

ORIGINAL
FILE COPY

HOPPING GREEN SAMS & SMITH
PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS

123 SOUTH CALHOUN STREET
POST OFFICE BOX 6526
TALLAHASSEE, FLORIDA 32314
(904) 222-7500
FAX (904) 224-8551
FAX (904) 425-3415

GARY K. HUNTER, JR.
JONATHAN T. JOHNSON
ROBERT A. MANNING
ANGELA R. MORRISON
GARY V. PERKO
KAREN M. PETERSON
MICHAEL P. PETROVICH
R. SCOTT RUTH
W. STEVE SYKES
T. KENT WETHERELL, II
OF COUNSEL
W. ROBERT FOKES

JAMES S. ALVES
BRIAN H. BIBEAU
KATHLEEN BLIZZARD
ELIZABETH C. BOWMAN
RICHARD S. BRIGHTMAN
PETER C. CUNNINGHAM
RALPH A. DeMEO
THOMAS M. DeROSE
WILLIAM H. GREEN
WADE L. HOPPING
FRANK E. MATTHEWS
RICHARD D. MELSON
DAVID L. POWELL
WILLIAM D. PRESTON
CAROLYN S. RAEPPEL
DOUGLAS S. ROBERTS
GARY P. SAMS
ROBERT P. SMITH
CHERYL G. STUART

Writer's Direct Dial No.
(904) 425-2313

October 25, 1996

BY HAND DELIVERY

Ms. Blanca S. Bayó
Director, Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Utilities, Inc.
Docket No. 960258-WS

Dear Ms. Bayó:

Enclosed for filing on behalf of Utilities, Inc. in the above referenced docket are the original and 15 copies of the direct testimony of Mark F. Kramer.

Copies have been furnished to those on the attached certificate of service.

ACK _____
AFA 1
APP 1
CAF _____
CMU _____
CTR _____ RDM/cc
EAC _____ Enclosures
LEG _____ cc: Parties of Record

Very truly yours,

RDM

Richard D. Melson

LIN 5
OIR _____
RCH 1
SEP 1
WAS _____
OTH _____

RECEIVED & FILED
RDM
BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

11383 OCT 25 96

FPSC-RECORDS/REPORTING

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following by U. S. Mail this 25th day of October, 1996.

Chris Moore
Division of Appeals - Room 301
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Wayne Schiefelbein
Gatlin Woods & Carlson
1709-D Mahan Drive
Tallahassee, FL 32308

Brian P. Armstrong
Matthew J. Feil
Southern States Utilities, Inc.
1000 Color Place
Apopka, FL 32703

Harold McLean
Office of Public Counsel
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400

Richard M.

Attorney

**Before the
Florida Public Service Commission**

Docket No. 960258-WS

In the Matter of

**Petition to Adopt Rules on
Margin Reserve and Imputation of
Contributions-in-Aid of Construction
on Margin Reserve Calculation**

Direct Testimony of

**Mark F. Kramer
Manager of Regulatory Accounting**

for

Utilities, Inc.

October 24, 1996

1 **Q. Can you state your name and business address for the record?**

2 A. Yes. My name is Mark Kramer. My business address is 2335 Sanders Road,
3 Northbrook, Illinois 60062.

4
5 **Q. What is your occupation?**

6 A. I am a Manager of Regulatory Accounting for Utilities, Inc. and its subsidiaries,
7 including Alafaya Utilities, Inc., Lake Placid Utilities, Inc., Lake Utility Systems,
8 Inc., Mid-County Services, Inc., Miles Grant Water and Sewer Company, Tierra
9 Verde Utilities, Inc., Utilities, Inc. of Florida, and Utilities, Inc. of Longwood.

10

11 **Q. Please summarize your professional background.**

12 A. I have been employed by Utilities, Inc. since 1992. Since that time I have been
13 involved in many phases of rate-making in several regulatory jurisdictions. I am a
14 Certified Public Accountant. I graduated from University of Illinois at Urbana-
15 Champaign in 1989 with a Bachelor's of Science Degree in Accountancy. I had
16 three years of public accounting experience prior to joining Utilities, Inc. I will
17 graduate from the Lake Forest Graduate School of Management with a Masters of
18 Business Administration in January of 1997. I have attended the NARUC Utility
19 Rate Seminar and several independently sponsored seminars.

20

21 **Q. Please explain your job responsibilities with Utilities, Inc.?**

22 A. Utilities, Inc. has approximately 50 wholly owned subsidiaries engaged in the water
23 and/or wastewater utility service business in 15 different states. Those states are
24 Florida, Louisiana, Illinois, North Carolina, South Carolina, Indiana, Ohio, Virginia,
25 Georgia, Mississippi, Tennessee, New Jersey, Pennsylvania, Maryland, and Nevada.
26 Through those subsidiaries Utilities, Inc. owns and operates about 250 utility
27 systems serving over 150,000 customers.

28

29 I am responsible for rate-making activities for individual companies within the
30 group.

31

32 **Q. What is the purpose of your testimony?**

33 A. To present the position of Utilities, Inc. (UI) and its subsidiaries regarding the
34 proposed rule.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35

9. What is the position of UI regarding the proposed rules?

A. Our position is consistent with that of the Florida Waterworks Association (FWWA). Specifically, we have issue with three items of the Rule, two of which the FWWA addresses in their testimony, and one that has yet to be addressed.

First is the margin reserve period. The proposed Rule proposes the margin reserve period to be only eighteen months. We have experienced in our subsidiaries that the "time period needed to install the next economically feasible increment of plant capacity" often exceeds eighteen months by years, not months. Our concerns regarding this issue in its entirety are expressed the testimony provided by the FWWA.

The second issue is the imputation of contributions-in-aid of construction (CIAC) on margin reserve. The entire premise of margin reserve is obfuscated by imputing CIAC. Rather than be repetitive, our concerns regarding this issue in its entirety are expressed the testimony provided by the FWWA.

Finally, we believe the ultimate reliance on historical data to estimate future growth rates should be eliminated. The Florida Public Service Commission realizes that other factors impact growth, however the proposed Rule 25-30.431 (5) (d) states:

The utility shall also submit a linear regression analysis using average ERCs for the last 5 years. The utility may submit other information that will affect growth in ERCs.

Although a linear regression analysis may be useful in the majority of cases, specifically requesting the analysis promotes ultimate reliance on the estimating device.

9. What changes in the wording of Rule 25-30.431 (5) (d) do you propose?

A. We propose that the request for a linear regression analysis be eliminated. The section should read:

The utility may also submit other information that will affect growth in ERCs.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Q. Why are you proposing this change in the Rule?

A. By requiring the utility to submit a regression analysis in all cases, the analysis likely to become an inflexible ruler for measuring growth estimates. The analysis only predicts future growth based on historical growth. This reliance on past data can work to both over and under estimate future growth.

For instance, if a system is relatively new, and new subdivisions are in a planning stage, historical growth is a poor indicator of future growth. Assume a system serves only one or two subdivisions in the first five years of operation. In year six, three new large subdivisions are planned and subsequently built. In this instance obviously the reliance on historical growth rates in year six would be grossly inaccurate in estimating future growth.

In the converse situation, if the subdivisions served by the utility are in the tail end of their development, growth rates will diminish rapidly. For example, a utility that historically served new developments with a constant growth rate is nearing the completion of its current development. Within the next year the subdivisions served are planned to completely built out, and future planned subdivision construction will not occur for several years. Under these conditions, a regression analysis would over estimate future growth.

In both of the aforementioned scenarios, the obvious external factors would be addressed. However, we are concerned that as all utilities are required to file a regression analysis, the analysis will carry greater weight than is appropriate to determine an adequate growth estimate. At what point will the Staff analyst reject the staple analysis for "other information that will affect growth in ERCs" as the Rule suggests may be submitted by the utility.

1 **Q. Are proposing the Commission abandon the use of regression analysis**
2 **altogether?**

3 **A. Absolutely not. Used properly, in a relatively stable environment, regression**
4 **analysis can adequately predict future growth rates. However, regression analysis**
5 **is not always the best tool to use, and by requiring its submission an undue**
6 **influence will exist from the analysis' results. Consequently, the focus of the utility**
7 **will change from supporting a reasonable growth rate to disproving the results of**
8 **the regression analysis in favor of other evidence offered by the utility.**

9

10 **Q. Does this conclude your testimony?**

11 **A. Yes it does.**