

ORIGINAL

DOCKET NO.: 960444-WU - [Lake Utility Services, Inc.]

WITNESS: Prefiled Testimony of Patricia W. Merchant, Appearing on
Behalf of Florida Public Service Commission Staff

DATE FILED: February 8, 1999

DOCUMENT NUMBER-DATE

01629 FEB-8 99

FPSC-RECORDS/REPORTING

DIRECT TESTIMONY OF PATRICIA W. MERCHANT

1 |
2 | Q. Please state your name and professional address.

3 | A. My name is Patricia W. Merchant and my business address is 2540 Shumard
4 | Oak Boulevard, Tallahassee, Florida 32399-0850.

5 | Q. By whom are you employed and in what capacity?

6 | A. I am employed by the Florida Public Service Commission as a Public
7 | Utilities Supervisor in the Division of Water and Wastewater.

8 | Q. How long have you been employed by the Commission?

9 | A. I started working at the Commission in September 1981.

10 | Q. Would you state your educational background and experience?

11 | A. I received a Bachelor of Science degree with a major in accounting from
12 | Florida State University in August 1981. Upon graduation, I was
13 | employed by the Commission as a Public Utilities Auditor in what is now
14 | the Division of Auditing and Financial Analysis. My primary
15 | responsibility in that capacity was to perform audits on the books and
16 | records of electric, gas, telephone, water and wastewater public
17 | utilities. In August 1983, I joined what is now the Division of Water
18 | and Wastewater as a Regulatory Analyst in the Bureau of Accounting. In
19 | May 1989, I became a Regulatory Analyst Supervisor in what is now the
20 | Accounting Section of the Bureau of Economic Regulation, in which
21 | capacity I am currently employed. I have attended various regulatory
22 | seminars and Commission in-house training and professional development
23 | meetings concerning regulatory matters.

24 | Q. Are you a Certified Public Accountant?

25 | A. Yes, I am. In September 1983, I received a certificate and a license to

1 | practice in the State of Florida by the Florida Board of Accountancy.

2 | Q. Are you a member of any professional associations?

3 | A. Yes. I am a member in good standing of the American Institute of
4 | Certified Public Accountants and the Florida Institute of Certified
5 | Public Accountants (FICPA). I am a former member of the Board of
6 | Governors of the FICPA and was the President of the Tallahassee Chapter
7 | of the FICPA for the year ended June 30, 1994. I currently am the Chair
8 | of the Florida State University Accounting Conference Committee of the
9 | FICPA.

10 | Q. Have you ever testified before the Florida Public Service Commission?

11 | A. Yes, in Docket No. 840047-WS, Application of Poinciana Utilities, Inc.
12 | for increased water and wastewater rates; in Docket No. 850031-WS,
13 | Application of Orange/Osceola Utilities, Inc. for increased water and
14 | wastewater rates; in Docket No. 850151-WS, Application of Marco Island
15 | Utilities for increased water and wastewater rates; in Docket No.
16 | 881030-WU, Investigation of Sunshine Utilities rates for possible over
17 | earnings; in Docket No. 940847-WS, Application of Ortega Utility Company
18 | for increased water and wastewater rates; in Docket No. 971663-WS,
19 | Petition of Florida Cities Water Company for a Limited Proceeding to
20 | Recover Environmental Litigation Costs; and in Docket No. 911082-WS,
21 | Water and Wastewater Rule Revisions to Chapter 25-30, Florida
22 | Administrative Code.

23 | Q. Were you accepted as an expert in regulatory accounting?

24 | A. Yes, I was.

25 | Q. Have you ever testified before any other tribunals as an expert in

1 regulatory accounting?

2 A. Yes. I testified before the Division of Administrative Hearings, Case
3 No. 97-2485RU, Aloha Utilities, Inc., and Florida Waterworks
4 Association, Inc., Petitioners, vs. Public Service Commission,
5 Respondent, and Citizens of the State of Florida, Office of Public
6 Counsel, Intervenors.

7 Q. Would you explain what your general responsibilities are as a Public
8 Utilities Supervisor in the Accounting Section of the Bureau of Economic
9 Regulation?

10 A. I am responsible for the supervision of five professional accountants
11 in the accounting section. This section is responsible for the
12 financial, accounting and rates review and evaluation of complex formal
13 rate proceedings before the Commission. This specifically includes the
14 analysis of file and suspend rate cases, overearnings investigations and
15 limited proceedings of Class A and B water and wastewater utilities
16 under the jurisdiction of the Florida Public Service Commission. The
17 accounting section is also responsible for the review of smaller filings
18 of Class A and B utilities, such as allowance for funds used during
19 construction (AFUDC), allowance for funds prudently invested (AFPI),
20 service availability applications, and tariff filings. This section
21 coordinates, prepares and presents staff recommendations before the
22 Commission on the above type cases. This section is also responsible
23 for preparing testimony, testifying and writing cross-examination
24 questions for hearings involving complex accounting and financial
25 issues.

1 Q. Can you summarize the issues to which you are providing testimony?

2 A. Yes. I am testifying on the 1995 balances of plant, accumulated
3 depreciation, contributions in aid of construction (CIAC), accumulated
4 amortization of CIAC and advances for construction that should be
5 established for the average and year-end test year ended December 31,
6 1995, for Lake Utility Services, Inc. (LUSI). I am also providing
7 testimony that LUSI's rate increase should be denied, and that all
8 interim rates collected should be refunded. Further, I testify that all
9 rate case expense should be denied and the utility should be required
10 to correct its books as of December 31, 1995 to reflect the adjusted
11 year-end rate base amounts in my testimony. Finally, I have testified
12 that LUSI should cease collecting all allowance for funds prudently
13 invested (AFPI) charges.

14 Q. Do you have any exhibits attached to your testimony?

15 A. Yes. I have attached four exhibits to my testimony. Exhibit PWM-1
16 reflects the year-end balance of plant by primary account for the total
17 company for both 1994 and 1995, and the simple average balance. I
18 have also broken the 1995 total into five groups: three groups of
19 interconnected facilities and two stand alone facilities to enable the
20 utility to correct its books and records. Exhibit PWM-2 reflects
21 accumulated depreciation in the same format as the plant in Exhibit PWM-
22 1. Exhibit PWM-3 is my calculation of the 1995 average and year-end
23 rate base and adjustments to rate base. My last exhibit is PWM-4, which
24 reflects my estimates of LUSI's 1998 rate base, capital structure, net
25 operating income and supporting schedules.

1 | Q How did you calculate the plant balances on Exhibit PWM-1?

2 | A. I reviewed the staff audit work papers and recalculated plant by
3 | facility from either the date of construction or the balance approved
4 | by the Commission on transfer. This was the methodology used by the
5 | staff auditor to determine his balance of plant. During the test year,
6 | the utility corrected and/or recorded items that should have been
7 | recorded in prior periods. Since my Exhibit PWM-1 reflects the
8 | corrected balances, both before and during the test year, the test year
9 | average that I calculated is different from the utility's average,
10 | though the year-end amounts are relatively close.

11 | Q. Why did you not use the staff auditor's balance of plant in service?

12 | A. I was not able to reconcile the differences between the utility and
13 | auditor's 1994 year-end balances or the 1995 net additions. I was also
14 | not able to reconcile the adjustments by facility and primary account
15 | as stated in Audit Exception 3 (Exhibit IJF-1) with the primary account
16 | balances per the auditor as shown on the audit work papers. In my
17 | review, I found a few minor errors that the auditor made in some
18 | accounts. I have incorporated these changes in Exhibit PWM-1.

19 | Q. Are there any other specific adjustments you wish to discuss regarding
20 | the utility's plant and CIAC balances?

21 | A. Yes. I will address several adjustments to plant and/or CIAC for the
22 | Lake Saunders, the Vistas, and the Highlands Pointe water facilities.
23 | These adjustments are only those that the utility took exception to in
24 | its original direct testimony. I have not addressed all adjustments to
25 | these specific facilities, nor have I addressed the majority of plant

1 | or CIAC adjustments made to all plants.

2 | Q. What are your recommended plant and CIAC balances for the Lake Saunders'
3 | system at the time of purchase by LUSI?

4 | A. I recommend that the original balances at purchase should be \$75,515 for
5 | plant and \$65,515 for CIAC. The utility bought the Lake Saunders system
6 | in 1991. According to the staff audit, the utility recorded these
7 | facilities in plant with an offsetting negative acquisition adjustment.
8 | The auditor recommended that the original plant cost was \$58,463 with
9 | CIAC of \$48,463. The auditor did not address the negative acquisition
10 | adjustment recorded by the utility. In its response to the audit, the
11 | utility agreed with the auditor's \$48,463 adjustment to CIAC, but stated
12 | that not removing the negative acquisition adjustment was inappropriate.
13 | In PAA Order No. PSC-97-0531-FOF-WU (First PAA), issued on May 9, 1997,
14 | the Commission accepted the auditor's amount of Lake Saunders plant, but
15 | instead included the negative acquisition adjustment and removed the
16 | auditor's CIAC adjustment. In Order No. PSC-98-0683-AS-WS (Second PAA),
17 | issued on May 18, 1998, the Commission agreed to accept the staff and
18 | utility stipulated amount of plant and CIAC for the Lake Saunders'
19 | system. The stipulation included an increase in plant of \$17,053, based
20 | on additional support provided by the utility after the audit. It also
21 | increased CIAC by the auditor's \$48,463 balance of CIAC and removed the
22 | negative acquisition adjustment. However, I believe that CIAC should
23 | have been increased by \$17,053 in addition to the auditor's balance.

24 | Q. Why have you recommended the additional \$17,053 in CIAC for Lake
25 | Saunders?

1 | A. After the 2nd PAA order, I reviewed the Lake Saunders' adjustments and
2 | determined that the stipulated increase in plant of \$17,053 should have
3 | a corresponding increase to CIAC. The utility originally booked the
4 | Lake Saunders system as a purchase, and the Commission approved the
5 | certificate transfer in Docket No. 910760-WU (Order No. PSC-93-1092-FOF-
6 | WU, issued July 27, 1993). The Commission did not establish rate base
7 | then. The first staff audit of this system occurred in this current
8 | docket. Since the utility did not obtain copies of the original
9 | developer/utility owner's books at the time of transfer, the Commission
10 | is unable to verify today how the developer recorded the construction
11 | of the utility plant. Further, the developer sold the plant to the
12 | utility for \$10,000 with an adjusted original plant cost of
13 | approximately \$75,515. The developer could have easily costed off the
14 | remainder of the plant to cost of goods sold and included this as an
15 | expense for part of the price of the lot sales. As such, this would
16 | have been CIAC. Since LUSI cannot show otherwise, I believe that CIAC
17 | for the Lake Saunders' system as of the date of purchase should have
18 | been \$65,515. This amount is determined by taking the auditor's
19 | recommended adjustment to increase CIAC by \$48,463, plus \$17,053 of CIAC
20 | on the additional plant I have recommended.

21 | Q. Can you address the adjustment to CIAC that you are recommending
22 | regarding the Vistas system?

23 | A. Yes. I have removed the \$16,500 CIAC adjustment made by the Commission
24 | in the First PAA order for the Vistas system. Former utility witness
25 | Mark Kramer submitted supporting documentation of the utility's

1 investment in this plant in his original prefiled direct testimony in
2 this docket. This documentation was an invoice from an attorney,
3 representing the Vistas Subdivision developer, requesting payment from
4 LUSI for the construction and installation of the water distribution
5 system of the Vistas. Upon review of this documentation, I believe that
6 the utility has supported its investment in this plant and that CIAC
7 should not have been increased by this amount.

8 Q. Please address the Highlands Pointe CIAC adjustment.

9 A. Upon review of the adjustments made to this system, I believe that CIAC
10 should be reduced by \$2,003 to correspond to the recommended plant
11 adjustments. When the facilities were originally purchased, the utility
12 recorded \$75,000 in plant and \$70,000 in CIAC. This difference related
13 to \$5,000 in undistributed plant which the utility retired in the year
14 of purchase. The following year the utility added \$5,000 back to
15 undistributed plant to zero out this amount, and did not make a
16 corresponding offset to CIAC. Because most of the plant was
17 contributed, the impact on CIAC should be considered when adjusting
18 plant. In the First PAA, the Commission reduced three plant accounts
19 by \$16,923, and increased two other accounts by \$9,920. The
20 Commission's adjustment resulted in a net reduction to plant of \$7,003.
21 The utility should have booked all of this plant as contributed
22 property, but did not. Accordingly, CIAC should have been decreased by
23 \$2,003, which is the net amount (\$7,003 less \$5,000) that was originally
24 booked as CIAC.

25 Q. What are your recommended balances of plant for the average and year-end

- 1 | 1995 test year?
- 2 | A. Based on the audit and my previous testimony, the average balance of
3 | plant for 1995 should be \$1,875,536. The year-end balance of plant as
4 | of December 31, 1995 should be \$1,924,879. These amounts are the
5 | combined balances of plant for the total LUSI system.
- 6 | Q. What are your recommended balances of CIAC for the average and year-end
7 | 1995 test year?
- 8 | A. Based on the audit and my previous testimony, the average balance of
9 | CIAC for 1995 should be \$1,086,278. The year-end balance of CIAC as of
10 | December 31, 1995 should be \$1,231,542.
- 11 | Q. Did you calculate the accumulated depreciation for 1995 in your Schedule
12 | PWM-2?
- 13 | A. No, I did not, but I have reviewed the calculations and believe that
14 | they are appropriate. The accumulated depreciation was calculated by
15 | staff witness Forbes based on my adjusted balance of plant. Mr. Forbes,
16 | upon my request, made this calculation based on my plant analysis in
17 | Schedule PWM-1. Mr. Forbes used a 2.5% depreciation rate for years
18 | before the test year and the depreciation rates as prescribed by Rule
19 | 25-30.140, Florida Administrative Code, for the 1995 test year. This
20 | is consistent with the methodology used by the utility. My recommended
21 | balance of accumulated depreciation for 1995 is \$197,040 and \$219,782
22 | for average and year-end, respectively. This is reflected on Schedule
23 | PWM-2 was calculated under my direction by an analyst under my
24 | supervision.
- 25 | Q. What are the corresponding balances of accumulated amortization of CIAC

1 | for the 1995 test year?

2 | A. Consistent with accumulated depreciation, a 2.5% amortization rate was
3 | used for years before the 1995 test year and the composite depreciation
4 | rate as prescribed by Rule 25-30.140, Florida Administrative Code, for
5 | the 1995 test year was used. The average balance of accumulated
6 | amortization of CIAC for 1995 should be \$125,539. The year-end balance
7 | of accumulated amortization of CIAC as of December 31, 1995 should be
8 | \$139,647.

9 | Q. Have you attached a schedule that reflects rate base for 1995?

10 | A. Yes. Schedule PWM-3 is my calculation of the 1995 rate base. The
11 | purpose of this schedule is to show the average and year-end balances
12 | of the rate base accounts that should be used as a starting point for
13 | future cases. I am not providing testimony on the balance of non-used
14 | and useful plant or the imputation of CIAC on the margin reserve. These
15 | amounts are rate setting adjustments only and are not recorded as
16 | balance sheet accounts.

17 | Q. Should the Commission require the utility to correct its books for your
18 | recommended adjustments?

19 | A. Yes. The utility should be required to correct and restate its books
20 | by facility as of December 31, 1995, to reflect the year-end adjusted
21 | balances approved by the Commission at the conclusion of this case.
22 | Given that the auditors had to audit 100% of this class B utility's
23 | records since inception or purchase, it should be mandatory for the
24 | utility to correct its books as soon as possible. Further, the utility
25 | should be required to refile its 1998 annual report within 30 days of

1 | the issuance of the Commission's final order in this docket. This
2 | utility received a strongly worded notice regarding its need to comply
3 | with the Commission's rules regarding maintenance of utility books and
4 | records in the First PAA Order. I recommend that the Commission perform
5 | a compliance audit following receipt of the refiled 1998 annual report.
6 | This will hopefully allow a more expedient audit for the next case, and
7 | correctly state its annual report for surveillance purposes.

8 | Q. Have you determined a revenue requirement for the 1995 test year?

9 | A. No, I have not. During the settlement negotiations with the utility and
10 | Office of Public Counsel (OPC) in 1998, staff became aware that the
11 | utility might be overearning with the interim rates authorized in late
12 | 1996. Further, we learned that the utility understated its earnings
13 | in its 1997 annual report. When staff reviewed this, we found several
14 | areas of concern, as discussed below.

15 | Q. What rate of customer growth has occurred since 1995?

16 | A. In 1995, the utility reported 920 customers of record. As of the end
17 | of 1997, the utility reported 1,518 customers, or a 65% increase in two
18 | years. As of November 15, 1998, LUSI had 1,799 customers, resulting in
19 | a 96% increase from 1995 to the end of 1998. This is especially
20 | noteworthy since plant less CIAC in 1995 was \$693,337 and it dropped to
21 | \$439,095 in November 1998. With such dramatic customer growth and a
22 | decreasing rate base, a 1995 test year will not generate representative
23 | rates for 1999 and beyond.

24 | Q. In 1998 did you become aware of other problems in the utility's reported
25 | information?

1 | A. On its 1997 annual report, the utility reflected that its achieved rate
2 | of return was 5.31 percent. When I recalculated LUSI's achieved rate
3 | of return, I saw that the utility had overstated income tax expense in
4 | its annual report. My preliminary calculation reflected that LUSI was
5 | earning approximately 11.06 percent on its unadjusted rate base.
6 | Further, when I attempted to estimate the revenues that would have been
7 | collected prior to interim, I could not reconcile the revenues reported
8 | with the number of customers or bills that the utility provided. In my
9 | estimation, it appeared that the utility understated its 1997 revenues
10 | by more than \$60,000. However, based on the billing determinants
11 | submitted in its bimonthly interim refund reports, LUSI understated 1997
12 | revenues by \$121,239, or 31%. Because Commission staff has not audited
13 | these amounts, I am not aware how such a material error could occur in
14 | recording the utility's revenues. Given my adjusted revenues, as I
15 | discuss below, 1997 overearnings would have been even greater. Further,
16 | the 1997 annual report figures should not be accepted as valid without
17 | an audit of these amounts. This is made worse by the fact that LUSI's
18 | 1997 annual report was not adjusted for the numerous rate base
19 | adjustments found during the PSC staff audit and discovery during this
20 | rate case.

21 | Q. What is your conclusion about using the 1995 test year to set
22 | prospective rates?

23 | A. Based on all of the above points, I do not believe that the 1995 test
24 | year is reasonable to establish rates on a going-forward basis. This
25 | case has been a regulatory quagmire from the beginning. The minimum

1 filing requirements were so inadequate that they had to essentially be
2 refiled twice. Further, the auditors had to perform a 100% review of
3 all plant and rate base transactions, due to poor record keeping and
4 missing documentation. The staff engineers also had an extremely
5 difficult time determining the amount of used and useful plant because
6 of inaccurate flow data, no support for the margin reserve and
7 inadequate maps of the systems. In the two plus years that this docket
8 has been open, staff has spent more than double the time on this Class
9 B utility than we do on a staff assisted rate case.

10 Q. Was the appropriate test year an issue deemed stipulated by the First
11 and Second PAA orders?

12 A. Yes. Neither the utility nor OPC protested the test year 1995.
13 However, Section 367.081(2)(a), Florida Statutes, requires that the
14 Commission fix rates that are just, reasonable, compensatory and not
15 unfairly discriminatory. If the Commission were to set rates using an
16 outdated, unrepresentative test year, the resulting rates would not be
17 just or reasonable.

18 Q. Can the Commission set prospective rates by updating the 1995 test year
19 to 1998?

20 A. Yes, it could, but none of LUSI's current information has been audited.
21 Further, this cannot be done within the statutory time constraints
22 remaining to process LUSI's rate case. Based on the tremendous number
23 of audit adjustments made for 1995, I have little confidence that even
24 the current reported amounts could be relied upon to establish
25 reasonable rates. However, I was able to estimate earnings for 1998 to

1 | test whether LUSI's recorded amounts would warrant a revenue increase.
2 | To do this, I used LUSI's 1996-1997 PSC annual reports. Since the 1998
3 | report is not due until March 1999, I requested that the staff auditors
4 | obtain the unaudited additions and retirements to plant, CIAC, and
5 | advances for construction, and 1998 revenues, including miscellaneous
6 | service revenues, from the utility's books. As I discuss below, I
7 | believe that with interim rates the utility will overearn on its 1998
8 | unaudited balances.

9 | Q. How did you update LUSI's rate base to estimate what prospective rates
10 | might be?

11 | A. I estimated that 1998 rate base by taking the rate base components that
12 | I have testified are appropriate for 1995 and updating those with
13 | unaudited additions made up through year-end 1998. This takes into
14 | account the plant and CIAC additions that the utility has recorded on
15 | its books. Working capital was calculated using the formula approach,
16 | consistent with Rule 25-30.433(2), Florida Administrative Code.
17 | Further, I have assumed, for simplicity, that the amount of debit
18 | deferred income taxes will remain constant from 1995 to 1998. Without
19 | reviewing actual documents and tax calculations, I am unable to project
20 | changes to these balances. I have used a year-end rate base due to the
21 | extraordinary growth in customers combined with an eroding rate base.
22 | I have not included any non-used and useful adjustment to plant because
23 | the utility has more CIAC and advances for construction in rate base
24 | than it has plant. My estimated rate base for 1998 is \$139,178.

25 | Q. What capital structure do you believe should be used to estimate

1 prospective rates?

2 A. I have used the same components, ratios and cost rates approved in the
3 First PAA order, except for updating the rate of return on equity.
4 Inflation and cost of money have remained relatively stable and the
5 costs of long and short-term debt used were 9.19 and 9.12%,
6 respectively. The current leverage graph was approved by the Commission
7 in Order No. PSC-98-0903-FOF-WS, issued on July 6, 1998 and made final
8 and effective by Order No. PSC-98-1434-FOF-WS, issued on October 23,
9 1998. By updating only the cost of equity, the cost of capital
10 estimated for 1998 is 9.03%.

11 Q. What test year revenues did you use?

12 A. I used the 1998 annualized revenues of \$710,830 provided by staff
13 witness Rendell. These revenues were based on the interim rates
14 approved by the Commission in 1996.

15 Q. How did you estimate 1998 operating expenses?

16 A. For operation and maintenance (O&M) expenses, I escalated each primary
17 account either on customer growth from 1997 to 1998 combined with
18 inflation, or inflation alone. I used the 1998 price index of 2.10%
19 approved by the Commission in Order No. PSC-98-0242-FOF-WS, issued on
20 February 6, 1998. For depreciation expense, I used the guideline rates
21 per Rule 25-30.140, Florida Administrative Code, and applied them to the
22 balance of plant by primary account that I calculated for rate base.
23 I also applied the composite depreciation rate to the balance of CIAC
24 that I calculated for rate base. For property taxes, I escalated 1997
25 property taxes by the increase in plant from 1997 to 1998. Test year

1 regulatory assessment fees were 4.5% of the annualized 1998 revenues.
2 For other taxes, I escalated them using the price index for inflation.
3 Income taxes are a fall out of the amount of rate base, the overall cost
4 of debt and test year revenues and expenses.

5 Q. Based on all of your adjustments, what was the estimated 1998 net
6 operating income before any revenue change?

7 A. The projected 1998 test year operating income was \$201,643. This
8 represented an overall rate of return on LUSI's investment of 144.88%.

9 Q. What is the estimated revenue requirement for your projected 1998 test
10 year?

11 A. Based on the adjustments discussed above, the estimated revenue
12 requirement is \$393,405, based on 9.03% rate of return on a projected
13 rate base of \$139,178. This represents a decrease of revenues of
14 \$317,425, or 44.66%.

15 Q. Have you attached a schedule which reflects your calculations for the
16 estimated 1998 test year?

17 A. Yes. I have attached Exhibit PWM-4, which includes my estimates of
18 LUSI's 1998 rate base, capital structure, net operating income and
19 supporting schedules. The supporting schedules reflect my estimated
20 O&M expenses, taxes other than income and income taxes.

21 Q. Do you believe that the Commission can establish reasonable rates based
22 on the unaudited current data from the utility?

23 A. No. Given the constraints of this case, the material growth in
24 customers, and the staleness of the test year, I do not believe that the
25 Commission, at this time, can approve rates which are just, reasonable,

1 | compensatory, and not unfairly discriminatory, as required by Section
2 | 367.081(2)(a), Florida Statutes.

3 | Q. What action do you recommend that the Commission take?

4 | A. I believe that the Commission should deny LUSI's requested rate increase
5 | and establish uniform rates based on the 1995 billing determinants and
6 | Commission approved adjusted test year revenues. Staff witness Rendell
7 | testifies to the appropriate rates to be implemented.

8 | Q. Should the Commission require the utility to refund all of its interim
9 | revenues collected?

10 | A. Yes. Since I have recommended that no rate increase be granted, then
11 | all interim rates should be refunded, with interest. The interim
12 | increase granted by the Commission was 27.10%. (Order No. PSC-96-1187-
13 | FOF-WU, issued on September 23, 1996).

14 | Q. Should the utility be allowed to collect any rate case expense in a
15 | prospective case?

16 | A. No. The utility should have never requested to increase its rates. The
17 | first problem was that the utility's books and records were in such poor
18 | shape that Commission staff had to do a 100% audit of all rate base
19 | transactions. The auditors even found advances for construction that
20 | had never been recorded on the utility's books. Secondly, with such
21 | dramatic growth occurring in its system, the utility should have clearly
22 | known that it was overearning with interim rates in effect. If the
23 | utility was not aware of this, then management is doing an inadequate
24 | job of monitoring its investment and earnings. Based on this, I
25 | recommend that the rate case expense incurred for this case was not

1 prudent and the utility not be allowed to recover these costs through
2 rates.

3 Q. Since your estimated 1998 test year reflects possible overearnings on
4 a prospective basis, what action are you recommending that the
5 Commission take at this time?

6 A. I am not recommending that the Commission take action on prospective
7 overearnings at this time. The information in my 1998 estimate was
8 based on pre-closing, unadjusted balances. It is possible that the
9 balance that I reflected for plant did not include construction work in
10 progress that would have been closed to plant at the end of 1998 or
11 general plant allocations from LUSI's parent and/or affiliates.
12 Further, the operating expenses that I used were projected, not actual
13 amounts, and actual amounts could be materially different from what I
14 have estimated. I recommend that the Commission staff promptly review
15 LUSI's 1998 annual report as soon as it is filed. After making
16 adjustments to correct rate base for 1995, I believe that staff can make
17 a more accurate estimate of potential overearnings then.

18 Q. Do you have a recommendation on LUSI's current AFPI charges?

19 A. Yes. According to Rule 25-30.434(1), Florida Administrative Code, AFPI
20 is a charge designed to allow a utility to earn a reasonable return on
21 its investment in plant held for future use from the future customers
22 to be served by that plant. If a utility has no investment in its
23 plant, then I believe that it is inappropriate to allow AFPI on that
24 plant. Based on my estimation of 1998 plant, CIAC and advances for
25 construction, LUSI has no investment in non-used and useful or future

1 use plant. Therefore I believe that all of LUSI's AFPI charges should
2 be canceled at this time.
3 Q. Does this conclude your testimony?
4 A. Yes, it does.
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

COMPOSITE EXHIBIT NO.: _____

WITNESS: PATRICIA W. MERCHANT

DOCKET NO.: 960444-WU

Application for rate increase by

LAKE UTILITY SERVICES, INC.

**BEFORE THE
FLORIDA PUBLIC SERVICE
COMMISSION**

DESCRIPTION:

- Exhibit PWM-1: 1995 Plant by Primary Account
- Exhibit PWM-2: 1995 Accumulated Depreciation by Primary Account
- Exhibit PWM-3: 1995 Average and Year-End Rate Base
- Exhibit PWM-4: 1998 Estimated Rate Base, Capital Structure, NOI & Supporting Schedules

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-1
 PAGE 1 OF 6

UPIS SUMMARY - TOTAL COMPANY

Account No.	DESCRIPTION	BALANCE @12/31/94	ADD	RETIRE	BALANCE @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$14,991	\$1,567	\$0	\$16,558	\$15,775
304	STRUCT. & IMPROV.	42,380	2,633	0	45,014	43,697
307	WELLS & SPRINGS	182,775	26,721	(4,500)	204,995	193,885
311	PUMPING EQUIP.	96,862	21,656	(4,262)	114,257	105,559
320	WTR. TREAT. EQUIP	98,164	5,236	(2,140)	101,260	99,712
330	DISTRIB. RESERVOIR	77,104	9,055	(3,429)	82,731	79,918
331	TRANS. & DIST. MAIN	1,147,519	15,073	0	1,162,592	1,155,056
333	SERVICES	86,538	19,427	0	105,964	96,251
334	METERS & INSTALL	18,654	7,314	(2,696)	23,273	20,963
335	HYDRANTS	31,861	1,072	0	32,933	32,397
343	TOOLS, SHOP & GRG	5,405	1,333	0	6,737	6,071
	SUBTOTAL	1,802,254	111,088	(17,027)	1,896,315	1,849,285
344	LABORATORY EQT	0	261	0	261	131
346	COMMUN. EQT.	2,000	0	0	2,000	2,000
347	COMPUTER EQT.	4,188	0	0	4,188	4,188
348	WSC RATE BASE	17,752	4,362	0	22,114	19,933
	TOTAL LUSI PLANT	\$1,826,194	\$115,711	(\$17,027)	\$1,924,879	\$1,875,536

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-1
 PAGE 2 OF 6

UPIS SUMMARY - CLERMONT I & II, AMBER HILL, LAKE RIDGE CLUB, CLERMONT COST CENTER, LUSI PARENT COSTS

Account No.	DESCRIPTION	BALANCE @12/31/94	ADD	RETIRE	BALANCE @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$3,314	\$1,567	\$0	\$4,880	\$4,097
304	STRUCT. & IMPROV.	14,364	105	0	14,469	14,416
307	WELLS & SPRINGS	57,781	0	0	57,781	57,781
311	PUMPING EQUIP.	34,879	2,048	(280)	36,647	35,763
320	WTR. TREAT. EQUIP	25,104	742	(190)	25,655	25,380
330	DISTRIB. RESERVOIR	21,968	0	0	21,968	21,968
331	TRANS. & DIST. MAIN	138,479	5,904	0	144,383	141,431
333	SERVICES	23,488	6,818	0	30,306	26,897
334	METERS & INSTALL	14,262	5,903	(2,696)	17,469	15,865
335	HYDRANTS	3,780	0	0	3,780	3,780
343	TOOLS, SHOP & GRG	5,405	1,333	0	6,737	6,071
	TOTAL	\$342,823	\$24,420	(\$3,166)	\$364,077	\$353,450

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-1
 PAGE 3 OF 6

UPIS SUMMARY - HIGHLAND PT, CRESENT BAY, CRESENT W., LK CRESENT HILLS, PRESTON, COVE, S. CLERMONT

Account No.	DESCRIPTION	BALANCE @12/31/94	ADD	RETIRE	BALANCE @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$4,796	\$0	\$0	\$4,796	\$4,796
304	STRUCT. & IMPROV.	26,161	2,413	0	28,575	27,368
307	WELLS & SPRINGS	55,512	26,623	(4,500)	82,135	68,824
311	PUMPING EQUIP.	29,942	11,925	(2,626)	41,866	35,904
320	WTR. TREAT. EQUIP	66,736	3,478	(1,393)	70,214	68,475
330	DISTRIB. RESERVOIR	35,754	995	(309)	36,749	36,252
331	TRANS. & DIST. MAIN	837,668	7,595	0	845,263	841,465
333	SERVICES	50,501	12,119	0	62,620	56,560
334	METERS & INSTALL	3,252	1,412	0	4,664	3,958
335	HYDRANTS	28,081	1,072	0	29,153	28,617
343	TOOLS, SHOP & GRG	0	0	0	0	0
	TOTAL	\$1,138,404	\$67,631	(\$8,828)	\$1,206,035	\$1,172,219

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-1
 PAGE 4 OF 6

UPIS SUMMARY - ORANGES, VISTAS I & II

Account No.	DESCRIPTION	BALANCE @12/31/94	ADD	RETIRE	BALANCE @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$0	\$0	\$0	\$0	\$0
304	STRUCT. & IMPROV.	1,484	114	0	1,599	1,542
307	WELLS & SPRINGS	24,186	98	0	24,284	24,235
311	PUMPING EQUIP.	12,734	5,692	(572)	17,855	15,295
320	WTR. TREAT. EQUIP	1,518	1,017	(557)	1,978	1,748
330	DISTRIB. RESERVOIR	5,398	8,060	(3,120)	10,338	7,868
331	TRANS. & DIST. MAIN	121,524	1,287	0	122,811	122,168
333	SERVICES	4,974	196	0	5,170	5,072
334	METERS & INSTALL	0	0	0	0	0
335	HYDRANTS	0	0	0	0	0
343	TOOLS, SHOP & GRG	0	0	0	0	0
	TOTAL	\$171,820	\$16,464	(\$4,249)	\$184,035	\$177,927

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-1
 PAGE 5 OF 6

UPIS SUMMARY - FOUR LAKES

Account No.	DESCRIPTION	BALANCE @12/31/94	ADD	RETIRE	BALANCE @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$6,882	\$0	\$0	\$6,882	\$6,882
304	STRUCT. & IMPROV.	223	0	0	223	223
307	WELLS & SPRINGS	11,068	0	0	11,068	11,068
311	PUMPING EQUIP.	8,984	1,991	(784)	10,191	9,587
320	WTR. TREAT. EQUIP	4,232	0	0	4,232	4,232
330	DISTRIB. RESERVOIR	2,214	0	0	2,214	2,214
331	TRANS. & DIST. MAIN	26,923	288	0	27,211	27,067
333	SERVICES	3,330	196	0	3,526	3,428
334	METERS & INSTALL	1,140	0	0	1,140	1,140
335	HYDRANTS	0	0	0	0	0
343	TOOLS, SHOP & GRG	0	0	0	0	0
	TOTAL	\$64,994	\$2,475	(\$784)	\$66,684	\$65,839

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-1
 PAGE 6 OF 6

UPIS SUMMARY - LAKE SAUNDERS ACRES

Account No.	DESCRIPTION	BALANCE @12/31/94	ADD	RETIRE	BALANCE @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$0	\$0	\$0	\$0	\$0
304	STRUCT. & IMPROV.	149	0	0	149	149
307	WELLS & SPRINGS	34,228	0	0	34,228	34,228
311	PUMPING EQUIP.	10,324	0	0	10,324	10,324
320	WTR. TREAT. EQUIP	574	0	0	574	574
330	DISTRIB. RESERVOIR	11,770	0	0	11,770	11,770
331	TRANS. & DIST. MAIN	22,924	0	0	22,924	22,924
333	SERVICES	4,244	98	0	4,342	4,293
334	METERS & INSTALL	0	0	0	0	0
335	HYDRANTS	0	0	0	0	0
343	TOOLS, SHOP & GRG	0	0	0	0	0
	TOTAL	\$84,214	\$98	\$0	\$84,312	\$84,263

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-2
 PAGE 1 OF 6

DEPRECIATION SUMMARY - TOTAL COMPANY

ACCOUNT NUMBER	DESCRIPTION	ACC. DEPR. @12/31/94	ACC. DEPR. @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$1,805	\$2,200	\$2,003
304	STRUCTURES & IMPROVEMENT	6,604	7,928	7,266
307	WELLS & SPRINGS	31,116	35,328	33,222
311	PUMPING EQUIPMENT	7,033	9,784	8,408
320	WATER TREATMENT EQUIPMENT	11,879	14,576	13,228
330	DISTRIBUION RESERVOIRS	14,244	15,546	14,895
331	TRANSMISSION & DISTRIB. MAIN	79,451	106,312	92,881
333	SERVICES	13,399	15,805	14,602
334	METERS & INSTALLATION	1,825	2,870	2,347
335	HYDRANTS	6,182	6,902	6,542
343	TOOLS, SHOP & GARAGE	194	370	282
	SUBTOTAL	173,732	217,622	195,677
344	LABORATORY EQT	0	9	4
346	COMMUN. EQT.	275	475	375
347	COMPUTER EQT.	70	349	209
348	WSC RATE BASE	222	1,328	775
	TOTAL	\$174,298	\$219,782	\$197,040

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-2
 PAGE 2 OF 6

DEPRECIATION SUMMARY-CLERMONT I & II, AMBER HILL, LAKE RIDGE CLUB, CLERMONT COST CENTER, LUSI PARENT COSTS

ACCOUNT NUMBER	DESCRIPTION	ACC. DEPR. @12/31/94	ACC. DEPR. @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$279	\$382	\$330
304	STRUCTURES & IMPROVEMENT	2,009	2,445	2,227
307	WELLS & SPRINGS	9,840	11,766	10,803
311	PUMPING EQUIPMENT	1,373	2,881	2,127
320	WATER TREATMENT EQUIPMENT	2,269	3,233	2,751
330	DISTRIBUION RESERVOIRS	3,713	4,307	4,010
331	TRANSMISSION & DISTRIB. MAIN	20,833	24,122	22,478
333	SERVICES	4,354	5,026	4,690
334	METERS & INSTALLATION	875	1,664	1,270
335	HYDRANTS	989	1,073	1,031
343	TOOLS, SHOP & GARAGE	194	370	282
	TOTAL	\$46,728	\$57,270	\$51,999

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-2
 PAGE 3 OF 6

DEPRECIATION SUMMARY - HIGHLAND PT, CRESENT BAY, CRESENT W., LK CRESENT HILLS, PRESTON, COVE, S. CLERMONT

ACCOUNT NUMBER	DESCRIPTION	ACC. DEPR. @12/31/94	ACC. DEPR. @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$752	\$872	\$812
304	STRUCTURES & IMPROVEMENT	4,401	5,230	4,816
307	WELLS & SPRINGS	7,059	7,027	7,043
311	PUMPING EQUIPMENT	1,660	2,064	1,862
320	WATER TREATMENT EQUIPMENT	7,464	9,152	8,308
330	DISTRIBUION RESERVOIRS	6,326	6,992	6,659
331	TRANSMISSION & DISTRIB. MAIN	35,671	55,240	45,456
333	SERVICES	6,767	8,181	7,474
334	METERS & INSTALLATION	558	756	657
335	HYDRANTS	5,193	5,829	5,511
343	TOOLS, SHOP & GARAGE	0	0	0
	TOTAL	\$75,852	\$101,344	\$88,598

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-2
 PAGE 4 OF 6

DEPRECIATION SUMMARY - ORANGES, VISTAS I & II

ACCOUNT NUMBER	DESCRIPTION	ACC. DEPR. @12/31/94	ACC. DEPR. @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$0	\$0	\$0
304	STRUCTURES & IMPROVEMENT	162	208	185
307	WELLS & SPRINGS	3,005	3,813	3,409
311	PUMPING EQUIPMENT	1,185	1,726	1,455
320	WATER TREATMENT EQUIPMENT	173	0	87
330	DISTRIBUION RESERVOIRS	386	51	218
331	TRANSMISSION & DISTRIB. MAIN	6,964	9,805	8,385
333	SERVICES	341	468	405
334	METERS & INSTALLATION	0	0	0
335	HYDRANTS	0	0	0
343	TOOLS, SHOP & GARAGE	0	0	0
	TOTAL	\$12,216	\$16,070	\$14,143

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-2
 PAGE 5 OF 6

DEPRECIATION SUMMARY - FOUR LAKES

ACCOUNT NUMBER	DESCRIPTION	ACC. DEPR. @12/31/94	ACC. DEPR. @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$774	\$946	\$860
304	STRUCTURES & IMPROVEMENT	25	32	28
307	WELLS & SPRINGS	3,435	3,804	3,620
311	PUMPING EQUIPMENT	216	0	108
320	WATER TREATMENT EQUIPMENT	1,957	2,150	2,053
330	DISTRIBUION RESERVOIRS	1,024	1,084	1,054
331	TRANSMISSION & DISTRIB. MAIN	10,114	10,744	10,429
333	SERVICES	912	997	955
334	METERS & INSTALLATION	392	449	421
335	HYDRANTS	0	0	0
343	TOOLS, SHOP & GARAGE	0	0	0
	TOTAL	\$18,850	\$20,206	\$19,528

LAKE UTILITY SERVICES, INC
 ADJUSTED BALANCES OF UTILITY PLANT IN SERVICE
 TEST YEAR ENDED DECEMBER 31, 1995

DOCKET NO. 960444-WU
 EXHIBIT PWM-2
 PAGE 6 OF 6

DEPRECIATION SUMMARY - LAKE SAUNDERS ACRES

ACCOUNT NUMBER	DESCRIPTION	ACC. DEPR. @12/31/94	ACC. DEPR. @12/31/95	SIMPLE AVERAGE
301	ORGANIZATION	\$0	\$0	\$0
304	STRUCTURES & IMPROVEMENT	7	12	10
307	WELLS & SPRINGS	7,776	8,917	8,347
311	PUMPING EQUIPMENT	2,598	3,114	2,856
320	WATER TREATMENT EQUIPMENT	15	41	28
330	DISTRIBUION RESERVOIRS	2,795	3,113	2,954
331	TRANSMISSION & DISTRIB. MAIN	5,868	6,401	6,135
333	SERVICES	1,025	1,132	1,079
334	METERS & INSTALLATION	0	0	0
335	HYDRANTS	0	0	0
343	TOOLS, SHOP & GARAGE	0	0	0
	TOTAL	\$20,085	\$22,731	\$21,408

LAKE UTILITY SERVICES, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED 12/31/95

DOCKET NO. 960444-WU
 EXHIBIT PWM-3
 PAGE 1 OF 2

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED AVERAGE TEST YEAR	STAFF ADJUSTED YEAR END
1 UTILITY PLANT IN SERVICE	\$ 1,946,058	\$ 0	\$ 1,946,058	\$(70,522)	1,875,536	1,924,879
2 LAND	3,730	0	3,730	357	4,087	4,087
3 NON-USED & USEFUL COMPONENTS	(49,361)	0	(49,361)	(214,750)	(264,111)	(266,592)
4 ACCUMULATED DEPRECIATION	(131,754)	0	(131,754)	(65,286)	(197,040)	(219,782)
5 CIAC	(881,203)	0	(881,203)	(205,075)	(1,086,278)	(1,231,542)
6 AMORTIZATION OF CIAC	109,430	0	109,430	16,109	125,539	139,647
7 ACQUISITION ADJUSTMENT	(70,169)	0	(70,169)	70,169	0	0
8 ACCUM. AMORT. OF ACQ. ADJUS.	7,095	0	7,095	(7,095)	0	0
9 ADVANCES FOR CONSTRUCTION	0	0	0	(376,255)	(376,255)	(405,520)
10 DEBIT ACCUM. DEF. INCOME TAXES	116,542	0	116,542	127,927	244,469	244,469
11 WORKING CAPITAL ALLOWANCE	27,828	0	27,828	(1,253)	26,575	26,575
12 OTHER	0	0	0	0	0	0
RATE BASE	\$ 1,078,196	\$ 0	\$ 1,078,196	\$(725,674)	352,522	216,221

EXPLANATION	WATER
UTILITY PLANT IN SERVICE	
To adjust utility plant in service	\$ <u>(70,522)</u>
LAND	
To reflect unrecorded land cost	\$ <u>357</u>
NON-USED AND USEFUL PLANT	
To reflect net non-used & useful adjustment	\$ <u>(214,750)</u>
ACCUMULATED DEPRECIATION	
To remove accumulated depreciation related to UPIS adjustments	\$ <u>(65,286)</u>
CIAC	
a) To reflect adjustment per Audit Exception No. 12 (See Note Below)	\$ (183,498)
b) To impute CIAC on Vistas's water system	0
c) To impute CIAC to offset margin reserve	(21,577)
Total	\$ <u>(205,075)</u>
ACCUMULATED AMORTIZATION OF CIAC	
a) To reflect adjustment per Audit Exception No. 12	\$ 15,818
b) To reflect the effect of imputation of CIAC on Vistas's water plant	0
c) To reflect the effect of imputation of CIAC on margin reserve	291
Total	\$ <u>16,109</u>
ACQUISITION ADJUSTMENT AMORTIZATION	
To remove incorrectly recorded acquisition adjustment	\$ <u>70,169</u>
ACCUMULATED AMORT. OF ACQUISITION ADJUSTMENT	
To reflect the effect of removal of acquisition adjustment	\$ <u>(7,095)</u>
DEFERRED INCOME TAXES	
To reflect income tax on advance for construction	\$ <u>127,927</u>
ADVANCE FOR CONSTRUCTION	
To reflect adjustment per Audit Exception No. 12	\$ <u>(376,255)</u>
WORKING CAPITAL	
To reflect adjustments on operating expenses	\$ <u>(1,253)</u>

LAKE UTILITIES SERVICES, INC
 SCHEDULE OF WATER RATE BASE-1998

DOCKET 960444-WU
 EXHIBIT PWM-4
 PAGE 1 OF 5

DESCRIPTION	1997 YEAR END	1998 UTILITY ADD/RETIRE	1998 YEAR END	STAFF ADJUSTMENTS	1998 YEAR END
1 UTILITY PLANT IN SERVICE	\$2,882,748	\$48,893	\$2,931,641	\$0	\$2,931,641
2 LAND	\$4,087	\$0	\$4,087	\$0	\$4,087
3 NON-USED & USEFUL COMPONENT	(\$155,665)	\$24,314	(\$131,351)	\$131,351	\$0
4 ACCUMULATED DEPRECIATION	(\$323,323)	(\$64,250)	(\$387,573)	\$0	(\$387,573)
5 CIAC	(\$2,099,006)	(\$393,540)	(\$2,492,546)	\$0	(\$2,492,546)
6 AMORTIZATION OF CIAC	\$215,294	\$57,023	\$272,317	\$0	\$272,317
7 ACQUISITION ADJUSTMENTS - NET	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	(\$468,355)	\$0	(\$468,355)	\$0	(\$468,355)
9 UNFUNDED POST-RETIRE. BENEFIT	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$244,469	\$0	\$244,469	\$0	\$244,469
11 WORKING CAPITAL ALLOWANCE	\$32,559	\$0	\$35,138	\$0	\$35,138
12 OTHER	\$0	\$0	\$0	\$0	\$0
RATE BASE	\$332,808	(\$327,560)	\$7,827	\$131,351	\$139,178

LAKE UTILITIES SERVICES, INC
CAPITAL STRUCTURE - 1998

DOCKET 980444-WU
EXHIBIT PWM-4
PAGE 2 OF 5

DESCRIPTION	TOTAL CAPITAL 1998	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS 1997	CAPITAL RECONCILED TO RATE		COST RATE	WEIGHTED COST 1997	PRO RATA ADJUSTMENTS 1998	CAPITAL RECONCILED TO RATE		COST RATE	WEIGHTED COST 1998
				BASE 1997	RATIO				BASE 1998	RATIO		
PER STAFF												
11 LONG TERM DEBT	\$40,625,000	\$0	(\$40,474,426)	\$150,574	45.24%	9.19%	4.16%	(\$40,566,027)	\$58,973	42.37%	9.19%	3.89%
12 SHORT-TERM DEBT	\$7,381,250	\$0	(\$7,353,892)	\$27,358	8.22%	9.12%	0.75%	(\$7,370,535)	\$10,715	7.70%	9.12%	0.70%
13 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	\$0	\$0	0.00%	0.00%	0.00%
14 COMMON EQUITY	\$37,868,798	\$0	(\$37,728,440)	\$140,358	42.17%	9.65%	4.07%	(\$37,813,826)	\$54,972	39.50%	9.65%	3.81%
15 CUSTOMER DEPOSITS	\$14,518	\$0	\$0	\$14,518	4.36%	6.00%	0.26%	\$0	\$14,518	10.43%	6.00%	0.63%
16 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	\$0	\$0	0.00%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	\$0	\$0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	\$0	\$0	0.00%	0.00%	0.00%
19 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	\$0	\$0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$85,889,566	\$0	(\$85,556,758)	\$332,808	100.00%		9.24%	(\$85,750,388)	\$139,178	100.00%		9.03%
						LOW	HIGH			LOW	HIGH	
						RETURN ON EQUITY	8.65%	10.65%			8.65%	10.65%
						OVERALL RATE OF RETURN	8.82%	9.66%			8.64%	9.43%

LAKE UTILITIES SERVICES, INC
STATEMENT OF WATER OPERATIONS-1998

DOCKET 960444-WU
EXHIBIT PWM-4
PAGE 3 OF 5

DESCRIPTION	1998 PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED PER UTILITY	STAFF ADJUSTMENTS	1998 STAFF ADJUSTED YEAR END	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$766,322	\$0	\$766,322	(\$55,492)	\$710,830	(\$317,425) -44.66%	\$393,405
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE*	\$281,104	\$0	\$281,104	\$0	\$281,104		\$281,104
3 DEPRECIATION	\$95,753	\$0	\$95,753	\$0	\$95,753		\$95,753
4 AMORTIZATION OF CIAC	(\$57,023)	\$0	(\$57,023)	\$0	(\$57,023)		(\$57,023)
5 TAXES OTHER THAN INCOME*	\$54,516	\$0	\$54,516	\$17,519	\$72,035	(\$14,284)	\$57,751
6 INCOME TAXES*	\$0	\$0	\$0	\$117,318	\$117,318	(\$114,072)	\$3,246
7 TOTAL OPERATING EXPENSES	\$374,350	\$0	\$374,350	\$134,837	\$509,187	(\$128,356)	\$380,831
8 OPERATING INCOME	\$391,972	\$0	\$391,972	(\$190,329)	\$201,643	(\$189,069)	\$12,574
9 RATE BASE	\$7,827		\$7,827		\$139,178		\$139,178
10 RATE OF RETURN	5007.91%		5007.91%		144.88%		9.03%

**LAKE UTILITIES SERVICES, INC
OPERATION AND MAINTENANCE EXPENSES - WATER - 1998**

**DOCKET 960444-WU
EXHIBIT PMW-4
PAGE 4 OF 5**

ACCOUNT TITLE	ANNUAL REPORT		UTILITY ADJUSTED TEST YEAR	STAFF	PROJECTED
	UTILITY YEAR ENDED 1997	UTILITY ADJUSTMENTS		PROJECTED 1997 ADJUSTMENTS	PROJECTED STAFF YEAR END 1998
SALARIES AND WAGES - EMPLOYEES	91,809	0	91,809	1,928	93,737
SALARIES AND WAGES - OFFICERS, DIRECTORS, ETC.	0	0	0	0	0
EMPLOYEE PENSIONS AND BENEFITS	19,854	0	19,854	417	20,271
PURCHASED WATER*	0	0	0	0	0
PURCHASED POWER*	52,442	0	52,442	8,363	60,805
FUEL FOR POWER PRODUCTION	0	0	0	0	0
CHEMICALS*	11,180	0	11,180	1,783	12,963
MATERIALS AND SUPPLIES*	44,772	0	44,772	7,140	51,912
CONTRACTUAL SERVICES - ENGR.	27	0	27	1	28
CONTRACTUAL SERVICES - ACCT.	1,348	0	1,348	28	1,376
CONTRACTUAL SERVICES - LEGAL	780	0	780	16	796
CONTRACTUAL SERVICES - MGMT. FEES	349	0	349	7	356
CONTRACTUAL SERVICES - OTHER	5,663	0	5,663	119	5,782
RENTAL OF BUILDING/REAL PROPERTY	0	0	0	0	0
RENTAL OF EQUIPMENT	0	0	0	0	0
TRANSPORTATION EXPENSES	5,424	0	5,424	114	5,538
INSURANCE-VEHICLE	0	0	0	0	0
INSURANCE-GENERAL LIABILITY	0	0	0	0	0
INSURANCE-WORKMAN'S COMP.	0	0	0	0	0
INSURANCE-OTHER	7,606	0	7,606	160	7,766
ADVERTISING EXPENSE	0	0	0	0	0
REGULATORY COMM. EXPENSES - AMORT. OF RATE CASE EXPENSE	0	0	0	0	0
REGULATORY COMM. EXPENSES - OTHER	0	0	0	0	0
BAD DEBT EXPENSE*	1,085	0	1,085	173	1,258
MISCELLANEOUS EXPENSES	18,135	0	18,135	381	18,516
TOTAL OPERATION AND MAINTENANCE	260,474	0	260,474	20,630	281,104
Number of Customers	1,518			1,799	
Projected Customer Growth Rate				15.62%	
Inflation (Price Index)				2.10%	
Compound Factor*				15.95%	

**LAKE UTILITIES SERVICES, INC
TAXES OTHER THAN INCOME**

**DOCKET 960444-WU
EXHIBIT PMW-4
PAGE 5 OF 6**

WATER - 1997	1995 REVENUE REQUIREMENT	1996 ACTUAL ADJUSTMENTS	UTILITY YEAR ENDED 1996	1997 ACTUAL ADJUSTMENTS	UTILITY YEAR ENDED 1997	REVENUE INCREASE	1997 REVENUE REQUIREMENT
PERSONAL PROPERTY	11,021	6,723	17,744	13,662	31,406		31,406
PAYROLL	7,456	5,749	13,205	(3,198)	10,007		10,007
REGULATORY ASSESSMENT FEES	15,874	2,847	18,721	(24)	18,697	(5,912)	12,785
OTHER	261	0	261	0	261		261
TOTAL	34,612	15,319	49,931	10,440	60,371	(5,912)	54,459

Actual adjustments for 1996 and 1997 RAFs based on revenue increase provided by utility.

WATER - 1998	1997 STAFF REVENUE REQUIREMENT	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	PROJECTED 1998 STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
PERSONAL PROPERTY	31,406	0	31,406	524	31,930		31,930
PAYROLL	10,007	0	10,007	210	10,217		10,217
REGULATORY ASSESSMENT FEES	12,785	0	12,785	16,784	29,569	(14,284)	15,285
OTHER	261	0	261	0	261		261
TOTAL	54,459	0	54,459	17,519	71,978	(14,284)	57,694

Inflation (Price Index)
% of Plant Increase - Year End

2.10%
1.67%