

1           **RESPONSIVE TESTIMONY OF ARSENIO MILIAN, P.E.**  
2           **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
3           **REGARDING THE RULES FOR MARGIN RESERVE AND**  
4           **IMPUTATION OF CIAC ON MARGIN RESERVE**  
5           **ON BEHALF OF THE FLORIDA WATERWORKS ASSOCIATION**  
6           **DOCKET NO. 98-0000 WS**

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8   **Q.     PLEASE STATE YOUR NAME AND ADDRESS FOR THE**  
9           **RECORD.**

10   **A.     My name is Arsenio Milian.**

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12   **Q.     DID YOU FILE DIRECT TESTIMONY IN THIS CASE ON**  
13           **BEHALF OF THE FLORIDA WATERWORKS ASSOCIATION**  
14           **(FWA)?**

15   **A.     Yes, I did.**

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17   **Q.     WHAT IS THE PURPOSE OF YOUR RESPONSIVE**  
18           **TESTIMONY?**

19   **A.     I would like to respond to certain comments made by Gerald Hartman and**  
20           **Richard Harvey on behalf of Southern States Utilities, Inc. I agree with**  
21           **the comments each of them filed, but there are several in particular which I**  
22           **feel merit further discussion.**

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24   **Q.     ON PAGE 7, STARTING LINE 13, OF MR. HARTMAN'S**  
25           **TESTIMONY, HE EXPLAINS THE FLAW IN THE**

ACK \_\_\_\_\_  
AFA \_\_\_\_\_  
APP \_\_\_\_\_  
CNE \_\_\_\_\_  
CNU \_\_\_\_\_  
CPE \_\_\_\_\_  
EFC \_\_\_\_\_  
LSE \_\_\_\_\_  
LTI \_\_\_\_\_  
CNO \_\_\_\_\_  
EDR \_\_\_\_\_  
JCC \_\_\_\_\_  
WAS \_\_\_\_\_  
DTH \_\_\_\_\_

1           **COMMISSIONS MARGIN RESERVE PERIOD. DO YOU AGREE**  
2           **WITH HIS OBSERVATIONS?**

3    A.    Yes, absolutely. The Commission has equated the margin reserve period  
4           to the average plant construction duration. As Mr. Hartman observes, the  
5           Commission treats margin reserve as a “surrogate” for future plant  
6           expansion, but does not include the actual, higher cost of future plant.  
7           However, we are not suggesting that margin reserve be equal to actual  
8           future construction costs to be incurred in the next five years, but to  
9           include only a portion of already incurred historical cost which benefits  
10          current customers over that period. The margin reserve period of five  
11          years represents the period of time necessary to have plant planned,  
12          designed, permitted and constructed in order to serve the next customer to  
13          connect. That process usually averages five years, and as Mr. Hartman  
14          points out, sometimes more.

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16    **Q.    DO YOU AGREE WITH MR. HARTMAN’ S STATEMENT ON**  
17          **PAGE 17, LINE 19, THAT THE COMMISSION’S POLICIES ON**  
18          **MARGIN RESERVE SERVE AS A DISINCENTIVE TO**  
19          **ECONOMIES OF SCALE?**

20    A.    Yes, I do. In my own experience as a utility manager for many years, and  
21          as a result of the survey my firm conducted, I see over and over again that  
22          the final choices made by utilities hinge strongly on the treatment they  
23          expect from the Commission. If the Commission wants utilities to make  
24          the prudent economic choices, they should not send the opposite signal.  
25          When the Commission allows a margin reserve period of only one or two

1           years, then how can they expect utilities to do anything other than  
2           construct in small one to two year increments, that will inevitably result in  
3           higher rates to existing and future customers.

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5   **Q.    ON PAGE 9, MR. HARTMAN DEFINES WHY MARGIN**  
6   **RESERVE IS NECESSARY. DO YOU AGREE?**

7   A.    Yes, I do. He has summarized the key issues we have raised to explain  
8           why it is necessary to allow a five year margin reserve. We have  
9           performed a study which proves that margin reserve encourages  
10          economies of scale, for which there is a significant economic benefit to  
11          both the utility and the customers. Furthermore, if margin reserve is  
12          inadequate, the utilities will be compelled to construct in small increments,  
13          and always be on the edge of regulatory compliance. In effect, this will  
14          result in an increase in the cost to the customers as the utility must be in a  
15          state of managing multiple projects, defending regulatory compliance, and  
16          filing rate applications.

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18   **Q.    ARE YOU IN AGREEMENT WITH COMMENTS MADE BY MR.**  
19   **RICHARD HARVEY WITH RESPECT TO THE IMPACT OF**  
20   **ECONOMIC REGULATION ON ENVIRONMENTAL**  
21   **COMPLIANCE?**

22   A.    Yes, I am. I have long advocated protection of the environment, but  
23           became more aware and supportive after serving as a Board Member on  
24           the South Florida Water Management District. Legislation has been  
25           enacted which establishes the importance of protecting our resources at the

1 local, state and national levels. However the Commission may not realize  
2 the serious potential impact of their rules on the environment. On  
3 numerous occasions, utilities are forced to struggle between environmental  
4 compliance and economic survival. While at the District, our staff  
5 actively participated in efforts to educate the public, similar to Mr.  
6 Harvey's own experiences. But despite the efforts of the Districts and  
7 DEP, the Commission has not recognized that when environmental  
8 protection legislation is enacted, the economic choice has been made. No  
9 one is well served by forcing utilities to live on the edge, barely meeting  
10 environmental requirements, for the purpose of artificially holding down  
11 rates on a short term. Any Commission policy that would in effect  
12 disallow prudent utility investment to protect our environment is short  
13 sighted and should be discontinued. The Commission must encourage  
14 utilities to operate in a manner that enables them to adhere to the goals of  
15 State and the protection of our natural resources. Their proposed rule will  
16 not accomplish this.

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**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

**A. Yes.**