

1 TESTIMONY OF ERIN L. NICHOLAS
2 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
3 REGARDING THE APPLICATION FOR INCREASE
4 IN WATER RATES IN ORANGE COUNTY
5 BY WEDGEFIELD UTILITIES, INC.
6 AND THE RATE PORTION OF
7 DOCKET NO. 991437-WU
8

9 **Q. Please state your name, occupation and business**
10 **address for the record.**

11 A. My name is Erin L. Nicholas. I am a Regulatory
12 Analyst for Utilities, Inc. and subsidiaries,
13 including Wedgefield Utilities, Inc. My business
14 address in 2335 Sanders Road, Northbrook,
15 Illinois.

16
17 **Q. Please state your professional and educational**
18 **background and experience.**

19 A. I have been employed by Utilities, Inc. since
20 1996. Since that time I have been involved in
21 both the accounting and rate making aspects of the
22 utility business. I have been responsible for rate
23 filings in Florida, New Jersey, North Carolina,
24 Pennsylvania and Virginia.

25

1 I earned a Bachelor of Business Administration
2 degree in accounting from the University of Notre
3 Dame in South Bend, Indiana. I am currently
4 enrolled in the Masters of Business Administration
5 Program at Kellogg Graduate School of Management
6 at Northwestern University in Chicago, Illinois.
7 I am a Certified Public Accountant and I have
8 attended the NARUC Utility Rate Seminar as well as
9 other related independently sponsored seminars.

10

11 **Q. Please explain your job responsibilities at**
12 **Utilities, Inc.**

13 A. My responsibilities include: financial analysis of
14 individual subsidiaries of Utilities, Inc.,
15 preparation of applications for rate relief,
16 facilitation of commission audits, and the
17 submission of financial testimony and schedules to
18 support a request for an increase in rates.

19

20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to sponsor the
22 Company's application for rate relief. I will
23 specifically address Issue 8 and Issue 9, as
24 listed in Appendix A of the Order Establishing
25 Procedure (Order No. PSC-00-1895-PCO-WU) issued on

1 October 16, 2000. These issues address the
2 allocation between the Base Facilities Charge
3 (BFC) and gallonage charge as well as rate case
4 expense.

5

6 **Q. Did you prepare, or have responsibility for the**
7 **preparation of, any part of the Minimum Filing**
8 **Requirements filed in this docket?**

9 A. Yes, I am responsible for the accounting and
10 billing analysis minimum filing requirements
11 ("MFRs") for the test year ending June 30, 1999.
12 This would include the Schedules of Rate Base,
13 Operating Income, Income Tax, Cost of Capital, and
14 Rates.

15

16 **Q. Briefly describe the Utility's request, as**
17 **presented in the MFR's.**

18 A. Wedgefield Utilities, Inc. requested final water
19 revenues of \$404,098. This represents a revenue
20 increase of \$144,838, or 55.87%. Final proposed
21 revenues were designed to produce an overall rate
22 of return of 8.34% on a water rate base of
23 \$1,228,042.

24

1 **Q. Are you sponsoring any exhibits in this**
2 **proceeding?**

3 A. Yes. I am sponsoring the accounting and billing
4 analysis portions of the MFR and co-sponsoring,
5 with Mr. Orr, the Engineering portions of the MFR,
6 all of which are designated Exhibit (ELN-1)____.
7 I am also sponsoring Exhibit (ELN-2)____, which
8 summarizes Wedgefield's current and projected rate
9 case expense through the remainder of this
10 proceeding.

11

12 ISSUE NO. 8

13 **Q. What is the appropriate percentage of revenue**
14 **requirement to be recovered through the base**
15 **facility charge and gallonage charge,**
16 **respectively?**

17 A. The appropriate percentage of revenue requirement
18 to be recovered through the base facility charge
19 should be at least 44%. Conversely, the gallonage
20 charge should not be used to recover more than 56%
21 of the revenue requirement. The Utility believes
22 that 44% produces a fair result. It falls between
23 the actual 51% of the revenue requirement that is
24 determined by Staff to be the fixed costs of

1 providing service, and the 36% that is proposed by
2 Staff to urge water conservation in Wedgefield.

3

4 **Q. Why do you believe there should be a different**
5 **allocation between the BCF and the gallonage**
6 **charge than that proposed by Staff?**

7 A. Staff has acknowledged that the standard
8 allocation of cost recovery between fixed and
9 variable costs to provide service would result in
10 51% of cost recovery through Wedgefield's Base
11 Facilities Charge and 49% through the gallonage
12 charge. These percentages are stated on page 36
13 of the Staff Recommendation issued on July 20,
14 2000 and page 23 of Order No. PSC-00-1528-PAA-WU
15 issued on August 23, 2000. Staff also notes that
16 Water Management Districts in general, and more
17 specifically St. Joseph's River Water Management
18 District (SJRWMD), in which Wedgefield service
19 territory is located, advocates the recovery of
20 more costs via the gallonage charge than through
21 the BFC to encourage conservation. The PAA Order
22 adopted Staff's Recommendation to establish a rate
23 structure that would recover only 36% of the
24 revenue requirement through the BFC, with the

1 remaining 64% of the revenue requirement dependent
2 on consumption.

3

4 The Utility opposes the Staff's rate structure for
5 two reasons. First, dependence on consumption to
6 produce nearly two thirds of revenues puts the
7 Utility at a higher risk for revenue instability.
8 Reduction in water sales due to conservation can
9 potentially erode revenues and profits and make
10 them less predictable, especially when specific
11 repression data is not available for the
12 particular customer group. Secondly, this rate
13 structure raises the concern that larger families
14 within the Wedgefield community will be unfairly
15 penalized for using the same per capita amount of
16 water as other Wedgefield residents. For example,
17 a family of six, using the SJRWMD's target
18 consumption rate of 150 gallons per day per capita
19 (gpdpc), would consume 27,000 gallons per month
20 (150 gallons * six people * 30 days). Under
21 Staff's rates, a monthly residential bill at the
22 above-mentioned level of consumption, would show
23 an increase of 82% over the Utility's currently
24 approved rates (not Interim rates), while a single
25 resident using the same amount of water per capita

1 would only experience a 14% increase in his or her
2 monthly rates. Caution should be taken to avoid
3 compelling larger families to bear the burden of
4 higher rates, when their usage is considered non-
5 discretionary.

6

7 **Q. Does the Utility support the Staff's**
8 **recommendation of a conservation-oriented rate**
9 **structure for residential customers?**

10 A. Yes. The Utility does support the rationale
11 behind designing rates to encourage water
12 conservation. Furthermore, the Utility promotes
13 the efficient use of water to preserve water
14 resources, and therefore supports both the Staff
15 and the SJRWMD in its effort to discourage
16 excessive use.

17

18 Wedgefield is requesting a rate structure that
19 appropriately splits the BFC and gallonage charge
20 in a manner designed to both encourage
21 conservation and be more consistent with "cost of
22 service" principles.

23

24

25

1 ISSUE NO. 9

2 **Q. What is the appropriate amount of additional rate**
3 **case expense that should be allowed?**

4 A. The appropriate amount of additional rate case
5 expense that should be allowed to be recovered by
6 the Utility is dependent on whether or not the
7 issue of an acquisition adjustment is revisited in
8 the instant proceeding. In reference to Exhibit
9 (ELN-2)_____, the total cost of the rate case is
10 presented in Scenario 1, under the assumption that
11 the acquisition adjustment issue is dismissed by
12 the Commission. In this case, the proper level of
13 rate case expense to be allowed on an annual basis
14 should be \$31,397. This expense is determined by
15 amortizing over four years the entire cost
16 associated with this rate case of \$131,745, minus
17 an amount of \$6,156 that was disallowed by the
18 Commission in the PAA Order.

19
20 If, however, the acquisition adjustment is an
21 issue in this proceeding, the Utility expects to
22 spend substantially more time drafting rebuttal
23 testimony, responding to discovery, and preparing
24 for the hearing. In this scenario, the
25 appropriate cost of rate case expense to be

1 recovered on an annual basis should be \$46,500.
2 This calculation is shown as Scenario 2, on
3 Exhibit (ELN-2)_____.

4

5 At the time Wedgefield Utilities, Inc. is filing
6 its direct testimony, a portion of the cost
7 figures included under both Scenario 1 and
8 Scenario 2 reflects the best estimates that the
9 Utility can provide for the costs to be incurred
10 through the completion of this rate case.

11

12 **Q. Does that conclude your direct testimony?**

13 **A. Yes it does.**

14

Scenario 1: Rate Case Expense Excluding Acquisition Adjustment as an Issue

	<u>MFR Estimated</u>	<u>Amount Incurred Through PAA Order</u>	<u>Commission Adjustments per PAA Order</u>	<u>Amount Incurred Post PAA Order</u>	<u>Estimated Additional Amounts Without Acq. Adj. As Issue</u>	<u>Total Cost of Rate Case</u>
Filing Fee	\$ 2,000	\$ 2,000	\$ 0	\$ 0	\$ 0	\$ 2,000
Legal Fees	35,000	14,349	-1,386	22,005	31,000	65,967
Consultant Fees	15,000	4,766	-451	4,631	21,590	30,537
Capitalized Time	22,200	16,829	-4,319	4,089	3,364	19,963
Miscellaneous Expense	8,000	5,104	0	19	2,000	7,123
Total Rate Case Expense	<u>\$ 82,200</u>	<u>\$ 43,048</u>	<u>\$ -6,156</u>	<u>\$ 30,743</u>	<u>\$ 57,954</u>	<u>\$ 125,590</u>
Annual Amortization						<u>\$ 31,397</u>

Scenario 2: Rate Case Expense Including Acquisition Adjustment as an Issue

	<u>MFR Estimated</u>	<u>Amount Incurred Through PAA Order</u>	<u>Commission Adjustments per PAA Order</u>	<u>Amount Incurred Post PAA Order</u>	<u>Estimated Additional Amounts With Acq. Adj. As Issue</u>	<u>Total Cost of Rate Case</u>
Filing Fee	\$ 2,000	\$ 2,000	\$ 0	\$ 0	\$ 0	\$ 2,000
Legal Fees	35,000	14,349	-1,386	22,005	81,000 *	115,967 *
Consultant Fees	15,000	4,766	-451	4,631	29,190	38,137
Capitalized Time	22,200	16,829	-4,319	4,089	5,974	22,573
Miscellaneous Expense	8,000	5,104	0	19	2,200	7,323
Total Rate Case Expense	<u>\$ 82,200</u>	<u>\$ 43,048</u>	<u>\$ -6,156</u>	<u>\$ 30,743</u>	<u>\$ 118,364</u>	<u>\$ 186,000</u>
Annual Amortization						<u>\$ 46,500</u>

* This worst-case estimate of legal fees includes \$30,000 for a possible appeal of a PSC order allowing the acquisition adjustment to remain an issue. If such PSC decision is issued and is upheld on appeal, there would be an estimated additional \$20,000 to re-litigate the issue before the PSC. However, if the appeal resulted in removal of the issue from the case, negative acquisition would not have to be re-litigated and the total rate case legal expense would be an estimated \$20,000 less.