

**DIRECT SUPPLEMENTAL TESTIMONY
OF
JAMES V. MESITE, JR.
IN**

**FLORIDA PUBLIC UTILITIES COMPANY
DOCKET NO 080366-GU**

**IN RE: PETITION OF
FLORIDA PUBLIC UTILITIES COMPANY
FOR A NATURAL GAS RATE INCREASE**

DOCUMENT NO. DATE

07769-09 07/29/09
FPSC - COMMISSION CLERK

1 **Q. Please state your name, affiliation, business address and summarize your**
2 **academic background and professional experience.**

3 A. My name is James V. Mesite, Jr. I am the Senior Project Accountant in the
4 Corporate Accounting Department at Florida Public Utilities Company (FPUC or
5 Company). My business address is 401 South Dixie Highway, West Palm Beach,
6 Florida 33401. I am a graduate of Northeastern University, class of 1976, with a
7 Bachelor of Science degree in Business Administration, major in Accounting.

8 I have been employed by FPUC for 14 years. I began my tenure as a Special
9 Project Accountant and was promoted to my current position in March 2002. In the
10 past I was responsible for converting the Company's manual CPR records to a
11 computerized system; and I continue to be responsible for the overall integrity of
12 the computerized Fixed Asset System. I am responsible for the review and
13 evaluation of fixed asset issues involving acquisitions, dispositions, retirements,
14 capital versus expense, and chart of accounts. I assist in the preparation of annual
15 corporate budgets, and various aspects of the inventory processes. I have designed
16 and implemented several procedures and reporting systems for accounting and
17 auditing purposes. I prepare several periodic accounting analysis reports using
18 various company systems and computer applications. Additionally, I am involved
19 with various internal control and review projects throughout the Company as
20 circumstances dictate.

21 I am responsible for the filing of Depreciation Studies with the Florida Public
22 Service Commission (Commission, PSC or FPSC) for the regulated electric and
23 natural gas divisions. At various times I have been responsible for preparation,

DOCUMENT NO. DATE
0 776909 07/29/09
FPSC - COMMISSION CLERK

1 filing, reconciliation and audit of documents as directed under PGA Docket Nos.
2 nn0003-GU, and electric fuel Docket Nos. nn0001-EI. I have been a witness in
3 three previous rate relief proceedings before the FPSC: Docket Numbers 030438-
4 EI, 040216-GU, and 070304-EI. I have participated in FPSC Natural Gas and
5 Electric workshops and inquiries relating to Listing of Retirement Units and
6 capitalization threshold.

7 **Q. Did you participate in the PAA proceedings associated with this Docket?**

8 A. Yes. I prepared accounting information to support the proposed increase in the
9 revenue requirement for FPUC. I provided testimony, exhibits, and was the witness
10 on information provided in various Minimum Filing Requirement (MFR) Schedules
11 B, C, F, and G. I prepared responses to data requests issued by Commission Staff,
12 responses to interrogatories and production of document requests issued by the
13 Office of Public Counsel (OPC). I prepared and filed the Depreciation Study,
14 Docket No. 080548-GU, that was associated with this rate case proceeding.

15 **Q. What are the major areas of the rate proceeding in which you participated?**

16 A. I am the witness in the areas of Plant and Working Capital for the determination of
17 Rate Base. I am also the witness for amortization expense and depreciation expense
18 and associated adjustments for the determination of NOI.

19 **Q. In the PAA Final Order issued on May 27, 2009, the Commission discussed**
20 **their rationale for excluding deferred rate case expense from working capital. Is**
21 **the rationale appropriate?**

1 A. No it is not. Excluding deferred rate case expense from working capital was
2 discussed in the final order in Part VI. NET OPERATING INCOME, Section M.
3 Rate Case Expense. We feel that several of the reasons presented were not accurate.

4 **Q. What does the Commission state as being their current position on the**
5 **treatment of deferred rate case expense?**

6 A. The 2008 PAA final order stated, “We have a long-standing policy in electric and
7 gas rate cases of excluding unamortized rate case expense from working capital, as
8 demonstrated in a number of prior cases.”; with a related footnote containing
9 references to orders and dockets prior to November 1990.

10 **Q. Is the statement referring to the “long-standing policy” accurate?**

11 A. No, it is not. Several final orders for FPUC rate cases since 1994 for natural gas,
12 electric and water have allowed at least one-half of deferred rate case expenses to
13 be included in working capital.

14 **Q. Please provide content from recent PSC final orders that contradict the**
15 **statement in the 2008 PAA order concerning the “long-standing policy”.**

16 A. In the final order of the 1993 FPUC Electric Rate Case, Docket No. 930400-EI ,
17 Order No. PSC-94-0170-FOF-EI, pages 9 and 10, the Commission stated: “We
18 believe that the company should be given the opportunity to recover prudently
19 incurred costs. Not including the unamortized portion of rate case expense in
20 working capital is a partial disallowance. It is analogous to allowing depreciation
21 expense, but not allowing a return on rate base. Rate case expense is a cost of
22 doing business not unlike other administrative costs. Further, PSC rules, such as
23 the MFR rule, influence the level of rate case expense. We believe, that if it is

1 determined that rate case expense is prudent and reasonable, the company should be
2 allowed to earn a return on the unamortized balance. Rate case expense is a necessary
3 expense of doing business in the regulated arena. As such, a utility should be
4 allowed to earn a return on its unamortized balance.”

5 In the final order of the 1994 FPUC Natural Gas rate case, Docket No. 940620-
6 GU, Order No. PSC-95-0518-FOF-GU, page 5: “We also reduced Working Capital
7 \$70,213, which reflects the allowance of one-half of the unamortized rate case
8 expense.”

9 In the final order of the 2003 FPUC Electric rate case, Docket No. 030438-EI,
10 Order No. PSC-04-0369-AS-EI, page 5: “ Issue 42: One-half of the updated rate
11 case expense shall be included in working capital allowance.”

12 In the final order of the 2004 FPUC Natural Gas rate case, Docket No. 040216-
13 GU, Order No. PSC-04-1110-PAA-GU, page 27: “In addition, one-half of the
14 unamortized rate case expense ... shall be included in unamortized rate case
15 expense in working capital for the projected test year.”

16 In the final order of the 2007 FPUC Electric rate case, Docket No. 070300-EI,
17 070304-EI, Order No. PSC-08-0327-FOF-EI0, page 33: “Our practice in prior rate
18 cases, including FPUC’s, is to allow one-half of the rate case expense in Working
19 Capital. Based on the above, we find that the appropriate balance of deferred debit
20 rate case expense to be included in Working Capital is \$303,400.”

21 **Q. The PAA final order indicated that excluding deferred rate case expense from**
22 **working capital, but allowing the amortization of rate case expense is a means**

1 **of sharing the cost of rate cases between stockholders and ratepayers. Is this**
2 **sharing of cost approach appropriate?**

3 A. No, it is not. Rate case proceedings are the only means open to regulated utilities for
4 the recovery of cost increases incurred while operating in the non-regulated
5 business environment. As such, expenses incurred for rate case proceedings must be
6 considered an ordinary and necessary cost of doing business. It is therefore
7 appropriate to include both the expense and the related unrecovered deferred
8 portion of such costs.

9 **Q. Please address the point made in the PAA final order that, “customers should**
10 **not be required to pay a return on funds expended to increase their rates.”**

11 A. This argument is not appropriate due to the ordinary and necessary nature of the
12 costs incurred during a rate proceeding.

13 **Q. Is the term allowed for the amortization and deferral of rate case expense**
14 **appropriate?**

15 A. Yes. Four years appears to be the typical term between rate cases. For this reason,
16 the four-year amortization and deferral period is appropriate.

17 **Q. Is allowing one-half of deferred rate case expense in working capital**
18 **appropriate?**

19 A. Yes. Allowing one-half of the deferred expense account takes into account that at
20 the end of the four-year amortization period, the deferred expense account will be
21 zero.

22 **Q. What is the expected effect on working capital balance for including deferred**
23 **rate case expense?**

1 A. The deferred rate case expense to be included in working capital is a fall-out
2 amount yet to be determined. The data presented in the MFR and subsequently
3 adjusted during resolution of the issues, will require further increase as a result of
4 ongoing expenses incurred due to the protest filed by the OPC.

5 Please see the supplemental testimony of Cheryl M. Martin for further
6 information concerning rate case expenses.

7 **Q. Does this conclude your testimony?**

8 A. Yes.