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April 16, 1999

Ms. Blanca Bayo
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 98⁷1220-WS - Application for transfer of Certificates Nos. 592-W and 509-S from Cypress Lakes Associates, Ltd. to Cypress Lakes Utilities, Inc. in Polk County Florida.

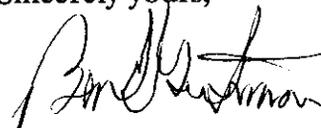
Dear Ms. Bayo:

Enclosed for filing are the original and fifteen copies of the following documents:

1. Direct Testimony of Mr. Carl Wenz.

Thank you for your assistance. If there are any questions, please let me know.

Sincerely yours,



Ben E. Girtman

Encl.
cc w/encl: Mr. Carl Wenz

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL

In Re: Application for transfer)
of Certificate Nos. 592-W and)
509-S from Cypress Lakes)
Associates, Ltd. to Cypress Lakes)
Utilities, Inc., In Polk County)

Docket No. 971220-WS

Filed: April 16, 1999

DIRECT TESTIMONY

OF

CARL WENZ

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
TESTIMONY OF CARL WENZ
REGARDING THE APPLICATION FOR TRANSFER OF CERTIFICATES
FROM CYPRESS LAKES ASSOCIATES, LTD. TO CYPRESS LAKES
UTILITIES, INC.
IN POLK COUNTY
DOCKET NO. 971220-WS

Q. Mr. Wenz, please state your business address for the record?

A. 2335 Sanders Road, Northbrook, Illinois 60062.

Q. By whom are you employed and what is your position?

A. I am the Vice President of Regulatory Matters for Utilities, Inc. and all of its subsidiaries, including Cypress Lakes Utilities, Inc.

Q. Please state your professional and educational experience.

A. I have been employed by Utilities, Inc. since 1984. Over the last thirteen years I have been involved in all phases of the regulatory process. Utilities, Inc. owns water and/or wastewater utilities in fifteen states. I have testified before the commissions in several states, including Florida,

1 North Carolina, South Carolina, Louisiana,
2 Illinois, Indiana, Nevada and Maryland. In my
3 present position I am responsible for all aspects
4 of utility commission regulation for the group of
5 67 Utilities, Inc. subsidiaries in fifteen states.
6 This includes fourteen systems in Florida, many of
7 which were purchased during the last several years.
8 The Utilities, Inc. subsidiaries serve
9 approximately 200,000 customers nationally, of
10 which 63,000 are in Florida.

11

12 I am a Certified Public Accountant and hold a
13 Bachelors Degree in Business Administration from
14 Western Michigan University. I have attended
15 several utility regulation seminars sponsored by
16 NARUC and by Arthur Andersen LLP. For the past five
17 years I have been on the faculty of the Eastern
18 Utility Rate School which is sponsored by the NARUC
19 Water Committee and Florida State University.

20

21 **Q. What is the purpose of your testimony here today?**

22 **A.** On July 20, 1998 this Commission, in Order No. PSC-
23 98-0993-FOF-WS approved, as a final action, the
24 transfer of Certificate Nos. 592-W and 509-S from
25 Cypress Lakes Associates, Ltd. to Cypress Lakes

1 Utilities, Inc. It also granted, as a final action,
2 the continuation of rates and charges in effect at
3 the time of transfer, with certain requested
4 modifications relating to a cap on residential
5 wastewater charges and a separate charge for
6 irrigation meters. However, in that same order, the
7 Commission gave notice of a Proposed Agency Action
8 (PAA) establishing rate base for purposes of the
9 transfer as the net book value of the system
10 without any acquisition adjustment included in rate
11 base.

12
13 The Commission justified the exclusion of an
14 acquisition adjustment, as follows:

15
16 An acquisition adjustment results when the
17 purchase price differs from rate base. In the
18 absence of extraordinary circumstances, it has
19 been Commission policy that the purchase of a
20 utility at a premium or discount shall not
21 affect the rate base calculation. The
22 circumstances in this exchange do not appear
23 to be extraordinary. Further, an acquisition
24 adjustment has not been requested by Cypress
25 Lakes. Therefore, no negative acquisition

1 adjustment has been included in the rate base
2 calculation. [Order No. PSC-98-0993-FOF-WS at
3 p.7]

4
5 The PAA has been challenged by the Office of Public
6 Counsel. The purpose of my testimony today is to
7 support the Commission conclusion that rate base be
8 established at net book value of the utility at the
9 time of transfer, but without any acquisition
10 adjustment included in rate base.

11

12 **Q. For purposes of the transfer what is the rate base**
13 **of the utility at the time of transfer?**

14 **A.** As set forth in Commission Order No. PSC-98-0993-
15 FOF-WS, it is \$617,609 for the water system and
16 \$921,439 for the wastewater system.

17

18 **Q. How were those amounts established?**

19 **A.** They were established by the Commission Staff after
20 an audit of the utility's books in this docket and
21 represent the original cost of plant in service,
22 net of accumulated depreciation and unamortized
23 CIAC. These amounts reflect adjustments by
24 Commission Staff that exclude some capitalized
25 franchise costs and unaudited costs associated with

1 phase V-1 development. They do not reflect any used
2 and useful or other ratemaking adjustments such as
3 an allowance for working capital.

4

5 Q. Have you reviewed the Commission Staff audit and
6 the Staff adjustments that result in its
7 established transfer value of rate base?

8 A. Yes.

9

10 Q. And do you agree that the rate base established by
11 Commission Staff correctly reflects the original
12 cost of plant in service net of accumulated
13 depreciation and unamortized CIAC, at the time of
14 transfer?

15 A. I do, for purposes of establishing rate base at
16 time of transfer.

17

18 Q. Is the price paid for the utility by Cypress Lakes
19 different than the rate base reflected on the books
20 of the utility?

21 A. Yes. It is lower.

22

23 Q. Is Cypress Lakes requesting that an
24 acquisition adjustment be made to rate base?

25 A. No.

1 **Q. Are you familiar with this Commission's policy on**
2 **acquisition adjustments for water and wastewater**
3 **utilities?**

4 **A. Yes. My understanding of this Commission's policy**
5 **is that, in the absence of extraordinary**
6 **circumstances, the purchase of a utility at a**
7 **premium or a discount shall not effect the rate**
8 **base calculation. That is, the purchaser stands in**
9 **the shoes of the seller. My understanding is based**
10 **on my experience purchasing and operating utilities**
11 **in Florida under this Commission's jurisdiction and**
12 **on reading the Commission's orders establishing,**
13 **investigating and reconfirming its policy on**
14 **acquisition Adjustments.**

15

16 **Q. Where you aware of this policy when Cypress Lakes**
17 **was being considered for purchased?**

18 **A. Yes.**

19

20 **Q. Was this policy a consideration in the decision to**
21 **purchase Cypress Lakes?**

22 **A. Yes. As you may be aware, Utilities, Inc., or its**
23 **subsidiaries, have purchased several utilities in**
24 **Florida. The Commission's policy regarding**

1 acquisition adjustments has entered into all of
2 those decisions.

3

4 **Q. Do you know anything about the prior ownership of**
5 **Cypress Lakes Utilities, Inc.?**

6 A. Yes. The prior owner also developed the mobile home
7 community being served by Cypress Lakes Utilities,
8 Inc. The utility, which was under the rate
9 jurisdiction of Polk County when it was
10 established, was initially exempt from regulation
11 because there were no separately identified utility
12 costs. The utility lost its exemption while still
13 under Polk County regulation, and filed for a
14 franchise in 1995. A franchise was granted in 1996.
15 The prior owner will still be an active developer
16 but is not interested in operating the utility.

17

18 **Q. Is Cypress Lakes Utilities, Inc. or its parent a**
19 **developer?**

20 A. No. Utilities, Inc. owns and operates utilities
21 only.

22

23

24

1 **Q. Are you familiar at all with the financial position**
2 **of the utility under the prior owner?**

3 **A. Based on the annual reports filed this Commission**
4 **during the two years the utility was under the**
5 **Commission's jurisdiction, I know that the utility**
6 **had sustained cumulative losses of over \$138,000**
7 **and had a negative equity position equal to that**
8 **amount. I also note, based on these reports, that**
9 **for the same period, the mobile home park had**
10 **sustained cumulative losses of \$2.3 million which**
11 **translated to a negative equity position of the**
12 **same magnitude.**

13

14 **Q. Are Cypress Lakes Utilities, Inc. and its parent**
15 **willing to commit funds to the operation of Cypress**
16 **Lakes?**

17 **A. Yes, assuming fair ratemaking treatment by this**
18 **Commission.**

19

20 **Q. Do Cypress Lakes and its parent have the financial**
21 **ability to commit the funds necessary to operate**
22 **this utility?**

23 **A. Yes.**

24

25

1 Q. Can they attract capital at reasonable costs?
2 A. Yes.
3
4 Q. Do Cypress Lakes and its parent have access to
5 professional and experienced utility management?
6 A. Yes. As previously stated, we operate some 67 water
7 and wastewater utilities in 15 states. Here in
8 Florida, we have an established management team and
9 access to professional operators.
10
11 Q. Will Cypress Lakes benefit from any economies of
12 scale in it operation?
13 A. Yes. Since the management of Utilities, Inc. is
14 already in place in Florida, it will not be
15 necessary to obtain management just for Cypress
16 Lakes. Cypress Lakes will be allocated a portion of
17 the overall management expense. In addition,
18 equipment and supply purchases for Cypress Lakes
19 will benefit from the established vendor resources
20 already being used for sister systems in Florida.
21
22
23

1 **Q. Prior to the purchase of Cypress Lakes, did anyone**
2 **from Utilities, Inc. or its subsidiaries inspect**
3 **the Cypress Lakes systems?**

4 **A. Yes. Representatives of Utilities, Inc. inspected**
5 **the systems.**

6

7 **Q. What was the condition of the systems?**

8 **A. Both the water and wastewater systems appeared to**
9 **be in satisfactory condition, with no outstanding**
10 **operating violations.**

11

12 **Q. Will the change in ownership of Cypress Lakes**
13 **benefit the customers of the utility and provide**
14 **them with a better quality of service?**

15 **A. Yes. Summarizing the facts I have testified to, the**
16 **customers will benefit because the new owner is**
17 **utility oriented and replaces a developer related**
18 **owner that has expressed disinterest in operating**
19 **the utility. The new owner has the ability to**
20 **attract capital at a reasonable cost. It has the**
21 **ability and commitment to make any necessary**
22 **improvements. It has a professional staff with**
23 **years of experience in utility operations. It has**
24 **the potential to reduce costs through the**
25 **allocation of existing administrative expenses and**

1 through access to an established purchasing system.
2 It is familiar with, and has the ability to comply
3 with, all state and federal regulations.
4

5 **Q. Was there anything extraordinary about this utility
6 or the circumstances leading up to its purchase?**

7 **A. No.** This utility and the circumstances surrounding
8 the purchase were pretty much like those of the
9 other utilities we have purchased in Florida.
10

11 **Q. Mr. Wenz, has this Commission recently addressed
12 the issue of acquisition adjustment with regard to
13 another utility purchased by a subsidiary of
14 Utilities, Inc.?**

15 **A. Yes.** The Commission, in response to a protest by
16 OPC, similar to the protest in this case, held
17 hearings to determine whether to include a negative
18 acquisition adjustment in rate base with regard to
19 the purchase of Econ Utilities Corporation by
20 Wedgefield Utilities, Inc., a subsidiary of
21 Utilities, Inc.
22
23
24

1 Q. What was the decision of the Commission in that
2 case?

3 A. In the Wedgefield case, it was the decision of the
4 Commission that extraordinary circumstances did not
5 exist, that price differential alone did not
6 constitute an extraordinary circumstance, and that
7 in accordance with past practice, a negative
8 acquisition adjustment would not be imposed. [Order
9 No. PSC-98-1092-FOF-WS at pages 20 and 22].

10

11 Q. In the Cypress Lakes purchase, is the differential
12 between purchase price and rate base greater or
13 less than in the Econ acquisition?

14 A. It is much less.

15

16 Q. Are there any circumstances in the purchase of
17 Cypress Lakes that were not addressed by the
18 Commission in the Wedgefield/Econ case?

19 A. No.

20

21 Q. Does that conclude your direct testimony?

22 A. Yes.