DOCKET NO.: 960444-WU - [Lake Utility Services, Inc.]

WITNESS: **Direct Testimony of Lee R. Monroe.** Appearing On Behalf Of The Staff Of The Florida Public Service Commission, Division Of Auditing And Financial Analysis

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DIRECT TESTIMONY OF LEE R. MUNROE

Q. Please state your name and business address.

A. Lee R. Munroe. Florida Public Service Commission (FPSC), 2540 Shumard Oak Boulevard, Tallahassee, FL 32399.

Q. Please state a brief description of your educational background and experience.

A. I received a Bachelor of Science Degree in Engineering from Florida State University in 1993. I started working for the FPSC in October, 1993 as an engineer in the Division of Water and Wastewater. In April, 1995 I successfully completed the Engineering Intern portion of the Professional Engineers test.

Q. What are your general responsibilities at the FPSC?

A. I am responsible for conducting field inspections and evaluations of water and wastewater utilities regulated by the FPSC. I perform quality of service evaluations, and determine used and useful percentages of the utility plant and distribution and collection systems. I also investigate complaints filed against regulated utilities.

Q. Have you ever testified before?

A. No.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to discuss the methods and procedures used by staff when calculating used and useful percentages and how staff determines excess unaccounted for water, margin reserve, and fire flow.

Q. Are these used and useful methods, procedures or formulas, or unaccounted for water or margin reserve calculations covered in the Florida Statutes or

FPSC rules?

A. Not at this time. Staff is working on an update of Chapter 25-30, Florida Administrative Code, which will include a detailed explanation of used and useful methodology and formulas as well as definitions and derivations of excess unaccounted for water, fire flow, etc., which may be used by regulated utilities when preparing their minimum filing requirements (MFRs) for a rate case. A rule governing margin reserve is currently being challenged in the First District Court of Appeal.

Q. Would you briefly explain the purpose of used and useful calculations when considering a request for a rate increase?

A. The Commission must allow a utility to recover, through authorized rates, charges and fees, the costs incurred in meeting its statutory obligations to provide safe, efficient and sufficient service. The Utility's investment, prudently incurred, in meeting its statutory obligations are considered used and useful. On the other hand, investment not prudently incurred, and/or not required to provide safe, efficient and sufficient service to existing customers are not considered used and useful.

Q. Why is it necessary for used and useful adjustments to be considered in a rate proceeding?

A. Used and useful adjustments to the investment in plant in service generally may be required when a utility is providing service in its territory but does not utilize the full design capacity of the plant or distribution/collection system due to the connected number of customers or plant load being less than that expected at build-out or design load.

Q. What does staff consider when calculating a used and useful percentage for

a water system?

A. Historically, staff considers several factors when calculating used and useful percentages for a water utility in a rate case. First, the capacity of the plant being evaluated is determined. This capacity is designated by the utility when it applies for a construction permit issued by the Department of Environmental Protection (DEP). This capacity becomes the denominator in the used and useful equations. The denominator in a used and useful equation for a distribution system is the number of total lots capable of being served by the existing distribution network. Second, staff determines the customers' demand placed upon the system. Normally this is the maximum day demand exclusive of fireflow and line breaks. For a distribution network, staff determines the number of lots actually being served at that time. Third, staff considers a margin reserve or projected short term growth demand if requested and justified by the utility. Fourth, the utility's obligation to provide fire flow is reviewed. The utility may or may not be required to furnish sufficient water to satisfy the demand for fire protection. This demand is normally specified by county ordinance and may or may not be obligatory. Finally, staff considers the demand placed upon the plant by non-revenue producing or unaccounted for water. This demand, when it exceeds normal ranges, is subtracted from other system demands prior to the final calculation.

The used and useful numerator consists of adding the maximum day demand, justified margin reserve, and required and producible fire flow demand and then subtracting excessive unaccounted for water. This numerator is then divided by plant capacity to give the used and useful ratio for the water

plant. The distribution network used and useful takes the number of lots actually being served plus a margin reserve and divides it by the number of lots capable of being served. Exceptions, when documented and justified, may be considered, however.

Q. How was used and useful calculated in the proposed agency action (PAA) recommendation for Lake Utilities' Services Inc. rate case?

A. Staff's PAA recommendation used and useful percentages were computed by adding the maximum daily demand, the fire flow, a margin reserve and then subtracting the excess unaccounted for water. This result was then divided by the permitted plant capacity. The maximum daily demand was data submitted by the utility in its MFRs. The fireflow requirements came from Lake County fire officials. Margin Reserve calculations were derived from data furnished by Mr. Mark Kramer, utility accountant for LUSI. Excessive unaccounted for water is any amount over 10% of the amounts furnished in the MFRs. Plant capacity was obtained from DEP records.

This method of calculating used and useful is the method accepted as Commission policy in the vast majority of Class A and B water utilities. This method is also consistent with that used by LUSI in its MFRs. There were several errors in the data used by LUSI in its calculations, however.

Q. How was used and useful for interconnecting mains calculated in the PAA rate case?

A. Interconnecting mains are normally considered 100% used and useful since the increased reliability more than justifies their prudency. In the PAA case, however, LUSI did not provide invoices or other documentation to support the cost of the interconnecting mains; therefore, these mains were not

considered separately from other mains. Subsequent to completion of the PAA recommendation, however, staff was provided documentation which supported separate costs for these interconnecting mains.

Q. How did staff calculate used and useful percentages for LUSI's distribution systems?

A. Staff used the normal lot count method for calculating the distribution system used and useful percentages. LUSI's Mr. Rasmussen met with staff and verified the lot count prior to completion of the staff PAA recommendation. LUSI claims in the company's protest of the PAA recommendation that a new lot count was performed by its staff, resulting in a higher used and useful percentage; however, supporting documentation for its lot count has not been provided by the utility, so staff has no way of determining the validity of its count.

Q. Do you have any other points you would like to address?

A. The utility has sought to use instantaneous demand in its plant used and useful calculations. I have verified with DEP that updated permits for the LUSI systems used peak day demand for system capacity. I have not found past cases where instantaneous demand was used. The utility also attempted to apply repression adjustments to his test year data, and used a maximum allowable unaccounted for water added to flows even when actual flow data was available. Staff consistently uses actual flow data whenever available. In my opinion, it makes no sense to estimate flows or use the maximum allowable unaccounted for water and ignore actual flow data, data which was provided by the utility in its MFRs.

Q. Does this conclude your testimony?

A. Yes.