

ORIGINAL



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RECORDS AND  
REPORTING

February 3, 1999

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

Re: Docket No. 960444-WU

Dear Ms. Bayo:

Attached please find the affidavit of Hugh Larkin, Jr., which was inadvertently omitted from the Citizens' motion to dismiss filed yesterday, February 2, 1999, in the above referenced docket.

Please file the affidavit and indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

- ACK \_\_\_\_\_
- AFA 1 \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LEG 1 CJB:bsr
- LIN 3 Enclosures
- OPC \_\_\_\_\_
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- SEC 1 \_\_\_\_\_
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Sincerely,

Harold McLean  
Associate Public Counsel

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate	)	Docket No. 960444-WU
increase and for increase in	)	
service availability charges	)	
in Lake County by Lake	)	
Utility Services, Inc.	)	

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Affidavit of Hugh Larkin, Jr.

STATE OF MICHIGAN)  
 )ss.  
 COUNTY OF WAYNE)

HUGH LARKIN, JR. being first duly sworn deposes and says:

1. I am a Certified Public Accountant in the States of Michigan and Florida.
2. I have practiced the field of utility regulatory consulting since 1970 and have participated or filed testimony in over 200 dockets in 34 state and federal jurisdictions related to utility regulation.
3. I am intimately familiar with the establishment of an appropriate test year as a basis for establishing rates for future periods.
4. I have been involved in the application for a rate increase by Lake Utility Services, Inc. (Company) and have filed testimony on two previous occasions related to this docket.
5. I have reviewed the Company's filing and Proposed Agency Actions related to the filing.
6. I have drawn the following conclusions related to my work and analysis associated with this docket:
  - (A) The test year adopted for the twelve months ended December 31, 1995 is not representative, and it is inappropriate for the establishment of rates for the future.
  - (B) The test year adopted does not properly match investment with customer usage. It in effect allocates plant which will be used to service growth in the future to current customers. The allocation of plant used to service future customers to current customers will have the affect of allowing each customer added subsequent to 1995 to contribute substantial profits to the

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FPSC-RECORDS/REPORTING

utility, since all of the fixed costs have been allocated to those customers which were online and receiving service in 1995.

- (C) The compound annual growth in Water System meter equivalents (which would equate to customer additions) was approximately 28% between 1995 and 1997. This would compare to a compound annual growth in rate base of about 5% for the same period. At the same time that the growth in customers was outstripping the growth in rate base the O&M cost per customer was declining from \$193 per customer in 1995 to \$137 per customer in 1997.
  - (D) During 1998 customer growth continued with an increase to 1,799 customers as of November 15, 1998. An increase of 18.9% over December 31, 1997 customers of 1,513.
  - (E) The investments in interconnections and extensions of the system in 1995 which were included in the rate base has added substantially to the Company's growth in customers in subsequent periods. This investment was not excluded as non-used and useful from the rate base. Therefore, it was allocated to customers taking service in 1995, creating a mis-match of investment and revenues.
7. The principles of utility ratemaking both established in the State of Florida and throughout the country require that the test year be used as a tool to properly establish the relationship of investment, revenues and expenses. When that relationship is distorted, the end result is an overstatement of investment or an understatement of customer growth resulting in over-earnings by the utility.
  8. My analysis indicates that such an overstatement of investment in relationship to customer growth has occurred by use of the 1995 test year, thus resulting in the over-earnings of Lake Utility Services, Inc. in 1997. The full effects of the rates established on an interim basis in October of 1996 allowed the Company excess revenues throughout 1997.
  9. The Company will continue to over-earn if the interim rates are made permanent or if the rates determined under the settlement between the Staff of the Florida Public Service Commission and the Company are adopted by the Commission.
  10. The Company would not be harmed if rates were rolled back to the level before Docket No. 960444-WU, and a new test year is established for the determination of rates in the future. My calculations of revenue, based on year-end customers and expenses in 1997, show the Company would earn a return on equity of 15.41%. This is far in excess of the return on equity required in the current leverage formula of 9.85% for utilities with equity ratio below 40%.

Further, affiant sayeth not.

Hugh Larbin Jr

Subscribed and sworn to before me  
this 22 day of January, 1999

Kathleen K. Niemiec  
Kathleen K. Niemiec

My commission expires: July 31, 2003