

ORIGINAL

DOCKET NO. 981637-WS

DIRECT TESTIMONY OF  
DAVID B. DENAGY  
ON BEHALF OF  
UNITED WATER FLORIDA INC.

DOCUMENT NUMBER-DATE

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by United )  
Water Florida Inc. For an )  
Extension of Service Area in ) DOCKET NO.: 981637-WS  
St. Johns County, Florida )  
\_\_\_\_\_ )

TESTIMONY  
OF  
DAVID B. DENAGY  
ON BEHALF OF UNITED WATER FLORIDA INC.

Q: Please state your name and business address.  
A: My name is David B. deNagy. My business address is 1400  
Millcoe Road, Post Office Box 8004, Jacksonville,  
Florida 32239-8004.  
Q: Did you prepare, or have prepared at your direction and  
under your supervision, the testimony you are about to  
give in this matter?  
A: Yes.  
Q: By whom are you employed?  
A: I am employed by United Water Florida Inc. ("United  
Water Florida").  
Q: What is your position with UWF?  
A: I am Manager Accounting and Benefits Administration.  
Q: What is the nature of your work with United Water  
Florida?

1 A: I am responsible for the accurate and timely recording  
2 of financial transactions and financial related data of  
3 United Water Florida. I have also assisted in the  
4 preparation of certain of the minimum filing  
5 requirements for United Water Florida's last two rate  
6 cases. I prepare and file United Water Florida's price  
7 index and pass through adjustments. I prepare and file  
8 United Water Florida's annual reports and its  
9 regulatory assessment fee reports. I prepare operation  
10 and maintenance financial plans for each year and  
11 perform various budgeting duties including preparing  
12 variance reports. I also ensure that general ledger  
13 accounts are reconciled in a timely and accurate manner  
14 and I oversee United Water Florida's regulatory  
15 accounting. I also have responsibility for payroll and  
16 related benefits for all United Water Florida  
17 employees.

18 Q: I would like to investigate your formal education and  
19 prior employment. Please identify where you received  
20 your undergraduate degree and the area of concentration  
21 of your studies?

22 A: I attended Widener University in Chester, Pennsylvania,  
23 and received a Bachelor of Science degree in Accounting  
24 in 1981.

25

1 Q: What post graduate degrees have you received and from  
2 what institutions were these degrees obtained?

3 A: I received a Masters of Business Administration degree  
4 in 1988 from Widener University in Chester,  
5 Pennsylvania.

6 Q: Please describe your previous experience and  
7 employment.

8 A: I have worked for seventeen (17) years for United  
9 Waterworks Corporation, formerly General Waterworks  
10 Corporation. I worked in the corporate home office and  
11 at United Water Delaware, formerly known as Wilmington  
12 Suburban Water Corporation, in the capacities of  
13 Bookkeeper, Region Accountant, Auditor, and Commercial  
14 Services Manager. I have been the Manager of  
15 Accounting and Benefits Administration for United Water  
16 Florida for the last four (4) years.

17 Q: How long have you practiced in the area of Accounting?

18 A: Twenty-five (25) years. Prior to joining the United  
19 Water corporate family, I was an inventory control  
20 technician and staff accountant for Benjamin F. Shaw  
21 Company in Wilmington, Delaware.

22 Q: Have you ever testified in administrative agency  
23 proceedings?

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25

1 A: Yes, I testified before the Florida Public Service  
2 Commission ("Commission") in United Water Florida's  
3 last rate case hearing.

4 Q: Are you familiar with water and wastewater utility rate  
5 structures?

6 A: Yes. In my experience I have been involved in the  
7 computation of customer's bills using a variety of  
8 different rate methodologies. I have also been  
9 involved in two recent rate filings for United Water  
10 Florida which has caused me to be involved in the  
11 accumulation of data to determine customer rates. The  
12 different rate structures I am familiar with include  
13 flat rates, inclining block rates, declining block  
14 rates, seasonal rates, minimum gallonage structures and  
15 the base facility/gallonage charge structure.

16 Q: What is the nature of your assignment in this matter?

17 A: First, to compare the rates and charges of United Water  
18 Florida with Intercoastal Utilities, Inc.  
19 ("Intercoastal"), and St. Johns County's utility  
20 department in connection with service to the area  
21 requested ("Requested Area") in United Water Florida's  
22 Application for Amendment of its service area in St.  
23 Johns County ("Application"). Second, to address the  
24 financial strength of United Water Florida and the  
25 impact on United Water Florida's rates and charges in

1 connection with serving the area requested in its  
2 Application.

3 Q: I show you two documents marked Exhibits DBD-1 and DBD-  
4 2. Can you identify them?

5 A: Yes. I prepared both exhibits. Exhibit DBD-1 is a  
6 comparison of the rates and charges of United Water  
7 Florida, as set forth in Order No. PSC-99-0513-FOF-WS,  
8 with the rates and charges of Intercoastal and St.  
9 Johns County. Exhibit DBD-2 is an analysis of the  
10 impact of United Water Florida's initial investment to  
11 serve the Requested Area on United Water Florida's rate  
12 base and revenue requirement

13 Q: How did you prepare the two exhibits?

14 A: In Exhibit DBD-1, I provided an analysis comparing the  
15 most recent residential water and wastewater rates of  
16 United Water Florida, Intercoastal and St. Johns  
17 County. All three companies have one single water rate  
18 for all commodity usage and one minimum rate based on  
19 the meter size through which the water passes. St.  
20 Johns County effectively includes a 4,000 gallon  
21 minimum its base charges and its commodity charge  
22 applies to gallonage use in excess of 4,000 gallons per  
23 month. Wastewater is calculated based on water usage  
24 and meter size with United Water Florida and  
25 Intercoastal Utilities capping wastewater billed at

1 9,000 and 10,000 gallons, respectively, per month. St.  
2 Johns County, as with water, includes the first 4,000  
3 gallons in their base facility charge, but does not  
4 have a gallonage cap. Exhibit DBD-2 shows the impact  
5 of United Water Florida's initial investment on United  
6 Water Florida's rate base and revenue requirement in  
7 connection with serving the Requested Area.

8 Q: What do the two exhibits disclose?

9 A: Exhibit DBD-1 illustrates what a typical residential  
10 customer with a 5/8 inch meter would be billed for  
11 water and wastewater by each of the three utilities --  
12 United Water Florida, Intercoastal and St. Johns  
13 County. Using the most recent tariffs and orders, I  
14 have compared each utility at four different  
15 consumption levels to illustrate how a consumer using  
16 various levels of water would be billed. In the  
17 exhibits using the consumption levels shown, United  
18 Water Florida provides the lowest combined rate of all  
19 utilities being compared. For consumption levels in  
20 excess of 32,000 gallons per month, a customer would  
21 pay less under Intercoastal's rates than United Water  
22 Florida's rates. Only a very few, if any, residential  
23 customers would consume water at such high levels.  
24 United Water Florida's rates result in lower bills at  
25 or below 32,000 gallons per month, which represents the

1 | overwhelming majority of residential customers. Only  
2 | at a consumption level of 4,000 gallons per month would  
3 | St. Johns County provide a lower combined water and  
4 | wastewater total than United Water Florida. At all  
5 | other consumption levels, St. Johns County's combined  
6 | water and wastewater rates, both above and below 4,000  
7 | gallons per month, exceed United Water Florida's  
8 | combined water and wastewater total. In summary,  
9 | Exhibit DBD-1 illustrates that United Water Florida  
10 | provides, for combined water and wastewater residential  
11 | billings, a consistently lower rate than either  
12 | Intercoastal or St. Johns County. The Commission  
13 | recently found that United Water Florida's residential  
14 | customers with a 5/8 inch meter use an average of 8,868  
15 | gallons per month. United Water Florida's combined  
16 | rates are clearly lower at that level and for a wide  
17 | range around that level.

18 | Q: What rates and charges would the Jacksonville Electric  
19 | Authority ("JEA") charge in the Requested Area?

20 | A: If the bulk service agreement between the JEA and St.  
21 | Johns County is approved, JEA would use limited service  
22 | rates (i.e., wholesale rates) to charge St. Johns  
23 | County and St. Johns County would charge the customers  
24 | in the Requested Area St. Johns County's rates and  
25 | connection charges.



1 Q: Would you briefly describe for the Commission the  
2 financial condition of United Water Florida.

3 A: Yes. The financial condition of United Water Florida  
4 is very strong. United Water Florida has been well  
5 capitalized by its owner. United Water Florida is a  
6 wholly owned subsidiary of United Waterworks Inc. which  
7 provides all the capital to its subsidiaries. United  
8 Waterworks Inc. structures its subsidiaries on a 100  
9 percent common equity basis.

10 Q: In your opinion, does United Water Florida have the  
11 financial strength and financial resources to allow it  
12 to provide water and wastewater service to the  
13 additional territory requested in the Application?

14 A: Yes. Representatives of United Water Florida have  
15 estimated that the additional investment required to  
16 provide service to the Requested Area will be  
17 approximately \$700,000. They have also stated that  
18 United Water Florida would increase its plant capacity  
19 if necessary. Even assuming that an expansion to the  
20 plant capacity were required and that United Water  
21 Florida was required to fund the \$700,000 investment to  
22 provide service itself, the total additional investment  
23 required for United Water Florida to provide service to  
24 the Requested Area would be only a fraction of the  
25 total amount of utility plant presently owned and

1 operated by United Water Florida. Financing would be  
2 readily available to United Water Florida from both its  
3 owner and commercial banking institutions in order to  
4 provide the funds necessary to construct the additional  
5 facilities required to serve the Requested Area and to  
6 expand its plants, if needed. United Water Florida has  
7 already received approval from United Waterworks and  
8 has been advised that the \$700,000, if needed, will be  
9 provided to United Water Florida as additional paid in  
10 capital from United Waterworks.

11 Q: Are you familiar with the rates and charges of United  
12 Water Florida?

13 A: Yes. I am familiar with the rates and charges of  
14 United Water Florida through my work with the current  
15 and past rate case. In addition, I have prepared and  
16 filed United Water Florida's Price Index and Pass  
17 Through rate adjustments.

18 Q: What would be the effect on United Water Florida's  
19 rates and charges if it had to expend the \$700,000  
20 itself to serve the Requested Area?

21 A: First, there would be no effect at all unless United  
22 Water Florida filed for a change of its rates and  
23 charges. Second, the only additional initial cost to  
24 United Water Florida would be approximately \$14,000.00  
25 for depreciation. I reviewed the effect of such an

1 | \$700,000 addition to the rate base with our rate  
2 | department. United Water Florida's rate base would  
3 | increase by less than one percent. Assuming that  
4 | United Water Florida would file a rate case to include  
5 | the less than one percent increase in rate base and to  
6 | recover the \$14,000.00 annual depreciation cost, United  
7 | Water Florida's overall revenue requirement would only  
8 | increase by less than one-half of one percent of United  
9 | Water Florida's revenue requirements (\$97,439).

10 | Q: Do you have any further comments that you would like to  
11 | make?

12 | A: No. However, I will be glad to answer any questions  
13 | that anyone would like to ask.

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**United Water Florida**  
 St. Johns County Analysis  
 3/19/99

<i>Residential Customer Rate (per thousand gallons)[1]</i>	<i>United Water Florida</i>	<i>Intercostal Utilities</i>	<i>St. Johns County[2]</i>
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**Water**

<i>Commodity Charge</i>	4.47	2.67	-
<i>5/8" Meter Charge (per month)</i>	7.76	6.91	19.50
<i>Total</i>	12.23	9.58	19.50

**Wastewater**

<i>Commodity Charge</i>	10.59	13.44	-
<i>5/8" Meter Charge (per month)</i>	12.59	19.09	20.12
<i>Total</i>	23.18	32.53	20.12

<i>Combined Water &amp; Wastewater</i>	35.41	42.11	39.62
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[1] Assume 3,000 Gallons Per Month

[2] 4,000 gallon minimum in lieu of 5/8" meter charge.

**Note:**

United Water Florida  
 Intercostal Utilities - Water  
 Intercostal Utilities - Wastewater  
 St. Johns County

**Tariff Dated**

Order No. PSC-99-0513-FOF-WS Dated 3/12/1999  
 Effective Date 10/14/1996  
 Order No. 98-00005 Dated 10/26/1998  
 Ordinance 97-62 Dated 10/1/1998

**United Water Florida**  
**St. Johns County Analysis**  
**3/19/99**

<i>Residential Customer Rate (per thousand gallons)[1]</i>	<i>United Water Florida</i>	<i>Intercostal Utilities</i>	<i>St. Johns County[2]</i>
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**Water**

<i>Commodity Charge</i>	7.45	4.45	5.15
<i>5/8" Meter Charge (per month)</i>	7.76	6.91	19.50
<i>Total</i>	15.21	11.36	24.65

**Wastewater**

<i>Commodity Charge</i>	17.65	22.40	4.69
<i>5/8" Meter Charge (per month)</i>	12.59	19.09	20.12
<i>Total</i>	30.24	41.49	24.81

<i>Combined Water &amp; Wastewater</i>	45.45	52.85	49.46
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[1] Assume 5,000 Gallons Per Month

[2] 4,000 gallon minimum in lieu of 5/8" meter charge.

**Note:**

*United Water Florida*  
*Intercostal Utilities - Water*  
*Intercostal Utilities - Wastewater*  
*St. Johns County*

**Tariff Dated**

*Order No. PSC-99-0513-FOF-WS Dated 3/12/1999*  
*Effective Date 10/14/1996*  
*Order No. 98-00005 Dated 10/26/1998*  
*Ordinance 97-62 Dated 10/1/1998*

**United Water Florida**  
**St. Johns County Analysis**  
**3/19/99**

<b>Residential Customer Rate</b> <b>(per thousand gallons)[1]</b>	<b>United Water</b> <b>Florida</b>	<b>Intercostal</b> <b>Utilities</b>	<b>St. Johns</b> <b>County[2]</b>
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**Water**

Commodity Charge	14.90	8.90	30.90
5/8" Meter Charge (per month)	7.76	6.91	19.50
<b>Total</b>	<b>22.66</b>	<b>15.81</b>	<b>50.40</b>

**Wastewater**

Commodity Charge	31.77	44.80	28.14
5/8" Meter Charge (per month)	12.59	19.09	20.12
<b>Total</b>	<b>44.36</b>	<b>63.89</b>	<b>48.26</b>

<b>Combined Water &amp; Wastewater</b>	<b>67.02</b>	<b>79.70</b>	<b>98.66</b>
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[1] Assume 10,000 Gallons Per Month

[2] 4,000 gallon minimum in lieu of 5/8" meter charge.

**Note:**

United Water Florida

Intercostal Utilities - Water

Intercostal Utilities - Wastewater

St. Johns County

**Tariff Dated**

Order No. PSC-99-0513-FOF-WS Dated 3/12/1999

Effective Date 10/14/1996

Order No. 98-00005 Dated 10/26/1998

Ordinance 97-62 Dated 10/1/1997

**United Water Florida**  
**St. Johns County Analysis**  
**3/19/99**

<b>Residential Customer Rate</b> <b>(per thousand gallons)[1]</b>	<b>United Water</b> <b>Florida[3]</b>	<b>Intercostal</b> <b>Utilities[4]</b>	<b>St. Johns</b> <b>County[2]</b>
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**Water**

Commodity Charge	22.35	13.35	56.65
5/8" Meter Charge (per month)	7.76	6.91	19.50
<b>Total</b>	<b>30.11</b>	<b>20.26</b>	<b>76.15</b>

**Wastewater**

Commodity Charge	31.77	44.80	51.59
5/8" Meter Charge (per month)	12.59	19.09	20.12
<b>Total</b>	<b>44.36</b>	<b>63.89</b>	<b>71.71</b>

<b>Combined Water &amp; Wastewater</b>	<b>74.47</b>	<b>84.15</b>	<b>147.86</b>
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[1] Assume 15,000 Gallons Per Month

[2] 4,000 gallon minimum in lieu of 5/8" meter charge.

[3] 9,000 gallon wastewater minimum.

[4] 10,000 gallon wastewater minimum.

**Note:**

United Water Florida

Intercostal Utilities - Water

Intercostal Utilities - Wastewater

St. Johns County

**Tariff Dated**

Order No. PSC-99-0513-FOF-WS Dated 3/12/1999

Effective Date 10/14/1996

Order No. 98-00005 Dated 10/26/1998

Ordinance 97-62 Dated 10/1/1998

**United Water Florida**  
**St. Johns County Analysis**  
**3/19/99**

<b>Capacity Fees</b>	<b>United Water Florida[1]</b>	<b>Intercostal Utilities[1]</b>	<b>St. Johns County[2]</b>
<i>Water</i>	410.00	234.45	1,375.50
<i>Wastewater</i>	250.00	625.20	1,739.50
<i>Combined Water &amp; Wastewater</i>	660.00	859.65	3,115.00

[1] ERC=350gpd

[2] per single family dwelling.

**Note:**

*United Water Florida*

*Intercostal Utilities - Water*

*Intercostal Utilities - Wastewater*

*St. Johns County*

**Tariff Dated**

*Order No. PSC-99-0513-FOF-WS Dated 3/12/1999*

*Sheet No. 32.2 Dated 10/25/1988\**

*Original Sheet No.25 - No Date\**

*Ordinance 97-62 Dated 10/1/1997*

\* Per Mr. George Flint – March 19, 1999



**United Water Florida**  
**St. Johns County Analysis**  
**3/19/99**

<b>AFPI (Allowance for Funds Prudently Invested)</b>	<b>United Water Florida[1]</b>
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*Blacks Ford Wastewater Treatment & Disposal*

<i>[1] Per ERC (ERC=280 gpd)</i>	1999	2000	2001	2002	2003
<i>Jan</i>	-	313	608	919	1,248
<i>Feb</i>	24	338	633	946	1,277
<i>Mar</i>	48	362	659	973	1,306
<i>Apr</i>	72	387	685	1,000	1,335
<i>May</i>	96	411	711	1,028	1,363
<i>Jun</i>	120	435	737	1,055	1,392
<i>Jul</i>	145	460	762	1,082	1,421
<i>Aug</i>	169	484	788	1,110	1,450
<i>Sep</i>	193	509	814	1,137	1,479
<i>Oct</i>	217	533	840	1,164	1,508
<i>Nov</i>	241	557	866	1,192	1,537
<i>Dec</i>	265	582	891	1,219	1,566

**Note:**  
 United Water Florida

**Tariff Dated**  
 Order No. PSC-99-0513-FOF-WS Dated 3/12/1999

Docket No. 981637-WS  
 Exhibit DBD-2  
 D. deNagy Exhibit No. \_\_\_\_\_  
 Schedule of Water and Wastewater  
 Net Operating Income

IncStmnt COMBINED

Schedule of Water and Wastewater Net Operating Income  
 Combined  
 Staff Case: United Water Florida  
 Schedule Year Ended  
 Projected: 1999

19-Mar-99  
 Florida Public Service Commission  
 Schedule: B-1  
 Page 1 of 6  
 Docket No: 980214-WS  
 Preparer: Schreyer

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

LINE NO.	DESCRIPTION	Balance Per Books 1997	Staff#4 Test Year Adjustments	Staff#4 Adjusted Test Year 1999	Staff#4 Revenue Adjustment	Staff # Allowed Annual Revenues	Supporting Schedules
1	OPERATING REVENUES	\$25,455,519	\$4,855,705	\$30,311,224	\$2,416,790	\$32,728,014	B-4
	OPERATING EXPENSES:						
2	Operation and Maintenance	\$12,085,597	1,678,401	\$13,761,998	\$15,861	13,777,859	B-3 & B-5
3	Depreciation, Net of CIAC Amort.	3,075,331	1,989,046	5,064,377		5,064,377	B-13
4	Amortization of Acquisition Adjustment	536,457	(463,339)	73,118		73,118	G-35
5	Taxes Other Than Income	2,828,072	538,801	3,366,873	108,753	3,475,626	B-15
	OPERATING EXPENSES	18,525,457	3,740,909	22,266,366	124,614	22,390,980	
6	Operating Income Before Income Taxes	\$ 6,930,062	\$ 1,114,796	\$ 8,044,858	\$ 2,292,176	\$ 10,337,034	
	INCOME TAXES:						
	State Income Taxes	216,298	18,398	234,696	126,070	360,766	
	Federal Income Taxes	1,234,689	83,413	1,318,102	736,475	2,054,577	
7	Provision for Income Taxes	1,450,987	101,811	1,552,798	862,545	2,415,343	C-2
8	Utility Operating Income	\$ 5,479,075	\$ 1,012,985	\$ 6,492,060	\$ 1,427,172	\$ 7,921,691	
9	Rate Base			\$96,341,036		\$ 96,341,036	A-1
10	Rate of Return on Rate Base			6.74%		8.22%	
	Allowed Revenue Adjustment	\$2,416,790	Allowed Revenue Adjustment		\$2,416,790		
	Uncollectible Rate	0.62%	PSC Assessment		4.50%		
	Additional O&M Expenses-Uncollectibles	\$ 15,040	Additional Taxes Other-PSC Assmnt.		\$ 108,756		

Schedule of Water and Wastewater Net Operating Income  
 Combined  
 Staff Case: United Water Florida  
 Schedule Year Ended  
 Projected: 1999

Florida Public Service Commission  
 Schedule: B-1  
 Page 1 of 6  
 Docket No: 980214-WS  
 Preparer: Schreyer

Explanation: Provide the calculation of net operating income for the test year. If amortization (Line 4) is related to any amount other than an acquisition adjustment, submit an additional schedule showing a description and calculation of charge.

LINE NO.	DESCRIPTION	Balance Per Books 1997	Staff#4 Test Year Adjustments	Staff#4 Adjusted Test Year 1999	Staff#4 Revenue Adjustment	Staff #4 Allowed Annual Revenues	Supporting Schedules
1	OPERATING REVENUES	\$25,455,519	\$4,855,705	\$30,311,224	\$2,514,229	\$32,825,453	B-4
	OPERATING EXPENSES:						
2	Operation and Maintenance	\$12,085,597	1,676,401	\$13,761,998	\$15,861	13,777,859	B-3 & B-5
3	Depreciation, Net of CIAC Amort.	3,075,331	1,989,046	5,064,377		5,064,377	B-13
4	Amortization of Aquisition Adjustment	536,457	(463,339)	73,118		73,118	G-35
5	Taxes Other Than Income	2,828,072	538,801	3,366,873	108,753	3,475,626	B-15
	OPERATING EXPENSES	18,525,457	3,740,909	22,266,366	124,614	22,390,980	
6	Operating Income Before Income Taxes	\$ 6,930,062	\$ 1,114,796	\$ 8,044,858	\$ 2,389,615	\$ 10,434,473	
	INCOME TAXES:						
	State Income Taxes	216,298	18,398	234,696	126,070	360,766	
	Federal Income Taxes	1,234,689	83,413	1,318,102	736,475	2,054,577	
7	Provision for Income Taxes	1,450,987	101,811	1,552,798	862,545	2,415,343	C-2
8	Utility Operating Income	\$ 5,479,075	\$ 1,012,985	\$ 6,492,060	\$ 1,484,712	\$ 8,019,130	
9	Rate Base			\$97,041,036		\$ 97,041,036	A-1
10	Rate of Return on Rate Base			6.69%		8.22%	
	Allowed Revenue Adjustment	\$2,514,229	Allowed Revenue Adjustment	\$2,514,229			
	Uncollectible Rate	0.62%	PSC Assessment	4.50%			
	Additional O&M Expenses-Uncollectibles	\$ 15,646	Additional Taxes Other-PSC Assmnt.	\$ 113,140			