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December 11, 1996

Blanca S. Bayo, Director
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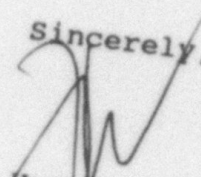
Re: Case No. 960451-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of the Direct Testimony of Donna DeRonne on Behalf of the Citizens of the State of Florida.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,


Harold McLean
Associate Public Counsel

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 960451-WS
Filed: December 11, 1996

Respectfully submitted,
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Public Counsel

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1 DIRECT TESTIMONY OF DONNA DERONNE
2 ON BEHALF OF THE CITIZENS OF FLORIDA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 UNITED WATER FLORIDA
5 DOCKET NO. 960451-WS
6

7 I. INTRODUCTION

8 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

9 A. My name is Donna DeRonne. I am a Certified Public Accountant, licensed in
10 the State of Michigan, and a regulatory consultant in the firm of Larkin &
11 Associates, Certified Public Accountants (registered in Michigan) with offices
12 at 15728 Farmington Road, Livonia, Michigan 48154.
13

14 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

15 A. Larkin & Associates is a Certified Public Accounting and Regulatory
16 Consulting Firm. The firm performs independent regulatory consulting
17 primarily for public service/utility commission staffs and consumer interest
18 groups (public counsels, public advocates, consumer counsels, attorneys
19 general, etc.). Larkin & Associates has extensive experience in the utility
20 regulatory field as expert witnesses in over 300 regulatory proceedings
21 including numerous water and sewer, gas, electric, and telephone utilities

1 Q. HAVE YOU PREPARED AN APPENDIX WHICH DESCRIBES YOUR
2 QUALIFICATIONS AND EXPERIENCE?

3 A. Yes. I have attached Appendix I, which is a summary of my experience and
4 qualifications.

5

6 Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF
7 YOUR TESTIMONY?

8 A. Larkin & Associates was retained by the Florida Office of Public Counsel to
9 review the rate increase request by United Water Florida ("UWF" or
10 "Compar.y"). Accordingly, I am appearing on behalf of the Citizens of Florida
11 ("Citizens").

12

13 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

14 A. The purpose of my testimony is to present recommended adjustments
15 concerning UWF's revisions to plant additions including the impact on
16 depreciation, impact of the change in depreciation rates on accumulated
17 depreciation, salary and wage expense, payroll tax expense and employee
18 benefits.

19

20 Q. ARE YOU SPONSORING ANY EXHIBITS IN SUPPORT OF YOUR
21 TESTIMONY?

1 A. Yes, I am sponsoring several of the schedules included within Exhibit (HL-1),
2 which was provided as part of the direct testimony of Citizens Witness Hugh
3 Larkin, Jr. The witness responsible for each schedule contained within Exhibit
4 (HL-1) is provided on the top of the schedules.

5
6 Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

7 A. I will first discuss my recommended adjustments which impact rate base. I
8 will then discuss my recommendations which impact operating income.

9
10 II. RATE BASE

11 Revisions to Plant in Service

12 Q. MR. LARKIN HAS RECOMMENDED THAT RATE BASE, INCLUDING
13 PLANT IN SERVICE, BE ADJUSTED TO REFLECT THE 13-MONTH
14 AVERAGE METHODOLOGY. ARE ANY ADDITIONAL ADJUSTMENTS
15 TO UWF'S PROPOSED PLANT IN SERVICE NECESSARY?

16 A. Yes. UWF has made substantial revisions to the projected capital additions
17 included in its filing. These revisions should be reflected in plant in service.
18 The Company's filing included estimated plant additions of \$7,090,625 during
19 1996 and \$6,860,186 during 1997 for its water operations, and \$18,081,197
20 during 1996 and \$13,710,548 during 1997 for its wastewater operations,
21 resulting in total projected additions over the two year period of \$45.74 million.

1 According to UWF's response to Citizens' Interrogatory No. 78, the projected
2 plant additions for the two year period has been reduced to \$39,150,000, which
3 is a 14.4% reduction.
4

5 Q. HOW DOES UWF'S ACTUAL 1996 PLANT IN SERVICE TO DATE
6 COMPARE TO THE PROJECTED 1996 PLANT IN SERVICE INCLUDED
7 IN THE FILING?

8 A. In response to Citizens Interrogatory Nos. 60 and 61, UWF provided the actual
9 plant in service, by account, through September 1996 for its water and
10 wastewater operations. The projected plant in service, by account and by
11 month, for the water and wastewater operations is included in the filing in
12 Schedules A-5 and A-6. The projected water plant in service as of September
13 1996 included in the filing is \$50,826,575. The actual water plant in service
14 on UWF's books as of September 1996 was \$47,194,549, which is \$3.63
15 million less than the projected amount.

16
17 The projected wastewater plant in service as of September 1996 included in the
18 filing on Schedule A-6 is \$79,684,444. The actual water plant in service on
19 UWF's books as of September 1996 was \$78,383,287, which is \$1.27 million
20 less than the projected amount. Combined, the actual water and wastewater
21 plant in service as of September 1996 is approximately \$4.9 million less than

1 the amount projected by UWF in its filing.

2

3 Q. WHAT TYPES OF REVISIONS HAS UWF MADE TO ITS PROJECTED
4 PLANT ADDITIONS?

5 A. In response to Citizens Interrogatory No. 78, UWF provided a schedule which
6 showed the following information: (1) the estimated plant additions, by
7 project, for 1996 and 1997 which was included in the filing; (2) the revised
8 estimated plant additions, by project for 1996 and 1997; (3) the amount spent
9 on each of the projects through 10/96; (4) the amount added to plant for each
10 project through 10/96; (5) the actual month the project was placed in service;
11 and (6) the revised projected month that the project will be in service. Based
12 on the response, the estimated costs of numerous projects have declined, some
13 of which have declined substantially. The estimated project completion date on
14 several projects has been significantly extended, several of which now extend
15 beyond the end of the future test year. In fact, one of the larger anticipated
16 projects, the Ponte Vedra wastewater treatment plant upgrade, which is
17 discussed in the direct testimony of UWF Witness Thomas Cleveland, has been
18 postponed. It is now anticipated by UWF that this project, for which
19 \$3,376,000 was included in plant in service in the filing, will be placed into
20 service sometime during 1999. I have included a copy of the response to
21 Citizens Interrogatory No. 78 as Schedule 7-C in Exhibit (HL-1) for ease of

1 reference.

2

3 Q. HAVE YOU PREPARED A SCHEDULE WHICH CALCULATES THE
4 REVISED 13-MONTH PLANT IN SERVICE TO INCORPORATE UWF'S
5 REVISIONS?

6 A. Yes. I have prepared Schedules 7-A and 7-B, which present the revised future
7 test year 13-month average plant in service for water and wastewater
8 operations, respectively.

9

10 Q. PLEASE DESCRIBE THE CALCULATIONS PRESENTED ON THE
11 SCHEDULES.

12 A. The starting point in my calculation is presented on page 2 of each of the
13 schedules. I began with UWF's actual plant in service as of September 1996,
14 which was provided in response to Citizens Interrogatory Nos. 60 and 61. To
15 this amount I added UWF's revised projected additions for October through
16 December 1996 based on information that was provided in response to Citizens
17 Interrogatory No. 78. My beginning balance would include the projects that
18 were closed to plant in service prior to that date. I then removed UWF's
19 projected plant retirements for the months of October through December 1996.
20 The resulting amount was the revised projected December 31, 1996 plant in
21 service balance, which is the starting month in calculating the thirteen month

1 average balance. This amount was copied to the first column on page 1 of the
2 schedules.
3

4 Q. WHAT WAS YOUR NEXT STEP?

5 A. The calculation of the future test year 13-month average plant in service is
6 presented on page 1 of the schedules. For each month, the first line consists of
7 the ending balance from the prior month, which would be the monthly
8 beginning balance. To these amounts, I added UWF's revised projected project
9 additions based on the amounts and estimated in-service dates provided by the
10 Company in Citizens Interrogatory No. 78.
11

12 Q. HOW DID YOU DETERMINE THE MONTHLY ADDITIONS FOR THE
13 BLANKET TYPE PROJECTS?

14 A. UWF's projected additions included numerous blanket type additions that are
15 added throughout the year, such as main replacements and service additions. In
16 the Company's filing, UWF added the blanket type additions on an even basis
17 over several months. I allocated the blanket type additions to each month
18 based on the months utilized by UWF in the filing for the same blanket
19 projects and project numbers. The allocations utilized by UWF were provided
20 by the Company in response to Item 19 of the Letter of Deficiency, under Tab
21 No. 20.

1 Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF SCHEDULES 7-A
2 AND 7-B.

3 A. My next step was to reduce the monthly plant in service amounts by UWF's
4 projected monthly retirements. The retirements were obtained from Company
5 Schedules G-5 and G-6. Applying the additions and retirements to the
6 beginning monthly balance results in the ending monthly plant in service
7 balance. I then determined the 13-month average plant in service balance based
8 on the balance for each month, December 1996 through December 1997. This
9 resulted in a revised 13-month average plant in service balance of \$52,619,426
10 for water operations and \$95,105,156 for wastewater operations.
11

12 Q. WHAT ADJUSTMENTS ARE NECESSARY TO REFLECT THE REVISED
13 13-MONTH AVERAGE PLANT IN SERVICE BALANCES?

14 A. As shown on Schedule 7-A, water plant in service should be reduced by an
15 additional \$3,176,951. Likewise, wastewater plant in service should be reduced
16 by an additional \$2,610,939, as shown on Schedule 7-B. These adjustments
17 were calculated based on the difference between my calculated 13-month
18 average plant in service and the 13-month average plant in service included in
19 the filing. Consequently, these adjustments are in addition to the plant in
20 service adjustments discussed in Mr. Larkin's testimony, in which he adjusts the
21 Company's proposed year end rate base amount to the 13-month average

1 amount, consistent with Commission policy.

2

3 Impact of Plant Revisions on Depreciation

4 Q. HAVE YOU PREPARED A SCHEDULE SHOWING THE IMPACT ON
5 ACCUMULATED DEPRECIATION RESULTING FROM YOUR
6 ADJUSTMENT TO REFLECT UWF'S REVISED PLANT ADDITIONS?

7 A. Yes. On Schedule 8 I have estimated the impact on accumulated depreciation
8 resulting from the revisions to the projected plant in service. As shown on the
9 schedule, I determined the percentage reduction between the 13-month average
10 plant in service included in UWF's filing and the revised 13-month average
11 amount for both the water and wastewater operations. I then applied the
12 resulting percentage reductions to the 13-month average accumulated
13 depreciation balance included in the filing in order to determine the estimated
14 impact of the revisions on accumulated depreciation. As shown on line 5 of
15 the schedule, accumulated depreciation should be reduced by \$590,243 and
16 \$536,519 for the water and wastewater operations, respectively. These
17 adjustments should be made in addition to the adjustments to accumulated
18 depreciation discussed in Mr. Larkin's testimony.

19

20 Q. DO THE REVISIONS TO THE FUTURE TEST YEAR PLANT IN SERVICE
21 ALSO IMPACT THE DEPRECIATION EXPENSE?

1 A. Yes, the amount of depreciation expense is directly related to the amount of
2 plant in service. In calculating the impact on depreciation expense, I first
3 determined the average depreciation rate included in the filing by dividing the
4 depreciation expense based on the 13-month average plant in service included
5 filing by the 13-month average plant in service balance included in the filing
6 for water and wastewater operations separately. I then applied the average
7 depreciation rate to my recommended reductions to plant in service.
8 Depreciation expense should be reduced by the resulting amounts, \$94,673 for
9 water operations and \$92,166 for wastewater operations. The calculation is
10 presented on Schedule 23. These adjustments should be made in addition to
11 the adjustments to depreciation expense presented in Mr. Larkin's testimony, in
12 which he adjusts depreciation expense to reflect the balance based on the 13-
13 month average plant in service amounts, as opposed to the year end amounts
14 proposed by UWF.

15 Accumulated Depreciation - Change in Depreciation Rates

16
17 Q. THE COMMISSION STAFF RECOMMENDED AN ADJUSTMENT TO
18 UWF'S ACCUMULATED DEPRECIATION BALANCE IN ITS RATE BASE
19 AUDIT REPORT FOR THE FOURTEEN YEARS ENDED DECEMBER 31,
20 1994 (AUDIT CONTROL # 93-216-1-1). PLEASE DISCUSS YOUR
21 UNDERSTANDING OF STAFF'S RECOMMENDATION.

1 A. In 1986, the Company changed its depreciation rates. It began using individual
2 rates by plant account number. The Company stated that the individual rates
3 kept the "aggregate effect consistent with the previous composite rate."
4 However, the Commission has specific guidelines for the determination of
5 depreciation for water and wastewater companies (Rule 25-30.140 F.A.C.).
6 According to the Staff's audit report, SAB 17, which was issued 2/13/90, states
7 as follows:

8 If a company previously appeared before this Commission and has
9 received an order to use a certain depreciation rate or set of rates, or a
10 depreciation rate or rates were used to calculate expenses allowed in
11 calculating allowed tariffs, those explicit or implicit depreciation rates
12 from the latest Commission action are in effect until the first
13 Commission action under the new (effective 3-22-84) depreciation rule.
14

15 Consequently, under the Commission rules, the Company should not have
16 changed its depreciation rates in 1986. The Commission Staff recalculated the
17 Company's accumulated depreciation for the years 1986 through 1994 based on
18 the rates that were approved in the Company's last rate case.
19

20 Q. HAVE YOU REFLECTED THIS STAFF RECOMMENDATION IN YOUR
21 SCHEDULES?

22 A. Yes. While I did not do the calculations to confirm the amount of the
23 adjustment recommended by Staff, I have reflected their recommendation on
24 Schedules 1-A and 1-B. Staff's recommendation is consistent with the

1 Commission's Rules; therefore, I have adopted Staff's recommendation. This
2 increases the accumulated depreciation for UWF's water operations by
3 \$1,262,048 and decreases accumulated depreciation for the wastewater
4 operations by \$173,981.
5

6 III. NET OPERATING INCOME

7 Salary & Wage Expense

8 Q. SHOULD UWF'S PROPOSED FUTURE TEST YEAR SALARY AND
9 WAGE EXPENSE BE ADJUSTED?

10 A. Yes, it should. In fact, UWF has acknowledged an error in the base year salary
11 and wage expense included in its adjustment calculation. Additionally, the
12 Company has reduced its projected future test year employee level.
13

14 Q. PLEASE DISCUSS THE ERROR MADE BY THE COMPANY IN ITS
15 CALCULATIONS.

16 A. According to UWF's response to Staff Interrogatory No. 62, some operation
17 and maintenance (O&M) expense accounts were incorrectly allocated to the
18 salary and wage accounts in the filing. As a result, base year salaries and
19 wages were overstated by \$53,925. Since the adjustment in the filing was
20 calculated by determining the difference between the future test year salary and
21 wage expense and the base year expense, the calculated adjustment is incorrect.

1 Conversely, base year O&M expenses which were inflated by the price indexes
2 for 1996 and 1997 are understated by the same amount.

3
4 Q. BY HOW MANY POSITIONS HAS THE COMPANY REDUCED ITS
5 PROJECTED 1997 EMPLOYEE LEVEL?

6 A. In its initial filing, the Company's payroll projections included vacant positions
7 plus four new positions that the Company projected adding subsequent to the
8 end of the base year, resulting in a total projected employee count of 106.
9 According to UWF's response to Citizens Interrogatory No. 56, the Company
10 has eliminated the four new positions. As part of the Company's response to
11 the request, UWF provided a copy of its updated future test year salary and
12 wage projection.

13
14 Q. DID THE COMPANY MAKE ANY ADDITIONAL REVISIONS TO ITS
15 UPDATED SALARY AND WAGE PROJECTION?

16 A. Yes. The Company's original future test year salary and wage projections
17 included costs associated with an estimated employee count of 106. According
18 to Citizens Interrogatory No. 56, UWF has removed the four projected new
19 positions from its analysis; however, the revised employee count reflected in
20 the update is 104 employees. Apparently, the Company has deleted the four
21 new positions, but has added two additional positions in its calculations.

1 Additionally, the projected salaries for several employees have increased from
2 the original calculations.

3
4 Q. DO YOU HAVE ANY ADDITIONAL CONCERNS WITH THE SALARY
5 AND WAGE EXPENSE CALCULATIONS?

6 A. Yes. UWF's projections, both its original projections and its revised
7 projections, include several positions that are vacant. In fact, according to the
8 response to Citizens' Interrogatory No. 56, six of the 104 positions included in
9 the Company's revised salary and wage calculations are vacant. This represents
10 a 5.8% vacancy rate. The response indicates that at least one of the six vacant
11 positions will not be filled.

12
13 Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING TO UWF'S
14 PROJECTED SALARY AND WAGE EXPENSE?

15 A. I recommend that the projected salary and wage expense calculations be revised
16 to: (1) reflect the corrected base year salary and wage expense; (2) reflect the
17 Company's revised employee and salary projections; and (3) remove the six
18 positions that are currently vacant.

19
20 Q. WHY SHOULD THE VACANT POSITIONS BE REMOVED FROM THE
21 PROJECTED SALARY AND WAGE EXPENSE?

1 A. It is not known with certainty that these positions will be filled. Additionally,
2 it is normal for several positions to be vacant at any given point in time; as
3 new employees are being hired, past employees may be retiring or resigning.
4 To reflect zero vacancy would not be reflective of normal operating conditions.

5
6 Q. WHAT ADJUSTMENTS RESULT FROM YOUR RECOMMENDATIONS?

7 A. As shown on Schedule 11, UWF's proposed adjustment to salary and wage
8 expense should be reduced by \$88,878 and \$103,953 for water and wastewater,
9 respectively. This adjustment reflects the correction to the base year salary and
10 wage expense, UWF's revised 1997 projected salary and wage costs (which
11 includes the employees 1996 salary increases and projected 1997 increases of
12 3.23%), and the removal of the six positions that were included in UWF's
13 revised projection that are currently vacant. As shown on line 1 of the
14 schedule, my recommendation allows for total salary and wage costs of
15 \$4,088,735.

16
17 Additionally, as shown on line 10 of Schedule 11, I recommend that future test
18 year non-payroll O&M expense be increased by \$47 and \$56,648 for water and
19 wastewater operations, respectively. These are the amounts which the
20 Company incorrectly included in base year salary and wage expense instead of
21 non-payroll O&M expense. The amounts have been increased by the 1996 and

1 1997 price indexes of 2.4% and 2.5%, respectively.

2

3 Q. HOW DOES YOUR RECOMMENDED FUTURE TEST YEAR SALARY
4 AND WAGE COSTS COMPARE TO UWF'S BASE YEAR SALARY AND
5 WAGE COSTS?

6 A. As shown on Schedule 12, my recommended test year salary and wage costs of
7 \$4,088,735 is 8.53% higher than the base year salary and wage costs. The
8 recommendation allows for a 5.13% increase in overall salary and wage costs
9 occurring between the 1995 base year and the 1996 interim year, and a 3.23%
10 salary and wage increase occurring between the 1996 interim year and the 1997
11 test year. In both the 1996 interim year and the 1997 test year I have excluded
12 the vacant positions in calculating the overall percentage salary and wage cost
13 increases.

14

15 Payroll Tax Expense

16 Q. DOES YOUR RECOMMENDED ADJUSTMENT TO SALARY AND WAGE
17 EXPENSE IMPACT PAYROLL TAX EXPENSE?

18 A. Yes. On Schedule 13, I have calculated the impact on payroll tax expense
19 resulting from my recommended adjustment to salary and wage expense. As
20 shown on the schedule, water and wastewater payroll tax expense should be
21 reduced by \$6,769 and \$12,035, respectively.

1 Medical Insurance Expense

2 Q. HOW DID UWF CALCULATE ITS PRO FORMA TEST YEAR MEDICAL
3 INSURANCE EXPENSE?

4 A. According to the explanation provided on Company Schedule G-21, the
5 Company applied the latest known premiums to the projected levels of medical
6 and dental coverage to determine the 1996 level of expense. The projected
7 levels of coverage were based on UWF's originally projected 1997 employee
8 count of 106 employees, allocated to each individual type of coverage based on
9 the historic percentage of employees in each plan. UWF then applied an
10 escalator of 9% to determine the projected 1997 cost. According to the
11 Company schedule, the 9% escalation rate was "developed by Company's
12 Actuary, Alexander and Alexander (A&A)." The actuary used the same factor
13 in its postretirement benefit cost forecast. According to the workpapers
14 provided in response to Staff POD Request 5, the Company's medical expense
15 adjustment also included retiree insurance costs, which were also increased by
16 9%, and projected life insurance costs, which were calculated based on
17 projected salary levels. The resulting medical / benefit cost was then offset by
18 projected 1997 employee contributions, which were the estimated 1996
19 contributions increased by 9%.

20
21 Q. YOUR ADJUSTMENT TO SALARIES AND WAGES REDUCED THE

1 NUMBER OF EMPLOYEES FROM THE AMOUNT INCLUDED IN UWF'S
2 ORIGINAL FILING. DOES THE REDUCTION IN THE PROJECTED
3 EMPLOYEE COUNT IMPACT MEDICAL EXPENSE?

4 A. Yes. As previously mentioned, the Company's projected medical costs were
5 based on an estimated employee count of 106. UWF has since reduced its
6 projected future test year employee count to 104. Of the projected 104
7 positions, six (or 5.8%) are currently vacant. I have recommended an
8 employee count of 98 which, according to UWF's response to Citizens'
9 Interrogatory No. 56, is the current employee count. UWF's projected future
10 test year medical, dental and life insurance expense should be adjusted to
11 reflect the costs associated with the current employee count of 98 employees.
12 On page 3 of Schedule 14 I have calculated the projected 1996 medical and
13 dental cost based on UWF's 1996 actual premiums and the current employee
14 count of 98.

15
16 Q. UWF HAS PROJECTED A 9% INCREASE IN MEDICAL AND DENTAL
17 COSTS OCCURRING BETWEEN 1996 AND 1997. SHOULD UWF'S
18 PROJECTED 9% INCREASE BE ADJUSTED?

19 A. Yes. The Company has provided no evidence substantiating the projected 9%
20 cost increase. The Company did not provide any quotes or estimates from its
21 insurers substantiating the increase, nor did it provide historic cost levels from

1 which to evaluate the reasonableness of the projected 9% increase. Absent any
2 support substantiating the projected 1997 medical cost increase, we recommend
3 that the projected 1997 Gross Domestic Implicit Price Deflator of 2.5% be
4 utilized in estimating the 1997 medical and dental costs, along with the
5 employee contributions. On page 2 of Schedule 14, I have applied the 2.5%
6 price index to my calculated 1996 medical and dental costs, along with the
7 recalculated employee contributions.
8

9 Q. ARE THERE ANY ADDITIONAL REASONS TO QUESTION UWF'S
10 PROJECTED 9% MEDICAL AND DENTAL COST INCREASE?

11 A. Yes. At the bottom of Schedule 14, page 2, I have presented a comparison of
12 UWF's 1995 medical and dental costs to my projected 1996 medical and dental
13 costs. The projected 1996 medical and dental costs were based on the actual
14 1996 premiums provided by the Company multiplied out by my recommended
15 employee count of 98, which is the current employee count as well as the
16 historic employee count utilized by UWF in determining the allocation of
17 employees to each of the different medical plans. As shown on the schedule,
18 the medical and dental costs has decreased by approximately 3.76% from the
19 1995 cost to the projected 1996 cost based on current premiums and the current
20 employee level.
21

1 Q. ARE ANY ADDITIONAL ADJUSTMENTS TO UWF'S PROJECTED 1997
2 MEDICAL COSTS NECESSARY?

3 A. Yes. According to UWF's workpapers, the projected 1997 costs include
4 \$17,698 identified as "Retirees". The cost was calculated by increasing a
5 projected 1996 cost of \$16,237 by 9%. No further explanation is provided for
6 this amount, nor is it shown on the workpapers how the 1996 cost level was
7 determined. The cost of medical insurance for the Company's retired
8 employees would be included in the postretirement benefit other than pensions
9 cost determined by the Company's actuary. UWF's filing includes a separate
10 adjustment for postretirement benefits other than pensions, which would include
11 the medical costs for the Company's retired employees. Consequently, the
12 "Retiree" cost of \$17,698 included in UWF's medical insurance adjustment
13 should be removed in order to avoid the double counting of the retiree medical
14 costs in rates.

15
16 Q. DOES YOUR RECOMMENDED ADJUSTMENTS TO SALARIES &
17 WAGES ALSO IMPACT UWF'S PROPOSED LIFE INSURANCE
18 EXPENSE?

19 A. Yes. UWF's projected life insurance cost was based on its estimated 1997
20 salary and wage cost. The projected future test year life insurance cost should
21 be reduced to reflect the impact from my recommended reduction to salary and

1 wage cost. The necessary reduction is calculated on page 5 of Schedule 14.

2

3 Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING YOUR
4 RECOMMENDATIONS?

5 A. Yes. Schedule 14, page 1, presents my recommended adjustments to UWF's
6 proposed medical, dental and life insurance expense, totaling \$25,393 for water
7 and \$45,142 for wastewater, resulting in an overall reduction of \$70,535. The
8 adjustment takes into account the capitalization of the costs based on the
9 effective capitalization factor used by UWF. The adjustment allows for the
10 latest known medical and dental premiums and employee contributions, per
11 UWF, at UWF's current employee count, increased by 2.5%. My adjustment
12 also excludes the "Retiree" medical cost and recalculates the life insurance cost
13 based on my recommended salary and wage cost.

14

15 Employee Savings Plan Cost

16 Q. DID UWF ADJUST ITS EMPLOYEE SAVINGS PLAN COST BEYOND
17 THE HISTORIC TEST YEAR LEVEL?

18 A. Yes. UWF has projected significant percentage increases in its employee
19 savings plan costs. Based on Company Schedule G-24, UWF is projecting a
20 \$19,212 increase in employee savings costs occurring between the historic test
21 year and the interim year ended December 31, 1996. This represents a 27.6%

1 increase. UWF then increased the interim year amount by 3.23%, its projected
2 1997 salary and wage increase, to project the 1997 test year cost level of
3 \$91,690. This is \$22,077, or 31.7%, higher than the base test year cost of
4 \$69,613.
5

6 Q. DOES THE PROJECTED INCREASE ABOVE THE HISTORIC TEST YEAR
7 COST SEEM REASONABLE?

8 A. No, it does not. The Company's payroll schedules, Schedule G-20, along with
9 the related workpapers, reflect a 10.77% increase in total salaries and wages
10 occurring between the historic test year and the interim year ending December
11 31, 1996. Additionally, as shown on Schedule 12, my recommendation allows
12 for a 5.13% increase in salaries and wages occurring between the corrected
13 historic test year and the interim year (excluding vacant positions). For the
14 same time period, the Company has projected a 27.6% increase in employee
15 savings expense. These numbers are inconsistent. According to the prefiled
16 testimony of Company Witness Matthias Jost, UWF matches 50% of an
17 employee's contribution to the 401(K) plan, up to a maximum of 2% for hourly
18 employees and 3% for all others. Additionally, in the Company's workpapers
19 for Schedule G-24, the Company has reflected that 100% of its projected
20 number of employees will participate in the employee savings plan, which is
21 highly questionable.

1 Q. IS IT REASONABLE FOR THE COMPANY TO ASSUME 100%
2 PARTICIPATION BY EMPLOYEES IN THE SAVINGS PLAN, OR THAT
3 EMPLOYEES WILL CONSISTENTLY CONTRIBUTE AT THE MAXIMUM
4 ALLOWABLE LEVEL?

5 A. No, it is not. In response to Citizens' Interrogatory No. 41(b), UWF indicated
6 that only 86% of its employees participated in the 401K program during the
7 historic year. It is not reasonable to assume that 100% of UWF's employees
8 will participate in the 401K plan and consistently contribute at the maximum
9 allowable plan level. The Company apparently agrees, since it indicated in
10 response to Citizens Interrogatory No. 41(b) that it "will update its projection to
11 reflect the current level of participants during this proceeding."
12

13 Q. WHAT IS YOUR RECOMMENDATION?

14 A. I recommend that projected employee savings plan cost levels be calculated
15 based on my recommended percentage increases in total salaries and wages.
16 There is a direct correlation between the salary and wage levels and employee
17 savings plan costs. As shown on Schedule 15, this results in a reduction of
18 projected 1997 test year savings plan expense of \$4,665 for water operations
19 and \$8,292 for wastewater operations, for an overall reduction of \$12,957.
20 Also presented on Schedule 15 is UWF's employee savings cost for each year,
21 1992 through projected 1997, along with the percentage increase (decrease)

1 occurring between each of the years. As shown on the schedule, UWF's
2 projected 1996 cost increase of 27.6% is inconsistent with the historical
3 increases in cost levels.
4

5 Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?
6 A. Yes, it does.

APPENDIX I

QUALIFICATIONS OF DONNA DERONNE, C.P.A.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and regulatory consultant in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated with honors from Oakland University in Rochester, Michigan in 1991. I have been employed by the firm of Larkin & Associates since 1991.

As a certified public accountant and regulatory consultant with Larkin & Associates, my duties have included the analysis of utility rate cases, researching accounting and regulatory developments, preparation of computer models and spreadsheets, and assisting in the preparation of testimony and schedules and testifying in regulatory proceedings. Cases which I have participated in are included below:

Performed Analytical Work in the Following Cases:

Docket No. 92-06-05

The United Illuminating Company
State of Connecticut,
Department of Public Utility Control

Docket No. R-00922428

The Pennsylvania American Water Company
Pennsylvania Public Utility Commission

Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
Docket No. 90-1069 (Remand)	Commonwealth Edison, Inc. Before the Illinois Commerce Commission
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. - Port Labelle and Silver Springs Shores Divisions. Before the Florida Public Service Commission
Case No. PUE910047	Virginia Electric and Power Company (State Corporation Commission)
Docket No. U-1565-91-134	Sun City Water Company Residential Utility Consumer Office
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. R-932667	Pennsylvania Gas & Water Company Before the Pennsylvania Public Utility Commission
Docket No. 7700	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii
Docket No. R-00932670	Pennsylvania American Water Company Before the Pennsylvania Public Utility Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute.
Case No. 90-256	South Central Bell Telephone Company Before the Kentucky Public Service Commission

Case No. 94-355

Cincinnati Bell Telephone Company
Before the Kentucky Public Service Commission

Docket No. 7766

Hawaiian Electric Company, Inc.
Before the Public Utilities Commission of the State of
Hawaii

Docket No. 2216

Narragansett Bay Commission
On Behalf of the Division of Public Utilities and Carriers,
Before the Rhode Island Public Utilities Commission

Docket No. 2216

Narragansett Bay Commission - Surrebuttal
On Behalf of the Division of Public Utilities and Carriers,
Before the Rhode Island Public Utilities Commission

Docket No. 94-0097

Citizens Utilities Company, Kauai Electric Division
Before the Public Utilities Commission of the State of
Hawaii

Docket No. 5863*

Central Vermont Public Service Corporation
Before the Vermont Public Service Board

Docket No. E-1032-95-433

Citizens Utilities Company - Arizona Electric Division
Before the Arizona Corporation Commission

Submitted Testimony in the Following Cases

Docket No. 92-11-11

Connecticut Light & Power Company
State of Connecticut, Department of Public Utility Control

Docket No. 93-02-04

Connecticut Natural Gas Corporation
State of Connecticut, Department of Public Utility Control

Docket No. 93-02-04

Connecticut Natural Gas Corporation
Supplemental
State of Connecticut, Department of Public Utility Control

Docket No. 95-02-07

Connecticut Natural Gas Corporation
State of Connecticut, Department of Public Utility Control

Case No. 94-0035-E-42T

Monongahela Power Company
Before the Public Service Commission of West Virginia

Case No. 94-0027-E-42T

Potomac Edison Company
Before the Public Service Commission of West Virginia

Case No. 95-0003-G-42T*

Hope Gas, Inc.
Before the West Virginia Public Service Commission

Case No. 95-0011-G-42T*

Mountaineer Gas Company
Before the West Virginia Public Service Commission

Docket No. 950495-WS

Southern States Utilities
Before the Florida Public Service Commission

Docket No. 5859

Citizens Utilities Company - Vermont Electric Division
Before the Vermont Public Service Board

Case Settled*

CERTIFICATE OF SERVICE
DOCKET NO. 960451-WS

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or by hand-delivery where designated with an asterisk, to the following parties on this 11th day of December, 1996.


Harold McLean

*Rosanne G. Capeless
Division of Legal Services
Fla. Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850


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Martin, Ade, Birchfield
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P.O. Box 59
Jacksonville, FL 32301

960451

**CERTIFICATE OF SERVICE
DOCKET NO. 960451-WS**

DONNA DERONNE

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or by hand-delivery where designated with an asterisk, to the following parties on this 11th day of December, 1996.



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12/11/96