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RECORDS AND REPORTING

Ms. Blanca Bayo  
Florida Public Service Commission  
Division of Records and Reporting  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Re: Docket No. 991437-WS, Application for increase in water rates in Orange County by Wedgefield Utilities, Inc

Dear Ms. Bayo:

Enclosed for filing in the above referenced docket are the original and fifteen copies of following:

- 1. Rebuttal testimony of Frank Seidman 07219-01
- 2. Rebuttal testimony of David Orr 07218-01

Thank you for your assistance. If there are any questions, please contact me at the telephone number above.

Sincerely yours,

Ben E. Girtman

Encls.

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1 REBUTTAL TESTIMONY OF FRANK SEIDMAN  
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 DOCKET NO. 991437-WU  
7

8 **Q. Please state your name, profession and address.**

9 A. My name is Frank Seidman. I am a regulatory  
10 consultant. I am President of Management and  
11 Regulatory Consultants, Inc., consultants in the  
12 utility regulatory field. My mailing address is  
13 P.O. Box 13427, Tallahassee, FL 32317-3427.  
14

15 **Q. Have you previously filed direct testimony on**  
16 **behalf of the Applicant, Wedgefield Utilities, Inc.**  
17 **(Wedgefield), in this case?**

18 A. Yes.  
19

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

21 A. The purpose of my rebuttal testimony is to respond  
22 to the direct, prefiled testimony of Office of  
23 Public Counsel (OPC) witnesses Larkin and Bidy. In  
24 addition I will respond to the direct, prefiled  
25 testimony of Commission Staff witness Crouch.

1        REBUTTAL TO MR. LARKIN

2        Q.    In the prior Wedgefield case, this Commission  
3            approved the transfer of this utility to Wedgefield  
4            from Econ Utilities and established rate base for  
5            purposes of transfer. Mr. Larkin's testimony in the  
6            present case states that the order in the transfer  
7            case pertained to the establishment of rate base  
8            for purposes of transfer, but that the issue of  
9            negative acquisition adjustment has not been  
10          formally addressed in a utility rate case  
11          proceeding. Is that a legitimate reason to revisit  
12          the issue of acquisition adjustment?

13        A.    No. It is irrelevant whether rate base was  
14            established for purposes of transfer or within a  
15            rate case setting. What is important is that rate  
16            base has been set by the Commission, as of a date  
17            certain, and in an evidentiary proceeding. The only  
18            difference between setting rate base for purposes  
19            of transfer or in a rate case setting is that for  
20            purposes of transfer, ratemaking adjustments such  
21            as used and useful and working capital are not  
22            considered. The Commission, in many transfer  
23            orders, makes this singular differentiation quite  
24            clear. Section 367.071(5), Florida Statutes, gives

1 the Commission the power to establish rate base  
2 when it approves a sale, assignment, or transfer.  
3 This Commission exercised that power when it  
4 established rate base for the Wedgefield transfer  
5 by issuing Order No. PSC-98-1092-FOF-WS. The Order  
6 established rate base, as of December 31, 1995. The  
7 Order was not conditional; it was final.

8

9 **Q. Mr. Larkin's testimony states that there are**  
10 **"additional circumstances" that warrant the re-**  
11 **evaluation of the negative acquisition adjustment.**  
12 **What additional circumstances does Mr. Larkin's**  
13 **testimony identify?**

14 A. None. After reviewing Mr. Larkin's testimony  
15 carefully, I cannot find any "additional  
16 circumstances" related to the negative acquisition  
17 adjustment. Mr. Larkin, in his testimony, does  
18 correctly state Commission policy that, absent  
19 extraordinary circumstances, the purchase of a  
20 utility at a premium or a discount shall not  
21 affect rate base. In Order No. PSC-98-1092-FOF-WS,  
22 the Commission found that extraordinary  
23 circumstances did not exist. In his testimony in  
24 this proceeding, Mr. Larkin does not allege or  
25 identify any extraordinary circumstances that the

1 Commission might have missed or any additional  
2 facts that might indicate that extraordinary  
3 circumstances did exist.  
4

5 **Q. Well, what argument does Mr. Larkin make to support**  
6 **his claim that a negative acquisition adjustment**  
7 **should be included in rate base?**

8 A. Mr. Larkin, in his testimony, argues that he sees  
9 no evidence that customers benefit from the  
10 acquisition. But whether or not customers benefit  
11 from a transfer is an argument for or against the  
12 transfer itself. It is not a valid argument with  
13 regard to the treatment of an acquisition  
14 adjustment in rate base.  
15

16 **Q. Would you explain further?**

17 A. Yes. Under Florida statutes, when a utility  
18 petitions the Commission to transfer a certificate,  
19 the Commission has one obligation and one  
20 permissive power. The Commission is obligated to  
21 make a finding as to whether the proposed sale,  
22 assignment, or transfer is in the public interest.  
23 If a finding is made that it is in the public  
24 interest, the Commission then can exercise its  
25 permissive authority to establish rate base when it

1 approves the transfer. Since the acquisition  
2 adjustment is a component of rate base, its  
3 consideration falls under the Commission's  
4 permissive power. Once exercised, the Commission's  
5 exercise of that permissive power becomes final if  
6 the order is not appealed.

7  
8 Mr. Larkin is arguing that the acquisition is not  
9 in the public interest. He is not arguing that  
10 extraordinary circumstances exist that should be  
11 considered in setting rate base. In the case of  
12 Wedgefield, the Commission first issued Order No.  
13 PSC-96-1241-FOF-WS which was a two-part order. The  
14 first part of the order was final, finding that the  
15 transfer was in the public interest and approving  
16 the transfer. That is apparently the issue Mr.  
17 Larkin's testimony is now addressing. However, his  
18 concern is considerably untimely, in that the OPC  
19 took no exception to the transfer, which the  
20 Commission approved some four years ago. OPC  
21 neither sought reconsideration or appeal of the  
22 final part of that order. The second part of the  
23 order was a proposed agency action establishing  
24 rate base. The OPC did make a timely protest of the  
25 proposed agency action and, as a result, an

1           evidentiary hearing to establish rate base was  
2           held. Based on the evidence in that hearing, the  
3           Commission issued final Order No. 98-1042-FOF-WS  
4           establishing rate base and declining to include a  
5           negative acquisition adjustment. Neither  
6           reconsideration of that order, nor appeal of that  
7           order, was sought by OPC or by any other party.

8  
9           **Q. Mr. Larkin's testimony indicates that he sees no**  
10           **benefit of the acquisition to customers because the**  
11           **PAA order in this proceeding results in a 32%**  
12           **increase in rates over what customers were paying,**  
13           **prior to the acquisition. Is his observation a**  
14           **valid measure of whether customers benefitted from**  
15           **the acquisition?**

16           **A.** No. Certainly, an arbitrary increase in rates would  
17           warrant close scrutiny, but this Commission does  
18           not approve arbitrary increases. An increase must  
19           be viewed in its proper context. Wedgefield filed  
20           its application to increase rates in November,  
21           1999. The Commission approved an interim rate  
22           increase, subject to refund, in May, 2000. Prior to  
23           that, with the exception of price index and/or  
24           pass-through increases, the last rate increase  
25           approved by this Commission was in November, 1988.

1 Wedgefield acquired the system, effective January,  
2 1996. So, Wedgefield customers experienced no  
3 increase in rates, other than through indexing  
4 and/or pass-throughs, for a period of twelve years.  
5 In addition, Wedgefield operated the system for  
6 nearly four of those years before it even filed for  
7 an increase. In addition, when Wedgefield took  
8 over the system, the revenues were not even  
9 sufficient to cover operating expenses. So, the  
10 fact that Wedgefield requested an increase in rates  
11 four years after purchasing a system that was  
12 operating at a loss, and twelve years after its  
13 last increase, can hardly be interpreted as a  
14 detriment to its customers.

15

16 **Q. Mr. Larkin's testimony also points out that**  
17 **Wedgefield has made very little investment in the**  
18 **system since the acquisition. He alleges that,**  
19 **because of this, the customers have not benefitted.**  
20 **Is that a proper conclusion?**

21 **A.** No. The customers have benefitted because  
22 Wedgefield has not made unnecessary investments.  
23 In the transfer docket, the condition of the  
24 purchased assets was a major issue. The Commission  
25 determined that the assets were in fair condition



1 and were in compliance with regulatory  
2 requirements. There was much discussion in the  
3 transfer order regarding whether several millions  
4 of dollars in "rehabilitation" proposed in an  
5 acquisition feasibility analysis, totally unrelated  
6 to the acquisition by Wedgefield, was necessary.  
7 Wedgefield's management has examined the system and  
8 has found that such expenditures are not necessary.  
9 Had Wedgefield's management blindly acquiesced to  
10 those proposals, this petition would have been for  
11 a substantially greater increase and that would  
12 have been to the detriment of the customers. Funds  
13 have been spent where needed. Funds have not been  
14 spent where not needed, and they have not been  
15 needed, to any large degree, for the water system.

16

17 I find it disingenuous for Mr. Larkin to chastise  
18 the utility for keeping costs as low as possible,  
19 using those minimized expenditures as an example of  
20 how the customer has not "benefitted" from the  
21 acquisition, and at the same time complaining that  
22 the rate request is too high. Such an argument  
23 simply defies logic.

24

1 Q. In his testimony, Mr. Larkin quotes from Commission  
2 Order No. 23376, a list of five benefits that the  
3 Commission believes customers should derive from an  
4 acquisition. Are those conditions necessary for a  
5 negative acquisition adjustment not to be included  
6 in rate base?

7 A. No. Mr. Larkin takes this quotation out of context.  
8 In the cited order, the text that precedes that  
9 list first discusses the Commission policy of  
10 leaving rate base intact; i.e., no acquisition  
11 adjustment, positive or negative, barring  
12 extraordinary circumstances. The Commission then  
13 states, "The customers of the acquired utility are  
14 not harmed by this policy because rate base has not  
15 changed." The Commission then goes on with the  
16 quotation cited by Mr. Larkin. In other words,  
17 setting rate base without an acquisition adjustment  
18 is a neutral action, imposing no harm. If other  
19 benefits accrue to the customer, all the better.  
20 But those benefits are not a condition for  
21 maintaining a consistent rate base between seller  
22 and purchaser. They do not have to occur to justify  
23 the Commission's policy with regard to a negative  
24 acquisition adjustment. They would be relevant in a

1 case in which a utility proposes to increase rate  
2 base by a positive acquisition adjustment.

3

4 **Q. Although the listed benefits may not be a necessary**  
5 **condition for not adjusting rate base, are they**  
6 **worthwhile goals?**

7 A. Certainly. In the transfer case, Wedgefield witness  
8 Carl Wenz testified to the fact that Wedgefield  
9 could provide those benefits. Those benefits are  
10 common sense, and good utility management should  
11 strive to provide them, regardless of whether the  
12 utility system is newly acquired, or has been  
13 operating for some time.

14

15 **Q. Has Wedgefield been successful in providing those**  
16 **benefits?**

17 A. Yes it has.

18

19 **Q. Could you provide some specific examples?**

20 A. Yes. A benefit to customers that the Commission  
21 hoped would occur is lower operating costs. Since  
22 assuming operations, Wedgefield has been able to  
23 substantially reduce operating and maintenance  
24 expenses below those experienced under the previous  
25 owner. In fact, in 1996, the first year of

1 operation under Wedgefield, water operating and  
2 maintenance expenses were reduced by 37% from the  
3 previous year. The current level of Wedgefield's  
4 operating and maintenance expenses are comparable  
5 with the lower 1992 level of expenses incurred by  
6 the previous owner. And that is a reduction in  
7 actual cost. When growth and inflation factors are  
8 taken into consideration, the per customer  
9 reduction in expenses is even greater.

10  
11 Other benefits that the Commission outlined, and  
12 Mr. Larkin listed in his testimony, were the  
13 ability to attract capital at a lower overall cost.  
14 Wedgefield's overall cost of capital for the test  
15 year is only 8.34%. This compares to a 10.18% cost  
16 of capital shown in Econ's last filed annual report  
17 in 1995. To be fair, that difference is skewed  
18 because the allowed cost of equity as determined by  
19 the Commission's leverage formula was much higher  
20 in 1995 than in the 1999 test year. But, even if  
21 Econ's 1995 cost of capital is adjusted for the  
22 1999 leverage formula, its cost of capital would be  
23 8.89%, still higher than that of Wedgefield. But  
24 Wedgefield's lower cost of capital does not tell  
25 the whole story. The benefits hoped for by the

1 Commission were a lower cost of capital and access  
2 to capital. The previous owner's only access to  
3 capital was through interest-free loans from its  
4 developer sister. The Commission treated such loans  
5 as equity for ratemaking purposes. As pointed out  
6 in the transfer docket, that access to funds from  
7 the developer was no longer a viable option and was  
8 a primary reason for the sale of the system of  
9 Econ. Wedgefield's capital structure is a  
10 conservative 42% equity, which provides substantial  
11 access to capital on reasonable terms, as needed,  
12 through a parent who's only business is utility  
13 service.

14  
15 Another benefit sought by the Commission, and  
16 listed in Mr. Larkin's testimony, is the benefit of  
17 professional and experienced utility management. It  
18 is precisely because of the availability of this  
19 management that Wedgefield has been successful in  
20 reducing operating costs and minimizing capital  
21 outlay, while at the same, maintaining or improving  
22 the level of service.

23  
24

1       **Q.   Mr. Larkin's testimony states that Wedgefield**  
2       **should be "required" to demonstrate that customers**  
3       **have benefitted by the acquisition in order to**  
4       **avoid having its rate base reduced by a negative**  
5       **acquisition adjustment. Is there any such**  
6       **requirement?**

7       **A.   No.** Again, this speaks to whether an acquisition is  
8       in the public interest, not whether there should be  
9       an acquisition adjustment. It should be clear, as I  
10      have previously testified, that such a showing is  
11      not a requirement when rate base is to remain  
12      unchanged by an acquisition adjustment. It is the  
13      ultimate burden of the party recommending that rate  
14      base be changed, to make a showing that the change,  
15      positive or negative is warranted. OPC was given  
16      that opportunity in the transfer case and failed to  
17      carry its burden. Even though it did not appeal  
18      that prior decision, OPC is attempting to re-plow  
19      the same field in this proceeding. But, it has  
20      brought nothing new to the table. That issue has  
21      already been resolved for this utility.

22  
23  
24

1       **Q. All that aside, have the customers of Wedgefield**  
2       **benefitted from the acquisition?**

3       A. Yes. It is my opinion, supported by testimony in  
4       this docket, that Wedgefield has been quite  
5       successful in providing benefits. These  
6       accomplishments support the Commission's policy to  
7       encourage the acquisition of smaller utility  
8       systems that are in financial trouble.

9  
10      **Q. Mr. Larkin provides some analysis of what he**  
11      **characterizes as the effective rate of return on**  
12      **the purchase price of the acquired assets. Do you**  
13      **have any comments regarding his analysis?**

14      A. Yes. My comment is that he is presenting exactly  
15      the same type of analysis he made in the transfer  
16      docket and which was rejected by the Commission in  
17      that docket. In addition, Mr. Larkin has "offered"  
18      to let Wedgefield share in the alleged "excess"  
19      return according to a formula he presented to the  
20      Commission in a generic Commission workshop on an  
21      acquisition adjustment rule. That workshop was a  
22      part of Docket No. 001502-WS. It is an active  
23      docket in which neither a formal rule has been  
24      proposed nor a decision rendered. Many persons and  
25      companies offered input at that docket, including

1           myself. This individual rate case is not the proper  
2           forum in which the individual Commissioners hearing  
3           this case should be rendering an opinion with  
4           regard to that generic proceeding which is being  
5           heard by the full Commission panel. In addition,  
6           Mr. Larkin's analysis and conclusions are  
7           irrelevant to the question of whether an  
8           acquisition adjustment is warranted.

9

10       **Q. Does Mr. Larkin's testimony demonstrate that any**  
11       **conditions have changed since the Commission**  
12       **rendered its final decision in the transfer case?**

13       A. No. There has been no evidence presented that  
14       would support such a conclusion.

15

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1        REBUTTAL TO MR. BIDDY

2        **Q. Mr. Biddy's testimony indicates that he has**  
3            **performed what he calls an "original cost study",**  
4            **in connection with the negative acquisition**  
5            **adjustment issue, for the entire Wedgefield water**  
6            **system as of the acquisition date by Wedgefield. Is**  
7            **there any basis for such a study in this**  
8            **proceeding?**

9        A. No, there is not. There is no basis for such a  
10           study, whether it is in connection with the  
11           negative acquisition adjustment issue or any other  
12           issue.

13  
14       **Q. Why is that?**

15       A. The original cost of the Wedgefield system, as of  
16           the date of acquisition, for both water and  
17           wastewater, has already been determined by this  
18           Commission. That determination was made in Docket  
19           Nos. 960235-WS and 960283-WS, and set out in Order  
20           No. PSC-98-1092-FOF-WS. That determination was  
21           based on the information contained in four  
22           Commission audits, all entered into evidence, and  
23           supported by the testimony of the PSC Staff auditor  
24           Welch who performed and/or supervised all of the  
25           audits. That determination was also based on the

1 testimony offered by OPC witness Larkin in that  
2 transfer docket, that OPC took no exception to the  
3 staff audits.

4  
5 It is well established in Florida regulatory law  
6 that where accounting records are inadequate to  
7 determine the cost of utility assets, that cost can  
8 be determined by an engineer's appraisal and  
9 estimate of historic costs. For this utility,  
10 Commission audits and accompanying testimony show  
11 that accounting records were adequate and, in fact  
12 were unchallenged in an evidentiary proceeding and  
13 accepted by this Commission. That being the case,  
14 there is no basis to revisit, in this proceeding,  
15 the original cost of assets as of the acquisition  
16 date.

17

18 **Q. Even if the Commission were to consider an original**  
19 **cost study necessary in this case, is Mr Bidy's**  
20 **approach an acceptable one?**

21 A. No. Mr. Bidy's approach was to simply obtain what  
22 copies of permits and permit applications he could  
23 access and use the estimates in those applications  
24 or permits as the estimated original cost.

25

1       **Q.    What is wrong with that approach?**

2       A.    As has judicially been pointed out in Florida, the  
3           uniformly acceptable method for estimating the  
4           original cost of assets is to first, determine if  
5           the company's records are adequate to establish  
6           historical cost. Second, if records are inadequate,  
7           inventory the assets. Third, estimate the cost of  
8           each item of those inventoried assets at the time  
9           the assets were constructed. And finally, include  
10          an allowance for overhead costs incurred during  
11          construction.

12  
13          In this case, the Commission auditor found the  
14          records to be adequate to establish original cost.  
15          By all rights, Mr. Bidy should have stopped there.  
16          However, he proceeded not with an inventory of the  
17          assets, but rather with an inventory of the  
18          permits and/or permit applications records of the  
19          Florida Department of Environmental Protection  
20          (FDEP). He substituted an inventory of permits  
21          and/or applications for an inventory of assets. He  
22          then used the estimates of project costs included  
23          in those permits and/or applications as the basis  
24          for the original cost of the assets. But, Mr. Bidy  
25          found the FDEP records inadequate to support the

1 costs in Econ's (the company from whom Wedgefield  
2 was acquired) annual reports. So, he apparently  
3 concluded that the assets did not exist. This  
4 method defeats the purpose of an original cost  
5 study. An original cost study is warranted, under  
6 regulatory law, when records are inadequate to  
7 determine cost. Mr. Bidy has found the records he  
8 researched to be inadequate, and instead of  
9 conducting an inventory to determine if certain  
10 assets exist, he simply concluded that if the  
11 records do not exist, neither do the assets. That  
12 is illogical and is not an acceptable method for  
13 conducting an original cost study.

14

15 **Q. What is the basis for the original cost of assets**  
16 **purchased from Econ in the MFR's filed by**  
17 **Wedgefield?**

18 A. The basis for the original cost of assets purchased  
19 from Econ was the utility's original cost  
20 documentation as summarized in the four successive  
21 audit reports prepared by Commission staff,  
22 supported by the testimony of PSC staff witness  
23 Welch as to all four audits and set out in Order  
24 No. PSC-98-1092-FOF-WS.

25

1 Q. Has anyone in Wedgefield attempted to match the  
2 assets recorded on the books with the permits  
3 and/or applications on file with the FDEP?

4 A. No.

5

6 Q. Why not?

7 A. Because it is irrelevant to the existence of the  
8 assets or their recorded cost.

9

10 Q. Suppose, hypothetically, that assets actually were  
11 constructed by Econ without a permit, when such was  
12 required. What effect would that have on the cost  
13 of assets constructed?

14 A. None.

15

16 Q. Has FDEP taken any action against either Econ or  
17 Wedgefield that would indicate that they have  
18 violated FDEP statutes or rules by engaging in  
19 construction without the necessary permits?

20 A. No, not to my knowledge.

21

22

23

1       **Q.    In his testimony, Mr. Biddy has provided some**  
2       **calculations of used and useful. They are based on**  
3       **considerations other than those proposed by**  
4       **Wedgefield. Do you have any comments regarding his**  
5       **testimony?**

6       A.    Yes. I will address one aspect of his testimony.  
7       Mr. Orr, in his rebuttal testimony will address  
8       other aspects.

9  
10       I would like to address Mr. Biddy's approach to  
11       determining used and useful for Source of Supply  
12       and Pumping plant. According to Mr. Biddy's  
13       testimony, these plant components should be  
14       evaluated in accordance with FDEP rules;  
15       specifically FDEP Chapter 62-500, F.A.C. I believe  
16       that is an inadvertent and incorrect reference.  
17       There is no FDEP Chapter 62-500, F.A.C. However,  
18       judging from additional statements in Mr. Biddy's  
19       testimony, I will assume he meant to refer to  
20       Chapter 62-555, F.A.C. which addresses the  
21       permitting and construction of public water  
22       systems. Mr. Biddy's testimony states that the FDEP  
23       rule sets forth Section 3.2.1.1 of *Ten States*  
24       *Standards* as the governing rule. I can find no  
25       specific reference to Section 3.2.1.1 of the *Ten*

1           *States Standards* in this FDEP rule or any other  
2           FDEP rule. There is, however, a general reference,  
3           in FDEP Rule 62-555.330, F.A.C., to the  
4           *Recommended Standard for Water Works*, which is the  
5           official name of the *Ten States Standards*  
6           (hereinafter referred to as the Recommended  
7           Standards). The stated purpose of that reference in  
8           the FDEP rule, and the six other general references  
9           that are listed, is "to be applied in determining  
10          whether applications to construct or alter a public  
11          water system shall be issued or denied." Since the  
12          FDEP approved the applications to construct all of  
13          Wedgfield's wells, one would have to conclude that  
14          the utility met the test that Mr. Bidy references  
15          from the Recommended Standards.

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1        REBUTTAL TO MR. CROUCH

2        **Q.    Mr. Crouch has testified that used and useful**  
3                **should be applied to the "water treatment system"**  
4                **as a single entity, except in unique cases. Do you**  
5                **agree with his testimony?**

6        A.    No. I disagree with Mr. Crouch's testimony as a  
7                general statement of how the PSC Staff, and the  
8                Commission, have historically evaluated used and  
9                useful. As a general policy, used and useful been  
10              approached on a case-by-case basis. When the  
11              circumstances dictate that system components are  
12              best evaluated on an individual basis, they have  
13              been. When it appears that a system is best  
14              evaluated as an integrated entity, it has been  
15              evaluated that way. I am more concerned that Mr.  
16              Crouch's statement will be read as a matter of  
17              Commission policy, than I am as to whether he  
18              believes that Wedgefield should be evaluated as an  
19              integrated system.

20  
21        **Q.    Then in your opinion, does his statement represent**  
22                **Commission policy?**

23        A.    No. I have been preparing used and useful analyses  
24                for water systems in Florida for more than twenty  
25                years. During that time, I have prepared analyses



1 both on a component basis and on an integrated  
2 system basis, as the individual case dictated. Mr.  
3 Crouch's statement, in this proceeding, is the  
4 first time I have ever heard such a generalized  
5 expression. To the contrary, in the nearly seven  
6 years this Commission was considering proposals for  
7 used and useful rules, the proposals made by the  
8 PSC Staff for the Commission's consideration all  
9 included formulations for determining used and  
10 useful on a component basis. I cannot recall any  
11 comments or testimony in regard to those proposals,  
12 by either the industry or the staff, that took  
13 issue with that approach or indicated that such  
14 individual formulas would only be applicable in  
15 unique circumstances.

16

17 **Q. Mr. Crouch cited two rate cases as support for his**  
18 **position that the "single entity" approach is**  
19 **standard policy. Did you review the final orders**  
20 **for the cases?**

21 A. Yes. The first case cited was that of a small  
22 utility, Harbor Utilities Company, Inc. In that  
23 case, used and useful for the water system was  
24 determined as a single percentage, based on  
25 permitted treatment plant capacity. The second case

1 cited was that of Gulf Utility Company. In that  
2 case, used and useful for the water system was  
3 determined on a component by component basis. The  
4 order clearly sets out separate used and useful  
5 percentages for supply wells, storage, and  
6 treatment plants. The only mention of a "single  
7 entity" was with regard to Gulf's attempt to have  
8 components that make up the water treatment plant  
9 evaluated separately for used and useful. The  
10 Commission found that the "WTP [water treatment  
11 plant] is considered a unit and all its parts are a  
12 whole... the WTP plant is one entity." (Emphasis  
13 added). Concluding that treatment plant itself is  
14 one entity is far different than concluding that  
15 the treatment plant, wells and storage together are  
16 a single entity.

17

18 **Q. Why are you so concerned whether Mr. Crouch's**  
19 **testimony is a general statement of policy or is**  
20 **just his opinion with regard to the Wedgefield**  
21 **system?**

22 A. I am concerned, because if his statement stands and  
23 finds its way into the final order, it may then be  
24 cited as precedent for other rate cases. There is  
25 no basis in fact for that. If the Commission

1 restricts Mr. Crouch's opinion to the circumstances  
2 of this system, I have no problem with it. I may  
3 not agree with him entirely, but I respect his  
4 right to have that opinion - for this case.

5

6 **Q. You state that you may not agree with him entirely.**  
7 **Does that mean that you agree in part?**

8 A. Yes. I am sure that it has not gone unnoticed that,  
9 in MFR Plant in Service Schedule A-5, very little  
10 plant is identified under "distribution reservoirs  
11 and standpipes" (more commonly recognized as  
12 storage tanks), even though the system has a  
13 350,000 gallon ground storage tank. In fact, Mr.  
14 Larkin picked up on this, in his testimony, when he  
15 indicated that he could not isolate certain sub-  
16 accounts. The cost of that tank is embedded in the  
17 "Structures and Improvements" account for Source of  
18 Supply and Pumping Plant. In fact, a substantial  
19 portion of the costs of the treatment and storage  
20 facilities are embedded in that account. This is  
21 not an unusual situation with small systems.  
22 Account coding is not an exact science, and small  
23 systems, especially those operated as an adjunct to  
24 a development, do not necessarily make any great  
25 effort to properly categorize plant. The

1 Commission's transfer audit did not make it a  
2 priority to re-categorize plant, either. Its main  
3 concern was to substantiate the dollars recorded,  
4 and it did that. When Wedgefield purchased the  
5 system, it maintained the account balances, as is,  
6 except for PSC audit corrections.

7  
8 The bottom line of all this is, that for this  
9 system, since there may be a question as to whether  
10 part of the dollar amounts under Source of Supply  
11 and Pumping actually may represent treatment plant  
12 or storage plant, considering these components  
13 together may have some merit.

14

15 **Q. Does that mean that you are willing to accept Mr.**  
16 **Crouch's calculation of used and useful?**

17 A. No. Although I can accept his "single entity"  
18 approach, as another valid approach for this  
19 particular utility system, I disagree with this  
20 calculations.

21

22 **Q. With which part of Mr. Crouch's calculation do you**  
23 **disagree?**

24 A. My primary disagreement is with his including  
25 storage as a portion of firm reliable capacity. I

1           also disagree with his use of an average of five  
2           peak days for maximum demand when the actual  
3           maximum day demand, without any anomalies, is  
4           known. But, primarily, if he were to remove the  
5           storage capacity from his firm reliability, I could  
6           accept his calculations.

7

8           **Q.   Why should storage not be considered as a part of**  
9           **firm reliable capacity?**

10          A.   Storage is just that - storage. It derives its  
11          capacity from the well capacity and must be  
12          replenished by the well capacity. When water is  
13          drawn from a storage tank, it must be replenished  
14          from the wells. Therefore, if it is included in the  
15          system capacity, along with the well capacity, it  
16          is double counting the system capacity. That is, it  
17          is saying that storage is a source of its own  
18          capacity.   As Mr. Orr states in his rebuttal  
19          testimony, storage is not a supplemental resource  
20          for supply capacity to meet daily demands.

21

22

23

1       **Q.    Are you aware of any Commission precedent for**  
2       **including storage as a part of firm reliable**  
3       **capacity?**

4       A.   No. It has not been proposed or used by any party  
5       in any of the cases in which I have been involved.  
6       It has not been proposed or used in either of the  
7       cases cited by Mr. Crouch in support of his "single  
8       entity" approach. It was never proposed in any of  
9       the formulas presented to the Commission for  
10      consideration in the used and useful rulemaking  
11      docket.

12  
13      **Q.    Would you address Mr. Crouch's testimony regarding**  
14      **whether to use a single maximum day demand or an**  
15      **average of five maximum days demand?**

16      A.   Yes. We are in agreement that a maximum day that  
17      includes anomalies is inappropriate and an average  
18      certainly would lessen the effect of such an  
19      aberration. And in this case, as pointed out by Mr.  
20      Orr, Wedgefield did choose a maximum day that  
21      included an anomaly. But, that error was caught and  
22      corrected through Mr. Orr's testimony. I do not  
23      understand Mr. Crouch's refusal to accept the  
24      corrected number, especially when his testimony  
25      states that a single day has been accepted by the

1 Commission in other cases "when anomalies had  
2 already been excluded and the single maximum day  
3 reflected realistic customer demand."  
4

5 **Q. With regard to the land purchased by Wedgefield in**  
6 **1996, Mr. Crouch's testifies that he agrees with**  
7 **you that the purchase was timely, practical and one**  
8 **of opportunity and cost. Yet, he still concludes**  
9 **that only 25% of the cost should be allowed in rate**  
10 **base. Can you respond?**

11 A. There does not seem to be any argument as to  
12 whether this purchase was prudent. I believe my  
13 direct testimony adequately supports Wedgefield's  
14 position. The only thing I can add to that  
15 testimony is that I believe the regulatory  
16 treatment proposed by Mr. Crouch is inconsistent  
17 with that which has historically been afforded to  
18 gas, electric and telephone utilities under similar  
19 circumstances. This is not some massive, arbitrary  
20 land grab, and it is difficult for me to understand  
21 why the cost of a timely, prudent land purchase is  
22 not recoverable through rates.

23

1       **Q.    Do you have anything further to add with regard to**  
2       **the testimony of OPC witnesses Larkin and Bidy or**  
3       **PSC Staff witness Crouch?**

4       A.    Yes. I would like to ask the Commissioners, as they  
5       consider the elements of this case, to keep in mind  
6       that the purpose of used and useful analysis is not  
7       to determine a used and useful percentage. The  
8       purpose is to determine which assets are reasonably  
9       necessary to furnish adequate service and whether  
10      those assets perform a function which is a  
11      necessary step in furnishing service. This  
12      observation was made by the Commission in 1977 in  
13      Order No. 7684.

14  
15            Determining a percentage is not the end result. It  
16            is an aid in reaching the end result.

17  
18            In my opinion, the percentages determined by Mr.  
19            Bidy and Mr. Crouch do not allow Wedgefield to  
20            recover the cost of providing the facilities which  
21            make it possible to operate the system in a manner  
22            intended to assure customers get a continuously  
23            higher level of service. They recognize specific  
24            capacities as a base for measurement, but they do  
25            not adequately recognize the operational and



1 economic considerations of furnishing continuous  
2 and adequate service. They only recognize minimum,  
3 not adequate requirements.

4

5 I would also like the Commissioners to consider the  
6 somewhat contradictory messages in the testimony of  
7 OPC witnesses. The testimony of one OPC witness  
8 recommends that Wedgefield be penalized, through  
9 used and useful adjustments, for having "excess"  
10 plant. The testimony of the other OPC witness  
11 recommends you penalize Wedgefield with a negative  
12 acquisition adjustment because it has not spent  
13 enough money to build more plant.

14

15 I believe, when all factors are considered, the  
16 conclusion will be that the supply, pumping,  
17 storage and treatments facilities are all 100% used  
18 and useful in the public service, and that the  
19 Commission's previous decision not to include a  
20 negative acquisition adjustment in rate base should  
21 stand.

22

23 **Q. Does that conclude your rebuttal testimony?**

24 **A.** Yes it does.

25