BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of Application for rate increase in Duval, Nassau and St. Johns Counties by United Water Florida, Inc.	DOCKET NO. 960451-WS

SECOND DAY - LATE MORNING SESSION

VOLUME 5

Pages 623 through 728

PROCEEDINGS: **HEARING**

BEFORE: CHAIRMAN JULIA L. JOHNSON
COMMISSIONER J. TERRY DEASON
COMMISSIONER SUSAN F. CLARK
COMMISSIONER DIANE K. KIESLING
COMMISSIONER JOE GARCIA

DATE: **Tuesday, January 28, 1997**

TIME: Commenced at 9:00 a.m.

PLACE: Prime Osborn Convention Center
1000 Water Street
Jacksonville, Florida

REPORTED BY: ROWENA NASH
Official Commission Reporter
(904) 413-6736

APPEARANCES:

(As heretofore noted.)

WITNESSES - VOLUME 5

EXHIBITS - VOLUME 5

P R O C E E D I N G S

(Hearing reconvened at 9:00 a.m.)

(Transcript follows in sequence from Volume 4.)

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HUGH LARKIN, JR.

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

DIRECT EXAMINATION

BY MR. McLEAN:

Q Your name, sir, and by whom are you employed?

A My name is Hugh Larkin, Jr. I am the senior partner of Larkin & Associates, a CPA and utility consulting firm.

Q And you are under contract to the Office of Public Counsel; is that correct?

A That's correct.

Q Mr. Larkin, you prepared 30 pages of direct testimony in this case?

A Yes.

Q And the testimony has an appendix which includes 17 pages?

A Yes.

Q Do you have any changes to the testimony or to the appendix?
A No.
Q The appendix addresses your qualifications, doesn't it?
A Yes, it does.
Q Were I to ask you the same questions as reflected in your testimony, would your answers be the same today?
A Yes, it would.
MR. McLEAN: Madam Chairman, may we have the testimony and the appendix regarding qualifications be inserted into the record as though read?
CHAIRMAN JOHNSON: Are there --
MR. ADE: No objection.
CHAIRMAN JOHNSON: There are no objections. It will be so inserted.
Q **(By Mr. McLean)** And, Mr. Larkin, you also prepared an exhibit to your testimony; is that correct?
A Yes, it is, a combined exhibit prepared by Ms. DeRonne for myself and her.
Q I see. So both witnesses will be referring to that exhibit in their direct testimony?
A Yes.

Q And I believe on the exhibits itself, each schedule of the exhibit, the appropriate witness is denoted on that schedule; is that correct?

A Yes.

Q With respect to the ones that bear your name, Mr. Larkin, they were prepared either by yourself or under your direct supervision?

A That's correct.

Q Do you have any changes with respect to those schedules?

A No.

MR. McLEAN: Madam Chairman, may we have the exhibit marked HL-1 marked for identification in this case?

CHAIRMAN JOHNSON: We will mark it No. 29. Can you give me a short title for it?

MR. McLEAN: Well, actually, Commissioner, I think HL-1 would do, but let me see if I can do better than that. Exhibit accompanying the direct testimony of Hugh Larkin, Jr.

CHAIRMAN JOHNSON: We will have it as a composite exhibit, and it's the exhibit accompanying --

MR. McLEAN: Mr. Larkin's testimony.

CHAIRMAN JOHNSON: -- Larkin's testimony.

MR. McLEAN: Yes, ma'am, with the understanding that Ms. DeRonne will be referring to that exhibit as well, please.

COMMISSIONER KIESLING: Just to help clarify it, you might also indicate that it contains 25 schedules prepared by these witnesses.

MR. McLEAN: That is correct, Commissioner. Thank you very much.

CHAIRMAN JOHNSON: That will be noted as 25 schedules.

(Exhibit 29 marked for identification.)

DIRECT TESTIMONY OF HUGH LARKIN, JR.
ON BEHALF OF THE CITIZENS OF FLORIDA
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
UNITED WATER FLORIDA
DOCKET NO. 960451-WS

I. INTRODUCTION

Q. WHAT IS YOUR NAMES, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan and Florida and the senior partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

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

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

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

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

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

Q. ARE THERE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF CITIZENS IN REGARD TO ACCOUNTING ISSUES IN THIS PROCEEDING?

A. Yes. Donna DeRonne, CPA, will testify concerning the recommended adjustments to reflect UWF's revisions to plant in service including the impact on depreciation, impact of the change in depreciation rates on accumulated depreciation, salary and wage expense, payroll taxes, and employee benefits. I will testify in regard to all other issues.

Organization

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. I will address, in order, the following:

II. Overall Financial Summary

III. Capital Structure

IV. Rate Base

V. Adjustments to Operating Income

II. OVERALL FINANCIAL SUMMARY

Q. HAVE YOU PREPARED AN EXHIBIT TO PRESENT IN SUPPORT OF YOUR TESTIMONY?

A. Yes, I have prepared Exhibit__(HL-1), which includes all adjustments that myself and Ms. DeRonne are sponsoring. The name of the witness that is responsible for each adjustment is provided on each schedule.

Q. WAS EXHIBIT__(HL-1) PREPARED BY YOU AND MS. DERONNE?

A. Yes. This exhibit was prepared by us or under our direct supervision and is correct to the best of our knowledge and belief.

Q. PLEASE DISCUSS SCHEDULES 1-A AND 1-B, WHICH ARE ENTITLED "SUMMARY OF ADJUSTMENTS".

A. Schedules 1-A and 1-B consists of a summary of each of the adjustments Ms. DeRonne and I are recommending to capital structure, rate base, operating income and income taxes. Schedule 1-A presents our proposed adjustments to UWF's water operations, while Schedule 1-B presents our recommended adjustments to UWF's wastewater operations. The schedules list each adjustment as well as the impact of each adjustment on the revenue requirement. The impact on the revenue requirement resulting from each recommended adjustment to rate base includes the impact of the overall rate of return based on my recommended capital structure and cost rates. The overall rate of return of 9.62% is presented on Schedule 2. Also shown on Schedules 1-A and 1-B is the impact on revenue requirement resulting from Citizens' recommended overall rate of return.

As shown on line 27 of Schedule 1-A, the accumulation of Citizens' recommended adjustments results in a $1,728,119 reduction in UWF's proposed water revenue increase of $3,344,948. Schedule 1-B, at line 27, shows the accumulation of Citizens' recommended adjustments to UWF's proposed wastewater increase, resulting in a $2,187,912 reduction to UWF's proposed increase of $5,112,600. In other words, Citizens' recommendations result in a revenue deficiency for UWF's water and wastewater operations of $1,616,829 and $2,924,688, respectively.

Q. SHOULD THE REVENUE DEFICIENCIES PRESENTED ON SCHEDULES 1-A AND 1-B BE CONSIDERED THE CITIZENS' FINAL POSITION?

A. No, it should not. The revenue deficiencies shown on Schedule 1-A, line 28, totaling $1,616,829 for water and $2,924,688 on Schedule 1-B, line 28 for wastewater, reflects the impact of our proposed adjustments. I would like to qualify that the amount of revenue deficiency should actually be lower than the amounts stated above, possibly considerably so. In its filing, UWF has included all of its plant items as being 100% used and useful. This is despite the fact that some of UWF's projected additions to plant in service result in added capacity. Citizens did not conduct a used & useful analysis in this proceeding, however, a study is definitely warranted. It is my understanding that the Commission Staff typically conducts a used and useful analysis in water and wastewater rate proceedings. The impact on the revenue requirements resulting from any used and useful adjustments which the Commission determines are necessary and appropriate should be considered in addition to the revenue requirement recommended above.

Q. THE COMPANY HAS PROPOSED A PHASE-IN OF THE RATE INCREASE. PLEASE COMMENT ON THE COMPANY'S PROPOSAL.

A. In the testimony of Company Witness Robert J. Iacullo, the Company has stated that it would consider having the remaining part of the rate increase (i.e., amount remaining after the interim increase) "implemented in increments over a reasonable period of time according to a schedule that would be acceptable to the Commission and the Company." (Page 4) The Company has made this offer in order to "ameliorate the effect of the final increases on the customers". (Page 4). UWF has suggested that the increases go into effect in March of 1997 and March of 1998. The Company also states that the incremental approach would allow for the verification of plant additions and retirements through the end of 1997.

Q. DO YOU AGREE THAT A PHASE-IN OF THE RATE INCREASE IS REASONABLE IN THIS CASE?

A. Yes. Considering the high level of plant additions projected to occur during 1996 and 1997, along with UWF's substantial revisions to those estimates (which is discussed in Ms. DeRonne's testimony), Citizens agrees that it would be reasonable to adopt a phase-in of the rate increase. The second phase should occur after the completion of calendar year 1997 in order to verify the actual amount of plant additions and retirements. In determining the second phase amount, the actual 1997 <u>thirteen month average</u> plant in service amount should be reflected, along with the impact of the actual plant in service amounts on accumulated depreciation and depreciation expense.

III. CAPITAL STRUCTURE

Q. HAVE YOU EXAMINED THE PROPOSED CAPITAL STRUCTURE AND COST RATES WHICH UNDERLIE THE COMPANY'S PROPOSED COST OF CAPITAL?

A. Yes, I have.

Q. ARE YOU PROPOSING ANY ADJUSTMENTS TO THE COMPANY'S PROPOSED CAPITAL STRUCTURE AND COST RATES?

A. Yes, I am. On Schedule 2, page 2 of 3, I have adjusted the Company's capital structure. My first adjustment increases deferred income taxes in order to correct the 13-month average balance. The 13-month average amount provided by the Company is incorrect because the month of December 1995, which is included in determining the average, was understated. Additionally, the 13-month average balance does not recalculate correctly in the Company's schedules. As a result of the errors, the 13-month average balance of deferred income taxes was understated by $52,777. I have adjusted the accumulated deferred income tax component of the capital structure in order to reflect the correction of the Company's error. I have also adjusted other sources of capital which must be overstated because of this resulting understatement.

Q. WHAT ADDITIONAL ADJUSTMENTS ARE YOU MAKING TO THE

COMPANY'S CAPITAL STRUCTURE?

A. I am adjusting the deferred income tax balance to reflect the impact of the projected plant additions for 1996 and 1997.

Q. HAS THE COMPANY PROPOSED SUCH AN ADJUSTMENT?

A. No. A Citizens' Interrogatory asked the Company about the effect of the large plant additions in 1996 and 1997 on the deferred income tax balance. The Company's response to Citizens' Interrogatory No. 77 was as follows:

> (c) The Company's large level of capital additions in 1996 and 1997 will have minimal impact on the level of accumulated deferred income taxes in 1996 and 1997. The Company has not elected to reflect these or other minor changes to capital structure in 1996 and 1997.

The Company's additions, as adjusted in our projections, are approximately $19.5 million in 1996 and $17.5 million in 1997. This is compared to the 1995 additions of $7.2 million. It is unlikely, in fact it is unreasonable to assume, that deferred income taxes will not increase as a result of these large plant additions.

I have estimated the additions to deferred income taxes based on the plant additions, as revised, for 1996 and 1997. A calculation of this estimate is shown on Schedule 2, page 3 of 3. The book depreciation rate utilized by Larkin & Associates in this case is shown on line 2. I have calculated book depreciation by year for 1996 and 1997. For 1995, the tax depreciation exceeded book depreciation by 29.33% (shown on line 4). The additional tax depreciation based on the revised 1996 and 1997 plant additions is shown on line 5 of Schedule 2, page 3 of 3. The additions to deferred income taxes based on the combined State and Federal tax rate is shown on line 7 of the schedule. The 1996 additions, if ratably made through 1996, would have added approximately one half of the additional deferred income tax to the deferred income tax balance for 1996. Additionally, it would have added approximately all of the deferred income tax for 1997. Therefore, I have used an average of one half for 1996 and all of the deferred income taxes for 1997. The 1997 additions would produce additions to deferred income tax balances on a 13-month average basis of approximately 1/2 of the deferred income taxes shown on line 7. I have calculated an estimate of the total additions to deferred income taxes on a 13-month average bases to be approximately $139,398. I have added this to the adjusted deferred income tax balance on Schedule 2, page 2.

Q. WHAT OTHER ADJUSTMENTS ARE YOU PROPOSING TO THE CAPITAL STRUCTURE?

A. In the Company's 1995 Annual Report, it is stated:

> In August 1995, United Waterworks issued $20 million of 6.35% tax-exempt Water and Sewer Revenue Bonds, due 2025, through the city of

Jacksonville, Florida. The proceeds are being used to fund capital improvements of United Water Florida (a subsidiary of United Waterworks).

These bonds are not, nor are any other bonds, reflected on United Water Florida's books and records. They are recorded on the Parent Company's records, with funds flowing into United Water Florida as equity. In rate cases, the Company then allocates that equity based on the total capital structure of the Parent Company. Thus, the $20 million which was issued specifically for the projects which are being put into rates in this rate case are not specifically reflected in the capital structure of United Water Florida. Although these bonds were issued in 1995, the funds were in the hand of a trustee and were drawn down by the Parent Company as required in the bond indentures. Approximately $2.6 million of these bonds are reflected in the Parent Company's capital structure. Even if all of the bonds had been drawn down and expended in United Water Florida's projects, this debt would not be reflected as debt in the capital structure as proposed in the case, since it flows to the subsidiary as equity and not as debt. The debt is allocated based on the Parent Company's capital structure. Although it is 100% debt, some of it would be reflected as equity and preferred stock. This has the effect of assigning an equity return to debt capital which was issued specifically for the projects added to rate base in this case. In order to correct for this inequity in the assignment of capital, I have adjusted the total capital to agree with our rate base and assigned all of the additions to the debt component of the capital structure. The effect of this adjustment is to give the Florida ratepayers credit for the amount of debt issued for the projects in the state of Florida. The amount I have reflected in the capital structure is less than the $20 million issued for these projects. This results from the fact that our rate base is less than the Company's, both because of the use of a 13-month average rate base and the fact that UWF's plant addition estimates have been substantially revised.

Q. WHAT COST RATES HAVE YOU USED IN CALCULATING THE WEIGHTED COST OF CAPITAL?

A. I have reflected the issuance of the full $20 million of tax free bonds issued for United Water Florida in determining the weighted cost of debt. This adjustment has the effect of reducing the weighted cost of debt to 8.57% from the 8.72% proposed by the Company.

Q. WHAT OTHER CHANGES TO CAPITAL COST RATES HAVE YOU REFLECTED?

A. Since my capital structure reflects an equity ratio of 36.10% (investor capital structure), the Company is entitled to the maximum return on equity authorized by the Commission in Docket No. 96006WS of May 31, 1996, which reestablished the authorized range of returns on common equity. The maximum return on equity authorized is 11.88%.

Q. WHAT RATE OF RETURN RESULTS FROM YOUR REVISIONS TO THE CAPITAL STRUCTURE AND COST RATES?

A. As shown on page 1 of Schedule 2, I am recommending an overall rate of return of 9.62%.

IV. RATE BASE

Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING THE CITIZENS' PROPOSED ADJUSTMENTS TO RATE BASE?

A. Each of our recommended adjustments to rate base are summarized in Column (1) of Schedules 1-A and 1-B. I will discuss each of the respective adjustments for which I am responsible below.

Use of Year End Rate Base

Q. ARE THERE ANY PROBLEMS WITH THE OVERALL BASIS OF UWF'S FILING?

A. Yes. UWF's filing violates the matching principle. The Company has utilized future test year end amounts for determining plant in service, accumulated depreciation, CIAC, accumulated amortization of CIAC, and depreciation expense. UWF did not annualize revenues, expenses (other than depreciation) and customer levels. Clearly the matching principle has been violated in UWF's filing.

Q. IS IT APPROPRIATE FOR THE COMPANY TO USE YEAR END AMOUNTS IN CALCULATING RATE BASE?

A. No, it is not. The Commission has consistently calculated rates based on a 13-month average rate base methodology. This allows for the matching of rate base with the revenues and expenses to be incurred during the test year. As stated in the Commission's interim decision in this case, Order No. PSC-96-1388-FOF-WS:

> In the case of Citizens of Fla. v. Hawkins, 356 So. 2d 254, 256-257 (Fla. 1978), the Florida Supreme Court found that in the absence of the most extraordinary of conditions, the Commission should apply average investment during the test year in determining rate base. In its filing, the utility did not indicate the existence of such extraordinary circumstances which would form a basis for approval of a year-end rate base on which interim rates should be set.

Q. DOES UWF'S LARGE PROJECTED INCREASE IN PLANT IN SERVICE OCCURRING BETWEEN DECEMBER 31, 1995 AND DECEMBER 31, 1997 WARRANT YEAR END TREATMENT OF RATE BASE?

A. No, it does not. According to Company Schedules A-1 and A-2, UWF is projecting a 29.7% increase in water plant in service (increasing from $45.3 million to $58.8 million) and a 40.9% increase in wastewater plant in service (increasing from $73.9 million to $104 million) during the two year period. Based on the same two schedules, the Company is proposing a 24% increase in overall water rate base and a 55% increase in wastewater rate base. Additionally, the Company's filing reflects $49.7 million of capital additions. While the $49.7 million does consist of a large increase in plant in service occurring over the two year period, it appears, based on Company Schedules G-1 and G-2, along with the direct testimony of Company Witness Thomas F. Cleveland, that the timing of several of the projects are within the Company's discretion. Several of the capital additions will result in increased capacity which can be used to serve new customers and several will result in cost savings. The Company has not presented any evidence which warrants deviation from the 13-month average treatment for ratebase, nor has it annualized revenues, expenses, and cost savings to match its proposed year end rate base treatment. Additionally, as will be discussed in greater detail in Ms. DeRonne's testimony, the Company has substantially reduced its estimated level of plant additions during 1996 and 1997.

Q. WHAT IS YOUR RECOMMENDATION?

A. I strongly recommend that rate base be calculated based on the 13-month average methodology, consistent with Commission policy and traditional Florida ratemaking methodology. The use of 13-month average rate base will also resulting in a matching of rate base with pro forma revenues and expenses. The following adjustments must be made in order to reflect rate base based upon the 13-month average methodology: (1) plant in service is reduced by $3,600,708 for water and $7,395,753 for wastewater ("WW") (2) accumulated depreciation is reduced by $760,678 for water and $1,820,853 for WW; (3) CIAC is reduced by $633,369 for WW and $457,131 for water; and (4) accumulated amortization of CIAC is reduced by $275,762 for water and $396,012 for WW. The calculations are presented on Schedules 3 through 6 and result in an overall reduction in UWF's proposed water and wastewater rate base of $2,658,661 and $5,337,543, respectively. These represent a 8.8% and a 8.9% reduction in the water and WW rate base in UWF's filing. This is a small reduction when compared to UWF's overall proposed increases in rate base of 24% and 55% for water and wastewater, respectively.

<u>Accumulated Amortization of Acquisition Adjustment</u>

Q. WHAT IS AN ACQUISITION ADJUSTMENT?

A. An acquisition adjustment is essentially the difference in the purchase price paid to acquire a utility asset or group of such assets and the depreciated original cost of those assets at the date of acquisition. In simple terms, an acquisition adjustment represents the difference between the purchase price paid, including acquisition related costs, and the rate base determined as of the date of the transfer.

Q. HAS THE COMPANY REQUESTED INCLUSION OF ACQUISITION ADJUSTMENTS IN RATE BASE IN THE FILING?

A. Yes. UWF's proposed future test year water rate base includes $594,326 for acquisition adjustments. UWF's proposed wastewater rate base includes $867,986 for acquisition adjustments. Included in these amounts are ($11,724) and ($11,264) for water and wastewater negative acquisition adjustments, respectively, with the remaining balance reflecting positive acquisition adjustments. The acquisition adjustments are related to the purchase of six water systems and five wastewater systems. According to the Company's response to Citizens' Interrogatory No. 29(a), each of the acquisition adjustments reflected in the filing have been previously approved by the Commission.

Q. HAS THE COMPANY INCLUDED AN OFFSET FOR THE ACCUMULATED AMORTIZATION OF THE ACQUISITION ADJUSTMENTS?

A. The Company has only included the amortization that it expects to accrue during 1997. Through the current date, the Company has not amortized any of the above referenced acquisition adjustments on its books. According to the

Company's response to Citizens' Interrogatory No. 29, it has not yet begun amortizing the acquisition adjustments because the Commission has not yet specifically approved the time period over which to amortize the adjustments. The Company has proposed a 20 year amortization period in the current filing.

Q. SHOULD THE COMPANY HAVE ALREADY BEEN AMORTIZING THE ACQUISITION ADJUSTMENTS?

A. Yes. At the very latest, the Company should have begun amortization of the acquisition adjustments when the adjustments were recorded on the Company's books. In the purchase of the Lucina system, the Company recorded the acquisition adjustment on its books back in June 1989, over seven years ago. Similar to the treatment of depreciation expense on plant assets, the Company should have begun amortizing the acquisition adjustments on its books the date they were recorded on the books.

Q. HAVE YOU MADE AN ADJUSTMENT TO REFLECT THE APPROPRIATE LEVEL OF ACCUMULATED AMORTIZATION TO OFFSET AGAINST THE ACQUISITION ADJUSTMENTS?

A. Yes. Schedule 9 presents the calculation of the appropriate level of accumulated amortization to offset against the acquisition adjustment. In the schedule, I have reflected a twenty year amortization period on each of the acquisition adjustments, as proposed by the Company, and calculated the amount of amortization that would have accumulated from the date the acquisition adjustments were recorded on the books through the middle of the future test year. The middle of the future test year was used since I am recommending the use of a 13-month average rate base. As shown on the schedule, water and wastewater ratebase should be reduced by an additional $145,660 and $284,547, respectively, in order to reflect an appropriate level of accumulated amortization on the acquisition adjustments. However, if the Commission determines that a longer amortization period is appropriate for the acquisitions, then the amounts presented on Schedule 9 should be recalculated based on the longer amortization period. Additionally, amortization expense included in the filing would also need to be recalculated over the longer period.

V. <u>ADJUSTMENTS TO OPERATING INCOME</u>

<u>Late Payment Fee Revenues</u>

Q. IS THE COMPANY CURRENTLY AUTHORIZED TO CHARGE ITS CUSTOMERS A LATE PAYMENT FEE?

A. No, it is not. However, in this rate case, the Company is proposing to implement a late payment fee of $3.

Q. HAS THE COMPANY INCLUDED ANY PROJECTED REVENUE

ASSOCIATED WITH ITS PROPOSED LATE PAYMENT FEE?

A. No, it has not.

Q. SHOULD REVENUES ASSOCIATED WITH THE PROPOSED LATE PAYMENT FEE BE INCLUDED IN THE FUTURE TEST YEAR?

A. If the Company is permitted to institute the late payment fee, then it is only fair that the revenue associated with the fee be included in determining revenue requirement. To not reflect the associated revenue would result in the Company receiving a windfall, as the revenues would not have been considered when setting rates. I should note that the Company indicated in response to Citizens' Interrogatory No. 45, that it will not have the capacity to bill the late payment fee until early 1998, which is when their new billing system will be in service. The Company claims that the current billing system is not capable of billing for the late payment fee. However, if the late payment fee is approved, it should still be reflected in income.

Q. WHAT AMOUNT SHOULD BE ADDED TO REVENUE FOR THE LATE PAYMENT FEES?

A. Citizens Interrogatory No. 45 asked the Company to provide the estimated annual amount of revenues resulting from the late payment fee. The Company responded, in part, as follows:

> The Company receives late payment for water and wastewater service about 4,500 times per month. Assuming all these customers would continue to pay late after a late payment fee was implemented, a maximum of $162,000 in revenues could be expected from the proposed $3.00 Late Payment Fee.

Consequently, if the late payment fee is approved by the Commission, I recommend that revenues be increased by $162,000. On Schedule 10 I have allocated the revenues between water and wastewater operations based on the allocation of projected test year bills to each group. This results in a $90,331 increase in water revenues and a $71,669 increase in wastewater revenues.

<u>Adjustments to Remove Inappropriate Expenses</u>

Q. HAS UWF ATTEMPTED TO INCLUDE EXPENSES IN THE TEST YEAR THAT ARE INAPPROPRIATE FOR RECOVERY FROM RATEPAYERS?

A. Yes, it has. Based on my review of interrogatories promulgated by Citizens, I have identified several expenses that should be removed from the future test year. These expenses are: donations and charitable contributions; lobbying expense; chamber of commerce dues; EPA and DER violations expense; public relations advertising expense; and payroll expense for an employee who performs public relations activities.

Q. PLEASE EXPLAIN WHY IT IS INAPPROPRIATE TO RECOVER THESE EXPENSES FROM RATEPAYERS.

A. These expenses are unrelated to the provision of affordable, safe, and reliable water and wastewater service to ratepayers and are, therefore, inappropriate to recover from ratepayers. For instance, charitable contributions and donations support the social objectives of various non-profit organizations. While contributing to such organizations produces a societal benefit, ratepayers should independently and directly choose the organizations to which they contribute, rather than be forced to support the organizations UWF favors through indirect contributions collected in utility rates. Schedule 20 shows that I have removed donations and contributions expense from the future test year. This adjustment removes $722 from water expenses and $1,283 from wastewater expenses.

On Schedule 17, I have removed public relations advertising expense from the future test year, resulting in a $1,525 adjustment for water and a $2,711 adjustment for wastewater. Public relations expenditures enable the Company to promote its corporate name and to publicize itself as a good corporate citizen. Citizens contends that shareholders, not ratepayers, should support these types of advertising expenditures. Similarly, UWF identified in response to Citizens Interrogatory No. 19 an employee position, Manager - External Affairs Business Development, whose job functions pertain to public relations activities. Unless the Company can demonstrate that a portion of this position's job duties relate to safety or conservation activities, I recommend that payroll expense for this position be removed from the future test year. Schedule 16 shows that future test year expenses for water are reduced by $15,326, while wastewater expenses are reduced by $27,246 for the removal of payroll expense for this position.

Lobbying expense supports the advancement of UWF's stance on issues before political bodies; ratepayers may or may not agree with the Company's stance and should not be forced to fund the Company's endeavors in this area. Moreover, UWF's lobbying efforts may pertain to issues not directly related to public utility water and wastewater service. Accordingly, on Schedule 18, I have removed $503 from water expenses and $895 from wastewater expenses to eliminate lobbying expense from the future test year.

UWF's membership to chambers of commerce enables the Company to establish a presence in the community and become acquainted with area businesses. Since chambers of commerce are public-relations oriented, UWF's membership dues should be disallowed from utility rates. Schedule 19 shows that I have reduced water and wastewater future test year expenses by $486 and $863, respectively, to remove chamber of commerce membership dues.

Ratepayers should not finance the Company's violations of EPA or DER regulations. Accordingly, on Schedule 21, I have removed from the future test year legal costs charged to expense which are directly related to EPA and DER violations. Water expenses are reduced by $163 and wastewater expenses are reduced by $290.

Depreciation Expense

Q. IS THE DEPRECIATION EXPENSE INCLUDED IN UWF'S FILING BASED ON THIRTEEN MONTH AVERAGE PLANT BALANCES OR THE END OF TEST YEAR PLANT BALANCES?

A. In the filing, UWF calculated depreciation expense based on both the 13-month average rate base and end of test year rate base; however, in its summary schedules, UWF utilized the depreciation expense based on end of test year rate base.

Q. IS THIS APPROPRIATE?

A. No, it is not. As previously discussed, rate base should be based on the 13-month average methodology. Likewise, the depreciation expense included in the adjusted operating costs should be calculated based on the 13-month average plant in service amounts.

Q. WHAT ADJUSTMENT IS NECESSARY?

A. Schedule 22 presents the adjustments necessary to reflect depreciation expense on the 13-month average plant in service balances. Depreciation expense should be reduced by $211,220 for water operations and $296,646 for wastewater operations.

My adjustment to water depreciation expense also corrects for a transposition error made by the Company. Based on Company Schedules B-13, A-3 and A-14, the combined depreciation expense and amortization of CIAC should have been $1,232,173; however, Company Schedule B-3 and G-41 reflected $1,323,173 as the combined amount.

Adjustment to Company-Proposed New Amortizations

Q. PLEASE EXPLAIN YOUR PROPOSED ADJUSTMENT ON SCHEDULE 24 TO REMOVE CERTAIN COMPANY-PROPOSED NEW AMORTIZATIONS.

A. On Schedule 24, I have removed $24,599 and $21,562 from wastewater and water expense, respectively, to exclude Company-proposed new amortizations for moving expense, miscellaneous deferred debits, and Vision 2000. Company Schedule G-35 indicates that the Company is amortizing the unamortized balances over five years in accordanc with Rule 25-30.433(8). Commission Rule 25-30.433(8) provides, in relevant part, as follows:

> "In a rate case proceeding, the following provisions shall apply, unless the applicant or any intervenor demonstrates that these rules result in an

unreasonable burden. In these instances, fully supported alternatives will be considered by the Commission. Any alternatives proposed by the utility must be filed with the minimum filing requirements.

***

(8) Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified."

I am removing the Company's proposed pro forma amortization of these items because the associated expense results in an unreasonable burden to ratepayers.

Q. PLEASE EXPLAIN WHY THE COMPANY'S PROPOSED AMORTIZATION OF SUCH COSTS RESULTS IN AN UNREASONABLE BURDEN TO RATEPAYERS.

A. In my opinion, the Company's proposed amortization of such costs results in an unreasonable burden to ratepayers for the following reasons: (1) The Company failed to defer and amortize associated cost savings, and (2) Significantly longer amortization periods should be used, if any amortization of such costs is to be permitted.

Q. EXPLAIN THE BASIS FOR YOUR OPINION THAT THE COMPANY FAILED TO DEFER AND AMORTIZE ASSOCIATED COST SAVINGS.

A. The Company's response to Citizens Interrogatory No. 39(d) indicates that its "continuous improvement program" (which is referred to elsewhere as "Vision 2000") produced reductions in paperwork and improved processes, i.e., produced "intangible" benefits. The Company's response also states that Vision 2000 produced a "tangible" benefit of $3,540 per-month purchased power savings starting in May, 1995 associated with time-of-day billing, and that $28,320 of such power savings are reflected in the historic test year. The Company's response states further that the pro forma test year results were based on the 1995 unit costs. However, the Company's pro forma test year results do not reflect the full, annualized amount of such savings ($3,540 per-month savings x 12 = $42,480 annual savings, but the Company has only reflected 8 months worth of 1995 savings, or $28,320). Thus, there is at least $14,160 of annualized 1995 savings which have not been reflected by the Company ($42,480 - $28,320 = $14,160). Additionally, there would be a similar amount of annual savings ($48,480) in 1996, and approximately two months (January and February) of additional savings ($8,080) in 1997, prior to the commencement of the Company's proposed amortization in March 1997. Yet the Company deferred only costs and failed to defer the approximately $56,560 of savings for January 1996 through February 1997. It is inequitable to ratepayers to permit the Company to defer and amortize costs without simultaneously deferring and amortizing related savings. Moreover, it is possible other savings are occurring between test years which are not captured by the Company due to the quantification difficulties. Presumably, the Company would not be engaging in discretionary training programs, such as

Vision 2000, or moving its employees to different locations unless anticipated savings were expected to outweigh the associated costs.

Q. EXPLAIN THE BASIS FOR YOUR OPINION THAT SIGNIFICANTLY LONGER AMORTIZATION PERIODS SHOULD BE USED, IF ANY AMORTIZATION OF SUCH COSTS IS TO BE PERMITTED.

A. Concerning the Miscellaneous Other Deferred Debits, the Company's response to Citizens Interrogatory No. 35(f) explained that:

> The "misc. other deferred debits" consists of legal costs associated with the Sunray acquisitions, and appraisal fees for water and sewer facilities. To date the account balance is $86,450. These costs were deferred and amortized in accordance with Rule 25.30.433.8 pending the outcome of this proceeding.

Costs of acquisitions should be amortized over the remaining life of the associated assets. Company Schedule G-35, for example, indicates that utility plant acquisition adjustments are being amortized over twenty years. If the Company's Sunray acquisition and appraisal fees are permitted to be amortized, then a similarly long time-frame should be used for such costs.

Concerning the moving expenses, these appear to be related to moving employees after the merger. The Company's response to Staff's Second Set of Interrogatories, Request No. 71, indicates that there were no employee relocation expenses (deferred moving expenses) in 1990, 1991, 1992 or 1993, and none are projected for the 1997 test year. If any amount of moving expense is considered for an amortization allowance, the eight years of information provided in that response (with five of the eight years having zero moving expense) suggest that the Company's proposed five-year amortization period is inappropriate. The fact that the Company projects no moving expense for the 1997 test year supports my recommendation that none should be allowed as test year expense.

Finally, concerning the Vision 2000 expense, the Company's response to Citizens Interrogatory No. 34, parts (a) and (c) states that:

> a) Vision 2000 was initiated by the two Companies to guide United Water through the merger between UWR and GWC. It included three important corporate initiatives: communication, culture and productivity.
>
> c) The primary purpose of Vision 2000 was the successful integration of the two separate and independent companies. The benefits are internal such as reductions in paperwork and improved processes. The most tangible benefit to date is the purchased power for wastewater treatment plants.

Based upon the Company's descriptions, its Vision 2000 costs appear to be part of the merger cost, i.e., is similar to an intangible asset associated with organizing the two separate and independent companies into the present integrated company structure. Thus, an amortization period for Vision 2000 cost similar to those used for Miscellaneous Intangible Plant or Organization cost would appear to be more appropriate than the five year amortization proposed by the Company. Moreover, I note, from a review of the Company's 1995 consolidated annual report to the Commission and the Company's depreciation schedules in the current case, that the Company does not appear to be depreciating or amortizing Miscellaneous Intangible Plant or Organization cost (Account 301). Applying a similar no-amortization treatment to the Vision 2000 cost, which the Company has stated was incurred for merger guidance, would indicate that no charges to ratepayers for amortization of Vision 2000 should be permitted.

Interest Synchronization

Q. PLEASE EXPLAIN YOUR INTEREST SYNCHRONIZATION ADJUSTMENT.

A. The interest synchronization adjustment synchronizes the proposed rate base and cost of capital with the tax calculation. Since our proposed rate base is lower than the Company's and our proposed weighted cost of debt differs from UWF's, the amount of interest on a pro forma basis available for deduction in the tax calculation is lower. Schedule 25 shows the calculation of the change in the income tax expense which would be experienced as a result of the different interest deduction based on our proposed rate base and weighted cost of debt.

Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?

A. Yes, it does.

MR. McLEAN: 25 schedules and the exhibit number is 29.

Q (By Mr. McLean) Mr. Larkin, would you summarize your testimony for the Commission, please, sir?

A Yes. Our assignment was to review the Company's revenue requirement calculations and to examine the expenses and the approach used by the Company in determining its requested revenue requirements. The testimony that I am sponsoring adjusts both the capital structure rate base, operating income, operating revenues and operating expenses to reflect adjustments we feel are appropriate.

In the area of the capital structure, I've made two adjustments to deferred income taxes; the first of which is a correction of an error. The second, however, is to reflect the fact that in a large construction program, deferred income tax is increased, that as a result of adding significant amount of plant, the difference between book and tax depreciation increases and the cost free capital that the Company receives flows from the rates that are charged. Ratepayers should receive credit for that additional deferred income taxes, and I've calculated an estimate of it and added it to the capital structure.

Another adjustment that I've made is to the Company's debt component of its capital structure. The Company used an average capital structure for the parent company as of December 31, 1995. That average capital structure reflects the investment as of that time for the entire company. But this particular subsidiary of that Company has gone to the Jacksonville city and said we need cost free capital -- not cost free capital, tax free bonds in order to improve the facilities in this particular area. They did not assign that 20 million debt specifically to this capital structure. My adjustment accomplishes that, or accomplishes that for part of that $20 million.

Another thing they didn't do is when they calculated the weighted cost of debt, they did not fully reflect the fact that this bond had been issued and that the money is in the hands of the trustee and, therefore, the calculation of the weighted cost at debt is overstated. Because once you factor in the effects of this weighted cost or this issue, the $20 million tax exempt bond, the weighted cost of debt drops. So I've reflected both, the fact that this $20 million should be assigned specifically to this jurisdiction and that the weighting should be included in the overall capital structure.

Because the changes had that I've made changes the weighting in the capital structure and has less weight in the equity component, I have changed the weighted cost of equity or the assigned cost of equity, according to the Commission's debt leverage or equity leverage graph and giving them the maximum return on equity. Overall the rate of return I am recommending is less than what the Company has requested.

Another major area that my testimony deals with is the year end versus the 13-month average weight base. It is a policy that has been accepted by this Commission and has been followed for a number of years, that the average 13-month average more reasonably matches the revenues expenses and customers than does a year end rate base.

There are many things that take place after plant goes into service; new plant should be more efficient, new pipes should have less repair. And that doesn't reflect in any particular test year, it kind of flows in over a period of time. It also has the additional capacity to serve additional customers.

You can't reflect that fairly to the ratepayers by using a year end rate base. And it's been proven over years, particularly here in Florida where that's been the policy, that using a 13-month average just works out better.

This Company as itself is an example. The last rate case they had was 1981. They've gone 15 years without a rate increase, a general rate increase. And as I remember -- I may not remember right, but I think that was an average rate base. So as a policy position and as I think just general good accounting, you ought to use a 13-month average rate base.

I've made some adjustments for late payment fees and to remove expenses and to adjust the depreciation, also to adjust the amortization or the accumulated amortization of acquisition adjustments. They don't have as nearly as major an impact on our revenue requirement as going to a 13-month average or the adjustments we've made to the capital structure, but I am sponsoring those adjustments. That summarizes my testimony.

MR. McLEAN: Thank you, Mr. Larkin.

Commissioners, Mr. Larkin is available for cross examination.

CROSS EXAMINATION

BY MR. ADE:

Q Mr. Larkin, I would like to just address a couple of subjects with you, if I could. I would like to refer you --

COMMISSIONER KIESLING: Mr. Ade, could we get you to put your mike on the side that you are talking. Don't knock your water over there.

Q (By Mr. Ade) I'm going to refer you to Page 17, Line 6 is where it starts, which is a question having to do with the amortization of acquisition adjustments.

A Yes.

Q And I believe there you state that it's your opinion that the Company should have begun amortization of the acquisition adjustments when they were recorded on the books; is that correct?

A That's correct.

Q Mr. Larkin, are you familiar with the NARUC Uniform System of Accounts?

A Yes.

Q I'm sure you are. And are you in particular familiar with Account No. 406? And I will hand you a copy of the cover page of the NARUC Uniform System of Accounts and Page 115, which has the account on it that I'm referring to. Also, I'm handing you the cover page of the Sewer Uniform System of Accounts and Page 110 there, which has the same account name and account number there.

A Yes.

Q And I am correct that those two accounts are the same in both those systems of account; is that correct?

A Yes.

Q All right, sir. Account No. 406, which is entitled Amortization of Utility Plant Acquisition Adjustments, states, "This account shall be debited or credited, as the case may be, only upon the approval of the Commission for the purpose of providing for the extinguishment of the amount in Account 114 utility plant acquisition adjustments." Is that correct?

A Yes.

Q All right. Mr. Larkin, could you tell me whether the Commission approved that Account 406 be debited or credited in connection with the acquisition adjustment connected with the Lucina utility acquisition?

A I don't know about any specific, but the general policy has been that where an acquisition adjustment is approved, that it's amortized.

Now, the Public Counsel has entered a stipulation with the Company that allows them to put acquisition adjustments in and would not be opposed by the Public Counsel. That's why there's no opposition to these in this case from us, because we generally don't believe in acquisition adjustments.

Therefore, it being the Commission policy that they be amortized, that the Company has no opposition to the recording of them, that they relate to a system that is providing service to customers, and that the purchase or the payment of an acquisition adjustment is related to service as it's provided, then the reasonable thing is that it should have been amortized from the date it went into the account.

Q Mr. Larkin, can you tell me where that Commission policy is set forth?

A Well, it's generally been the policy, and it's in a number of orders. I don't know if it's a stated policy that where an acquisition adjustment is approved for inclusion in the rate base, it's amortized.

Q Could you refer me to a Commission order where that's been done?

A I'll find them. I can't right off the top of my head tell you which one, but we can refer you to

Commission orders where acquisition adjustments have been approved and amortized.

Q To this point in time has United Water of Florida earned a return on the acquisition adjustments that were stipulated to in this case?

A Well, presumably, if you pay them, you are earning a return. You wouldn't have paid more for a system that didn't give you a return and was justified.

Q Excuse me. I didn't mean to interrupt you.

A Well, that's the theory, that you paid more for the system because it was worth more, because the return was higher. If you paid less, or there was a negative acquisition adjustment because there's something wrong with the system, it won't earn a rate of return. So the very fact that you paid or didn't pay is a forgone conclusion that you are earning a return on it.

Q Let me ask you my question a little differently. Has United Florida included in its rates any return on rate base for the acquisition adjustments that have been made in this -- that have been stipulated to in this case?

A You mean prior to this point? Prior to this rate case?

Q Yes, sir, up to today.

A Well, there has been no formal Commission recognition of these particular acquisition adjustments in an order.

Q So the answer to my question is no; is that correct?

A No, it isn't. No, it's the way I answered it before; you paid it because you thought it was worth what it was worth. And that you were earning a rate of return on it at that point in time.

Q Mr. Larkin, I'm going to call your attention to the fact that the Prehearing Order issued in this case states that if a witness is asked a question, it can be answered yes or no, he'll state yes or no, and he may then explain his answer any way he wants to. So I'm going to ask you the question again with that in mind.

A I answered it yes and explained it. Now you've asked me a different question and then asked me to answer it no. And I said, no, I don't agree with that, and I've explained why I don't agree with that.

Q I'm going to ask the question and you answer it. Have the acquisition adjustments that have been stipulated to in this case been included in the rate base of United Water Florida upon which United Water

Florida has been granted a rate of return by this Commission up to this date?

A The answer is, no, they have not formally been recognized in a rate setting proceeding, and I think I said that before. The correct answer is, yes, you are earning a rate of return on them when you bought the system because that's the reason you paid more than it was worth, more than the book value.

Q All right. I asked you a question a minute ago relating to the Lucina utility company, and I believe you said that you didn't know anything about the specifics about any of the acquisition adjustments that were stipulated to in this case; is that correct?

A That's correct.

Q And you have no knowledge of any orders relating to any of those acquisition adjustments; is that correct?

A That's correct. We didn't look at them because of the stipulation that we would not oppose them or agree to them one way or the other -- well, we had to agree to them because of the stipulation, but there was no sense in looking at the detail.

Q All right, sir. In your direct testimony -- or in your summary, you made some reference to a $20 million tax free bond issue that was issued in the state of Florida.

A That's correct.

Q And I believe you said that that bond issue was issued by United Water Florida. Wasn't that bond issue, in fact, issued by United Water Works?

A It might be, I'm not sure. But the basis of it being issued was that it was issued tax free because it was a representation to the city of Jacksonville that this was an improvement that qualified under the tax code to be tax exempt. And it was an investment in a municipal-type facility that benefited the ratepayers in the state of Florida.

Q Let me ask you a hypothetical question. If, in fact, that bond issue had been issued by the city of Atlanta, Georgia, what would be the proper capital structure to use for United Water Florida in this case?

A Well, if you could trace the source of funds, you ought to determine what funds were used to invest in Florida, but that's not possible because they've been commingled. But we do know, we do know this $20 million was specifically earmarked for Jacksonville.

Q If that $20 million bond issue had been issued under like circumstances by the city of

Atlanta, Georgia, would it not be proper to use the capital structure of United Water Works in this case?

A If you have nothing better. The best thing is to keep track of where the capital came from and where it went.

COMMISSIONER GARCIA: Mr. Ade, could you explain your hypothetical question a little bit better for me? Because I don't understand why you are talking us to Atlanta.

MR. ADE: You asked me to explain the question?

COMMISSIONER GARCIA: The hypothetical a little bit better and that way maybe I can get a understanding of why he's objecting to it.

MR. ADE: All right. My understanding of Mr. Larkin's testimony is that because that bond issue was issued by the city of Jacksonville, it should be included as part of the long-term debt of United Water Florida. And I am asking him if it had not been issued by the city of Jacksonville, but by some other city, I just picked Atlanta at random because it was out of the State of Florida --

COMMISSIONER GARCIA: Got you.

MR. ADE: -- wouldn't it be proper to use the capital structure of United Water Works as a surrogate for the capital structure of United Water Florida because United Water Works' investment in United Water Florida is all equity as it shows up on the books of United Water established by their testimony.

WITNESS LARKIN: Have I answered your question? My answer is no -- my answer is yes, if there's no other opportunity to decide where the source of funds come from.

MR. ADE: All right.

WITNESS LARKIN: I think what you are getting at is that in United Water's apparent capital structure there are other debt free costs that have been issued in the state of Idaho, Delaware and New York. And the Company's argument is, well, we've used this average capital structure, aren't we really assigning some of the Idaho stuff to Florida?

We don't know that. We don't know what they've done in Idaho. Idaho, if they looked at it right, that $42 million of tax exempt, the Idaho Commission may have done what I'm suggesting to you, that when they set rates in Idaho, they set them based on the 42 million of cost free capital -- or tax exempt bonds that they got.

Because the Company commingles the funds, they go from the issuance through the parent and then down into the operating utility. And the Company says, well, we commingled them, and the reasonable way to deal with this is that we'll just assign the average of everything to you, even though Jacksonville specifically said here's $20 million for this specific project. And what I'm saying to you, I think you ought to reflect that, $20 million specifically.

Now, if you agree with the Company, it's okay to commingle and if you get a specific issue for this particular district, ignore that, forget that, just mix it together, then the Company is right. So that's the issue. The issue is do you think this ought to be assigned right here, or should it be spread over all the Company?

And let me make one other point, that the capital structure of United City at December 31, 1995, only included $2.6 million of this bond issue. The rest of it was in the hands of the trustee. So it's not even reflected anywhere in total in United City parent company capital structure. So they haven't even given everybody credit for everything. So, I mean, at least that adjustment should be made. But I think you ought to go farther in here. I think you ought to make the one that I'm suggesting.

Give these folks credit for -- I mean, one of the things they are whinning about or complaining about is that they are making this huge investment and you don't want to pay for it.

Q (By Mr. Ade) Mr. Larkin, I believe I'm going to ask you to respond to my questions.

A Sure.

Q And I object to Mr. Larkin's characterization of the position of the Company in this matter.

You, in fact, did use United Water Work's capital structure as part of the calculation of your capital structure for United Water Florida; did you not?

A I started with the Company's capital structure as recommended and then made adjustments to reflect the understatement of deferred income taxes in the understatement of the debt because there's no other way to start.

Q And the Company's capital structure as recommended was the United Water Works capital structure; isn't that correct?

A I assume it was, yes.

Q And when you started from that point, you, in fact, picked up some of the low cost debt of the

Idaho issue that you were talking about and gave the Florida customers the benefit of that Idaho low cost debt, isn't that correct?

A I'm not sure that that's the way it works out. It may work out that way, but it depends on the weighting of each of these debts in the tax free.

If you put all of the -- if you put all of the $20 million issue into that capital structure and then assign that specifically to Florida and then assigned a weighting of nontax component of the capital structure, I'm not sure you would come out much different, but I didn't do that. So I wouldn't agree with your characterization that I've assigned part of that, too.

Q Well, the Company certainly did when it constructed its capital structure off of the United Water Works capital structure; isn't that correct?

A Well, your weighting includes those dollars.

Q Yes.

A Yes.

Q Yes. And not only Idaho, but New York and other states who have issued tax free bonds.

A Yes. But then the point that I made to the Commissioner was we don't know what they've done in Idaho and New York, whether they've not done the same thing I'm suggesting here.

Q But it doesn't matter what they've done. The way the Company calculated its capital structure and weighted it, it gave the customers of United Water Florida part of the benefit of those tax free bond issues that were issued in other states. Is that not correct?

A I'm going to disagree with you. I'm going to say no, because I'm not sure what effect it would have if you took those out and recalculated it. But I did agree with you and I will agree with you that it's in the weighting, it's in the weighted cost of debt.

MR. ADE: All right. No further questions.

CHAIRMAN JOHNSON: Staff, cross examination.

MS. CAPELESS: Thank you.

CROSS EXAMINATION

BY MS. CAPELESS:

Q Mr. Larkin, I would like to refer you to Page 27 of your testimony, please.

A Yes.

Q And here you are referring to the Company's proposed amortization of miscellaneous deferred debits associated with the Sunray acquisition, right?

A Yes.

Q Do you know whether the Company has

purchased the Sunray facility?

A I'm not sure. No, I don't.

Q Assuming that the Company has not purchased the Sunray facility for the moment, wouldn't you agree that it would be inappropriate to include this item as a test year operating expense for the Company to recover from the current customers?

A Yes.

Q Wouldn't you also agree that if the Utility has not yet purchased the Sunray facility, then the cost associated with the Sunray acquisition should be disallowed as a test year operating expense?

A Yes.

Q With regard to the Company's proposed amortization of moving expenses now --

A Yes.

Q -- would you agree that expenses incurred for relocating its employees should be considered a normal operating expense?

A Yes, absolutely.

Q And, therefore, it's inappropriate to amortize these expenses as nonrecurring?

A Yes, they are a period expense. Normally, the only thing that should be amortizable is something that's not within the Company's control: storm damage, a unique water break, a unique repair that was the result of a storm.

But, clearly, they are under control or they can control whom they move where and when they move them. So to save those expenses and then amortize them and say, well, repairs ought to pay; the only reason one ought to amortize something is that the Company didn't have a chance to mitigate or avoid or control that expense. That's not the case with moving expenses.

Q Thank you. Would you also agree that normal operating expenses should be expensed as incurred?

A Yes.

Q Are you aware that the Company's moving expenses were incurred over a three-year period prior to the test year?

A I was aware that they occurred in 1984 and 1985. The third year I wasn't aware of.

Q You mean 1995, right?

A Yes. I'm always in the past century or the past decade.

Q Would you agree that it's inappropriate for a utility to accumulate expenses such as these and then propose to begin the amortization of the lump sum when the rate case is filed?

A Yes.

MS. CAPELESS: Madam Chairman, could I take just a moment to confer with Staff?

CHAIRMAN JOHNSON: Yes.

MS. CAPELESS: Thank you. (Pause)

Okay. I found what I was looking for, the rest of my cross questions. Thank you.

Q (**By Ms. Capeless**) With regards to average or year end test year --

A Yes.

Q -- would you please refer to Page 13 of your prefiled testimony?

A Yes.

Q At lines 5 through 18 you discuss whether it's appropriate for the Company to use year end amounts in calculating rate base. And then you testify that it's not appropriate for the Company to do that; is that right?

A Yes.

Q And here you cite to the Citizens of Florida versus Hawkins case for the proposition that average investment should be applied in the absence of the most extraordinary of conditions, right?

A Yes.

Q Do you have an opinion as to what sort of conditions would be so extraordinary that year end amounts should be used to calculate rate base?

A Well, I haven't seen it in Florida yet, but I suppose if there was something that occurred that completely destroyed the Company's plant and then it had to be completely reconstructed, or there was something unique that happened in this water system that required an unusual large investment all at once. But none of those things have occurred, that I know of.

COMMISSIONER GARCIA: Ms. Capeless, are you reading from 13 of his direct; did you say?

MS. CAPELESS: He's only filed one set of testimony, right.

COMMISSIONER GARCIA: Right. And I don't have a Page 13.

COMMISSIONER KIESLING: Well, they're actually out of order. If you look back after Page 9, you'll find Page 13.

COMMISSIONER GARCIA: You are absolutely right.

COMMISSIONER KIESLING: However, when you go looking for Page 12, you'll find a blank page which would also be helpful if we ever got a Page 12.

MS. CAPELESS: Mine is correct. Would you like to refer to my copy? I have a good secretary. I think maybe she fixed it for me.

MR. McLEAN: Well, let's don't hog all the credit, we may have got some of them right.

(Laughter)

COMMISSIONER GARCIA: We're fine, thank you.

Q **(By Ms. Capeless)** Mr. Larkin, are you familiar with the rebuttal testimony of Witness McGuire?

A Yes.

Q In his rebuttal testimony Witness McGuire states that a 10% increase going from average to year end is extraordinary. Do you agree with that?

A No.

Q Do you agree that the use of an average test year would deny the Company recovery on some of its plant improvements and force another rate case?

A No. Even if it did force another rate case, which I don't believe -- I think that that's more in the interest of the ratepayer to see just why in the future the investment is not being recovered by the rates that are in effect.

When you put in a year end rate base, all of that review then would no longer take place. And also it guarantees the Company that whatever they can get in in that period of time will be compensated for or will be included in that year end.

When you use an average, it then causes the Company to think about whether they really need to make all the investments that they are making and whether the costs are reasonable. And when you use an average, it puts part of the burden on the Company to watch what they are doing and to make the investments in the most economical and reasonable fashion over time.

Q Thank you. Witness McGuire claims that the Company has projected both its revenue and expense for the test year to reflect completely the annual revenue and expenses for 1997. Now, your testimony does not agree with that assessment; is that correct?

A That's correct.

Q On what do you base your conclusions there?

A Well, it's very difficult for anybody to measure what effect new plant will have on expenses. If you put in new lines, obviously they're going to have fewer leaks, fewer breakages, less losses. If you put in a better plant, the quality of the water goes up, customers consume more, you have more capacity, you can serve more customers.

Up until the rebuttal testimony, the Company hadn't even attempted to year end the number of customers, and I'm not agreeing that what they did do was right. But that piece of it was missing. And if you look at what the Company did on some of their adjustments, for instance, in order to project the number of customers for 1996 and 1997, when we look back -- and they didn't take the highest number of customer additions, they took three years and averaged those.

So they seem to think that averages work better in some instances. And when they use an average and say, okay, this is really what we think is going to occur in 1996 and 1997 is for customer increases. And then when they tried to go from average year customers to year end customers, they again used an average type of approach. So they didn't go right to a specific year end and count the number of customers and then annualize those, they did something different.

Q Did you perform any studies at all on which you -- do you base your conclusions on any studies?

A No, just on the history of what's happened around the country and what's happened here in Florida. I mean, we've used average rate bases for all the major electric utilities. A lot of them haven't been in since 1981.

There was a comment made about there was no used and useful approach for electric utilities; that's not true. In the last major Tampa Electric case, the Commission imputed additional wholesale sales.

MR. ADE: Commissioners, I'm going to object to this testimony. It's far beyond the scope of his direct or any of his questions that's been asked of him. He's into used and useful now off of a question about studies that he's done. We'll move to strike all that testimony on used and useful.

MR. McLEAN: Madam Chairman, if I might be heard, it's my witness and it's Staff's question. I don't know that Mr. Ade has standing to object.

CHAIRMAN JOHNSON: Staff.

MS. CAPELESS: In my opinion, he's reflecting on his answer to the question that I asked, and his testimony is responsive to testimony that was -- Mr. McGuire's testimony. It's responsive to Mr. McGuire's testimony, so I believe it's fair play.

CHAIRMAN JOHNSON: Mr. Ade. I assume that you are objecting on relevance grounds?

MR. ADE: Beyond the scope, far beyond the scope.

CHAIRMAN JOHNSON: Of this proceeding, or --

MR. ADE: He's on cross examination. And he has not -- he has nothing in his testimony about used and useful. And he was not asked on direct any questions about used and useful. The question he was responding to was have you made any studies that you have based your testimony on. And he said no, and then he got off on used and useful. And used and useful, I mean, he could have gotten off on the Christmas tree or anything else. It's just simply not within the scope of anything he's been asked.

And I believe I do have a standing to object to testimony that's improper by anybody. I may not have a right to object to a question, but I think when the witness gets up out of the scope of what he's testifing about, I have the standing to object.

CHAIRMAN JOHNSON: Staff, did you have any additional comments?

MR. ADE: One other point. Ms. Capeless said he was responding to Mr. McGuire's testimony, and that is what she asked him. But Mr. McGuire's testimony doesn't say anything about used and useful.

MR. McLEAN: Well, it is my witness, and if it were protecting my witness I would say that Ms. Capeless opened the door and is stuck with whatever answer she gets. The attack from Mr. Ade is difficult to deal with because it's not his witness to protect.

CHAIRMAN JOHNSON: Staff.

MS. CAPELESS: I think he's elaborating on the question. And if anything, perhaps the portion of his answer that goes to used and useful is not responsive to the the question, but I think the question is fine.

CHAIRMAN JOHNSON: I'm going to sustain the objection as it relates to the issues on used and useful.

MS. CAPELESS: Thank you.

Q **(By Ms. Capeless)** Referring to Page 15 of your testimony, Mr. Larkin, starting at Line 10.

COMMISSIONER KIESLING: Is that Page 15?

MS. CAPELESS: Yes, ma'am.

WITNESS LARKIN: Yes.

Q **(By Ms. Capeless)** You testify that the reductions to rate base to show average rate base are 8.8% for water and 8.9% for wastewater, correct?

A Yes.

Q Can you please explain how you calculated these 8.8% and 8.9% differences?

A I believe it's a comparison of our average rate base to the Company's year end rate base.

Q Is this total rate base that you are referring to?

A I think it's just plant in service, but I'm not sure. I'll have to check.

Q Okay. Thank you. Could you please refer to Page 11 now of your prefiled testimony beginning on Line 12?

A Yes.

Q You state that you recognize the full issuance of the $20 million tax exempt bonds in the determination of the weighted average cost of debt of 8.57%.

A Yes.

Q What was your basis for assuming that the full $20 million would be issued and outstanding during the 1997 test year?

A Well, it is issued. The way tax exempt bonds work is that you've issued -- were issued in August of 1995. The way they work is that because they are assigned to a specific project, the Company doesn't get the money, the money goes to a trustee. Then somebody has to certify to that trustee how much of the project that the bonds were issued for has been completed. And then the Company can draw down from the trustee that amount of money.

So the money is somewhere, it's just not in the Company's pocket. It's in the hands of the trustee. Now, they have drawn down 2.6 million as of December 31, 1995. At this point in time it probably is all drawn down. But that money was issued and outstanding. The trustee had the funds, and he's paying interest on them.

Q Do you know for sure that the whole 20 million has been drawn down? You said probably.

A Well, I'm just surmising that the $20 million was associated with a treatment plant, sewage treatment plant, and that's the kind of projects; and I think that's substantially done now. But I have no evidence or haven't looked in anything that assured me that it was, but I would assume that it is.

Q Did you recognize any additional unamortized issuance expense or discount above the amounts listed on the Utility's MFR Schedule D-5?

A Yes, I did. I looked at the D-5 schedule, Page 1 of 6, and I made a comparison of the discount and premium to the amount issued. And that was about 2.6% of the $2.561 million issued. Then I factored up the unamortized discount premium to reflect that relationship. So I took 2.6275% of $17,438,828.

The unissued or unamortized issuing expense associated looked right to me. I mean, it's $.5 million and that's about what it would be for an issue this size, so I did not adjust that. And I carried that forward to Schedule D-5, Page 2 of 6, and put those interest amounts in unamortized increase and discount, or premium, into that schedule and then recalculated the weighted cost of debt.

Q Thank you. Mr. Larkin, would you be able to provide us with a late-filed exhibit showing -- documenting what you did showing your calculations?

A Yes, I sure will.

MS. CAPELESS: We would then ask that this late-filed exhibit be identified, please?

CHAIRMAN JOHNSON: It will be marked as Exhibit 30. And a short title?

MS. CAPELESS: Cost rate calculation including unamortized issuance expense and discount amounts used.

CHAIRMAN JOHNSON: "Cost Rate Calculations."

(Late-Filed Exhibit 30 identified.)

MS. CAPELESS: Thank you. Staff has no further questions.

Thank you, Mr. Larkin.

WITNESS LARKIN: Thank you.

CHAIRMAN JOHNSON: Redirect.

REDIRECT EXAMINATION

BY MR. McLEAN:

Q Mr. Larkin, are you clear on what the Staff wants as a late-filed exhibit?

A Yes.

Q Would you read into the record what you perceive it to be?

A They would like me to prepare an exhibit showing how I got to the weighted cost of debt that I show in my testimony which would include any changes I made to the amortization of debt premium and issuing expenses.

Q Thanks, sir. Now with respect to the questions asked you by both Mr. Ade and Mr. Capeless, did you hear anything or say anything that would cause you to change any portion of your prefiled direct testimony?

A No.

MR. McLEAN: Thanks, sir. No further questions.

CHAIRMAN JOHNSON: Exhibits.

MR. McLEAN: Move Composite Exhibit 29, at least with respect to those schedules that Mr. Larkin addresses. And I see the 30 is late-filed, so just

29.

CHAIRMAN JOHNSON: Show it admitted without objection.

Mr. Larkin, you can be excused.

(Exhibit 29 received in evidence.)

(Witness Larkin excused.)

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WITNESS LARKIN: Thank you.

CHAIRMAN JOHNSON: Public Counsel, your next witness, she has a flight out today?

MR. McLEAN: Let me inquire. If we can go off the record, you all can discuss it directly.

WITNESS LARKIN: We can go today or tomorrow, but we can make it today if she finishes.

CHAIRMAN JOHNSON: By what time?

WITNESS LARKIN: Well, it's a 3:20 flight so if we finish by, say, 1:30, 2:00.

CHAIRMAN JOHNSON: Well, we can take her right now, and then take a longer lunch break so that you all can discuss the other issues to try to ensure that they catch their flight.

MR. McLEAN: We certainly have no objection to that, Commissioner. We'll go with your pleasure.

CHAIRMAN JOHNSON: Let's do ahead and continue.

MR. McLEAN: Citizens call Ms. DeRonne.

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DONNA DERONNE

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

DIRECT EXAMINATION

BY MR. McLEAN:

Q State your name for the record, please?

A Donna DeRonne.

Q You have been sworn in this case?

A Yes, I have.

Q By whom and in with capacity are you employed?

A Retained by Larkin & Associates as a regulatory analyst.

Q And that firm is under contract to the Office of Public Counsel to provide testimony and analysis in this case; is that correct?

A Correct.

Q And you've prepared 24 pages of direct testimony, have you, ma'am?

A Correct.

Q And that testimony includes an appendix which is addressed to your qualifications as an expert; is that correct?

A Correct.

Q Do you have any changes to the testimony or to the appendix?

A No, I do not.

Q Were I to ask you the same questions as those reflected in your testimony, would your answers be the same?

A Correct.

MR. McLEAN: Madam Chairman, may we have the testimony of Ms. DeRonne and the appendix moved into the record as though read?

CHAIRMAN JOHNSON: It will be inserted as though read.

DIRECT TESTIMONY OF DONNA DERONNE
ON BEHALF OF THE CITIZENS OF FLORIDA
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
UNITED WATER FLORIDA
DOCKET NO. 960451-WS

I. INTRODUCTION

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

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

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

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

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

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

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

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

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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

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

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

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

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

II. <u>RATE BASE</u>

<u>Revisions to Plant in Service</u>

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

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

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

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

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

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

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

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

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

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

Q. PLEASE DESCRIBE THE CALCULATIONS PRESENTED ON THE SCHEDULES.

A. The starting point in my calculation is presented on page 2 of each of the schedules. I began with UWF's actual plant in service as of September 1996, which was provided in response to Citizens Interrogatory Nos. 60 and 61. To this amount I added UWF's revised projected additions for October through December 1996 based on information that was provided in response to Citizens Interrogatory No. 78. My beginning balance would include the projects that were closed to plant in service prior to that date. I then removed UWF's projected plant retirements for the months of October through December 1996. The resulting amount was the revised projected December 31, 1996 plant in service balance, which is the starting month in calculating the thirteen month average balance. This amount was copied to the first column on page 1 of the schedules.

Q. WHAT WAS YOUR NEXT STEP?

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

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

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

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

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

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

A. As shown on Schedule 7-A, water plant in service should be reduced by an additional $3,176,951. Likewise, wastewater plant in service should be reduced by an additional $2,610,939, as shown on Schedule 7-B. These adjustments were calculated based on the difference between my calculated 13-month average plant in service and the 13-month average plant in service included in the filing. Consequently, these adjustments are <u>in addition to</u> the plant in service adjustments discussed in Mr. Larkin's testimony, in which he adjusts the Company's proposed year end rate base amount to the 13-month average amount, consistent with Commission policy.

Impact of Plant Revisions on Depreciation

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

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

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

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

<u>Accumulated Depreciation - Change in Depreciation Rates</u>

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

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

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

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

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

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

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

III. <u>NET OPERATING INCOME</u>

<u>Salary & Wage Expense</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. WHAT ADJUSTMENTS RESULT FROM YOUR RECOMMENDATIONS?

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

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

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

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

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

<u>Payroll Tax Expense</u>

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

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

Medical Insurance Expense

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

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

Q. YOUR ADJUSTMENT TO SALARIES AND WAGES REDUCED THE

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

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

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

A. Yes. The Company has provided no evidence substantiating the projected 9% cost increase. The Company did not provide any quotes or estimates from its insurers substantiating the increase, nor did it provide historic cost levels from which to evaluate the reasonableness of the projected 9% increase. Absent any support substantiating the projected 1997 medical cost increase, we recommend that the projected 1997 Gross Domestic Implicit Price Deflator of 2.5% be utilized in estimating the 1997 medical and dental costs, along with the employee contributions. On page 2 of Schedule 14, I have applied the 2.5% price index to my calculated 1996 medical and dental costs, along with the recalculated employee contributions.

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

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

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

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

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

A. Yes. UWF's projected life insurance cost was based on its estimated 1997 salary and wage cost. The projected future test year life insurance cost should be reduced to reflect the impact from my recommended reduction to salary and wage cost. The necessary reduction is calculated on page 5 of Schedule 14.

Q. HAVE YOU PREPARED A SCHEDULE SUMMARIZING YOUR RECOMMENDATIONS?

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

Employee Savings Plan Cost

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

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

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

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

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

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

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

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that projected employee savings plan cost levels be calculated based on my recommended percentage increases in total salaries and wages. There is a direct correlation between the salary and wage levels and employee savings plan costs. As shown on Schedule 15, this results in a reduction of projected 1997 test year savings plan expense of $4,665 for water operations and $8,292 for wastewater operations, for an overall reduction of $12,957. Also presented on Schedule 15 is UWF's employee savings cost for each year, 1992 through projected 1997, along with the percentage increase (decrease) occurring between each of the years. As shown on the schedule, UWF's projected 1996 cost increase of 27.6% is inconsistent with the historical increases in cost levels.

Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?

A. Yes, it does.

Q (By Mr. McLean) And we learned from Mr. Larkin that you prepared some of the exhibits -- some of the schedules in the exhibit marked No. 29; is that correct?
A Correct. And my name is indicated on the top of each of those schedules that I am responsible for.
Q And those schedules were prepared either by yourself or at your direction?
A Correct.
Q Are there any changes to be made to any of those schedules?
A No.
Q Would you offer the Commission a summary of your testimony, please, ma'am?
A Yes. Basically, my testimony is an add-on to Mr. Larkin's testimony in which I --
COMMISSIONER KIESLING: Excuse me, could you get a little closer to the mike?
WITNESS DeRONNE: I'm sorry.
COMMISSIONER KIESLING: Thank you.
WITNESS DeRONNE: Basically, my testimony is to be taken in addition to Mr. Larkin's. And my first adjustment is to reflect some of the revisions to plant in service, and those should be in addition to

the adjustments sponsored by Mr. Larkin to reflect the 13-month average rate base.

The main basis of the revisions were to reflect the actual additions for '96 through the date we had available when we prepared our testimony. And there were substantial reductions in the amount of actual, compared to the budget editions for 1996.

And then we took the revised estimated '97 plant additions as of the date we prepared our testimony, what was available at the time, and I reflected the impact of those plant in service accumulated depreciation and depreciation expense.

And then I also sponsored adjustments to reflect salary and wage expense based on the actual employee count as of the date we submitted our testimony, and the impact of that on payroll tax expense and on benefits; and I made some adjustments to employee savings plan costs.

Q Does that conclude your summary?

A Yes, it does.

MR. McLEAN: Thank you, ma'am. Ms. DeRonne is available for cross examination.

CHAIRMAN JOHNSON: Thank you.

CROSS EXAMINATION

BY MR. ADE:

Q Ms. DeRonne, I'd like to ask you just a couple of questions about one subject?

A Okay.

Q Are you aware that your direct testimony was filed in this case on December 11, 1996?

A Yes, that's correct.

Q When your direct testimony was filed, were you aware of the Yulee wastewater treatment plant land, the land for the wastewater -- for the Yulee wastewater treatment plant?

A At that point I was aware of just the one line item that was contained for that addition. I believe it was in response to Citizens' Interrogatory No. 78. But I was not aware of exactly what that land was for or in relation to until I received the Company's rebuttal testimony, which was subsequent to my testimony being filed.

Q But you were aware of the land part of that investment when you prepared your testimony; is that correct?

A As to the extent that there was a one-line item included in the Company's response with no description, just basically Yulee land, correct.

MR. ADE: No further questions.

CHAIRMAN JOHNSON: Staff.

CROSS EXAMINATION

BY MS. REYES:

Q In Audit No. 93-216-1-1, which is the audit of rate base for the four-year period ending December 31, 1994, an exception was taken to the Utility's change of depreciation rates. Are you familiar with the Company's comments to this exception?

A Yes, I am.

Q And what was the response?

A I believe a large part of the comment is that the Company basically still maintain the same average rates overall during that period and that they had asserted that the Staff had some errors in their calculations and that the actual impact of those errors, if they are reversed, actually caused the accumulated depreciation on certain items to be more than the original value of those items.

As I stated in my testimony, that we agreed with the premise in Staff's exhibits about the change in depreciation rates, and when that -- that they are allowed to do that and that that should have waited until the next rate case. But I do qualify and state that we did not check those actual calculations, so I did not confirm whether or not there was an error in those.

Q So the problem with overdepreciating these accounts then is that the depreciation accumulated on the accounts will exceed the original cost of the assets?

A That's what the Company claimed in their response, correct.

Q So, in essence, more depreciation is taken than is possible; is that correct?

A Yeah, that was the Company's impression.

Q And would the result of that be that rate base and operating income are understated?

A If the Company's assertions are correct, then that could be the case, yes.

Q Isn't it true that in order to solve the overdepreciation problem that either you would have to increase the service life of the asset or stop depreciating the asset?

A Correct.

Q And isn't it true that overdepreciation is not proper or appropriate accounting procedure?

A No.

COMMISSIONER KIESLING: No, it's not correct?

WITNESS DeRONNE: Oh, no, it should not be overdepreciated.

COMMISSIONER KIESLING: The question was, is it correct, and you said no.

WITNESS DeRONNE: Oh, I must have misunderstood it.

COMMISSIONER KIESLING: I just wanted to be sure I understood your answer.

MR. ADE: Madam Chairman, I'm not long on making objections to questions, but this issue has been withdrawn. Is there any question in anybody's mind about that?

CHAIRMAN JOHNSON: Staff.

MS. REYES: Can I have just a moment?

MR. ADE: And I'll take a moment, and I'll tell you when and where. (Pause)

MS. REYES: Madam Chair, the question I see is Question 18. And as I see it, that issue is still an issue.

MR. McLEAN: Which issue is that, please?

MS. REYES: Issue 18.

CHAIRMAN JOHNSON: Mr. Ade.

MR. ADE: Can I have just another second here?

I should have left you an alternative. I told you when and where, and I apologize. I choose the second alternative. (Laughter)

CHAIRMAN JOHNSON: Staff, you may continue.

MS. REYES: Thank you.

Q (**By Ms. Reyes**) Ms. DeRonne, in your testimony you make some adjustments to remove the salaries and wages for some positions which were vacant at the time you filed your testimony; is that correct?

A Correct.

Q And these adjustments to which you have testified were based on the Utility's response to OPC's Interrogatory No. 56, which was previously identified as Exhibit 13; is that correct?

A Correct.

Q Do you have a copy of that exhibit?

A I believe so. Just give me a moment.

Q Take your time. It might be quicker -- Staff has a copy, we can bring it to you.

A I have it. I'm just missing the cover page from it. (Witness tendered exhibit.)

Thank you.

Q One of the positions that you propose to remove from salaries is the one identified as Utility Person 2; is that correct?

A Correct.

Q And I guess I'm referring to Page 11 of 11 of that exhibit?

A Yes, correct. That was one of the positions that was vacant, so correct.

Q Did you hear Mr. Sambamurthi testify earlier with regard to the activities of the Utility person and why it is necessary to include this person's salary?

A Yes, I did. I didn't take issue with the fact of whether or not this is a valid position that should be filled. My testimony was that the position was not filled at the time, and during any course of a year or any period of time, it's normal to have some vacancies in your payroll level. So to reflect salaries and wages as though all the positions that they project having are completely full is not a reasonable assumption.

Q Do you recall Witness Sambamurthi stating this person is needed due to more stringent regulations relating to traffic control, and this activity is related to directing traffic?

A Yes, I do recall him saying that.

Q And if this is true, would you agree then that an activity such as directing traffic could be accomplished by an entry level position?

A I would assume so, yes. Or even possibly a temporary position during periods that you would need such a function to be done.

Q Now, referring to Exhibit 13 again, Page 11 of 11, do you see on that page the wages that were included for the Utility Person 2 position for 1997?

A Yes, that would be $55,963.

Q And if the Commission determines that this position should be included, would you agree that this salary level is a bit excessive for an employee whose activities have been described as directing traffic?

A Yes, I would. Especially in light of it. I would assume that a temporary person could do it just as effectively.

MS. REYES: Thank you, Ms. DeRonne.

Staff has no further questions.

CHAIRMAN JOHNSON: Commissioners.

MR. McLEAN: No redirect. Thank you, ma'am.

CHAIRMAN JOHNSON: And no exhibits?

Ma'am, you are excused.

(Witness DeRonne excused.)

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WITNESS DeRONNE: Thank you.

CHAIRMAN JOHNSON: Let's explore where we are and what needs to be done at this point in time. I understand that the parties need some time to go over the options related to whether or not we establish a new procedure, and you want to have something to present back to the Commission before we make a ruling on the Motion to Strike?

MR. ADE: Yes, ma'am.

CHAIRMAN JOHNSON: How much time do you think you'll need for that?

MR. ADE: I would like to see us have two hours if we can do it without extending the process, the proceeding.

CHAIRMAN JOHNSON: I would be amenable to two hours if that included the lunch hour. So it's one extra hour. You all can have a working lunch and then an hour to work on the issue.

Now, witnesses. We may have Cleveland, Gradilone, and I understand that Michael Buckley is only available tomorrow?

MS. CAPELESS: No, that's not correct. From what I understand, he's on his way. So he should be here later this afternoon.

CHAIRMAN JOHNSON: I did not understand that.

MS. CAPELESS: Right. And the Prehearing

Order reflects that he would be available Wednesday, but since it looks like we may be able to squeeze him in today, he's in travel status right now.

CHAIRMAN JOHNSON: And we have a Frank McGuire.

MS. CAPELESS: Right. We have got Mr. Gradilone, Cleveland and McGuire that still need to testify for the Utility and Mr. Buckley. And that will be the extent of the witnesses.

CHAIRMAN JOHNSON: Okay. So everyone that needs to testify, could be here today, the witnesses that are remaining?

MS. CAPELESS: To my knowledge, yes, ma'am.

CHAIRMAN JOHNSON: Let's move that meeting to an hour and a half, and we'll begin at 2:30. And we're going to attempt to finish this today.

MR. ADE: Could we inquire of counsel on cross examination? I would like to see us really be able to give this a good opportunity, and that would give us four hours until the customers start if we start at 2:30.

CHAIRMAN JOHNSON: And you are thinking we may not need four hours?

MR. ADE: That's correct. That's what I was going to ask. I know we will have very little cross of Mr. Buckley. And so, I was really going to ask the Staff and Public Counsel what they thought about cross of Gradilone, Cleveland and McGuire.

CHAIRMAN JOHNSON: Staff.

MS. CAPELESS: We probably have an about an hour of cross examination for Mr. Gradilone. Just a few for Mr. Cleveland, and probably a half-hour at least for Mr. McGuire.

CHAIRMAN JOHNSON: Okay. Public Counsel.

MR. McLEAN: I doubt I have 20 minutes for all three of them.

CHAIRMAN JOHNSON: Okay.

MR. McLEAN: I mean, total. Less than 20 minutes total probably.

CHAIRMAN JOHNSON: Well, then, we can go back to the two hours. I was just concerned about us being able to finish. 3:00. Very well, we will reconvene at 3:00 o'clock.

(Thereupon, lunch recess was taken at 1:53 p.m.)

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(Transcript continues in sequence in Volume 6.)