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October 30, 2000

RECEIVED - FPSC
00 OCT 30 PM 4: 07
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 is are the original and fifteen copies of following:

- Testimony and exhibits of Frank Seidman, 14024-00
- Testimony and exhibits of David Orr, 14025-00
- Testimony and exhibits of Erin Nicholas, and 14026-00
- Testimony and exhibits of Erin Nicholas regarding the show cause order. 14027-00

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

Sincerely yours,

Ben E. Girtman

Encls.

APP	_____
CAF	_____
CMP	_____
COM	3
CTR	_____
ECR	Willis
LEG	3
OPC	_____
PAI	_____
RGO	2
SEC	1
SER	_____
OTH	_____

14024-00

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase)
in water rates in Orange County)
by Wedgefield Utilities, Inc.)

DOCKET NO. 991437-WU

Filed: October 30, 2000

RECEIVED- FPSC
00 OCT 30 PM 4:07
RECORDS AND
REPORTING

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the following:

Testimony and exhibits of Frank Seidman,
Testimony and exhibits of David Orr,
Testimony and exhibits of Erin Nicholas, and
Testimony and exhibits of Erin Nicholas regarding the show cause order

has been sent by U.S. mail (or by hand delivery*) this 30th day of October, 2000, to

Patty Christensen, Esq.*
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
(850)413-6220

Charles Beck, Esq.*
Office of Public Counsel
111 W. Madison St., Rm. 812
Tallahassee, FL 32399-1400
(850) 488-9330



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Attorney for
Wedgefield Utilities, Inc.

ORIGINAL

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TESTIMONY OF FRANK SEIDMAN
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
REGARDING THE APPLICATION FOR INCREASE
IN WATER RATES IN ORANGE COUNTY
BY WEDGEFIELD UTILITIES, INC.
DOCKET NO. 991437-WU

Q. Please state your name, profession and address.

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

Q. What is the nature of your engagement with the Applicant, Wedgefield Utilities, Inc. (Wedgefield)?

A. I was engaged by Wedgefield to address all or part of Issues 1, 2, 4, 5, 6 and 7 as listed in Appendix A of Order No. PSC-00-1895-PCO-WU, the order establishing procedure for this case. These issues address (a) various methods of determining used and useful plant, (b) unaccounted for water, (c) used and useful for a specific land parcel, and (d) whether to include a negative acquisition adjustment in rate base.

1 **Q. State briefly your educational background and**
2 **experience.**

3 A. I hold the degree of Bachelor of Science in
4 Electrical Engineering from the University of
5 Miami. I have also completed several graduate level
6 courses in economics at Florida State University,
7 including public utility economics. I am a
8 Professional Engineer, registered to practice in
9 the state of Florida. I have over 30 years
10 experience in utility regulation, management and
11 consulting. This experience includes nine years as
12 a staff member of the Florida Public Service
13 Commission, two years as a planning engineer for a
14 Florida telephone company, four years as Manager of
15 Rates and Research for a water and sewer holding
16 company with operations in six states, and three
17 years as Director of Technical Affairs for a
18 national association of industrial users of
19 electricity. I have either supervised or prepared
20 rate cases, rates studies, certificate
21 applications and original cost studies or testified
22 as an expert witness with regard to water and
23 wastewater utilities in Florida, California,
24 Indiana, Michigan, Missouri, North Carolina and
25 Ohio. I have participated in, and appeared as a

1 witness at, many of this Commission's rulemaking
2 proceedings with regard to water, wastewater and
3 electric rules, as well as proceedings before the
4 Division of Administrative Hearings.

5

6 ISSUE NO. 1

7 **Q. What is the appropriate method for determining**
8 **used and useful for source of supply and pumping,**
9 **for water treatment, and for storage plant for the**
10 **Wedgefield system?**

11 A. For the Wedgefield system, the appropriate method
12 is that utilized by Wedgefield in preparing its
13 Minimum Filing Requirement (MFR). That is, to
14 compare, for each major classification of plant
15 facilities, the maximum level of demand against
16 that classification's firm reliable capacity. The
17 level of demand must also include fire flow demand
18 and the needs of customers through five years after
19 the end of the test year. The needs of customers
20 through five years after the end of the test year
21 is similar to what used to be referred to as margin
22 reserve.

23

24

1 **Q. Why is it appropriate to utilize the firm reliable**
2 **capacity for each plant classification?**

3 A. Because firm reliable capacity recognizes that
4 capacity must not only be adequate, it must be safe
5 and reliable. Simply using the nominal or rated
6 capacity value does not recognize the redundancy
7 necessary to provide safe and reliable service. The
8 Commission recognized this concept in Order No. 96-
9 1320-FOF-WS re Southern States Utilities, Inc. The
10 Commission defined firm reliable capacity as "the
11 total capacity of supply wells, high service pumps,
12 filters, or other treatment plant facilities with
13 the largest unit out of service for routine
14 maintenance or emergency repair." The Commission
15 found that "by recognizing firm reliable capacities
16 for wells, water treatment components, and high
17 service pumping, we are appropriately encouraging
18 utilities to provide safe, efficient and sufficient
19 service in accordance with Section 367.111(1)(2),
20 Florida Statutes."

21
22
23

1 period. Then, at Schedule F-5 of the MFR,
2 Wedgefield multiplied that percent increase times
3 the appropriate unit of demand for each major plant
4 classification - Source of Supply and Pumping,
5 Storage Plant, and Treatment Plant.

6

7 **Q. Is that a method which the Commission has**
8 **previously found acceptable?**

9 A. Yes. This is the same method used by both the
10 utility and PSC Staff in Docket No. 951056-WS re
11 Palm Coast Utility Corporation, and applied to each
12 major plant classification. The Wedgefield MFR used
13 the method accepted by the Commission in the Palm
14 Coast case as a model.

15

16 ISSUE NO. 2

17 **Q. Should used and useful be calculated on the**
18 **individual components in Issue One or on the**
19 **components listed in Issue One as a whole?**

20 A. For Wedgefield, used and useful should be
21 calculated on the individual components, or more
22 accurately, on the individual major plant
23 classifications identified in Issue One. The reason
24 is that the source of supply and pumping plant has
25 a different nominal capacity and a different firm

1 reliable capacity than that for the water treatment
2 plant, although they both must serve the same
3 maximum gallon per day demand. As to the storage
4 plant, its demand and capacity is measured in
5 gallons rather than gallons per day, and the
6 parameters of demand are different than that for
7 the supply and pumping, and for treatment
8 components.

9

10 **Q. Is analysis of used and useful by plant**
11 **classifications a method that the Commission has**
12 **previously found acceptable?**

13 A. Yes. Again, this is the same method used by the
14 utility and PSC Staff in previously referenced
15 Docket No. 951056-WS re Palm Coast Utility
16 Corporation and in Docket No. 950495-WS re the
17 previously referenced Southern States Utilities
18 case. In the final orders of each of those dockets,
19 the discussion of used and useful is on a component
20 basis. With regard to Palm Coast, used and useful
21 has been evaluated on a component basis in every
22 case filed, going all the way back to its first
23 rate case in 1980.

24

1 **Q. Are there occasions when used and useful could or**
2 **should be calculated for all components as a whole?**

3 A. Yes. The preference for either approach should be
4 evaluated based on the specific configuration of
5 each system. For example, in a simple system where
6 the water is pumped and treated only by
7 chlorination, it would be proper to consider supply
8 and pumping, and treatment plant together. If the
9 only storage capacity was hydropneumatic, that
10 plant component could also be included with the
11 supply and treatment components.

12

13 **Q. If the Commission were to conclude that**
14 **Wedgefield's used and useful should be calculated**
15 **on the listed components as a whole, how should it**
16 **be done?**

17 A. I believe the only fair way would be to use the
18 firm reliable capacity that is the lowest common
19 denominator for all components. A firm reliable
20 capacity has been identified for the source of
21 supply and pumping component and for the treatment
22 plant component. The limiting capacity of the
23 combined components is the lowest capacity of
24 either of these components.

25

1 **Q. In the Staff Recommendation and in the Proposed**
2 **Agency Action, the capacity of plant was identified**
3 **as the sum of the wells and the storage tank. Is**
4 **that a legitimate measure of capacity?**

5 A. No. Storage capacity adds nothing either to the
6 capacity of wells to deliver water or to the
7 capacity of treatment facilities to treat water.
8 The only source of water to a storage tank is from
9 the wells, either directly or through the treatment
10 plant. Since the wells are the source of a storage
11 tank's capacity, the storage tank cannot be part of
12 their capacity. That is circular reasoning. Even
13 in the Uniform System of Accounts, storage
14 facilities are considered as a part of transmission
15 and distribution plant and not a part of the
16 source, pumping or treatment plant. I am not aware
17 of the Commission ever adding storage capacity to
18 pumping and/or treatment capacity in calculating
19 used and useful, nor am I aware of it even being
20 considered in all of the years that the PSC and the
21 industry were considering the development of used
22 and useful rules and formulas. There is no
23 regulatory or operational basis for it, of which I
24 am aware.

25

1 ISSUE NO. 4

2 **Q. What is the appropriate period to consider customer**
3 **demand - peak day or a 5 peak day average?**

4 A. For water supply and pumping, treatment, and
5 storage plant, the peak day or annual maximum day
6 demand should always be the basis for evaluation.
7 Water systems must be prepared to serve the maximum
8 day demand. The Commission has previously
9 recognized this. In Order No. PSC-96-1320-FOF-WS,
10 issued October 30, 1996, re Southern States
11 Utilities, Inc., after discussing why it had been
12 its practice to use the average of the uses of the
13 five highest usage days, the Commission stated,
14 "Upon consideration, we find it appropriate in this
15 proceeding to use a singular maximum day demand,
16 exclusive of any abnormal events such as fire flows
17 and line breaks, when calculating used and useful
18 for water plant components. Until now, we have not
19 used a singular maximum day demand, because it
20 could have reflected an abnormal event."

21
22 Then in Order No. PSC-96-1338-FOF-WS, issued
23 November 7, 1996, re Palm Coast Utility
24 Corporation, the Commission solidified its position
25 and stated, "The Ten State Standards, an

1 engineering design reference for water systems,
2 requires that plant be sized to meet maximum day
3 demands, not the average of the five maximum day
4 demands." The Commission further noted that the
5 Commission's own engineering witness proposed that
6 the maximum day be should used and that it (the
7 Commission) had historically and consistently used
8 the maximum day and not the average of five maximum
9 days for Palm Coast.

10

11 **Q. Has the Commission indicated any cautions in the**
12 **use of the maximum day demand?**

13 A. Yes. In both of the referenced orders the
14 Commission indicated that in the use of a maximum
15 day demand, one should exclude all unusual usage or
16 any abnormal events such as fire flows and line
17 breaks.

18

19 **Q. If the maximum day does include unusual or abnormal**
20 **usage, then would a five day average be preferable?**

21 A. No. It is better to either eliminate the unusual
22 usage, if it can be identified, or move on to the
23 day with the highest demand that does not include
24 any unusual or abnormal usage. Plant must still be
25 deigned to meet maximum day demands, not an average

1 of maximum demands. The averaging of demand over
2 several days may well minimize abnormalities, but
3 to a greater extent it understates the demand that
4 must be met and understates the capacity necessary
5 to serve that demand.

6

7 ISSUE NO. 5

8 **Q. What is the appropriate allowance for unaccounted**
9 **for water?**

10 A. Selecting an appropriate allowance for unaccounted
11 for water has always been difficult and the
12 Commission has not always been consistent in its
13 selection. The PSC Staff's standard procedures
14 acknowledge that the proper amount is a function of
15 each individual system, and that a fair average
16 might be in the range of 10-20% for a fully metered
17 system with a good meter maintenance program and
18 average conditions of service. In many cases, the
19 Commission has allowed 10% unaccounted for water as
20 a default amount, without the requirement of any
21 factual support. In the previously referenced Palm
22 Coast case, the Commission stated, "There are no
23 firm guidelines as to what is acceptable and what
24 is excessive unaccounted for water. The level of
25 unaccounted for water at PCUC is less than 10%.

1 Therefore, the issue of determining a reasonable
2 level for unaccounted for water is moot. We find,
3 however, that an allowance of 12.5% unaccounted for
4 water is appropriate." Thus, it would appear at
5 least that the Commission has increased the default
6 amount from 10% to 12.5%.

7
8 In cases where unaccounted for water has been
9 historically high and the utility has made strides
10 to improve it to a reasonable level, the Commission
11 has recognized those efforts and accepted that
12 reasonable level as appropriate for ratemaking
13 purposes. This occurred in Docket No. 940109-WU re
14 St. George Island Utility, Co, LTD. In Order No.
15 PSC-94-1383-FOF-WU, concluding that case, the
16 Commission noted that the utility had reduced its
17 unaccounted for water from 35% to 15.27% and that
18 the utility had made positive strides toward
19 reducing unaccounted for water to a reasonable
20 level. The Commission made no adjustment to plant
21 or expenses for unaccounted for water, accepting
22 15.27% as reasonable for that utility.

23
24 It would appear that the situation at Wedgefield is
25 similar to that at St. George. Historically,

1 unaccounted for water has been in the 20-30% range.
2 Even during the test year, the level of unaccounted
3 for water averaged 27.1%. However, since the end of
4 the test year, unaccounted for water has been
5 reduced to approximately 13%. This has resulted
6 from two things - a more diligent metering of
7 previously unmetered uses and the initiation of a
8 leak detection program. Within two months after the
9 end of the test year, a substantial leak was
10 located and repaired. This information was included
11 in the MFR at Schedule F-1.

12
13 It is my conclusion and recommendation that 13% be
14 set as a reasonable level of unaccounted for water
15 for this utility. It falls within the 10-20% range
16 addressed by the PSC Staff's standard procedures
17 and is consistent with past Commission practice.
18 Then any adjustment for unaccounted for water to be
19 made, would be for the difference between the 27.1%
20 actually experienced during the test year, and the
21 reasonable level of 13% now being experienced.

22
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1 ISSUE NO. 6

2 **Q. What is the appropriate used and useful percentage**
3 **for the land purchased on June 18, 1999, that**
4 **should be included in rate base?**

5 A. The appropriate used and useful percentage for the
6 land purchased on June 18, 1999, that should be
7 included in rate base is 100%. The purchase of the
8 parcel in question was timely and prudent.

9

10 **Q. Would you please explain the basis for your**
11 **conclusion?**

12 A. Yes. First, as a matter of regulatory policy, I do
13 not believe that land should be subjected to the
14 traditional used and useful analysis. Unlike plant
15 facilities which carry out functions at varying
16 capacities and can be designed to be added to in a
17 systematic manner, land cannot. The timing of the
18 purchase of land and the quantity purchased is one
19 of opportunity and cost, not just immediate need.
20 Because of that, the Commission has often
21 recognized that land, purchased wholly or partially
22 in advance of immediate need, is properly included
23 in rate base, as long as the purchase price is
24 reasonable, the need for it (present or future), is
25 identifiable and realistic, and the timing of the

1 purchase is practical. These considerations are
2 more readily apparent with regard to electric and
3 telephone utilities, both of which must purchase
4 parcels of land throughout their service areas, on
5 a continuing basis, for telephone exchanges or
6 electrical substations. As communities develop, the
7 availability for possible locations shrinks, and
8 land is often purchased while the opportunity
9 avails itself and while the price of land is
10 reasonable, not necessarily because there is an
11 immediate need.

12

13 **Q. Do these considerations apply to water utilities**
14 **and to Wedgefield, in particular?**

15 A. Yes. These considerations may not be so obvious
16 for water utilities because their need for parcels
17 is relatively limited. But they are subject to the
18 same considerations of opportunity and price. In
19 the case of Wedgefield, opportunity was an
20 important consideration.

21

22 **Q. Why is that?**

23 A. The original water plant facilities were located on
24 a parcel of land originally set aside for public
25 use by the developers, and later by the Wedgefield

1 Homeowners Association (Association). The transfer
2 of the utility from Econ Utilities, Inc. to
3 Wedgefield left unresolved some issues of access
4 and ownership of the land between the portion on
5 which utility facilities were located and the
6 portion on which the recreational area (the park)
7 was located. Eventually, after closing, the
8 Association, Magna Properties and Wedgefield worked
9 out an arrangement to solve problems in prior deeds
10 from Magna for both the park and the water plant.
11 The park was owned by the Association. Due to
12 errors in the deed to the Association, some of the
13 utility land was included in that deed to the
14 Association. But the Association was limited in its
15 ability to correct their deed or to sell any
16 portion of the park land to Wedgefield. Its
17 ownership was restricted by a right of reversion to
18 the previous owner, Magna Properties, Inc.
19 Therefore, Wedgefield potentially could have been
20 unable to obtain clear title to some of the utility
21 land, but also could have been unable to obtain
22 additional land in the area. Furthermore, the
23 Association had been expanding the use of the park
24 parcel near the area occupied by the utility plant.
25 To the north of the utility parcel, a basketball

1 court had been built, and practically adjacent to
2 the site of the third well, equipment that is part
3 of a health trail had been put in place. So, the
4 timing was right for the utility to not only
5 correct the prior deed restrictions and errors
6 which caused the problem, but also to lock up a
7 small additional parcel before the Association
8 might make use of it for recreation.

9
10 The three parties, Wedgefield, the Association and
11 Magna Properties, worked together and eventually
12 reached a three-party agreement to correct the
13 defects through simultaneous transactions. In these
14 transactions, the property descriptions were
15 corrected, and Magna conveyed an additional piece
16 of the property to the Association (without the
17 provision for reversion), so that it could be
18 conveyed to Wedgefield without any restrictions on
19 its continuing use. The originally incorrectly
20 deeded parcel, the parcel deeded in correction, and
21 the new parcel are all shown on the survey map at
22 Page 1 of Exhibit (FS-1)_____. The plant site, in
23 relation to the surrounding area, is shown at Page
24 2 of Exhibit (FS-1)_____.

25

1 **Q. Was there any basis for Wedgefield's choice of**
2 **parcel size and shape?**

3 A. Yes. The additional parcel was chosen to be
4 contiguous to the existing parcel and was made long
5 enough to include the site of existing Well No. 3
6 to the north of the plant, and wide enough to line
7 up with the boundary of the existing parcel which
8 borders, to the east, the lot lines for residential
9 property to the east of the plant, such that all
10 mains common to the plant, plus a buffer area, were
11 included.

12
13 **Q. Was it prudent to purchase a parcel that extends**
14 **that far to the north and east?**

15 A. Yes, although it is not "that far." We are talking
16 about a piece of land that is only 164 feet by 262
17 feet, or a little less than an acre. It was prudent
18 for several reasons. The purchased parcel contains
19 the water main between the water plant and Well No.
20 3 to the north, and an existing sewer main that
21 carries water treatment effluent from the plant
22 east to the main at the rear of the adjacent
23 residential lots. It made sense for the land
24 purchased to include both. Also, the size of the
25 parcel is sufficient to allow Wedgefield to

1 maintain a buffer area between present and future
2 plant facilities and the residential property to
3 the east of the site. The buffer area I refer to is
4 not for safety, but rather for peace of mind for
5 nearby residents. No one wants to have their home
6 near a water plant, never mind, right next to it.
7 NIMBY (Not In My Back Yard) is as much a concern
8 for water utilities as it is for any other public
9 service facility. A buffer area is a worthwhile
10 investment in customer relations and service
11 perception. And finally, the opportunity was there.
12 As previously discussed, the land purchased
13 required the agreement of Magna to eliminate the
14 reversion provision. Wedgefield was able to carry
15 out this transaction in a cost effective manner.
16 All parties had an incentive to put this matter
17 behind them, in toto. If the purchase had not been
18 made at that time for the single additional parcel,
19 it is pure speculation as to whether an opportunity
20 would occur at a later date to (1) purchase parcels
21 piecemeal at a reasonable cost; (2) to convince
22 Magna to eliminate the reversion provision in a
23 piecemeal fashion over an extended period of time;
24 (3) to convince the Association and Magna to
25 cooperate for that purpose and (4) to convince the

1 Association not to utilize the property for the
2 park, without compensation, so that the property
3 would remain available to the utility for its
4 possible use, at its discretion, at a later date.

5

6 **Q. Aside from your conclusion that the land in**
7 **question be considered 100% used and useful, do you**
8 **have any comment regarding Staff's calculation of**
9 **used and useful?**

10 A. Yes. Staff applied its used and useful percentage
11 to the total test year average balance for the land
12 account of \$11,850 and not to just the average
13 balance for the land in question, which is only
14 \$8,632. Also, it did not consider property needed
15 five years after the test year. Even using the
16 Staff's used and useful percentage of 25%,
17 adjusting it for property needed five years after
18 the test year (an additional 3.26%), and applying
19 it to the proper dollar amount, would result in a
20 decrease in the land account of \$6,193 rather than
21 the \$8,888 calculated by Staff. I am not agreeing
22 with Staff's conclusion, only correcting their
23 calculation.

24

25

1 ISSUE NO. 7

2 **Q. Should the utility's rate base include a negative**
3 **acquisition adjustment?**

4 A. At the time of the filing of Wedgefield's direct
5 testimony, Wedgefield had a motion pending to
6 strike this issue raised by the Office of Public
7 Counsel (OPC). The issue had been fully addressed,
8 for this utility, at a public hearing held
9 specifically for that purpose with a Final Order
10 No. PSC-98-1092-FOF-WS, issued August 12, 1998.
11 Should a final determination be made to deny the
12 motion, and negative acquisition remains an issue,
13 I will respond to the direct testimony of OPC in
14 rebuttal testimony.

15

16 **Q. Does that conclude your direct testimony?**

17 A. Yes it does.

CITY UNIT 1, PLAT BOOK Z, PAGE 29

17
 East Line 1
 Block 25, 1

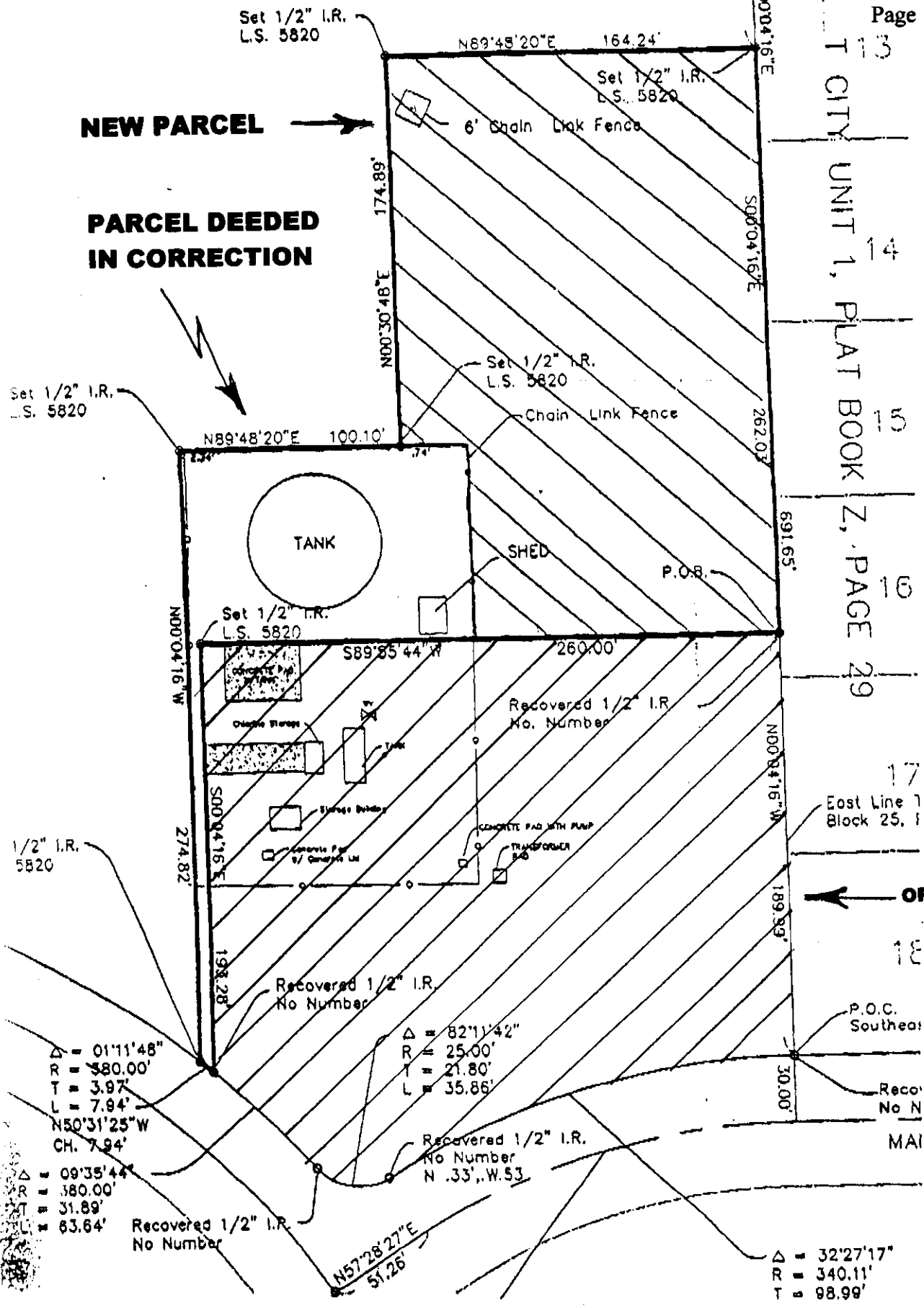
← **ORIGINALLY DEEDED
 PARCEL**

18

P.O.C. Southeast

Reco No N

MAI



NEW PARCEL →

**PARCEL DEEDED
 IN CORRECTION**

Set 1/2" I.R.
 L.S. 5820

N89'48'20"E 164.24'

Set 1/2" I.R.
 L.S. 5820

6' Chain Link Fence

174.89'

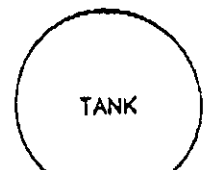
1,914'00.00N

Set 1/2" I.R.
 L.S. 5820

Chain Link Fence

Set 1/2" I.R.
 L.S. 5820

N89'48'20"E 100.10'



SHED

P.O.B.

Set 1/2" I.R.
 L.S. 5820

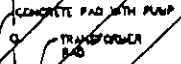
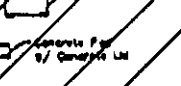
S89'55'44"W 260.00'

Recovered 1/2" I.R.
 No. Number

1/2" I.R.
 5820

N00'04'16"W 274.82'

S00'04'16"E 198.28'



Recovered 1/2" I.R.
 No. Number

$\Delta = 82'11'42''$
 $R = 25.00'$
 $T = 21.80'$
 $L = 35.86'$

N50'31'25"W
 CH. 7.94'

$\Delta = 09'35'44''$
 $R = 380.00'$
 $T = 31.89'$
 $L = 63.64'$

Recovered 1/2" I.R.
 No. Number

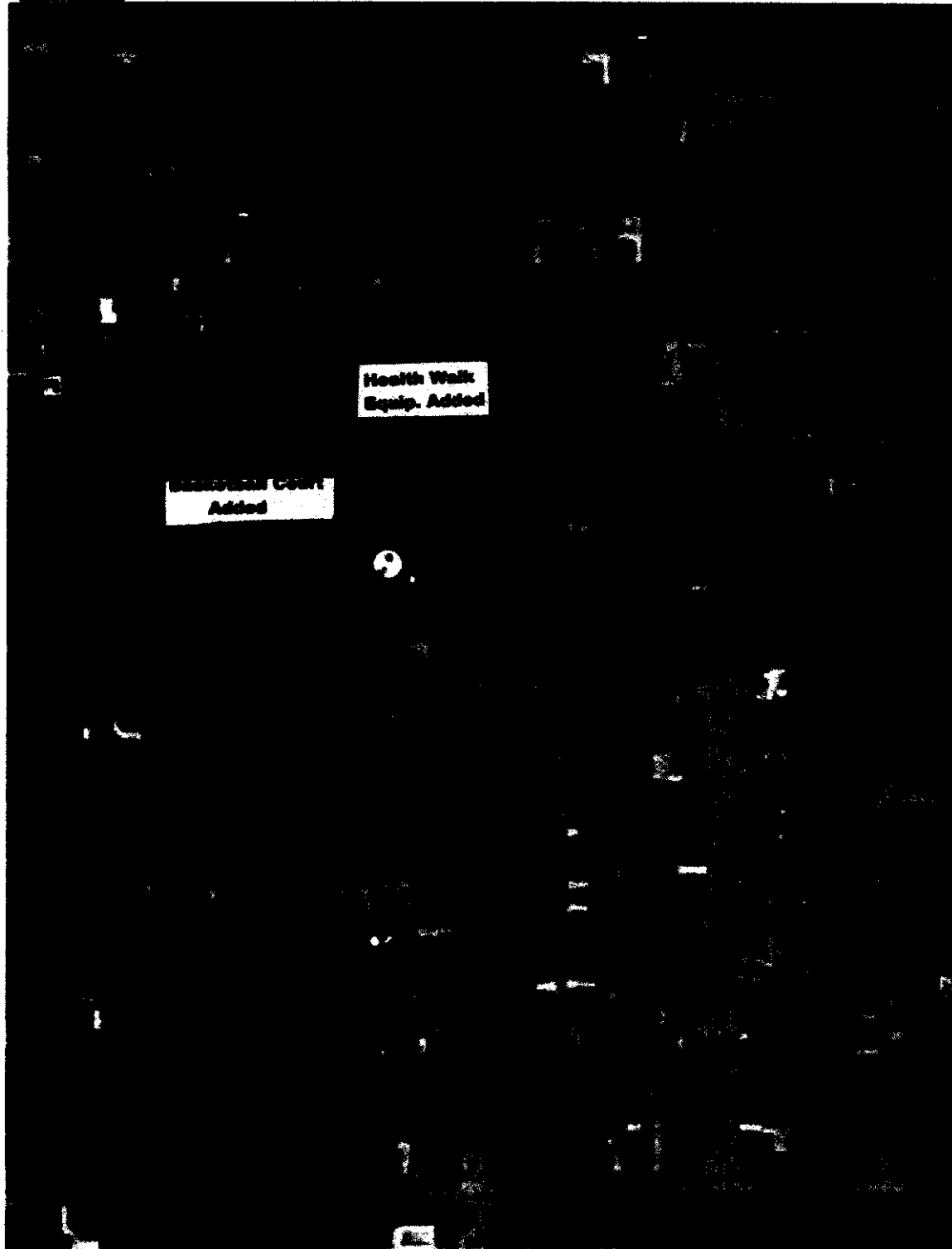
N57'28'27"E
 51.26'

Recovered 1/2" I.R.
 No. Number
 N .33', W.53

$\Delta = 32'27'17''$
 $R = 340.11'$
 $T = 98.99'$

29 km E of Orlando, Florida, United States 02 Aug 1994

USGS



0 100M

0 100yd

→ Z