hereto as **Exhibit SGW-SR2**. This property
4 was formerly a World Gym facility and is now basically an
5 empty shell that needs total renovation and complete
6 reconstruction and installation of all interior partition
7 walls, ceilings, plumbing, and electrical facilities, prior to
8 use as an office building. The standard costs that are quoted
9 by professional realtors and construction people knowledgeable
10 about commercial office space to "buildout" or "finish"
11 general office space in a shopping center/strip center floor
12 space is \$25 per square foot. This estimate is borne out as
13 reasonable, based upon my extensive discussions with
14 professional realtors conversant with the rental and
15 renovation of commercial office space. I have discussed this
16 issue further later in my testimony. The standard procedure
17 used by property managers for any of these shopping center
18 properties or strip center properties, is for the owner to
19 perform these major renovations at the tenant's expense. The
20 owner will then allow the amortization and payment for a
21 portion of such "buildout" costs to be spread over the term of
22 the initial lease period. This is in effect an offer of the
23 property owner/landlord to "finance" a portion (usually $\frac{1}{4}$ to
24 $\frac{1}{2}$) of such buildout costs at a market interest rate. In
25 shopping center properties that we have seen, not only during

1 this property search, but also in my general experience, the
2 typical term of lease is 5 years, although the owner of this
3 property agreed during discussions that he would allow the
4 lessee to have options for up to two more 5 year periods past
5 the initial period for a total of a 15 year lease period.
6 None of the owners of the lease properties we have seen would
7 agree to a total lease term longer than 15 years. However,
8 whether the landlord provides the financing for a portion of
9 the costs to buildout and finish the leased space or whether
10 it is done by the tenant and fully financed in some other
11 fashion, the lease hold improvements must be recovered within
12 the lease term and therefore amortized over that period. If
13 the work is done by the property owner/landlord, they will
14 require payment for the portion they are not financing
15 immediately and for the portion they are financing over the
16 initial lease term. In either case, the tenant must find a
17 method to finance the majority of buildout costs. I have made
18 my calculations based upon use of the initial 5 year lease
19 term as well as also showing the amortization over the maximum
20 overall 15 year lease term in my schedule **SGW-SR2**.
21 For this first parcel with a square footage of 10,500 feet,
22 the cost for the "buildout" estimate would be \$262,500. The
23 base lease cost is \$9 per square foot per year and the lease
24 will be a triple net lease with maintenance, tax, and
25 insurance of an additional \$2.28 per square foot estimated at

1 the beginning of the lease. This of course will be subject to
2 increase based upon changes in these costs in subsequent
3 years. Therefore, the total gross rent before consideration
4 of buildout costs is \$11.28 per square foot, with a buildout
5 cost of \$6.67 per square foot under a 5 year amortization
6 period, for a total cost of \$17.95 per square foot per year
7 for this property.

8 The general condition of this property is very poor inside.
9 However, the exterior of the building is average for shopping
10 center/strip mall space. The location of this property is
11 relatively central in our Seven Springs service area. There
12 is some concern, not only for this property, but also for the
13 next property that I will discuss, that they are located in a
14 shopping center which is effectively "dying" in that it is
15 losing the majority of its tenants. This shopping center was
16 located on a main intersection of State Road 54 and Little
17 Road. However, with the recent relocation of State Road 54,
18 the property is no longer the prime location that it used to
19 be. That in and of itself is not a concern to us as a
20 utility, other than the financial risk and lack of security of
21 the shopping center as a long-term location for our offices.
22 There are some significant risks that the property will be
23 completely vacant, or that the quality of the center in
24 general as an office location will drop off in the coming
25 years. Prior to the road relocation, this center almost always

1 enjoyed a full occupancy rate. Now the anchor store, Winn
2 Dixie, has recently left the shopping center, as well as the
3 World Gym that previously occupied this particular space.
4 Many of the smaller tenants have left as well, with the only
5 major tenant remaining in the entire center being K-Mart. At
6 the present time, there is a new Super Wal-Mart under
7 construction less than one mile south at the relocated
8 intersection of State Road 54 and Little Road, that brings the
9 long-term viability of the K-Mart at this Center of Seven
10 Springs into question. On the one hand, this appears to have
11 resulted in lower rents than other comparable properties
12 around the area which were quoted to us and outlined herein.
13 But on the other hand, it brings the entire financial
14 integrity of the shopping center and its long-term viability
15 into question, as well as the fact that the maintenance costs
16 will ultimately have to be spread over fewer and fewer tenants
17 if the high level of vacancy continues. It appears likely
18 from these circumstances, that it will. This building is
19 actually substantially larger than the size requirement that
20 we had outlined for our realtor, as previously discussed. We
21 did discuss with the Property Manager, the possibility of
22 subdividing this rental space, and were told that was not a
23 possibility. Because we are really only in need of
24 approximately 6,000 square foot presently, perhaps increased
25 into about 8,500 in a few years, we could actually consider

1 finishing the interior space of this shell building for only
2 the amount of floor space needed. This would bring the total
3 buildout cost down lower than shown, however, it would still
4 be higher than the next option I discuss, and substantially
5 higher than the building we ultimately selected for purchase.
6 Finally, the age of the building is of some concern. Being a
7 shopping center and of standard construction for these types
8 of facilities and being a 12 year old structure, it would be
9 natural to assume much higher energy costs increasing
10 maintenance being associated with this facility, than with
11 space originally designed for offices and of more recent
12 construction.

13 The second property we reviewed is actually a combination of
14 several units in the same Center of Seven Springs strip
15 shopping center that I discussed above. There are three
16 units located there that could be made available, according to
17 the Property Manager, and when combined would give us the
18 6,400 square foot mentioned in Ms. Merchant's prefiled
19 testimony. All of the concerns for this property are the same
20 as those for the 10,500 square foot parcel discussed
21 previously, because they are located in the same building and
22 of very similar construction. However, the base lease rate
23 for these three smaller units contiguous to one another would
24 be \$10.50 per square foot as opposed to the \$9 per square foot
25 cost for the larger property discussed above. The buildout

1 costs per square foot related to these three parcels would
2 likely be a little higher than for one large 10,500 square
3 foot space, because there are existing walls separating the
4 three units that would have to be demolished and then all
5 interior walls would then have to be reconstructed.
6 Therefore, it is likely that the "buildout" of combining these
7 three parcels would be higher than the \$25 per square foot
8 figure used previously, because it requires demolition and
9 moving of exterior wall electrical and plumbing facilities,
10 whereas the other did not require such demolition. However,
11 in order to be conservative, we have used the same \$25 per
12 square foot buildout cost in estimating the total cost of this
13 property as well. Also of concern is the configuration of
14 these three units in the sense that it creates a very odd
15 shaped floor plan, because these three units stair step
16 backwards. Each of the three units is 80 feet deep and 20
17 feet wide. Therefore, the 6,000 square foot of contiguous
18 space with the stair step effect makes for a very inefficient
19 floor layout with which to work. Strip center parcels are
20 also all glass storefront retail store design properties, and
21 therefore, certainly are not ideal for a utility's corporate
22 offices and operation center. This property, as well as the
23 prior property, are significantly more expensive on a lease
24 basis than the property Aloha has contracted to purchase. It
25 is also much less satisfactory to meet the standards of the

1 Utility for its intended purpose and long-term use.

2 The third property that was close to meeting the requirements
3 set forth by the Utility for its office property, is
4 identified as the Rancho del Rio Professional Offices. This
5 property is approximately one mile north of the northern
6 boundary of our Seven Springs service area. As stated
7 earlier, one of the criteria given to the realtors was that
8 the property be located within our Seven Springs service area.
9 This property was presented to us for consideration by the
10 realtor because it was close to the service area, although not
11 within it, and because it generally met the other requirements
12 we had laid out when beginning our search for office space.
13 This building is a newly constructed professional office
14 complex, which I understand is now fully leased and therefore
15 no longer available. However, when we were looking through
16 available options for offices, there were approximately 6,000
17 square feet available within this complex. This property,
18 like the other two properties previously discussed, is also
19 available on a triple net basis. The base lease price was
20 \$12.50 per square foot, with the add ons for maintenance tax
21 and insurance of \$3.50 per square foot, for a total of \$16 per
22 square foot prior to buildout costs of approximately \$25 per
23 square foot. Using the industry standard, \$25 per square foot
24 of buildout costs, I arrived at a figure of \$150,000 for
25 buildout as reflected in my schedule **SGW-SR2**, using a 5 year

1 amortization at 12% on the buildout costs, you end up with a
2 gross square foot cost of \$22.68. This translates into an
3 annual revenue requirement impact of leasing this 6,000 square
4 foot property of approximately \$136,000. As I stated, this is
5 a new building which was constructed in the last year.
6 Therefore, we should be able to assume that maintenance costs
7 would remain relatively low for the 5 year initial lease term.
8 We could also assume that the energy costs due to the new
9 construction techniques would be much less than the two other
10 properties at Seven Springs strip center. It could also be
11 assumed because of the date of construction that the building
12 itself would meet all ADA requirements. One area of concern
13 with this property is that the parking access is less than
14 desirable. This problem will most likely be rectified when
15 the owners make a future connection from the other end of the
16 parking lot to a secondary road, which will allow for flow
17 through traffic as opposed to opposing traffic within the
18 parking lot. This is a nice professional office center which
19 would have been suitable for Aloha, but for three reasons.
20 The first is the potential parking difficulties as mentioned.
21 The second is the fact that it is not within our service area.
22 The third is that it is considerably more expensive than the
23 option we chose in purchasing the Costanza office building.
24 Even with a 15 year amortization of buildout costs, this cost
25 differential would be substantial and would be the deciding

1 factor in favor of purchasing the Costanza office building
2 over even this property.

3 The fourth and final property given serious consideration is
4 the Costanza building, which the Utility is purchasing and
5 should be closing upon within the next week. We did not
6 become aware of this building's availability until after we
7 had seen the other three buildings previously discussed. We
8 were very excited about this building being available, after
9 inspecting the building and seeing what it had to offer as
10 compared to the other locations and the ability to meet both
11 the current and long-term needs of the Utility. We were very
12 interested in the potential purchase of this office location
13 as compared to all other properties we had seen. The building
14 is larger than the present needs of the Utility dictate,
15 however, there is presently a tenant occupying 2,380 of the
16 8,442 total square footage of the building. This is
17 advantageous for several reasons. First, it will provide
18 space ultimately for future growth of the Utility's
19 administrative offices as is necessary. However, until that
20 space is needed by the Utility sometime in the future, the
21 space occupied by the tenant appears as though it will pay for
22 itself, based on the current commercial property real estate
23 market. The location of the property is almost perfect, based
24 upon the needs of the Utility. It is located centrally in our
25 Seven Springs service area. It is also approximately ½ mile

1 from the Seven Springs wastewater treatment facility, which is
2 the major hub for our field operations in the Seven Springs
3 service area. As such, there are frequent visits by both the
4 administrative staff to our main treatment facility, and also
5 by our field personnel to the administrative offices. It is
6 important to understand the value of this central location to
7 the efficient operation of the Utility. This property is
8 located on Perrine Ranch Road, just a couple hundred feet west
9 of Seven Springs Boulevard, which is the major north/south
10 artery that runs through the center core of our Seven Springs
11 service area. Perrine Ranch Road is also the primary road
12 used to travel between Aloha Gardens service area and the
13 Seven Springs service area. If you leave our present office
14 located on Darlington Road in Holiday and drive due east on
15 Darlington Road approximately 2 ½ miles, you will arrive at
16 the new office location. Darlington Road going east turns
17 into Perrine Ranch Road where the new office is located, just
18 before the Perrine Ranch Road's intersection with Seven
19 Springs Boulevard. So while it accomplishes our goal of
20 becoming centrally located in our much larger Seven Springs
21 service area, it will still be very convenient to the
22 customers in Aloha Gardens. The building itself is
23 approximately 4 years old, and therefore, constructed in
24 compliance with the requirements of ADA, and with the minor
25 modifications we are making to the building prior to occupancy

1 which I will discuss later, will enable us to provide
2 excellent customer service for all of our customers, as well
3 as allowing us to accommodate any customers with disabilities.
4 As you know, handicap access has become quite a problem at our
5 old office building and the litigation that resulted from
6 that, although near settlement, is still pending. Because of
7 the recent construction, and construction techniques used in
8 design of this building, as well as the many extra energy
9 saving devices that the current builder installed, the
10 potential savings on long-term energy costs for this facility
11 should be enormous compared to the other alternatives we have
12 seen. The history of the building yields some insight into
13 construction methods and techniques that were used in building
14 it. The building was built by Costanza Homes, a high end
15 custom home builder, as a corporate office for their own
16 organization. As a general contractor myself, I take great
17 comfort in a building constructed by a state licensed Class A
18 general contractor for his own occupancy. I am also familiar
19 with the high quality of construction that Costanza Homes
20 provides for its customers in the homes they build, and I am
21 sure they would have gone the extra mile in any decisions
22 related to construction of a building they themselves intended
23 to occupy for a long period of time. One thing that must be
24 kept in mind, is that the building we were looking for would
25 have to be an operation center for the Utility, as well as a

1 billing office. One of the things I was impressed with early
2 on in discussions with Mr. Costanza and the realtor was the
3 fact that Mr. Costanza constructed the building for survival
4 of 150+ mile per hour winds. He explained that he felt that
5 in the event of some sort of major emergency, such as a
6 hurricane, that it would be imperative for his business to be
7 able to continue to operate and be in a position to serve the
8 customers for the high end homes he builds in the event there
9 was a need to do so. Obviously the need for a utility to be
10 able to continue operations in such a situation is even
11 greater. As an example, he has a complete set of storm
12 shutters already constructed for this building with anchor
13 points already installed that would allow the building to be
14 made hurricane ready within just a few hours. I have reviewed
15 the entire set of construction plans for this building, and
16 have determined that very high quality construction techniques
17 were used in the construction of it. I can honestly say that
18 if I sat down to design an office building for Aloha's needs
19 from scratch, understanding the efficiencies of various
20 layouts, the need for current staffing requirements as well as
21 keeping in mind future requirements, efficient handling of
22 customers due to growth Aloha has been and will continue to
23 experience, and the technological requirements that are needed
24 to facilitate an efficient customer service facility, billing
25 and information office, I feel that the building that would

1 result would be almost identical to the building we are
2 purchasing from Costanza. All of those issues combined with
3 the fact that purchasing this property has the lowest annual
4 revenue requirement impact to the customers of the Utility,
5 made us very excited when we were able to consummate a deal on
6 this property. We believe that the Utility was very fortunate
7 that this building became available when it did because the
8 building as it presently exists, with the exception of a few
9 very minor modifications, will be ideally suited to the needs
10 of Aloha and its customers. Obviously, the fact that we are
11 purchasing the property as opposed to leasing another
12 property, gives us a much greater control over our own future
13 than if we were in essence operating at the discretion of our
14 landlord under a lease/tenant arrangement. Although we have
15 leased for many years, the reason we are here today discussing
16 this issue is because our landlord chose not to renew our
17 lease. Obviously, with the purchase of this office building,
18 that will never be a problem again. The layout of the
19 building is designed for very efficient operation and will
20 accommodate three basic areas of operation for Aloha. The
21 three areas of operation will be administrative, billing, and
22 customer service. The entire building is already pre-wired
23 completely for our computer system with the
24 telecommunication/computer operations room upstairs, which
25 will house the computer and file servers, voice mail, and all

1 the telephone equipment that is being relocated from our
2 present office. As I mentioned earlier, the building has
3 numerous energy saving devices incorporated from initial
4 design of the building such as multi-zoned heating and air
5 conditioning facilities, extra insulation in excess of minimal
6 code requirements, and high pitched large volume roof design
7 to promote high energy efficiency. All the offices are also
8 equipped with automatic lighting circuits that detect your
9 presence upon entering an office and turn off lights in unused
10 space automatically. These are independent throughout the
11 building and tend to represent the sort of construction
12 techniques I mentioned earlier that Costanza Homes has
13 incorporated into his office. The traffic and parking plan
14 for this office will allow for very efficient handling of
15 customers in and out of the complex with a single direction
16 traffic flow through the parking lot, with reentry back to
17 Perrine Ranch Road.

18 For a long time now, we have felt that our operation will be
19 made much more efficient upon being relocated to our Seven
20 Springs service area, where 75% of our total customers reside,
21 and where 100% of our current and future growth will occur.
22 As you can see, we considered all the available properties
23 that met the criteria that we had initially established upon
24 beginning a search for a new office. The ultimate selection
25 of the Costanza office building for purchase not only is the

1 cheapest option for the Utility under either a 5 or 15 year
2 amortization of "buildout" costs, it far and away meets all
3 the initial criteria that were established prior to beginning
4 a search for a new office location, and at the least possible
5 cost.

6 Q. Can you explain for the Commission's benefit what a triple net
7 lease is?

8 A. Yes. A triple net lease is a method of leasing utilized
9 frequently in commercial transactions, whereby the tenant
10 rather than the landlord is responsible for maintenance,
11 taxes, and insurance. Each and every one of the properties we
12 looked at for lease utilized this triple net lease, as is the
13 norm in commercial rentals. The prices quoted for commercial
14 office space are for bare concrete floor space. All upgrades
15 or buildout costs are added on time of base lease costs, along
16 with maintenance, taxes and insurance.

17 Q. Why would you, in your schedule **SGW-SR2**, not consider that the
18 Utility would finance the "buildout" costs over a 20 year
19 period and at a rate similar to the mortgage that Aloha is
20 utilizing for purchase of its new office building at
21 approximately 9%?

22 A. "Buildout" costs are leasehold improvement costs. Each and
23 every lease we have reviewed allowed for a term of 5 years.
24 A couple of them agreed to allow two additional 5 year terms.
25 However, this three 5 year term arrangement is the longest

1 term that any of the commercial landlords that I or our
2 realtor talked to, were willing to go. Generally speaking,
3 buildout costs are amortized over a 5 year period. I have
4 shown in my schedules amortization over both a 5 and 15 year
5 period, the 5 year being the normal recovery time for such
6 costs and the 15 year being the absolute outside and most
7 conservative assumption in calculating the appropriate
8 amortization period and rate impact of these lease options.
9 As far as the financing goes, leasehold improvements are not
10 readily able to be financed like real estate. You do not own
11 the assets at the end of the lease term and, as such, there is
12 little to no security that the banker has for financing such
13 leasehold improvements. Not only are banks hesitant to do so,
14 but generally when they do, they finance such improvements at
15 the same rates they would finance other unsecured relatively
16 small transactions (interest rates of 12% - 15%). Therefore,
17 we could not hope to finance them at the same rate that we
18 were able to obtain a mortgage. As noted with some of these
19 properties, the landlord is willing to "finance" some of these
20 improvements. The ones we have discussed that option with
21 have agreed to finance $\frac{1}{4}$ to almost $\frac{1}{2}$ of the traditional cost
22 for such improvements over a 5 year period. It is my
23 understanding from discussions with the realtor, that this is
24 the norm. The realtor has suggested that the interest rates
25 that the landlords generally include in agreeing to do so, are

1 12% - 15% under current conditions. I have therefore, in
2 making my calculations, utilized a 12% buildout financing
3 rate. I believe we would be very lucky to get a rate this
4 low, especially in light of the fact that all of the Utility's
5 property was committed as security for the loan to make the
6 improvements to our wastewater treatment plant. As such,
7 there is little available security for any such loan to
8 finance such costs. We would however, have to do so since the
9 landlord's allowance for buildout costs, if any, is generally
10 only a small portion of the total which the Utility must come
11 up with in order to move into any such leased premises.

12 Q. Ms. Merchant also mentions the Utility's failure to do a "cost
13 benefit analysis" and reference the statements by the Utility
14 that no such analysis had been performed as of November 9,
15 2000. Do you have any comments in this regard?

16 A. Yes, Ms. Merchant mentioned that the Utility initially told
17 the staff that the Utility had prepared no written "cost
18 benefit analysis." This was stated in a letter dated November
19 9, 2000 from our attorney to the staff. In that letter, Mr.
20 Deterding noted that no such written cost benefit analysis had
21 been performed. This was a courtesy letter from our attorney,
22 attempting to help the staff with as much information as
23 quickly as possible in response to their discovery that was
24 received just the day before and the responses to which were
25 subsequently filed seven days later. However, in an attempt

1 to provide the best information we could to the staff, Mr.
2 Nixon at my direction and in response to the staff discovery,
3 subsequently performed on very short notice what I believe is
4 a fairly detailed cost analysis. It shows not only the
5 revenue requirement related to our new office facilities but
6 also the other alternatives that we had reviewed as potential
7 office locations, and their relative cost, before the costs of
8 improvements or additional furnishings needed to operate the
9 Utility offices. The net result of this is to show that the
10 cost paid by the Utility is a reasonable one. In fact, it
11 demonstrates that the purchase of the new offices was the best
12 alternative the Utility had.

13 In order to provide further comparison statistics for review
14 by the Commission, I have prepared the document entitled
15 "Property Comparison for Office Relocation" which I have
16 attached as **Exhibit SGW-SR2**. This schedule calculates the
17 annual cost to the Utility in the right-hand column, based
18 upon all of the available alternatives that meet the Utility's
19 selection criteria as relayed to the realtor. I have
20 calculated the maintenance, taxes, and insurance, based on
21 information provided to me by the realtor for each of these
22 properties. You will note the "Annual Cost for Build-Out"
23 figure added to all of the properties. These are the
24 additions necessary to the basic shell building costs to show
25 what it would take, according to the realtors, to turn these

1 buildings into usable office space for the Utility. When you
2 lease a commercial building of this type, all you are leasing
3 is the bare unfurnished space. There are often no internal
4 walls or internal configuration that is appropriate for an
5 office building. This is especially true in analysis of all
6 three of the other locations at the Center of Seven Springs'
7 shopping center and Rancho del Rio. These are simply outside
8 walls and roofs. The buildings still require substantial
9 modification in order to turn them into office space. The \$25
10 per square foot is a standard figure that two realtors have
11 given me and also known to me personally to be a standard
12 figure for "build-out" costs to finish shell buildings or
13 strip center properties. The accuracy of this figure is borne
14 out by the contract excerpt that the Costanza people
15 originally agreed to with the Allstate Insurance Agency
16 renting space in the new building. The cost shown on this
17 exhibit works out to over \$24 per square foot. I have
18 included this cost work-up from February 1999 as **Exhibit SGW-**
19 **SR3**. Therefore, this \$25 per square foot buildout figure is
20 justified not only by the actual experience related to our new
21 tenant at the new building, but also by the estimates of two
22 knowledgeable realtors and my own experience. You can see
23 that the purchase of the Costanza office building, which we
24 have now contracted to purchase, is substantially cheaper, and
25 that is one of the main reasons we decided on it as the best

1 available alternative. What this schedule ultimately shows is
2 that the purchase of the office building chosen by Aloha was
3 a substantially cheaper alternative than the other properties
4 considered whether a 5 or a 15 year amortization for leasehold
5 improvements is used.

6 We have not included in this analysis one other factor that
7 would further indicate that the purchase of the Costanza
8 office building was an even better alternative for Aloha. All
9 commercial leases generally include an inflation factor for
10 rents whereby based rents are adjusted annually based on the
11 CPI index. That has not even been factored into the estimated
12 annual cost for the rental alternatives which we located. I
13 have reviewed the federal CPI indexes for the last five years
14 and the average increase in this index is approximately 2.4%.
15 In fact, Costanza, in renting space to Allstate, increased
16 their rent by 3% last year based upon the CPI factor. My
17 analysis of prior CPI indexes indicate that if we use a longer
18 period of time than 5 years to estimate a reasonable CPI
19 factor to be expected in the future, it would be even higher
20 than 2.4% I have assumed.

21 As you can see, the build-out costs at \$25 per square foot is
22 being amortized over the lease term of five years, which is a
23 normal commercial lease period and one proposed on all
24 properties we have been made aware of. Even if these costs
25 were spread over a fifteen year period of time, the cost of

1 these alternative buildings, including these modification
2 costs, would be higher on an annual basis than the purchase of
3 the building which Aloha has contracted for.

4 Q. Do you have any other evidence which shows that the price paid
5 for the new offices was a reasonable one?

6 A. Yes, just last Friday we received an advanced draft of the
7 official appraisal that was undertaken by the bank as a
8 condition of the financing of our new building. I have
9 included this draft appraisal as **Exhibit SGW-SR4**. That
10 appraisal will show that in fact the price we were paying was
11 a reasonable one and within market. We will provide the final
12 version of the appraisal at hearing if received by then. In
13 addition to the appraisal, the analysis performed by Mr.
14 Nixon, and my comparison of cost analysis, as well as Mr.
15 Nixon's calculation of the revenue impact of the new building,
16 all clearly show that the Utility's investment is a prudent
17 one under the circumstances.

18 Q. Ms. Merchant seems to be critical of Mr. Nixon's schedule not
19 being an actual comparison of alternatives available.

20 A. Yes, Ms. Merchant notes that Mr. Nixon's schedules compare the
21 incremental cost of the purchased building to the old lease,
22 and to the average cost to lease comparable space. She states
23 that it does not provide any actual comparison of property
24 that were available for lease or purchase. My **Exhibit SGW-**
25 **SR2** now provides that comparison and we had previously

1 provided that information, though not in schedule form, since
2 several of the properties were included in our response to the
3 staff's interrogatories at the end of June. These have been
4 discussed by me above. Ms. Merchant concludes that she does
5 not have a reasonable basis on which to determine whether the
6 Utility made a prudent and cost effective choice in deciding
7 to buy this building. I have provided extensive additional
8 testimony on the criteria given to the realtor for our
9 property search; the alternatives located, including detailed
10 cost and qualitative factors, as well as my Exhibit SGW-SR2,
11 to ensure that we try to respond to all of Ms. Merchant's
12 concerns. I trust that the extensive additional information
13 Mr. Nixon and I have now provided will satisfy her.

14 I must say that this is the first I have ever heard that the
15 Commission believes it is appropriate, as Ms. Merchant
16 suggests, that a Utility perform a "cost benefit analysis"
17 (without even telling us what that is), in order to justify
18 the purchase of a needed office building in an arms length
19 transaction. I know of no business owner the size of Aloha
20 who goes out to buy an office building and performs a "cost
21 benefit analysis." Perhaps if it was somehow provided for or
22 defined in Commission Rules, or even in prior Commission
23 Orders, I could have a better understanding of what is
24 required. It is my opinion though, as someone with actual
25 business experience and as an experienced utility operator and

1 manager, that Aloha undertook all the tasks which were prudent
2 and necessary for it to take in order to relocate its offices
3 under the circumstances I have described. Hopefully, with the
4 exhaustive explanation I have provided here, that will be
5 apparent to the Commission and staff.

6 We certainly have examined the costs of the new building, and
7 we certainly have reviewed in great detail the needs of this
8 Utility company on a going-forward basis for office space, and
9 we certainly have reviewed the alternatives available in great
10 detail in making our decision that this building was the best
11 available for our needs. However, to my knowledge, this is
12 the first time anyone at the Commission staff has suggested
13 that in an arms length transaction for purchase of buildings
14 or equipment that a Utility is required to conduct, or is even
15 imprudent not to conduct, a "cost benefit analysis." In any
16 case, I believe what we have provided the Commission is very
17 much a cost analysis and with the information I am providing
18 with this testimony provides even more detail about what we
19 have done to review the options available to the Utility, and
20 the best available alternative from a cost and functional
21 standpoint. We have addressed the items which Ms. Merchant
22 believes are required in our analysis, and in my review of the
23 properties available and of the property ultimately selected
24 for purchase. Our geographic area is too small to compile a
25 list of exact requirements and then pick among the properties

1 that meet the minimum criteria. Unfortunately, our needs are
2 too specific to allow us to be able to find something that
3 meets them exactly. We believe that we were very lucky to
4 find the office building that we have now contracted to
5 purchase, in that it is very close to the size we need
6 immediately, and also the size we believe we will ultimately
7 need when we reach our growth potential. In addition, it is
8 a relatively modern building with the essential attributes
9 that will enable us to house our staff and our records, and to
10 make minor modifications to fulfill its purpose efficiently
11 and cost effectively.

12 Q. Ms. Merchant mentions at the bottom of Page 5 of her
13 testimony, areas of concern with the discovery responses
14 provided by the Utility. Do you have any response to her
15 comments in this section?

16 A. Yes, she notes that in our discovery response we included
17 costs "in excess of those requested in witness Watford's
18 supplemental direct testimony." It is true that the detailed
19 revenue impact is somewhat greater than the estimate included
20 in my supplemental direct testimony, but it is still much less
21 than that estimated in late June. I do not understand why
22 this is relevant. I thought the goal was to arrive at the
23 full appropriate cost, not to test the initial or second
24 estimates for accuracy. As time has passed and we have had an
25 opportunity to find a suitable building and then review the

1 costs, it is only normal that the cost estimates will change
2 as more facts become known.

3 The biggest change results from the fact that we have included
4 more details of costs in addition to the shell building
5 itself. My supplemental direct testimony included all of the
6 costs related only to the building itself, and in fact, I had
7 originally attempted to calculate a revenue requirement based
8 upon our mortgage payment. I understand that is not the
9 appropriate way to calculate a revenue requirement, but
10 instead we must reflect an appropriate return and depreciation
11 on the new building, as opposed to the actual debt service
12 payment itself. Therefore, that cost of the basic building
13 has actually been reduced from that which I estimated based
14 upon the mortgage payment itself. However, there are other
15 costs that the Utility has delineated in our response to the
16 POD Request No. 13 to provide the staff with more detail. I
17 would have thought the staff would have been pleased to have
18 seen the greater detail and specifics, but now Ms. Merchant is
19 critical of it as well. I will, therefore, attempt below to
20 outline the specifics related to the additional items above
21 and beyond the mortgage payment and the cost of the building.
22 First, she notes the \$11,595 in building improvements. These
23 are improvements that are necessary in order to have the
24 offices fit operations as a Utility office. We have already
25 contracted as part of our purchase agreement to have these

1 improvements made at this price. These are primarily for the
2 removal of a current exterior window and installation of 36"
3 wide door that matches the existing door for the entry into
4 the customer service/payment lobby. This entry must be ADA
5 compliant in all respects. Also included was the installation
6 of a new door inside of the customer service/payment area.
7 This will allow customer service representatives who need to
8 work with a customer one on one to escort them into the
9 customer service room to go over any billing problems that a
10 customer might have that should not be handled at the payment
11 counter in the presence of other customers. Also included in
12 this proposal is the construction of the payment counter and
13 cabinet. This is being custom made for us and, when
14 installed, will allow our customer service representatives to
15 serve four customers simultaneously. One of the four payment
16 areas will have lowered counters for full ADA compliance for
17 the accessibility of any disable customers. Also included is
18 the removal of an interior partition wall between two current
19 offices that will become our customer service area and re-
20 carpeting this area after removal of the interior wall. Also
21 included in the proposal are some minor modifications
22 including the removal of a sliding glass door and tracks,
23 closing off an existing pass-through window and drywalling and
24 finishing of the opening, as well as providing all plans and
25 permits for these modifications. The actual proposal is

1 received for the seller/builder to provide this work is
2 attached to this testimony as **Exhibit SGW-SR5**.

3 The next item she mentions is the \$42,856 estimate for new
4 furniture. This estimate is for the cost of furnishings that
5 will be necessary in the offices to make them usable. In our
6 old building, we used almost exclusively furniture that was
7 the property of the landlord who owned the building, and had
8 used that furniture for many, many years. In order to furnish
9 our new building, we will have to buy furniture for all but
10 one office (my office), because we do not own any of the
11 furniture except a few of the pieces which I have in my
12 office. I have attached hereto as **Exhibit SGW-SR6**, the
13 details concerning what furniture is being purchased and for
14 what purpose, which forms the basis for the estimate of
15 \$42,856 for new furnishings. This exhibit was put together by
16 my staff based upon review of prices of those items
17 specifically needed after analyzing the new building in
18 detail. The prices for many of the smaller items came from
19 The Home Depot's catalog. One of the major areas is the need
20 to add built-in desks in each and every office. We have
21 utilized the prices that Costanza gave us for the couple that
22 already exist within the new building as a basis for our
23 estimate. My office will need a built-in desk as well. We
24 will also have to acquire a great number of new file cabinets
25 as most of the file cabinets in our previous building belong

1 to the landlord, are built-in, and therefore are not moveable.
2 All of these costs have been developed specifically with
3 relation to the configuration of our new office building and
4 the needs of each office therein.

5 As far as the relocation of the phone system to the new
6 building, that estimate was based upon my discussions with our
7 phone company as to what it will cost to rewire the system in
8 our new building. I believe that is a reasonable estimate,
9 and do not understand why the staff finds that hard to accept.
10 They know, of course, that anytime a company moves its
11 offices, there will be work required related to phone system,
12 computer systems, and furnishings, in addition to the moving
13 costs themselves. We have tried to keep moving costs to a
14 minimum, and while we are probably underestimating our total
15 moving costs, we are assuming that most of the moving itself
16 will be done by our in-house staff. We believe the rest of
17 these estimates are quite conservative and reasonable.

18 Q. Ms. Merchant next takes exception to the methodology used to
19 estimate the portion of property that is attributable to land.

20 A. Yes. Mr. Nixon in his calculation utilized the assessed value
21 of the land under the office building, increased by 20%.
22 Based upon my knowledge of real estate prices and the
23 difference between assessments and appraised values, as well
24 as my discussions with the County tax assessors' office who
25 verified this to be a reasonable basis for estimates, I

1 believe Mr. Nixon's estimate is a reasonable one and is
2 certainly reasonable under any materiality standards. If
3 there is any error in this estimate, the net result is wholly
4 immaterial to the total calculation of the revenue requirement
5 related to the new office building. I have also reviewed the
6 County records and found that Costanza paid \$75,000 for this
7 raw land in 1996. This further supports the reasonableness of
8 Mr. Nixon's estimate. If Ms. Merchant had offered some
9 alternative method, we might have been able to use it.
10 However, her only suggestion is that we conduct an appraisal.
11 Given the fact that the appraisal we have just received from
12 the bank does not delineate the difference between the land
13 and the building value, we would probably have to enlist the
14 services of an appraisal company to do such an analysis, which
15 would not be cost effective since it would cost several
16 hundred dollars to get such an appraisal which would have no
17 material impact on the bottom line of the cost of this
18 building, or its revenue impact. If the Commission truly
19 believes such an appraisal is necessary despite the points I
20 have made, we will gladly have one prepared as a late filed
21 exhibit if instructed to do so.

22 Q. Ms. Merchant also takes exception to the maintenance, real
23 estate tax, and insurance aspects of Aloha's estimate as
24 contained in Mr. Nixon's schedules. Do you have any comment
25 in that regard?

1 A. Yes, we have relied upon the current taxes, the current
2 maintenance, and the current insurance for this building under
3 its prior owners. This is contained in the document from the
4 real estate agency, and also now in the appraisal. I have in
5 fact confirmed with the tax assessor's office that the actual
6 2000 taxes on this property have increased to \$12,004 if paid
7 at the earliest date. This is even more than the figure used
8 by Mr. Nixon in his calculations. I do not know what more we
9 can provide Ms. Merchant. However, I believe all of these
10 figures are reasonable and in keeping with what I would expect
11 for a property of this nature and cost. It is the norm in any
12 real estate transaction to rely upon the prior owner's costs,
13 which our realtor has done in calculating these estimates. We
14 have provided the detail concerning those costs in the form of
15 the estimate from the current owner.

16 Q. Ms. Merchant concludes that she does not believe the
17 Commission should approve the Utility's requested building
18 costs. What is your response to her conclusion?

19 A. She offers several reasons why she believes it is
20 inappropriate for the Commission to approve the new building
21 costs at this time. First, she notes that this is a major
22 expenditure and the Commission should have the best
23 information available to make a decision on the prudence of
24 the new office building. I believe we have given the staff
25 and the Commission, through our discovery responses, Mr.

1 Nixon's schedules, and with mine and Mr. Nixon's testimony
2 here, the most detailed information the Commission has ever
3 had in reviewing an office building for a water and sewer
4 utility. Certainly more than they would have required had we
5 purchased this building two years prior to the test year. I
6 know of no utility that has ever been told it had to perform
7 a "written cost benefit analysis" as justification for the
8 purchase of an office building in an arms length transaction.
9 I believe that the information that we have provided
10 demonstrates the prudence of this purchase many times over.
11 It mystifies me that Ms. Merchant would say that "just because
12 Aloha is a regulated monopoly does not excuse it from
13 performing a prudent and essential business analysis." Not
14 only did Aloha do everything it needed to do or should have
15 done before it made the decision to purchase this property,
16 but I would note that reasonable businessmen can disagree
17 about what types of steps are prudent before purchasing
18 property such as this, without either one of them necessarily
19 being "wrong." Just because Ms. Merchant is a staff member
20 for the PSC does not qualify her to declare what is what is
21 not a "prudent and essential business analysis."
22 Ms. Merchant next notes that since the prior lease was with
23 the related party, the Utility should have been notified more
24 than six months in advance that its lease would not be
25 renewed. I do not understand this statement. Under the terms

1 of any standard month to month lease, a tenant is required to
2 be given thirty days notice, unless the lease provides
3 otherwise. Because it was a related party and because the
4 related party realized that his decision would impact the
5 Utility significantly, he gave us a full six months notice,
6 much more than he was required to do. However, the notice the
7 landlord gave us is irrelevant. We have a new cost. We have
8 justification for that cost. We have put together more
9 information than the Commission has ever required before as
10 justification for an arms length purchase of office space, and
11 we have provided it to the Commission. The length of the
12 previous leases that Ms. Merchant mentions, were in keeping
13 with the longstanding practice of the landlord to renew for
14 short periods of time. We are in fact fortunate that we had
15 a short term lease to allow us to avoid further damage as a
16 result of inability to have adequate staffing, which we
17 believe we currently have a problem with, and to be able to
18 move to an ADA compliant building as an alternative to damages
19 in the civil suit pending against Aloha currently. As I
20 noted, we at Aloha were already looking at alternatives
21 available because of the staffing and space problems, and also
22 because of the ADA suit, and finally as a result of the actual
23 notification that our lease would not be renewed. Therefore,
24 we had already started our inquiries into the issue, and for
25 Ms. Merchant to suggest that we were rushed into acquiring a

1 new office building is silly. Once you begin looking for real
2 estate, you must buy or lease it in relatively short order, or
3 it will be gone and your alternatives will change. You do not
4 spend several years reviewing your options for office space
5 before you make a decision. You must make a decision within
6 the context of what is available at any given time, especially
7 when our needs were to be within our service territories and
8 for a specific size and configuration of facilities. Our
9 choices were relatively limited and would have been relatively
10 limited regardless of how much time we had. As noted, the
11 shortness of the leases in fact, to some extent, benefitted
12 Aloha under the circumstances as they played out. To suggest
13 that Aloha's related party somehow has a responsibility to
14 "plan this thoroughly with the Utility" is absurd. On the one
15 hand, in our last case, the Commission staff criticized us for
16 entering into a related party transaction and then eliminated
17 all of the costs related to labor provided by a related party.
18 This was extremely punitive and unfair. However, here we are
19 in a situation where the Utility is cutting its ties to a
20 related party and is now being criticized for not getting
21 extra benefit out of that related party, above and beyond what
22 an unrelated third party would have provided. In fact we did
23 get more notice and better treatment from the related party
24 than we would have from a third party as noted above.

25 Q. I do not see any offsets for costs related to the current

1 building maintenance, taxes and insurance costs in Mr. Nixon's
2 schedule. Do you have any comment to make in that regard?

3 A. Yes, I have attached hereto a letter my attorney sent to Jason
4 Fudge of the Commission staff in response to informal
5 inquiries on this subject, that outlines the Utility's
6 position with regard to those expenses, and generally shows
7 that only the prior rental expense will be eliminated as a
8 result of the change of office location. This is marked as
9 **Exhibit SGW-SR7**. The other costs were inapplicable or wholly
10 immaterial, and as such, there will be no real impact on the
11 revenue requirement related to the new building as a result of
12 any reductions, or lack thereof, related to these expense
13 items. All of these statements made in Mr. Deterding's letter
14 to Mr. Fudge were developed by the attorney and I as a result
15 of my research into the records and the lease on the old
16 building. I agree with the representations and conclusions in
17 that letter.

18 Q. Ms. Merchant seems critical that you did not plan and file for
19 consideration of this new building in your initial MFRs.

20 A. We did not plan our rate case based upon a timing of our
21 building move. We planned it around our substantial increase
22 in plant that was required by the regulatory authorities. It
23 just so happened that all things came together to require
24 relocation of our offices during the pendency of this rate
25 case. Certainly we could have, as an alternative, waited and

1 filed for this recovery of the costs related to this new
2 building in a separate limited proceeding. However, that
3 seems wholly redundant in my mind and a waste of ratepayers
4 money, because the revenue impact of the new building would
5 probably be almost equaled by the rate case expenses to
6 process such a case through the PSC. We are attempting to do
7 what we believe is most efficient and in the best interest of
8 the customers by requesting consideration of the new building
9 in this proceeding. From what I can tell, the staff is being
10 overly critical and demanding of information, well above and
11 beyond anything they have ever asked for in a company
12 justifying a lease or purchase of facilities for office space
13 with an unrelated third party. To now suggest by her
14 testimony that this Utility should not be granted recovery in
15 this case will result in a huge waste of time and effort by
16 filing a separate limited proceeding immediately, in order to
17 seek recovery of this one additional item. We have now
18 reached the stage in this acquisition of a new office building
19 where we most likely will have closed the transaction by the
20 time we get to hearing. As such, there are no new costs to be
21 learned about and in fact, all material costs have already
22 been determined as outlined in my testimony and exhibits and
23 those of Mr. Nixon. Therefore, nothing new can be gained or
24 discovered by further delay in recognition of this cost or in
25 requiring that we submit it for recovery in a separate case.

1
2 I can certainly see the Commission being critical of the
3 Utility if we had failed to ask for recovery of this during
4 this rate proceeding under these circumstances, but it does
5 not make sense to me that they would now criticize us for
6 doing so, and suggest that it should be done separately at a
7 greater additional cost.

8 Q. Do you have any further testimony on this subject?

9 A. Only to note that we are trying to do what is in the best
10 interest of our customers and to keep costs at a minimum,
11 given the circumstances and our need to move to new offices.
12 Hopefully, the Commission will recognize that despite the
13 comments of some of their staff and will include the costs
14 related to this building in rate setting in this proceeding,
15 rather than force the Utility to seek recovery in a separate
16 proceeding.

17 Q. Do you have any further testimony to provide at this time.

18 A. No, I do not.

19 (Whereupon, the hearing concluded at 4:58 p.m.)
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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, FPSC Bureau of Reporting
FPSC Commission Reporter, do hereby certify that the
Hearing in Docket No. 991643-SU was heard by the Florida
Public Service Commission 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, consisting of 87 pages, Volume 8 constitutes a
true transcription of my notes of said proceedings and the
and the insertion of the prescribed prefiled testimony of
the witness(s)..

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' attorney or
counsel connected with the action, nor am I financially
interested in the action.

DATED THIS 8TH DAY OF NOVEMBER, 2000.



JANE FAUROT, RPR
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