

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY OF

CARL J. WENZ

VICE PRESIDENT OF REGULATORY MATTERS

UTILITIES, INC.

ON BEHALF OF

MID-COUNTY SERVICES, INC.

DOCKET NO. 971065-SU

MAY 24, 1999

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FPSC-RECORDS/REPORTING

1 **Mid-County Services, Inc.**

2 **Docket No. 971065-SU**

3 **Rebuttal Testimony of Carl J. Wenz**

4 **May 24, 1999**

5

6 **Q. Please state your name and business address for the record.**

7 A. My name is Carl J. Wenz. My business address is 2335 Sanders
8 Rd., Northbrook, IL 60062.

9

10 **Q. Have you previously filed direct testimony in this docket?**

11 A. Yes, I have.

12

13 **Q. What is the purpose of your rebuttal testimony?**

14 A. The purpose of my rebuttal testimony is respond to the direct
15 testimony of staff witnesses Davis, Sweeney and Winston, and
16 OPC witnesses Larkin and Bidy. I will also present Mid-
17 County's updated estimate of rate case expense.

18

19 **Key Man Insurance**

20 **Q. Mr. Larkin (page 16) and Ms. Sweeney (pages 2-3) support a**
21 **\$3,983 adjustment to insurance expense. Do you agree with**
22 **this adjustment?**

23 A. No. As stated in my direct testimony, Mid-County does not
24 dispute the portion of the adjustment (\$1,876) that relates to

1 removal of key-man life insurance premiums. However the
2 adjustment proposed by Mr. Larkin and Ms. Sweeney goes
3 further, and removes premiums related to fiduciary liability
4 policies as well. Under the NARUC Uniform System of Accounts,
5 key-man life insurance is classified as a non-utility expense.
6 Similar treatment is not required for fiduciary liability policies.
7 The premiums on fiduciary liability policies are a legitimate utility
8 expense. These policies protect the utility, and ultimately its
9 ratepayers, from potential litigation costs and liabilities in the
10 same manner as any other liability insurance. These policies also
11 help the utility to attract and retain qualified management
12 personnel. As such, they provide a benefit to utility customers
13 and their cost is properly recoverable through rates.

14

15 **CWIP**

16 **Q. Several witnesses testify that of the \$292,159 of CWIP**
17 **referred to in your direct testimony, only \$195,891 is**
18 **associated with the Curlew Road, US 19 and Belcher Road**
19 **main relocation project. Do you agree?**

20 **A.** Yes, like the PAA Order in this case, my direct testimony
21 inadvertently characterized the entire amount of \$292,159 as
22 related to this main relocation project. In fact, the CWIP balance
23 includes \$195,891 related to this project, and \$96,268 related to
24 seven other projects.

25

1 **Q. Do you agree with Mr. Larkin that only the \$195,891 related**
2 **to the main relocation project should be fully included in rate**
3 **base, and that the remainder should be included only at a**
4 **test year average balance?**

5 A. No. I do agree that the \$195,891 related to the main relocation
6 project is an appropriate pro forma addition to the 1996 test year
7 rate base and that the full balance should be reclassified as plant
8 in service. However, the same treatment should also be applied
9 to the remaining CWIP balance. The seven projects included in
10 this balance (a) have been completed well before the rates from
11 this case will go into effect, (b) were required to continue
12 providing high quality service to existing customers, and (c) did
13 not provide additional capacity to serve future customers.

14

15 **Q. Mr. Winston states that if the 1997 charges are allowed in**
16 **CWIP as a pro forma plant adjustment, the utility should**
17 **provide updated actual numbers to replace those figures that**
18 **were included on an estimated basis in the MFRs. Can you**
19 **provide this information?**

20 A. Yes. The attached Exhibit ___ (CJW-4) shows the final amounts
21 associated with each of the nine work order items included in the
22 CWIP balance, together with the date each project was completed.

23

24 **Q. Do you have any further comments on the ratemaking**
25 **treatment of the CWIP balances?**

1 A. Yes. The fundamental problem with the PAA Order's treatment of
2 CWIP, which I referred to in my direct testimony, still needs to be
3 addressed. This problem is that when the PAA Order made a pro
4 forma adjustment to increase Plant in Service by the full amount
5 of certain projects, the CWIP balance was reduced by the same
6 amount, even though only one-half the cost of those projects had
7 been included in CWIP to begin with. This improperly left a
8 negative CWIP balance. Regardless of which projects the
9 Commission ultimately reclassifies as Plant in Service, it must
10 ensure that it does not remove from CWIP more than the
11 associated amounts that were included in CWIP in the first
12 instance.

13

14 **Cost Allocation Methodology**

15 **Q. Mr. Larkin argues that the Company's use of a customer**
16 **equivalency factor for allocating common costs does not**
17 **result in a fair allocation of expenses to Mid-County**
18 **customers when compared to the Commission's accepted**
19 **ERC allocation methodology. How to you respond to this**
20 **contention?**

21 A. I disagree with Mr. Larkin. First, the goal of any allocation
22 methodology should be to achieve a fair and reasonable
23 assignment of common costs that cannot be directly attributed to
24 a particular system. For all the reasons stated in my direct
25 testimony, the customer equivalency method achieves that goal

1 and has been consistently applied by the company in Florida and
2 the other states in which it has operating systems.

3

4 Second, Mr. Larkin refers to the staff's method as "the
5 Commission's accepted ERC allocation methodology." In fact,
6 there is no Commission rule which specifies a particular
7 allocation methodology to be used. After setting an ERC-based
8 allocation methodology up as a standard, Mr. Larkin then
9 appears to conclude that because the utility's method results in
10 allocating more costs to Mid-County, it is inherently unfair. It is
11 not unfair, it is simply different.

12

13 There is no more basis in logic for allocating costs on a per-ERC
14 basis than on a customer equivalency basis, since we are dealing
15 with common costs that do not directly vary with either total
16 consumption or total customers. I submit that it is sounder
17 regulatory policy to consistently apply a single, reasonable
18 methodology on a company-wide basis than to seek in every case
19 to find a methodology which minimizes the costs allocated to the
20 customers of the system at issue. If the latter approach were
21 adopted, the company would never be able to recover the full cost
22 of providing service.

23

24 **Q. Mr. Davis recommends recalculating the cost allocations for**
25 **which the utility used customer equivalents "based on**

1 **equivalent residential connections, as calculated by Staff**
2 **Witness Crouch." (Page 12) Would you please respond to this**
3 **recommendation?**

4 A. Let me begin by noting that Mr. Crouch's testimony does not
5 appear to present any information on Mid-County's number of
6 equivalent residential connections as Mr. Davis states. In any
7 event, Mr. Davis' rationale for rejecting the utility's allocation
8 methodology is flawed. He correctly notes that the difference in
9 result between the utility's methodology and the staff's
10 recommended methodology arises from the relatively large
11 number of multi-family units and other master-metered
12 customers on the Mid-County system, compared to its sister
13 companies. He also observes that the utility's allocation
14 methodology allocates more costs to Mid-County than to some of
15 those sister companies, even though Mid-County treats fewer
16 gallons of wastewater. From this, he concludes that the
17 allocation methodology should be rejected for Mid-County, even
18 though he concedes that it produces reasonable allocations
19 elsewhere.

20

21 **Q. Why do you say that this analysis is flawed?**

22 A. Because Mr. Davis makes the assumption that gallonage treated
23 is a more rationale basis for allocating common costs than
24 number of customers. In fact, if the common costs varied by
25 gallons treated, they would have been assigned on that basis. It

1 is precisely because no direct assignment is possible that one
2 must choose among a number of possible allocation
3 methodologies. If you assume (as Mr. Davis does) that ERC
4 equivalents are the correct allocator, then the utility's method
5 appears to over-allocate costs to Mid-County. Conversely, if you
6 assume that customer equivalents are the correct allocator, then
7 the staff's method under-allocates costs to Mid-County. In this
8 situation, the Commission should approve the utility's
9 methodology, which results in reasonable allocations and has
10 consistently been applied to all of the utility's operating
11 companies in Florida and other states.

12

13 **Rate Case Expense**

14 **Q. Mr. Larkin takes the position that the Commission should**
15 **deny any increase in rate case expense over that authorized**
16 **in the PAA Order. Can you begin by telling us what rate case**
17 **expense was approved in that order?**

18 A. The PAA Order approved \$94,959 of rate case expense, consisting
19 of two components. The first was current rate case expense of
20 \$50,206, which included only amount incurred by the utility
21 through the issuance of the PAA Order. The second was \$44,753,
22 which is additional expense from a prior rate case.

23

24 **Q. Does Mr. Larkin contest the \$44,753 associated with the**
25 **prior rate case?**

1 A. It is difficult to tell. He appears to conclude that because, in his
2 view, current customers received no benefit from the utility's
3 defense of its proposed service availability charges, the
4 Commission has been "eminently fair to the Company" in setting
5 the total rate case expense allowance included in the PAA. In
6 fact, the final order from the prior rate case specifically
7 authorized the recovery in this case of any prudently incurred
8 rate case expense in excess of \$110,000 from the prior case. The
9 PAA Order in this case found \$44,753 of such costs to be
10 prudent, and authorized their recovery. No party has challenged
11 the prudence of this amount, and it therefore is not an issue at
12 this time.

13
14 **Q. What about Mr. Larkin's contention that rate case expense**
15 **for the current case should be capped at the \$50,206 allowed**
16 **in the PAA Order?**

17 A. The basis for his contention is that the company's protest "seeks
18 to reargue issues that the Commission has decided in the past or
19 has concluded, based on analysis, that such costs are
20 inappropriate for ratepayers to pay." That contention is wrong.
21 For example, Mr. Larkin contends that the issues related to used
22 and useful calculations, margin reserve and imputed CIAC are
23 included in the PAA Order based on prior Commission precedent
24 and therefore should be immune from challenge at ratepayer
25 expense. In fact, the PAA Order's position on the used and useful

1 methodology at issue in this case has twice been remanded to the
2 Commission by the courts for development of a better factual
3 record. Similarly the PAA Order's treatment of margin reserve
4 and imputed CIAC has been the subject of a recently concluded
5 rule challenge proceeding and of legislation considered and
6 passed by the 1999 Legislature. These clearly are issues that are
7 not definitively settled by Commission precedent.

8

9 **Q. What is the company's current estimate of rate case**
10 **expense?**

11 A. I have attached as Exhibit ____ (CJW-5) a schedule which
12 summarizes the actual rate case expense incurred in this case
13 through April 30, 1999, together with an estimate of the cost to
14 complete the case through the entry of a final order by the
15 Commission. These amounts total \$113,499, which is \$63,293
16 more than allowed in the PAA Order (which included only costs
17 incurred through the entry of the PAA Order) and is \$6,473 more
18 than I estimated in my direct testimony. We will be providing the
19 detailed documentation supporting these expenses to the
20 Commission staff and the Office of Public Counsel for their
21 review.

22

23 **Cost of Equity**

24 **Q. Mr. Larkin recommends that the Commission use the 1998**
25 **leverage graph to determine Mid-County's cost of equity in**

1 **the proceeding. Do you agree?**

2 A. No. The PAA Order established the cost of equity for this case
3 based on the Commission's 1997 leverage graph. Neither the
4 utility nor the Office of Public Counsel protested the cost of equity
5 contained in that order. Although I am not a lawyer, it is my
6 understanding that any part of a PAA Order that is not
7 specifically protested is deemed to be stipulated, and is not a
8 proper issue in any hearing on the protest.

9

10 **Rate Structure**

11 **Q. Mr. Davis suggests a rate structure modification that would**
12 **determine the base facility charges based on a modified**
13 **application of the Clow Pipe values, rather than the AWWA**
14 **meter equivalencies typically used by the Commission. Do**
15 **you have any comment on this approach?**

16 A. The utility does not object to the staff's approach, which we
17 understand attributes a greater portion of the revenue
18 requirement to multi-family and other master-metered customers.
19 In fact, this approach appears to be more consistent with utility's
20 proposed allocation methodology, which gives full weight to the
21 customer equivalent units behind those master meters in
22 determining the allocation of common costs to Mid-County.

23

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

25 A. Yes.

Mid-County Services, Inc.
Docket No. 971065-SU

EXHIBIT _____
(CJW 5)
Docket No. 971065-SU

RATE CASE EXPENSE

| (1) | (2) | (3) | (4) | (5) |
|-----------------------------------|-------------------|---------------------------------------|--------------------------------------|------------------------|
| Description | Per PAA Order | ACTUAL Additional Costs to Date | ESTIMATED Costs to Final Order | TOTAL Final Cost |
| Filing Fee | \$ 3,500 | \$ - | \$ - | \$ 3,500 |
| Legal | 11,135 | 14,280 | 15,000 | 40,415 |
| Postage, Printing | 6,806 | - | - | 6,806 |
| Travel | - | - | 1,500 | 1,500 |
| MFR Preparation & Filing | 28,765 | - | - | 28,765 |
| Expert Witnesses | - | 4,180 | 8,035 | 12,215 |
| Discovery, Testimony, & Hearing | - | 15,258 | 5,040 | 20,298 |
| Total Current Case | \$ 50,206 | \$ 33,718 | \$ 29,575 | \$ 113,499 |
| Unamortized Prior Rate Case | 44,753 | - | - | 44,753 |
| Total Rate Case Exp. to Be Amort. | <u>\$ 94,959</u> | <u>\$ 33,718</u> | <u>\$ 29,575</u> | <u>\$ 158,252</u> |
| Annual Amortization - REVISED | \$ 23,740 | \$ 8,430 | \$ 7,394 | \$ 39,563 |
| Annual Amortization Per MFRs | <u>31,241</u> | <u>-</u> | <u>-</u> | <u>31,241</u> |
| Adjustment | <u>\$ (7,501)</u> | <u>\$ 8,430</u> | <u>\$ 7,394</u> | <u>\$ 8,322</u> |