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DIRECT TESTIMONY OF CHARLES K. LEWIS
BEFORE THE CITRUS COUNTY UTILITY AUTHORITY
ON BEHALF OF
THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 010492-WS

REVISED 10/01/01

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INTRODUCTION

3

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4

A. My name is Charles K. Lewis. My business address is 20 North Main

5

Street, Room 461, Brooksville, Florida 34601.

6

Q. BY WHOM ARE YOU EMPLOYED?

7

A. I am employed by Hernando County Government.

8

Q. WHAT IS YOUR POSITION WITH HERNANDO COUNTY?

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A. I am Director of Regulatory and franchise Administration/Property

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Management.

11

Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

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A. My educational experience includes an Associate's Degree in

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Accounting from Jackson Community College in 1972. In 1975, I

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received a Bachelors Degree from Michigan State University in the

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field of Economics/Political Science. In 1978 I received a Masters in

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Political Science from Michigan State University. In addition, I have

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attended a number of utility rate making, cost of service, rate design,

18

and return on investment seminars sponsored by various professional

19

associations, universities, and accounting firms.

1 **Q. PLEASE GIVE A SUMMARY OF YOUR WORK AND**
2 **ACCOUNTING EXPERIENCE.**

3 **A.** Over the past 23 years, I have held various positions in a supervisory
4 capacity within the rates and revenue requirements areas of Consumers
5 Power Company, Northeast Utilities, Seminole Electric Cooperative,
6 Southern States Utilities (Florida Water Services), Northwest Indiana
7 Water Company, Hartman & Associates, Inc. and Hernando County.
8 In the spring of 1981 I was promoted to Senior Rate Analyst at
9 Consumers Power Company, a Michigan combination electric and
10 natural gas utility with over a million customers. My responsibilities
11 included managing the cost of service and rate design for the wholesale
12 and jurisdictional electric rate applications as well as submitting direct
13 testimony. In the winter of 1983 I accepted a position with Northeast
14 Utilities as a supervisor of retail electric and natural gas revenue
15 requirements within the jurisdictions of Connecticut and
16 Massachusetts. I was not only responsible for the minimum filing
17 requirements, but I was also responsible for the monthly rate of return
18 filings before the Connecticut Department of Utility Control and the
19 Massachusetts Public Utility Commission. In early 1988 I accepted the
20 position of Director of Rates and New Business with Southern States

1 Utilities, Inc., a water and wastewater utility headquarters in Apopka,
2 Florida having approximately one hundred fifty thousand water
3 customers and thirty-five thousand wastewater customers. As Director
4 of Rates and New Business, I was responsible for all aspects of water
5 and wastewater rate applications before the Florida Public Service
6 Commission as well as seven county jurisdictions. My work included
7 cost of service, rate design, developing revenue requirements by class
8 and the final tariff sheet applications. In September 1994 Northwest
9 Indiana Water Company employed me as Director of Rates and
10 Budgets. As Director of Rates and Budgets I was responsible for all
11 aspects of the rate applications and rate studies of Northwest Indiana
12 Water Company. I also oversaw Northwest's operating and capital
13 budget process. In May 1997 Hartman & Associates, Inc. employed
14 me as a Senior Management Consultant. As a Senior Management
15 Consultant I was responsible for private and public water and
16 wastewater utility billing, cost of service, rate, budget and revenue
17 requirement studies, develop business plans that incorporate capital
18 spending, operations and revenue requirements into a utility forecast
19 model and develop financing alternatives for both private and public

1 utilities. In April of 1999 Hernando County Government employed me
2 as Director of Regulatory and Franchise Administration.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF**
4 **REGULATORY AND FRANCHISE ADMINISTRATION WITH**
5 **HERNANDO COUNTY?**

6 **A.** I'm responsible for the regulating all aspects of the investor owned
7 water, wastewater, cable television and residential solid waste
8 operations within Hernando County. This includes monitoring customer
9 service complaints, operating and capital budgets, field operations as
10 well as reviewing financial and rate information. In addition, the
11 position requires professional, administrative and technical skills and
12 abilities developing, implementing, administering and regulating water
13 and/or wastewater utility applications, utility extensions, and rate
14 adjustments required by privately owned utilities.

15 **Q. TO WHAT TRADE AND/OR PROFESSIONAL**
16 **ORGANIZATIONS DO YOU BELONG?**

17 **A.** I am a member of the American Water Works Association, the Florida
18 Waterworks Association and I'm on the Rates and Revenue
19 subcommittee of the National Association of Water Companies.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A PUBLIC**
2 **UTILITIES COMMISSION?**

3 **A.** Yes, I have submitted testimony and/or testified before the Michigan
4 Public Service Commission, the Connecticut Department of Utility
5 Control, the Massachusetts Public Service Commission, the Indiana
6 Utility Regulatory Commission as well as numerous county
7 commissions within the State of Florida.

8 **PURPOSE OF TESTIMONY AND EXHIBITS**

9 **Q. PLEASE OUTLINE THE SCOPE OF YOUR TESTIMONY IN**
10 **THIS PROCEEDING?**

11 **A.** I will testify with respect to Zellwood Station Co-op, Inc. Cost of
12 Service and sponsor the following documents filed in this case:
13 Volume I – Water and Wastewater Minimum Filing Requirements
14 (Schedules - A Rate Base, Schedule - B Operating Income, Schedule
15 - C Income Taxes, Schedule - D Cost of Capital and Schedule - E
16 Rates and Rate Design

17 **Q. WERE THESE DOCUMENTS PRERPARED BY YOU OR**
18 **UNDER YOUR SUPERVISION?**

19 **A.** Yes, they were.

1 **Q. WHAT TEST YEAR HAS BEEN USED AS A BASIS FOR**
2 **DETERMINING COSTS IN THIS FILING?**

3 **A.** Zellwood requested and the Commission approved the use of a
4 historical test year ending December 31, 2000. The proposed final
5 rates are based on actual 2000 costs adjusted for certain pro forma
6 adjustments reflecting known and certain events.

7 **Q.** Zellwood is proposing an overall increase of \$143,957 in sales
8 revenues or a 27.92% increase as shown on Schedules B-1 and B-2.
9 The proposed decrease for water is (\$40,583) or (15.92%) and
10 wastewater increased \$184,540 or 70.79%, respectively. The overall
11 revenue requirement of the Zellwood water and wastewater systems
12 filed in this case is \$659,507.

13
14 **Q. WOULD YOU GENERALLY DISCRIBE THE**
15 **DEVELOPMENT OF RATE BASE IN THIS FILING?**

16 **A.** Zellwood developed rate base information according to the
17 Commission's MFR's. The amounts shown for rate base are average
18 balances based on a simple of the beginning and ending test year
19 balances (see Schedules A-5, 6, 9 & 10). Working capital was
20 determined according to Commission precedent using 1/8 of Operation

1 and Maintenance (“O&M”) expense methodology as shown on
2 Schedule A-17, page 1 of 1.

3 **Q. WHAT IS THE TOTAL RATE BASE REQUESTED IN THIS**
4 **FILING?**

5 **A.** Water rate base is \$292,713 and wastewater rate base is \$1,302,952.

6 **Q. HAS ZELLWOOD MADE ANY ADJUSTMENTS TO WATER**
7 **AND WASTEWATER RATE BASE FOR PURPOSES OF**
8 **FINAL RATES?**

9 **A.** Yes, it has. Pro forma adjustments have been made which increases
10 water rate base by \$65,000 and increases wastewater rate base by
11 \$1,207,300. These adjustments are summarized on Schedule A-3, page
12 1 of 1.

13 **Q. WOULD YOU PLEASE DESCRIBE THESE ADJUSTMENTS?**

14 **A.** Yes, I will.

15 Water plant in service was increased by \$65,000 in account 320 for
16 (1). a new hydro pneumatic storage tank and (2) meter replacement in
17 account 334.

18 Wastewater plant in service was increased by \$1,207,300 for (1).
19 TV/refurbish sewer lines in account 360, (2) Reuse force main, also
20 account 360, (3) Reuse pump station, account 371 and (4) Reuse

1 treatment plant account 380. All pro forma plant was developed using
2 year-end balances. There was no growth associated with either water
3 or wastewater pro forma plant additions.

4 **Q. HOW WERE THE WATER AND WASTEWATER PLANT**
5 **BALANCES DEVELOPED?**

6 **A.** In Order No. PSC-98-1572-FOF-WS issued on November 23, 1998 the
7 Commission ordered Zellwood to develop a original cost study for both
8 water and wastewater gross plant in service and accumulated
9 depreciation. The Commission is concerned that the plant records were
10 lost during the transfer of ownership from the previous owner to
11 Zellwood. I have ignored the existing booked plant and accumulated
12 depreciation numbers and used the numbers that Mr. Gary Morse has
13 developed in his original cost study. Mr. Morse explains how he
14 developed the original cost study in his direct testimony.

15 **Q. HOW WERE THE WATER AND WASTEWATER CIAC**
16 **BALANCES DEVELOPED?**

17 **A.** As I previously stated the books and records of the utility were lost
18 during the sale of the utility to Zellwood, therefore I have incorporated
19 in the water and wastewater CIAC/CIAC amortization accounts (SEE
20 schedule A-12) the balances from the following NARUC accounts 331,

1 333, 334 (meters installed by previous owner), 335, 360, 361 and 363.

2 In addition, I used the cash CIAC balances that's reflected in the
3 utility's general ledger. These balances reflect the Commission
4 approved service availability fees authored in Docket No. 980307-WS.

5 **Q. WERE THERE ANY NON-USED & USEFUL ADJUSTMENTS**
6 **MADE TO WATER AND WASTEWATER RATE BASE?**

7 **A.** Schedules A-5, 6, 9 & 10 calculate the non-used & useful water and
8 wastewater gross plant and accumulated depreciation adjustments.

9 Non-used & useful water plant is (\$156,065), non-used & useful
10 wastewater plant is (\$374,241), non-used & useful water accumulated
11 depreciation is \$66,861 and wastewater is \$263,384. Mr. Gary Morse
12 developed the non-used & useful allocations and explains his
13 methodology in his direct testimony.

14 **Q. WOULD YOU GENERALLY DESCRIBE THE**
15 **DEVELOPMENT OF INCOME IN THIS FILING?**

16 **A.** I have developed income information according to the MFR's. The
17 detailed development of water income is shown on Schedule B-1 and
18 the development of wastewater income is shown on Schedule B-2.

19 **Q. WHAT IS THE TOTAL NET OPERATING INCOME**
20 **REQUESTED IN THIS FILING?**

1 **A.** The total net operating income under present rates is \$59,619 for water
2 and (\$83,371) for wastewater. Zellwood is requesting \$20,862
3 operating income for water and \$92,864 for wastewater.

4 **Q. WHY IS ZELLWOOD REQUESTING ONLY INTEREST**
5 **EXPENSE FOR NET OPERATING INCOME IN THIS**
6 **FILING?**

7 **A.** The Zellwood water and wastewater utility is a non-for profit utility
8 with zero common equity in the capital structure (see Schedule D-1).
9 Zellwood's water and wastewater revenue requirements include
10 operations and maintenance expense, depreciation expense net of
11 CIAC amortization, taxes other than income taxes (regulatory
12 assessment fees and payroll taxes) and interest expense (rate base (x)
13 the overall rate of return).

14 **Q. HAS ZELLWOOD MADE ANY ADJUSTMENTS TO PER**
15 **BOOK INCOME FOR RATEMAKING PURPOSES?**

16 **A.** Yes, we have. Zellwood has made pro forma adjustments to water and
17 wastewater revenue and expenses as shown on Schedule B-3 page 1
18 and 2 of 2. The net effect of the pro forma adjustments on revenues and
19 expenses is an increase of present income for water of \$26,140 and a

1 reduction of present income for wastewater of (\$98,010) or a net
2 decrease to present income of (\$71,870).

3 **Q. WOULD YOU PLEASE DESCRIBE THE ADJUSTMENTS**
4 **MADE BY ZELLWOOD?**

5 **A.** First, water adjusted test year present revenues were increased by
6 \$18,846 to reflect the annualization of an October 2000 CPI Indexing
7 and to reflect the Commission Order No. PSC-01-1440-PAA-WS,
8 issued on July 3, 2001. That order approved tariff revision and
9 clarification of the implementation and billing of the water-use penalty.
10 Wastewater adjusted test year present revenues were increased by
11 \$4,054 to reflect the annualization of an October 2000 CPI Indexing
12 (see Schedule B-4). The net effect of these two adjustments to income
13 is an increase of \$22,900.

14 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO WATER**
15 **OPERATING EXPENSES REFLECTED IN SCHEDULE B-3**
16 **PAGE 1 OF 2.**

17 **A.** The first water adjustment reverses \$4,195 out of salaries & wages
18 (account 601) and reclassifies it to account 408.12 taxes other than
19 income taxes. The second water adjustment is a pro forma adjustment
20 of \$5,000 for maintenance of the distribution lines. The third water

1 adjustment reflects a five-year amortization of \$5,000 for
2 inspection/repair of the storage tank. The fourth water adjustment
3 reflects a seven-year amortization of \$7,500 for a leak detection
4 program. The fifth water adjustment is a pro forma adjustment of
5 \$1,000 for inspection of the wells. The sixth water adjustment reflects
6 the four-year amortization of the existing and proposed rate case
7 expense. The net effect of combining the unamortized prior rate case
8 expense with the proposed rate case expense is a annual reduction of
9 (\$2,202) for water. The seventh water adjustment is a reduction of
10 (\$4,514) to depreciation expense due to non-used & useful water plant.
11 The eighth water adjustment is an adjustment of \$2,071 for
12 depreciation expense associated with pro forma plant. The ninth water
13 adjustment is a reduction of (\$11,609) in regulatory assessment fees to
14 correct booking both 1999 and 2000 regulatory fees in 2000. The final
15 water adjustment reflects the decreased of (\$10,721) in regulatory
16 assessment fees associated the difference between booked and
17 annualized revenues.

18 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO WASTEWATER**
19 **OPERATING EXPENSES REFLECTED IN SCHEDULE B-3**

20 **PAGE 2 OF 2.**

1 **A.** The first wastewater adjustment reverses \$4,054 out of salaries &
2 wages (account 701) and reclassifies it to account 408.12 taxes other
3 than income taxes. The second wastewater adjustment is a pro forma
4 adjustment of \$60,400 for increased operator staffing at the new reuse
5 wastewater treatment plant. The third wastewater adjustment reflects a
6 decrease of (\$4,775) in sludge removal expense due to reuse plant
7 efficiency. The fourth wastewater adjustment reflects an increase of
8 \$10,465 in electric power costs due to increased power usage at the
9 new reuse wastewater treatment plant. The fifth wastewater adjustment
10 is a pro forma reduction of (\$5,527) in chemical cost due to reuse plant
11 efficiency. The sixth wastewater adjustment reflects increased cost of
12 \$3,500 for repair and maintenance of the lift stations. The seventh
13 wastewater adjustment reflects the four-year amortization of the
14 existing and proposed rate case expense. The net effect of combining
15 the unamortized prior rate case expense with the proposed rate case
16 expense is a annual reduction of (\$2,320) for water. The eighth
17 wastewater adjustment reflects increased cost of \$1,106 to
18 miscellaneous expense. The ninth wastewater adjustment is a reduction
19 of (\$5,936) to depreciation expense due to non-used & useful water
20 plant. The tenth wastewater adjustment is an adjustment of \$62,346 for

1 depreciation expense associated with pro forma plant. The eleventh
2 wastewater adjustment is a reduction of (\$13,615) in regulatory
3 assessment fees to correct booking both 1999 and 2000 regulatory fees
4 in 2000. The final wastewater adjustment reflects the increased of \$191
5 in regulatory assessment fees associated the difference between
6 booked and annualized revenues.

7 **Q. PLEASE EXPLAIN THE C SCHEDULES.**

8 **A.** As I stated earlier in my direct testimony Zellwood Station Co-op, Inc.
9 is a non-for profit entity. The utility is not requesting a return on
10 common equity and has no state and federal income tax liability,
11 therefore the C Schedules are not applicable.

12 **Q. PLEASE EXPLAIN THE D SCHEDULES.**

13 **A.** Schedule D-2 pages 1 and 2 of 2 reconcile the two Bank of America
14 loans and the zero cost grant from St. Johns Water Management
15 District back to the water (\$292,713) and wastewater (\$1,302,952) rate
16 bases. Schedule D-1 develops the overall rate of return requested by
17 Zellwood. The requested overall rate of return is 7.13%.

18 **Q. IF ZELLWOOD IS A NON-FOR PROFIT WHY IS IT**
19 **REQUESTING AN OVERALL RATE OF RETURN?**

1 **A.** The utility is requesting an overall rate of return based upon its two
2 loans with Bank of America and the grant from St. Johns Water
3 Management District. The mechanics of recovering the principal and
4 interest of these loans for rate-making purposes is by multiplying the
5 water and wastewater rate base by the overall rate of return. Schedules
6 B-1 and B-2 show that Zellwood is requesting \$20,862 and \$92,864,
7 respectively as part of its revenue requirements.

8 **Q. PLEASE EXPLAIN THE E-SCHEDULES.**

9 **A.** The E-Schedules were used to verify present water and wastewater
10 revenues, annualize present revenues for rate adjustments that occurred
11 during or after the historical test year and to design proposed water and
12 wastewater rates.

13 **Q. PLEASE DESCRIBE THE E-2 SCHEDULES.**

14 **A.** The E-2, E-2A and E-2B Schedules calculates water and wastewater
15 revenues at present and proposed rates using the water and wastewater
16 billing analysis as shown on Schedule E-14. The revenue calculations
17 are developed based upon customer class and meter size.

18 **Q. WHAT IS THE DIFFERENCE BETWEEN BOOKED AND**
19 **PRESENT REVENUES?**

1 **A.** Booked revenues are the actual revenues collected in the test year and
2 present revenues reflect annualization of an October 2000 CPI
3 Indexing for both water and wastewater and a tariff clarification of the
4 water use penalty implemented in July of 2001. The annualized water
5 and wastewater revenue calculation is shown on Schedules E-2A & B.

6 **Q. HOW IMPORTANT WAS THE WATER AND WASTEWATER**
7 **BILLING ANALYSIS (SCHEDULE –14) IN THE**
8 **ANNUALIZATION OF PRESENT REVENUES.**

9 **A.** The billing analysis was used to determine both the number of bills by
10 customer class and meter size as well as the consumption for
11 computing the present water revenues. The present water rates consist
12 of a flat rate and a conservation surcharge. The conservation rates were
13 intended to be a transition from flat rates to full conservation rates
14 using the base facility and gallonage rate design. The goal of the
15 present rates was to allow the utility an opportunity to recover its
16 operating costs while, at the same time, encouraging customers to
17 conserve water. As customer usage exceeds certain threshold levels,
18 the flat rate increases by steps. The first step is a surcharge added to
19 the basic flat service rate. The second level increases by multiples of
20 the basic flat service rate for each range of water consumption, which

1 is called an excessive water use penalty. For a residential customer, if
2 usage for one month is less than 10,000 gallons, then only the basic flat
3 service rate is charged. If usage for one month is between 10,000 and
4 25,000 but is less than 36,000 gallons, the customer will be charged the
5 excessive water use penalty, which is double the flat monthly service
6 rate. For consumption above 36,000 gallons, the excessive water use
7 penalty increases by multiples of the basic flat rate for each range of
8 water consumption. As you can see from Schedules E-2A & B the
9 billing determinants extracted from the billing analysis was critical in
10 my analysis of present revenues. The present wastewater rate is a flat
11 rate based upon number of bills and meter size. This information came
12 from the wastewater billing analysis.

13 **Q. HAVE YOU DEVELOPED PROPOSED WATER AND**
14 **WASTEWATER RATES BASED DESIGNED WITH A BASE**
15 **FACILITY CHARGE AND A GALLONAGE RATE?**

16 **A.** Yes, I have. Schedules E-1A and B are the cost of service schedules
17 that allocate the water and wastewater revenue requirements between
18 the base facility charge and the gallonage charge. As you can see from
19 the water and wastewater cost of service schedules, I have used
20 Commission allocation methodology to allocate the revenue

1 requirements between the base facility charge and the gallonage
2 charge.

3 **Q. DO YOU HAVE ANY RESERVATIONS AS TO YOUR WATER**
4 **RATE DESIGN?**

5 **A.** No, when you divide the water base facility revenue requirements of
6 \$89,635 (less miscellaneous revenues) by the total test year factored
7 bills (12,924) you come up with a 5/8" base facility charge of \$6.94
8 per month. The gallonage charge was developed by dividing the
9 gallonage revenue requirements of (\$120,632) by 157,208 (MG),
10 which produces a gallonage charge per 1,000 of \$0.77. The
11 Commission may want to look at inclining block rates as a
12 conservation tool. I'm concerned as to the consumption levels
13 decreasing via our proposed water rate design, which would affect cash
14 flow and revenue stability.

15 **Q. PLEASE EXPLAIN YOUR PROPOSED WASTEWATER RATE**
16 **DESIGN.**

17 **A.** I am proposing a monthly residential wastewater rate that includes a
18 base facility charge and a gallonage charge with a 10,000 cap. The
19 general service base facility charge and gallonage charge would be the
20 same as the residential except there would be no cap at 10,000. The

1 wastewater base facility charge revenue requirements of (\$223,055)
2 were divided by the factored bills (12,432), which produced a base
3 facility charge of \$17.94. The gallonage revenue requirements of
4 (\$219,618) was divided by the total wastewater gallons of 102, 676
5 MG (98,850 MG residential at a consumption level of 10,000) and
6 3,826 MG per Schedule 14A & B), which produced a gallonage charge
7 per 1,000 of \$2.14.

8 **Q. DID YOU REVIEW THE MISCELLANEOUS SERVICE**
9 **CHARGES AND SERVICE AVAILABILITY FEES?**

10 **A.** Yes, I did. The existing miscellaneous service charges are cost
11 effective. The service availability fees are adequate especially with the
12 low level of growth that Zellwood is experiencing.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 **A.** Yes it does.

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