

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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In the Matter of  
Long Island American Water

Case 11-W-0020

August 2011

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Prepared Testimony of:

Tshepo Simpson  
Senior Auditor  
Office of Accounting & Finance

State of New York  
Department of Public Service  
Three Empire State Plaza  
Albany, New York 12223-1350

1 Q. Please state your name and business address.

2 A. My name is Tshepo Simpson. My business address  
3 is Three Empire State Plaza, Albany, New York  
4 12223.

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

6 A. I am employed by the New York State Department  
7 of Public Service in the Office of Accounting  
8 and Finance as a Senior Auditor.

9 Q. Please summarize your educational background and  
10 professional experience.

11 A. I am a 2006 graduate of Bentley College with a  
12 Bachelor of Science degree in Accountancy. I  
13 joined the Department of Public Service in  
14 January 2007.

15 Q. Have you previously testified before the Public  
16 Service Commission?

17 A. No.

18 Q. What is the scope of your testimony in this  
19 proceeding?

20 Q. I am testifying on Long Island Water  
21 Corporation's (LIAW or the Company) rate year  
22 forecasts of Leased Vehicles and Rate Case  
23 Expenses.

24 Q. Are you sponsoring any exhibits?

1 A. Yes. I have prepared Exhibit\_\_(TJS-1) which  
2 consists of the Company's responses to Staff  
3 Interrogatory Requests (IR) which I refer to in  
4 my testimony.

5 Q. Please summarize your testimony.

6 A. I am proposing an adjustment to Leased Vehicles  
7 to reduce the Company's rate year forecast of  
8 fuel costs from \$347,231 to \$180,065. I have  
9 also made several adjustments to the Company's  
10 rate year projection of rate case expenses  
11 reducing the amount from \$700,000 to \$187,000.

12 **Leased Vehicles Expense**

13 Q. How did LIAW determine its forecast of Leased  
14 Vehicles expense?

15 A. The Company's forecast of Leased Vehicles  
16 expense consists of leasing costs, fuel and  
17 maintenance costs totaling \$565,426, net of  
18 capitalization. As described on page 11-12 of  
19 Mr. Conroy's testimony, leasing costs reflect  
20 the Company's change from leasing to purchasing  
21 its new fleet of vehicles in addition to  
22 extending leases for vehicles in good standing.  
23 The move to purchase new vehicles reduces  
24 leasing costs from \$297,047 in the historic year

1 to \$257,916 in the rate year. Fuel costs were  
2 forecasted by applying a rate of change of  
3 36.31% to the historic test year fuel costs,  
4 based on a comparison of the 2010 average price  
5 of gas to the price of gas during the week of  
6 April 18, 2011. Maintenance costs were  
7 forecasted by applying a general inflation rate  
8 of 1.59% to test year maintenance expenses.

9 Q. Do you agree with the Company's rate year  
10 forecast of \$347,231 for vehicle fuel costs?

11 A. No. LIAW's method of comparing the 2010 average  
12 price of gas with the price of gas during the  
13 week of April 18, 2011 to represent an annual  
14 increase in costs does not provide an accurate  
15 projection of fuel costs incurred during the  
16 rate year.

17 Q. Please explain.

18 A. Applying the 36.31% increase to test year fuel  
19 costs and again during the bridge period assumes  
20 the rate of change in gas prices holds constant  
21 through the rate year. Furthermore, based on a  
22 three year average of the Company's consumption  
23 of fuel (57,640 gallons), the price of gas would  
24 need to be approximately \$6.025 per gallon in

1           the rate year in order to reach the Company's  
2           projection.

3    Q.   How are you proposing to project fuel costs for  
4           Leased Vehicles expense?

5    A.   I am proposing a rate year allowance of \$180,065  
6           based on a three year average of vehicle fuel  
7           costs from 2008 to 2010, which reduces the  
8           Company's forecast by \$167,166. This allowance  
9           not only represents actual fuel costs incurred  
10          by the Company but also reflects the volatility  
11          of gas prices from year to year (2008 average  
12          price of gas of \$3.429 compared with \$2.509  
13          average in 2009).

14   Q.   Are you proposing any additional adjustments to  
15          the Company's rate year forecast of Leased  
16          Vehicles expense?

17   A.   Yes. I am proposing to adjust the Company's  
18          capitalization rate of 16.98% to reflect a rate  
19          of 16.59% in accordance with Staff witness  
20          Leung's testimony, reducing the amount charged  
21          to capital by \$2,004 from \$87,261 to \$85,257.  
22          This capitalized portion of \$85,257 reduces the  
23          Company's total rate year forecast of Leased  
24          Vehicles expense from \$565,426 to \$428,649.

1           **Rate Case Expense**

2    Q.    Please provide an overview of LIAW's forecast of  
3           rate case expenses.

4    A.    LIAW forecasted an estimate of \$700,000 based on  
5           a total of legal expenses, external consultant  
6           fees, internal costs and litigation. The  
7           Company has proposed to defer these expenses and  
8           amortize over a three year period, or \$233,333  
9           annually.

10   Q.    Do you agree with the Company's projection of  
11           rate case expense?

12   A.    No. I am proposing several adjustments totaling  
13           \$513,000, reducing the Company's estimate from  
14           \$700,000 to \$187,000. These adjustments reduce  
15           the rate year amortization to \$62,333 in  
16           addition to a reduction to rate base of \$137,192  
17           unamortized rate case expenses, net of taxes.

18   Q.    Please explain your adjustment to LIAW's  
19           forecast of legal expenses.

20   A.    The company forecasted legal expenses of  
21           \$230,000. The Company disclosed this as costs  
22           based on a fully litigated rate case however it  
23           failed to show any support for the amount. In  
24           its response to Staff IR-169, the Company

1 indicated it has incurred actual costs of  
2 \$44,506 as of July 31, 2011. Based on an  
3 average of legal costs incurred (approximately  
4 \$15,000 per month), I am proposing an allowance  
5 of \$135,000, given that the Company has  
6 undergone settlements in its previous rate  
7 proceedings and hasn't had a fully litigated  
8 case since 1993.

9 Q. What do you propose should LIAW's current rate  
10 case not be settled?

11 A. In the event a settlement is not reached I  
12 propose an update for actual legal costs  
13 incurred through the filing of Brief on  
14 Exceptions; pending submission of actual bills  
15 and Staff review, consistent with the rules for  
16 updates provided on pages 8-9 of the  
17 Commission's "Statement of Policy on Test  
18 Periods in Major Rate Proceedings" (issued  
19 November 23, 1997).

20 Q. Are you proposing a similar adjustment for the  
21 Company's forecast of Consultant-Cost of  
22 Capital?

23 A. Yes. The Company's forecast of \$45,000 was an  
24 estimate based on a fully litigated case and has

1           incurred \$19,707 to date. I am proposing an  
2           allowance of \$31,000 which may be updated for  
3           actual costs incurred provided supporting  
4           documentation.

5    Q.    Please explain your adjustment to LIAW's  
6           forecast of "revenue requirement" costs.

7    A.    The Company also included in rate case expense  
8           revenue requirement costs of \$200,000. In its  
9           response to Staff IR-123, the Company detailed  
10          these costs as internal costs of the Service  
11          Company (Shared Services Group) for the  
12          preparation and ongoing proceedings of the rate  
13          case.

14   Q.    What is your recommendation regarding these  
15          costs.

16   A.    Labor and related costs incurred by the Service  
17          Company in support of a rate case are included  
18          by LIAW as Service Company expenses. Therefore,  
19          to prevent a double recovery of this expense I  
20          have removed these costs from the Company's  
21          forecast of rate case expenses.

22   Q.    Please explain your adjustment to LIAW's  
23          forecast for Service Company Study.

24   A.    The Company incurred consulting fees of \$42,875

1 after acquiring a market cost comparison of  
2 Service Company charges for 2009 and 2010. As  
3 established in Mr. Baryenbruch's testimony the  
4 study highlights the merits and reasonableness  
5 of costs provided by the American Water Service  
6 Company. However the study provides no  
7 necessity to the overall rate case and merely  
8 serves as a function of the regular procurement  
9 measures for LIAW. As such these costs will be  
10 removed from rate case expense.

11 Q. Are you proposing any other adjustments to rate  
12 case expense?

13 A. Yes. I am proposing to adjust the Company's  
14 forecast of Miscellaneous and Litigation  
15 Contingency costs for actual costs incurred,  
16 pending supporting documentation is provided.  
17 Removing LIAW's costs for Litigation Contingency  
18 reduces the Company's forecast of rate case  
19 expenses by \$150,000.

20 Q. What is your projection of rate case expense?

21 A. My projection of rate case expense consists of:

22	Legal	\$135,000
23	Consultant-CoC	31,000
24	Miscellaneous	<u>21,000</u>

