

NEW YORK WATER SERVICE CORPORATION

*54 East 64th Street
New York, N. Y. 10021*

*TOM SCHEINMAN
PRESIDENT*

212 - 751 - 6633

September 29, 1998

Honorable Stewart C. Boschwitz
Administrative Law Judge
New York State
Department of Public Service
Three Empire State Plaza
Albany, NY 12223

*ORIG-FILES
C97-W-1273 ETAL*

Re: Case nos. 97-W-1273 and 98-W-0844

Dear Judge Boschwitz:

I have just received a copy of the transcript of the September 16th Hearing and note considerable omissions made by the reporter in transcribing Mr. Bohn's testimony.

Enclosed is a copy of pages 78 through 88 of the transcript which we have marked and supplemented to correct Mr. Bohn's testimony so that it conforms with the prefiled testimony previously delivered in this proceeding. I trust there is some procedure for noting these corrections.

Thank you for your consideration.

Respectfully yours,



Tom Scheinman

Enc.
FEDERAL EXPRESS

cc(w/enc.): Honorable John Crary, Secretary
David R. Van Ort, Esq.

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STATE OF NEW YORK

PREFILED TESTIMONY - BOHN

1 Q Please state your name, address and present
2 position with New York Water Service Corporation
3 ("the Company").

4 A Vincent Bohn, Jr., 121 Dartmouth Street,
5 Rockville Centre, NY, and I hold the position of Vice
6 President-Utilities for the Company.

7 Q How long have you held that position and
8 what are your duties?

9 A I've held the position since November, 1985
10 and my duties are management of day-to-day utility
11 operations and responsibility for all financial and
12 accounting aspects of the Company's business.

13 Q What is your educational background?

14 A I hold a Bachelor of Mechanical Engineering
15 degree from Villanova University, obtained in 1963
16 and a Master of Science degree in Industrial
17 Management from Polytechnic Institute of New York,
18 obtained in 1970. I am a Certified Public Accountant
19 in New York and have attended the NARUC Rate Filing
20 Course.

21 Q What was your professional experience?

22 A Following graduation from Villanova
23 University I was commissioned an officer in the Civil
24 Engineer Corps. of the U.S. Navy and spent two years

INSERT: Page 79, Line 3

employed by the New York Telephone Company in a Management Development Program. After one year I was employed by Grumman Aerospace Corporation in the Industrial Engineering Department. I spent four years developing plant layouts, in the Lunar Module Contract Administration, and in the Manufacturing Information Systems Department.

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1 as a Public Works Officer at the Marine Corps Air
2 Facility, New River, Jacksonville, NC. In 1965 I was
3 ~~INSERT~~ In 1970 I joined the public accounting firm of
4 Ernst & Ernst as a member of the audit staff after
5 completing the firm's accelerated accounting
6 education program at Miami University of Ohio. I
7 spent seven years as an auditor with that firm. In
8 1977 I was employed by Unimax Corporation as
9 Corporate Controller and in 1979 was transferred to
10 Ward Leonard Electric Company, a Unimax subsidiary,
11 as Vice President-Finance and member of the Office of
12 the President. In November, 1985 I returned to
13 Shepaug Corporation, Unimax's parent, and assumed my
14 current positions.

15 Q Do you belong to any professional
16 organizations?

17 A I am a member of the American Institute of
18 Certified Public Accountants and a director of the
19 New York Chapter of the National Association of Water
20 Companies.

21 Q Are you familiar with the real property tax
22 refunds which are the subject of these proceedings?

23 A Yes, I am. And also with the extensive
24 efforts made by the Company to effectuate an almost

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1 30% reduction in the assessed value of the Company's
2 privately owned real property which I understand to
3 be the largest percentage assessment reduction ever
4 achieved in New York State for utility operating real
5 property.

6 Q Are you also familiar with the proceedings
7 held to date in these two pending Public Service
8 Commission ("PSC") cases and the prior proposed
9 settlement of Case 97-W-1273?

10 A Yes, I am, as I actively participated in
11 the initiation and processing of that Case along with
12 Mr. Scheinman, President of the Company. I took part
13 in all the settlement negotiations and helped to
14 finalize the December 4, 1997 settlement with Mr.
15 Scheinman and the Staff of the PSC.

16 Q Have you read the June 2, 1998 Order of the
17 PSC with respect to that settlement?

18 A Yes, I have.

19 Q What action did you take in connection with
20 that Order?

21 A \$2.203 million was promptly credited to our
22 customers and the Company retained \$522,500.
23 Payments of legal fees and expenses had previously
24 been made. In addition, I undertook a comprehensive

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1 study to review the projected expenses of the Company
2 for the period through December 31, 2001, and I
3 prepared a memo addressed to Staff which was
4 forwarded on June 18, 1998 by Mr. Scheinman to David
5 Van Ort, Esq., attorney for these proceedings for the
6 Department of Public Service. I did this to assist
7 the parties in their further negotiations as ordered
8 by the PSC.

9 Q I show you a copy of a 3-page letter on
10 Company letterhead addressed to David Van Ort, Esq.
11 and signed by Tom Scheinman. Is this the letter to
12 which you refer?

13 A Yes, that was the letter which was sent on
14 June 18th to Mr. Van Ort together with the enclosures
15 referred to therein.

16 I would like to have this letter marked for
17 Identification as Exhibit No. 1.

18 Q I show you a 3 page June 18, 1998 memo from
19 you to Staff, the subject being the Company's cash
20 requirements for the years 1999-2001. Is this the
21 memo that you had prepared?

22 A Yes, it is.

23 Q I now show you 8 pages dated 6/18/98, the
24 first page of which is entitled "Appendix 1" in the

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1 upper right hand corner and dated 6/18/98 in the
2 lower right hand corner. Is this the Appendix 1
3 referred to in your 3-page memo addressed to Staff?

4 A Yes, it is.

5 Q I now show you 3 pages marked Appendix 2 in
6 the upper right hand corner and dated 6/18/98 in the
7 lower right hand corner. Is this the Appendix 2
8 referred to in your 3-page memo addressed to Staff?

9 A Yes, it is.

10 I would like to mark for Identification as
11 Exhibit No. 2 this 3-page memo together with Appendix
12 1 and Appendix 2 thereto.

13 Q Mr. Bohn, did you prepare this memo and the
14 two Appendixes included in Exhibit 2?

15 A Yes, I did.

16 Q Please explain the purpose of the memo and
17 the basis upon which it was prepared.

18 A Staff had prepared a similar memo but used
19 assumptions which I believed to be unrealistic. I
20 thought it appropriate to calculate the Company's
21 cash needs utilizing known facts or reasonable
22 estimated assumptions as to future requirements.
23 Real Estate taxes were a major concern. Historically
24 the Company experienced real estate tax increases

INSERT: Page 83, Line 8

in our employ to maintain an appropriate level of service to our customers. We cannot cut our personnel staff beyond the reduced level we have already achieved. Staff had proposed only a 1% annual labor cost increase.

INSERT: Page 83, Line 3

and 1996 our real estate taxes increased from \$4,164,000 to \$5,305,000, an average annual increase of 5.48%. Accordingly, I projected a 5% annual increase. The total of these tax increases exceeds \$2 million. Staff had previously proposed that no increased real property taxes be allowed through December 31, 2001.

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1 every year except for the two years in which the
2 assessment reductions achieved in our certiorari
3 proceedings were put into place. Between 1991 ^{INSERT} We
4 expect labor costs to increase at least as much as
5 provided in our union contract, 3% for 1998, 3% for
6 1999, 3-1/2% for 2000 and, 3-1/2% for 2001. We have
7 recently completed a staff reduction program and now
8 require all of the personnel remaining. ^{INSERT} It is
9 generally reported that health insurance and pension
10 costs are rising at accelerated rates of between 4
11 and 12%. Inflation on other operating costs continue
12 at a rate in excess of 2%, and projecting 3 years
13 into the future bears risks of greater uncertainty.
14 I utilized 2, 2-1/2 and 3% increases for these costs,
15 Staff had utilized less than 1.7%. I believe all of
16 the assumptions and projections I have made to be
17 reasonable and realistic. My memo explains the
18 methodology I had utilized to project the Company's
19 cash requirements for 1991-2001.

20 Q What is the total sum you calculated to be
21 required by the Company to provide it an 11% rate of
22 return, the % allowed in the Company's last rate
23 case.

24 A My calculations came to a total of \$4.77

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1 million as being required by the Company for the
2 period through December 31, 2001. This amount would
3 be reduced by approximately \$17 thousand per ^{annum} ~~Annam~~
4 for each one-tenth of 1% lower rate of return.

5 Q Did you participate in settlement
6 discussions with Staff subsequent to the PSC's June 2
7 Order?

8 A Yes, Mr. Scheinman and I actively
9 participated in extensive negotiations with Staff
10 through numerous telephone conference calls and at a
11 meeting held at the PSC's New York, New York offices.

12 Q As a result of these negotiations and
13 conferences was an agreement in principle arrived at
14 to settle these proceedings.

15 A Yes.

16 Q I show you a document entitled "Stipulation
17 and Settlement" and a copy of a letter dated
18 September 9, 1998 from Tom Scheinman addressed to
19 David Van Ort, Esq. Was this proposed Stipulation
20 and Settlement faxed to Mr. Van Ort together with Mr.
21 Scheinman's letter on September 9th?

22 A Yes, it was.

23 Q In your opinion, are the term of the
24 agreement in principle properly set forth in the

PREFILED TESTIMONY - BOHN

1 proposed Stipulation and Settlement.?

2 A Yes, they are.

3 Q Have you received any comments from Staff
4 on the proposed Stipulation and Settlement.

5 A Yes, there was a prior draft and after
6 further negotiations changes were made to arrive at
7 the September 9 copy which is now the final form of
8 Stipulation and Settlement. I understand executed
9 copies have just been exchanged via fax.

10 I would like to mark for Identification as
11 Exhibit No. 3 a copy of the Stipulation and
12 Settlement Mr. Bohn has referred to.

13 Q Do you believe this Stipulation and
14 Settlement is in the best interests of your
15 customers.

16 A Definitely. The Stipulation places the
17 Company at great risk while assuring our customers of
18 no increase in rates prior to at least May, 2002.

19 Q How is the Company at risk?

20 A The Stipulation provides only 2 sources of
21 additional revenues for the Company. \$450 thousand a
22 year during each of 1999, 2000, and 2001 plus or
23 minus 85% of increases or decreases in real property
24 taxes. \$450 thousand is only 2.3% of present revenues

INSERT: Page 86, Line 20

extraordinarily high reduction in property assessments and thus lower taxes. If we did not obtain this reduction current annual real property taxes would be approximately \$600,000 higher than they actually are. The Commission has determined that only 10% of the \$5,225 million net first tax refund collected by the Company (after payment of attorney's fees and expenses) be retained by the Company. The Stipulation further provides that only 10% of the second refund of \$498,000 be retained by the Company and the entire balance of the second refund be added to the \$2.5 million ("the Fund") to be utilized to pay the Company a total of \$1,350 million over 3 years and the balance of the Fund, to the extent not required to reimburse the Company for increased real property taxes, will be returned to our customers. And the \$498,000 in additional property taxes was charged to the Company due to the delay and error of the taxing authority in reducing our assessments as had been agreed upon; had the Assessor's office acted promptly the Company would not have had to pay any of this excess tax. This second refund should have been wholly returned to the Company.

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1 on a non-cumulative basis. If costs other than real
2 property taxes actually went up only \$450 thousand in
3 each of the three years we would require a total of
4 \$2.7 million to offset such increases. This is
5 double the amount provided in the Stipulation. The
6 Company will only receive 85% of actual real property
7 tax increases. I can see no valid reason why the
8 Company should not be reimbursed 100% of real
9 property taxes. However, after extensive
10 negotiations with Staff, this Company could do no
11 better for itself as Staff was adamant in limiting
12 the amount the Company should be allowed.

13 Q How does the customer benefit from this
14 Stipulation and Settlement?

15 A The Company has done an excellent job in
16 controlling its costs and by reducing its staff in
17 recent years. We have not filed a rate case since
18 June, 1990. The Company had also processed a
19 certiorari proceeding over a 10-year period resulting
20 in an ^{INSECT} The Stipulation provides the Company will not
21 file a rate case prior to June, 2001. The
22 Stipulation provides 50% of all earnings in excess of
23 an 11% annual rate of return shall be refunded to
24 customers. On the other hand the Stipulation

INSERT: Page 87, Line 11

On the other hand, the customer is not charged with any increase in property taxes unless an increase actually occurs and then the Fund is charged with only 85% of such increase

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1 provides no minimum return to the Company; the
 2 Company bears all the risk. The Stipulation provides
 3 the Company's Revenue Reconciliation Program shall
 4 continue in effect until otherwise ordered by the
 5 PSC. This means that the Company's revenues will not
 6 be permitted to grow notwithstanding increased water
 7 consumption^{by our customers.} The Stipulation provides the Company will
 8 add 85% of decreases in real property taxes to the
 9 Fund, the balance of which will ultimately be
 10 distributed to our customers. This is a most unusual
 11 give-back provision for the benefit of our customers
 12 The Stipulation provides that the Company will
 13 annually pay customers interest on the Fund at the
 14 Unadjusted Customer Deposit Rate which is presently
 15 6.45% while it can only invest the Fund in limited
 16 forms which presently pay interest of less than 5%. For
 17 these reasons I believe the Stipulation and
 18 Settlement is very one sided in protecting the
 19 customer over the four year period. This would not
 20 have been possible if the Company had not done such
 21 an excellent job in maximizing the tax refund or if
 22 Staff had been more considerate of the risks the
 23 Company is being requested to undertake.

INSERT

24 Q Is there anything further you wish to add

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1 at this time?

2 A No, but I will be pleased to answer any
3 questions or furnish any additional information Judge
4 Boschwitz may request.

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