

ORIGINAL

DOCKET NO.: 960444-WU - Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc.

WITNESS: Prefiled Rebuttal Testimony of Patricia W. Merchant, Appearing On Behalf of Florida Public Service Commission

DATE FILED: August 13, 1998

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FPSC-RECORDS/REPORTING

1 PREFILED REBUTTAL TESTIMONY OF PATRICIA W. MERCHANT

2 Q. Please state your name and professional address.

3 A. My name is Patricia W. Merchant and my business address is 2540 Shumard
4 Oak Boulevard, Tallahassee, Florida 32399-0850.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission as a Public
7 Utilities Supervisor in the Division of Water and Wastewater.

8 Q. Did you prepare prefiled direct testimony in this case?

9 A. Yes.

10 Q. What is the purpose of your rebuttal testimony?

11 A. The purpose of my testimony is to rebut certain parts of Mark Kramer's
12 testimony filed on behalf of Lake Utility Services, Inc. (LUSI) regarding
13 plant in service and contributions in aid of construction (CIAC).

14 Q. What comments do you wish to make regarding Mr. Kramer's testimony on
15 plant in service?

16 A. In Mr. Kramer's direct testimony on pages 14 and 15, he contested plant
17 adjustments totaling \$32,179 which the Commission made in Proposed Agency
18 Action (PAA) Order No. PSC-97-0531-FOF-WU. The first adjustment was the
19 removal of \$17,053 from the Lake Saunders water plant. In my direct testimony
20 I agree with Mr. Kramer's comments on this adjustment and will not address it
21 here further. The remaining plant difference Mr. Kramer addressed amounted
22 to \$15,126, which he stated was unsupported by explanations or details. I
23 disagree. Since the staff auditors and I recalculated all of the plant
24 additions and retirements from day one, we corrected many adjustments that
25 were recorded by the utility in 1995 and should have been recorded in prior

1 | years. As such, the test year average is different even though the year end
2 | amounts are relatively close. I do not agree with Mr. Kramer's argument on
3 | this adjustment as I believe that our test year plant additions and
4 | retirements are correct.

5 | Q. What are the CIAC adjustments that you are addressing?

6 | A. Mr. Kramer, on pages 20-22, contested three CIAC adjustments made in the
7 | PAA order totaling \$81,886. His first dispute addressed \$16,500 for the Vista
8 | Subdivision. The utility was unable to locate an invoice supporting the
9 | payment of this amount prior to the PAA order. Mr. Kramer attached this
10 | invoice as an exhibit to his testimony, and I agree with this adjustment. The
11 | second dispute related to the Highland Pointe system. Mr. Kramer stated that
12 | the Commission removed \$16,923 in plant for lack of supporting documentation.
13 | Since this plant was contributed, Mr. Kramer testified that the same amount
14 | of CIAC should also be removed. He said that when the plant was originally
15 | booked, the utility offset CIAC for the total cost of plant. I have two
16 | disagreements with Mr. Kramer's testimony. First, while the Commission
17 | reduced three plant accounts by \$16,923, two other accounts were increased by
18 | \$9,920. The Commission's adjustment resulted in a net reduction of \$7,003.
19 | Secondly, the utility did not book all of its plant to CIAC. It recorded
20 | \$75,000 in plant and \$70,000 in CIAC. This difference related to \$5,000 in
21 | undistributed plant the utility retired in the year of purchase. The
22 | following year the utility added \$5,000 back to undistributed plant to zero
23 | out this amount, and did not make a corresponding offset to CIAC. As such,
24 | CIAC should have been decreased by \$2,003, which is the net amount (\$7,003
25 | less \$5,000) that was originally booked as CIAC. Neither the \$16,923 nor the

1 | \$2,003 adjustment to CIAC was included in the PAA order.

2 | Q. What other comments do you wish to make regarding Mr. Kramer's testimony
3 | on CIAC?

4 | A. With regard to the Lake Saunders system, the utility originally booked
5 | it as a purchase, and it was considered a certificate transfer. At the time
6 | of transfer, the system did not have rates, so the Commission approved
7 | temporary, then final, original rates. Rate base was not established in the
8 | certificate transfer docket. In this current rate case, Docket No. 960444-WU,
9 | the auditors reviewed all of the supporting documentation and found
10 | unsupported plant amounts. The utility had also included a negative
11 | acquisition adjustment in rate base. Since the Commission never set rate
12 | base, no acquisition adjustment was addressed or approved. In the PAA order,
13 | the Commission removed the acquisition adjustment and instead increased CIAC
14 | by \$48,463. This was the difference between the adjusted plant amount of
15 | \$58,463 and the \$10,000 purchase price. By adding the \$17,053 in plant that
16 | I added in my direct testimony, the adjusted plant balance for Lake Saunders
17 | should be \$75,515. Since the Commission did not perform an audit of the
18 | original utility owner's books at the time of transfer, I have no knowledge
19 | of how this developer recorded the construction of the utility plant.
20 | Further, the developer sold the plant to the utility for \$10,000, and with an
21 | adjusted original plant cost of approximately \$75,515, the developer could
22 | have easily costed off the remainder to cost of goods sold. As such, this
23 | would have been CIAC. Since LUSI cannot show otherwise, I believe that CIAC
24 | for the Lake Saunders system as of the date of purchase should be \$65,515.
25 | This amount is determined by taking the PAA order adjustment to increase CIAC

1 | by \$48,463, plus \$17,053 of CIAC on the additional plant adjustment discussed
2 | in the plant section above.

3 | Q. Does this conclude your testimony?

4 | A. Yes, it does.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

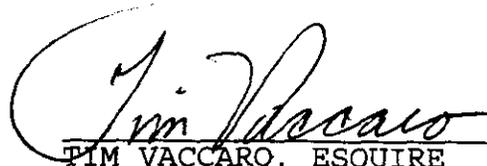
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Prefiled Rebuttal Testimony of Patricia W. Merchant has been furnished to Richard D. Melson, Esquire, P.O. Box 6526, Tallahassee, Florida, 32314, and Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida, 32399-1400, by U.S. Mail, on this 13th day of August, 1998.


TIM VACCARO, ESQUIRE

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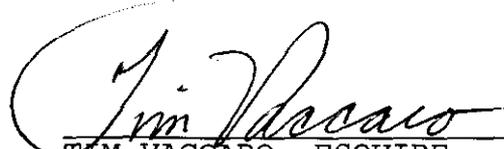
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