

OTS Statement No. 2-SR
Witness: Debra J. Backer

4-17-08 JES
HBL

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
TREASURE LAKE SEWER DIVISION**

Docket No. R-00072495

**DOCUMENT
FOLDER**

Surrebuttal Testimony

of

Debra J. Backer

Office of Trial Staff

Concerning:

Operating Expenses

Cash Working Capital

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1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Debra J. Backer. I am a Fixed Utility Financial Analyst in the
4 Technical Division of the Pennsylvania Public Utility Commission's Office of
5 Trial Staff. My business address is P.O. Box 3265, Harrisburg, PA 17105-3265.
6

7 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes. I have submitted OTS Statement No. 2 and OTS Exhibit No. 2.
10

11 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

12 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies
13 of TESI witnesses Scott D. Fogelsanger and Gary D. Shambaugh.

1 Q. WOULD YOU PLEASE SUMMARIZE YOUR ADJUSTMENTS?

2 A. Yes. This table summarizes my adjustments:

| Expense Account | Account No. | Company Claim | OTS Adj | Recommended Claim Amount |
|-----------------------------------|-------------|---------------|-------------|--------------------------|
| Contract Services-Legal | 733.0 | \$ 1,495 | (\$ 1,438) | \$ 57 |
| Insurance-General Liability | 757.0 | \$ 85,789 | (\$ 59,314) | \$ 26,475 |
| Miscellaneous-Other | 775.0 | \$ 13,552 | (\$ 8,428) | \$ 5,124 |
| Office Supplies | 775.6 | \$ 11,192 | (\$ 3,022) | \$ 8,170 |
| Chemicals | 718.0 | \$ 18,451 | (\$ 546) | \$ 17,905 |
| Postage & Shipping | 775.9 | \$ 16,000 | (\$ 1,925) | \$ 14,075 |
| Rate Case | 766.0 | \$ 53,333 | (\$ 40,111) | \$ 13,222 |
| Travel | 775.12 | \$ 3,789 | (\$ 384) | \$ 3,405 |
| Total Adjustments of O&M expenses | | | (\$115,168) | |
| | | | | |
| Cash Working Capital (CWC) | | \$ 90,533 | (\$ 14,199) | \$ 76,334 |

3
4 This table differs from the table included in my direct testimony in that it uses the
5 Company's updated claims from its rebuttal testimonies. OTS has revised its
6 recommended adjustments to account for the Company's updates. Additionally,
7 the OTS adjustments that the Company accepted in Rebuttal Testimony do not
8 appear on the table above because those adjustments have been incorporated in the
9 Company's Statement of Operating Expenses (SDF Exhibit No. 3, Attachment 8,
10 p. 2). For a clear understanding of the Company's claimed allowance and the
11 adjustments I am recommending, I suggest the reader reference this table as they
12 proceed through this document.

1 **CONTRACT SERVICES – LEGAL, ACCOUNT NO. 733**

2 **Q. WHAT IS THE COMPANY’S EXPENSE CLAIM FOR CONTRACT**
3 **SERVICES – LEGAL?**

4 **A. The Company’s claim for this expense is \$1,495.**

5
6 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM IN**
7 **YOUR DIRECT TESTIMONY?**

8 **A. I recommended the Company’s claim to Contract Services – Legal be reduced by**
9 **\$1,438 for an allowance of \$57, because as stated in my direct testimony the**
10 **ledger that the Company provided to support this claim lists the majority of**
11 **expenses for the Beech Mountain Lakes Division in Luzerne County, which**
12 **cannot be recovered in a Treasure Lake Division base rate proceeding (OTS**
13 **Statement No. 2, p. 3).**

14
15 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN**
16 **REBUTTAL TESTIMONY?**

17 **A. No. The Company did not address this recommendation in rebuttal testimony.**

18
19 **Q. HAVE YOU REVISED YOUR RECOMMENDATION?**

20 **A. No. I am still recommending an adjustment of \$1,438.**

1 RENTAL OF BUILDING, ACCOUNT NO. 741

2 **Q. WHAT IS THE COMPANY'S EXPENSE CLAIM FOR RENTAL OF**
3 **BUILDING?**

4 A. The Company's claim for Rental of Building is \$7,339.

5
6 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM IN**
7 **YOUR DIRECT TESTIMONY?**

8 A. I recommended the Company's claim be reduced by \$4,049 because, as stated in
9 my direct testimony, the Company incorrectly classified a telecommunication
10 expense (OTS Statement No. 2, p. 5).

11
12 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN**
13 **REBUTTAL TESTIMONY?**

14 A. The Company agreed to remove \$4,049 from Rental of Building but since this
15 expense was a misallocation of telecommunications expense, the Company
16 requested to move the expense to an additional line item as Account No. 775.6 –
17 Telecommunications in the amount of \$4,049.

18
19 **Q. HAVE YOU REVISED YOUR RECOMMENDATION TO RENTAL OF**
20 **BUILDING?**

21 A. No. I still recommend the \$4,049 be removed from Rental of Building.

1 Q. DO YOU ACCEPT THE COMPANY'S RECOMMENDATION TO MOVE
2 THE \$4,049 TO TELECOMMUNICATIONS EXPENSE?

3 A. Yes. I accept the Company's recommendation to allocate the telecommunications
4 expense to the correct account. The Company updated the rental of building
5 expense and telecommunications expense in its Statement of Operating Expenses,
6 therefore, I did not include these adjustments in the table on page 2 of this
7 document since they are off-setting each other (TESI – Sewer Statement No. 1R,
8 Attachment 8, p. 2).

9

10 **INSURANCE – GENERAL LIABILITY, ACCOUNT NO. 757**

11 Q. WHAT WAS THE COMPANY'S ORIGINAL EXPENSE CLAIM FOR
12 INSURANCE – GENERAL LIABILITY?

13 A. The Company's original claim for Insurance – General Liability was \$83,956.

14

15 Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM?

16 A. I recommended the Company's original claim for Insurance – General Liability be
17 reduced by \$23,770, for an allowance of \$60,186 (\$83,956 - \$23,770) because the
18 Company only provided partial support for the claim (OTS Statement No. 2, p. 6).

19

20 Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN
21 REBUTTAL TESTIMONY?

1 A. The Company responded with an updated actual general insurance premium of
2 \$323,250. The Company requested to increase the claim by \$1,833, for a revised
3 claim of \$85,789 (\$83,956 + \$1,833).

4
5 **Q. HAVE YOU REVISED YOUR DIRECT TESTIMONY CLAIM FOR**
6 **INSURANCE – GENERAL LIABILITY?**

7 A. Yes. I will use the Company's updated general insurance premium of \$323,250,
8 but will utilize the same allocation as used in my direct testimony to properly
9 allocate the insurance costs to Treasure Lake Sewer Division (OTS Statement No.
10 2, p. 8). The allocation method I am using is the identical method used by the
11 Company to allocate expenses for Affiliated Service Costs such as salaries,
12 benefits, management fees, contract services, depreciation, taxes, and many other
13 expenses (OTS Exhibit No. 2-SR, Schedule No. 1).

| | | |
|----|-------------------------------------------|-----------|
| 14 | Invoice for General Insurance | \$323,250 |
| 15 | \$323,250 x 18% to Pennsylvania Divisions | \$ 58,185 |
| 16 | \$58,185 x 70% Treasure Lake Divisions | \$ 40,730 |
| 17 | \$40,730 x 65% to Treasure Lake Sewer | \$ 26,475 |

18
19 I recommend that the Company's revised claim of \$85,789 be reduced to \$26,475,
20 which is a reduction of \$59,314 (\$85,789 - \$26,475).

1 **MISCELLANEOUS – OTHER, ACCOUNT NO. 775**

2 **Q. WHAT IS THE COMPANY’S EXPENSE CLAIM FOR MISCELLANEOUS**
3 **– OTHER?**

4 **A. The Company’s claim for Miscellaneous - Other is \$13,552.**

5
6 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM IN**
7 **YOUR DIRECT TESTIMONY?**

8 **A. I recommended the Company’s claim be reduced by \$8,428 for an allowance of**
9 **\$5,124, because as stated in my direct testimony, several charges the Company**
10 **provided are not legitimate costs of providing sewer service (OTS Statement No.**
11 **2, p. 8).**

12
13 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN**
14 **REBUTTAL TESTIMONY?**

15 **A. The Company did not address my Miscellaneous – Other adjustment to the**
16 **Treasure Lake Sewer miscellaneous charge being reduced by \$4,515, which is the**
17 **amount the Company provided support for by checks. The Company also did not**
18 **address the \$58 reduction for funeral flowers that should not have been included in**
19 **rates (OTS Statement No. 2, p. 8). This resulted in an acceptable Treasure Lake**
20 **Sewer Miscellaneous charges of \$4,457 (\$4,515 - \$58). Additionally, the**
21 **Company was silent on my elimination of penalties of \$500 and AFS Penalties of**
22 **\$797 (OTS Statement No. 2, p. 9).**

1 The Company only addressed the exclusion of Bank Charges of \$1,838 and AFS
2 Bank Charges of \$3,975 in rebuttal testimony. The Company generalized that
3 bank charges are a normal part of doing business.
4

5 **Q. HAVE YOU REVISED YOUR DIRECT TESTIMONY**
6 **RECOMMENDATION TO MISCELLANEOUS – OTHER?**

7 A. No. As I stated in my direct testimony, bank charges and penalties are the result of
8 inadequate bill paying (OTS Statement No. 2, p. 9). Bank charges are often the
9 result of over drafts and are not a part of providing adequate sewer service to
10 customers. I will accept the Treasure Lake Sewer miscellaneous charges and the
11 AFS miscellaneous charges for an expense allowance of \$5,124 (\$4,457 + \$667).
12 This results in an adjustment of \$8,428 (\$13,552 - \$5,124) to the Company's
13 claim.
14

15 **OFFICE SUPPLIES, ACCOUNT NO. 775.6**

16 **Q. WHAT WAS THE COMPANY'S ORIGINAL EXPENSE CLAIM FOR**
17 **OFFICE SUPPLIES?**

18 A. The Company's claim for office supplies was \$11,664.
19

20 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM IN**
21 **YOUR DIRECT TESTIMONY?**

1 A. I recommended the Company's claim for office supplies be reduced by \$3,494 for
2 an allowance of \$8,170, because the Company only provided partial support for
3 this claim (OTS Statement No. 2, p. 10).

4
5 **Q. DID THE COMPANY REVISE ITS CLAIM FOR OFFICE SUPPLIES IN**
6 **REBUTTAL TESTIMONY?**

7 A. Yes. The Company revised its office supplies claim to \$11,192, a reduction of
8 \$472 from its original claim. The Company claims I recommended the claim be
9 \$8,170 as supported by checks and check aprons the Company provided.

10
11 **Q. DO YOU AGREE WITH THE COMPANY'S REVISED CLAIM?**

12 A. No. In my direct testimony, I clearly state the checks and check aprons only
13 support \$3,628 of the claim, but I would include the \$4,542 for allocation of
14 administration office supplies for a total claim allowance of \$8,170 (\$3,628 +
15 \$4,542) (OTS Statement No. 2, p. 10, line 13). This is a reduction of \$3,494 to
16 the Company's claim (\$11,664 - \$8,170). Additionally, the Company is adding
17 new evidence in its Rebuttal Exhibits that was previously requested by OTS
18 December 7, 2007.

19
20 A timeline below will help identify how OTS tried repeatedly to get the
21 information necessary to determine the appropriate office supply expense:

- 1 1) December 7, 2007: OTS requested a breakdown of office supplies by items
2 and costs to support the claim in OTS-RE-28-D. OTS Exhibit No. 2-SR,
3 Schedule 2 identifies the data request was dated December 7, 2007 (OTS
4 Exhibit No. 2-SR, Schedule 5).
- 5 2) January 4, 2008: OTS received a response that was a combination of sewer
6 and water office supplies, no breakdown of what items were included or the
7 associated costs (OTS Exhibit No. 2, Schedule 7).
- 8 3) January 9, 2008: OTS counsel e-mailed TESI counsel informing them a
9 breakdown of Treasure Lake Sewer office supplies as requested in OTS-RE-
10 28-D was required or the claim in whole or in part would be disallowed. It was
11 clearly stated that expenses shared between the sewer and the water division
12 required a breakdown so figures between the two divisions could be allocated
13 properly. (OTS Exhibit No. 2-SR, Schedule 2).
- 14 4) January 18, 2008: Another e-mail was sent by OTS counsel to TESI counsel
15 requesting the Treasure Lake Water office supplies be broken down by items
16 and costs and to make it clear which items were allocated to each Treasure
17 Lake Division (OTS Exhibit No. 2-SR, Schedule 3).
- 18 5) February 15, 2008: OTS counsel filed a Motion to Compel stating the answer
19 to the office supply data request OTS-RE-28-D was unresponsive and not
20 answered fully and completely and no objection by the opposing counsel was
21 made (OTS Exhibit NO. 2-SR, Schedule 4).

- 1 6) February 18, 2008: OTS received an updated response to OTS-RE-28-D
2 Office Supplies from TESI for discovery. OTS believed this to be a full and
3 complete answer to the request since the Company made no indication that any
4 additional information would be forthcoming.
- 5 7) March 11, 2008: OTS filed Testimony Statement No. 2 and Exhibit No. 2,
6 Schedule 8, breaking down the voluminous, unorganized office supply
7 information the Company had provided to support of its claim.
- 8 8) March 28, 2008: TESI submits its rebuttal testimony and is now attempting to
9 add new evidence in the Rebuttal Exhibit that it neglected to provide the
10 previous three and half months when repeatedly requested to do so. Only after
11 OTS broke down the Office Supply expense for the Company in direct
12 testimony did the Company realize it failed to support its entire claim. The
13 Company was notified numerous times that it was required to provide a
14 breakdown and failed to adequately do so. The untimely response of
15 additional information without time for further discovery and review should
16 not be accepted.

17

18 **Q. HAVE YOU REVISED YOUR RECOMMENDATION TO OFFICE**
19 **SUPPLIES?**

20 **A. Yes. I will adjust my allowance from the revised claim of \$11,192 that the**
21 **Company has now provided on the Statement of Operating Expenses (SDF Exhibit**
22 **No. 3, Attachment 8, p. 2). I am still recommending an allowance of \$8,170**

1 because this is the amount TESI supported during discovery, which results in a
2 reduction of \$3,022 (\$11,192 - \$8,170) to office supplies. The Company was
3 given several opportunities to support its office supply expense claim and failed to
4 provide a complete response.

5
6 **CHEMICALS, ACCOUNT NO. 718**

7 **Q. WHAT WAS THE COMPANY'S EXPENSE CLAIM FOR CHEMICALS?**

8 A. The Company's claim for chemicals was \$18,451.

9
10 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM IN**
11 **YOUR DIRECT TESTIMONY?**

12 A. I recommended the Company's claim be reduced by \$546 for an allowance of
13 \$17,905 because the Company provided checks and check aprons that only
14 provided partial support for the claim (OTS Statement No. 2, p. 11).

15
16 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN**
17 **REBUTTAL TESTIMONY?**

18 A. Yes. The Company admits it only provided checks supporting \$17,905 (TESI-
19 Sewer Statement No. 1R, p.5). However, the Company noted that it provided a
20 general ledger detailing costs of \$18,451.

21
22 **Q. HAVE YOU REVISED YOUR RECOMMENDATION TO CHEMICALS?**

1 A. No. The Company was requested to support the chemical costs incurred and was
2 unable to provide support that it actually paid \$18,451 for chemicals. The general
3 ledger does not prove what was actually paid for the expense; therefore, I am still
4 recommending an adjustment of \$546.

5

6 **POSTAGE AND SHIPPING, ACCOUNT NO. 775.9**

7 **Q. WHAT IS THE COMPANY'S EXPENSE CLAIM FOR POSTAGE AND**
8 **SHIPPING?**

9 A. The Company's claim for postage and shipping is \$16,000.

10

11 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM IN**
12 **YOUR DIRECT TESTIMONY?**

13 A. I recommended the Company's claim be reduced by \$1,925 for an allowance of
14 \$14,705, because the checks and check aprons provided by the Company only
15 provided partial support for the claim (OTS Statement No. 2, p. 13).

16

17 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN**
18 **REBUTTAL TESTIMONY?**

19 A. No. The Company did not address this recommendation in rebuttal testimony.

20

21 **Q. HAVE YOU REVISED YOUR RECOMMENDATION TO POSTAGE AND**
22 **SHIPPING?**

1 A. No. I am still recommending an adjustment of \$1,925.

2

3 **RATE CASE EXPENSE, ACCOUNT NO. 766**

4 **Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE?**

5 A. The Company's claim for Rate Case Expense, also referred to as Regulatory
6 Commission Expense, is \$160,000, which it requested to be normalized over three
7 (3) years for an annual expense allowance of \$53,333.

8

9 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND TO THE RATE CASE**
10 **EXPENSE IN YOUR DIRECT TESTIMONY?**

11 A. I recommended the rate case expense claim be reduced by \$46,955, which resulted
12 in a rate case expense claim of \$6,378 (\$53,333 - \$46,955). I based my
13 recommendation on invoices the Company provided to OCA to support rate case
14 expense pending a response to the outstanding data request to OTS (OTS
15 Statement No. 2, p. 15). I also recommended a five (5) year normalization period
16 because the Company's suggested three (3) year recovery period is not supported
17 by its historic filing frequency.

18

19 **Q. WHAT WAS THE COMPANY'S RESPONSE TO YOUR ADJUSTMENT**
20 **TO RATE CASE EXPENSE?**

1 A. The Company provided updated invoices in rebuttal testimony (SDF Exhibit No.
2 3, Attachment 6). OTS will accept the Company's updates of \$66,110. OTS
3 recognizes that rate case expense continues to increase as a rate case proceeds and
4 is willing to accept invoices as they are incurred. However, the five year
5 normalization period is appropriate because the Company's future intentions of
6 filing a rate case should not be used for the basis of a normalization period in lieu
7 of the Company's historic filing history.

8
9 **Q. WHAT ADJUSTMENT DO YOU RECOMMEND TO THE RATE CASE**
10 **EXPENSE CLAIM?**

11 A. I am still recommending rate case expense be normalized over 5 years. The
12 updated rate case expense by the Company is \$66,110, normalized over 5 years.
13 This results in an annual allowance of \$13,222 ($\$66,110/5$). This results in a
14 reduction of \$40,111 ($\$53,333 - \$13,222$) to the Company's original claim of
15 \$53,333.

16
17 **TRAVEL, ACCOUNT NO. 775.12**

18 **Q. WHAT IS THE COMPANY'S CLAIM FOR TRAVEL EXPENSE?**

19 A. The Company's claim for travel is \$3,789.

20

21 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND FOR THIS CLAIM IN**
22 **YOUR DIRECT TESTIMONY?**

1 A. I recommended the Company's claim be reduced by \$384 because, as stated in my
2 direct testimony, the Company responded to an interrogatory that the amount for
3 the Treasure Lake Sewer Division is \$3,405. This is a reduction of \$384 to the
4 Company's claim (OTS Statement No. 2, p. 17).

5
6 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN**
7 **REBUTTAL TESTIMONY?**

8 A. No. The Company did not address this recommendation in rebuttal testimony.

9
10 **Q. HAVE YOU REVISED YOUR RECOMMENDATION FOR TRAVEL**
11 **EXPENSE?**

12 A. No. I am still recommending a reduction of \$384.

13
14 **UNCOLLECTIBLE ACCOUNTS EXPENSE, ACCOUNT 770**

15 **Q. WHAT IS THE COMPANY'S CLAIM FOR UNCOLLECTIBLE**
16 **ACCOUNTS EXPENSE?**

17 A. The Company's claim for uncollectible accounts expense was \$110,000.

18
19 **Q. WHAT DID YOU RECOMMEND IN YOUR DIRECT TESTIMONY?**

1 A. I recommended the use of the actual write-off amount for 2006 of \$33,723 to
2 estimate the Company's uncollectibles/bad debt expense (OTS Statement No. 2, p.
3 19). The Company does not have a write-off history that can be used to calculate
4 the write-off ratio. Therefore, the write-off amount must be based on what the
5 Company provided for 2006 write-offs in the amount of \$33,723.

6

7 **Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION IN**
8 **REBUTTAL TESTIMONY?**

9 A. Company witness Shambaugh agreed with using the actual write-off amount of
10 \$33,723, and therefore no further adjustment is necessary (TESI – Sewer
11 Statement No. 2R, p. 6).

12

13 **CASH WORKING CAPITAL**

14 **Q. WHAT WAS THE COMPANY'S ORIGINAL CLAIM FOR CWC?**

15 A. The Company's original claim for CWC was \$89,260.

16

17 **Q. WHAT ADJUSTMENT DID YOU RECOMMEND TO THE COMPANY'S**
18 **ORIGINAL CWC CLAIM IN YOUR DIRECT TESTIMONY?**

1 A. I recommended the Company's original claim for CWC be reduced by \$11,218
2 based on the 1/8 method due to the adjustments I had made to the Company's
3 expenses in my direct testimony. This adjustment resulted in a CWC allowance of
4 \$78,042 (OTS Statement No. 2, p. 21).

5
6 **Q. DID THE COMPANY REVISE THE CWC CLAIM IN REBUTTAL**
7 **TESTIMONY?**

8 A. Yes. The Company's revised CWC claim is \$90,533.

9
10 **Q. HAVE YOU REVISED YOUR CWC RECOMMENDATION?**

11 A. Yes. I am revising my recommendation to CWC to include adjustments I have
12 made to the Company's revised expense claims in my surrebuttal testimony. I am
13 still including the adjustments I made in my direct testimony that the Company
14 failed to address in its rebuttal testimony.

15
16 **Q. WHAT IS YOUR RECOMMENDATION?**

17 A. I recommend a CWC allowance of \$76,334. This is a reduction of \$14,199
18 (\$90,533 - \$76,334) to the Company's revised CWC claim.

1 **Q. WHY ARE YOU RECOMMENDING THE CASH WORKING CAPITAL**
2 **CLAIM BE REDUCED BY \$14,199?**

3 A. I am recommending CWC be reduced by \$14,199 for a CWC allowance of
4 \$76,334 because the adjustments recommended in my surrebuttal testimony will
5 reduce the total amount of operating and maintenance expenses. The Company's
6 updated total operating and maintenance expense amount in SDF Exhibit No. 3,
7 Attachment 8, is \$768,046. My adjustments of \$115,168 reduce this amount to
8 \$652,878 (\$768,046 - \$115,168). The formula for CWC using the Company's
9 proposed 45-Day Method is: $45 \times (\$652,878 - \$33,723 \text{ uncollectibles}$
10 $\text{expense}/365) = \$ 76,334$. As a result, I recommend the Company's claim for
11 CWC be reduced by \$14,199 (\$90,533 - \$76,334).

12
13 **Q. DOES YOUR RECOMMENDED CWC ALLOWANCE OF \$76,334**
14 **REPRESENT A FINAL RECOMMENDED ALLOWANCE FOR CWC?**

15 A. No. All adjustments to the Company's claims for revenues, expenses, taxes and
16 rate base must be consistently brought together in the ALJ's Recommended
17 Decision and again in the Commission's Final Order. This process, which is
18 known as "iteration", effectively prevents the determination of a precise
19 calculation until such time as all adjustments have been made to the Company's
20 claim.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes.

OTS Exhibit No. 2-SR
Witness: Debra J. Backer

4-17-08 JFS
NB6

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
TREASURE LAKE SEWER DIVISON**

Docket No. R-00072495

**DOCUMENT
FOLDER**

Exhibit to Accompany

the

Surrebuttal Testimony

of

Debra J. Backer

Office of Trial Staff

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TREASURE LAKE SEWER DIVISION

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Interrogatories of the Office of Consumer Advocate

Set 1

26. Provide a schedule showing the calculation of all allocation factors used to assign the cost to the entities related to Treasure Lake. Include a list of all entities that share costs with Treasure Lake Sewer Division, the factors used to assign cost to each entity and the bases for each of these factors.

Response: The Affiliated Services Expense was allocated among the various states based on the average number of members for the year excluding Availability Customers. Please see the attached schedule of customers by state along with the calculation for the states percentage as it relates to the total of TESI Customers.

After allocation of the Affiliated Service Fee to each state based on avg. number of customers each states portion was prorated to each division within the respective state based on the annual gross revenue for each division within the state. Please see the attached schedule of allocation of AFS cost to each division within Pennsylvania based on the gross revenue generated by each division for the year.

The following states share a proportionate share of the Affiliated Services Cost:

Louisiana
Mississippi
North Carolina
Pennsylvania
South Carolina
Tennessee

Responsible Party: Wayne Owens

| | # Cost WPs | # Cost Wood Ps | Assets WPs | Assets Wood Ps | ASSETS | ADJUSTMENTS | INTEREST ALLOCATION BASE |
|----------------|------------|----------------|------------|----------------|---------------|-----------------|--------------------------|
| Tennessee | 3.50% | 1.00% | 0.00% | 1.00% | 174,468.00 | | 174,468.00 0.91% |
| North Carolina | 3.50% | 3.00% | 3.00% | 3.00% | 438,087.00 | | 438,087.00 2.29% |
| Mississippi | 21.00% | 25.00% | 22.00% | 38.00% | 1,800,983.00 | | 1,800,983.00 96.10% |
| South Carolina | 8.00% | 7.00% | 8.00% | 8.00% | 828,838.00 | | 828,838.00 4.31% |
| Louisiana | 31.00% | 82.00% | 30.00% | 50.00% | 8,782,704.00 | | 8,782,704.00 46.18% |
| Pennsylvania | 18.00% | 0.00% | 41.00% | 0.00% | 14,829,474.00 | (11,267,878.00) | 3,561,596.00 18.97% |
| | 100.00% | 100.00% | 100.00% | 100.00% | 30,842,846.00 | (11,267,878.00) | 19,574,968.00 |

| ADJUSTMENTS | |
|----------------------------|--------------------------------------|
| PA REGULATORY WRITE UP | (4,862,868.00) |
| PENN VEST | (3,115,507.00) |
| ESTIMATED INCOME PROVISION | (3,289,002.00) (800,000 FOR 6 YEARS) |
| | <u>(11,267,878.00)</u> |

| | # Cost WPs | # Cost Wood Ps | Assets WPs | Assets Wood Ps | ASSETS | ADJUSTMENTS | INTEREST ALLOCATION BASE |
|----------------|------------|----------------|------------|----------------|------------|-------------|--------------------------|
| Tennessee | 11.31% | 1.00% | | | 19,341.88 | 1% | |
| North Carolina | 32.94% | 3.00% | | | 25,894.53 | 2% | |
| Mississippi | 459.90% | 38.00% | | | 348,828.84 | 30% | |
| South Carolina | 90.51% | 8.00% | | | 62,185.12 | 8% | |
| Louisiana | 896.72% | 80.00% | | | 810,883.38 | 40% | |
| Pennsylvania | | | | | 182,288.74 | 17% | 41,463.00 |
| | 1,121,471 | 100.00% | | | | | 233,843.74 |

PA REGULATORY WRITE UP
PENN VEST
ESTIMATED INCOME PROVISION

ADJUSTMENTS
(4,862,868.00)
(3,115,507.00)
(3,289,002.00) (800,000 FOR 6 YEARS)
(11,267,878.00)

ALL REALLOCATED

TN 19,341.88 1%
NC 25,894.53 2%
MS 348,828.84 30%
SC 62,185.12 8%
LA 810,883.38 40%
PA 182,288.74 17%
PENNVEST

41,463.00

233,843.74

1,121,471

Salaries & Benefits PA has its own billing dept. in PA in which the amounts are charged directly to operations, therefore LA billing amounts are booked out

| | | | | | | | |
|----------------|-----------------|---------|--|--|--|--|--|
| Interest | \$ 1,131,471.01 | | | | | | |
| Tennessee | \$ 11,315 | 1.00% | | | | | |
| North Carolina | \$ 32,944 | 3.00% | | | | | |
| Mississippi | \$ 459,909 | 38.00% | | | | | |
| South Carolina | \$ 90,516 | 8.00% | | | | | |
| Louisiana | \$ 896,728 | 80.00% | | | | | |
| Pennsylvania | \$ | | | | | | |
| | \$ 1,121,471 | 100.00% | | | | | |

| | Total WFO Billing | Salaries | Benefits | Payroll Taxes | Other | Total |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|----------|----------|---------------|-------|-----------------|
| Salaries & Benefits PA has its own billing dept. in PA in which the amounts are charged directly to operations, therefore LA billing amounts are booked out | \$ 716,888.07 | | | | | \$ 716,888.07 |
| Lease | | | | | | |
| Billing Salaries | \$ (101,238.17) | | | | | \$ (101,238.17) |
| Benefits 20% | \$ (20,251.53) | | | | | \$ (20,251.53) |
| | \$ (121,489.70) | | | | | \$ (121,489.70) |
| | \$ 595,398.37 | | | | | \$ 595,398.37 |

| | 1 | 2 | 3 | 4 | 5 | 6 (7) | 7 (A) | 7 (B) | 7 (C) | 7 (D) | 7 (E) | 7 (F) | 7 (G) | 7 (H) | 7 (I) | 7 (J) | Total | | | | | | |
|-------------------|-----------------|---------------|--------------|--------------|-------------|----------|--------------|-------------|-----------|----------|-------------|------------|-----------|-------------|-----------|--------------|-----------------|--------------|-----------|-------------|-----------|--------------|-----------------|
| Contract Services | \$ 437,168.42 | | | | | | | | | | | | | | | | \$ 437,168.42 | | | | | | |
| Corp - Building | \$ 34,304.82 | | | | | | | | | | | | | | | | \$ 34,304.82 | | | | | | |
| Long Bar. BLS/CA | \$ 228,898.15 | | | | | | | | | | | | | | | | \$ 228,898.15 | | | | | | |
| Gen Office Exp. | \$ 308,291.71 | | | | | | | | | | | | | | | | \$ 308,291.71 | | | | | | |
| | \$ 1,004,663.10 | | | | | | | | | | | | | | | | \$ 1,004,663.10 | | | | | | |
| Tennessee | \$ 228,998.18 | \$ 437,168.42 | \$ 44,891.94 | \$ 25,878.00 | \$ 1,827.11 | \$ 7 (A) | \$ 49,096.31 | \$ 9,378.80 | \$ 337.12 | \$ 7 (E) | \$ 8,974.32 | \$ 4982.87 | \$ 7 (F) | \$ 7,848.96 | \$ 7 (G) | \$ 41,192.80 | \$ 7 (H) | \$ 54,947.73 | \$ 7 (I) | \$ 8,848.25 | \$ 7 (J) | \$ 77,941.86 | \$ 1,004,663.10 |
| Management Fees | 1,134.83 | 2,185.84 | 224.91 | 888.77 | 139.40 | 49.89 | 240.48 | 290.28 | 11.80 | 40.57 | 202.80 | 149.09 | 297.71 | 38.24 | 205.96 | 274.74 | 331.69 | 2,727.87 | 33,169.44 | 48.24 | 289.71 | 8,554.21 | |
| North Carolina | 7,844.82 | 15,308.23 | 1,653.07 | 1,046.86 | 1,046.86 | 1,046.86 | 1,843.28 | 1,781.83 | 70.80 | 1,998.91 | 840.54 | 1,804.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 |
| Mississippi | 47,867.08 | 91,802.37 | 5,468.41 | 3,282.59 | 1,046.86 | 1,046.86 | 1,843.28 | 1,781.83 | 70.80 | 1,998.91 | 840.54 | 1,804.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 | 1,604.29 |
| South Carolina | 13,818.17 | 28,334.11 | 2,838.12 | 1,848.74 | 598.23 | 598.23 | 1,046.86 | 1,046.86 | 20.23 | 494.48 | 340.15 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 | 444.84 |
| Louisiana | 110,782.84 | 222,954.89 | 22,848.98 | 13,098.29 | 4,067.34 | 4,067.34 | 7,473.18 | 7,473.18 | 171.53 | 4,517.80 | 2,041.35 | 3,900.36 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 | 21,008.18 |
| Pennsylvania | 40,987.81 | 78,890.22 | 8,864.25 | 4,822.22 | 1,788.59 | 1,788.59 | 3,287.37 | 1,808.18 | 60.88 | 1,483.38 | 720.48 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 | 1,378.61 |

| | Jan-06 | Feb-06 | Mar-06 | Apr-06 | May-06 | Jun-06 | Jul-06 | Aug-06 | Sep-06 | Oct-06 | Nov-06 | Dec-06 | Average | | | |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------|
| Tn (41) | | | | | | | | | | | | | | 148 | 148 | 0.47% |
| Water | 148 | 148 | 148 | 148 | 148 | 148 | 148 | 148 | 148 | 148 | 148 | 148 | 148 | | | |
| Availability | <u>1135</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | <u>1132</u> | | | |
| | 1283 | 1280 | 1280 | 1280 | 1280 | 1280 | 1280 | 1280 | 1280 | 1280 | 1280 | 1280 | 1280 | | | |
| NC (32) | | | | | | | | | | | | | | 1382 | 1382 | 4.38% |
| Water | 1314 | 1314 | 1336 | 1346 | 1362 | 1378 | 1403 | 1420 | 1420 | 1432 | 1440 | 1420 | 1382 | | | |
| Sewer | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Availability (87,88,89) | <u>3711</u> | <u>3711</u> | <u>3718</u> | <u>3701</u> | <u>3885</u> | <u>3885</u> | <u>3847</u> | <u>3847</u> | <u>3847</u> | <u>3895</u> | <u>3895</u> | <u>3487</u> | <u>3889</u> | | | |
| | 5025 | 5025 | 5051 | 5049 | 5047 | 5063 | 5050 | 5087 | 5087 | 5127 | 5135 | 4907 | 5051 | | | |
| MS (23) | | | | | | | | | | | | | | 6543 | 6543 | 20.65% |
| Water | 3013 | 3050 | 3059 | 3091 | 3089 | 3117 | 3155 | 3114 | 3156 | 3425 | 3178 | 3181 | 3138 | | | |
| Sewer | <u>3324</u> | <u>3344</u> | <u>3348</u> | <u>3398</u> | <u>3384</u> | <u>3413</u> | <u>3430</u> | <u>3391</u> | <u>3425</u> | <u>3423</u> | <u>3487</u> | <u>3500</u> | <u>3408</u> | | | |
| | 6337 | 6394 | 6407 | 6487 | 6483 | 6530 | 6585 | 6505 | 6581 | 6646 | 6643 | 6861 | 6543 | | | |
| BC (38) | | | | | | | | | | | | | | 1773 | 1773 | 5.60% |
| Water | 538 | 538 | 538 | 538 | 548 | 552 | 558 | 583 | 555 | 553 | 558 | 581 | 549 | | | |
| Sewer | 1213 | 1213 | 1215 | 1213 | 1225 | 1228 | 1233 | 1236 | 1227 | 1228 | 1228 | 1232 | 1224 | | | |
| Availability | <u>5484</u> | <u>5484</u> | <u>5484</u> | <u>5484</u> | <u>5580</u> | <u>5580</u> | <u>5580</u> | <u>5580</u> | <u>5580</u> | <u>5580</u> | <u>5574</u> | <u>5572</u> | <u>5525</u> | | | |
| | 7213 | 7213 | 7217 | 7213 | 7323 | 7330 | 7341 | 7349 | 7332 | 7329 | 7356 | 7355 | 7298 | | | |
| LA (17) | | | | | | | | | | | | | | 2884 | 2884 | 50.88% |
| Water | 2851 | 2852 | 2882 | 2884 | 2868 | 2882 | 2858 | 2888 | 2871 | 2874 | 2881 | 2885 | 2884 | | | |
| Sewer | <u>13219</u> | <u>13232</u> | <u>13278</u> | <u>13263</u> | <u>13273</u> | <u>13272</u> | <u>13272</u> | <u>13472</u> | <u>13580</u> | <u>13571</u> | <u>13583</u> | <u>13582</u> | <u>13383</u> | | | |
| | 16870 | 16884 | 15938 | 15917 | 15928 | 15934 | 15930 | 16157 | 16261 | 16245 | 16274 | 16227 | 16047 | | | |
| Subtotal | 35728 | 35796 | 35893 | 35946 | 36071 | 36137 | 36188 | 36388 | 36521 | 36629 | 36708 | 36480 | 36219 | | | |
| PA | | | | | | | | | | | | | | 2891 | 2891 | 57.83 |
| Water | 2857 | 2857 | 2886 | 2873 | 2875 | 2878 | 2898 | 2908 | 2911 | 2918 | 2924 | 2935 | 2891 | | | |
| Sewer | <u>2857</u> | <u>2887</u> | <u>2888</u> | <u>2873</u> | <u>2878</u> | <u>2878</u> | <u>2898</u> | <u>2908</u> | <u>2911</u> | <u>2918</u> | <u>2924</u> | <u>2935</u> | <u>2891</u> | | | |
| Availability | <u>7810</u> | <u>7810</u> | <u>7888</u> | <u>7888</u> | <u>7882</u> | <u>7882</u> | <u>7834</u> | <u>7834</u> | <u>7850</u> | <u>7828</u> | <u>7818</u> | <u>7824</u> | <u>7557</u> | | | |
| | 13324 | 13324 | 13320 | 13312 | 13318 | 13318 | 13326 | 13348 | 13372 | 13358 | 13388 | 13394 | 13340 | | | |
| Total TES | 49082 | 49120 | 49213 | 49258 | 49388 | 49456 | 49512 | 49704 | 49893 | 50187 | 50074 | 49854 | 49559 | 31876 | 31876 | |



| Location of Affiliated Services Cost | Treasure Lake | | Total | Beech Mountain | | Total | | |
|--------------------------------------|---------------|--------------|--------------|----------------|------------|------------|------------|--------------|
| | Water | Wastewater | | Water | Wastewater | | | |
| avg # of Customers | | | 2038 | | | 854 | | 2892 |
| Customer % | | | 70% | | | 30% | | 100% |
| Revenue | \$ 593,323 | \$ 1,109,865 | \$ 1,702,988 | \$ 288,578 | \$ 441,143 | \$ 709,719 | | \$ 2,412,707 |
| Revenue % | 35% | 65% | 100% | 38% | 62% | 100% | | |
| | | 570 | 600 | Treasure Lake | 590 | 800 | Beech Mnt. | Grand Total |
| Salaries & Benefits | \$ 100,051 | \$ 24,584 | \$ 45,942 | \$ 70,506 | \$ 11,181 | \$ 18,364 | \$ 29,545 | \$ 100,051 |
| Management Fees | \$ 40,858 | \$ 10,031 | \$ 18,781 | \$ 28,793 | \$ 4,566 | \$ 7,499 | \$ 12,065 | \$ 40,858 |
| Contract Services | \$ 78,890 | \$ 19,320 | \$ 38,133 | \$ 55,453 | \$ 8,793 | \$ 14,443 | \$ 23,237 | \$ 78,890 |
| Telecommunications | \$ 8,084 | \$ 1,980 | \$ 3,703 | \$ 5,883 | \$ 901 | \$ 1,480 | \$ 2,381 | \$ 8,084 |
| Depreciation | \$ 4,822 | \$ 1,135 | \$ 2,122 | \$ 3,257 | \$ 516 | \$ 848 | \$ 1,385 | \$ 4,822 |
| Leases | \$ 1,789 | \$ 439 | \$ 821 | \$ 1,280 | \$ 200 | \$ 328 | \$ 528 | \$ 1,789 |
| Bank Charges | \$ 8,857 | \$ 2,128 | \$ 3,975 | \$ 6,101 | \$ 987 | \$ 1,589 | \$ 2,556 | \$ 8,857 |
| Material | \$ 1,508 | \$ 370 | \$ 893 | \$ 1,083 | \$ 169 | \$ 277 | \$ 445 | \$ 1,508 |
| Security | \$ 81 | \$ 15 | \$ 28 | \$ 43 | \$ 7 | \$ 11 | \$ 18 | \$ 81 |
| Miscellaneous | \$ 1,453 | \$ 357 | \$ 667 | \$ 1,024 | \$ 162 | \$ 267 | \$ 429 | \$ 1,453 |
| Computer | \$ 720 | \$ 177 | \$ 331 | \$ 508 | \$ 81 | \$ 132 | \$ 213 | \$ 720 |
| Utilities | \$ 1,377 | \$ 338 | \$ 832 | \$ 970 | \$ 154 | \$ 253 | \$ 407 | \$ 1,377 |
| Travel | \$ 7,418 | \$ 1,821 | \$ 3,405 | \$ 5,226 | \$ 829 | \$ 1,361 | \$ 2,190 | \$ 7,418 |
| Office Supplies | \$ 9,891 | \$ 2,428 | \$ 4,542 | \$ 6,970 | \$ 1,105 | \$ 1,815 | \$ 2,821 | \$ 9,891 |
| Analyses | \$ 1,737 | \$ 428 | \$ 797 | \$ 1,224 | \$ 194 | \$ 319 | \$ 513 | \$ 1,737 |
| Postage | \$ 14,030 | \$ 3,445 | \$ 6,442 | \$ 9,887 | \$ 1,588 | \$ 2,575 | \$ 4,143 | \$ 14,030 |
| Unidentified | \$ 4,865 | \$ 1,184 | \$ 2,234 | \$ 3,428 | \$ 544 | \$ 893 | \$ 1,437 | \$ 4,865 |
| | \$ 285,788 | \$ 70,168 | \$ 131,229 | \$ 201,396 | \$ 31,938 | \$ 52,458 | \$ 84,392 | \$ 285,788 |

Backer, Debra

From: Shields, Charles Daniel
Sent: Wednesday, January 09, 2008 3:46 PM
To: Burgraff, Craig; Janet L. Miller (jlmiller@hmslegal.com); Thomas J. Sniscak (tjsniscak@hmslegal.com); Sparks, Shaun A.; Hoover, Christine
Cc: Gruber, Michael; Plonski, Robert; Backer, Debra; Maceo, Antonio; Hubert, Jeremy B
Subject: Responses to Certain OTS Data Requests/Other Items of Note; Pa. PUC v. Treasure Lake Water & Sewer cases; R-00072493 & R-00072495
Importance: High



Office of Trial Staff P.O. Box 3265, Harrisburg, Pennsylvania 17105-3265

Re: Responses to Certain OTS Data Requests/Other items of note

Pa. PUC v. Total Environmental Solutions, Inc. - Treasure Lake Water Division
Docket No. R-00072493

Pa. PUC v. Total Environmental Solutions, Inc. - Treasure Lake Sewer Division
Docket No. R-00072495

To: Craig R. Burgraff, Esquire
Janet L. Miller, Esquire
Thomas J. Sniscak, Esquire
Counsel for Total Environmental Solutions, Inc.

Counsel,

We would ask that additional information/documentation/clarification/breakdowns be provided to augment the previously provided Treasure Lake Sewer responses to the OTS Data Requests reprinted below:

OTS-RE-10-D Reference pg. 1-14, Account No. 711, Sludge Removal. Provide any and all invoices supporting the following claimed expenses:

A. Expense of \$46,800.

B. Sludge removal for calendar years 2003, 2004 and 2005.

Notation: No response to Part B yet provided.

OTS-RE-11-D Reference pg. 1-14, Account No. 715, Purchased Power. Provide invoices and work papers to support the \$161,968 expense claim.

Notation: Submitted invoices and checks total more than Sewer's requested expense claim amount. A specific breakdown of the Sewer share (and the basis for the determination of the share percentage) is necessary to distinguish it from Treasure Lake water share.

OTS-RE-27-D Reference pg. 1-14, Account No. 775, Miscellaneous Other. Provide a breakdown of items included in this expense for \$13,552.

Notation: Submitted credit card statements and checks provide no breakdown of individual expenses relate to Account No. 775. Absent such breakdown and established nexus to this Account No. 775, OTS will recommend disallowance of the claim in whole or in part. Further, to the extent that expenses are shared with the water division, a percentage breakdown is necessary to compare the figures in the water case.

OTS-RE-28-D Reference pg. 1-14, Account No. 775.6, Office Supplies. Provide a breakdown of items and costs included in this expense for \$11,664.

Notation: Submitted credit card statements and checks provide no breakdown of individual expenses relate to Account No. 775.6. Absent such breakdown and established nexus to this Account No. 775.6, OTS will recommend disallowance of the claim in whole or in part. Further, to the extent that expenses are shared with the water division, a percentage breakdown is necessary to compare the figures in the water case.

OTS-RE-29-D Reference pg. 1-14, Account No. 775.9, Postage and Shipping. Provide a breakdown to support this claim of \$16,000.

Notation: Submitted postage Checks total more than Sewer's expense claim amount. A specific breakdown of the Sewer share (and the basis for the determination of the share percentage) is necessary to distinguish it from Treasure Lake water share.

OTS-RE-30-D Reference pg. 1-14, Account No. 775.10, Dues and Subscriptions. Provide a breakdown to support the claim of \$2,258.

Notation: Submitted checks and invoices provide no specificity as to which organizations are involved or the individual

dues and subscriptions.

OTS-RE-32-D Reference pg. 1-15, Going-Level Adjustments. Provide the following:

- A. Capitalized salaries and wages for years 2002, 2003, 2004, 2005 and 2006;
- B. Invoices to support the Rate Case expense claim and continue to provide updates of invoices as they are incurred;
- C. A description of the projected rate case expense at each significant point of the present litigation, including resolution by mediation, settlement before hearings and settlement after hearings but before briefing;
- D. A description of the determination of the Bad Debt Expense amount including the calculation of the write-off ratio if so developed;
- E. Amounts of actual bad debt write-offs during years 2004, 2005 and 2006.

Notation: No response to Parts C & D yet provided.

Also, some items of note:

-- we have been copied with letter of January 4th to Mediator Nurick declining the use of the OALJ mediation services for these proceeding;

-- we have received an OALJ notice that the joint prehearing conference will be held on Friday, January 25th beginning at 10:00 a.m. with ALJ Dunderdale presiding by telephone from Pittsburgh;

-- we have confirmed that we have the rate base materials provided to FUS by your clients;

-- we note that the correct caption for R-00072495 uses the word "Sewer" rather than "Wastewater."

Cholly Shields

Charles Daniel Shields, Senior Prosecutor
Office of Trial Staff
Pennsylvania Public Utility Commission

chshields@state.pa.us
Phone: (717) 783-6151
Fax (717) 772-2677

Office of Trial Staff - Representing the public interest since 1986

Backer, Debra

From: Shields, Charles Daniel
Sent: Friday, January 18, 2008 4:45 PM
To: 'Burgraff, Craig'; 'Janet L. Miller (jlmiller@hmslegal.com)'; 'Thomas J. Sniscak (tjsniscak@hmslegal.com)'; 'Sparks, Shaun A.'; 'Hoover, Christine'
Cc: Gruber, Michael; Plonski, Robert; Backer, Debra; Maceo, Antonio; Hubert, Jeremy B
Subject: Responses to Certain OTS Data Requests; Pa. PUC v. Treasure Lake Water & Sewer cases; R-00072493 & R-00072495
Importance: High



Office of Trial Staff P.O. Box 3265, Harrisburg, Pennsylvania 17105-3265

Re: Responses to Certain OTS Data Requests

Pa. PUC v. Total Environmental Solutions, Inc. - Treasure Lake Water Division
Docket No. R-00072493

Pa. PUC v. Total Environmental Solutions, Inc. - Treasure Lake Sewer Division
Docket No. R-00072495

To: Craig R. Burgraff, Esquire
Janet L. Miller, Esquire
Thomas J. Sniscak, Esquire
Counsel for Total Environmental Solutions, Inc.

Counsel,

We would ask that additional information/documentation/clarification/breakdowns be provided to augment the previously provided Treasure Lake Water Division responses to the OTS Data Requests for the reasons listed below:

OTS-RE-4-D The data request seeks Wages, Job Titles, frequency of pay date (weekly, biweekly), standard number of hours worked, and overtime worked for 2004-2006. The provided spreadsheet had no titles for the columns, so the listings cannot be identified. At the very least, the spreadsheets should be provided with the columns identified. For what appears to be salary amounts and job titles, there is no

3/30/2008

identification of the number of hours worked per week or any overtime worked, or any proposed wage increases.

OTS-RE-8-D Chemicals, Account No. 618. The data request seeks a breakdown of chemicals and their associated costs for 2003-2006. The invoices provided were the same invoices that were provided regarding the sewer division. The provided one page for each year 2003-2005 lists chemical companies and amounts but not the chemicals or the amounts used. For 2006, the provided copies of checks and invoices fail to differentiate between the water and sewer divisions. As such, the expense claim for chemicals in the water division of \$26,638 currently has no supportable documentation.

OTS-RE-9-D Contract Services - Engineering. The response says SEWER division and the SEWER R-00072495, although the RE-9 does match the Questions sent out for the water division (it was 14-D on the OTS data requests to the sewer division). The same responses were provided for both the water and sewer divisions. The provided checks total \$7,227.44. The sewer division claim was \$7,227 and the water expense claim is \$787. Since their response doesn't differentiate between the two divisions. Since the checks provided total the sewer division claim, presumably there is check(s) still not provided for the water division claim.

OTS-RE-11-D Salaries & Benefits. The provided spreadsheet lacks titles/explanations to the columns that would allow for proper analysis. The requested calculations to support the \$24,564 claim resulted in the water division providing 14 pages of numbers but no calculation of the claim amount. The data request seeks names of employees, salaries, and services rendered. The provided documents identified the employees by name but doesn't identify the corresponding numbers and no listing of the services rendered was provided.

OTS-RE-12-D Management Fees. The provided documents don't identify what the column P/C stand for and what's the difference between the 99 and 5 listed under that column. The data request seeks a calculation for the \$10,031 and the response provided was over 20 pages of numbers and a reference to a response to an OCA interrogatory. The response to this OTS data request should include an identification of a total management fee amount and the specific allocation of that amount among the divisions.

OTS-RE-15-D Depreciation (AFS), Account No. 634. The requested list of the items being depreciated was not provided. A proper response would identify what is being depreciated and the allocation among the relevant TES divisions.

OTS-RE-19-D Transportation Expense, Account No. 650.1 While the Water Division contends that these are direct charges, the documents provided are copies of several checks and invoices that are duplicates to the checks and invoices to prove the expense claim for the Sewer Division. The charges should be provided separated by the which divisions are involved.

OTS-RE-24-D Office Supplies, Account No. 675.6. The data request seeks a breakdown of items and costs included in this expense of \$8,144. The provided documents with credit card charge amounts and checks were duplicates of what was provided to prove the Sewer Divisions claim. The response provided should include a breakdown of the types of items in this expense account since these checks are from TES in Louisiana and it is unclear whether they relate to all the states TES services, Pennsylvania or just Treasure Lake divisions.

OTS-RE-25-D Postage and Shipping, Account no. 675.9. A breakdown to support the claim of \$12,817 was requested. The same invoices and checks were provided for each division and since these checks are from TES in Louisiana, a breakdown is necessary to see how these amounts are allocated. It is unclear whether they relate to all the states TES services, Pennsylvania or just Treasure Lake divisions.

OTS-RE-26-D Dues and Subscriptions, Account No. 675.1. A breakdown to support the claim of \$2,485 was requested. Since these checks are from TES in Louisiana, a breakdown is necessary to see how these amounts are allocated. It is unclear whether they relate to all the states TES services, Pennsylvania or just Treasure Lake divisions.

OTS-RE-13-D Contract Services (AFS). The data request seeks to determine what services were provided. The provided response identified what was paid but fails to identify the related service(s).

Cholly Shields

**Charles Daniel Shields, Senior Prosecutor
Office of Trial Staff
Pennsylvania Public Utility Commission**

**chshields@state.pa.us
Phone: (717) 783-6151
Fax (717) 772-2677**

Office of Trial Staff - Representing the public interest since 1986



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

February 15, 2008

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Pennsylvania Public Utility Commission v.
Total Environmental Solutions, Inc.
Treasure Lake Sewer Division

Docket No. R-00072495

Dear Mr. McNulty:

Enclosed for filing please find the original and three (3) copies of the Office of Trial Staff's (OTS) **Motion to Compel** in the above-captioned proceeding.

As evidenced by the enclosed Certificate of Service, copies are being served on all active parties of record.

Sincerely,

A handwritten signature in black ink that reads "Allison C. Kaster".

Allison C. Kaster
Prosecutor
Office of Trial Staff
PA Attorney I.D. #93176

Enclosure
ACK/caa
cc: Parties of Record

interrogatories for other cases. Time periods may be modified by the presiding officer, on motion or by agreement of the participants.”

3. Answers to data requests are due within the same fifteen (15) day time frame pursuant to 52 Pa. Code § 5.331(c), which states: “Commission staff discovery prior to formal Commission action to initiate a proceeding shall be designated as “staff data requests” and shall be answered fully and completely by the utility within the time periods specified in § 5.342(d) (relating to answers or objections to written interrogatories by a participant).”

4. The Office of Trial Staff submitted the following data requests on December 7, 2007. Per the regulations stated above, answers to the data requests were due December 24, 2007. To date, the City has neither filed an objection or answered these data requests.

- (a) OTS-RE-1-D
- (b) OTS-RE-3-D
- (c) OTS-RE-9-D
- (d) OTS-RE-16-D
- (e) OTS-RE-31-D

5. The Office of Trial Staff submitted the following interrogatories on January 15, 2008. Per the regulations stated above, answers to the data requests were due January 30, 2008. To date, the City has neither filed an objection or answered these data requests.

-
- (a) OTS-RB-1
 - (b) OTS-RB-2
 - (c) OTS-RB-3
 - (d) OTS-RB-5
 - (e) OTS-RB-6
 - (f) OTS-RB-7
 - (g) OTS-RB-8
 - (h) OTS-RB-10
 - (i) OTS-RS-2

6. The Office of Trial Staff submitted the following data requests on January 18, 2008. Per the regulations stated above, answers to the data requests were due February 4, 2008. To date, the City has neither filed an objection or answered these data requests.

- (a) OTS-RB-12

7. Additionally, OTS maintains that TESI answers to six interrogatories are unresponsive. Commission Regulations require that answers to interrogatories must be answered fully and completely unless an objection is made. 52 Pa. Code § 5.342(a)(4). Moreover, Commission Regulations hold that a “party or expert witness is under a continuing duty to amend a prior response upon discovering that the response is incorrect or incomplete.” 52 Pa. Code § 5.332.

8. The Company has failed to fully and completely respond to the OTS interrogatories listed below or object to any of the interrogatories listed. OTS Senior

Prosecutor Shields notified the Company that the responses were incorrect or incomplete via electronic mail on January 9, 2008. Thereafter, OTS Prosecutor Kaster contacted counsel for the Company to set up a discovery conference in order to resolve these discovery issues, however, the Company has not responded to that request. Given that these efforts have failed to result in the Company providing full and complete responses to OTS interrogatories, OTS maintains that the Company must be compelled to answer the following unresponsive interrogatories:

(a) OTS-RE-10-D Reference pg. 1-14, Account No. 711, Sludge Removal. OTS requested that the Company provide any and all invoices supporting the following claimed expenses:

- A. Expense of \$46,800.
- B. Sludge removal for calendar years 2003, 2004 and 2005.

The answer to part B above has not yet been provided.

(b) OTS-RE-11-D: Reference pg. 1-14, Account No. 715, Purchased Power. OTS requested invoices and work papers to support the \$161,968 expense claim. The Company submitted invoices and checks that total more than Sewer's claimed expense amount. A specific breakdown of the Sewer share (and the basis for the determination of the share percentage) is necessary to distinguish it from Treasure Lake Water share.

(c) OTS-RE-27-D: Reference pg. 1-14, Account No. 775, Miscellaneous Other. OTS requested a breakdown of items included in this expense for \$13,552. TESI submitted credit card statements and checks that provide no breakdown of individual expenses relate to Account No. 775. Further, to the extent that expenses are shared with the water division, a percentage breakdown is necessary to compare the figures in the water case.

(d) OTS-RE-28-D: Reference pg. 1-14, Account No. 775.6, Office Supplies. OTS requested a breakdown of items and costs included in this expense for \$11,664. The Company submitted credit card statements and checks that provide no breakdown of individual expenses relate to Account No. 775.6. Further, to the extent that expenses are shared with the water division, a percentage breakdown is necessary to compare the figures in the water case.

(e) OTS-RE-29-D: Reference pg. 1-14, Account No. 775.9, Postage and Shipping. OTS requested the Company to provide a breakdown to support this claim of \$16,000. The Company's response submitted postage checks that total more than Company's claimed expense amount. A specific breakdown of the Sewer share (and the basis for the determination of the share percentage) is necessary to distinguish it from Treasure Lake Water share.

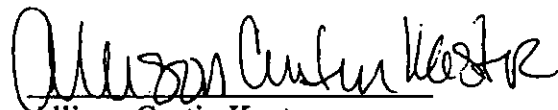
(f) OTS-RE-30-D: Reference pg. 1-14, Account No. 775.10, Dues and Subscriptions. OTS requested the Company to provide a breakdown to support the claim of \$2,258. The Company's response submitted checks and invoices with no specificity as to which organizations are involved or the individual dues and subscriptions.

9. OTS maintains that the TESI's failure to provide responses to fifteen interrogatories and its failure to answer an additional six interrogatories in a complete and responsive manner hampers the ability of OTS to analyze the Company's rate case filing.

10. Because OTS Direct Testimony is due on March 11, 2008, OTS maintains that TESI must be ordered to immediately answer the interrogatories referenced above. Accordingly, OTS requests that TESI's response to this motion be made within three business days of the filing of this motion. Otherwise, OTS submits that the procedural schedule should be adjusted to allow OTS additional time due to the Company's failure to provide timely and responsive answers to OTS discovery.

The Office of Trial Staff respectfully requests that Administrative Law Judge Dunderdale grant this Motion and issue an Order compelling TESI to immediately answer the above-referenced data requests and interrogatories. If the Company fails to abide by the Order, the Office of Trial Staff requests that the City be subject to any and all available sanctions permitted under the Pennsylvania Public Utility regulations.

Respectfully submitted,



Allison Curtin Kaster
Prosecutor
PA Attorney I.D. #93176

Office of Trial Staff
Pennsylvania Public Utility Commission
P. O. Box 3265
Harrisburg, Pennsylvania 17105-3265

Dated: February 15, 2008

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-00072495
 :
 Total Environmental Solutions, Inc. :
 Treasure Lake Sewer Division :

CERTIFICATE OF SERVICE

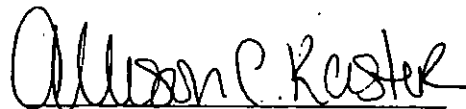
I hereby certify that I am serving the foregoing **Motion to Compel**, dated February 15, 2008, either personally, by first class mail, electronic mail, express mail and/or by fax upon the persons listed below, in accordance with the requirements of § 1.54 (relating to service by a party):

Thomas J. Sniscak, Esquire
Craig R. Burgraff, Esquire
Janet L. Miller, Esquire
Hawke, McKeon & Sniscak, LLP
100 North Tenth Street
Harrisburg, PA 17101

Shaun A. Sparks, Esquire
Christine Maloni Hoover, Esquire
Office of Consumer Advocate
Forum Place, 5th Floor
555 Walnut Street
Harrisburg, PA 17101-1923

Treasure Lake Property Owners Association
13 Treasure Lake
DuBois, PA 15801

William R. Lloyd, Jr., Esquire
Office of Small Business Advocate
1102 Commerce Building
300 North Second Street
Harrisburg, PA 17101



Allison C. Kaster
Prosecutor
Office of Trial Staff
PA Attorney I.D. #93176

Dated: February 15, 2008
Docket No. R-00072495

OFFICE OF TRIAL STAFF DATA REQUESTS

**TOTAL ENVIRONMENTAL SOLUTIONS
TREASURE LAKE SEWER DIVISION**

Docket No. R-00072495

Analyst: Debra J. Backer

- OTS-RE-1-D** Provide a copy of all affiliated interest agreements.
- OTS-RE-2-D** Reference pg. 1-2. Reconcile the overall increase adjustment of (\$163,354) in operating revenue on pg. 1-13 to the operating revenue adjustment of (\$146,733).
- OTS-RE-3-D** Reference pg. 1-2. Provide the calculation for the Operating Revenue at present rates of \$971,777.
- OTS-RE-4-D** Reference pg. 1-2. Reconcile Operating Revenue at present rates for December 31, 2007, of \$971,777 to pg. 1-20 Operating Revenue at present rates for December 31, 2007, of \$1,135,131.
- OTS-RE-5-D** Provide the number of union and non-union employees and a copy of the union contract.
- OTS-RE-6-D** Provide the following information for all employees:
- A. Job Title;
 - B. Hourly wage or salary for 2004, 2005, and 2006 and proposed wage after increase;
 - C. Frequency of pay date, for example: weekly, biweekly;
 - D. For hourly employees, provide the standard number of hours per week or pay period;
 - E. Amount of overtime worked for years 2004, 2005 and 2006.

- OTS-RE-7-D** Provide the total amount of overtime for each year, 2002 through 2006.
- OTS-RE-8-D** Reference pg. 1-14.
- A. State whether the Salaries & Wages amount is gross or net of withholdings.
- B. If the Salaries & Wages amount is gross, provide a breakdown of net payroll, state and federal withholdings.
- OTS-RE-9-D** Reference pg. 1-14, Account No. 704. Provide the supporting work papers and calculations for the Employee P&B of \$15,295.
- OTS-RE-10-D** Reference pg. 1-14, Account No. 711, Sludge Removal. Provide any and all invoices supporting the following claimed expenses:
- A. Expense of \$46,800.
- B. Sludge removal for calendar years 2003, 2004 and 2005.
- OTS-RE-11-D** Reference pg. 1-14, Account No. 715, Purchased Power. Provide invoices and work papers to support the \$161,968 expense claim.
- OTS-RE-12-D** Reference pg. 1-14, Account No. 718. Provide a breakdown of Chemicals and their associated costs for years 2003, 2004, 2005 and 2006.
- OTS-RE-13-D** Reference pg. 1-14, Account No. 720.8, Materials and Supplies. Provide items included in this expense and invoices to support the expense claim of \$16,835.
- OTS-RE-14-D** Reference pg. 1-14, Account No. 731, Contract Services- Engineering. Provide an explanation and invoices to support the expense amount of \$7,227, and if this is an expense allocated among divisions, provide a breakdown of the allocation to each division.

- OTS-RE-15-D** Reference pg. 1-14, Account No. 733, Contract Services- Legal. Provide an explanation and invoices to support the expense amount of \$1,495, and if this is an expense allocated among divisions, provide a breakdown of the allocation to each division.
- OTS-RE-16-D** Reference pg. 1-14, Account No. 734, Salaries & Benefits (AFS). Provide an explanation and calculations to support the \$45,942, including: employees, salaries, services involved and explain how the amount allocated to each division was determined.
- OTS-RE-17-D** Reference pg. 1-14, Account No. 734, SLECA Management Fees (AFS). Provide an explanation and calculations to support the \$18,761, including: employees, salaries, services involved and explain how the allocated amount to each division was determined.
- OTS-RE-18-D** Reference pg. 1-14, Account No. 734, Contract Services (AFS). Provide an explanation and invoices to support the \$36,133, including services provided and how the allocated amount to each division was determined.
- OTS-RE-19-D** Reference pg. 1-14, Account No. 734, Telecommunications (AFS). Provide invoices to support the \$3,703 and if this is an allocated amount among divisions, include how the allocated amount was determined.
- OTS-RE-20-D** Reference pg. 1-14, Account No. 734, Depreciation (AFS). Provide a breakdown of items depreciated for \$2,122, and if this is an allocated amount among divisions, include how the allocated amount was determined.
- OTS-RE-21-D** Reference pg. 1-14, Account No. 735, Contract Services – Testing. Provide an explanation and invoices to support the \$14,842, including services provided, and if this is an allocated amount among divisions, include how the allocated amount was determined.
- OTS-RE-22-D** Reference pg. 1-14, Account No. 736, Contract Services – Other. Provide an explanation and invoices to support the \$10,003, including services provided, and if this is an allocated amount among divisions, include how the allocated amount was determined.

- OTS-RE-23-D** Reference pg. 1-14, Account No. 741, Rental of Building. Provide an explanation and invoices to support the \$7,339, including: rental agreements, and if this amount is allocated among divisions, include how the allocated amount was determined.
- OTS-RE-24-D** Reference pg. 1-14, Account No. 750.1, Transportation Expense. Provide an explanation of this \$20,185 expense, and if this is an allocated amount among divisions, include how it was determined.
- OTS-RE-25-D** Reference pg. 1-14, Account No. 757, Insurance – General Liability. Provide invoices to support the \$83,956, and if this is an allocated amount among divisions, include how it was determined.
- OTS-RE-26D** Reference pg. 1-14, Account No. 758, Insurance – Workman’s Comp. Provide work papers to support the \$4,969, and if this is an allocated amount among divisions, include how it was determined.
- OTS-RE-27-D** Reference pg. 1-14, Account No. 775, Miscellaneous/Other. Provide a breakdown of items included in this expense for \$13,552.
- OTS-RE-28-D** Reference pg. 1-14, Account No. 775.6, Office Supplies. Provide a breakdown of items and costs included in this expense for \$11,664.
- OTS-RE-29-D** Reference pg. 1-14, Account No. 775.9, Postage and Shipping. Provide a breakdown to support this claim of \$16,000.
- OTS-RE-30-D** Reference pg. 1-14, Account No. 775.10, Dues and Subscriptions. Provide a breakdown to support the claim of \$2,258.
- OTS-RE-31-D** Reference pg. 1-14, Account No. 775.12, Travel. Provide a breakdown and explanation to support the claim of \$3,789.

- OTS-RE-32-D** Reference pg. 1-15, Going-Level Adjustments. Provide the following:
- A. Capitalized salaries and wages for years 2002, 2003, 2004, 2005 and 2006;
 - B. Invoices to support the Rate Case expense claim and continue to provide updates of invoices as they are incurred;
 - C. A description of the projected rate case expense at each significant point of the present litigation, including resolution by mediation, settlement before hearings and settlement after hearings but before briefing;
 - D. A description of the determination of the Bad Debt Expense amount including the calculation of the write-off ratio if so developed;
 - E. Amounts of actual bad debt write-offs during years 2004, 2005 and 2006.
- OTS-RE-33-D** Provide a copy of the F.I.C.A., F.U.T.A, and Pennsylvania Unemployment Tax returns for 2004, 2005, and 2006.
- OTS-RE-34-D** Reference pg. 2-16. Provide an explanation and supporting calculations for:
- A. Customer Penalties of \$26,526.84;
 - B. Misc. Operating Revenues of \$943.

OTS Statement No. 3
Witness: Antonio Maceo

4-17-08 TES
HBL

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
TREASURE LAKE SEWER DIVISION**

Docket No. R-00072495

**DOCUMENT
FOLDER**

Direct Testimony

of

Antonio Maceo

Office of Trial Staff

RECEIVED
APR 22
SECRETARY'S BUREAU

2008 APR 22 PM 2:44

Concerning:

**Materials and Supplies
Rate Design
Customer Penalties
Water Allowance Minimum Charge**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Antonio Maceo. My business address is P.O. Box 3265, Harrisburg,
3 PA 17105-3265.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Pennsylvania Public Utility Commission in the Office of
7 Trial Staff (OTS) as a Fixed Utility Valuation Engineer.

8

9 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL
10 BACKGROUND?**

11 A. My educational and professional background is set forth in Appendix A, which is
12 attached.

13

14 **Q. PLEASE DESCRIBE THE ROLE OF OTS IN RATE PROCEEDINGS.**

15 A. OTS was established by the legislature and is responsible for protecting the public
16 interest in rate proceedings. The OTS analysis in this proceeding is based on its
17 responsibility to represent the public interest. This responsibility requires the
18 balancing of the interests of ratepayers and the company.

19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. The purpose of my testimony is to present the Office of Trial Staff's ("OTS")
22 positions on materials and supplies, rate design and customer penalties revenue

1 related to Total Environmental Solutions, Inc. – Treasure Lake Sewer Division’s
2 (“TESI” or “Company”) requested \$286,615 base revenue increase.

3
4 **Q. WHAT ISSUES WILL YOU ADDRESS IN YOUR DIRECT TESTIMONY?**

5 A. My direct testimony addresses the following issues:

6 A. Material and Supplies:

7 B. Rate Design:

- 8 • Tariff changes;
- 9 • Customer Penalties;
- 10 • Water Allowance in Minimum Charge.

11

12 **MATERIALS AND SUPPLIES**

13 **Q. PLEASE DEFINE MATERIALS AND SUPPLIES.**

14 A. Materials and supplies are the day-to-day items used by a utility in the provision of
15 service. Material and supply items may include chemicals, office supplies,
16 fittings, clamps, as well as other items.

17

18 **Q. WHAT IS ONE WAY A UTILITY CAN ACCOUNT FOR MATERIALS
19 AND SUPPLIES?**

20 A. One way to account for materials and supplies is to maintain a detailed inventory
21 record of the materials and supplies on-hand and record the use of materials and

1 supplies as an expense when used. In this method, the inventory is listed as an
2 asset on the utility's balance sheet and can be included in a utility's measure of
3 value.

4
5 **Q. WHAT IS ANOTHER WAY A UTILITY CAN ACCOUNT FOR**
6 **MATERIALS AND SUPPLIES?**

7 A. Another way to account for materials and supplies is to record each purchase of
8 materials and supplies as an expense when the purchase is made. Thus, no
9 materials and supplies inventory record is maintained and materials and supplies
10 are not listed as assets on the utility's balance sheet. Since materials and supplies
11 are expensed when purchased, the Company's claim for materials and supplies
12 should not be included in the utility's measure of value. In this case, a utility
13 should not be able to earn a return on an expense.

14
15 **Q. WHAT AMOUNT OF MATERIALS AND SUPPLIES HAS THE**
16 **COMPANY CLAIMED ON ITS MEASURE OF VALUE?**

17 A. The Company is claiming \$42,268 for materials and supplies as part of the total
18 \$3,073,250 depreciated utility measure of value claim (SDF Ex. No. 1, p. 1-16).

19
20 **Q. IS THE \$42,268 OF MATERIALS AND SUPPLIES ACTUALLY THE**
21 **AMOUNT ON HAND AS OF DECEMBER 31, 2007?**

1 A. No. The Company's claim of \$42,268 is simply 1 percent of the depreciated plant
2 in service amount of \$4,226,798 ($\$4,226,798 \times .01$) (SDF Ex. No. 1, p. 1-4).

3

4 **Q. WHAT DO YOU RECOMMEND CONCERNING THE COMPANY'S**
5 **\$42,268 CLAIM FOR MATERIALS AND SUPPLIES IN THE MEASURE**
6 **OF VALUE?**

7 A. I recommend that the \$42,268 claim be denied.

8

9 **Q. WHY DO YOU RECOMMEND THAT THE \$42,268 CLAIM FOR**
10 **MATERIALS AND SUPPLIES BE DENIED?**

11 A. The \$42,268 is not based on an inventory of materials and supplies, but is simply
12 an estimate of a materials and supplies inventory (SDF Ex. No. 1, p. 1-4). The
13 Company utilizes the second method described above and expenses the cost of
14 materials and supplies when purchased. The Company does not inventory
15 materials and supplies; therefore, materials and supplies can not be included in
16 rate base.

17

18 **RATE DESIGN**

19 **Q. WILL YOU BRIEFLY DESCRIBE THE TARIFF CHANGES THE**
20 **COMPANY IS PROPOSING IN THIS FILING?**

21 A. Yes. The Company proposes an approximate 37.1% increase in present rates for
22 residential and commercial customers. The Company is not proposing any

1 increase to the availability charge, customer penalties, or other revenue (SDF Ex.
2 No. 1, p. 1-9).

3

4 **Q. WHAT REVENUE INCREASE IS THE COMPANY REQUESTING?**

5 A. The Company is requesting a revenue increase of \$286,615. This proposed
6 increase would be acquired through the following sources (SDF Ex. No. 1, p. 1-9):

7
8

| | |
|-----------------------------------|------------------|
| 9 Residential Customer Revenue | \$250,613 |
| 10 Commercial Customer Revenue | 36,002 |
| 11 Availability Customer Revenue | 0 |
| 12 Customer Penalties | 0 |
| 13 Misc. Operating Revenue | <u>0</u> |
| 14 | |
| 15 Total Increase Proposed | \$286,615 |

16

17 **Q. WHAT IS THE COMPANY'S PROPOSED TOTAL OPERATING**
18 **REVENUES?**

19 A. The Company's proposed total operating revenues is \$1,258,392, excluding
20 PennVest Surcharge revenues (SDF Ex. No. 1, p. 1-9).

21

22 **Q. WHAT IS YOUR RECOMMENDATION CONCERNING THE REVENUE**
23 **INCREASE ALLOCATION?**

24 A. I recommend that all current rates for the minimum charge, usage, flat rates and
25 availability charges be increased proportionally.

26

1 Q. HOW WOULD THIS AFFECT THE RATES AS REQUESTED BY THE
2 COMPANY?

3 A. The Company has requested an approximate 37.1 percent increase for the
4 residential and commercial customers and no increase for its availability
5 customers. My recommended rate design will keep the same relationship between
6 the minimum charge, usage charge, flat rates and the availability charge as exists
7 under current rates without affecting the Company's proposed total revenue
8 increase.

9

10 Q. WHAT RATES DO YOU RECOMMEND?

11 A. I recommend a minimum charge for the following meter sizes based on the
12 Company's proposed revenue increase as follows (OTS Ex. No. 3, Sch. 4):

| 13 | <u>Meter Size</u> | <u>Monthly Rate</u> |
|----|-------------------|---------------------|
| 14 | ¾" | \$ 23.32 |
| 15 | 1" | \$ 44.03 |
| 16 | 2" | \$ 73.00 |
| 17 | 3" | \$151.89 |
| 18 | 4" | \$303.77 |
| 19 | 6" | \$607.55 |

20 I recommend a rate of \$6.70 per thousand gallons for the usage charge and a rate
21 of \$5.44 per month for the availability charge. My recommended rates result in an
22 approximate 29.6 percent increase on an across-the-board basis to all of the
23 Company's customers (OTS Ex. No. 3, Sch. 3).

1 Q. PLEASE SHOW HOW YOUR RECOMMENDED RATE STRUCTURE
2 WILL BE RECOVERED FROM THE COMPANY'S CUSTOMERS?

3 A. As stated previously the Company's proposed increase of \$286,615 will not be
4 affected by the recommended rate structure. The Company's proposed increase
5 will be acquired from sources in the following manner (OTS Ex. No. 3, Sch. 3):

| | | <u>OTS</u> | |
|----|--------------------------------|----------------|----------------|
| | | <u>Revenue</u> | <u>Percent</u> |
| 8 | Residential Customer Revenue | \$199,295 | 29.57 % |
| 9 | Commercial Customer Revenue | 28,689 | 29.57 % |
| 10 | Availability Customer Revenue | 51,332 | 29.60 % |
| 11 | Customer Penalties | 7,354 | 27.72 % |
| 12 | Other Revenues | <u>0</u> | 0.00% |
| 13 | | | |
| 14 | Total Increase Proposed | \$286,670 | 29.50% |

15

16 Q. WHAT IS AN AVAILABILITY CHARGE?

17 A. An availability charge is a flat rate that is used to spread the cost of putting in the
18 utility system over the lots it was intended to serve, regardless of whether service
19 is being rendered. The availability charge is always less than the rates charged to
20 customers receiving full service, but it should be high enough to cover a
21 reasonable portion of the utility's cost of constructing plant facilities necessary to
22 serve its customers.

23

24 Q. WHAT IS THE RATIONALE BEHIND THE IMPLEMENTATION OF AN
25 AVAILABILITY CHARGE?

1 A. The rationale for the availability charge includes the following: (1) utility systems
2 are designed and constructed to serve all developed and undeveloped lots within a
3 given area; (2) the nature of a system's construction cannot readily be increased or
4 decreased for customer fluctuation; (3) the cost incurred by the utility represents
5 the potential service to all potential customers; (4) the availability of utility service
6 enhances the value of a property; (5) the availability of utility service is an integral
7 part of any future development of the property
8

9 **Q. DOES THE COMPANY CURRENTLY CHARGE AN AVAILABILITY**
10 **CHARGE?**

11 A. Yes. The Company currently charges a flat \$4.20 availability charge per lot per
12 month.
13

14 **Q. HOW MUCH REVENUE FROM THE AVAILABILITY CHARGES DID**
15 **THE COMPANY RECEIVE IN THE HISTORIC TEST YEAR ENDING**
16 **DECEMBER 31, 2006, UNDER PRESENT RATES?**

17 A. The Company received \$173,401 in availability revenue for the test year ending
18 December 31, 2006 (OTS Ex. No. 3, Sch. 3).
19

20 **Q. HAS THE COMPANY PROPOSED AN INCREASE TO ITS CURRENT**
21 **AVAILABILITY CHARGE?**

22 A. No. The Company has proposed no increase to its current availability charge.

1 **Q. WHAT DO YOU RECOMMEND REGARDING THE AVAILABILITY**
2 **CHARGE?**

3 A. I recommend that the availability charge be increased to \$5.44 per lot, which
4 increases revenue from the availability customers to \$224,733 or by 29.6% (OTS
5 Ex. No. 3, Sch. 3).
6

7 **Q. HOW DID YOU DETERMINE THE \$224,733 AMOUNT?**

8 A. The \$224,733 is a result of increasing the present availability charge revenues of
9 \$173,401 by the proposed percent increase to total operating revenues less
10 PennVest Surcharge revenues.
11

12 **Q. WHY DO YOU RECOMMEND THAT THE PERCENTAGE INCREASE**
13 **BE THE SAME FOR ALL RATES?**

14 A. The Company has indicated that there is no cost of service study available for the
15 Company (OTS Ex. No. 3, Sch. 1). There is no support, on a cost basis in the
16 filing, for not increasing all rates on a proportional basis. Increasing rates for all
17 customers equally maintains the relationship among the various rate classes as it
18 currently exists. Additionally, the Company states that it has no knowledge of the
19 criteria utilized to determine the initial availability charges (OTS Ex. No. 3, Sch.
20 2). This further supports the fact that there should be an equal increase to the
21 availability charge. My proposal spreads the proposed increase among a larger
22 customer base, resulting in a smaller increase for the residential and commercial

1 customers. Furthermore, in my opinion, the proposed increase to the availability
2 customers is reasonable and in the public interest as the Company has provided no
3 support why that customer class should experience no increase in base rates.
4

5 **Q. WHAT ARE CUSTOMER PENALTIES?**

6 A. A public utility such as TESI assesses a separate charge for customers who do not
7 pay their bills on time. The term customer penalty revenue refers to the revenue
8 received by the Company as a result of this charge.
9

10 **Q. HOW ARE REVENUES FROM CUSTOMER PENALTIES**
11 **DETERMINED?**

12 A. According to the Company's tariff, a charge of 1.5% will be added per month to a
13 customer's overdue portions of each delinquent bill when the charges for sewer
14 service have been overdue at least 30 days.
15

16 **Q. HOW MUCH REVENUE FROM CUSTOMER PENALTIES DID THE**
17 **COMPANY ACTUALLY RECEIVE IN THE HISTORIC TEST YEAR**
18 **ENDING DECEMBER 31, 2006, UNDER PRESENT RATES?**

19 A. As shown on page 1-9 of SDF Exhibit No. 1, the Company received \$26,527 in
20 customer penalties revenue for the test year ending December 31, 2006. This
21 amount was 2.43% of sewer service revenue including PennVest Surcharge
22 revenue (\$26,527/\$1,091,040).

1 **Q. HOW MUCH REVENUE FROM CUSTOMER PENALTIES IS THE**
2 **COMPANY PROPOSING IT WILL RECEIVE UNDER THE PROPOSED**
3 **RATES FOR THE FUTURE TEST YEAR ENDING DECEMBER 31, 2007?**

4 A. As shown on page 1-9 of SDF Exhibit No. 1, the Company is proposing that it will
5 receive the same \$26,527 in customer penalties revenue for the test year ending
6 December 31, 2007. This amount is 1.90% of sewer sales revenue including
7 PennVest Surcharge revenue (\$26,527/\$1,394,276).

8
9 **Q. WHAT DO YOU RECOMMEND REGARDING THE AMOUNT OF**
10 **REVENUE FROM CUSTOMER PENALTIES THE COMPANY WILL**
11 **RECEIVE UNDER PROPOSED RATES FOR THE FUTURE TEST YEAR**
12 **ENDING DECEMBER 31, 2007?**

13 A. I recommend that the revenue from customer penalties be increased to \$33,881 for
14 the test year ending December 31, 2007. This represents an increase of \$7,354
15 over the \$26,527 claimed by the Company (OTS Ex. No. 3, Sch. 3).

16
17 **Q. HOW DID YOU DETERMINE THE \$33,881 AMOUNT?**

18 A. The \$33,881 represents 2.43% of sewer revenue at proposed rates totaling
19 \$1,394,276 (\$1,230,922 + \$163,354) (OTS Ex. No. 3, Sch. 3).

20
21 **Q. WHY DO YOU RECOMMEND THE REVENUE FROM CUSTOMER**
22 **PENALTIES BE 2.43% OF TOTAL SEWER REVENUE?**

1 A. I believe it is reasonable to use this same 2.43% experienced in the test year
2 ending December 31, 2006, when projecting the revenue from customer penalties
3 for the year ending December 31, 2007.

4

5 **Q. WHY IS IT REASONABLE TO ASSUME THAT REVENUE FROM**
6 **CUSTOMER PENALTIES WILL CONTINUE TO BE 2.43% OF TOTAL**
7 **SEWER REVENUE?**

8 A. Since the late payment charge is 1.5% of a customer's bill, increasing sewer
9 revenue through a rate increase will cause revenue from customer penalties to
10 increase over time.

11

12 **Q. WHAT DO YOU RECOMMEND REGARDING THE AMOUNT OF**
13 **REVENUE RECEIVED FROM CUSTOMER PENALTIES UNDER**
14 **PROPOSED RATES FOR THE YEAR ENDING DECEMBER 31, 2007?**

15 A. Upon the determination of the total revenue that the Company is ultimately
16 granted the opportunity to recover through rates by the Commission, I recommend
17 that the Company include revenue from customer penalties equal to 2.43% of
18 sewer revenue including PennVest Surcharge revenue when determining the total
19 revenue allowance.

20

21 **Q. HAS THE COMPANY PROPOSED AN INCREASE TO OTHER SEWER**
22 **REVENUES?**

1 A. No. The Company has not proposed an increase to Other Sewer Revenues (SDF
2 Ex. No. 1, p. 1-9), and neither have I. The source of this revenue is unknown;
3 therefore, I took a conservative approach by not allocating any increase to Other
4 Revenues.

5
6 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE**
7 **ALLOCATION OF ADDITIONAL REVENUES IF THE COMMISSION**
8 **GRANTS LESS THAN A \$286,615 INCREASE?**

9 A. The Company's proposed allocation of additional revenues should be scaled back
10 proportionately for all customer classes for any increase awarded by the
11 Commission that is less than the Company's requested increase.

12
13 **WATER ALLOWANCE IN MINIMUM CHARGE**

14 **Q. DO YOU HAVE A RECOMMENDATION REGARDING THE WATER**
15 **ALLOWANCE INCLUDED IN THE MINIMUM CHARGE?**

16 A. Yes. Currently, the Company's rate structure consists of a minimum charge with a
17 2,000 gallon water allowance and volumetric charges for usage above the monthly
18 minimums (TESI Tariff Wastewater – Pa. P.U.C. No. 4, Original Page 21).

19
20 **Q. IS THERE AN ALTERNATE METHOD THAT IS PREFERABLE?**

21 A. Yes. Since sewer bills are based on water usage, it would be preferable for the
22 Company to institute a customer charge with no water allowance to recover non-

1 sewage treatment related costs such as metering and billing costs, and a volumetric
2 charge to recover sewage treatment related costs such as sludge removal and
3 purchased power.

4
5 **Q. WHY IS THIS PREFERABLE METHOD?**

6 A. A zero water allowance rate structure is preferable for several reasons. First, it
7 encourages conservation since a customer is billed directly for all water usage.
8 Under the current rate structure there is no incentive to stay below the monthly
9 2,000 gallon allowance. Second, it enables a customer to control his or her own
10 individual usage. Third, it makes for a more easily understood bill. Adoption of
11 this method has been encouraged by the Commission and is employed by many
12 water and sewer utilities in Pennsylvania.

13
14 **Q. WHAT IS YOUR RECOMMENDATION?**

15 A. I recommend that the Company reflect a zero water allowance customer charge in
16 its next base rate filing.

17
18 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

19 A. The following is a list of my recommendations:

- 20 1. The Company's claimed measure of value should be reduced by \$42,268 to
21 reflect the elimination of the Company's materials and supplies claim.

1 2. The revenue increase at proposed rates should be distributed on an across-
2 the-board basis so that all customer classes receive approximately the same
3 increase including availability and flat rate customers.

4 3. The Company should reflect proposed revenue from customer penalties
5 equal to 2.43% of total sewer revenue the Company is permitted the
6 opportunity to receive in this case.

7 4. The Company should reflect a zero water allowance customer charge in its
8 next base rate filing.

9

10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 **A. Yes.**

ANTONIO MACEO
P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 346-9565
amaceo@state.pa.us

EDUCATION:

Walden University, NTU School of Engineering – Minneapolis, Minnesota
Pursuing Masters of Science Degree
Major: Systems Engineering

Morgan State University – Baltimore, Maryland
Bachelor of Science Degree awarded May 1996
Major: Engineering Physics

Morgan State University – Baltimore, Maryland
Bachelor of Science Degree awarded May 1995
Major: Physics

EXPERIENCE:

09/29/05 – Present

Pennsylvania Public Utility Commission – Harrisburg, Pennsylvania

Fixed Utility Valuation Engineer – Assists in the performance of studies and analyses of the Engineering-related areas including valuation, depreciation, cost of service, quality and reliability of service as they apply to fixed utilities. Assists in reviewing, comparing and performing analyses in specific areas of valuation engineering and rate structure including valuation concepts, original cost, property records, depreciation methodologies, intangible values, rate base, fixed capital costs, inventory processing, excess capacity, nuclear decommissioning, cost of service and rate design.

1/28/02 – 07/20/05

Baltimore City Health Department – Baltimore, Maryland

Environmental Sanitarian/Engineer – Acts primarily as a Risk Assessor conducting data analysis and report preparation for human and ecological Health Risk Assessments (HRAs), including Lead abatements and Phase I/ Phase II Environmental assessments.

12/12/00 – 07/23/01

A2LA – Frederick, Maryland

Laboratory Services Officer – The Laboratory Services Officer provides technical assistance to calibration laboratories for their accreditation process. Furthermore, laboratory assessments are often made to ensure that the quality and technical system of the labs are conforming to ISO 17025.

06/98 – 12/12/00

Maryland Department of Agriculture – Annapolis, Maryland

Metrology Engineer – Responsibilities included but not limited to: Maintaining the traceability of measurements to the national standards; the Metrology Engineer implements and maintains measurement control programs. This involves maintaining and updating control charts to monitor the standards, laboratory equipment, and the measurement processes. The control charts are used to document the validity of measurements and to determine the random errors present in a measurement process.

11/96 – 06/98

LZR Electronics, Inc. – Gaithersburg, Maryland

Electronic Engineering Technician – Duties included but not limited to: Repairing and troubleshooting switching power supplies, with a strong emphasis on electronic circuit design and testing.

05/95 – 07/95

Morgan State University – Baltimore, Maryland

Program Instructor – Center for the Excellence in Undergraduate Research in Science and Mathematics (Cure-Sam). Duties included but not limited to: Teaching basic and introductory electronics (analog & digital), with use of computer simulation of electronic circuits.

**PROFESSIONAL
AFFILIATION:**

- Engineers Society of Pennsylvania
- American Physical Society
- Member of IEEE
- National Society of Black Engineers
- Institute of Public Utilities

OTS Exhibit No. 3
Witness: Antonio Maceo

4-17-08 JES
HABL

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
TREASURE LAKE SEWER DIVISION**

Docket No. R-00072495

**DOCUMENT
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Exhibit to Accompany

the

Direct Testimony

of

Antonio Maceo

Office of Trial Staff

Concerning:

**Materials and Supplies
Rate Design
Customer Penalties
Water Allowance Minimum Charge**

OFFICE OF TRIAL STAFF DATA REQUESTS
TOTAL ENVIRONMENTAL SOLUTIONS, INC.
TREASURE LAKE WATER DIVISION

Docket No. R-00072493

Engineer: Jeremy B. Hubert

OTS-RS-3-D State whether Treasure Lake Water Division ("Treasure" of "Company") has conducted a Cost of service Study. If so, provide the study.

Response: The Company did not prepare a cost of service study.

Responsible Party: Scott D. Fogelsanger

OFFICE OF TRIAL STAFF DATA REQUESTS

**TOTAL ENVIRONMENTAL SOLUTIONS, INC.
TREASURE LAKE SEWER DIVISION**

Docket No. R-00072495

Engineer: Antonio Maceo

OTS-RS-1 Describe how the level of the availability charge for unimproved lots within the Sewer Division's service territory was determined and describe what costs the charge is designed to recover.

Response: The Company has no knowledge of the criteria utilized to determine the initial availability charges. However, the availability charges were not increased in the Company's most recent rate filing and are proposed to remain constant in the proceeding.

Responsible Party: Gary D. Shambaugh

TES - Treasure Lake Sewer Division
Statement of Operating Revenue at Present and Proposed Rates

| Class | Per Books 12/31/2006 | 2006 Going Level Adj.'s | 2007 Revenue at Present Rates | Co. Proposed Increase | Co. Total Rev. at Proposed Rates | Co. Percent Increase | OTS Proposed Rev. Increase | OTS Total Rev. at Proposed Rates | OTS Percent Increase |
|-----------------------------|-------------------------|----------------------------|----------------------------------|--------------------------|-------------------------------------|-------------------------|-------------------------------|-------------------------------------|-------------------------|
| Residential | \$657,128 | \$16,779 | \$673,907 | \$250,613 | \$924,520 | 37.19% | \$199,295 | \$873,202 | 29.57% |
| Commercial | \$98,196 | -\$1,197 | \$96,999 | \$36,002 | \$133,001 | 37.12% | \$28,689 | \$125,688 | 29.58% |
| Availability | \$172,362 | \$1,039 | \$173,401 | \$0 | \$173,401 | 0.00% | \$51,332 | \$224,733 | 29.60% |
| Subtotal | \$927,686 | \$16,621 | \$944,307 | \$286,615 | \$1,230,922 | 30.35% | \$279,316 | \$1,223,623 | 29.58% |
| PennVest Surcharge | \$163,354 | -\$163,354 | \$0 | \$0 | \$0 | 0.00% | \$0 | \$0 | 0.00% |
| Customer Penalties | \$26,527 | \$0 | \$26,527 | \$0 | \$26,527 | 0.00% | \$7,354 | \$33,881 | 27.72% |
| Other Revenues | \$943 | \$0 | \$943 | \$0 | \$943 | 0.00% | \$0 | \$943 | 0.00% |
| Total - Other Rev. | \$190,824 | -\$163,354 | \$27,470 | \$0 | \$27,470 | 0.00% | \$7,354 | \$34,824 | 26.77% |
| Total Operating Rev. | \$1,118,510 | -\$146,733 | \$971,777 | \$286,615 | \$1,258,392 | 29.49% | \$286,670 | \$1,258,447 | 29.50% |

Total Environmental Solutions, Inc.
Treasure Lake Sewer Division
Proof of Revenues

OTS Exhibit No. 3
Schedule 4

| Meter Size | Number of Bills | Company Proposed Rate | Revenue at Company Proposed Rate | OTS Proposed Rates | Revenue at OTS Proposed Rate |
|----------------------------------|-----------------|-----------------------|----------------------------------|--------------------|------------------------------|
| <u>Residential</u> | | | | | |
| Minimum Charges: | | | | | |
| 3/4" Monthly | 23,458 | \$24.70 | \$579,412.60 | \$23.32 | \$547,040.56 |
| 1" Monthly | 24 | \$46.59 | \$1,118.16 | \$44.03 | \$1,056.72 |
| Flat Rate | 440 | \$45.62 | \$20,072.80 | \$43.20 | \$19,008.00 |
| Total Minimum Charges | | | \$600,603.56 | | \$567,105.28 |
| Output Charges: Thousand Gallons | | | | | |
| Minimums | 41,517 | | | | |
| Step 1 | 45,686 | \$7.09 | \$323,913.74 | \$6.70 | \$306,096.20 |
| Total Output Charges | | | \$323,913.74 | | \$306,096.20 |
| Total Resid. Revenue | | | \$924,517.30 | | \$873,201.48 |
| <u>Commercial</u> | | | | | |
| Minimum Charges: | | | | | |
| 3/4" Monthly | 349 | \$24.70 | \$8,620.30 | \$23.32 | \$8,138.68 |
| 1" Monthly | 30 | \$46.59 | \$1,397.70 | \$44.03 | \$1,320.90 |
| 2" Monthly | 120 | \$77.15 | \$9,258.00 | \$73.00 | \$8,760.00 |
| 3" Monthly | 10 | \$160.74 | \$1,607.40 | \$151.89 | \$1,518.90 |
| 4" Monthly | 12 | \$321.46 | \$3,857.52 | \$303.77 | \$3,645.24 |
| 6" Monthly | 24 | \$642.92 | \$15,430.08 | \$607.55 | \$14,581.20 |
| Flat Rate | 60 | \$45.62 | \$2,737.20 | \$43.11 | \$2,586.60 |
| Total Minimum Charges | | | \$42,908.20 | | \$40,551.52 |
| Output Charges: Thousand Gallons | | | | | |
| Minimums | 778 | | | | |
| Step 1 | 12,707 | \$7.09 | \$90,092.63 | \$6.70 | \$85,136.90 |
| Total Output Charges | | | \$90,092.63 | | \$85,136.90 |
| Total Comm. Revenue | | | \$133,000.83 | | \$125,688.42 |
| <u>Availability</u> | | | | | |
| Quarterly Rate | | | | | |
| Availability Bills | 13,762 | \$12.60 | \$173,401.20 | \$16.33 | \$224,733.46 |
| Total Avail. Revenue | | | \$173,401.20 | | \$224,733.46 |
| <u>Other Revenue</u> | | | | | |
| PennVest Surcharge | | | | | |
| Customer Penalties | | | \$26,526.84 | | \$33,881.00 |
| Misc. Operating Rev. | | | \$943.00 | | \$943.00 |
| Total Other Revenue | | | \$27,469.84 | | \$34,824.00 |
| Total Operating Revenue | | | \$1,258,389.17 | | \$1,258,447.36 |

OTS Statement No. 3-SR
Witness: Antonio Maceo

4-17-08 JES
HBL

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**TOTAL ENVIRONMENTAL SOLUTION, INC.
TREASURE LAKE SEWER DIVISION**

Docket No. R-00072495

**DOCUMENT
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Surrebuttal Testimony

of

Antonio Maceo

Office of Trial Staff

Concerning:

**Materials and Supplies
Rate Design
Customer Penalties
Water Allowance Minimum Charge**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Antonio Maceo. My business address is P.O. Box 3265, Harrisburg,
3 PA 17105-3265.

4
5 **Q. ARE YOU THE SAME ANTONIO MACEO WHO SUBMITTED OTS
6 STATEMENT NO. 3 AND OTS EXHIBIT NO. 3 ON MARCH 11, 2008?**

7 A. Yes.

8
9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. The purpose of my surrebuttal is to address the rebuttal testimony filed by Gary
11 D. Shambaugh on behalf of Total Environment Solutions, Inc. – Treasure Lake
12 Sewer Division (TESI or Company) concerning Materials and Supplies, Rate
13 Design, Customer Penalties, and Water Allowance Minimum Charge.

14
15 **MATERIALS AND SUPPLIES**

16 **Q. WHAT AMOUNT OF MATERIALS AND SUPPLIES DID THE
17 COMPANY ORIGINALLY CLAIM?**

18 A. The Company claimed \$42,268 for material and supplies.

19
20 **Q. DID YOU RECOMMEND THAT THE \$42,268 CLAIM FOR
21 MATERIALS AND SUPPLIES BE DENIED?**

1 A. Yes. The \$42,268 was not based on an inventory of materials and supplies, but
2 is simply an estimate of a materials and supplies inventory (SDF Ex. No. 1, p. 1-
3 4). The Company does not inventory materials and supplies; therefore, materials
4 and supplies can not be included in rate base.

5
6 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION IN ITS**
7 **REBUTTAL TESTIMONY?**

8 A. Yes. The Company revised its materials and supplies claim. The revised claim
9 is \$11,969 (TESI-Sewer St. No. 2R, p. 3).

10
11 **Q. WHAT IS THE BASIS FOR THE COMPANY'S \$11,969 CLAIM?**

12 A. The Company provided materials and supplies inventory by month for fiscal
13 year 2006 in response to a data request to the water division. From this
14 information they calculated a 13 month average of approximately \$23,939 for
15 the combined water and sewer operations. According to Mr. Shambaugh, an
16 allocation of 50% of this value to the sewer operations would result in a
17 materials and supplies value of approximately \$11,969 as of December 31, 2006.

18
19 **Q. HAS THE COMPANY REDUCED ITS EXPENSE CLAIM FOR**
20 **MATERIALS AND SUPPLIES?**

21 A. No. On advice of counsel, this is problematic in that the materials and supplies
22 claim includes a return on and a return of an expense.

1 **Q. DID THE COMPANY PROVIDE ANY VALID REASONS FOR**
2 **INCLUDING THE \$11,969 CLAIM FOR MATERIALS AND SUPPLIES**
3 **IN RATE BASE?**

4 A. No. This \$11,969 is merely an inventory count of items previously expensed.
5 The Company should not be permitted to recover materials and supplies as part
6 of both rate base and operating expenses. Therefore, my recommendation is that
7 the revised claim of \$11,969 for materials and supplies should be denied.

8

9 **RATE DESIGN**

10 **Q. WHAT REVENUE INCREASE DOES THE COMPANY'S FILING**
11 **REQUEST?**

12 A. The Company requested a revenue increase of \$286,615. This proposed increase
13 would be acquired through the following sources (SDF Ex. No. 1, p. 1-9):

14

| | | |
|----|--------------------------------|------------------|
| 15 | Residential Customer Revenue | \$250,613 |
| 16 | Commercial Customer Revenue | \$36,002 |
| 17 | Availability Customer Revenue | \$0 |
| 18 | Customer Penalties | \$0 |
| 19 | Misc. Operating Revenue | <u>\$0</u> |
| 20 | Total Increase Proposed | \$286,615 |

1 **Q. WHAT DID YOU RECOMMEND REGARDING THE \$286,615**
2 **INCREASE TO TOTAL ANNUAL REVENUES CLAIMED BY THE**
3 **COMPANY?**

4 A. I recommended that all current rates for the minimum charge, usage, flat rates
5 and availability charges be increased proportionally. This particular type of rate
6 structure will insure that the Company meets its projected revenue needs without
7 undue burden on any particular customer class. This resulted in an
8 approximately 29.6 % across-the-board increase to all customer classes as
9 opposed to an approximate 37.1% increase to only residential and commercial
10 customers (OTS Ex. No. 3, Schedule 3).

11

12 **Q. HAS THE COMPANY REVISED ITS PROPOSED REVENUE**
13 **INCREASE CLAIM?**

14 A. Yes. The Company revised its income statement to reflect adjustments that it
15 has either proposed or accepted. This results in a revised proposed revenue
16 increase of \$206,806 (TESI-Sewer St. No. 1R, p. 10). The Company's operating
17 revenue at the revised revenue increase is now \$1,178,583 (SDF Ex. No. 3,
18 Attachment 8).

19

20 **Q. DID THE COMPANY PROVIDE A REVISED INCOME STATEMENT**
21 **AND PROOF OF REVENUES BASED ON ITS ADJUSTMENTS?**

1 A. The Company provided a revised income statement, however, it does not provide
2 details on how the revenue increase is allocated among the various rate classes.
3 For purposes of this surrebuttal testimony, I am assuming that the Company
4 applied an equal percent increase to the residential and commercial customer
5 classes. This results in an increase of approximately 26.83% to those classes
6 (OTS Ex. No. 3-SR, Sch. 1). The Company did not provide a revised proof of
7 revenues or proposed rates by class.

8

9 **Q. HAVE YOU UPDATED YOUR OPERATING REVENUE STATEMENT**
10 **AND PROOF OF REVENUES AS A RESULT OF THE COMPANY'S**
11 **REVISIONS?**

12 A. Yes. I have attached those schedules to this testimony. My revised increase to
13 the various customer classes is approximately 21.38% versus the 29.58%
14 proposed in my direct testimony (OTS Ex. No. 3-SR, Sch. 1). Schedule 2 of my
15 surrebuttal exhibit details the revised rates based on the Company's updated
16 revenue number. It should also be noted that my adjustment to customer
17 penalties decreases from \$7,354 to \$5,415 as a result of the Company's updated
18 numbers.

19

20 **Q. DID THE COMPANY ADDRESS YOUR AVAILABILITY FEE**
21 **RECOMMENDATION?**

1 A. Yes. Mr. Shambaugh recommended that the Commission consider the
2 elimination of availability fees for all undeveloped lots (TESI St. No. 2R, p.5).
3 To accomplish this he offered two alternative approaches. The first approach
4 was for the gradual elimination of the availability fees. The second approach
5 was to allow the Company to consider an availability customer inactive after
6 eighteen months of delinquent bills and eventually recover some or all of the
7 fixed costs through a connection fee (TESI-Sewer St. No. 2R, p. 7).

8

9 **Q. WHAT DO YOU RECOMMEND CONCERNING THESE TWO**
10 **ALTERNATIVES?**

11 A. I recommend that they be rejected.

12

13 **Q. WHY DO YOU RECOMMEND THAT THE FIRST ALTERNATIVE BE**
14 **REJECTED?**

15 A. As described in my direct testimony, the availability fee recovers some of the
16 fixed costs of the system (OTS St. No. 3, p.7). Eliminating the charge will shift
17 these fixed costs to usage customers. Also, the Company's alternative lacks
18 specificity concerning when exactly the availability fee will be eliminated and
19 the projected increase to usage customers' bills to recover the revenue not
20 collected from availability customers.

1 Q. WHY DO YOU RECOMMEND THAT THE SECOND ALTERNATIVE
2 BE REJECTED?

3 A. I believe that reclassifying delinquent customers, by writing off the delinquency
4 in one year and then recovering the delinquency in a future year could result in
5 the Company recovering costs that were previously written off. This double
6 recovery would be unfair to customers. Also, I believe that establishing and
7 collecting a connection fee that is not specified in the tariff would also be
8 problematic.

9
10 Q. IF THE COMPANY CLAIMS THAT IN ITS MOST RECENT RATE
11 FILING (1999), THE PARTIES AGREED TO HOLD AVAILABILITY
12 FEES AT THE CURRENT RATE. IS A PAST SETTLEMENT A VALID
13 REASON FOR NOT INCREASING THE CURRENT AVAILABILITY
14 CHARGE, OR, IN THE ALTERNATIVE, ELIMINATING IT?

15 A. No. The 1999 case was a settled case and therefore is not precedent setting.
16 Costs incurred by the Company have increased over the past 10 years. The fact
17 that the \$4.20 per month charge was not increased 10 years ago is further
18 evidence that it should be increased in this case to recover some of the fixed cost
19 incurred to provide service.

20
21 Q. WHAT IS THE SECOND REASON HE GIVES FOR THE COMPANY'S
22 REVISED POSITION ON AVAILABILITY FEES?

1 A. Mr. Shambaugh claims that availability fees were established by this
2 Commission with little or no cost of service support (TESI St. No. 2R, p. 3).

3

4 **Q. DO YOU AGREE WITH THIS ASSESSMENT OF AVAILABILITY**
5 **CHARGES?**

6 A. No. As stated in OTS St. No. 3, p. 7, availability charges are designed to recover
7 the fixed cost of the system that is in place and ready to serve customers. While
8 no cost of service study was provided in this case to determine a reasonable
9 availability charge under fully proposed rates; the \$4.20 per month rate would
10 increase by 21.38% to \$5.10 per month (OTS Ex. No. 3-SR; Schs. 1 and 2). My
11 recommended increase of \$0.90 per month over more than a 10 year period is a
12 reasonable increase and results in a reasonable availability fee. This percentage
13 increase is the same as the percentage increase I propose for the other classes.
14 Also, the inclusion of availability customers in the overall increase reduces the
15 percentage increase other customers will experience.

16

17 **Q. WHAT IS THE THIRD REASON HE GIVES FOR RECOMMENDING**
18 **THAT THE CURRENT \$4.20 PER MONTH AVAILABILITY CHARGE**
19 **REMAIN THE SAME, OR, IN THE ALTERNATIVE, BE ELIMINATED?**

20 A. Mr. Shambaugh claims that the availability fee is difficult to collect (TESI St.
21 No. 2R, p. 4).

1 **Q. IS THIS A VALID REASON FOR NOT INCREASING THE CURRENT**
2 **\$4.20 PER MONTH AVAILABILITY CHARGE?**

3 A. No. While I understand the charge may be difficult to collect from some
4 customers, it is not impossible to collect. This is evident by the \$172,362 of
5 availability charge revenue the Company booked in 2006 (SDF Ex. No. 1, p .1-
6 9). This \$172,362 represents 98% of the \$176,299 (\$4.20 x 12 months x 3,498
7 lots) in revenue the company should collect from availability customers. Even
8 considering the \$31,435 of bad debt expense the Company claims is a result of
9 availability customers the percentage is still 82.2% of the amount billed. (TESI-
10 St. No. 2R, p: 4).

11
12 **Q. WHAT DO YOU RECOMMEND CONCERNING THE COMPANY'S**
13 **RECOMMENDATIONS?**

14 A. I recommend that they should be rejected for the reasons stated above, and due
15 to the fact that the Company did not determine the impact of its
16 recommendations on other customer classes.

17
18 **CUSTOMER PENALTIES**

19 **Q. HOW MUCH REVENUE FROM CUSTOMER PENALTIES IS THE**
20 **COMPANY PROPOSING IT WILL RECEIVE UNDER THE PROPOSED**
21 **RATES FOR THE FUTURE TEST YEAR ENDING DECEMBER 31,**
22 **2007?**

1 A. As shown on page 1-9 of SDF Exhibit No. 1, the Company is proposing that it
2 will receive the same \$26,527 in customer penalties revenue for the test year
3 ending December 31, 2007. This amount is 1.90% of sewer sales revenue
4 including PennVest Surcharge revenue (\$26,527/\$1,394,276).

5
6 **Q. DID YOU RECOMMEND THAT A 27.72% INCREASE BE ADDED TO**
7 **THE CUSTOMER PENALTIES PROPOSED RATES FOR TESI?**

8 A. Yes. My recommendation resulted in an increase to the proposed customer
9 penalties of \$7,354 (OTS Ex. No.3, Sch. 3). As noted above, based on the
10 Company's revisions to its proposed revenues, my recommended increase to
11 customer penalties is reduced to \$5,415.

12
13 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION IN ITS**
14 **REBUTTAL TESTIMONY?**

15 A. Yes. TESI witness Shambaugh states that the Company's claimed amount of
16 customer penalties is predominately related to the inability to collect availability
17 fees. He goes on to state that my proposal to increase revenues from customer
18 penalties supports the argument that availability fees are unable to be collected
19 (TESI St. No. 2R, p. 6).

20
21 **Q. DO YOU HAVE ANY COMMENTS RELATIVE TO CUSTOMER**
22 **PENALTIES?**

1 A. Yes. As stated previously in my direct testimony, as revenues from sales
2 increase, revenues from customer penalties should increase proportionally (OTS
3 St. No. 3, p. 12). In my opinion, a customer's payment pattern will not change,
4 and therefore increasing sewer sales revenue through a rate increase will cause
5 revenue from customer penalties to increase over time.

6

7 **WATER ALLOWANCE IN MINIMUM CHARGE**

8 **Q. WHAT WAS YOUR RECOMMENDATION REGARDING THE WATER**
9 **ALLOWANCE INCLUDED IN THE MINIMUM CHARGE?**

10 A. Currently, the Company's rate structure consists of a minimum charge with a
11 2,000 gallon water allowance and volumetric charges for usage above the
12 monthly minimums (TESI Tariff Wastewater-Pa. P.U.C. No. 4, Original Page
13 21). I recommended that the Company reflect a zero water allowance customer
14 charge in its next base rate filing.

15

16 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION IN ITS**
17 **REBUTTAL TESTIMONY?**

18 A. Yes. The Company agreed to eliminate all or a portion of the water allowance
19 (TESI-Sewer St. No. 2R, p. 8). However, Mr. Shambaugh rejects my
20 recommendation that the Company reflect a zero water allowance customer
21 charge in its next base rate filing on the basis that the Company incurs many
22 costs that are fixed and totally unrelated to the volumetric charge.

1 Q. WHY DO YOU RECOMMEND THAT THE WATER ALLOWANCE BE
2 ELLIMINATED IN THE NEXT CASE?

3 A. Eliminating the water allowance sends the proper price signal to the customers.
4 With no water allowance, customers are only billed for the actual water used, or
5 sewage produced. Also, a customer charge with no water allowance satisfies the
6 Commissions policy of a pure customer charge with no allowance.

7
8 Q. DID ANY CUSTOMERS WHO TESTIFIED AT THE PUBLIC INPUT
9 HEARING ON MARCH 20, 2008 SUPPORT THE RECOMMENDATION
10 TO REMOVE THE COMPANY'S MINIMUM WATER ALLOWANCE?

11 A. Yes. Twelve customers provided testimony at the telephonic Public Input
12 Hearing held on March 20, 2008. Three of those customers who testified
13 expressed concern over the Company's current practice of including a minimum
14 water allowance (Public Input Testimony of Betty Loy Heberling, William
15 David Krach, and Roland Bechtel).

16
17 ASSETS NOT EXCLUSIVELY USED FOR WATER COMPANY
18 BUSINESS

19 Q. WHAT DID OTS WITNESS HUBERT RECOMMEND IN THE TESI
20 WATER CASE AT DOCKET NO: R-00072493?

1 A. Mr. Hubert recommended the 50% of certain assets shared by the water and
2 waste water operations recovered in the wastewater case (OTS St. No. 3-SR
3 (Water), p. 10). Mr. Hubert's recommendation was based on the fact the
4 Company provided evidence that assets totaling \$232,567 are used jointly for
5 both water and sewer operations with an estimated 50/50 allocation between the
6 two operating entities (OTS St. No. 3 (Water), p. 6).

7
8 **Q. DO YOU ADOPT THIS RECOMMENDATION?**

9 A. Yes. Therefore, the \$117,526 of original cost, \$73,876 of accrued depreciation
10 and \$18,763 of annual depreciation expense related to this shared plant should be
11 reflected in the wastewater case (OTS St. No. 3-SR (Water), p. 10).

12
13 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY AT**
14 **THIS TIME?**

15 A. Yes.

OTS Exhibit No. 3-SR
Witness: Antonio Maceo

4-17-08 JES
HBL

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

**TOTAL ENVIRONMENTAL SOLUTION, INC.
TREASURE LAKE SEWER DIVISION**

**DOCUMENT
FOLDER**

Docket No. R-00072495

Exhibits to Accompany

the

Surrebuttal Testimony

of

Antonio Maceo

Office of Trial Staff

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Concerning:

**Materials and Supplies
Rate Design
Customer Penalties
Water Allowance Minimum Charge**

TES - Treasure Lake Sewer Division
Statement of Operating Revenue at Present and Proposed Rates

| Class | Per Books 12/31/2006 | 2006 Going Level Adj.'s | 2007 Revenue at Present Rates | Co. Proposed Increase | Co. Total Rev. at Proposed Rates | Co. Percent Increase | OTS Proposed Rev. Increase | OTS Total Rev. at Proposed Rates | OTS Percent Increase |
|-----------------------------|-------------------------|----------------------------|----------------------------------|--------------------------|-------------------------------------|-------------------------|-------------------------------|-------------------------------------|-------------------------|
| Residential | \$657,128 | \$16,779 | \$673,907 | \$180,809 | \$854,716 | 26.83% | \$144,081 | \$817,662 | 21.38% |
| Commercial | \$98,196 | -\$1,197 | \$96,999 | \$26,025 | \$123,024 | 26.83% | \$20,738 | \$117,525 | 21.38% |
| Availability | \$172,362 | \$1,039 | \$173,401 | \$0 | \$173,401 | 0.00% | \$37,073 | \$210,588 | 21.38% |
| Subtotal | \$927,686 | \$16,621 | \$944,307 | \$206,834 | \$1,151,141 | 21.90% | \$201,892 | \$1,145,775 | 21.38% |
| PennVest Surcharge | \$163,354 | -\$163,354 | \$0 | \$0 | \$0 | 0.00% | \$0 | \$0 | 0.00% |
| Customer Penalties | \$26,527 | \$0 | \$26,527 | \$0 | \$26,527 | 0.00% | \$5,415 | \$31,942 | 20.41% |
| Other Revenues | \$943 | \$0 | \$943 | \$0 | \$943 | 0.00% | \$0 | \$943 | 0.00% |
| Total - Other Rev. | \$190,824 | -\$163,354 | \$27,470 | \$0 | \$27,470 | 0.00% | \$5,415 | \$32,885 | 19.71% |
| Total Operating Rev. | \$1,118,510 | -\$146,733 | \$971,777 | \$206,834 | \$1,178,611 | 21.28% | \$207,307 | \$1,178,660 | 21.33% |

Total Environmental Solutions, Inc.
Treasure Lake Sewer Division
Proof of Revenues

OTS Exhibit No. 3-SR
Schedule 2

| Meter Size | Number of Bills | Company Proposed Rate | Revenue at Company Proposed Rate | OTS Proposed Rates | Revenue at OTS Proposed Rate |
|------------------------------------|-----------------|-----------------------|----------------------------------|--------------------|------------------------------|
| <u>Residential</u> | | | | | |
| Minimum Charges: | | | | | |
| 3/4" Monthly | 23,458 | \$24.70 | \$579,412.60 | \$21.85 | \$512,557.30 |
| 1" Monthly | 24 | \$46.59 | \$1,118.16 | \$41.27 | \$990.48 |
| Flat Rate | 440 | \$45.62 | \$20,072.80 | \$42.22 | \$18,576.80 |
| Total Minimum Charges | | | \$600,603.56 | | \$532,124.58 |
| Output Charges: Thousand Gallons | | | | | |
| Minimums | 41,517 | | | | |
| Step 1 | 45,686 | \$7.09 | \$323,913.74 | \$6.25 | \$285,537.50 |
| Total Output Charges | | | \$323,913.74 | | \$285,537.50 |
| Total Resid. Revenue | | | \$924,517.30 | | \$817,662.08 |
| <u>Commercial</u> | | | | | |
| Minimum Charges: | | | | | |
| 3/4" Monthly | 349 | \$24.70 | \$8,620.30 | \$21.85 | \$7,625.65 |
| 1" Monthly | 30 | \$46.59 | \$1,397.70 | \$41.27 | \$1,238.10 |
| 2" Monthly | 120 | \$77.15 | \$9,258.00 | \$68.34 | \$8,200.80 |
| 3" Monthly | 10 | \$160.74 | \$1,607.40 | \$142.38 | \$1,423.80 |
| 4" Monthly | 12 | \$321.46 | \$3,857.52 | \$284.75 | \$3,417.00 |
| 6" Monthly | 24 | \$642.92 | \$15,430.08 | \$569.49 | \$13,667.76 |
| Flat Rate | 60 | \$45.62 | \$2,737.20 | \$42.22 | \$2,533.20 |
| Total Minimum Charges | | | \$42,908.20 | | \$38,106.31 |
| Output Charges: Thousand Gallons | | | | | |
| Minimums | 778 | | | | |
| Step 1 | 12,707 | \$7.09 | \$90,092.63 | \$6.25 | \$79,418.75 |
| Total Output Charges | | | \$90,092.63 | | \$79,418.75 |
| Total Comm. Revenue | | | \$133,000.83 | | \$117,525.06 |
| <u>Availability</u> Quarterly Rate | | | | | |
| Availability Bills | 13,762 | \$12.60 | \$173,401.20 | \$15.30 | \$210,558.60 |
| Total Avail. Revenue | | | \$173,401.20 | | \$210,558.60 |
| <u>Other Revenue</u> | | | | | |
| PennVest Surcharge | | | | | |
| Customer Penalties | | | \$26,526.84 | | \$31,942.00 |
| Misc. Operating Rev. | | | \$943.00 | | \$943.00 |
| Total Other Revenue | | | \$27,469.84 | | \$32,885.00 |
| Total Operating Revenue | | | \$1,258,389.17 | | \$1,178,630.74 |