

1 **RESPONSIVE TESTIMONY OF DEBORAH D. SWAIN**
2 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
3 **REGARDING THE RULES FOR MARGIN RESERVE AND**
4 **IMPUTATION OF CIAC ON MARGIN RESERVE**
5 **ON BEHALF OF THE FLORIDA WATERWORKS ASSOCIATION**
6 **DOCKET NO. 960258-WS**

7
8 **Q. PLEASE STATE YOUR NAME AND ADDRESS FOR THE**
9 **RECORD.**

10 A. My name is Deborah Swain.

11
12 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE ON**
13 **BEHALF OF THE FLORIDA WATERWORKS ASSOCIATION**
14 **(FWA)?**

15 A. Yes, I did.

16
17 **Q. WHAT IS THE PURPOSE OF YOUR RESPONSIVE**
18 **TESTIMONY?**

19 A. I would like to respond to certain comments filed by Office of Public
20 Counsel (OPC).

21
22 **Q. ON PAGE 2 OF ITS COMMENTS, OPC STATES THAT IN**
23 **ORDER TO PROPERLY MATCH CIAC AND INVESTMENT,**
24 **CIAC MUST BE IMPUTED. DO YOU AGREE WITH THIS**
25 **STATEMENT?**

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC _____
- WAS _____
- OTH _____

1 A. No, not at all. This statement highlights the most basic error in the
2 practice of imputing CIAC. An imputation causes a mismatch with
3 margin reserve, not a match. As I explained in my direct testimony, the
4 money for margin reserve plant has already been spent whereas the CIAC
5 funds have not been received. As a matter of fact, if CIAC is imputed, in
6 order to create a match, an imputation of plant costs to be incurred in the
7 future should be made.

8

9 **Q. OPC STATES THAT IF CIAC IS NOT IMPUTED, THE UTILITY**
10 **MAY OVEREARN. DO YOU AGREE?**

11 A. No, I do not. This concern is nonsensical. The utility should be able to
12 earn a fair return on margin reserve if it is a used and useful cost. In order
13 to preserve the margin reserve, enabling the utility to earn a fair return on
14 it, you cannot impute CIAC. As a matter of fact, if CIAC is imputed, the
15 utility will underearn. OPC has completely failed to recognize that as new
16 customers connect, not only does the utility collect CIAC, but it must
17 make expenditures to provide for the then future customers. As I show on
18 Table 5-1 in Exhibit DDS-2, in an eleven year study of 174 utilities, plant
19 expenditures outpaced CIAC collected three to one.

20

21 **Q. OPC ALSO STATES THAT NOT IMPUTING CIAC WOULD**
22 **ENCOURAGE UTILITIES TO OVERPROJECT CUSTOMER**
23 **GROWTH. DO YOU AGREE?**

24 A. No, I do not. And in any event, this assertion is not pertinent. The
25 utility's projection of customer growth must be adequately justified in its

1 rate application, and can easily be challenged and / or validated upon
2 review. Obviously, the utility must be able to prove the basis for its
3 projections. Such justification may include any combination of historical
4 growth statistics, developer agreements, comprehensive master plans,
5 construction plans, etc. To suggest that margin reserve should be
6 eliminated by imputing CIAC as a way to keep the utility honest is absurd.

7

8 **Q. OPC SUGGESTS THAT MARGIN RESERVE BE ELIMINATED,**
9 **AND INSTEAD BE INCLUDED IN AFPI. WOULD THIS BE**
10 **ACCEPTABLE?**

11 A. No, it would not. The utility should not have to recover margin reserve
12 through such a speculative means, when, as we have demonstrated, margin
13 reserve should be recovered from existing customers. Furthermore, while
14 conducting our study, we found many utilities do not have an AFPI rate
15 approved. There is little incentive to utilities to request AFPI because it is
16 so speculative, and because its recovery period is so narrow.
17 The fact is, margin reserve benefits existing customers, and as such, it
18 should be, as it has been, recoverable from existing customers.

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20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 A. Yes.

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