

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
2 ADDITIONAL DIRECT TESTIMONY OF CARL WENZ
3 REGARDING THE APPLICATION FOR TRANSFER OF
4 ECON UTILITIES TO WEDGEFIELD UTILITIES
5 IN ORANGE COUNTY
6 DOCKET NOS. 960235-WS & 960283-WS
7 filed March 18, 1997
8

9 Q. Mr. Wenz, please state your business address for
10 the record?

11 A. 2335 Sanders Road, Northbrook, Illinois 60062.
12

13 Q. By whom are you employed and what is your position?

14 A. I am the Vice President of Regulatory Matters for
15 Utilities, Inc. and all of its subsidiaries,
16 including Wedgefield Utilities, Inc.
17

18 Q. Please state your professional and educational
19 experience.

20 A. I have been employed by Utilities, Inc. since 1984.
21 Over the last ten years I have been involved in all
22 phases of the regulatory process. Utilities, Inc.
23 currently owns water and/or wastewater utilities in
24 fifteen states. I have testified before the
commissions in several states, including Florida,

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1 North Carolina, South Carolina, Louisiana,
2 Illinois, Indiana, Nevada and Maryland. In my
3 present position I am responsible for all aspects
4 of utility commission regulation for the group of
5 61 Utilities, Inc. subsidiaries in fifteen states.
6 This includes twelve systems in Florida which we
7 have purchased during the last four years.
8

9 I am a Certified Public Accountant and hold a
10 Bachelors Degree in Business Administration from
11 Western Michigan University. I have attended
12 several utility regulation seminars sponsored by
13 NARUC and by Arthur Andersen LLP. For the past
14 three years I have been on the faculty of the
15 Eastern Utility Rate School which is sponsored by
16 the NARUC Water Committee and Florida State
17 University.
18

19 Q. What is the purpose of your testimony here today?

20 A. On October 7, 1996 this Commission, in Order No.
21 PSC-96-1241-FOF-WS approved, as a final action, the
22 transfer of Certificate Nos. 404-W and 341-S from
23 Econ Utilities Corporation to Wedgefield Utilities,
24 Inc. It also granted, as a final action, certain
25 requested amendments of the certificated territory.

1 However, in that same order, the Commission gave
2 notice of a Proposed Agency Action (PAA)
3 establishing rate base for purposes of the
4 transfer. That PAA has been challenged by the
5 Office of Public Counsel. The purpose of my
6 testimony today is to support the rate base
7 established by the PAA, which is the net book value
8 of the utility at the time of transfer, without any
9 acquisition adjustment.

10

11 This testimony is in addition to that filed January
12 6, 1997 pursuant to Order No. PSC-96-1533-PCO-WS.
13 We reserve all of our objections to this
14 proceeding, and we do not waive those objections or
15 any other rights by our participation herein.

16

17 Q. For purposes of the transfer what is the rate base
18 of the utility at the time of transfer?

19 A. It is \$1,462,487 for the water system and
20 \$\$1,382,904 for the wastewater system.

21

22 Q. Are those amounts for water and wastewater the same
23 as set forth in Commission Order No. PSC-96-1241-
24 POF-WS?

25 A. Yes, they are.

1 Q. How were those amounts established?

2 A. They were established by the Commission Staff after
3 an audit of the utility's books in this docket and
4 represent the original cost of plant in service,
5 net of accumulated depreciation and unamortized
6 CIAC. They do not reflect any used and useful or
7 other ratemaking adjustments such as an allowance
8 for working capital. The amounts established by
9 Commission Staff do reflect corrections to the
10 books of the utility to remove unauthorized AFUDC,
11 reclassification of expenses to capital, adoption
12 of the Commission's guideline depreciation rates
13 and adjustments required by prior Commission
14 orders.

15

16 Q. Have you reviewed the Commission Staff audit and
17 the Staff adjustments that result in its
18 established transfer value of rate base?

19 A. Yes.

20

21 Q. And do you agree that the rate base established by
22 Commission Staff correctly reflects the original
23 cost of plant in service net of accumulated
24 depreciation and unamortized CIAC, at the time of
25 transfer?

1 A. Yes.

2

3 Q. Is the price paid for the utility by Wedgefield
4 different than the rate base reflected on the books
5 of the utility?

6 A. Yes. It is lower.

7

8 Q. Is Wedgefield requesting that an acquisition
9 adjustment be made to rate base?

10 A. No.

11

12 Q. Are you familiar with this Commission's policy on
13 acquisition adjustments for water and wastewater
14 utilities?

15

16 A. Yes. My understanding of this Commission's policy
17 is that, in the absence of extraordinary
18 circumstances, the purchase of a utility at a
19 premium or a discount shall not effect the rate
20 base calculation. That is, the purchaser stands in
21 the shoes of the seller. My understanding is based
22 on my experience purchasing and operating utilities
23 in Florida under this Commission's jurisdiction and
24 on reading the Commission's orders establishing,

1 investigating and reconfirming its policy on
2 acquisition Adjustments.
3

4 Q. Where you aware of this policy when Wedgefield
5 purchased Econ?
6

7 A. Yes.

8 Q. Was this policy a consideration in the decision to
9 purchase Econ?
10

11 A. Absolutely. As you may be aware, Utilities, Inc.,
12 or its subsidiaries, have purchased several
13 utilities in Florida. The Commission's policy
14 regarding acquisition adjustments has entered into
15 all of those decisions. Without the incentive
16 provided by this Commission's long established
17 policy on acquisition adjustments, many of the
18 purchases, including this one, would probably not
19 even have been considered. It would be unfair to
20 change the prior existing policy after the utility
21 purchase agreement had already been signed. Adding
22 to this unfairness, the Commission's order
23 approving the transfer was "final agency action"
24 and only "proposed agency action" as to
25 establishing rate base for purposes of the
transfer. This procedure, and lack of reasonable

1 certainty as to the ground rules, will make it very
2 difficult for utility companies to consider the
3 possibility of acquiring other utilities in
4 Florida.
5

6 Q. Do you know anything about the owner of Econ, the
7 utility that is now Wedgefield?

8 A. Yes. The owner of Econ was a small developer. He
9 had indicated to us that, although he wanted to
10 continue to develop property, he was no longer
11 interested in operating a utility or committing
12 funds to it.
13

14 Q. Is Wedgefield or its parent a developer?

15 A. No. Utilities, Inc. owns and operates utilities
16 only.
17

18 Q. Are Wedgefield and its parent willing to commit
19 funds to the operation of Wedgefield?

20 A. Yes, assuming fair ratemaking treatment by this
21 Commission.
22

23 Q. Do Wedgefield and its parent have the financial
24 ability to commit the funds necessary to operate
25 this utility?

1 A. Yes.

2

3 Q. Can they attract capital at reasonable costs?

4 A. Yes.

5

6 Q. Do you know if the prior owner had or has the
7 financial ability to continue to operate Wedgefield
8 in the manner consistent with state requirements?

9 A. It is my understanding that the former owner either
10 does not have the funds or is not willing to commit
11 the funds necessary.

12

13 Q. Do Wedgefield and its parent have access to
14 professional and experienced utility management?

15 A. Yes. As previously stated, we operate some 61
16 water and wastewater utilities in fifteen states.
17 Here in Florida, we have an established management
18 team and access to professional operators.

19

20 Q. Will Wedgefield benefit from any economies of scale
21 in its operation?

22 A. Yes. Since management is already in place in
23 Florida, it will not be necessary to obtain
24 management just for Wedgefield. Wedgefield will be
25 allocated a portion of the overall management

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expense. In addition, equipment and supply
purchases for Wedgefield will benefit from the
established vendor resources already being used
for sister systems in Florida.

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Q. Prior to the purchase of Wedgefield, did anyone
from Utilities, Inc. or its subsidiaries inspect
the Wedgefield systems?

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A. Yes. Mr. Rasmussen, Vice President of Utilities,
Inc. of Florida, inspected the systems.

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Q. Did he make you aware of the condition of the
systems?

A. Yes. He found that they were not in the best of
condition, but they were not in extremely poor
condition, either. This is typical of developer-
owned utilities. They were not in violation of any
state regulations, but they were not up to the
standard that we would want to maintain.

Q. Some of the documents provided to the Commission or
the Office of Public Counsel (OPC), as part of
their discovery process for the transfer
application, seem to imply that expenditures of
millions of dollars will be necessary to bring this

1 utility into working order. Is that your
2 understanding?

3 A. No. Certainly, the systems need some additional
4 maintenance, but they are in compliance with
5 regulatory requirements and are not in immediate
6 danger of falling out of compliance. There was,
7 however, a danger that the condition of plant and
8 the quality of service would deteriorate because of
9 the prior owner's expressed disinterest in
10 continuing to fund and operate the utility. Much
11 of the costs discussed in documents provided to the
12 Commission and OPC are related to expanding the
13 system to enable it to serve growth, some of the
14 costs are related to normal near term maintenance
15 and improvements and preventive maintenance, and
16 some are just a "wish list" contemplated by Orange
17 County, which also had been reviewing the utility
18 for possible purchase.

19
20 Q. Will the change in ownership from Econ to
21 Wedgefield benefit the customers of the utility and
22 provide them with a better quality of service?

23 A. Yes. Summarizing the facts I have testified to,
24 the customers will benefit because the new owner is
25 utility oriented and replaces a developer related

1 owner that has expressed disinterest in operating
2 and funding the utility. The new owner will not
3 have the financial pressures faced by the previous
4 owner of deciding whether to invest in utility
5 operations or in real estate development. The new
6 owner has the ability to attract capital at a
7 reasonable cost. It has the ability and commitment
8 to make any necessary improvements. It has a
9 professional staff with years of experience in
10 utility operations. It has the potential to reduce
11 costs through the allocation of existing
12 administrative expenses and through access to an
13 established purchasing system. It is familiar
14 with, and has the ability to comply with, all state
15 and federal regulations.

16

17 Q. Was there anything extraordinary about this utility
18 or the circumstances leading up to its purchase?

19 A. No. This utility and the circumstances surrounding
20 the purchase were pretty much like those of the
21 other utilities we have purchased in Florida.

22

23 Q. Does that conclude your direct testimony?

24 A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Transfer)
of Certificate Nos. 404-W and)
341-S in Orange County from Econ)
Utilities Corporation to)
Wedgefield Utilities, Inc.)

DOCKET NO. 960235-WS

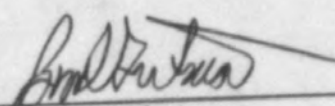
In Re: Application for)
Amendment of Certificate Nos.)
404-W and 341-S in Orange County)
by Wedgefield Utilities, Inc.)

DOCKET NO. 960283-WS

Submitted for Filing:
March 18, 1997

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Additional Direct Testimony of Carl Wenz has been sent to Charles Beck, Esq., Office of Public Counsel, 111 W. Madison St., Tallahassee, FL 32399-1400; Mr. John Forrer, Econ Utilities, Inc., 1714 Hoban Rd. NW, Washington, D.C. 20007; and to Donna Cyrus-Williams Esq., Division of Legal Services, Florida Public Service Commission, 2540 Shumard Oak Blvd., Tallahassee, FL 32399-0850, by U.S. Mail this 18th day of March, 1997.



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