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**Before the**

**TENNESSEE REGULATORY AUTHORITY**

**IN RE:**

**LYNWOOD UTILITY CORPORATION'S  
PETITION FOR ADJUSTMENT OF RATES**

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**DOCKET NO. 09-00034**

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**SUPPLEMENTAL DIRECT TESTIMONY  
OF  
DAVE PETERS**

\*\*\*\*\*

**August 14, 2009**

1  
2 **Q. Are there any changes in to your original testimony?**

3  
4 A. Yes. In discovery responses provided in the first round of discovery, it was  
5 unclear how Mr. Ring's salary of \$32,000 was booked. Based on the July 28, 2009  
6 supplemental discovery filed by LUC, Mr. Tyler Rings salary is set at \$32,000, split  
7 evenly over account 105 for CWIP and account 740 for contractual services -  
8 management fee. This raises two fundamental issues. First, the effect of booking half of  
9 Mr. Ring's salary in CWIP results in that portion of the salary being capitalized and  
10 added to rate base. I see no basis for capitalizing half of Mr. Ring's salary into rate base  
11 which would allow for the company to earn a profit on salary paid to the owner. The  
12 NARUC accounting instructions state that salaries should be allocated upon the basis of  
13 a study of time engaged during a representative period and not charged based upon  
14 estimates or in an arbitrary fashion. In my opinion, based on the record, booking this  
15 amount to CWIP is arbitrary. Further, the consequences of allowing the company to  
16 continue to capitalize \$16,000 of the owner's salary will impact the rate base in future  
17 rate cases to come. For example, capitalizing \$16,000 annually will increase rate base by  
18 \$160,000 over a ten year period. Increasing rate base, of course, increases the return due  
19 to the company for investment in used and useful property.

20 Second, given the level of contractual services Lynwood employs and Mr. Ring's  
21 involvement in the operations of Tennessee Contractors, Inc. as vice president<sup>1</sup> of that  
22 company, paying Mr. Ring \$32,000 annually seems excessive. A salary of \$15,000  
23 annually would be more appropriate given the level of duties performed by the  
24 contractual services LUC employs and Mr. Ring's other business ventures. This  
25 reduction reduces a recurring expense in account 740 from \$16,000 to \$15,000.  
26 Additionally, CAPD reduces the Plant-In-Service balance by \$20,000 which is the  
27 amounts paid to Tyler and John Ring in 2007 and 2008 (\$8,000 and \$12,000 respectively)  
28 as these payments should not be capitalized. This changes the Utility Plant-In-Service  
29 from \$2,931,252 to \$2,911,252.

30  
31 **Q. Are there any corrections in this supplemental testimony from your original**  
32 **testimony of 6-19-2009?**

33 A. Yes, there are two corrections. The first is Depreciation Expense - In my original  
34 testimony, I proposed depreciation of \$107,727 versus LUC's of \$121,569. I didn't take  
35 the amortization of TDEC into account so that would increase my depreciation expense

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<sup>1</sup> Lynwood Response to Consumer Advocate Discovery Request#24, filed May 26, 2009.

1 by \$15,179. However, that number included \$8,413 which is related to the collection  
2 system which we don't believe should be part of plant-in-service. The net of these  
3 changes results in the CAPD proposing a depreciation expense of \$114,493 which is  
4 \$7,076 lower than LUC.

5 After the depreciation adjustments, CAPD now shows a net operating loss of \$26,007<sup>2</sup>.

6 The second correction is to the calculation of rate base. CAPD concurs with LUC about  
7 the accumulated depreciation amount used in the rate base. CAPD accumulated  
8 depreciation should be \$1,563,804 and not \$1,640,300. Additionally, CAPD has adjusted  
9 the CIAC by the number of tap fees (6) that LUC booked to that account. This changes  
10 the rate base from \$485,313 to \$562,809<sup>3</sup>. The net impact on these corrections and the  
11 Tyler Ring salary changes above is to change our proposed rate hike from 7.96% to  
12 12.69%, or \$47,185 to \$75,212<sup>4</sup>.

13  
14 **Q. Do you have any recommendations as to the odor control issues?**

15  
16 A. Yes. As of August 14, 2009, to my knowledge, no LUC consumers have  
17 complained of odor issues. However, should odor issues become an issue in this  
18 matter, I would recommend the allowance of an additional \$45,000 in rate base for the  
19 covered sludge box described in the company's response to discovery request # 5 filed  
20 on July 17, 2009 and referenced in company response to TRA Data Request # 14. My  
21 recommendation is conditioned upon the Authority concluding such a plant addition  
22 would reduce odor. I offer no expert opinion on whether this plant addition would  
23 reduce odor but rely upon the company's representations to the Authority. Further, if  
24 odor control is an issue in this matter, approving this plant addition in rate base is a  
25 much more efficient remedy for the company, consumers and the Authority rather than  
26 for LUC to continue to petition the Authority for a surcharge as the company did in  
27 Docket 08-00060.

28  
29 **Q. Do you have a proposal for rate design?**

30 A. No. In my 6-19-2009 testimony, I reserved the right to propose a rate design  
31 modification, subject to receiving information from Lynwood. However, the company  
32 was unable to provide this information.

33  
34  

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<sup>2</sup> Exhibit CAPD, Schedule 2, Line 29.

<sup>3</sup> Exhibit CAPD, Schedule 3, Line 8.

<sup>4</sup> Exhibit CAPD, Schedule 1, Line 9.

- 1 Q. Does this conclude your corrections to the previously submitted testimony of  
2 6-19-2009?  
3 A. Yes, it does.

Before the

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DOCKET NO. 09-00034

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**AFFIDAVIT**

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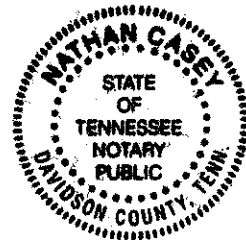
I, Dave Peters, Regulatory Analyst, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Supplemental Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.

  
\_\_\_\_\_  
DAVE PETERS

Sworn-to and subscribed before me  
this 14 day of August, 2009.

  
\_\_\_\_\_  
NOTARY PUBLIC

My commission expires: 8/10/12



My Commission Expires MAR. 10, 2012

Before the  
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**DOCKET NO. 09-00034**

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**WORK PAPERS  
OF  
DAVE PETERS**

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**August 14, 2009**

Lynwood Utilities Corp. TRA Docket #09-00034  
Index To Schedules (corrections for supplemental testimony)  
Test Year Ended December 31, 2009

Revenue Deficiency (corrected)	1
Comparison of Rate Making Components (corrected)	2
Comparative Rate Base (corrected)	3

## Revenue Deficiency

For 12 Months Ending December 31, 2008

Line No.		Consumer Advocate Settlement	Company	F/	Difference
	(Maintenance Expenses)				
1	Rate Base	\$562,809 A/	\$1,028,956 A/		(\$466,147)
2	Operating Income at Present Rates	(\$26,007) B/	(\$85,880) B/		\$59,874
3	Earned Rate of Return	-4.62%	-8.35%		3.73%
4	Fair Rate of Return	7.50% C/	8.00%		-0.50%
5	Required Operating Income	\$42,211	\$82,316		(\$40,106)
6	Operating Income Deficiency	\$68,217	\$168,197		(\$99,979)
7	Gross Revenue Conversion Factor	0.907	0.907		0
8	Revenue Deficiency (Surplus)	\$75,212	\$185,443		(\$110,231)
9	Rate Increase	12.69%	33.82%		
A/	Schedule 3, Line 27				
B/	Schedule 4, Line 18				
C/	Schedule 7, Line 5				



Lynwood Utilities Corp. TRA Docket #09-00034  
Comparison of Rate Making Components  
Company vs. Consumer Advocate  
For 12 Months Ending December 31, 2008

Schedule 2

Line #		Company 2008 Actual		ADJUSTMENTS		Consumer Advocate
1	Sewer Revenue - Usage Based	\$521,605	A/	\$0		\$521,605
2	Tap Fees	\$17,500	B/	(\$45,500)	C/	\$63,000
3	Penalty Fees	\$8,163	D/	\$0		\$8,163
4	Inspection Fees	\$1,000	E/	\$0		\$0
5	Total Revenues	\$548,268		(\$45,500)		\$592,768
6	Purchased Wastewater	\$2,551	F/	\$0		\$2,551
7	Sludge Removal	\$34,617	G/	\$3,147		\$31,470
8	Purchased Power	\$62,794	H/	\$10,466	I/	\$52,328
9	Chemicals	\$42,450	J/	\$0		\$42,450
10	Materials & Supplies	\$20,502	K/	\$0		\$20,502
11	Engineering Inspections	\$2,701	L/	\$0		\$2,701
12	Testing	\$31,488	M/	\$0		\$31,488
13	Repairs & Maintenance	\$89,030	N/	\$0		\$89,030
14	Operations Management	\$28,800	O/	\$1,000		\$27,800
15	Billing and Collection Fees	\$44,966	P/	\$0		\$44,966
16	Bad Debt Expenses	\$10,334	Q/	\$0		\$10,334
17	Accounting and Bookkeeping	\$16,635	R/	\$0		\$16,635
18	Tax Accounting	\$2,850	S/	\$0		\$2,850
19	Accounting - Other	\$13,049	T/	\$0		\$13,049
20	Legal	\$8,899	U/	\$0		\$8,899
21	Management	\$16,000	V/	\$0		\$16,000
22	Rent	\$10,344	W/	\$0		\$10,344
23	Insurance	\$18,699	X/	\$0		\$18,699
24	Other Misc. Expenses	\$1,629	Y/	\$0		\$1,629
25	Taxes Other Than Income Taxes	\$20,716	Z/	(\$845)		\$21,561
26	Regulatory Expenses	\$33,524	AA/	\$8,371	BB/	\$25,153
27	Depreciation & Amortization, Net	\$121,569	CC/	(\$6,766)	DD/	\$128,335
28	Total Operating Expense	\$ 634,147		\$ 15,373		\$ 618,775
29	Net Operating Income ("NOI")	\$ (85,879)		\$ (60,873)		\$ (26,007)
	Rate Base					
30	Plant in Service	\$3,122,341	EE/	\$ 211,089	FF/	2,911,252
31	Deferred Debits and Deposits	143,618	GG/	-		143,618
32	Cash Working Capital	52,574	HH/	12,729	II/	39,845
33	Total	\$3,318,533		\$ 223,818		\$ 3,094,715
	Less Deductions:					
34	Accumulated Depreciation	1,602,052	JJ/	38,248	KK/	1,563,804
35	Contributions In Aid of Construction	687,524	LL/	(280,578)	MM/	968,102
36	Total Deductions	2,289,576		(242,330)		2,531,906
37	Rate Base (line 38- Line 44)	1,028,957		466,148		562,809

Lynwood Utilities Corp. TRA Docket #09-00034

Schedule 3

Comparative Rate Base  
For 12 Months Ending December 31, 2008

<u>Line No.</u>		<u>Consumer Advocate</u>	<u>Company</u>	<u>Difference</u>
1	Utility Plant in Service	\$2,911,252 A/	\$3,122,341 B/	(\$211,089)
2	Deferred Debits and Deposits	\$143,618 C/	\$143,618 C/	\$0
3	Cash Working Capital	\$39,845 D	\$52,574 E	(\$12,729)
4	Total Additions	<u>\$3,094,715</u>	<u>\$3,318,533</u>	(\$223,818)
5	Accumulated Depreciation	\$1,563,804 F/	\$1,602,052 G/	(\$38,248)
6	Contributions In Aid of Construction	<u>\$968,102 H/</u>	<u>\$687,524 I/</u>	<u>\$280,578</u>
7	Total Deductions	<u>\$2,531,906</u>	<u>\$2,289,576</u>	\$242,330
8	Rate Base	<u>\$562,809</u>	<u>\$1,028,956</u>	<u>(\$466,147)</u>

A/ 2006 Rate Case-Rate Base 'I16-'Utility Plant In Service'IF31

B/ 2009 Rate Case-Rate Base'IF6

# Company exhibit

Docket 09-00034

Lynwood Utility Corporation

Account

Year	Structures & Improvements							Total
	Land		Pump Equipment	Collection System	Lab Equipment	Treatment & Disposal	Transport Equipment	
2000								
2000	Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$22,000.00	\$0.00	\$1,548,515.00	\$2,885.00
	Additions	\$0.00	\$0.00	\$0.00	\$19,500.00	\$0.00	\$0.00	\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Balance	\$10,000.00	\$125,105.00	\$50,966.00	\$41,500.00	\$0.00	\$1,548,515.00	\$2,885.00
	Additions	\$0.00	\$0.00	\$35,353.00	\$14,250.00	\$0.00	\$47,868.67	\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2002	Balance	\$10,000.00	\$125,105.00	\$88,181.00	\$55,750.00	\$0.00	\$1,596,383.67	\$2,885.00
	Additions	\$0.00	\$0.00	\$88,181.00	\$16,500.00	\$0.00	\$645,156.92	\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Balance	\$10,000.00	\$125,105.00	\$174,300.00	\$30,000.00	\$0.00	\$2,241,540.59	\$2,885.00
	Additions	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$224,190.00	\$10,500.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2004	Balance	\$10,000.00	\$125,105.00	\$174,300.00	\$102,250.00	\$0.00	\$2,465,730.59	\$13,385.00
	Additions	\$0.00	\$0.00	\$9,720.00	\$36,000.00	\$0.00	\$33,647.63	\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Balance	\$10,000.00	\$125,105.00	\$184,020.00	\$138,250.00	\$0.00	\$2,499,378.22	\$13,385.00
	Additions	\$0.00	\$6,475.00	\$2,377.00	\$13,500.00	\$0.00	\$26,511.67	\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	-\$60,717.00	\$0.00
2006	Balance	\$10,000.00	\$131,580.00	\$186,597.00	\$151,750.00	\$0.00	\$2,465,172.89	\$13,385.00
	Additions	\$0.00	\$0.00	\$5,730.57	\$16,500.00	\$12,767.88	\$48,321.87	\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Balance	\$10,000.00	\$131,580.00	\$192,327.57	\$168,250.00	\$12,767.88	\$2,513,494.76	\$13,385.00
	Additions	\$0.00	\$24,000.00	\$8,453.26	\$22,839.43	\$2,540.00	\$22,683.20	\$0.00
	Retirements	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
2008	Balance	\$10,000.00	\$155,580.00	\$200,780.83	\$191,089.43	\$15,307.88	\$2,536,177.96	\$13,385.00

\$124,496.78

\$3,182,700.10  
-\$60,379.00  
\$2,806,734.89