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August 18, 1998

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

Re: Lake Utility Services, Inc.
Docket No. 960444-WU

Dear Ms. Bayó:

Enclosed for filing on behalf of Lake Utility Services, Inc.
are the original and 15 copies of the rebuttal testimony of:

Mark Kramer

By copy of this letter, this testimony has been provided to
the parties on the attached service list.

If you have any questions, please call.

RECEIVED & FILED

FPSC BUREAU OF RECORDS

Very truly yours,

Richard D. Melson

Richard D. Melson

ACK

AFA

APP RDM/mee

CAF Enclosures

CMU cc: Parties of Record

CTR Mr. Kramer

EAG Mr. Rasmussen

LEG Mr. Seidman

LIN

OPC

RCH

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WAS *Willis*

OTH

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following by hand delivery this 18th day of August, 1998.

Tim Vaccaro
Division of Legal Services, Room 370
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Attorney

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF

MARK KRAMER

ON BEHALF OF LAKE UTILITY SERVICES, INC.

DOCKET NO. 960444-WU

AUGUST 18, 1998

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

Q. Please state your name and business address.

1 A. My name is Mark Kramer. I am the Manager of Regulatory
2 Matters for Utilities, Inc. and its subsidiaries. My business
3 address is 2335 Sanders Road, Northbrook, Illinois 60062.

4 **Q. Mr. Kramer, have you previously filed direct testimony in**
5 **this proceeding?**

6 A. Yes.

7

8 **Q. Mr. Kramer, what is the purpose of your rebuttal testimony**
9 **here today?**

10 A. The purpose of my testimony is to respond to Commission and
11 Office of Public Counsel's (OPC) testimony regarding
12 adjustments that impact the revenue requirement requested by
13 Lake Utility Services, Inc. (LUSI) based on the test year ending
14 12/31/95.

15

16 **Plant in Service**

17

18 **Q. Do you accept the Plant in Service adjustments proposed**
19 **by the Staff in Staff Witness Merchant's testimony?**

20 A. Yes. Although the approach used by Ms. Merchant differs from
21 that of the company's, the variance is immaterial and the
22 company will accept Ms. Merchant's Plant in Service balance
23 as shown in Exhibit PM-1 for the purpose of determining a
24 revenue requirement. The Company will also accept the

1 Accumulated Depreciation and the Depreciation Expense
2 balances shown in Ms. Merchant's Exhibit PM-2.

3

4 **Q. With respect to the utility's documentation for the Lake**
5 **Saunders Acres water treatment plant, OPC witness Larkin**
6 **states on page 3 that "generally accepted internal control**
7 **would not allow the payment of any amount based on**
8 **statement." Is it uncommon for developers to lack**
9 **"internal controls"?**

10 A. No. In fact, many businesses lack internal controls due to the
11 size of the entity. Generally speaking, developers are often
12 smaller operations where a system of controls do not exist.
13 The manager of the project has full authority to pay contract
14 prices for work he/she has inspected.

15

16 In this case the invoice indicates that Mr. Charlie Squibb, the
17 initial developer, paid Carmichael Enterprises \$17,053 to
18 install the water system at Lake Saunders Acres.

19

20 **Q. Mr. Larkin also notes at page 3 that the company cannot**
21 **produce a check. Is it uncommon for the developer to lack**
22 **records that regulators will eventually request of the**
23 **utility?**

1 A. No. The utility is often at the mercy of poor record keeping of
2 small utility owners and developers. Retention of records such
3 as canceled checks is a luxury that the utility rarely enjoys.

4
5 **Q. What level of Plant in Service should be used to determine**
6 **the revenue requirement for LUSI in this rate proceeding?**

7 A. Plant in Service is \$1,875,536 for determination of the revenue
8 requirement in this proceeding.

9
10 **Contributions in Aid of Construction (CIAC)**

11
12 **Q. What level of CIAC should be used to determine the**
13 **revenue requirement for LUSI in this rate proceeding?**

14 A. CIAC is \$1,022,766 for determination of the revenue
15 requirement in this proceeding. This is the amount contained
16 in the Utility's offer of settlement and was the amount
17 supported by Staff at the time the settlement offer was filed.

18
19 **Q. Since the Commission issued its Notice of Proposed**
20 **Agency Action approving the offer of settlement, has the**
21 **staff's position changed?**

22
23 A. Yes. Based on the staff's response to OPC's request for
24 production of documents, it appears that Ms. Merchant now
25 supports two CIAC adjustments that were not being proposed

1 at the time the offer of settlement was submitted and
2 approved.

3

4 **Q. Do you agree with the two recommended changes**
5 **discussed in Ms. Merchant's response to OPC's request for**
6 **production of documents?**

7

8 A. No. The two adjustments with which I disagree are as follows:

9

10 (1) The first dispute is related to the Highland Pointe system.
11 Ms. Merchant states that there should be an adjustment to
12 back out undistributed plant of \$5,000. However, this
13 adjustment was already made by Staff in their initial
14 determination of Plant in Service. Consequently, the
15 recommended adjustment at this juncture would result in the
16 "double removal" of the \$5,000.

17

18 No further adjustment should be made for the Highland Pointe
19 system.

20

21 (2) The second dispute relates to the recommended
22 adjustment to the Lake Saunders system. Ms. Merchant
23 recommends increasing CIAC by \$48,463. Unfortunately,
24 because the Staff's initial analysis and Ms. Merchant's differ in
25 technique, Ms. Merchant believes the CIAC was not adjusted.
26 That is incorrect. Staff initially adjusted both the balance of
27 CIAC and the acquisition adjustment, which resulted in a
28 duplication of the reduction in rate base. Subsequently the
29 Staff realized the error and corrected it by agreeing to reverse
30 the CIAC adjustment.

31

1 Ms. Merchant now recommends that the CIAC adjustment
2 should be reinstated. The result of this adjustment would be a
3 *negative* rate base for the Lake Saunders system.

4
5 No further adjustment should be made for the Lake Saunders
6 system.

7

8

9 **Rate Case Expense**

10

11 **Q. Should rate case expense be revised?**

12 A. Yes. The rate case expense included in the Staff's
13 recommendation did not include the protest and the costs
14 through hearing.

15

16 **Q. Do you have an update of rate case expense through**
17 **August 13, 1998 and an estimate of the cost to complete**
18 **the case?**

19 A. Yes. Through August 13, 1998, \$100,724.63 has been
20 expended on rate case expense. We estimate that an
21 additional \$41,465.00 will be necessary to complete the case
22 resulting in total rate case expense of \$142,189.63.

23

1 The company accepts the Staff's recommendation related to
2 rate case expense in Docket No. 950232-WU of \$15,843 and
3 \$1,223 related to corporate formation expenses.

4
5 Attached as **Exhibit ____ (MK-17)** is a schedule detailing rate
6 case expense and supporting documentation.

7
8 The amount of rate case expense to be allowed is \$142,190.
9 This results in an annual expense of \$35,548.

10

11 **Final Position**

12

13 **Q. Based on the aforementioned balances, what is the**
14 **company's final position in determining the revenue**
15 **requirement for LUSI?**

16 A. The revenue requirement is \$391,680 based on the schedules
17 attached as **Exhibit ____ (MK-18)**.

18

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

20 A. Yes it does.

21

Lake Utility Services, Inc.
 Rate Case Expense
 Docket No. 960444-WU

			Reviewed by Staff
<u>Legal Expenses</u>			
10056 Hopping Green Sams & Smith	Legal	245.55	√
35888 Hopping Green Sams & Smith	Legal	40.47	√
45423 Hopping Green Sams & Smith	Legal	156.10	√
38749 Hopping Green Sams & Smith	Legal	1,633.86	√
41326 Hopping Green Sams & Smith	Legal	666.53	√
43228 Hopping Green Sams & Smith	Legal	716.59	√
47288 Hopping Green Sams & Smith	Legal	207.11	√
48420 Hopping Green Sams & Smith	Legal	929.86	√
50512 Hopping Green Sams & Smith	Legal	579.17	√
52683 Hopping Green Sams & Smith	Legal	488.33	√
54618 Hopping Green Sams & Smith	Legal	297.10	√
57227 Hopping Green Sams & Smith	Legal	934.51	√
58789 Hopping Green Sams & Smith	Legal	207.42	√
61096 Hopping Green Sams & Smith	Legal	1,374.77	√
62895 Hopping Green Sams & Smith	Legal	1,119.15	√
65036 Hopping Green Sams & Smith	Legal	985.01	√
68025 Hopping Green Sams & Smith	Legal	3,470.00	√
68980 Hopping Green Sams & Smith	Legal	3,842.19	
70895 Hopping Green Sams & Smith	Legal	2,127.78	
74440 Hopping Green Sams & Smith	Legal	857.28	
75117 Hopping Green Sams & Smith	Legal	249.55	
77674 Hopping Green Sams & Smith	Legal	1,294.36	
79192 Hopping Green Sams & Smith	Legal	357.19	
80511 Hopping Green Sams & Smith	Legal	200.19	
83095 Hopping Green Sams & Smith	Legal	391.04	
85564 Hopping Green Sams & Smith	Legal	1,454.43	
A/P Hopping Green Sams & Smith	Legal	767.76	
A/P Hopping Green Sams & Smith	Legal	1,105.73	
A/P Hopping Green Sams & Smith	Legal	850.00	
A/P Hopping Green Sams & Smith	Legal	2,601.50	
Sub-Total Legal		30,150.53	
<u>Consulting Fees</u>			
65187 Management & Regulatory Consultar Consultants		4,975.00	√
69316 Management & Regulatory Consultar Consultants		1,350.00	
71319 Management & Regulatory Consultar Consultants		900.00	
80157 Management & Regulatory Consultar Consultants		360.00	
86353 Management & Regulatory Consultar Consultants		450.00	
Sub-Total Consultants		8,035.00	

Lake Utility Services, Inc.
 Rate Case Expense
 Docket No. 960444-WU

<u>Miscellaneous Expenses</u>		<u>Reviewed by Staff</u>
10463 Fed Ex	Postage 26.70	√
36521 Kinko's	Printing 753.52	√
36088 Kinko's	Printing 504.46	√
36897 Fed Ex	Postage 23.50	√
38708 Fed Ex	Postage 311.38	√
39580 Orlando Sentinal	Notice 17.00	√
39296 Kinko's	Printing 421.19	√
41122 Fed Ex	Postage 82.07	√
42288 Fed Ex	Postage 13.35	√
42285 Minuteman	Printing 252.97	√
43689 Fed Ex	Postage 85.37	√
44935 Minuteman	Printing 65.14	√
44960 Kramer	Misc. 244.00	√
47889 Fed Ex	Postage 36.85	√
48732 Fed Ex	Postage 16.50	√
49614 Fed Ex	Postage 11.60	√
49904 American Express	Travel 1,165.50	√
50413 Don Rasmussen Travel	Travel 52.83	√
50827 Mark Kramer Travel	Travel 338.72	√
52016 American Express	Travel 81.00	√
55886 Fed Ex	Postage 13.62	√
64054 Fed Ex	Postage 23.97	√
65855 Fed Ex	Postage 11.99	√
66374 American Express	Travel 590.00	
68589 Fed Ex	Postage 42.00	
70077 Fed Ex	Postage 18.00	
68501 Kinko's	Printing 88.38	
85854 Fed Ex	Postage 19.05	
67082 Kramer	Misc. 195.44	
Sub - Total Other	<u>5,506.10</u>	

Capitalized Time

MFK (771 HR X \$35/HR)	26,985.00	√
CJW (22HR X \$73 / HR)	1,606.00	√
MFK (98 HR X \$41/HR)	4,018.00	√
MFK (10 HR X \$41/HR)	410.00	
MFK (84 HR X \$47/HR)	3,948.00	
Sub-Total - Cap Time	<u>36,967.00</u>	

Lake Utility Services, Inc.
Docket No. 960444-WU
Rate Case Expense
As of August 13, 1998

<u>Category</u>	<u>Through 08/13/98</u>	<u>Estimate to Complete Hearing</u>	<u>Total</u>
Filing Fee	3,000.00	-	3,000.00
Legal Expense	30,150.53	30,000.00	60,150.53
Consulting Fees	8,035.00	6,965.00	15,000.00
Capitalized Time	36,967.00	3,500.00	40,467.00
Miscellaneous	5,506.10	1,000.00	6,506.10
Docket No. 950232-WU	15,843.00	-	15,843.00
Corporate Formation Expenses	1,223.00	-	1,223.00
Total	<u>100,724.63</u>	<u>41,465.00</u>	<u>142,189.63</u>

Lake Utility Services, Inc.
Schedule of Water Rate Base
Test Year Ended 12/31/95

<u>Component</u>	<u>Adjusted Test Year Per MFRs</u>	<u>Utility Adjustments</u>	<u>Utility Adjusted Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>
1 Utility Plant in Service	1,946,058	-	1,946,058	(70,522)	1,875,536
2 Land	3,730	-	3,730	357	4,087
3 Non-Used & Useful Components	(49,361)	-	(49,361)	32,096	(17,265)
4 Accumulated Depreciation	(131,754)	-	(131,754)	(65,286)	(197,040)
5 CIAC	(881,203)	-	(881,203)	(141,563)	(1,022,766)
6 Amortization of CIAC	109,430	-	109,430	3,517	112,947
7 Acquisition Adjustment	(70,169)	-	(70,169)	70,169	-
8 Accum. Amort of Acq Adj	7,095	-	7,095	(7,095)	-
9 Advances for Construction	-	-	-	(376,255)	(376,255)
10 Accumulated Def. Income Tax	116,542	-	116,542	127,927	244,469
11 Working Capital Allowance	27,828	-	27,828	4,525	32,353
12 Total Rate Base	1,078,196	-	1,078,196	(422,130)	656,066

Lake Utility Services, Inc.
Adjustments to Rate Base
Test Year Ended 12/31/95

<u>Utility Plant in Service</u>	
To adjust utility plant in service	\$ (70,522)
<u>Land</u>	
To reflect unrecorded land cost	\$ 357
<u>Non-Used and Useful Plant</u>	
To reflect net non-used and useful adjustment	\$ 32,096
<u>Accumulated Depreciation</u>	
To remove accumulated dep. related to UPIS adjustments	\$ (65,286)
<u>Contributions in Aid of Construction</u>	
To reflect adjustment of Staff proposed bookkeeping adjustments	\$ (141,563)
<u>Accumulated Amortization of CIAC</u>	
To reflect adjustment of Staff proposed bookkeeping adjustments	\$ 3,517
<u>Acquisition Adjustment</u>	
To remove acquisition adjustment	\$ 70,169
<u>Accum Amort of Acquisition Adjustment</u>	
To reflect the removal of acquisition adjustment	\$ (7,095)
<u>Deferred Income Taxes</u>	
To reflect income tax on advance for construction	\$ (376,255)
<u>Advance for Construction</u>	
To reflect adjustment of Staff proposed bookkeeping adjustments	\$ 127,927
<u>Working Capital</u>	
To reflect adjustments on operating expenses	\$ 4,525

Lake Utility Services, Inc.
 Schedule of Operations
 Test Year Ended 12/31/95

<u>Component</u>	<u>Adjusted Test Year Per MFRs</u>	<u>Utility Adjustments</u>	<u>Utility Adjusted Test Year</u>	<u>Adjustments</u>	<u>Adjusted Test Year</u>	<u>Revenue Increase</u>	<u>Revenue Requirement</u>
1 Operating Revenues	339,294	107,888	447,182	(188,738)	258,444	133,236	391,680
Operating Expenses:							
2 Operation and Maintenance	218,965	27,767	246,732	12,095	258,827	-	258,827
3 Depreciation	29,578	(1,724)	27,854	(4,029)	23,825	-	23,825
4 Acq. Adj. Amortization	(2,175)	-	(2,175)	2,175	-	-	-
5 Taxes Other Than Income	35,332	8,252	43,584	(11,010)	32,574	5,996	38,570
6 Income Taxes	9,066	11,708	20,774	(36,902)	(16,128)	50,137	34,009
7 Total Operating Expenses	<u>290,766</u>	<u>46,003</u>	<u>336,769</u>	<u>(37,671)</u>	<u>299,098</u>	<u>56,132</u>	<u>355,230</u>
8 Operating Income	<u>48,528</u>	<u>61,885</u>	<u>110,413</u>	<u>(151,067)</u>	<u>(40,654)</u>	<u>77,104</u>	<u>36,450</u>
9 Rate Base	<u>1,078,196</u>		<u>1,078,196</u>		<u>656,066</u>		<u>656,066</u>
10 Rate of Return	<u>4.50%</u>		<u>10.24%</u>		<u>-6.20%</u>		<u>5.56%</u>

Lake Utility Services, Inc.**Adjustments to Operating Statements**

Test Year Ended 12/31/95

Adjustments**Operating Revenues**

a) To reflect proposed increase	\$ (133,236)
b) To remove AFPI charges	\$ (32,912)
c) To remove Advances booked as revenue	\$ (35,000)
d) Calculation correction for the MFRs	\$ 10,765
d) To reflect billing adjustments	\$ 1,645
	<u>\$ (188,738)</u>

O & M Expenses

a) To reduce expenses of power and chemical for unaccounted for water	\$ (3,048)
b) To reflect repression adjustment	\$ (3,254)
c) To reflect annual amortization of legal fees, LUSI v. Clermont	\$ 11,474
d) To reflect adjustment of rate case expense	\$ 8,690
e) To remove non-utility insurance premium	\$ (741)
f) To remove refundable security deposit	\$ (275)
g) To reduce unsupported expenses	\$ (751)
	<u>\$ 12,095</u>

Depreciation Expense Net of CIAC Amortization

a) To reflect the eff of adjustment to plant in service	\$ (11,395)
b) To adjust depreciation expense for non U&U	\$ 3,000
c) To reflect adjustment to CIAC per Audit Exception No. 12	\$ 4,949
d) To amortize imputation of CIAC on margin reserve	\$ (583)
	<u>\$ (4,029)</u>

Amortization of Acquisition Adjustment

To remove amort exp associated with Acquisition Adjustment	<u>\$ 2,175</u>
--	-----------------

Taxes Other Than Income Taxes

a) RAFs related to revenue adjustments	\$ (7,674)
b) To remove tax bill unrelated to utility property bill	\$ (1,481)
c) To remove property taxes for non-U&U plant	\$ (323)
d) To remove payroll taxes associated with capitalized salaries	\$ (1,532)
	<u>\$ (11,010)</u>

Income Taxes

Income taxes associated with adjusted test year income	<u>\$ (36,902)</u>
--	--------------------