

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc.

DOCKET NO. 960444-WU

FILED: February 8, 1999

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimonies of William Troy Rendell, Patricia W. Merchant, Charleston J. Winston, and Ian J. Forbes was furnished by hand delivery to the Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison St., Ste. 812, Tallahassee, FL 32399-1400, and to Richard S. Melson, Esquire, Hopping, Boyd, Green & Sams, P.O. Box 6526, Tallahassee, FL 32314, on this 8th day of February, 1999.


Tim Vaccaro, Senior Attorney

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Forbes
DOCUMENT NUMBER-DATE
01631 FEB-89
FPSC-RECORDS/REPORTING

Rendell
DOCUMENT NUMBER-DATE
01628 FEB-89
FPSC-RECORDS/REPORTING

Merchant
DOCUMENT NUMBER-DATE
01629 FEB-89
FPSC-RECORDS/REPORTING

Winston
DOCUMENT NUMBER-DATE
01630 FEB-89
FPSC-RECORDS/REPORTING

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

WITNESS: Prefiled Testimony of William Troy Rendell, Appearing On
Behalf of Florida Public Service Commission Staff

DATE FILED: FEBRUARY 8, 1999

DOCUMENT NUMBER-DATE

01628 FEB-8 99

FPSC-RECORDS/REPORTING

1 DIRECT TESTIMONY OF WILLIAM TROY RENDELL

2 Q. Would you please state your name and business address?

3 A. My name is William Troy Rendell, and my business address is 2540 Shumard
4 Oak Boulevard, Tallahassee, FL 32399.

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 Bureau of Economic Regulation, Division of
8 Water and Wastewater.

9 Q. How long have you been employed with the Commission?

10 A. I started working at the Commission in November, 1987.

11 Q. Would you please give a brief description of your educational background
12 and professional experience?

13 A. I graduated from Gulf Coast Community College in 1985 with an Associate
14 of Arts Degree in Business Administration. In 1987, I graduated from
15 the Florida State University with a Bachelor of Science Degree in
16 Finance.

17 After graduation, I was employed as a comptroller for Port Panama
18 City Marina, Inc. In November, 1987, I began working for the Florida
19 Public Service Commission as a Regulatory Analyst I in the Bureau of Gas
20 Regulation, Division of Electric and Gas. In January, 1991, during a
21 structural reorganization of the Commission, I joined the Division of
22 Auditing and Financial Analysis in the Bureau of Accounting. In
23 October, 1991, I transferred to the Division of Water and Wastewater as
24 a Regulatory Analyst IV in the Bureau of Industry Structure and Policy
25 Development. On March 1, 1994, I accepted my current position within

1 | the Bureau of Economic Regulation. I have attended various regulatory
2 | seminars and Commission in-house training and professional development
3 | meetings concerning regulatory matters.

4 | Q. Have you had cause to testify in other dockets before the Florida Public
5 | Service Commission?

6 | A. Yes. I testified in Docket No. 930880-WS, Investigation into the
7 | Appropriate Rate Structure for Southern States Utilities, Inc.; Docket
8 | No. 960329-WS, Application for a rate increase by Gulf Utility Company;
9 | and in Docket No. 880002-EG, the Energy Conservation Cost Recovery
10 | (ECCR) docket.

11 | Q. What are your present responsibilities with the Commission?

12 | A. I am responsible for supervising a technical professional staff who are
13 | involved in financial, accounting and rate aspects of formal rate
14 | applications, service availability, staff assisted rate cases, and
15 | limited proceedings before the Commission. My responsibilities also
16 | include preparing and presenting expert testimony concerning accounting
17 | and rate matters at formal hearings before the Commission, as well as
18 | advising and making recommendations to the Commissioners. I am also
19 | responsible for conducting research, generic investigations and
20 | recommending statutory and rule changes, and Commission policies on
21 | areas of my responsibility.

22 | Q. What is the purpose of your testimony in this proceeding?

23 | A. The purpose of my testimony is to provide information regarding the
24 | calculation of rates, annualized revenues, and service availability
25 | charges for Lake Utilities Services, Inc., or commonly referred to as

1 LUSI.

2 Q. When did you first become involved in the calculation of rates for LUSI?

3 A. Beginning in late 1994, staff members in the Division of Water and
4 Wastewater received several inquiries from customers and a state
5 legislator on the disparity of rates in LUSI's territory. Based upon
6 these inquiries, staff initiated conversations with the utility
7 concerning a possible revenue neutral rate restructuring application.
8 Staff subsequently sent correspondences to the individuals who initiated
9 the inquiries, indicating that the Commission would examine the large
10 disparity in service rates in an upcoming rate restructuring filing.
11 On November 30, 1994, Utilities, Inc., LUSI's parent company, filed
12 proposed revised tariffs for LUSI. The company indicated in its letter
13 that the tariff sheets were filed to initiate a revenue neutral
14 administrative filing that would eliminate the inequities that exist in
15 rate structure and to improve customer relations and satisfaction. The
16 proposed rate structure submitted by Utilities, Inc., would be
17 applicable to all the systems that were interconnected. The filing was
18 based on a consumption analysis from the test year ending December 31,
19 1993.

20 On December 7, 1994, staff sent a letter to Utilities, Inc.,
21 stating the proposed revised tariff sheets were received, but must be
22 processed as a limited proceeding pursuant to Section 367.0822(1),
23 Florida Statutes. The letter also stated that a filing fee must
24 accompany the limited proceeding to begin the procedure.

25 Q. Were there any other concerns raised in staff's letter dated December

1 7, 1994?

2 A. Yes. In its letter, staff also stated concerns regarding the disparity
3 of service availability charges. The utility was informed that the
4 proposed filing only addressed monthly service rates and that the
5 limited proceeding should be expanded to include the disparity of
6 service availability charges. LUSI was further informed that we would
7 be reviewing the appropriateness of LUSI's service availability charges
8 during the pendency of the proceeding. On February 8, 1995, staff sent
9 another letter to Utilities, Inc., requesting that it file the limited
10 proceeding within 60 days of receiving the February 8, 1995, letter.
11 On February 27, 1995, Utilities, Inc., filed the application for a
12 limited proceeding to restructure LUSI's water rates.

13 Q. How was the rate restructuring docket finalized?

14 A. On October 5, 1995, the Commission issued its first Proposed Agency
15 Action (PAA). PAA Order No. PSC-95-1228-FOF-WU, issued in Docket No.
16 950232-WU, approved restructured rates for LUSI and ordered the utility
17 to supply information regarding its service availability policy within
18 90 days of the issuance of the order. However, on October 25, 1995, the
19 utility filed a Petition of Proposed Agency Action, in which it
20 protested the PAA order. On December 14, 1995, Mr. Mark Kramer filed
21 prefiled testimony on behalf of LUSI. On February 9, 1996, Mr. Eric
22 Groom filed prefiled testimony on behalf of the Florida Public Service
23 Commission. On March 4, 1996, LUSI filed a settlement proposal. In the
24 settlement proposal, LUSI stated its intention of filing an application
25 for a general rate increase on or before June 1, 1996. The proposed

1 settlement was proffered in an effort to avoid the time and expense of
2 further litigation. In the settlement proposal, LUSI agreed that the
3 uniform rate structure set forth in Staff Witness Eric Groom's testimony
4 would be implemented on the same date that interim rates were
5 implemented, so that for calculation purposes, the current rates would
6 be the uniform rates for the effected service areas. By Order No. PSC-
7 96-0504-AS-WU, issued April 12, 1996 in Docket No. 950232-WU, the
8 Commission approved the Settlement Proposal, thereby finalizing the rate
9 restructuring docket.

10 Q. Were uniform rates and service availability charges subsequently
11 approved for all of LUSI's service territory?

12 A. Yes. By Order No. PSC-97-0531-FOF-WU, issued May 9, 1997, in this
13 instant docket, the Commission approved uniform rates and service
14 availability charges for all of LUSI's service territory. The
15 Commission approved a uniform base facility charge of \$8.06 for a 5/8
16 X 3/4 inch meter and a \$.99 gallonage charge, per 1,000 gallons. The
17 Commission also found that it was inappropriate for customers to pay
18 different service availability charges for the same service. Therefore,
19 the Commission approved uniform service availability charges. The
20 Commission approved a main extension charge of \$223 and set the plant
21 capacity charge at zero (\$0.00).

22 Q. Was the uniform rate structure subsequently protested?

23 A. No. On May 5, 1997, LUSI filed it's Petition on Proposed Agency Action.
24 In it's petition, LUSI protested portions of Order No. PSC-97-0531-FOF-
25 WU. LUSI listed several portions of the order which it protested:

1 | however, the uniform rate structure was not protested. It should also
2 | be pointed out that LUSI did not protest either the billing
3 | determinants, on which the uniform rates were set, or the allocation of
4 | the revenue requirement to the base facility charge and gallonage
5 | charge.

6 | Q. Did LUSI protest the proposed service availability charges?

7 | A. Yes. The proposed service availability charges were protested.

8 | Q. Have you calculated annualized revenues for LUSI for 1997 and 1998?

9 | A. Yes. Using the monthly interim reports submitted by LUSI pursuant to
10 | Order No. PSC-96-1187-FOF-WU, issued in this docket on September 23,
11 | 1996 and Rule 25-30.360(6), Florida Administrative Code, I calculated
12 | the estimated billing determinants for 1997 and 1998. This included the
13 | number of bills per meter size and consumption. Since LUSI bills on a
14 | bi-monthly billing cycle, I had to make certain assumptions in my
15 | calculations. For the year 1997, I used the reports from January 15,
16 | 1997 through January 15, 1998. Therefore, billing determinants for a
17 | 12-month period were calculated. For 1998, LUSI has only submitted
18 | reports from January 15, 1998 through November 15, 1998. Therefore, I
19 | made projections for the period November 15, 1998 through January 15,
20 | 1999. I based these projections on the growth rates for the year 1998.
21 | I used an average percentage growth rate between report periods. For
22 | the projected consumption for this period, I used a conservative average
23 | usage of 15,000 gallons per customer. This is less than the average
24 | consumption for the year, but recognizes that the period occurred during
25 | the winter season. Therefore, I used a lower than average consumption

1 | projection for the period November 15, 1998 through January 15, 1999.
2 | The projected billing determinants are attached as Exhibit WTR-1.
3 | Q. Did you use these billing determinants to calculate interim revenues for
4 | the period ended 1997 and 1998?
5 | A. Yes. These billing determinants were used to calculate the interim
6 | revenues collected for the period ended 1997 and 1998. The billing
7 | determinants were applied to the interim rates approved in this docket
8 | by Order No. PSC-96-1187-FOF-WU. For the year ended 1997, I have
9 | calculated annualized revenues of \$514,576 and for year ended 1998, I
10 | have calculated annualized revenues of \$710,830, based on projected
11 | billing determinants.
12 | Q. Have you reviewed Staff Witness Patricia Merchant's calculations of
13 | water rate base and Statement of Water Operations for 1998?
14 | A. Yes. I have reviewed Staff Witness Patricia Merchant's rate base
15 | calculations for 1998 and the Statement of Water Operations for 1998.
16 | This operations statement includes the calculation of the overall
17 | revenue requirement, including the operating expenses. I used these
18 | calculations to analyze LUSI's total contribution in aid of construction
19 | level to determine the appropriate service availability charges.
20 | Q. Have you made a determination of LUSI's CIAC level for the year ended
21 | 1998?
22 | A. Yes. Based upon the 1998 calculated rate base as determined by Staff
23 | Witness Merchant, LUSI's CIAC level was 105.51%.
24 | Q. Is LUSI'S CIAC level in compliance with Rule 25-30.580, Florida
25 | Administrative Code?

1 | A. No. Pursuant to Rule 25-30.580, Florida Administrative Code, the
2 | maximum amount of contributions in aid of construction, net of
3 | amortization, should not exceed 75% of the total original cost, net of
4 | accumulated depreciation, of the utility facilities and plant when the
5 | facilities and plant are at their designed capacity. Since LUSI's CIAC
6 | exceeds the 75% maximum limit allowed by rule, this contribution level
7 | is not in compliance. The calculations include all plant additions
8 | through the end of 1998, and all contributions through the end of 1998.
9 | I also included the amount for advances received in 1995. This amount
10 | was received through 1995 developer agreements and was disclosed in
11 | Audit Exception No. 12 in the audit report submitted on October 3, 1996.
12 | The utility did not record this amount on its books and was not able to
13 | determine if these connections had been made. However, based upon the
14 | staff audit, I included this amount in the amount of CIAC for
15 | calculation purposes. Staff Witness Merchant's calculation of rate base
16 | also considered all plant in service to be 100% used and useful. Thus,
17 | the plant is considered to be at design capacity.

18 | Q. Has LUSI supplied any estimates of future plant expenditures?

19 | A. Yes. On August 29, 1997, LUSI filed Don Rasmussen's Late-Filed
20 | Deposition Exhibit 1. This exhibit showed an estimated amount of future
21 | capital expenditures of \$1,350,589. This amount was subsequently used
22 | in staff's calculations to determine if the proposed service
23 | availability charges in LUSI's settlement proposal file on September 17,
24 | 1997 were appropriate. This settlement proposal was subsequently
25 | approved by PAA Order No. PSC-98-0683-AS-WU, issued May 18, 1998.

1 | However, this PAA order was subsequently protested by the Office of
2 | Public Counsel. A revised exhibit was subsequently attached to the
3 | Rebuttal Testimony of Donald Rasmussen's testimony as Exhibit DR-6, and
4 | filed on August 13, 1998. This revised exhibit showed an estimated cost
5 | of interconnection and capital improvements in the amount of \$1,369,658.

6 | Q. Did staff support the proposed service availability charges at the time
7 | of the proposed settlement, and if so, why?

8 | A. Yes. Based upon the projected number of future equivalent residential
9 | connections (ERCs) and the projected capital expenditures supplied by
10 | LUSI in 1997, staff supported the proposed service availability charges.
11 | However, based on the actual number of ERCs connected and the actual
12 | amount of CIAC collected, staff does not support LUSI's proposed
13 | charges. It is evident that the company underestimated future
14 | connections, the estimated capacity at buildout, and the estimated time
15 | it would take to reach buildout.

16 | Q. What is your recommendation as to the determination of service
17 | availability charges?

18 | A. Absent any significant amount of future capital expenditures, I would
19 | recommend that the utility's plant capacity charge be discontinued.
20 | Further, I would recommend that a minimal charge be calculated for main
21 | extension charges. This amount could be based upon future projected
22 | line expenditures divided by future projected ERCs. However, no further
23 | information is available on the appropriate amount of main extension
24 | charges. In any event, uniform service availability charges should be
25 | approved for LUSI. LUSI currently has two sets of service availability

1 charges for different subdivisions. A majority of these subdivisions
2 are interconnected. Due to the fact that these facilities are
3 physically interconnected, it would be arbitrary and unjust for a
4 customer to pay a higher charge for living in a different subdivision.

5 Q. If LUSI completes the estimated capital investments as proposed in Don
6 Rasmussen's Late Filed Exhibit 1, would your recommendation change on
7 service availability charges?

8 A. No. Although the utility projected over \$1.3 million in capital
9 improvements, the utility has actually expended just over \$1 million for
10 the years 1996 through 1998. However, because of the level of current
11 service availability charges and the high level of growth experienced
12 by the utility, the CIAC level has increased significantly and is no
13 longer in compliance with current Commission rules. The higher of
14 LUSI's two sets of service availability charges is in the high growth
15 areas of its service territory. However, if the utility commits to
16 making the capital expenditures as referenced by Exhibit DR-6, this will
17 enable it to come into compliance with Rule 25-30.580, Florida
18 Administrative Code.

19 Q. Has the Commission discontinued service availability charges for
20 utilities with CIAC levels in excess of the maximum allowed level?

21 A. Yes. In Order No. PSC-93-0295-FOF-WS, issued February 24, 1993, the
22 Commission discontinued the service availability charges of Mad Hatter
23 Utility, Inc. (MHU). In that instance, the utility's CIAC levels were
24 83.19% for water and 79.91% for wastewater. The Commission ordered MHU
25 to discontinue collection of all service availability charges, except

1 meter installation fees. Also in Order No. PSC-94-1234-FOF-SU, issued
2 October 11, 1994, the Commission discontinued the service availability
3 charges of Highlands Utilities Corporation, (Highlands). In that
4 docket, the Commission determined that Highlands' CIAC level was 98.47%.
5 It was noted that Highlands had plans to add additional treatment
6 facilities which would increase its capacity and would allow it to add
7 more customers. The additional capital expenditure would also
8 significantly increase Highlands' investment in plant in service. The
9 Commission noted that the purpose of the 75% limitation on contributions
10 was to ensure that the utility owners maintained an interest in the
11 facilities. Therefore, the Commission ordered Highlands to discontinue
12 collection of CIAC. (See also Order No. 16238, in Docket No. 840247-WU
13 for Placid Lakes Utilities, Inc.; Order No. 16360, in Docket No. 860583-
14 WS for Clayton, Williams & Sherwood, Inc.; Order No. PSC-92-1362-FOF-SU,
15 in Docket No. 920302-SU for Gumbo Limbo Enterprises; and Order No.
16 19722, in Docket No. 880158-WS for St. Johns Service Company)

17 Q. Have you calculated a uniform rate based upon the 1995 Commission
18 approved adjusted test year revenues and billing determinants?

19 A. Yes. Based upon the 1995 adjusted test year revenue of \$252,729, the
20 billing determinants, and the allocation of revenue requirement, all of
21 which were approved in Order No. PSC-97-0531-FOF-WU, and not protested,
22 the base facility charge for a 5/8 X 3/4 inch meter would be \$7.38 and
23 the gallonage charge would be \$0.91, per 1,000 gallons.

24 Q. Does this conclude your testimony?

25 A. Yes.

EXHIBIT NO. : WTR-1

WITNESS: WILLIAM TROY RENDELL

DOCKET NO. : 960444-WU

**Application for rate increase by
LAKE UTILITY SERVICE, INC.**

**BEFORE THE
FLORIDA PUBLIC SERVICE
COMMISSION**

DESCRIPTION:

**CALCULATION OF ANNUALIZED REVENUES
FOR YEAR ENDED 1997 AND 1998**

Lake Utility Service, Inc.
Docket No. 960444-WU
Billing Determinants - 1997

	1/15/97-3/15/97 Report #1	3/15/97-5/15/97 5/15/97-7/15/97 Report #2	7/15/97 - 9/15/97 Report #3	9/15/97 - 11/15/97 Report #4	11/15/97-1/15/98 Report #5	Total All Reports
62801 5/8" Meter	1,204	2,485	1,286	1,321	1,340	7,636
62810 1" Meter	28	56	28	28	28	168
62812 1.5" Meter	6	10	4	4	4	28
62813 2" Meter	4	6	2	2	2	16
66001 5/8" Meter -Res	936	2,101	1,218	1,273	1,381	6,909
66004 5/8" Meter -Gen	2	4	2	2	4	14
66010 1" Meter	10	23	14	14	16	77
66012 1.5" Meter						0
66013 2" Meter	1	6	3	4	4	18
Gallons	47,385,090	114,096,691	62,086,538	66,206,374	39,971,756	329,746,449
Average Consum.	21,627	24,322	24,281	25,002	14,384	22,181
66301 5/8" Meter	110	224	112	111	116	673
Gallons	1,089,300	2,683,306	1,252,204	1,123,760	919,470	7,068,040
Average Consum.						
66401 5/8" Meter	73	146	75	76	78	448
Gallons	313,750	795,980	408,440	512,260	374,960	2,405,390
Total Gallons	48,788,140	117,575,977	63,747,182	67,842,394	41,266,186	

Interim Rates

Settlement Rates
PSC-98-0683-AS-WU

Revenue Calculation

5/8 x 3/4"	14,559	\$8.64	\$125,789.76	\$8.39	\$122,150.01
1"	245	\$21.61	\$5,294.45	\$20.98	\$5,140.10
1.5"	28	\$43.21	\$1,209.88	\$41.97	\$1,175.16
2"	34	\$69.14	\$2,350.76	\$67.15	\$2,283.10
			\$134,644.85		\$130,748.37
Gallage	329,746,449	\$1.07	\$352,828.70	\$1.25	\$412,183.06
Outliers					
5/8 x 3/4"	673	\$7.04	\$4,737.92	\$8.39	\$5,646.47
Gallons	7,068,040	\$1.03	\$7,280.08	\$1.25	\$8,835.05
5/8 x 3/4"	448	\$21.00	\$9,408.00	\$8.39	\$3.76
Gallons	2,405,390	\$2.36	\$5,676.72	\$1.25	\$3,006.74
Total Revenue			Revenues \$514,576.27		Revenues \$560,423.45

Lake Utility Service, Inc.
Docket No. 960444-WU
Billing Determinants - 1998

	1/16/98 - 3/15/98	3/15/98 - 5/15/98	5/15/98 - 7/15/98	7/15/98 - 9/15/98	9/15/98 - 11/15/98	Staff Projected 11/15/98-1/15/99	Total All Reports
	Report #6	Report #7	Report #8	Report #9	Report #10	Adjus. for Growth	
62801 5/8" Meter	1,353	1,345	1,374	1,388	1,408	1,422	8,290
62810 1" Meter	27	34	34	34	34	36	199
62812 1.5" Meter	4	4	4	4	4	4	24
62813 2" Meter	2	2	2	2	2	2	12
66001 5/8" Meter -Res	1,467	1,556	1,654	1,778	1,916	2,046	10,417
66004 5/8" Meter -Gen	4	4	4	4	4	4	24
66010 1" Meter	16	16	16	20	22	24	114
66012 1.5" Meter			2	2	2	2	8
66013 2" Meter	6	2	2	4	4	4	22
Gallons	37,748,495	94,082,100	128,139,141	86,133,072	73,442,244	53,160,000	472,705,052
Average Consum.	13,112	31,752	41,442	26,617	21,626	15,000	
66301 5/8" Meter	115	116	120	118	118	119	706
Gallons	932,460	2,138,410	2,591,260	1,270,252	1,333,634	1,670,845	9,936,861
Average Consum.	8,108	18,435	21,594	10,765	11,302	14,041	
66401 5/8" Meter	79	80	80	82	84	85	490
Gallons	360,880	525,180	678,950	447,900	511,440	529,898	3,054,248
	4,568	6,565	8,487	5,462	6,089	6,234	
Total Gallons	39,041,835	96,745,690	131,409,351	87,851,224	75,287,318	55,360,744	

Interim Rates

Settlement
Rates
PSC-98-0683-AS-WU

Revenue Calculation

5/8 x 3/4"	18,731	\$8.64	\$161,835.84	\$8.39	\$157,153.09
1"	313	\$21.61	\$6,763.93	\$20.98	\$6,566.74
1.5"	32	\$43.21	\$1,382.72	\$41.97	\$1,343.04
2"	34	\$69.14	\$2,350.76	\$67.15	\$2,283.10
			\$172,333.25		\$167,345.97
Gallorage	472,705,052	\$1.07	\$505,794.41	\$1.25	\$590,881.32
Outliers					
5/8 x 3/4"	706	\$7.04	\$4,970.24	\$8.39	\$5,923.34
Gallons	9,936,861	\$1.03	\$10,234.97	\$1.25	\$12,421.08
5/8 x 3/4"	490	\$21.00	\$10,290.00	\$8.39	\$4.11
Gallons	3,054,248	\$2.36	\$7,208.03	\$1.25	\$3,817.81
Total Revenue			Revenues \$710,830.89		Revenues \$780,393.62