

REVISED
DIRECT TESTIMONY
OF
THOMAS L. GRIFFIN

ACCOUNTING DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

NEW LANDING UTILITY, INC.
DOCKET No. 04-0610
PROPOSED INCREASE IN WATER AND SEWER RATES
FEBRUARY 14, 2005

1 **Witness Identification**

2 **Q. Please state your name and business address.**

3 A. My name is Thomas L. Griffin. My business address is 160 North LaSalle St.
4 Chicago, Illinois 60601.

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

6 A. I am an Accountant in the Accounting Department of the Financial Analysis
7 Division of the Illinois Commerce Commission ("Commission").

8 **Q. Please describe your qualifications.**

9 A. For sixteen years prior to my employment with the Commission, I served private
10 industry in various capacities, ranging from Staff Accounting positions to Manager
11 of Accounting and encompassing all areas of accounting and internal auditing.
12 Since joining the Commission's Accounting Department in 1978 I have
13 participated in or supervised the accounting activity in cases involving gas,
14 electric, telephone and water utilities as well as cases involving companies in the
15 transportation industry. On behalf of the Commission and the US Government I
16 have prepared training material and taught Utility Accounting and other Utility
17 Regulation issues in the Republic of Kazakhstan. I have also made presentations
18 on Utility Regulation Issues to delegates from the nations of Egypt, Brazil and
19 Romania.

20 I have a degree in Business Administration with a concentration in Accounting
21 from Governors State University and a degree in Advanced Accounting from
22 International Accountants.

23 **Q. Have you previously offered expert testimony?**

24 A. Yes, I have testified in numerous cases before the Illinois Commerce
25 Commission. I have also testified as an expert accounting witness before the
26 Circuit Courts in Rock Island, Illinois and Chicago, Illinois.

27 **Q. What are your responsibilities in this case?**

28 A. I have been assigned to this case by the Manager of the Accounting Department
29 of the Commission. I am to review New Landing Utility, Inc.'s ("New Landing" or
30 "Company") filing that requests Commission approval of new tariffs. I am also to
31 review the filed testimony, analyze the underlying data and make
32 recommendations where appropriate.

33 **Purpose of Testimony**

34 **Q. What is the purpose of your testimony in this proceeding?**

35 A. The purpose of my testimony is to recommend adjustments, if any, to the
36 Company's proposed Rate Base and Operating Income and to make other
37 recommendations regarding the Company's accounting practices.

38 **Q. Are you sponsoring any schedules to support your recommendations?**

39 A. Yes, I am supporting the following schedules:

40 Schedule 2.01-W Utility Plant Adjustment – Water

41 Schedule 2.02-W-rev Accumulated Depreciation Adjustment – Water

42 Schedule 2.03-W-rev Contributions in Aid of Construction Adjustment – Water

43 Schedule 2.04-W Advances for Construction Adjustment – Water

44 Schedule 2.05-W Materials and Supplies Adjustment – Water

45 Schedule 2.06-W Cash Working Capital Adjustment – Water

46 Schedule 2.07 –W Materials and Supplies Expense Adjustment – Water

47 Schedule 2.08-W Chemicals Adjustment – Water

48 Schedule 2.09-W Contract Services – Accounting Adjustment – Water

49 Schedule 2.10-W Contract Services – Other Adjustment – Water

50 Schedule 2.11-W Contract Services- Management Adjustment – Water

51 Schedule 2.12-W Rents Adjustment - Water

52 Schedule 2.13-W Regulatory Expense Adjustment – Water

53 Schedule 2.14 -W Depreciation Expense Adjustment – Water

54 Schedule 2.01-S Utility Plant Adjustment – Sewer

55 Schedule 2.02-S-rev Accumulated Depreciation Adjustment – Sewer

56 Schedule 2.03-S Contributions In Aid of Construction Adjustment – Sewer

57 Schedule 2.04-S Advances for Construction Adjustment – Sewer

58	Schedule 2.05-S	Materials and Supplies Adjustment – Sewer
59	Schedule 2.06-S	Cash Working Capital Adjustment – Sewer
60	Schedule 2.07-S	Materials and Supplies Expense Adjustment – Sewer
61	Schedule 2.08-S	Chemicals Adjustment – Sewer
62	Schedule 2.09-S	Contract Services – Accounting Adjustment – Sewer
63	Schedule 2.10-S	Contract Services – Legal Adjustment – Sewer
64	Schedule 2.11-S	Contract Services – Management Adjustment – Sewer
65	Schedule 2.12-S	Rents Adjustment – Sewer
66	Schedule 2.13-S	Regulatory Expense Adjustment – Sewer
67	Schedule 2.14-S	Depreciation Expense Adjustment – Sewer

68

69 **Rate Base**

70 **Q. Do you have recommended adjustments to New Landing’s Utility Plant?**

71 A. Yes, my recommended adjustments to New Landing’s Utility Plant and the related
72 adjustments to Accumulated Depreciation, Contributions in Aid of Construction,
73 Accumulated Amortization to Contributions in Aid of Construction, Advances for
74 Construction, and Depreciation Expense are found on Schedules 2.01-W and
75 2.01-S; 2.02-W-rev and 2.02S-rev; 2.03-W-rev and 2.03-S; 204-W and 204-S; and
76 2.14-W and 2.14-S respectively. Calculating a proper level of Utility Plant for
77 ratemaking purposes is challenging for two reasons. First, the Company does not

78 maintain proper continuing property records as required by 83 Ill. Adm. Code 605,
79 Uniform System of Accounts for Water Utilities and 83 Ill. Adm. Code 650,
80 Uniform System of Accounts for Sewer Utilities (See Accounting instruction 28).
81 Second, it has been about 25 years since the Company has filed a rate case.

82 **Q. What method did you use to determine a proper level of Utility Plant for**
83 **ratemaking purposes?**

84 A. I began with the last Commission Order, which found an allowed level of Utility
85 Plant for ratemaking purposes (Order, Docket Nos. 79-0673/79-0675 Cons., pp.
86 11 and 15 (January 14, 1981)). I then asked Mr. Armstrong, Company President,
87 to provide documentation that justifies any additions to plant since that Order. Mr.
88 Armstrong provided some documentation, which I reviewed. I added those plant
89 items the documentation supported to the water and sewer rate bases.

90 **Q. What effect did this method have on the Company's rate bases?**

91 A. The result was to eliminate \$177,476 from the Company's water rate base and
92 \$37,961 from the sewer rate base. It would be inappropriate to include plant that
93 the Company has not supported with documentation in a utility rate base.

94 **Q. Please describe your other proposed adjustments to Utility Plant.**

95 A. On Schedules 2.02-W-rev and 2.02-S-rev, I calculated the Accumulated
96 Depreciation corresponding to the Staff-proposed Utility Plant. On Schedules

97 2.03-W-rev and 2.03-S, I calculated the Contributions in Aid of Construction and
98 related Amortization of Contributions in Aid of Construction corresponding to the
99 Staff-proposed Utility Plant. And, on Schedules 2.14-W and 2.14-S I calculated
100 test year Depreciation Expense corresponding to the Staff-proposed Utility Plant.

101 **Q. Do you have any other adjustments to Utility Plant?**

102 A. Yes, on page 3 of the Order in Docket Nos. 79-0673/79-0675 Cons., the
103 Commission allocated all of the Land and Land Rights to the water plant.
104 However, it is reasonable to split Land and Land Rights between water and
105 sewer. I have made an allocation of 52% to water and 48% to sewer based on
106 total Utility Plant. (See Schedules 2.01-W and 2.01-S).

107 **Q. Have you increased Rate Base or Repair and Maintenance Expense for the**
108 **replacement or renovation of the water storage tower?**

109 A. No, adding such future costs to a historical test year would only be proper if the
110 company could support the costs as “known and measurable”. I have reviewed a
111 November 2002 six-year renovation plan by Utility Service Company, Inc., which
112 has not been implemented, and for which no contract has been signed. I also
113 reviewed a report by Dixon Engineering and Inspection Services, which outlined
114 four options for resolving the water storage tower problem and, again, for which,
115 no contract has been signed. If, prior to the time for filing my rebuttal testimony,
116 the Company can furnish a signed contract which specifies cost and a completion

117 date that is no later than one year from the filing date of this rate case, I will
118 consider it with respect to rate base and repair and maintenance expense.

119 **Q. The Company has proposed a \$75 per month charge to Lost Nation Lake**
120 **Subdivision customers for water main replacement.¹ Do you support that**
121 **charge?**

122 A. No. There are two problems with the Company's proposed water main
123 replacement charge. First, the Company has not shown that the cost for the main
124 replacement is known and measurable. Second, the Company's monthly charge
125 proposal would recover the cost of the water main replacement more quickly than
126 it would be recovered if the cost of the water main replacement were included in
127 rate base. Plant in the Company's rate base is depreciated, and therefore
128 recovered, over 50 years. The Company has offered no justification as to why
129 NLU should be allowed to recover the cost of the water main replacement on an
130 expedited basis.

131 I do not disagree with the concept of having the customers that are to be served
132 by the water mains, paying for them as opposed to adding the cost to the entire
133 rate base. Although the proposed charge would accomplish this goal, the two
134 problems I have identified should be resolved before such an approach is
135 considered by the Commission. The types of investments for the escrow fund,
136 estimated rate of return, and conditions for withdrawal proposed by the Company
137 with respect to the proposed charge would all have to be considered and

138 approved by the Commission. The Company has not provided information in
139 regards to any of these issues. Thus at this time, I can offer no analysis of them.

140 **Q. Do you have any other recommendations regarding Utility Plant?**

141 A. Yes. The company should institute a continuing property records system within
142 three months of an Order in this case. The proposed system should be submitted
143 to the Commission's Manager of Accounting for approval. Such a system is
144 required under Commission rules, and is necessary as it helps to assure that the
145 Company has an opportunity to earn a fair return of and on the investment that is
146 made on behalf of customers. This in turn will help assure that the Company has
147 sufficient funds to provide safe and reliable service to it's customers.

148 **Q Please describe your proposed adjustment to Materials and Supplies**
149 **Inventory set forth on Schedules 2.05-W and 2.05-S.**

150 A. The Company has \$7,274 of Materials and Supplies inventory, which it has
151 divided evenly between water and sewer on its books.² I discussed this with Mr.
152 Armstrong and he confirmed that this inventory consists of non-used and useful
153 scrap. Since this inventory is not used to provide service to the ratepayer, it
154 should not be included in rate base. I have shown an adjustment to the water and
155 sewer rate bases which removes the Materials and Supplies inventory on
156 schedules 2.05-W and 2.05-S.

¹ Direct Testimony of Gene L. Armstrong, Page 10; NLU Exhibit PR Original Sheet No. 1

² NLU Exhibit CBS

157 **Q. Please describe your proposed adjustments to Cash Working Capital set**
158 **forth on Schedules 2.06-W and 2.06-S.**

159 A. In Schedules 2.06-W and 2.06-S, I proposed an adjustment for a Company cash
160 working capital requirement. The Company needs to keep a supply of working
161 cash available to pay for its current obligations. This can be calculated with a
162 sophisticated lead lag study but for small utilities the Commission has routinely
163 applied a formula approach, which assumes 45 lag days. This is the approach I
164 used to determine the Company's cash working capital requirement.

165 **Operating Expenses**

166 **Q. Please describe your proposed adjustment to Materials and Supplies**
167 **Expense set forth on Schedules 2.07-W and 2.07-S.**

168 A. I have reclassified repair costs, which were charged to material and supplies.
169 This appears to have, simply been a coding error by the Company.

170 **Q. How does the Company account for its chemicals expense?**

171 A. The company does not maintain an inventory of chemicals, instead it buys
172 chemicals as needed. Mr. Armstrong has said that this is preferable because he
173 can obtain the chemicals quickly and he prefers not to have chemicals lying
174 around. Normally, when a company acquires chemicals, it treats those chemicals
175 as an investment in inventory and then recognizes the cost of the chemicals as an

176 expense as the chemicals are used. This is known as accrual accounting.
177 However, the Company does not use this method to recognize the cost of its
178 chemicals. Instead, the Company recognizes the full cost of the chemicals when
179 they are acquired. Since the chemicals are not always paid for within a short time
180 after being acquired, the Company books show lumpiness for their chemical
181 expense. This results in the Company's books reflecting no cost for chemicals
182 during most periods and disproportionately large costs in other periods. These
183 costs do not reflect the period in which chemicals were used. Also, for years 2002
184 and 2003, all of the chemical expense was charged to water.³ In 2001, the
185 chemical expense was split 50-50 between water and sewer.⁴ The Company has
186 provided no analysis showing a proper split.

187 **Q. Please describe your proposed adjustment to Chemicals set forth on**
188 **Schedules 2.08-W and 2.08-S.**

189 A. First, for the years 2002 and 2003, I allocated 50% of the chemical expense to
190 sewer. Second, I took an average of the chemical expense for the last three
191 years and used that result for a level of chemical expense for ratemaking
192 purposes.

193 **Q. Do you have any recommendations for the accounting of chemical**
194 **expense?**

³ NLU Exhibit ISA-1

⁴ Id.

195 A. Yes, I have two recommendations. First, the Company should employ accrual
196 accounting with regards to chemical expense. This will smooth out the cost and
197 the books will accurately reflect the period when chemicals are being used.
198 Second, the company should properly allocate chemical costs between water and
199 sewer.

200 **Q. Please describe your proposed adjustments to Contract Services-**
201 **Accounting set forth on Schedules 2.09-W and 2.09-S.**

202 A. Accounting expenses in the test year include billings from an accounting firm,
203 which cover services performed over several years. Included in the accounting
204 firm billings were fees for the preparation of tax returns for prior years, which were
205 submitted to the Company but never filed with the Internal Revenue Service or
206 Illinois Department of Revenue. In fact, Mr. Armstrong stated that New Landing
207 has never filed a tax return. I found no evidence that any taxes were due as the
208 Company books show losses in every year. However, the filing of state and
209 federal income tax returns is required, even if no taxes are due. I have disallowed
210 the accounting firms costs. However, I have allowed a total of \$400 for
211 accounting services for ratemaking purposes (\$200 each for water and sewer).
212 Based on prior billings, this should be sufficient for the preparation of tax returns
213 and miscellaneous services in the future.

214 **Q. Please describe your proposed adjustments for Contract Services – Legal**
215 **set forth on Schedules 2.10-W and 2.10-S.**

216 A. The Company included legal expenses for water in the Contract Services – Other
217 account and in the Contract Services – Legal account for Sewer. Most of the
218 legal expenses are for services provided by Mr. Armstrong’s law firm⁵, which is an
219 affiliated interest of New Landing. However, any transactions between affiliated
220 interests that has not been approved by the Commission pursuant to Section 7-
221 101(3) of the Illinois Public Utilities Act are not effective (220 ILCS 5/7-101(3)).
222 (New Landing has not received the necessary approval by the Commission for the
223 affiliated transaction and is currently seeking such approval in Docket No. 04-
224 0666. Until the Commission has reviewed the terms of the transaction and
225 determined that it is in the public interest, these costs should not be recovered
226 through rates The remaining legal expenses are for services performed by
227 outside law firms, which are primarily for representation in legal proceedings
228 brought by the Illinois Environmental Protection Agency against the Company. I
229 have allowed those costs but I have amortized them over a five year period.
230 Otherwise, the full costs would be recovered from ratepayers each year that new
231 rates are in effect.

232 **Q. Please describe your proposed adjustments to Contract Services –**
233 **Management set forth on Schedules 2.10-W and 2.11-S.**

234 A. The management services are performed by DAME Co.⁶, an affiliated interest of
235 New Landing. However, as stated above, such transactions between affiliated
236 interests that have not been approved by the Commission pursuant to Section 7-

⁵ Direct Testimony of Gene L. Armstrong, Page 2.

237 101(3) of the Act are not effective. New Landing has not received the necessary
238 approval by the Commission for these affiliated transactions. Until such approval
239 is given, these costs should not be recovered through rates.

240 **.Q. Please describe your proposed adjustment to Contract Services – Other set**
241 **forth on Schedule 2.10-W.**

242 A. I have averaged Repair and Maintenance Expense over the last four years for
243 ratemaking purposes. This is done so that rates will recover expected Repair and
244 Maintenance costs for a normal year as opposed to actual costs in the test year.
245 Repair and Maintenance costs will fluctuate from year to year due to a number of
246 factors. By including an average amount of Repair and Maintenance costs over a
247 number of years, the Company is more likely to recover the appropriate amount of
248 costs over the life of the rates. New Landing does not show Repair and
249 Maintenance costs for sewer. The lack of Repair and Maintenance costs for
250 sewer seemed unusual to me but Mr. Armstrong verified that there were none.

251 **Q. Please describe your proposed adjustments for Rents set forth on**
252 **Schedules 2.12-W and 2.12-S.**

253 A. Rents are paid to CAM Properties⁷, an affiliated interest of New Landing.
254 However, again, any transactions between affiliated interests that have not been
255 approved by the I Commission pursuant to Section 7-101(3) of the Act are not

⁶ Direct Testimony of Gene L. Armstrong, Page 3.

⁷ Id.

256 effective. New Landing has not received the necessary approval by the
257 Commission for this affiliated transaction but it is currently seeking approval in
258 Docket No. 04-0666. Until such approval is given, these costs should not be
259 recovered through rates.

260 **Q. Please describe your proposed adjustment to Regulatory Expense set forth**
261 **on Schedules 2.13-W and 2.13-S.**

262 A. I have proposed an adjustment that recognizes rate case expenses for the current
263 case. I have added the cost of the Company's attorney in this rate case and
264 amortized the cost over five years. As of the time of my review of the Company's
265 records, the Company only recorded billing through July 8, 2004. If the Company
266 can produce additional billing for rate case expense in time for me to review them
267 prior to submitting Rebuttal Testimony in this docket, I will consider adding the
268 additional cost.

269 For Sewer, I also eliminated a \$93 late fee paid to the EPA. Rate payers should
270 not be responsible for fees associated with the company not paying bills when
271 due.

272

273 **Conclusion**

274 **Q Please summarize your recommendations**

- 275 A. 1) I recommend that all of my proposed adjustments to the Company's rate base .
276 and operating expenses be accepted by the Commission.
- 277 2) I recommend that, within three months after the Commission has issued an
278 Order in this docket, the Company submit a system for maintaining continuing
279 property records to the Commission's Manager of Accounting for approval.
- 280 3) I recommend that the Company account for chemicals on an accrual basis and
281 that the Company allocate the expense between water and sewer at the time
282 the expense is booked.
- 283 4) I recommend that the management of New Landing more closely monitor the
284 Company's rates so that changes in tariffs will be requested when it is
285 necessary in order to maintain the Company's financial integrity and to provide
286 safe and reliable service to its customers. New Landing has maintained the
287 same tariffs for about 25 years. This has resulted in insufficient funds for the
288 Company and potential rate shock for its customers.

289 **Q. Does this end your direct testimony?**

290 A. Yes it does.

291

292

Revisions to Staff Exhibit 2.0 shown on Staff Exhibit 2.0-R:

Schedule 2.02-W-rev:

- Line 1, col. (c)
- Line 4, col. (c)
- Line 9, col. (c)
- Line 10, col. (c)
- Line 14, col. (c)
- Line 16, col. (c)

Schedule 2.03-W-rev

- Line 10, col. (d)
- Line 14, col. (d)
- Line 16, col. (d)
- Line 18, col. (d)

Schedule 2.02-S-rev

- Line 4, col. (c)
- Line 7, col. (c)
- Line 9, col. (c)

New Landing Utility, Inc
 Utility Plant Adjustment - Water
 For the Test Year Ending December 31, 2003

Line No.	Description	Amount Per NLU	Amount Per Dks. 79-0673 & 79-0675 Cons	Net Staff Allowed Additions	Amount Per Staff	Staff Adjustment
	(a)	(b)	(c)	(d)	(c) + (d)	(b)-(d)
1	Organization	\$ 127,726	\$ 53,112		\$ 53,112	\$ (74,614)
2	Land and Land Rights	14,230	14,230	(6,830)	7,400	(6,830)
3	Structures and Improvements	4,578	4,578		4,578	-
4	Collecting Reservoirs	37,354	36,849		36,849	(505)
5	Wells and Springs	46,202	44,043		44,043	(2,159)
6	Pumping Equipment	30,547	18,557	9,650	28,207	(2,340)
7	Water Treatment Equipment	9,494	9,276		9,276	(218)
8	Distribution Reservoirs & Standpipes	52,435	49,646		49,646	(2,789)
9	Transmission and Distribution Mains	735,955	535,019	208,440	743,459	7,504
10	Services to Customers	132,908	60,819		60,819	(72,089)
11	Meters and Meter Installations	20,775	-	1,815	1,815	(18,960)
12	Transportation Equipment	630	-	-	-	(630)
13	Stores Equipment	3,846	-		-	(3,846)
14	Total	<u>\$ 1,216,680</u>	<u>\$ 826,129</u>	<u>\$ 213,075</u>	<u>\$ 1,039,204</u>	<u>\$ (177,476)</u>

New Landing Utility, Inc
 Accumulated Depreciation Adjustment - Water
 For the Test Year Ending December 31, 2003

Line No.	Description	Staff Utility Plant	Accumulated Depreciation
	(a)	(b)	(c)
1	Organization	\$ 53,112	\$ 29,834
2	Land and Land Rights	7,400	-
3	Structures and Improvements	4,578	2,469
4	Collecting Reservoirs	36,849	18,425
5	Wells and Springs	44,043	25,927
6	Pumping Equipment	28,207	2,256
7	Water Treatment Equipment	9,276	5,244
8	Distribution Reservoirs & Standpipes	49,646	29,391
9	Transmission and Distribution Mains	743,459	409,445
10	Services to Customers	60,819	36,772
11	Meters and Meter Installations	1,815	828
12	Transportation Equipment	-	-
13	Stores Equipment	-	-
14	Total	<u>\$ 1,039,204</u>	<u>\$ 560,591</u>
15	Accumulated Depreciation per Company		<u>\$ 649,617</u>
16	Staff Adjustment		<u>\$ (89,026)</u>

New Landing Utility, Inc
 Contributions in Aid of Construction Adjustment - Water
 For the Test Year Ending December 31, 2003

Line No.	Description	Staff Utility Plant	CIAC	Accum. Amort.. CIAC
	(a)	(b)	(c)	(d)
1	Organization	\$ 53,112	\$ -	
2	Land and Land Rights	7,400	-	
3	Structures and Improvements	4,578	-	
4	Collecting Reservoirs	36,849	-	
5	Wells and Springs	44,043	-	
6	Pumping Equipment	28,207	-	
7	Water Treatment Equipment	9,276	-	
8	Distribution Reservoirs & Standpipes	49,646	-	
9	Transmission and Distribution Mains	743,459	240,771	119,283
10	Services to Customers	60,819	41,100	25,893
11	Meters and Meter Installations	1,815	-	
12	Transportation Equipment	-	-	
13	Stores Equipment	-	-	
14	Total	<u>\$ 1,039,204</u>	<u>\$ 281,871</u>	<u>\$ 145,176</u>
15	CWIP per Company		<u>\$ 447,122</u>	<u>\$ 183,672</u>
16	Staff Adjustment		<u>\$ 165,251</u>	\$ (38,496)
17	Reclassify to Advances for Construction		<u>\$ 29,727</u>	<u>-595</u>
18	Total Staff Adjustment			<u>\$ (39,091)</u>

New Landing Utility, Inc
Advances for Construction Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Advances for Construction per Company	\$ 29,727
2	Advances for Construction per Staff	<u>-</u>
3	Proposed Adjustment	<u><u>\$ (29,727)</u></u>

New Landing Utility, Inc
Materials & Supplies Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Materials & Supplies Inventory Per Company	\$ 3,637
2	Material & Supplies Inventory Per Staff	<u>-</u>
3	Staff-proposed Adjustment	<u>\$ (3,637)</u>

New Landing Utility, Inc
 Cash Working Capital Adjustment - Water
 For the Test Year Ending December 31, 2003

Line No.	Description (a)	Amount (b)
1	Total Operating Expenses	\$ 95,120 ⁽¹⁾
2	Less: Expense Not Requiring Cash Working Capital	
3	Bad Debts	(19,018) ⁽¹⁾
4	Depreciation Expense	(13,342) ⁽¹⁾
5	Amortization Expense	(1,063) ⁽¹⁾
6	Taxes Other Than Income	<u>(3,744) ⁽¹⁾</u>
7	Operating Expenses Requiring Cash Working Capital	\$ 57,953
8	45 (Lag Days) / 360 (Annual Days)	12.5%
9	Cash Working Capital per Staff (Line 7 x Line 8)	\$ 7,244
10	Cash Working Capital Per Company	<u>- ⁽²⁾</u>
11	Staff-proposed Adjustment	<u>\$ 7,244</u>

Notes

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.1-W, Column (h).

(2) Source: NLU Exhibit CBS, Page 2, Rate Base Amount and Description.

New Landing Utility, Inc
Materials & Supplies Expense Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Materials & Supplies Expence Per Company	\$ 996
2	Material & Supplies Expense Per Staff	<u>11</u>
3	Staff-proposed Adjustment	<u><u>\$ (985)</u></u>

New Landing Utility, Inc
Chemicals Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)	
1	Chemicals per Company	\$ 7,349	
2	Chemicals Per Staff	<u>2,291</u>	(1)
3	Staff-proposed Adjustment	<u>\$ (5,058)</u>	

(1) Page 2, line 5

New Landing Utility, Inc
Chemicals Adjustment - Water
For the Test Year Ending December 31, 2003

Line No.	Description (a)	Amount (b)	Allocate to Sewer (c)	Total Water (d)
1	Chemicals - 2001	\$ 2,100	\$ -	\$ 2,100
2	Chemicals - 2002	2,199	1,100	1,099
3	Chemicals - 2003	7,349	3,674	<u>3,675</u>
4	Total			<u>\$ 6,874</u>
5	Average			<u>\$ 2,291</u>

New Landing Utility, Inc
Contract Services - Accounting Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Contract Services - Accounting per Company	\$ 1,394
2	Contract Services - Accounting Per Staff	<u>200</u>
3	Staff-proposed Adjustment	<u><u>\$ (1,194)</u></u>

New Landing Utility, Inc
Contract Services - Other Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Contract Services - Other per Company	\$ 200,180
2	Contract Services - Other Per Staff	<u>40,095</u>
3	Staff-Proposed Adjustment	<u><u>\$ (160,085)</u></u> (1)

(1) Pg. 2, line 8

New Landing Utility, Inc
 Contract Services - Other Adjustment - Water
 For the Test Year Ending December 31, 2003

Line No.	Description	Per Company	Per Staff	Proposed Adjustment
	(a)	(b)	(c)	(d)
1	Legal - Armstrong	\$ 137,905	\$ -	\$ (137,905)
2	Legal - Other	28,449	5,690	(22,759)
3	Certified Operator	5,000	5,000	-
4	Billing Clerk	3,125	3,125	-
5	On-Site Manager Fee and Expenses	19,900	19,900	-
6	Repairs and Maintanance	3,499	4,078	(1) 579
7	Other	<u>2,302</u>	<u>2,302</u>	<u>-</u>
8	Total	<u>\$ 200,180</u>	<u>\$ 40,095</u>	<u>\$ (160,085)</u>

(1) Pg. 3, line 8

New Landing Utility, Inc
Contract Services - Other Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Per Company</u>
	(a)	(b)
1	Repairs and maintenance 2000	\$ 4,672
2	Repairs and maintenance 2001	6,406
3	Repairs and maintenance 2002	1,734
4	Repairs and maintenance 2003	<u>3,499</u>
5	Total	\$ 16,311
6	Average	<u>\$ 4,078</u>

New Landing Utility, Inc
Contract Services - Management Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Contract Services - Management per Company	\$ 3,300
2	Contract Services - Management Per Staff	<u>-</u>
3	Staff-proposed Adjustment	<u><u>\$ (3,300)</u></u>

New Landing Utility, Inc
Rents Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Rents per Company	\$ 1,800
2	Rents Per Staff	<u>-</u>
3	Staff-Proposed Adjustment	<u><u>\$ (1,800)</u></u>

New Landing Utility, Inc
 Regulatory Expense Adjustment - Water
 For the Test Year Ending December 31, 2003

Line No.	Description (a)	Amount (b)	(c)
1	Regulatory per Company	\$ 71	
2	Regulatory Per Staff	<u>150</u>	(1)
3	Staff-Proposed Adjustment	<u><u>\$ 79</u></u>	
 (1) Calculation			
4	Regulatory Fees		\$ 71
5	Rate Case Expense	394	
6	20% of Rate Case Expense		<u>79</u>
7	Total Per Staff		<u><u>150</u></u>

New Landing Utility, Inc
Depreciation Expense Adjustment - Water
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Depreciation Expense per Company	\$ 19,836
2	Depreciation Expense Per Staff	<u>13,342</u> (1)
3	Staff-Proposed Adjustment	<u>\$ (6,494)</u>
4	(1) pg.2, line 13	

New Landing Utility, Inc
 Depreciation Expense Adjustment - Water
 For the Test Year Ending December 31, 2003

Line No.	Description	Staff Utility Plant	Depreciation Expense	Staff CIAC	Amortization CIAC
	(a)	(b)	(c)	(d)	(e)
1	Structures and Improvements	4,578	\$ 92	\$ -	\$ -
2	Collecting Reservoirs	36,849	737		
3	Wells and Springs	44,043	881		
4	Pumping Equipment	28,207	564		
5	Water Treatment Equipment	9,276	186		
6	Distribution Reservoirs & Standpipes	49,646	993		
7	Transmission and Distribution Mains	743,459	14,869	270,498	5,410
8	Services to Customers	60,819	1,216	41,100	822
9	Meters and Meter Installations	1,815	36		
10	Transportation Equipment	-	-		
11	Stores Equipment	-	-		
12	Total	<u>\$ 978,692</u>	<u>\$ 19,574</u>	<u>\$ 311,598</u>	<u>\$ 6,232</u>
13	Net Depreciation Expense (c - e)		<u>\$ 13,342</u>		
14					
15					
16					

New Landing Utility, Inc
 Utility Plant - Sewer
 For the Test Year Ending December 31, 2003

Line No.	Description	Amount Per NLU	Amount Per Dks. 79-0673 & 79-0675 Cons	Net Staff Allowed Additions	Amount Per Staff	Staff Adjustment
	(a)	(b)	(c)	(d)	(c) + (d)	(b)-(d)
1	Organization	\$ 5,374	\$ 5,374		\$ 5,374	\$ -
2	Land and Land Rights	-		6,830	6,830	\$ 6,830
3	Structures and Improvements	335,641	320,842		320,842	\$ (14,799)
4	Collecting Structures	436,684	365,814	103,909	469,723	\$ 33,039
5	Services to Customers	63,522	1,827		1,827	\$ (61,695)
6	Pumping Equipment	1,336			-	\$ (1,336)
7	Total	<u>842,557</u>	<u>693,857</u>	<u>110,739</u>	<u>804,596</u>	<u>(37,961)</u>

New Landing Utility, Inc
 Accumulated Depreciation - Sewer
 For the Test Year Ending December 31, 2003

Line No.	Description (a)	Staff Utility Plant (b)	Accumulated Depreciation (c)
1	Organization	\$ 5,374	\$ 3,171
2	Land and Land Rights	6,830	-
3	Structures and Improvements	320,842	188,858
4	Collecting Structures	469,723	262,590
5	Services to Customers	1,827	925
6	Pumping Equipment	<u>-</u>	<u>-</u>
7	Total	<u>\$ 804,596</u>	<u>\$ 455,544</u>
8	Accumulated Depreciation per Company		<u>\$ 436,704</u>
9	Staff Adjustment		<u>\$ 18,840</u>

New Landing Utility, Inc
 Contributions in Aid of Construction - Sewer
 For the Test Year Ending December 31, 2003

Line No.	Description	Staff Utility Plant	CIAC	Accum. Amort.. CIAC
	(a)	(b)	(c)	(d)
1	Organization	\$ 5,374	\$ -	
2	Land and Land Rights	6,830	-	
3	Structures and Improvements	320,842	-	
4	Collecting Structures	469,723	148,363	74,175
5	Services to Customers	1,827	-	
6	Pumping Equipment	<u>-</u>	<u>-</u>	
7	Total	\$ 804,596	\$ 148,363	\$ 74,175
8	CWIP per Company		<u>\$ 310,712</u>	<u>\$ 127,636</u>
9	Staff Adjustment		<u>\$ 162,349</u>	\$ (53,461)
10	Reclassify to Advances for Construction		<u>\$ 20,657</u>	<u>-413</u>
11	Total Staff Adjustment			<u>\$ (53,874)</u>

New Landing Utility, Inc
Advances for Construction Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Advances for Construction per Company	\$ 20,657
2	Advances for Construction per Staff	<u>-</u>
3	Staff-proposed Adjustment	<u>\$ 20,657</u>

New Landing Utility, Inc
Materials & Supplies Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Materials & Supplies Inventory Per Company	\$ 3,637
2	Material & Supplies Inventory Per Staff	<u>-</u>
3	Staff-proposed Adjustment	<u><u>3,637</u></u>

New Landing Utility, Inc
 Cash Working Capital Adjustment - Sewer
 For the Test Year Ending December 31, 2003

Line No.	Description (a)	Amount (b)
1	Total Operating Expenses	\$ 91,456 ⁽¹⁾
2	Less: Expense Not Requiring Cash Working Capital	
3	Bad Debts	(18,542) ⁽¹⁾
4	Depreciation Expense	(12,468) ⁽¹⁾
5	Amortization Expense	(107) ⁽¹⁾
6	Taxes Other Than Income	<u>(3,744) ⁽¹⁾</u>
7	Operating Expenses Requiring Cash Working Capital	\$ 56,595
8	45 (Lag Days) / 360 (Annual Days)	12.5%
9	Cash Working Capital per Staff (Line 7 x Line 8)	\$ 7,074
10	Cash Working Capital Per Company	<u>- ⁽²⁾</u>
11	Staff-proposed Adjustment	<u>\$ 7,074</u>

Notes

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.1-W, Column (h).

(2) Source: NLU Exhibit CBS, Page 2, Rate Base Amount and Description.

New Landing Utility, Inc
Materials & Supplies Expense Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Materials & Supplies Inventory Per Company	\$ 996
2	Material & Supplies Inventory Per Staff	<u>11</u>
3	Staff-proposed Adjustment	<u><u>(985)</u></u>

New Landing Utility, Inc
Chemicals Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)	
1	Chemicals per Company	\$ -	
2	Chemicals Per Staff	<u>2,291</u>	(1)
3	Staff-proposed Adjustment	<u><u>\$ 2,291</u></u>	

(1) Page 2, line 5

New Landing Utility, Inc
Chemicals Adjustment - Sewer
For the Test Year Ending December 31, 2003

Line No.	Description	Amount	Allocate From Water	Total Sewer
	(a)	(b)	(c)	(d)
1	Chemicals - 2001	\$ 2,100	\$ -	\$ 2,100
2	Chemicals - 2002	-	1,100	\$ 1,100
3	Chemicals - 2003	-	3,674	\$ 3,674
4	Total			<u>\$ 6,874</u>
5	Average			<u>\$ 2,291</u>

New Landing Utility, Inc
Contract Services - Accounting Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Contract Services - Accounting per Company	\$ 1,394
2	Contract Services - Accounting Per Staff	<u>200</u>
3	Staff-proposed Adjustment	<u><u>\$ (1,194)</u></u>

New Landing Utility, Inc
Contract Services - Legal Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Contract Services - Legal per Company	\$ 24,759
2	Contract Services - Legal Per Staff	<u>2,483</u>
3	Staff-proposed Adjustment	<u>\$ (22,276) (1)</u>

(1) pg. 2, line 3

New Landing Utility, Inc
Contract Services - Legal Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Per Company</u>	<u>Per Staff</u>	<u>Proposed Adjustment</u>
	(a)	(b)	(c)	(d)
1	Legal - Armstrong	\$ 12,343	\$ -	\$ (12,343)
2	Legal - Other	12,416	2,483	(9,933)
3	Total	<u>\$ 24,759</u>	<u>\$ 2,483</u>	<u>\$ - \$ (22,276)</u>

New Landing Utility, Inc
Contract Services - Management Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Contract Services - Management per Company	\$ 3,300
2	Contract Services - Management Per Staff	<u>-</u>
3	Staff-proposed Adjustment	<u><u>\$ (3,300)</u></u>

New Landing Utility, Inc
Rents Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
	(a)	(b)
1	Rents per Company	\$ 1,800
2	Rents Per Staff	<u>-</u>
3	Staff-Proposed Adjustment	<u><u>\$ (1,800)</u></u>

New Landing Utility, Inc
Regulatory Expense Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
	(a)	(b)	(c)
1	Regulatory Expense per Company	\$ 5,093	
2	Regulatory Expense Per Staff	<u>5,150</u>	
3	Staff-Proposed Adjustment	<u>\$ 57</u>	
4	(1) <u>Calculation</u>		\$ 5,000
5	Regulatory Fees		\$ 71
6	Rate Case Expense	394	
7	20% of Rate Case Expense		<u>79</u>
8	Total Per Staff		<u>5,150</u>

New Landing Utility, Inc
Depreciation Expense Adjustment - Sewer
For the Test Year Ending December 31, 2003

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)
1	Depreciation Expense per Company	\$ 15,246
2	Depreciation Expense Per Staff	<u>12,468</u> (1)
3	Staff-Proposed Adjustment	<u>\$ (2,778)</u>
4	(1) pg.2, line 6	

New Landing Utility, Inc
 Depreciation Expense Adjustment -Sewer
 For the Test Year Ending December 31, 2003

Line No.	Description (a)	Staff Utility Plant (b)	Depreciation Expense (c)	Staff CIAC (d)	Amortization CIAC (e)
1	Structures and Improvements	\$ 320,842	\$ 6,417	\$ -	\$ -
2	Collecting Structures	469,723	9,394	169,020	3,380
3	Services to Customers	1,827	37		
4	Pumping Equipment	-	-		
5	Total	<u>\$ 792,392</u>	<u>\$ 15,848</u>	<u>\$ 169,020</u>	<u>\$ 3,380</u>
6	Net Depreciation Expense (c - e)		<u>\$ 12,468</u>		