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ORIGINAL
FILE

January 21, 1997

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket Nos. 960235-WS & 960283-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of the Direct Testimony of Thomas C. DeWard, Witness for the Citizens of the State of Florida.

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

Sincerely,

Charles J. Beck
Charles J. Beck
Deputy Public Counsel

- ACK _____
- AFA _____
- APP _____
- CAP _____
- CMU _____ CIB:bsr
- CTR _____
- EAB _____ Enclosures
- LEG 1
- LIN 5704
- OFC _____
- RCM _____
- SEC 1
- WAS _____
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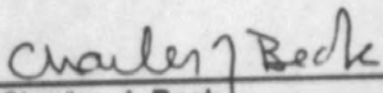
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FPSC-RECORDS/REPORTING

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CERTIFICATE OF SERVICE
DOCKET NOS. 960235-WS and 960283-WS

I HEREBY CERTIFY that in the above referenced dockets a copy of the Direct Testimony of Thomas C. DeWard, Witness for the Citizens of the State of Florida, has been furnished, either by U.S. Mail or hand-delivery, to the following parties on this 21st of January, 1997.



Charles J. Beck

Donna Cyrus-Williams, Esq.
Fla. Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Ben Girtman
1020 E. Lafayette St., #207
Tallahassee, FL 32301-4542

Wedgefield Utilities, Inc.
200 Weathersfield Avenue
Altamonte Springs, FL 32714-4099

Econ Utilities Corporation
664 South Military Trail
Deerfield Beach, FL
33442-3023

Utilities, Inc. Of Florida
200 Weathersfield Avenue
Altamonte Springs, FL
32714-4099

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
Wedgfield Utilities, Inc.)
)
)
)
)
)

DOCKET NO. 960235-WS

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

DOCKET NO. 960283-WS

DIRECT TESTIMONY OF
THOMAS C. DE WARD
Witness for the Citizens of the State of Florida

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPR _____
- R _____
- SE _____
- W/S _____
- OTH _____

Jack Shreve
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DOCUMENT NUMBER-DATE

00711 JAN 21 5

FPSC-RECORDS/REPORTING

1 DIRECT TESTIMONY OF THOMAS C. DE WARD
2 ON BEHALF OF THE CITIZENS OF FLORIDA

3
4 BEFORE THE
5 FLORIDA PUBLIC SERVICE COMMISSION
6 WEDGEFIELD UTILITIES, INC.
7 DOCKET NOS. 960235-WS AND 960283-WS

8
9 Q. What is your name, occupation and business address?

10 A. My name is Thomas C. DeWard. I am a Certified Public
11 Accountant, licensed in Michigan, and a Senior Regulatory Analyst
12 in the firm of Larkin & Associates, Certified Public Accountants,
13 licensed in Michigan and Florida, with offices at 15728 Farmington
14 Road, Livonia, Michigan 48154.

15 Q. Have you prepared an Appendix describing your Qualifications and
16 Experience?

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

19 Q. Please summarize your financial accounting and auditing experience.

20 A. For the past 15 years I have been employed by Larkin & Associates.
21 During this time period, I have worked primarily on utility matters.

1 I spent nine years in public accounting with Peat, Marwick, Mitchell
2 & Co.(PMM & Co., now KPMG Peat Marwick). During that time

3 I participated in or managed audits of industrial and commercial
4 companies, including two large manufacturing firms. The larger
5 clients required coordination with other PMM & Co. offices, both
6 domestic and foreign. Some work involved registration statements
7 and certain mandatory filings with the federal Securities and
8 Exchange Commission.

9 I also served as a Vice President-Finance of a manufacturing firm
10 and Treasurer of a firm involved in packaging, distribution and data
11 processing services. As both of these firms were relatively small,
12 my responsibilities were very broad and included work in virtually
13 all of the accounting and financial areas. I prepared the financial
14 statements, negotiated loans and payment schedules with banks,
15 selected employee benefit plans, negotiated insurance coverage, and
16 prepared tax returns.

17 In how many utility cases have you participated?

18 Q.

19 A. I have participated in approximately 160 cases since joining the firm
20 in 1981. This includes multiple phases related to the cases such as
21 partial, interim, final, rebuttal, reconsideration and rehearing.

1 Q. What issues did you address in those cases?

2 A. I addressed a range of issues, including those related to revenue
3 requirements, rate base, operating income, capital structure, capital
4 costs, wage levels, employee benefits, fuel accounting, fuel costs,
5 fuel refunds, fuel handling, insurance, O&M, contributions and
6 memberships, advertising, inflation rates, payroll and property taxes,
7 and Federal and state income taxes including the Tax Reform Act of
8 1986.

9 Q. By whom were you retained and what is the purpose of your
10 testimony in this proceeding?

11 A. The firm of Larkin & Associates was retained by the Office of
12 Public Counsel("OPC") to address the issue of the appropriateness
13 of a negative acquisition adjustment in connection with the purchase
14 of the assets of Econ Utilities Corporation("Econ") by Wedgefield
15 Utilities, Inc.("Wedgefield" or the "Company") at a price
16 significantly below the net book value of the acquired assets.

17 Q. Have you included any Schedules to support your written
18 testimony?

19 A. Yes, Exhibit ___TCD-1 includes 2 Schedules.

20 Q. In connection with your analysis, did you review any documents?

21 A. Yes, I reviewed a number of documents that were obtained by the

1 OPC through a Production of Documents request to the Company
2 and a request to review documents in possession of the Public
3 Service Commission Staff ("PSC Staff"). I also reviewed prior
4 Commission Orders.

5 Q. Please summarize your testimony.

6 A. I recommend that a negative acquisition adjustment be established in
7 connection with the purchase of assets of Econ Utilities Corporation
8 by Wedgefield Utilities, Inc. Wedgefield was organized as a wholly
9 owned subsidiary of Utilities, Inc. to acquire the assets of Econ.
10 Wedgefield acquired the assets for a cash price of \$545,000.
11 According to the Commission Order, the net book value of the
12 assets at December 31, 1995 was \$2,845,391. Additionally Econ
13 can receive up to \$600,000 in additional payments based on the
14 collections of CIAC from every other lot in a planned development
15 (The Commons) calculated on 400 lots at \$3,000 per lot. (400 x
16 50% x \$3,000).

17 Q. Is it your opinion that the negative acquisition price should be based
18 on a purchase price of \$1,145,000 which includes the contingent
19 payment?

20 A. No. The initial acquisition should be based on the cash outlay of
21 \$545,000 in comparison to the net book value of the acquired assets

1 of \$2,845,391. If and when any additional payments are made, the
2 negative acquisition adjustment could be adjusted at that time. In
3 other words, the negative acquisition adjustment of \$2,300,391
4 (\$2,845,391-\$545,000) could be adjusted downwards by \$60,000 if
5 40 lots were sold and Wedgefield paid the \$60,000 to Econ.
6 Wedgefield would record the entire \$120,000 as CIAC with a
7 charge to the Negative Acquisition account and a credit to Cash for
8 the \$60,000 paid to Econ.

9 Q. You stated the negative acquisition adjustment could be adjusted at
10 that time additional funds are paid out. Is there an alternative?

11 A. Yes, however in order to be conservative, I am recommending that
12 the negative acquisition adjustment be reduced by any contingent
13 payments. As I note later in my testimony, there may be some costs
14 associated with serving The Commons. As funds are expended, rate
15 base will increase which will increase return requirements and
16 depreciation expense. I have assumed the Company has carefully
17 evaluated the potential and determined that the on going tariff
18 revenues and net CIAC collected from The Commons will offset the
19 return requirements and additional expenses(O&M and
20 depreciation). If this was not the case, I would recommend that the
21 negative acquisition adjustment not be adjusted or reduced as

- 1 additional amounts, if any, are paid out
- 2 Q. If Wedgefield is willing to make additional contingent payments
3 doesn't this mean that the existing assets may be worth more than
4 \$545,000.
- 5 A. No. First of all, no additional payments are required if no money is
6 received as a result of new hook ups in the planned development
7 known as The Commons. Thus, \$545,000 could be the total
8 purchase price. Next, there will be benefits and costs if The
9 Commons is developed. Although the owners of Econ are
10 responsible for constructing and donating to Wedgefield the
11 distribution and collection system, additional lines may be required
12 to bring service to the area and additional water and sewer
13 treatment facilities may be required to serve the increased customer
14 load. This will also result in increased tariff revenues and cash flow
15 from CIAC collected on the other 50% of the lots. Thus it is
16 apparent that Wedgefield is willing to pay up to an additional
17 \$600,000 to add up to 400 customers and receive up to \$1,200,000
18 in CIAC of which \$600,000 will be retained.
- 19 Q. Are the assets that Wedgefield is acquiring worth \$2,845,391?
- 20 A. No, they are worth \$545,000.
- 21 Q. What valuation does Wedgefield place on these assets for Federal

1 and State tax purposes.

2 A. The purchase price of \$545,000 must be allocated between the
3 assets. This becomes the tax basis and the \$545,000, net of any
4 amount allocated to land or other non depreciable assets such as
5 chemicals or supplies, is the total amount that can be depreciated for
6 tax purposes.

7 Q. Does this have any long term impact on the Company?

8 A. Yes. If the negative acquisition adjustment that I propose is not
9 adopted, the book basis of the assets will be substantially in excess
10 of the tax basis. Book depreciation will exceed tax depreciation and
11 thus a deferred tax charge will be generated. It should be kept in
12 mind that tax depreciation normally exceeds book depreciation thus
13 creating a zero cost deferred tax credit which goes to reduce the
14 overall return. A deferred tax charge in the capital structure will
15 increase the overall return requirements thus further penalizing the
16 customers. This will be corrected when the negative acquisition
17 adjustment is amortized over the remaining useful composite life
18 thus reducing book depreciation expense.

19 Q. What does the Company believe the fair value of the assets for
20 property tax purposes to be?

21 A. The Seller believes the value to be \$545,000. In a letter from John

1
2 O. Forrer to the Orange County Property Appraiser's Office dated
3 May 14, 1996, Mr. Forrer stated:

4 Our estimate of fair value as of 1/1/96 on our Tangible
5 Personal Property Tax Return is based on the purchase price
6 of \$545,000 set forth in on page 6 of the Purchase
7 Agreement less the portion of this price (\$11,000) which
8 was allocated to real property. Since this was definitely an
9 arms length transaction between two parties with adverse
10 interests, it seems to me that \$534,000 constitutes the fair
11 value of the utility assets at that time regardless of what the
12 historic book value is or was or what we think the rate base
13 ought to be for PSC rate making purposes.

14 Q. Why are the assets only worth \$545,000?

15 A. The key element is the condition of the assets and the amount of
16 improvements necessary to bring the assets to an acceptable
17 condition.

18 Q. Did you tour the facility to determine first hand the condition of the
19 assets?

20 A. No, I didn't have to. Nor am I an engineer. However, I did review
21 a number of documents which discussed the condition of the assets
22 being acquired as well as some insight into past maintenance or
23 more appropriately lack of preventative maintenance policies. These
24 documents were provided to the OPC by the Company in response

1 to requests for the production of documents as follows:
2

3 1. Please produce each document in your possession,
4 custody or control estimating the value of the assets
5 purchased from Econ Utilities Corporation. This request
6 includes, but is not limited to, all appraisals related to these
7 assets and all internal memoranda and other documents
8 discussing or evaluating the value of these assets.
9

10 2. Please produce each document in your possession,
11 custody or control discussing the potential purchase price
12 for assets of Econ Utilities Corporation.

13 Q. What are some of the documents the Company provided in response
14 to this request for documents?

15 A. One document, prepared January 1995, by the Orange County
16 Public Utilities Division was entitled Acquisition Feasibility Analysis
17 of Econ Utilities Corporation. In analyzing the Water Supply,
18 Water Treatment, Water Distribution, Wastewater Collection and
19 Wastewater Treatment and Effluent Disposal facilities the prevalent
20 comment was that maintenance or repairs had been performed on an
21 emergency basis only. Furthermore, there was no preventative
22 maintenance program in effect.
23

24 In discussing the Wastewater Collection system on page 2-3 of the
25 report, the analysis stated: "...during wet weather indicates a

1 significant inflow/infiltration problem in the collection system. TV
2 inspections of a portion of the system confirm an infiltration
3 problem. Many of the manhole covers in the system are located
4 under asphalt and are inaccessible..." In discussing the Wastewater
5 Treatment and Effluent Disposal facilities on page 2-3, the report
6 noted: "The steel structure is experiencing severe corrosion along
7 the water line and at the base of the chlorine contact tank."
8

9 In discussing improvements needed, the report on pages 3-2 and 3-3
10 include the following observations:

11 "As previously mentioned, there has been no preventative
12 maintenance on the water distribution system. It is therefore
13 difficult to determine the extent of the improvements
14 required. However, there are several modifications that will
15 be required to bring the system up to current County
16 standards. Approximately 23,000 feet of 4-inch and 6-inch
17 pipe and related valving will need to be installed to replace
18 all of the AC pipe and 2-inch mains. In addition, there are
19 approximately 370 services which will need to be connected
20 to the new mains.
21

22 Fire protection and metering are other areas in which
23 improvements may be needed. The fire hydrant spacing in
24 Wedgefield does not meet the current subdivision
25 regulations. The water meters have been replaced on an "as-

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needed" basis. There are no records of these replacements and as a result, the age, condition and types of meters are inconsistent. A meter replacement program may be prudent. An evaluation will need to be performed to determine what will be required to bring the metering and fire hydrants up to standards."

On Table 3-3 of the report, the County estimated the cost to install PVC water mains, gate valves and to reconnect water services at \$577,612.

In discussing necessary improvements to the wastewater collection system the following discussion appears on page 3-4:

The wastewater collection system will require several modifications to bring it up to County standards. Approximately 18,000 feet of gravity mains and 69 manholes will be required to bring rear lot services and mains to the front, and to replace the AC pipe with PVC. This will involve the reconnection of 217 services, and the restoration of over 44,000 square yards of pavement. The wastewater transmission system will require rehabilitation of the six pumping stations, and the construction of approximately 3,850 feet of 4-inch force main.

1 On Table 3-8 of the report, the County estimated the cost to
2 rehabilitate the Collection System at \$2,734,755. This included
3 installing gravity main, manholes, force main and the restoration of
4 pavement.

5
6 In the Summary & Conclusion on page 4-4 of the report, the
7 County concluded that the cash required to perform the
8 rehabilitation and improvements to the existing facilities at
9 \$4,642,367.

10 Q. Were there other documents provided by the Company which
11 analyze the condition of the assets?

12 A. Yes, a report was prepared by Econ's engineering firm in June,
13 1995 and entitled Capital Improvement Plan and Utility Rate &
14 Impact Fee Analysis of Water and Wastewater Systems. In that
15 report the firm of John B. Webb & Associates, Inc. recommended
16 among other things that:

17 "The Utility begin now to make preparations for the eventual
18 replacement of all cement-asbestos pipe utilized in the
19 system, both potable water and wastewater. We recommend
20 a systematic approach where the utility begins to save money
21 now for the project, that the exact locations of the cement-
22 asbestos lines be determined, and finally that engineering
23 plans be prepared that will show the necessary replacement
24 lines and the procedure for transferral(sic) of services from
25 the old cement asbestos lines to the new lines."

1 Q. Did an engineer from the Staff of the Public Service Commission
2 visit the facilities when they were owned by Econ?

3 A. Yes, an informal visit was made on November 3, 1994. Some of the
4 comments included in the Memorandum to File are as follows:

5 The chlorine room is the original one from the 1960's and is in need
6 of being rebuilt.
7

8 One of the old wells is located outside the fenced-in area of the
9 water treatment plant and is need of being properly abandoned.
10

11 There is a good bit of leaking in the distribution, some of the lines
12 are just getting old.
13

14 Mr. Hunneman said that(sic) have problems with leaks and in fact
15 there was a serious leak the week prior to my visit which collapsed a
16 road. He said they are constantly repairing services.
17

18 Q. Did the Company provide any internal documents concerning the
19 condition of the facilities and what repairs might be required?

20 A. Yes, following are some selected comments from the documents
21 identified with an underscore:

22 Memo from Jim to Perry dated 7/5/95

23 Econ Utilities has a Service Agreement with Orange County
24 which specifies design and construction standards which
25 include provisions for fire flow protection. Accordingly,

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Econ Utilities will soon need to expand its supply/pumping treatment capacity as well as its storage capacity to be able to meet fire flow requirements.

Actual flows are now running over 150,000 gpd, and a new 200,000 gpd expansion is required along with upgrades to the equalization pond.

There appears to be inflow and infiltration problems which will require upgrades to manholes and lift stations.

In November, 1994, the Seller engaged an engineer to identify and quantify the costs needed to expand and upgrade the facilities. The engineer's total estimate included the cost of replacing the AC mains.

The engineer's cost just to bring the water supply/pumping/treatment and storage up to near term requirements is approx \$400,000.

The engineer's estimated cost just to bring the wastewater treatment, collection and disposal facilities up to near term requirements is approximately \$900,000. The engineer's estimates appear to be very high!!!(e.g. \$680,000 for a \$200,000(sic) gpd expansion).

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The OPUD determined that much of the existing facilities would need to be replaced or taken off-line in order to conform to County requirements.

I would anticipate that we would have to invest approx \$800,000 in improvements over the first three years of ownership.

Letter from Jim Camaren of Utilities, Inc. to John O. Forrer of Econ Utilities Corporation dated October 23, 1995

Obviously, the uncertainty concerning the value of the rate base that will ultimately be determined by the Commission (as opposed to the value estimated by your company or recommended by the PSC Staff) must be reflected in our purchase proposal.

As was also affirmed in your March 15, 1995 letter, the utility facilities are in need of timely upgrades and capacity expansions requiring immediate capital expenditures in the neighborhood of \$900,000.

To Perry from Jim dated November 22, 1995

1 The Seller needs to make immediate improvements and
2 expansion to the facilities. The Seller's engineers have
3 estimated costs of \$1.5 million. The engineering report was
4 very thorough and probably very expensive. These costs are
5 very inflated and include replacing the AC mains. However,
6 I believe the Seller would incur costs of this magnitude
7 because they don't know what they're doing. Both Andy
8 and Don Rasmussen have reviewed the report and believe
9 we could do the upgrades and expansions for approximately
10 \$850,000. (Not that we are that much more efficient - rather
11 we wouldn't do half of the projects their engineers say are
12 necessary). Our lower costs also reflects the fact that we
13 have an unutilized 360,000 gpd plant that we have just taken
14 down from Weathersfield.

15
16 Q. You have quoted from a number of documents that you reviewed.

17 Did the PSC Staff have available these same documents when it
18 made its recommendation to the Commission?

19 A. I don't believe they had all the documents. They certainly were
20 available to them for the asking. Obviously, they had the Staff
21 Engineer's report. However, when the OPC asked to see the
22 documents that Staff relied on it appeared that the other analyses
23 were not reviewed by PSC Staff or at least not retained by them.

24 Q. If the Commission does not recognize a negative acquisition
25 adjustment what will be the end result?

- 1 A. The Company will be the beneficiary at the expense of the customer.
2 The Company will be in a position to earn excessive returns as I
3 show on Schedule 1. Using the hypothetical capital structure and
4 rates of return shown on that Schedule, I show that based on the
5 Company's cash outlay of \$545,000, it could earn a pretax return of
6 67.61%. Taxes would reduce that by a composite rate of 38.575%
7 leaving the Company a potential after tax return of 41.53%.
- 8 Q. Will there be other benefits to the Company if a negative acquisition
9 is not recognized?
- 10 A. Yes. Because the dollar amount of the plant in service, less
11 accumulated depreciation and net CIAC at the date of acquisition,
12 exceeds the cash investment, the Company will be allowed to
13 recover an excessive amount of depreciation expense. In other
14 words the Company will be allowed to recover a return of assets
15 which do not exist.
- 16 Q. Using your example from Schedule 1, what excessive level of
17 revenues will be generated if the Company does not have to record
18 an acquisition adjustment?
- 19 A. The Company will recover an additional \$378,414 (\$468,067-
20 \$89,653) in revenue. In other words, rates will be overstated by
21 that amount. Current and future customers will be required to pay

1 these additional monies to allow the Company to earn the excessive
2 returns I just discussed.

3 Q. If the Company invests additional monies to make the numerous
4 improvements outlined in the reports and communications you
5 previously discussed, will the Company be allowed to earn a return
6 on these investments?

7 A. Yes. In my hypothetical example, that return is 9.50% after tax and
8 12.95% before tax.

9 Q. If the Commission does not adopt your proposal to offset rate base
10 by a negative acquisition adjustment, will it be allowed to earn a
11 return on the capital outlays for the same improvements you just
12 discussed.

13 A. Unfortunately yes. Let me give an example. Lets suppose the
14 undepreciated value of a section of the collection system is
15 \$500,000. Because of poor construction or the lack of an effective
16 maintenance program, that section of the system must be slip lined
17 or replaced to eliminate excessive infiltration. The cost to replace
18 that section or to slip line it is \$750,000. If the \$750,000 is deemed
19 to be a prudent investment and used and useful, the Company will

1 be allowed to earn a return on the \$750,000 as well as the
2 \$500,000.

3 Q. But why would the Company pay \$500,000 for an asset they knew
4 they would have to replace at a cost of \$750,000?

5 A. They didn't. Presumably this and all other factors were considered
6 by the Company when they purchased assets with a net book value
7 of over \$2.8 million for \$545,000. Sadly, however, the Company
8 wants to ignore this and to recover a return on assets that are of no
9 value or even a negative value in that the cost of replacement may
10 exceed the depreciated net book value.

11 Q. What does Schedule 2 show?

12 A. Schedule 2 illustrates the problem of calculating a return on an asset
13 base which does not exist. For illustrative purposes, I have assumed
14 that funds are invested in a certificate of deposit with an annual
15 percentage yield of 6%. In this world of make believe I could invest
16 \$545,000 but be paid a return on \$2.8 million. Thus my pre-tax
17 return would be 30.83%. I could continue to earn this return year
18 after year thus compounding my return. In this world, I could
19 withdraw the full \$2.8 even though I invested only \$545,000. (This is
20 akin to depreciating the full \$2.8 million of assets when the cash
21 investment is only \$545,000).

1 Q. Have you read some of the prior Commission orders on acquisition
2 adjustments?

3 A. Yes. It appears that the Commission is reluctant to make an
4 acquisition adjustment, positive or negative, absent any showing of
5 an extraordinary circumstance. Extraordinary circumstances
6 appears to be determined on a case by case basis. Furthermore, the
7 Commission appears hesitant to make a negative acquisition
8 adjustment to the extent that it would discourage a potential buyer
9 from purchasing a "troubled utility."

10 Q. Given the past Commission orders, do you still believe it appropriate
11 to make a negative acquisition adjustment in this proceeding?

12 A. Definitely. Purchasing over \$2.8 million in assets for only \$545,000
13 is an obvious indication that something is wrong. That's only 20
14 cents on the dollar. That appears to be extraordinary in my opinion.
15 Econ obviously failed to adequately maintain its facilities. The
16 obvious reason for the low purchase price in relationship to the net
17 book value is that many of the assets will have to be replaced or
18 repaired. Unless a negative acquisition adjustment is approved, the
19 customers will be the big losers. The Company will be allowed to
20 earn excessive returns on its investment.

21 Q. Does Econ meet the definition of a troubled utility?

1 A. I'm not sure. I don't believe that the Commission or its Staff
2 instructed Econ to search out a purchaser. I believe the decision to
3 seek a buyer was Econ's decision. Obviously, the utility was on the
4 market as evidenced by the review made by Orange County which I
5 previously discussed and I also reviewed some correspondence from
6 Southern States Utilities.

7
8 I found one document that discussed the financial condition of the
9 Seller. In the memo which I previously discussed and identified as
10 "to Perry from Jim", dated 7/5/95, in discussing the need for
11 improvements, the following comment was made: "...However,
12 they have certainly "intimidated" the Seller's into thinking the Utility
13 is going to require a lot of money. I was informed by one of the
14 operators that the Seller's(sic) is also experiencing financial
15 problems with an environmental group in Miami."

16 Q. Did the Staff Engineer's report or the PSC Staff audit indicate that
17 Econ was a "troubled" utility?

18 A. No. As I noted the Staff Engineer's report did state that some of
19 the facilities were in a state of disrepair and that improvements were
20 needed. However, the following comments were included in the
21 report:

1
2 I called the central district of DEP and spoke with JBob
3 Anson. He said there is no problem with the drinking water
4 part of the utility. There was a sanitary survey conducted as
5 recent as August 1994.
6

7 I called the central district of DEP and spoke with Lee
8 Miller. He stated that everything is fine with the wastewater
9 utility, and that they just applied for a new operating permit.

10 Q. Did the owner(principals) of Econ have an interest in maintaining
11 the viability of the utility?

12
13 A. Yes. I believe they were also a developer of lots in the area. In
14 fact, in what I believe to be a document which was written by
15 Magna Properties, Inc., the owner(in actuality, according to Econ's
16 Federal income tax return, John O. Forrer owned 57.50% of Econ
17 and Gerald F. Blake owned 42.50%. Mr. Forrer and Mr. Blake are
18 both listed as either officers or registered agents of Magna
19 Properties, Inc.) of Econ, the following comment appeared in a June
20 30, 1995 document identified as Gerry Cyndi:

21
22 Even with maximum effort we probably won't be ready to
23 file it before Labor Day, and waiting any longer simply
24 increases the risk that DEP will make an inspection visit
25 during the rainy season this summer, see that we are
exceeding the 200,000 gallon design capacity of our current

1 sewer treatment plant, and slap a moratorium on new hook-
2 ups.
3

4 Q. If Econ didn't have the funds to make the necessary improvements
5 to the utility and thus may have been considered a "troubled utility",
6 where will the funds come from to develop The Commons?

7 A. I don't know, but what I do know is that as part of the

8 MEMORANDUM OF CLOSING AGREEMENTS, the Seller
9 agreed as follows:

10 Subject to the satisfaction, approval and acceptance of
11 Purchaser, Seller, or in the event Seller transfers the area
12 known as The Commons then such transferee, agrees to
13 design and install the water and sewer facilities (lines, mains,
14 pumps and related facilities) in The Commons and agrees to
15 contribute those facilities to the Purchaser's utility as a
16 contribution-in-aid-of-construction (CIAC); provided,
17 however, Seller's shall not be required to make such
18 contribution and Purchaser shall pay for the design and
19 installation of the water and sewer facilities if Seller's
20 contribution would cause a reduction in the hook-up fee
21 below \$3,000 per lot. If seller sells The Commons, or any
22 part thereof, to a successor developer, Seller shall have no
23 further liability for such portion transferred.

1 As the Seller is identified as Econ Utilities, Inc. I would presume
2 that the property would be transferred to Magna Properties, Inc. or
3 some other developer controlled by the principals of Econ. I have
4 also assumed that Econ Utilities, Inc. is the same entity known as
5 Econ Utilities Corporation on the Federal tax return and other
6 documents.

7 Q. Should the agreement you just discussed be of concern to the
8 Commission and most of all the customers.

9 A. Certainly, if the Utility is required to construct facilities in The
10 Commons, instead of having those facilities donated, rate base will
11 increase and thus return requirements and rates will increase.

12 Q. If Econ didn't appear to be that "troubled", is there a reason that
13 Econ might have been short of cash?

14 A. Yes, in response to a PSC Staff request for information, Mr. Forrer
15 on behalf of Econ, stated:

16 Wedgefield is a residential development located in eastern
17 Orange County, Florida which was begun in the early 1960's
18 as Rocket City. Econ Utilities Corporation was created at
19 the same time to provide water and sewer service to the
20 entire 20,000 acre development if, as and when needed.
21 Initially, water and sewer lines were installed in a one square
22 mile section in the northeast corner of the development to
23 serve the shopping center and approximately 1350
24 residential lots in this area.

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For a variety of reasons, the originally-contemplated expansion of the utility lines did not occur. However, in 1982 the number of customers in the northeast corner finally grew large enough so that the utility system became subject to the jurisdiction of the Florida Public Service Commission.

The current customers should not be penalized for the inaccurate planning projections of the original developers. Nor should the current customers be penalized by the lack of effective maintenance and preventative maintenance policies. Utilities, Inc., the owners of Wedgefield Utilities, Inc. freely entered into the agreement to purchase the assets in what is described as an arms-length transaction. They should be allowed to earn a fair return on their investment. That's a basic principle of regulation. To fail to adopt a negative acquisition adjustment will allow them to earn an excessive return at the expense of the customers. That's unfair to the customers. Thus, my recommendation to adopt a negative acquisition adjustment should be adopted.

Q.
A.

Does that conclude your testimony?

Yes.

APPENDIX I
THOMAS C. DE WARD, C.P.A.

QUALIFICATIONS

Mr. DeWard graduated from the University of Michigan in 1962 with a BBA. In June of 1963 he received his M.B.A. in Accounting from the University of Michigan and immediately began working for the Detroit office of Peat, Marwick, Mitchell & Co., an international firm of certified public accountants. During his nine years at Peat, Marwick he was promoted to various supervisory levels and held the position of Manager for his last two years with the firm, 1971 - 1972.

Mr. DeWard is a member of the American Institute of CPAs and the Michigan Association of CPAs.

During his employment with Peat, Marwick, he supervised and controlled the audits of two of the major manufacturing clients of the office. These audits involved extensive work with inventories, inventory control procedures and related costing methods.

At Peat Marwick, Mr. DeWard was also in charge of the staff training program and presented seminars on accounting principles and theory. Through these activities he acquired an in-depth and comprehensive knowledge of accounting theory. Mr. DeWard received his C.P.A. Certificate in 1966.

During the period 1972 through 1981 he worked as Vice President-Finance for a manufacturing firm of aluminum building products and as a Treasurer for a company which provided packaging, distribution and data processing services.

Since July 1981, Mr. DeWard has been employed by Larkin & Associates, CPA's (formerly Larkin, Chapski & Co., prior to reorganization in September, 1982) and has worked almost exclusively in the area of regulatory matters. Larkin & Associates has been involved in regulatory matters since 1972. The firm has represented consumer groups, attorney generals, industry organizations, governmental agencies, and public service commissions in over 200 regulatory proceedings.

Mr. DeWard plays a major role in the analytical work done by Larkin & Associates in the area of utility ratemaking and regulation, and actively participates in the cases. He has testified and been accepted as an expert witness in the field of regulatory accounting in California, Connecticut, Florida, Hawaii, Kentucky, Michigan, Nevada, Texas and Virginia.

In November, 1985, with two members of the firm, Mr. DeWard presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In June, 1986, Mr. DeWard and two members of the firm presented a seminar on utility accounting for the Utility and Rate Intervention Division of the Kentucky Attorney General. Individuals from that division as well as industry and consumers groups attended the seminar.

In September, 1988, Mr. DeWard and two members of the firm presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.

In 1995, Mr. DeWard presented a training seminar to the Staff of the Mississippi Public Service Commission.

Larkin & Associates was retained by Cravath, Swaine & Moore who represented The Columbia Gas System in a civil action brought against Columbia by Allegheny & Western Energy Corporation. Mr. DeWard participated in various aspects of this engagement.

Mr. DeWard has performed a substantial portion of the analytical work for the firm in the cases listed below:

Partial List of Utility Cases Participated in:

TR-81-208*	Southwestern Bell Telephone Company (Missouri Public Service Commission)
U-6794	Michigan Consolidated Gas Company - 16 Refunds (Michigan Public Service Commission)
U-6798	Cogeneration and Small Power Production - PURPA (Michigan Public Service Commission)
Docket No. 810136-EU	Gulf Power Company (Florida Public Service Commission)
Docket No. E-002/ GR-81-342	Northern States Power Company - Minnesota (Minnesota Public Utilities Commission)
8400	East Kentucky Power Cooperative, Inc. (Kentucky Public Service Commission)
Docket No. 18328	Alabama Gas Corporation (Public Service Commission of Alabama)

Docket No. 18416	Alabama Power Company (Public Service Commission of Alabama)
820100-EU	Florida Power Corporation (Florida Public Service Commission)
8624	Kentucky Utilities (Kentucky Public Service Commission)
8648	East Kentucky Power Cooperative, Inc. (Kentucky Public Service Commission)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan Public Service Commission)
U-6633-R	Detroit Edison - MRCS Program (Michigan Public Service Commission)
U-6797-R	Consumers Power Company - MRCS Program (Michigan Public Service Commission)
U-5510-R	Consumers Power Company - Energy Conservation Finance Program (Michigan Public Service Commission)
U-7350	Generic Working Capital Hearing (Michigan Public Serviced Commission)
8738	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
82-165-EL-EFC	Toledo Edison Company (Public Utilities Commission of Ohio)
ER-83-206*	Arkansas Power & Light Company (Missouri Public Service Commission)
8836	Kentucky American Water Company (Kentucky Public Service Commission)
U-7650	Consumers Power Company - Gas - Partial and Immediate (Michigan Public Service Commission)

U-7650	Consumers Power Company - Gas - Final (Michigan Public Service Commission)
U-15684	Louisiana Power & Light Company (Public Service Commission of the State of Louisiana)
U-7395 & U-7397	Campaign Ballot Proposals (Michigan Public Service Commission)
U-7650 (Reopened)	Consumers Power Company - Gas (Michigan Public Service Commission)
U-7830	Consumers Power Company - Electric - Partial and Immediate (Michigan Public Service Commission)
9003	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
9006**	Big Rivers Electric Corporation (Kentucky Public Service Commission)
U-7830	Consumers Power Company - Electric Step 3A - Financial Stabilization Rate Relief (Michigan Public Service Commission)
16091	Louisiana Power & Light Company (Public Service Commission of the State of Louisiana)
9163	Big Rivers Electric Corporation (Kentucky Public Service Commission)
9283	Kentucky-American Water Company (Kentucky Public Service Commission)
U-4620	Mississippi Power & Light Company (Mississippi Public Service Commission)
U-7830	Consumers Power Company - Electric - Final (Michigan Public Service Commission)
U-7830	Consumers Power Company - Electric - Final - Rebuttal (Michigan Public Service Commission)

U-8431 Consumers Power Company - Electric - Relief from
"Condition 5"
(Michigan Public Service Commission)

1345-85-367 Arizona Public Service Company
Arizona Corporation Commission

Docket No.
89-08-11 The United Illuminating Company
State of Connecticut, Department of Public Utility
Control

Cases where Testimony was Submitted,
Cross Examination Complete, or Issues Stipulated

Docket No. 6350 El Paso Electric Company
(The Public Utility Regulation Board of the City of El
Paso)

Docket No. 6350 El Paso Electric Company
(Public Utility Commission of Texas)

U-8249 Consumers Power Company - Disposition of Nuclear
Fuel
(Michigan Public Service Commission)

Case No. 9430 Leslie County Telephone Company, Inc.
(Kentucky Public Service Commission)

U-8055-R Consumers Power Company - Gas
1985 Gas Cost Reconciliation
(Michigan Public Service Commission)

U-8038-R Michigan Consolidated Gas Company
1985 Gas Cost Reconciliation
(Michigan Public Service Commission)

Case No. 9554* Columbia Gas of Kentucky, Inc.
(Kentucky Public Service Commission)

U-8586 Consumers Power Company - Gas
(Michigan Public Service Commission)

Case No. 9678

General Telephone of the South-Kentucky
(Kentucky Public Service Commission)

Docket No. 850646-SU

Ocean Reef Club, Inc.
(Florida Public Service Commission)

850166-WS*

Southern States Utilities, Inc. -Lake County
(Florida Public Service Commission)

860325-WS*

Southern States Utilities, Inc. - Seminole County
(Florida Public Service Commission)

86-604-G-42*

Mountaineer Gas Company
(Public Service Commission of West Virginia)

9796 ***

Alltel Kentucky, Inc.
(Kentucky Public Service Commission)

9779

Kentucky Power Company
(Kentucky Public Service Commission)

9780

Kentucky Utilities Company
(Kentucky Public Service Commission)

9815

Kentucky American Water Company
(Kentucky Public Service Commission)

9785

Delta Natural Gas Company, Inc.
(Kentucky Public Service Commission)

9798

Cincinnati Bell Telephone Company
(Kentucky Public Service Commission)

9803

South Central Bell Telephone Company
(Kentucky Public Service Commission)

9781

Louisville Gas and Electric Company
(Kentucky Public Service Commission)

9782

Union Light, Heat and Power Company-Electric
(Kentucky Public Service Commission)

9788	Union Light, Heat and Power Company-Gas (Kentucky Public Service Commission)
9789	Western Kentucky Gas Company (Kentucky Public Service Commission)
9799	Continental Telephone Company of Kentucky (Kentucky Public Service Commission)
87-01-017	Southern California Edison Company (California Public Utilities Commission)
7460	El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)
7460	El Paso Electric Company (Public Utility Commission of Texas)
Docket No. 860960-WS	St. Johns Service Company (Florida Public Service Commission)
Docket No. 850100-WS ^a	Du-Lay Utility Company, Inc. (Florida Public Service Commission)
Docket No. 7460	El Paso Electric Company - Supplemental Testimony on Stipulation (Public Utility Commission of Texas)
Docket No. 861338-WS	Ferncrest Utilities, Inc. (Florida Public Service Commission)
Case No. 10069*****	Kentucky-American Water Company (Kentucky Public Service Commission)
Docket No. 870249-WS	Atlantic Utilities of Jacksonville (Florida Public Service Commission)
Case No. 10117	GTE South Incorporated - Kentucky (Kentucky Public Service Commission)
Docket No. 871134-WS	Orange Osceola Utilities, Inc. (Florida Public Service Commission)

Case No. 10201	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
U-7830	Consumers Power Company - Step 3B (Michigan Public Service Commission)
Docket No. 870453-TL	Quincy Telephone Company (Florida Public Service Commission)
U-7660*	Detroit Edison Company - Rehearing on Appeal to Circuit Court (Michigan Public Service Commission)
Docket No. 8363	El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)
Case No. 10117	GTE-South, Incorporated-Kentucky-Rehearing (Kentucky Public Service Commission)
Case No. 10201	Columbia Gas of Kentucky, Inc. - Rehearing (Kentucky Public Service Commission)
Docket No. 8363	El Paso Electric Company (Public Utility Commission of Texas)
Docket No. 88-1156	Centel Network Communications, Inc. (Public Service Commission of Nevada)
Case No. 10481	Kentucky-American Water Company (Kentucky Public Service Commission)
Case No. 88-685-T-42T*	GTE South-West Virginia (Public Service Commission of West Virginia)
Case No. 10498	Columbia Gas of Kentucky, Inc. (Kentucky Public Service Commission)
Docket No. 8588	El Paso Electric Company - Fuel Reconciliation (Public Utility Commission of Texas)
U-7830	Consumers Power Company - Step 3B Rebuttal (Michigan Public Service Commission)

Docket No. 890277-WS	Palm Coast Utility Corporation (Florida Public Service Commission)
Case No. 10498	Columbia Gas of Kentucky, Inc. - Rehearing (Kentucky Public Service Commission)
Docket No. 9165	El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)
Docket No. 9165	El Paso Electric Company (Public Utility Commission of Texas)
Docket Nos. 88-1060 89-318 89-751	Alternative Regulation For Telephones (Public Service Commission of Nevada)
Case No. 89-348	Kentucky-American Water Company (Kentucky Public Service Commission)
Case No. 90-013	Western Kentucky Gas Company (Kentucky Public Service Commission)
Case No. 90-041	Union Light, Heat and Power Company (Kentucky Public Service Commission)
Docket No. 891239-TL	United Telephone of Florida (Florida Public Service Commission)
Docket No. 891246-TL	Central Telephone Company of Florida (Florida Public Service Commission)
Case No. 90-158	Louisville Gas and Electric Company (Kentucky Public Service Commission)
Docket No. 90-1037 (BTER Phase)	Nevada Power Company - Fuel (Public Service Commission of Nevada)
Case No. 90-013	Western Kentucky Gas Company - Rehearing (Kentucky Public Service Commission)
Case No. 90-158	Louisville Gas and Electric Company - Rehearing (Kentucky Public Service Commission)

Case No. 90-158	Louisville Gas and Electric Company - Responsive Testimony (Kentucky Public Service Commission)
Docket No. 9945	El Paso Electric Company (Public Utility Commission of Texas)
Docket No. 900816-WS	Sailfish Point Utility Corporation (Florida Public Service Commission)
Docket No. 90-1037***** (DEAA Phase)	Nevada Power Company - Fuel (Public Service Commission of Nevada)
Case No. 91-066*	Kentucky Power Company (Kentucky Public Service Commission)
Docket No. 91-5055	Nevada Power Company (Public Service Commission of Nevada)
Docket No. 91-7026	Central Telephone Company (Nevada) (Public Service Commission of Nevada)
Docket No. 910477-SU	Florida Cities Water Company - South Fort Meyers (Florida Public Service Commission)
Case No. PUE910047	Virginia Electric and Power Company (State Corporation Commission)
Case No. 91-370	Union Light Heat and Power Company (Kentucky Public Service Commission)
Docket No. 910980-TL	United Telephone Company of Florida (Florida Public Service Commission)
Docket No. 92-1067	Nevada Power Company (Public Service Commission of Nevada)
Case No. 92-043	Joint Petitioners - SFAS 106 (Kentucky Public Service Commission)
Docket No. 920188-TL	GTE Florida Incorporated (Florida Public Service Commission)

Docket No. 92-7069*	Central Telephone Company - Nevada (Public Service Commission of Nevada)
Docket No. 920310-TL*	Central Telephone Company of Florida (Florida Public Service Commission)
Case No. 92-219	Clark Rural Electric Cooperative Corporation (Kentucky Public Service Commission)
Case No. 92-346	Union Light, Heat and Power Company (Kentucky Public Service Commission)
Docket No. 92-09-19	Southern New England Telephone Company (Department of Public Utility Control)
Case No. PUE920041	Virginia Electric and Power Company (State Corporation Commission)
Docket No. 93-3003 3004	Southwest Gas Company - Southern and Northern 93- Nevada Divisions (Public Service Commission of Nevada)
Case No. 93-113	Kentucky Utilities Company - Fuel Refund (Kentucky Public Service Commission)
Docket No. 93-8027	Nevada Power Company - Fuel Hearing (Public Service Commission of Nevada)
Docket No. 920260-TL*	Southern Bell Telephone & Telegraph Company (Florida Public Service Commission)
Docket No. 7579	GTE Hawaiian Tel (Public Utilities Commission of Hawaii)
Case No. 93-465	Kentucky Utilities Company (Kentucky Public Service Commission)
Docket No. 12700	El Paso Electric Company (Public Utility Regulation Board of the City of El Paso)

Docket No. 93-3003 93-3004	Southwest Gas Company - Southern and Northern Nevada Divisions - Rehearing (Public Service Commission of Nevada)
Docket No. 12700	El Paso Electric Company (Public Utility Commission of Texas)
Case No. 90-256	South Central Bell Telephone Company (Kentucky Public Service Commission)
PSC Case No. 94-336	East Kentucky Power Cooperative, Inc. (Kentucky Public Service Commission)
Case No. 94-355	Cincinnati Bell Telephone Company (Kentucky Public Service Commission)
Case No. 94-121	BellSouth Telecommunications, Inc. - Kentucky (Kentucky Public Service Commission)
Case No. 10320***	Louisville Gas & Electric Company - Refunds As a Result of 25% of Plant Declared Non-Used and Useful. (Kentucky Public Service Commission)
Case No. 95-010*	Western Kentucky Gas Company (Kentucky Public Service Commission)
Case No. 94-355 Rehearing	Cincinnati Bell Telephone Company (Kentucky Public Service Commission)
Case No. PUC950019	GTE South Incorporated-Virginia (State Corporation Commission)
Case No. 95-554	Kentucky-American Water Company (Kentucky Public Service Commission)
Docket No. 96-3002*	Nevada Bell - Entry Into The Alternative Plan of Regulation (Public Service Commission of Nevada)

Docket No. 6350

Oral Testimony

El Paso Electric Company - Application for
Temporary Injunction
(98th District Court of Travis County, Texas)

Cases Settled Prior to Submission of Testimony

U-8378

Wisconsin Electric Power Company
(Michigan Public Service Commission)

U-8475

Lake Superior District Power Company
(Michigan Public Service Commission)

Case No.
87-644-T-42T**

Mountain State Telephone Company
(West Virginia Public Service Commission)

Docket No.
87-1249

Central Telephone Company (Nevada)
(Public Service Commission of Nevada)

Docket No. 88-1001

Nevada Bell
(Public Service Commission of Nevada)

Docket No. 89-745

Contel of California, Inc. (Nevada Operations)
(Public Service Commission of Nevada)

Docket No. 89-949

Nevada Power Company
(Public Service Commission of Nevada)

Docket No. 90-857

Nevada Bell
(Public Service Commission of Nevada)

Case No. 90-063

Columbia Gas of Kentucky, Inc.
(Kentucky Public Service Commission)

Case No. PUE-900034

Commonwealth Gas Services, Inc.
(State Corporation Commission - Commonwealth
of Virginia)

(No Docket No.)

Southern Union Gas Company - El Paso Division
(Public Utility Regulation Board of the City of El
Paso)

Case No. 94-179

Columbia Gas of Kentucky, Inc.
(Kentucky Public Service Commission)

Docket No. 920260-TL

Southern Bell Telephone and Telegraph Company -
Review of Revenue Requirements and Rate Stabilization
Plan
(Florida Public Service Commission)

Docket No. 95-8034

Central Telephone Company - Nevada - Entry Into The
Alternative Plan of Regulation
(Public Service Commission of Nevada)

Assistance in Analytical Analysis of Filing

Case No. 9482

Kentucky-American Water Company
(Kentucky Public Service Commission)

Docket No. 861361-TL

Central Telephone Company of Florida
(Florida Public Service Commission)

Case No. 90-321

Kentucky-American Water Company
(Kentucky Public Service Commission)

Case No. 91-361*

Kentucky-American Water Company
(Kentucky Public Service Commission)

Case No. 90-342*

Delta Natural Gas Company, Inc.
(Kentucky Public Service Commission)

Case No. 92-452

Kentucky-American Water Company
(Kentucky Public Service Commission)

Case No. 92-493-C

Kentucky Utilities Company - Fuel Clause - Proceeds
from Sale of Railroad Cars
(Kentucky Public Service Commission)

89-UA-5453

BellSouth Telecommunications - Mississippi
(Mississippi Public Service Commission)

Docket No. 95-4096

Nevada Bell Telephone Company - Analysis of Reported
Earnings under G.O.60
(Public Service Commission of Nevada)

Assistance in Preparing Comments and Presenting
Testimony in Rulemaking Docket

Docket No. 91-1017

Deferred Energy Accounting Rulemaking
(Public Service Commission of Nevada)

Assistance in Overearnings Analysis

Docket No. I-00920013*

Murraysville Telephone Company
(Before the Pennsylvania Public Utility Commission)

Docket No. I-00920012*

ALLTEL Pennsylvania, Inc.
(Before the Pennsylvania Public Utility Commission)

Docket No. I-00920016**

United Telephone Company of Pennsylvania
(Before the Pennsylvania Public Utility Commission)

*Issues stipulated.

**Case withdrawn.

***No direct examination.

****Settlement reached between Company and Staff.

*****Certain issues stipulated, portion of testimony withdrawn.

Wedgefield Utilities, Inc.
 Hypothetical Example of Windfall
 to Company caused by Excessive Rates
 if a Negative Acquisition Adjustment is
 Not Adopted

Docket Nos. 960235-WS
 and 960283-WS
 Exhibit ___ TCD-1
 Schedule 1

Calculated Return On and Return Of Investment Using Net Book
 Value and Cash Purchase Price.

As the investment was in the assets and not the stock of Econ Utilities Corporation the capital structure will reflect the investment made by Utilities, Inc. in Wedgefield Utilities. In other words, if Wedgefield Utilities was capitalized with a nominal stock investment of say \$1,000 and the remainder in loans, the capital structure of Wedgefield will reflect a common equity of \$1,000 and debt of \$544,000. This assumes the capital structure reflects the initial cash investment of \$545,000.

For illustrative purposes, I have used a capital structure as follows:

Description	Percent.	Cost	Weighted Cost	Revenue Multiplier	Pre-tax Return
Equity	50.00%	11.00%	5.50%	1.62802	8.95%
Debt	50.00%	8.00%	4.00%	1	4.00%
Total	<u>100.00%</u>		<u>9.50%</u>		<u>12.95%</u>

The revenue multiplier uses the State income tax rate of 5.5% and the Federal tax rate of 35%.

Return Requirement Impact of Failing to Recognize a Negative Acquisition Adjustment.

Dollar Amount	NBV at 12/31/95	Cash Purchase Price
	<u>\$2,845,391</u>	<u>\$545,000</u>
Return Requirement Using Pre-tax return above @ 12.95%	\$368,478	\$70,578
Depreciation at composite rate of 3.5%	\$99,589	\$19,075
Total return requirement	<u>\$468,067</u>	<u>\$89,653</u>
Pre-tax return on investment of \$545,000: \$368,478 divided by \$545,000		<u>67.61%</u>

Wedgefield Utilities, Inc.
Theoretical Example of the Yield from the
Purchase of a 6% APY One Year Certificate
of Deposit With a Face Value of \$2,800,000
for \$545,000

Docket Nos. 960235-WS
and 960283-WS
Exhibit ___TCD-1
Schedule 2

One year return calculated as follows:

\$2,800,000 @6% would yield

\$ 168,000

Investment

\$ 545,000

One year return

30.83%