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TESTIMONY OF JOHN D. WILLIAMS
FLORIDA PUBLIC SERVICE COMMISSION

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SOUTHERN STATES UTILITIES, INC.

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FPSC-RECORDS/REPORTING

DIRECT TESTIMONY OF JOHN D. WILLIAMS

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2 | Q. Would you please state your name and address?

3 | A. John D. Williams, 101 E. Gaines Street, Tallahassee, Florida 32399.

4 | Q. By whom are you employed?

5 | A. The Florida Public Service Commission (PSC).

6 | Q. How long have you been so employed?

7 | A. For approximately 18 years.

8 | Q. Would you state your educational background and give a summary of your
9 | experience?

10 | A. I received a Bachelor of Science Degree from the University of Florida
11 | with a major in Business Administration. During the course of my employment
12 | with the Florida Public Service Commission, I have spent approximately 15
13 | years as a rate analyst, rate supervisor or Rate Bureau Chief. I have
14 | testified and made recommendations regarding rate structure, rate design and
15 | service availability policies and charges in more than 100 cases over the
16 | course of my employment. For the last 3 years, I have been the Bureau Chief
17 | of Certification. I have attended many training courses and seminars on
18 | utility regulation and rate making sponsored by the NARUC and the American
19 | Water Works Association. I am a member of the staff subcommittee of the NARUC
20 | Water Committee, and for the last 5 years have been on the faculty of the
21 | Eastern Rate Seminar sponsored by the NARUC Water Committee.

22 | I am currently responsible for the PSC's role in developing a statewide
23 | Water Conservation Plan with the Florida Water Management Districts and the
24 | Department of Environmental Regulation.

25 | Q. Have you ever testified as an expert witness?

1 | A. Yes, I have testified as an expert witness in Commission hearings. I
2 | testified in Docket No. 800161 (Investigation of CIAC), Docket No. 800634
3 | (Dyna-Flo Rate Case), Docket No. 810433 (Seagull Utility Rate Case), Docket
4 | No. 810485 (Palm Coast Utility Company Rate Case), and Docket No. 870743
5 | (Marco Island Utilities New Class of Service). I have also been qualified as
6 | an expert witness in several proceedings before DOAH hearing officers. In
7 | each of these cases, my testimony was related to rates and service
8 | availability.

9 | Q. What is the purpose of your testimony today?

10 | A. The purpose of my testimony today is to discuss the various options the
11 | Commission has regarding rate structure for Southern States Utilities, Inc.
12 | (SSU).

13 | Q. Please explain some of the alternatives the Commission has with respect
14 | to rate structure?

15 | A. The Company has provided sufficient data that allows the Commission
16 | staff to calculate separate rate base, revenue requirement and rate schedules
17 | for each SSU system on an individual basis. When the staff prepares its
18 | recommendation at the conclusion of this case, taking into consideration all
19 | adjustments, "stand alone" rates will be calculated for each system. Pure,
20 | "stand alone" rates for each system can be one rate structure alternative.
21 | The obvious advantage of stand alone rates is that each system would pay its
22 | true cost of service. On the other hand, there would be tremendous extremes
23 | in the final rates of the systems so that some customers would see large
24 | increases or decreases from their current rates. Many SSU systems have never
25 | operated under stand alone rates. Also, customers in systems in close

1 | proximity to one another could have large rate variances depending on the age
2 | of the systems, contribution level, and type of treatment.

3 | In contrast, all water or wastewater systems could be combined to
4 | calculate a company wide revenue requirement and rate structure. This would
5 | certainly be the simplest approach, is easily understood, and could be
6 | economically implemented. It has been Commission policy in the past to
7 | consolidate water and wastewater systems operated by one company for
8 | ratemaking purposes. For example, Jacksonville Suburban Utilities Corporation
9 | operates multiple systems in Duval, Nassau, and St. Johns Counties under one
10 | rate structure. It has had uniform rates for all of its systems, going back
11 | to the early 1970's. Other examples are Marion Utilities, Sunshine Utilities,
12 | and Utilities Inc. of Florida. Averaging rates recognizes the economies of
13 | scale that a large multi-system company can bring to its customers. At any
14 | time during the life of a system, major capital improvements may be required
15 | as a result of plant upgrades, expansion, or regulatory requirements.
16 | Statewide rates would allow unusually high plant costs and operating expenses
17 | to be spread over more customers to mitigate rate shock.

18 | There are several rate structure options that fall in between these two
19 | ends of the spectrum. During the 1980's, the Commission grouped systems
20 | together by county in setting rates for SSU. The rationale for combining
21 | these systems for ratemaking purposes was that the systems shared certain
22 | costs of operation, maintenance, and meter reading, as well as similar types
23 | of treatment. For example, the rates for the SSU systems in Lake, Marion,
24 | Martin, Orange, Duval and Seminole Counties were grouped for ratemaking
25 | purposes. As I mentioned previously, there are many SSU systems within these

1 | counties that have never had stand alone rates in effect. In evaluating the
2 | implementation of a countywide rate structure, the Commission should consider
3 | whether the common costs are better associated with systems within a county
4 | or some other regional basis.

5 | Along these lines, another rate structure option is to group systems
6 | into regions of the state. It is my understanding that the SSU systems are
7 | divided into a North Division, a Central Division, a West Division, and a
8 | South Division for purposes of engineering and operations. The benefit to
9 | this type of grouping is that it is consistent with the way the company
10 | operates its systems currently. If the Commission's goal in this rate case
11 | is to work toward statewide rates, this would be a step in that direction.

12 | In any of the rate structure options, other than stand alone rates, an
13 | additional feature to consider would be adding a surcharge for systems with
14 | advanced methods of water or wastewater treatment to recognize the higher cost
15 | of service for these systems.

16 | Q. Would you please comment on SSU's proposed rate structure?

17 | A. It appears that SSU is proposing to move toward statewide rates in an
18 | effort to alleviate the disparity in the rates on a stand alone basis. SSU's
19 | proposed rate structure results in a maximum bill at 10,000 gallons for the
20 | residential class for all systems of \$52 for water service and \$65 for
21 | wastewater service. The revenue deficiencies resulting from these caps are
22 | made up by increasing all systems by a small percentage across the board
23 | except those that are currently overearning on a strict stand alone basis.
24 | Rates for these systems will not be reduced. SSU's proposal is the beginning
25 | of the move to uniform rates, which is probably inevitable for this company.

1 Q. Do you support the Company's rate structure proposal?

2 A. Yes. I think that the Company's proposal is a good first step in the
3 gradual move to some type of uniform rate structure. I support the concept
4 the company developed, although not necessarily the specific dollar amounts
5 of the caps. It would probably be too extreme to go all the way to uniform
6 rates in the first major rate case for all systems since the merger of the
7 Deltona Companies into SSU. However, a key element in the plan to move this
8 utility to a uniform rate structure is missing. The Company has not proposed
9 any change to its service availability charges in this rate case. Carefully
10 designed service availability charges can, to the extent that there is growth,
11 move each system's average investment per customer closer together which
12 supports the uniform rate structure concept. Some of the SSU systems have
13 contribution levels as low as 15% and others as high as 100%. I believe that
14 service availability charges analyzed on an individual system basis would
15 cause the utility's average investment per customer to be more uniform. If
16 the Commission approves the Company's rate structure proposal, or any
17 variation of a uniform rate structure proposal, it should also require the
18 Company to file a service availability case as soon as it could be prepared.

19 Q. Do you believe the Commission should move SSU toward statewide rates?

20 A. Yes. Uniform, statewide rates for SSU should be a Commission goal;
21 however not in this rate case. The utility's revised service availability
22 charges will need to be in place for some period of time in order to support
23 the uniform rate concept.

24 A uniform, statewide rate would put SSU on par with telephone and
25 electric utilities which charge the same rates for service whether the

1 customer is in downtown Miami or in rural Gadsden County. Allowing SSU to
2 implement a statewide rate would provide a strong incentive for them to
3 continue acquiring small systems throughout the state.

4 From a public policy standpoint, the merger of utilities and the
5 acquisition of one utility by another is a favorable solution to the
6 fragmented provision of water and wastewater service in Florida and the
7 inherent viability problem. The larger utility resulting from the merger or
8 acquisition should benefit from economies of scale in production, better
9 access to capital, a larger customer base, more management capabilities, etc.
10 The overall financial character of the larger system is less precarious than
11 the small stand alone systems. Most importantly, the larger system is in a
12 better position to meet all regulatory requirements, both economic and public
13 health, and provide a higher standard of service.

14 Q. Do you have any further comments on the rate structure of SSU?

15 A. Yes I do. If the Commission approves any variation of a uniform rate
16 structure in this case, some thought should be given to the effect this should
17 have on the rates of systems acquired by SSU in the future. Some systems
18 acquired by SSU have existing rates and others do not. If the Commission's
19 goal is to move the utility toward countywide, regional, or statewide rates,
20 some provision should be made to allow SSU to implement an existing SSU rate
21 for the acquired system. While this rate case is not the vehicle for
22 approving rates for systems to be acquired in the future, the issue should be
23 addressed in future certification cases.

24 Q. Should the Commission consider a conservation rate structure for SSU?

25 A. For most of the SSU systems, the base facility charge rate structure may

1 | be considered an adequate conservation rate structure, as well as a cost based
2 | rate structure. However, for systems located within a critical use area as
3 | defined by the Water Managment Districts, and where the customer usage is
4 | excessive, the Commission should consider a rate structure which would provide
5 | stronger incentives for conservation. For example, the rate structure could
6 | be designed to increase the gallonage charge and decrease the base charge to
7 | encourage conservation. This would provide a more direct incentive to
8 | customers with high usage to conserve water.

9 | I have noted that three water systems that are in the St. Johns River
10 | Water Management District have what appears to be excess water consumption
11 | (average residential consumption in excess of 15,000 gallons per month). All
12 | of the St. Johns River Water Management District has been designated as a
13 | critical water use area. The systems with excess water consumption are Dol
14 | Ray Manor, Silver Lake Estates, and Stone Mountain. I believe that for these
15 | systems, a conservation rate incentive should be implemented. There are
16 | several methods available. One would be to reallocate the revenue requirement
17 | so that more revenue is recovered in the gallonage charge than the base
18 | charge. Another method would be to increase the gallonage charge, leaving the
19 | base charge alone, and use any excess revenue generated to offset the revenue
20 | deficiencies created by the move to a uniform rate structure.

21 | Q. Does that conclude your direct testimony?

22 | A. Yes, it does.

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