

REBUTTAL TESTIMONY OF JEANNE ALLEN
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
IN DOCKET NO. 110200-WU
REGARDING THE APPLICATION OF
WATER MANAGEMENT SERVICES, INC.
FOR AN INCREASE IN RATES & CHARGES
AND A REVISION OF
SERVICE AVAILABILITY CHARGES

COM	5
AED	5
APA	1
ECO	1
ENG	1
GCL	1
IDM	1
TEL	1
CLK	1

PROCESSED BY THE PUBLIC SERVICE COMMISSION

08197 DEC 18 2

FPSC-COMMISSION CLERK

1 Q. Please state your, name profession and address.

2 A. My name is Jeanne Allen. I am an Audit Partner with the accounting firm of Law, Redd,
3 Crona and Munroe, P.A. My address is 2075 Centre Pointe Blvd., Tallahassee, FL 32308.

4 Q. Have you previously submitted direct testimony in connection with this docket?

5 A. Yes.

6 Q. On whose behalf are you presenting this testimony?

7 A. I am presenting this testimony and appearing on behalf of Water Management Services,
8 Inc. (WMS), the applicant for rate increase in the present docket.

9 Q. What is the purpose of your rebuttal testimony?

10 A. The purpose of my rebuttal testimony is to refute parts of the testimony of OPC witness,
11 Helmuth Schultz, III.

12 Q. On page 50 of Mr. Schultz's testimony, he argues that the Company is only entitled to a
13 working capital allowance in rate base if the utility uses investor provided funds to
14 operate the company. What is your response to this?

15 A. If you look at schedule A-17 of the MFRs, there is the breakdown of the utility's
16 components of working capital using the balance sheet approach and calculated based on
17 the 13 month average. On line 4, there is an amount for accounts receivable, or amounts
18 due from customers of \$111,302. On line 14, there is an amount for accounts payable, or
19 amounts currently due for operating expenses, of \$343,627. That equates to a deficit of
20 \$232,325 of money coming in from ratepayers to fund the payment of current liabilities,
21 and that is exclusive of accruals for taxes and interest of approximately \$126,000. While
22 there are some prepayments and deferrals that offset a portion of the accrued liabilities,
23 after the PSC adjustments in the PAA Order, they are not sufficient to cover the bills due.
24 If there is such a big deficit between the money due from customers and the amounts to
25 be paid out to vendors and others for operating the utility, the only way to bridge that

1 gap is for the utility to come up with the funds to pay the bills until they are granted the
2 rate relief needed to be able to pay the normal recurring operating expenses of the utility,
3 exclusive of any of the necessary plant improvements.

4 **Q. Mr. Schultz goes on to state that the Company controls its finances. What is your**
5 **response to this?**

6 A. Based on the utility's annual reports on file with this Commission, the utility reported
7 operating income through fiscal year 2008. In fiscal year 2008, the utility had operating
8 income of \$107,567; however, in fiscal year 2009, the utility reported an operating loss of
9 (\$23,496). The utility took action and filed for rate relief.

10 **Q. On page 52 of Mr. Schultz's testimony, he questions the reason for the required life**
11 **insurance and argues that it should not increase the cost of capital. Do you agree with**
12 **his assessment?**

13 A. No. The utility is required to maintain the life insurance in accordance with the debt
14 requirements at an annual premium cost of \$39,258, and as such, is an appropriate cost
15 to the utility. Therefore, it should be factored into the utility's revenue requirement
16 either by inclusion as a component of the weighted cost of capital or as an Operation and
17 Maintenance expense item.

18 **Q. Mr. Schultz states that "the Company is so leveraged in debt" and that "there could be**
19 **an argument for lowering the cost of capital." What is your response to these**
20 **comments?**

21 A. With regard to the utility's overall cost of capital, the PSC has approved 11.16% as the
22 appropriate return on equity. If the utility had less debt and more equity, the utility
23 would be entitled to a much higher weighted cost of capital than what has been
24 requested in the current filing.

25 **Q. Mr. Schultz suggests that an increase in costs for Contractual Services – Accounting may**

1 **be appropriate. Do you agree with his comment?**

2 A. Yes, absolutely.

3 Q. **Mr. Schultz further states that the Company has not met its burden of proof for**
4 **justifying the change. Do you have any comments regarding this statement?**

5 A. Yes. In the previous rate case, the utility supplied testimony on the record that explained
6 the need for increased accounting assistance, however, the PSC disregarded that
7 testimony and decided to apply a 5-year average methodology, using fiscal years 2005
8 through 2009. This resulted in a low expense amount of \$3,667 for annual accounting
9 expenses, even though this amount was below the actual expenses incurred in 2009 of
10 \$4,225, and below the amount that had been requested in that case. Further, the PSC in
11 the current docket disregarded the utility's request for accounting expenses of \$9,550
12 and simply allowed the same dollar amount as was approved in the prior case. The utility
13 is requesting that the same methodology be applied in the current docket by updating the
14 5-year average through the current test year of 2010.

15 Q. **Mr. Schultz suggests that the 2010 expenses are skewing the 5-year average. Do you**
16 **have any comments to this?**

17 A. Yes. I would suggest that perhaps the expenses for years 2006 (\$698) and 2008 (\$535), as
18 shown on my previously filed exhibit JA-5, are actually skewing the 5-year average down
19 lower than the actual expenses that are reasonable and necessary to be incurred by the
20 utility. In my opinion, the whole reason in applying a multi-year average is to take into
21 account the outliers that skew the results, regardless of whether the actual of any
22 individual year is higher or lower than the average. Again, at a minimum, the utility is
23 requesting that they be afforded the same methodology approved in the last case, even
24 though the actual expenses were higher for 2010 (\$18,550, as shown on exhibit JA-5) and
25 for 2011 (\$11,181, per the utility's annual report filed for fiscal year 2011).

1 Q. The increase the utility has requested in its cross-protest would yield an annual
2 accounting expense of \$5,252. In your opinion, is this a reasonable amount for this
3 utility?

4 A. While it affords the utility a modest increase of \$1,585 over the amount previously
5 approved by the PSC, it is still on the low side compared to the actual expenses the utility
6 incurred in 2010 and 2011. The utility requires annual tax services, and is in need of
7 assistance with plant and depreciation records and general accounting oversight of the
8 records maintained by the in-house accounting staff for both regulatory and tax purposes.
9 These required accounting services, on a going forward basis, will likely far exceed the
10 amount being requested by the utility.

11 Q. Do you have any comments regarding Mr. Schultz's testimony regarding transportation
12 expenses?

13 A. The PSC's adjustment to transportation expense effectively disallowed any level of normal
14 and routine travel expenses for Gene Brown and Sandy Chase. There is a reasonable and
15 necessary amount of travel expense that is incurred for normal routine utility-related
16 business. The PSC has approved similar travel related expenses in the past for office
17 employees as reasonable and necessary. For the PSC to deny any level of expenses for
18 these two employees is unreasonable.

19 Q. Mr. Schultz states that "the Company's attempt to offer the log reimbursements for
20 2011 as a surrogate" to correct past errors. Do you agree with his statement?

21 A. No. As I discussed in my direct testimony, the utility began maintaining mileage logs for
22 all the office staff in accordance with the final order in the previous case, which was
23 issued on January 3, 2011. And further, the order dated June 13, 2011, in the show cause
24 proceeding clarified that the 1994 order requiring mileage logs applied only to the field
25 employees. Accordingly, there was no requirement for Gene Brown and Sandy Chase to

1 maintain mileage logs in the test year for the current docket. This doesn't change the fact
2 that normal travel related costs for these employees are reasonable and necessary. As
3 such, the utility requested expenses of \$8,916, which was based on an estimate of the
4 actual incurred in 2011, with a cutoff date prior to the test year filing. The reason that the
5 actual logs were provided in exhibit JA-6 was to show that the amount requested as
6 normal travel costs of \$8,916 were reasonable in relation to the actual costs incurred and
7 documented on an annual basis for 2011, the first year that the utility was required to
8 maintain such documentation for these two employees.

9 **Q. Does that conclude your testimony at this time?**

10 **A.** Yes, it does.

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25