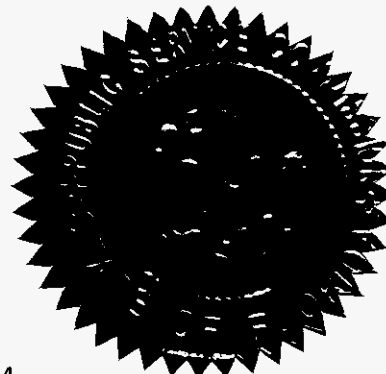


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 100104-WU

In the Matter of:

APPLICATION FOR INCREASE IN WATER  
RATES IN FRANKLIN COUNTY BY WATER  
MANAGEMENT SERVICES, INC.



VOLUME 2

Pages 148 through 214

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PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	COMMISSIONER LISA POLAK EDGAR COMMISSIONER NATHAN A. SKOP COMMISSIONER ART GRAHAM
DATE:	Tuesday, October 5, 2010
TIME:	Commenced at 3:38 p.m. Concluded at 4:41 p.m.
PLACE	St. George Island Volunteer Fire Department 324 East Pine Avenue St. George Island, Florida
REPORTED BY:	JANE FAUROT, RPR Official FPSC Reporter (850) 413-6732
APPEARANCES:	(As heretofore noted)

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I N D E X

WITNESSES

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## EXHIBITS

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## P R O C E E D I N G S

(Transcript follows in sequence from  
Volume 1.)

**COMMISSIONER SKOP:** Okay. At this point we'll go back on the record. And where we left off, I believe Ms. Scoles had concluded the direct portion of your case in chief, is that correct?

**MS. SCOLES:** That's right, Chairman.

**COMMISSIONER SKOP:** All right. Thank you.

All right. Mr. McGlothlin, you're recognized to call your witness.

**MR. MCGLOTHLIN:** OPC calls Andrew Woodcock.

**COMMISSIONER SKOP:** All right. Thank you.

Mr. Woodcock, you have been previously sworn, correct?

**THE WITNESS:** Yes, I have.

**COMMISSIONER SKOP:** All right. Very well.

You may proceed.

**ANDREW T. WOODCOCK**

was called as a witness on behalf of The Citizens of the State of Florida, and having been duly sworn, testified as follows:

**DIRECT EXAMINATION**

**BY MR. MCGLOTHLIN:**

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

1 address for the record.

2 A. My name is Andrew Woodcock. I work for Tetra  
3 Tech at 201 East Pine Street, Orlando, Florida 32801.

4 Q. You indicated that you're employed by Tetra  
5 Tech; in what capacity, sir?

6 A. I am a Senior Project Manager.

7 Q. Mr. Woodcock, at our request did you prepare  
8 Direct Testimony for submission in this case?

9 A. I did.

10 Q. Do you have before you the document captioned  
11 the Corrected Direct Testimony of Andrew T. Woodcock?

12 A. I do.

13 Q. Do you have any changes to the prefiled  
14 testimony that you want to make at this time?

15 A. I do not.

16 Q. Do you adopt the questions and answers  
17 contained in this document as your testimony here today?

18 A. Yes, I do.

19 MR. MCGLOTHLIN: I request that the corrected  
20 Direct Testimony of Andrew Woodcock be inserted into the  
21 record at this point.

22 COMMISSIONER SKOP: Very well. The corrected  
23 prefiled direct testimony of Witness Woodcock will be  
24 entered into the record as though read.

25

1 (CORRECTED) DIRECT TESTIMONY

2 OF

3 ANDREW T. WOODCOCK, P.E., MBA

4 On Behalf of the Office of Public Counsel

5 Before the

6 Florida Public Service Commission

7 Docket No. 100104-WU

8

9 I. INTRODUCTION/BACKGROUND/SUMMARY

10 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

11 A. My name is Andrew T. Woodcock. My business address is 201 East Pine Street,  
12 Suite 1000, Orlando, FL 32801.

13

14 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK  
15 EXPERIENCE.

16 A. I graduated from the University of Central Florida in 1988 with a B.S. degree in  
17 Environmental Engineering and in 1989 with an M.S. degree in Environmental  
18 Engineering. In 2001, I graduated from Rollins College with an MBA degree. In  
19 1990, I was hired at Dyer, Riddle, Mills and Precourt as an engineer. In May of  
20 1991, I was hired at Hartman and Associates, Inc. which has since become Tetra  
21 Tech. My experience has been in the planning and design of water and wastewater  
22 systems with specific emphasis on utility valuation, capital planning, utility  
23 financing, utility mergers and acquisitions and cost of service rate studies. I have also  
24 served as utility rate regulatory staff for St. Johns and Collier Counties in

1 engineering matters. Exhibit ATW-1 provides additional details of my work  
2 experience.

3

4 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN RATE**  
5 **PROCEEDINGS?**

6 A. Yes. In 2002 I filed testimony on behalf of the St. Johns County Regulatory  
7 Authority at a special hearing in an overearnings case against Intercoastal Utilities. I  
8 have also filed testimony before the Kentucky Public Service Commission in 2007  
9 on behalf of the Henry County Water District No. 2 (Case No. 2006-00191)  
10 regarding system development charges.

11

12 Before the FPSC, I have filed testimony in the following proceedings, all on behalf  
13 of the Office of Public Counsel (OPC). In 2007, I filed testimony in the Aqua  
14 Utilities Florida, Inc. Rate Case (Docket No. 060368-WS). In 2008, I filed testimony  
15 regarding the Used and Useful Rule for Water Treatment Systems (Docket No.  
16 070183-WS), the KW Resort Rate Case (Docket No. 070293-SU) and the Aqua  
17 Utilities Florida, Inc. Rate Case (Docket No. 080121-WS).

18

19 **Q. ON WHOSE BEHALF ARE YOU FILING TESTIMONY IN THIS**  
20 **PROCEEDING?**

21 A. I am testifying on behalf of the Florida Office of Public Counsel (OPC).

22

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2 **PROCEEDING?**

3 A. My testimony will address the used and usefulness of the Water Management  
4 Services (WMSI) system. In addition I will address the engineering aspects of the  
5 proposed pro forma adjustments to rate base.

6

7 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS CASE.**

8 A. Based on my review of the Minimum Filing Requirements, the Direct Testimony  
9 filed by Frank Seidman and Gene Brown, system inspections and review of  
10 additional data provided by WMSI through discovery I have the following  
11 recommendations and opinions:

- 12 1) WMSI's water treatment plant used and usefulness is 100%;
- 13 2) WMSI's distribution system used and usefulness is 54.9%;
- 14 3) The proposed pro forma additions to rate base are planning level engineering  
15 estimates and do not have sufficient detail or accuracy for rate base purposes.  
16 I recommend these proposed projects not be included in rate base until they  
17 are supported by proper documentation such as invoices; and
- 18 4) Notwithstanding the above, I am of the opinion that the estimate for the pro  
19 forma plant addition for a new storage tank is overstated by at least \$191,492.  
20 The utility should reevaluate options to replace its on-site storage tank to  
21 determine the most cost effective alternative while providing quality service  
22 to the customers.

23



1           **II.     USED AND USEFUL**

2   **Q.     BRIEFLY SUMMARIZE HOW YOU WENT ABOUT CALCULATING USED**  
3   **AND USEFUL FOR THE WMSI SYSTEM.**

4   A.     For the water treatment plant, I followed the procedures described in Florida  
5           Administrative Code (F.A.C.) Chapter 25-30.4325, Water Treatment Plant Used and  
6           Useful Calculations. I found that the water treatment plant is 100% used and useful.  
7           For the distribution system, I used the lot-to-lot method. From the system maps  
8           submitted by WMSI as part of the MFRs, I found a total of 3,311 lots adjacent to  
9           water lines in the service area. Of the total, 1,817 are shown as customer  
10          connections. According to the MFRs, there is negative projected growth for the  
11          service area, so I have not included an allowance for growth in the used and useful  
12          calculation. The calculated used and useful percentage for the WMSI service area is  
13          1,817 divided by 3,311 or 54.9%.

14

15           **III.    PRO FORMA ADJSUTMENTS TO RATE BASE**

16   **Q.     WHAT OVERALL ISSUES DO YOU HAVE WITH THE PRO FORMA**  
17   **ADJUSTMENTS TO RATE BASE?**

18   A.     My overall issues with the pro forma adjustments to rate base are that they are based  
19           on planning level engineering estimates. WMSI is requesting a total of \$2,202,481 in  
20           pro forma adjustments to rate base associated with the raw water transmission line,  
21           plant improvements, electrical system rehabilitation, and the distribution system. The  
22           supporting documentation for these adjustments is found in a report titled St. George  
23           Island Water System Evaluation, Final Report by PBS&J. The report consists of

1 seven Technical Memoranda and an Executive Summary. Each of the memoranda  
2 evaluates a different aspect of the WMSI system and provides various engineering  
3 recommendations and cost estimates. It is my opinion that these cost estimates are  
4 not sufficient documentation to support additions to plant-in-service, and therefore  
5 should not be included in rate base.

6

7 **Q. EXPLAIN WHY YOU ARE OF THE OPINION THAT THE COST**  
8 **ESTIMATES DO NOT SUFFICIENTLY SUPPORT THE PRO FORMA**  
9 **ADDITIONS TO RATE BASE.**

10 A. A rate base calculation relies upon plant-in-service amounts that are derived from the  
11 actual booked costs of assets in the utility system and are supported by invoices from  
12 contractors or equipment suppliers. The cost estimates submitted by WMSI in  
13 support of the pro forma additions are an engineer's preliminary opinion of what the  
14 recommended capital projects may cost, and may vary substantially from the actual  
15 installed cost.

16

17 **Q. IN YOUR OPINION, WHAT WOULD REPRESENT SUFFICIENT**  
18 **DOCUMENTATION TO SUPPORT THE PRO FORMA ADJUSTMENTS?**

19 A. As I stated above, I am of the opinion that actual invoices that document the full  
20 scope of the project and its final installed cost represent sufficient documentation to  
21 support the pro forma additions to rate base.

22

23 **Q. WOULD ANY OTHER TYPE OF DOCUMENTATION BE SUFFICIENT?**

1 A. Competitive bids from contractors or suppliers for a well defined project scope could  
2 be considered, but would still not be as accurate as the final installed cost.

3

4 **Q. PLEASE EXPLAIN WHY NOT?**

5 A. Competitive bids do not take into account anything that may happen during the  
6 construction of the project. For example, there may be an unforeseen site condition  
7 that increases the overall project cost. In that case, relying upon bids for adjustments  
8 to rate base would understate the actual project cost. Conversely, the scope of the  
9 project may be reduced after the bids are received, thereby reducing the actual  
10 project cost. In this case, relying upon bids would overstate the actual project cost. I  
11 am of the opinion that if competitive bids are accepted as documentation for pro  
12 forma additions to rate base, then a subsequent true up should be conducted to  
13 reconcile the actual project costs to rate base.

14

15 **Q. EXPLAIN SPECIFICALLY WHY YOU ARE OF THE OPINION THAT**  
16 **COST ESTIMATES IN GENERAL ARE NOT SUFFICIENT**  
17 **DOCUMENTATION TO SUPPORT THE PRO FORMA ADDITIONS TO**  
18 **RATE BASE.**

19 A. Cost estimates prepared by engineers are sometimes also referred to as estimates of  
20 probable cost. They can come in various levels of detail and accuracy, depending  
21 upon the amount of engineering detail and analysis conducted. One of the primary  
22 purposes of an engineering cost estimate is to inform the utility of the amount of  
23 funds necessary to complete the project. As a result, cost estimates are conservative

1 in nature. No engineer wants to provide a cost estimate to a utility that under-  
2 estimates the cost of a project. If properly performed, a cost estimate is higher than  
3 the project cost that would be received from competitive bids.

4

5 As more engineering work is performed on a specific project, a cost estimate tends to  
6 get more refined and accurate. For example, a planning level cost estimate that does  
7 not have any design documentation is not as accurate as a cost estimate based on  
8 fully designed project drawings and specifications. For a given project, the cost  
9 estimate prepared in the planning phase will not be as accurate as the cost estimate  
10 prepared at the end of the final design phase.

11

12 Now, if the project drawings and specifications are given to contractors to prepare a  
13 competitive bid, the resulting costs would be a better indicator of the cost of a  
14 project, because it involves a knowledgeable third party analysis, can be secured by a  
15 contract to obtain the construction services for the quoted price, and reflects  
16 competitive market forces at the time of the bid. Therefore, cost estimates are not as  
17 accurate an indicator of a project cost as are competitive bids.

18

19 **Q. WHAT LEVEL OF DETAIL IS IN THE ESTIMATES PROVIDED BY WMSI**  
20 **TO SUPPORT THE PRO FORMA ADDITIONS?**

21 A. I would characterize the estimates provided by WMSI to support the pro forma plant  
22 additions as planning level estimates. They are based upon a study level of  
23 engineering analysis and do not rely upon any detailed project drawings, complete

1 specifications, or similar construction documents. The technical memoranda provide  
2 an analysis that documents the need for improvements and identifies the projects to  
3 address the needs. However, there is not any detail on the project design or materials  
4 to produce anything other than a planning level estimate.

5

6 **Q. WHAT INDICATIONS CAN YOU POINT TO REGARDING THE**  
7 **ACCURACY OF THE COST ESTIMATES FOR THE WMSI PRO FORMA**  
8 **ADJUSTMENTS?**

9 A. There are few, but one example concerns the additional property costs associated  
10 with installing the new ground storage tank (GST). A total of \$450,000 for property  
11 is included in the cost estimate, which is over 25% of the of the project cost. No  
12 supporting documentation was provided about how the value was obtained. Exhibit  
13 ATW-3 provides a summary table and supporting documentation on parcels around  
14 the water plant site obtained from the Franklin County Property Appraiser's website.  
15 The data shows adjacent lots selling for between \$7,500 and \$160,000 with the most  
16 recent in 2007 being \$95,000. Given the wide range of the prices of nearby sales and  
17 the nationwide collapse in the real estate market since 2007, it is difficult to tell if the  
18 estimated property value of \$450,000 is at all representative of what the actual cost  
19 to purchase the property may be.

20

21 **Q. IN SUMMARY TO THIS ISSUE, WOULD YOU PLEASE RESTATE YOUR**  
22 **POSITION REGARDING THE PRO FORMA ADJUSTMENTS?**

1 A. In my opinion, the engineering estimates provided by WMSI do not have the level of  
2 detail or accuracy required to make pro forma adjustments to rate base. Therefore, it  
3 is my recommendation that the pro forma adjustment to rate base not be included at  
4 this time.

5  
6 **IV. CAPITAL IMPROVEMENTS**

7 **Q. NOTWITHSTANDING YOUR OPINION REGARDING THE PRO FORMA**  
8 **ADJUSTMENTS ABOVE, DO YOU HAVE ANY SPECIFIC CONCERNS**  
9 **REGARDING THE CAPITAL PROJECTS REPRESENTED BY THE PRO**  
10 **FORMA ADJUSTMENTS?**

11 A. Yes. The capital projects are identified in the Executive Summary of the report as  
12 Raw Water Transmission Line, Plant Improvements, Electrical System  
13 Replacement/Rehabilitation and Distribution System. Based on my review of the  
14 documentation and my inspection of the utility's facilities, these projects would  
15 replace aging assets, improve the quality of service to the customers, or improve the  
16 safety and reliability conditions of the utility system. However, I do take exception  
17 to the analysis that led to the conclusion to locate a new ground storage tank (GST)  
18 on adjacent property.

19  
20 **Q. CAN YOU BE SPECIFIC?**

21 A. Yes, Exhibit ATW-4 is an excerpt from Technical Memorandum 5 from the PBS&J  
22 engineering report. The memorandum evaluates four alternatives for addressing the  
23 observed structural issues of the GST. The recommended option (identified as

1 Alternative 2) is to construct a new GST on adjacent property, which brings the total  
2 cost of the plant improvement to \$1,706,330. Of this total, \$450,000 is associated  
3 with the purchase of additional land and closing costs. The next less costly option  
4 (identified as Alternative 3) is to demolish the existing storage tank and replace it  
5 with a new GST in the same location for \$708,188. A difference of almost \$1 million  
6 warrants an additional look at these two alternatives beyond the ranking  
7 methodology in the Technical Memorandum. Although the technical memorandum  
8 is lacking in many details, it appears that Alternatives 2 and 3 are not functionally  
9 identical. In other words, it is not an apples-to-apples comparison. The key  
10 differences between alternatives 2 and 3 are:

- 11 a. Alternative 2 includes new high service pumping equipment located on the  
12 roof of the new tank so that they can operate in the event of a flood  
13 occurrence.
- 14 b. Alternative 2 includes relocating the emergency generator.
- 15 c. Alternative 2 has a higher cost for the tank, presumably due to a reinforced  
16 roof to support the pumping equipment and to provide a dual wall wet well.

17  
18 Since all three of the above items add to the cost of Alternative 2 and provide  
19 additional benefits, I made similar adjustments to Alternative 3 to achieve an apples-  
20 to-apples comparison. Exhibit ATW-5 presents the estimate of probable cost for  
21 alternatives 2 and 3 as taken from the Technical Memorandum 5. Also included is a  
22 modified Alternative 3 that includes the costs associated with the additional  
23 functionality of Alternative 2 and excludes (because it would be unnecessary) the

1 additional cost of a land purchase. With these adjustments the estimate of probable  
2 cost of Alternative 3 (replacing the storage tank in its existing location) is \$1,514,838  
3 which is \$191,492 less than Alternative 2, for which the utility is requesting a pro  
4 forma adjustment.

5  
6 **Q. AFTER YOUR ANALYSIS, WHAT IS YOUR RECOMMENDATION**  
7 **REGARDING THE GST?**

8 A. Based on my analysis of the documentation supporting the utility's decision to locate  
9 the GST on additional property, I am of the opinion that the customers would be  
10 equally served by installing a new tank on the existing GST site with a cost savings  
11 of \$191,492. I would encourage the utility to reevaluate this option as the project  
12 proceeds to the design phase.

13  
14 **Q. DO YOU HAVE ANY OTHER ISSUES IN THIS TESTIMONY?**

15 A. OPC is in the process of conducting discovery on the subject of fire flow and water  
16 main improvements that were addressed by the Commission in Orders Nos. PSC-04-  
17 0791-AS-WU, issued August 12, 2004, and PSC-05-1156-PAA-WU, issued  
18 November 21, 2005, in WMSI's Limited Proceeding in Docket No. 000694-WU.  
19 Should responses to pending discovery requests reveal additional engineering issues,  
20 I will supplement my testimony as needed.

21  
22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes.



1 **BY MR. McGLOTHLIN:**

2 Q. Mr. Woodcock, did you also prepare the  
3 exhibits that are attached to your prefiled testimony?

4 A. Yes, I did.

5 **MR. McGLOTHLIN:** Commissioners, those have  
6 been identified as Exhibits 5, 6, 7, 8, and 9 in the  
7 Comprehensive Exhibit List.

8 **COMMISSIONER SKOP:** Yes. And those have been  
9 previously entered.

10 **BY MR. McGLOTHLIN:**

11 Q. Mr. Woodcock, would you summarize your  
12 testimony for the Commissioners?

13 A. Certainly. With respect to the used and  
14 useful on the Water Management Services utility, I find  
15 that the water treatment plant and storage facilities  
16 are 100 percent used and useful. The water distribution  
17 system using the lot-to-lot count method as being  
18 54.9 percent used and useful.

19 With respect to the adjustments to -- pro  
20 forma adjustments to rate base, the utility submitted a  
21 set of technical memoranda that document approximately  
22 \$2.2 million in pro forma adjustments to rate base. I  
23 found that these -- that the amount of \$2.2 million is  
24 actually based on engineering estimates and is not  
25 sufficient for inclusion into a rate base.

1           Rate base calculations are plant in service  
2 invested amounts. They represent the actual booked cost  
3 of the utility, and they are supported by invoices with  
4 contractors or equipment suppliers that document the  
5 actual cost of the assets.

6           The engineering estimates that were provided  
7 in the technical memorandum were provided by the  
8 utility's engineer to give a general idea of the cost of  
9 the scope of the projects that were presented in the  
10 technical memorandum. Generally, when an engineer goes  
11 through these types of engineering level estimates, they  
12 are going to be conservative. The point of the estimate  
13 at the planning level is to give the utility an idea of  
14 what it will cost to fund those improvements, so they  
15 are on the conservative side. No engineer wants to be  
16 low and submit an estimate that is lower than the actual  
17 construction costs. Therefore, if properly performed,  
18 planning level engineering cost estimates are lower than  
19 the actual construction costs.

20           In reviewing the information that was  
21 provided, I found that the planning level estimates are  
22 not sufficient to meet the test of inclusion into rate  
23 base, and I recommend that they not be included at this  
24 time. Notwithstanding my opinion regarding the planning  
25 level estimates, I also took a look at the specific

1 improvements that were recommended by the engineer and  
2 are included into this rate case's pro forma  
3 adjustments.

4 Generally, I found that they seek to improve  
5 customer service, replace aging assets, or increase the  
6 safety and reliability of the system. However, I do  
7 take exception with one of the projects that has to do  
8 with the ground storage tank. What is proposed in the  
9 pro forma level adjustments is to put a new storage tank  
10 on adjacent property that needs to be purchased.

11 Based on the information that was provided in  
12 the technical memorandum, I was able to conduct an  
13 alternative analysis to show that a functionally  
14 equivalent storage tank could be constructed on water  
15 treatment plant property at a potential cost savings of  
16 approximately \$191,000. Therefore, my recommendation is  
17 to reevaluate the alternatives that are available prior  
18 to proceeding forward with design and implementation of  
19 this project.

20 And that is the summary of my testimony.

21 **BY MR. McGLOTHLIN:**

22 Q. One quick question for clarification, sir.  
23 Did you intend to say that the planning level estimates  
24 are typically lower than or higher than actual costs?

25 A. Planning level estimates are typically higher

1 than.

2 **MR. McGLOTHLIN:** Mr. Woodcock is available for  
3 cross-examination.

4 **COMMISSIONER SKOP:** All right. Very well.  
5 Thank you.

6 Ms. Scoles, you're recognized for  
7 cross-examination.

8 **MS. SCOLES:** Thank you, Chairman.

9 **CROSS EXAMINATION**

10 **BY MS. SCOLES:**

11 **Q.** Mr. Woodcock, my name is Lisa Scoles on behalf  
12 of the utility.

13 **A.** Good afternoon.

14 **Q.** Nice to meet you today. I'd like to ask you  
15 some questions about your prefiled direct testimony, and  
16 you do have a copy of that in front of you, is that  
17 right?

18 **A.** I do.

19 **Q.** Okay. In your testimony you indicate that you  
20 work for Tetra Tech in the area of water and wastewater  
21 systems with an emphasis on utility valuation, capital  
22 planning, utility financing, mergers and acquisition,  
23 and cost of service rate studies. Did I get that  
24 correct?

25 **A.** That's correct; yes.

1 Q. Okay. What type of firm is Tetra Tech?

2 A. Tetra Tech is an engineering and water  
3 resources planning firm. It is a publicly traded  
4 company. There is about 10,000 employees world-wide.

5 Q. As part of your work here for the Office of  
6 Public Counsel, you reviewed a study prepared by PBS&J,  
7 another engineering firm, is that correct?

8 A. That is correct.

9 Q. Would you say that you are generally familiar  
10 with PBS&J?

11 A. Yes.

12 Q. Would you say that your firm is similar to  
13 PBS&J?

14 A. In some aspects, yes. With my particular  
15 focus area, I would say that they are similar, yes.

16 Q. They do the same -- similar type of work as  
17 your firm related to water systems?

18 A. Correct.

19 Q. Okay. Do you have any experience working with  
20 PBS&J?

21 A. Do you mean as a sub-consultant, or in what  
22 capacity?

23 Q. Perhaps working jointly on a project?

24 A. I cannot recall anything personally, in  
25 particular to myself, but I almost feel certain

1 company-to-company there has been some interaction in  
2 that regard.

3 Q. Generally, what would you say your opinion of  
4 PBS&J would be?

5 A. They are considered a peer in the industry to  
6 Tetra Tech. I find them to be a reputable engineering  
7 firm.

8 Q. Okay. Thank you. And I believe we have  
9 established as part of your position at Tetra Tech you  
10 do conduct evaluations of water systems similar to the  
11 one filed in this case?

12 A. That is correct, yes.

13 Q. Let's turn, if you would, to your testimony.  
14 On Page 4, Lines 12 and 13, you talk about the used and  
15 useful percentage for the utility's distribution system,  
16 and you indicate that is 54.9 percent, is that right?

17 A. That is correct.

18 Q. And on Line 7, still on Page 4, you say that  
19 to come up with that figure you used the lot-to-lot  
20 method to determine used and usefulness, is that right?

21 A. That is correct.

22 Q. For those of us who might not be as familiar  
23 with that, can you explain to me what the lot-to-lot  
24 method is?

25 A. Sure. Basically, you take a look at the

1 utility system. There are distribution and water  
2 transmission lines that run throughout the system. Some  
3 of those lots are occupied, some of them are not. So in  
4 order to determine the used and useful, you calculate  
5 the total lots that are adjacent to water service lines,  
6 and then you count the number of lots that are actually  
7 occupied by customers. And the number of the lots  
8 occupied by the number of customers compared to the  
9 total lots give you your used and useful.

10 Q. When you came to your conclusion in your  
11 testimony regarding the 54.9 percent, were you aware  
12 that in the utility's last rate case -- excuse me, the  
13 last case, which was Docket 940109, that the total  
14 transmission and distribution plan was considered 100  
15 percent used and useful except for certain areas in The  
16 Plantation?

17 A. Yes, I was.

18 Q. Did that impact your approach at all?

19 A. I considered it; however, I did not find that  
20 it affected my calculation.

21 Q. Were you aware when you arrived at that  
22 54.9 percent that in the final order in the 1994 docket,  
23 the methodology was set and that was not the lot count  
24 methodology based on a stipulation of the parties except  
25 for some distribution mains in The Plantation?

1           **A.** My understanding is that from rate case to  
2 rate case the methodology can be reopened and  
3 reexamined, and that is what I did here. I found  
4 nothing with my review of the Water Management system  
5 that was different from any other utility distribution  
6 system that provides fire flow, and conducted my  
7 calculations accordingly.

8           **Q.** Did you consider in your calculations that the  
9 same lines that are used to provide water service are  
10 the identical lines, the same lines that are used for  
11 the fire flow?

12           **A.** Yes, and that's usually the case.

13           **Q.** In your calculation, did you take into account  
14 some of the unique characteristics of the island, namely  
15 that it is long and narrow, that people tend to  
16 congregate towards the beach front, and that the utility  
17 has to have a transmission system that runs the length  
18 of the Island?

19           **A.** Yes, I did.

20           **Q.** When you arrived at your percentage, were you  
21 aware of the many shallow wells that have been drilled  
22 on St. George Island?

23           **A.** I was aware of shallow wells on the island,  
24 yes.

25           **Q.** Did you alter your percentage in any way based



1 on that information?

2 **A.** No, I did not. And please tell me if I'm  
3 stepping out of order here. In rebuttal testimony,  
4 Mr. Gene Brown, he listed that he had identified  
5 approximately 35 lots that were within the system that  
6 were receiving potable water service from shallow wells,  
7 and they were adjacent to lines. If I were to make that  
8 adjustment in my used and useful calculation, it would  
9 be a less than one percent change. So I do not see it  
10 to be a significant factor in the system.

11 **Q.** So the fact that there are shallow wells and  
12 individuals who do not use the utility's water and yet  
13 the lines must pass in front of their lots, did not  
14 impact your determination?

15 **A.** It would impact my determination to a very  
16 small degree.

17 **Q.** So the unique characteristics of this barrier  
18 island, the fact that folks congregate on the beach  
19 front, that folks can choose to hook up or not hook up  
20 essentially did not alter your use of the lot-to-lot  
21 method?

22 **A.** No. Actually, I said I did consider the  
23 unique characteristics of the island and its  
24 distribution system, and its length, and the fact that  
25 there are higher densities on the water line.

1           Q.    And how did that impact, then, your final  
2 determination?

3           A.    Well, you would take a look at the system,  
4 there is a long length of pipe that is required to serve  
5 customers relative to, say, a perfectly round  
6 economically efficient service area, so there is more  
7 investment that is required in that utility. There are  
8 longer lengths of line that are required to move from  
9 lot to lot, therefore, as I went through my service area  
10 analysis and did my lot counts, I incorporated the  
11 unique characteristics of the island.

12          Q.    So, essentially, they got it wrong in the last  
13 rate case when they decided not to use the lot-to-lot  
14 methodology, is that right?

15          A.    I'm not saying that at all. I don't know all  
16 the specifics of that rate case. I wasn't a part of it.  
17 I came in this with a fresh set of eyes with my  
18 background and experience and made this determination.

19          Q.    Do you believe that the lot-by-lot count  
20 method could penalize the utility for not serving the  
21 lots of people who have chosen not to hook up to the  
22 utility's system?

23          A.    Not if they are adjusted out.

24          Q.    How could the utility have designed the system  
25 differently, given the unique characteristics of St.

1 George Island, to have a higher used and usefulness  
2 percentage?

3 A. Well, that's an interesting question. How  
4 could a utility have designed a system differently to  
5 achieve a higher used and useful? Well, I guess, and  
6 I'm going completely off base here, but I would say  
7 maybe the first thing you do is not certificate such a  
8 big area. Therefore, you don't have as many lines, you  
9 don't have as many lots, you have got a higher  
10 concentration of customers.

11 Q. So you're suggesting the utility should only  
12 serve half of St. George Island?

13 A. No, I'm suggesting the utility needs to do  
14 what is a smart business decision for the utility. I'm  
15 responding to your question about what could be done in  
16 the design phase, assuming we have a blank St. George  
17 Island to maximized used and useful. And my first thing  
18 is to limit the service area and try and concentrate  
19 development.

20 Q. What could this utility do now, given the  
21 parameters that we have, to increase its used and  
22 useful, given the shallow wells, given the long and  
23 narrow structure of the island, and its requirement to  
24 provide fire protection for its citizens?

25 A. At this point the lines are in the ground. I

1 understand that there is some exposure because customers  
2 may have the ability to connect potable water. I think  
3 that adjustments can be made to make the used and useful  
4 take into account those types of customers. At this  
5 time I do not see that it's significant with only 35.  
6 At some time in the future, maybe in another rate case  
7 it might be.

8 Q. The figure of 35, did you come up with that  
9 figure?

10 A. No, I got it out of Mr. Brown's rebuttal  
11 testimony. That's why I was a little concerned in using  
12 it on direct.

13 Q. Well, let's assume that we can confirm there  
14 are 150 shallow wells, how would that impact your  
15 determination?

16 A. Well, if there are 150 shallow wells that  
17 customers are using for potable water service, and those  
18 lots also happen to lie adjacent to water lines, then  
19 they should be removed from the calculation. That's the  
20 only way I know how to compensate for that.

21 Q. You would continue to advocate for the  
22 lot-by-lot method with those adjustments?

23 A. At this point, yes. I might have to put some  
24 more thought into that, but nothing pops right into my  
25 head right off the bat on the stand here.

1 Q. All right. Let's shift gears a little bit.  
2 Prior to filing your testimony, you came to St. George  
3 Island and had a site visit to look at Water Management  
4 Services' system, is that correct?

5 A. That's correct.

6 Q. And would you agree that you spent several  
7 hours looking at the system?

8 A. I believe it was about three to four, yes.

9 Q. And you have already indicated that you  
10 reviewed -- well, maybe you haven't. Did you review the  
11 PBS&J evaluation of Water Management Services' system as  
12 part of your work for the Office of Public Counsel?

13 A. Are you referring to the series of technical  
14 memorandum?

15 Q. Yes, I am.

16 A. Yes, I have.

17 Q. Okay. Without getting into all the details,  
18 would you say that that is a pretty standard study that  
19 a utility would ask be prepared on its capital, on its  
20 plant?

21 A. It's not standard, but I think it fulfills the  
22 same function as a standard document would.

23 Q. Would you say that the document, the study is  
24 similar to one that might be prepared by your firm at  
25 the request of a client?

1           **A.**   Generally, what we would do would be to do it  
2 more as one document. This is basically a series of  
3 technical memorandum, and from what I can tell it looks  
4 like it was just bound together for purposes of this  
5 rate case. But, once again, it would serve, basically,  
6 the same function, yes.

7           **Q.**   So the substance of the report would be  
8 similar to what your firm would do?

9           **A.**   Yes.

10          **Q.**   Okay. Are the types of alternatives and cost  
11 estimates that are in the PBS&J technical memoranda  
12 similar to what you have seen in other studies like  
13 that?

14          **A.**   Types of alternatives is kind of a difficult  
15 thing to say. You can get two engineers looking at the  
16 same system and come up with two different opinions and  
17 it doesn't mean either one is right or wrong. What I  
18 will say is that I find nothing in the technical  
19 memorandum that really sticks out to me as a glaring  
20 error or something that's inappropriate. I did not, to  
21 the level of my review, find that any of the cost  
22 estimates seem to be out of line.

23          **Q.**   As part of your review of the PBS&J study, I  
24 assume that you reviewed the various recommendations for  
25 capital improvements that were made?

1           **A.**    I did.

2           **Q.**    I'd like to walk through those briefly with  
3 you.  The report recommended a supply main extension  
4 which involved relocating a portion of the supply main  
5 from the bridge to the island.  Does that sound right?

6           **A.**    Give me just a moment.  I want to turn to the  
7 summary table that's in the report here.  Okay.  Are you  
8 referring -- and maybe it's better if I -- I'm looking  
9 at Page 7 of 8 of the Executive Summary of the Post  
10 Buckley report, and one of the priority items is  
11 identified as a raw water transmission line.

12          **Q.**    Yes, that's right.  Your testimony does not  
13 address that particular recommendation, is that right?

14          **A.**    Not specifically.

15          **Q.**    Do you take any issue with that project?

16          **A.**    No.  Based on my review, that portion of the  
17 raw water transmission line does need to be relocated.  
18 I don't have any problem with their proposed routing  
19 that's recommended.  It seems like an appropriate thing  
20 to do.

21          **Q.**    The report also recommended a water plan --  
22 excuse me, water plan process improvements, including  
23 new high service pumps, controls, an improved  
24 chlorination system and some related items, is that  
25 correct?

1           **A.**    That's correct.

2           **Q.**    And your testimony does not specifically  
3 address that recommendation as well, is that right?

4           **A.**    No, it absolutely does.

5           **Q.**    The water plan improvement process?

6           **A.**    Uh-huh.

7           **Q.**    Okay.

8           **A.**    Once again, maybe there's a little bit of  
9 confusion here, but this is the portion that I take  
10 issue with about putting the new ground storage tank on  
11 adjacent property that needs to be purchased.

12          **Q.**    Okay. Well, let's come back to that one,  
13 since you do have an issue there. The replacement and  
14 rehabilitation of the electrical equipment, do you  
15 recall that from the report?

16          **A.**    I do.

17          **Q.**    That was not addressed in your testimony,  
18 correct?

19          **A.**    Not directly.

20          **Q.**    Did you take issue with that particular  
21 recommendation?

22          **A.**    I do not.

23          **Q.**    The report also recommended an upgrade to the  
24 distribution system, is that correct?

25          **A.**    Correct.



1           **Q.**   And your testimony does not specifically  
2 address this recommendation, is that right?

3           **A.**   Yes.  Not directly, yes.

4           **Q.**   Do you take issue with that particular  
5 recommendation?

6           **A.**   I do not.

7           **Q.**   Your testimony does not specifically address  
8 any of the recommendations other than the ground storage  
9 tank, is that correct?

10          **A.**   Not by name, although I do state that I  
11 generally have no problem with the characterization of  
12 the improvements.

13          **Q.**   Okay.  On Page 9 through 11 of your testimony,  
14 you do state a concern that you have regarding the  
15 concrete ground storage tank.  Specifically on Page 9,  
16 Line 16, you say that you take exception to the analysis  
17 that led to the conclusion to locate a new ground  
18 storage tank on adjacent property.  Do you see that?

19          **A.**   Yes, I do.

20          **Q.**   I want to make sure I understand your  
21 statement.  You do not dispute that the ground storage  
22 tank should be replaced, but you disagree as to where it  
23 should be located, is that a fair characterization?

24          **A.**   In general terms, yes.

25          **Q.**   Okay.  On Page 11 of your testimony, at Lines

1 8 through 11, you state that customers, and I'm quoting,  
2 would be equally served by installing a new tank on the  
3 existing GST, or ground storage tank site, with a cost  
4 savings of 191,492, is that correct?

5 A. That is correct. Now, may I clarify here? I  
6 did not do an independent engineering analysis of the  
7 system. I took a look at the information that was  
8 provided within the Post Buckley technical memorandum  
9 which provided an alternative analysis. It turns out  
10 that those alternatives weren't really apples-to-apples,  
11 so I made some adjustments which I detail out here.

12 Q. Okay. Understood.

13 A. And when I made those adjustments, I found  
14 that there could be a functionally equivalent tank  
15 located on the plant site instead of on adjacent  
16 property that had to be purchased with a potential cost  
17 savings of \$191,000 using the numbers that Post Buckley  
18 had included in their report.

19 Q. I understand. Let me make sure I understand  
20 your statement there on Page 11, Lines 8 through 11.  
21 Your concern in building a ground storage tank on  
22 adjacent lots is not the fact that it's located on  
23 adjacent lots, but the fact that there are additional  
24 costs associated with the adjacent lots, is that  
25 correct?

1           **A.**    Correct.  There is a potential savings to be  
2 had there.

3           **Q.**    If the utility could build a new ground  
4 storage tank on adjacent land for the same cost as the  
5 estimate in the PBS&J site for building it on the  
6 current site, then you would be indifferent to that, is  
7 that right?

8           **A.**    Well, from a cost standpoint I would.  From an  
9 engineering standpoint, I would kind of have to ask why.  
10 Why go through the effort of acquiring new land when you  
11 can contain everything with what you have.  It seems  
12 like a lot more to go through.  But, yes, from a cost  
13 standpoint, they are equivalent, if you were going to  
14 assume that.

15          **Q.**    So your testimony is you do not see any  
16 benefits with converting the existing ground storage  
17 tank to the workshop as has been proposed by the  
18 utility?

19          **A.**    That was not proposed by the utility as a pro  
20 forma adjustment.  That was an option that was  
21 considered in the technical memorandum, but it was not  
22 submitted as part of this rate case.

23          **Q.**    Let's look back on Page 8, on Lines 1 through  
24 3 of your testimony, and I'll try to slow down, I'm  
25 sorry, and give folks a chance to get there.  On Page 8,

1 Lines 1 through 3 you state, "The technical memoranda  
2 provide an analysis that documents the need for  
3 improvements and identifies the projects to address the  
4 need."

5 I just want to make sure I understand that you  
6 do agree with the fact that there is a need for these  
7 capital improvements and that these projects would  
8 address that identified need, is that right?

9 A. Yes.

10 Q. Okay.

11 A. And I would also just like to clarify that the  
12 selected alternative in the technical memorandum does  
13 not include a workshop.

14 Q. Have you had an opportunity to review Mike  
15 Scibelli's testimony in this case?

16 A. I have.

17 Q. Did you look at the addendum to the technical  
18 memorandum that he provided regarding the ground storage  
19 tank?

20 A. I did.

21 Q. Does the information that he provided there in  
22 any way impact your comments?

23 A. If I remember correctly, and I don't have it  
24 in front of me, he was actually able to narrow the gap  
25 between the two functionally equivalent alternatives.

1 But if I remember right, there was still a differential  
2 of about \$64,000. By my read of that, there's still an  
3 advantage to retaining the ground storage tank on site.

4 Q. And you are speaking the advantage, financial  
5 advantage?

6 A. Economic advantage, yes.

7 Q. Okay. Other than the discussion that we just  
8 had regarding the ground storage tank, you also do not  
9 take issue with the projects recommended by PBS&J, is  
10 that right?

11 A. Yes, I think we have been through that.

12 Q. Let's shift gears a little bit now. So we  
13 have established, I think, that you do not take issue  
14 with any of the projects other than as we have discussed  
15 with the ground storage tank, which is essentially a  
16 financial objection. And yet your testimony has  
17 indicated some objection to the capital improvements for  
18 inclusion in this case. I want to explore that. You  
19 are not taking issue with the cost estimates themselves  
20 as I understand you saying?

21 A. Correct.

22 Q. They seem to be reasonable, in the ballpark of  
23 what would be expected?

24 A. Correct.

25 Q. Okay. So I want to make sure I understand,

1 you are taking issue with the capital improvements being  
2 adequate to be the basis for setting rates?

3 A. I am taking issue with the use of cost  
4 estimates for inclusion into rate base.

5 Q. You said in your summary that there is a test  
6 was the word you used for being included in rate base.  
7 What test are you speaking of?

8 A. Well, essentially that's what I refer to here  
9 in my testimony, and let me just read it for you. A  
10 rate base calculation relies upon plant in service  
11 amounts that are derived from the actual booked cost of  
12 the assets in the utility system and are supported by  
13 invoices from contractors or equipment suppliers.

14 Q. So you are wanting the capital improvements to  
15 be completed and invoiced, is that right?

16 A. Yes.

17 Q. Okay. So for purposes of this rate filing,  
18 what information would you have wanted the utility to  
19 provide in order for the utility to have met the test?

20 A. Well, from what I have seen in other rate  
21 cases, generally, I have had invoices, a schedule of  
22 values that details that, okay, here is a contractor, he  
23 has been retained. Here's the list of items that he is  
24 working on and the costs that are associated with it.  
25 Here are the monthly drawdowns on each of those items.

1           Q.    Based on your experience, does it cost money  
2 to get that kind of detail?

3           A.    Yes.  That's part of the construction costs of  
4 a project.  Or not construction, part of the capital  
5 costs of a project, the bidding process, retaining a  
6 contractor, bringing him on.

7           Q.    Would you say, based on your experience, that  
8 to spend this additional money to get the kind of  
9 information you are looking for that a utility has to be  
10 committed to making those capital improvements?

11          A.    I, would hope that the utility is committed to  
12 making the capital improvements, yes.  Yes.

13          Q.    In order to have that level of commitment,  
14 would you say that a utility has to have some financing  
15 lined up if they are going to be using financing to pay  
16 for those capital improvements?

17          A.    I would assume that they would need that.

18          Q.    And based on your experience, in order to line  
19 up that financing, are potential lenders going to want  
20 some assurance that the utility will have the revenues  
21 and the fees to support the financing?

22          A.    I would say yes.

23          Q.    Now, in the case of a regulated utility, like  
24 Water Management Services, that does not have sufficient  
25 capital on hand to expend those additional funds and

1 that needs outside financing, what could be done to  
2 assure a potential lender that the revenues and fees are  
3 forthcoming?

4 A. First of all, I have to say I have not  
5 testified, reviewed, or have any information about Water  
6 Management's capital sure or available funds, so I can't  
7 speak specifically for this utility to each specific  
8 circumstances that you have mentioned.

9 Q. With regards to Water Management Services, if  
10 the cost of the capital improvement projects are  
11 disallowed and the utility cannot get the financing  
12 until they are allowed, do you think the improvements  
13 will get done?

14 A. I think maybe -- my answers to your questions  
15 are better asked if we took a hypothetical utility  
16 instead of Water Management Services, and I would have  
17 to agree with you that if a utility can't get money to  
18 fund its capital improvement program, chances are it  
19 will not get built.

20 Q. Based on your conclusions as to the capital  
21 improvement projects that were identified by PBS&J, do  
22 you believe that doing those capital improvements would  
23 be in the best interest of the customers who are served  
24 by that water system?

25 A. Yes, I do, with the caveat on the ground



1 storage tank.

2 Q. Right. You stated earlier that in your  
3 position you do prepare evaluation reports of systems  
4 for clients, and those generally contain recommendations  
5 regarding capital improvements, is that right?

6 A. That is correct.

7 Q. In the utility's interrogatories and requests  
8 for production to the Office of Public Counsel you were  
9 asked about some of those evaluations and reports you  
10 have provided to customers, is that right?

11 A. To utilities, reports I have provided to our  
12 clients, yes.

13 Q. Okay. And specifically you produced -- Office  
14 of Public Counsel produced some reports that you have  
15 prepared for various utilities in response to our second  
16 request for production of documents, is that right?

17 A. Correct.

18 Q. I would like to ask you about a few of those  
19 reports.

20 MS. SCOLES: And, Commissioners, in order to  
21 hopefully save a tree or two, what I did was there are  
22 just some excerpted pages, relevant pages for the  
23 purpose of our discussion today, but I do have a  
24 complete -- one complete copy of the whole report in  
25 case Mr. Woodcock would like to look at that, or if

1 anyone else would like to look at that, if that would be  
2 helpful.

3 **COMMISSIONER SKOP:** And, Ms. Scoles, those are  
4 just excerpts from documents already admitted into  
5 evidence, is that correct, or do we need a number for  
6 those?

7 **MS. SCOLES:** We will need a number, Chairman.

8 **COMMISSIONER SKOP:** All right. If my counting  
9 is correct, it will be marked for identification as  
10 Exhibit 81. And could I have a brief short title?

11 **MS. SCOLES:** Excerpts from City of Bartow  
12 Report.

13 **COMMISSIONER SKOP:** Thank you.

14 (Exhibit Number 81 marked for identification.)

15 **BY MS. SCOLES:**

16 **Q.** Mr. Woodcock, I do have a copy of the full  
17 report here if you would like it to refer to.

18 **A.** I think I'm fine for right now.

19 **Q.** Does this appear to be excerpts from a  
20 document that the Office of Public Counsel produced in  
21 response to our second request for production of  
22 documents?

23 **A.** Yes, it is. This is a master plan that I  
24 prepared, Water Master Plan that I prepared for the City  
25 of Bartow. It basically includes a capital improvement

1 program, and it also includes kind of a financial  
2 snapshot about what their finances are and how the  
3 capital improvement program might affect it. One thing  
4 that I think is very important to note going into this  
5 is that this was prepared for a government-owned  
6 utility. It is not regulated by the PSC, and there are  
7 no requirements for rate base or rate of return. It is  
8 a completely different set of ratemaking and financing.

9 Q. That being said, Mr. Woodcock, would you agree  
10 that there are certain core principles that apply to a  
11 utility regardless of whether they are a regulated  
12 utility or a municipal?

13 MR. MCGLOTHLIN: I object to that as vague.  
14 Can you ask him, first of all, if he will agree or  
15 disagree.

16 COMMISSIONER SKOP: All right. Ms. Scoles, to  
17 the objection, or if you can just restate.

18 BY MS. SCOLES:

19 Q. Would you agree that regardless of whether the  
20 utility is a municipal or an investor-owned utility,  
21 there are certain requirements or covenants that must be  
22 in place in order for that utility to get the money to  
23 enter into capital improvement programs?

24 A. I will have to say that in my personal  
25 experience I have not dealt with financing in

1 investor-owned utilities, so I can't speak 100 percent  
2 to that.

3 Q. Would you agree that if a utility issues debt,  
4 it must be able to pay that debt service?

5 A. I would agree with that.

6 Q. Would you agree that there is a need for a  
7 sufficiency of revenues in order to provide safe and  
8 adequate service by the utility?

9 A. I'm going to say yes in general.

10 Q. Would you agree that there has to be certain  
11 amount of system review and planning, and that there  
12 will be an ongoing cost for operations as well as a  
13 periodic need for capital improvements regardless of  
14 whether a utility is municipal or regulated by the PSC?

15 A. Yes.

16 Q. Would you agree that capital improvements have  
17 to be included in the revenue needs of the utility?

18 A. I'm going to say not necessarily -- I'm having  
19 a little trouble with your term there. I prefer to call  
20 it fiscal requirements as opposed to revenue needs, but,  
21 yes, I will go with that.

22 Q. Well, let's look, if we would, at the City of  
23 Bartow, Exhibit 81. On Page ES-5 of the document, or if  
24 you prefer, the Bates number is 4-000306. So it's ES-5  
25 or 306. Under the heading, "Transmission and

1 Distribution System Improvements," the report indicates  
2 that certain system improvements are needed,  
3 specifically 11 projects, is that correct?

4 A. Yes.

5 Q. At the point that this report was issued, had  
6 those projects been competitively bid?

7 A. I cannot say with certainty. I will tell you  
8 definitely not all of them, probably not any of them.  
9 This was a planning document, and many of the --

10 Q. Had the projects been completed such that a  
11 final installed cost was available?

12 A. No.

13 MR. MCGLOTHLIN: I would like to ask that the  
14 witness be permitted to complete his answer. I think  
15 counsel was interrupting him.

16 MS. SCOLES: Oh, I'm sorry. Go ahead.

17 COMMISSIONER SKOP: All right. Very well.

18 Mr. Woodcock, please continue.

19 THE WITNESS: What I was going to say is this  
20 was a master plan, and these fire flow improvements were  
21 made as a result of a hydraulic analysis we conducted on  
22 the system. The utility was aware that there were fire  
23 flow issues. They may have been working on some of  
24 these projects, but definitely not all of them.

25

1 **BY MS. SCOLES:**

2 Q. So I assume then that the projects, if they  
3 had not been competitively bid, had not been completed  
4 such that there was a final installed cost?

5 A. Correct.

6 Q. Okay. On that same page, we are still on 306,  
7 under the heading financial review, the second sentence,  
8 what does CIP stand for?

9 A. Capital improvement program.

10 Q. So that is the 11 projects that were discussed  
11 above, is that right?

12 A. Among a lot of others that are included in the  
13 report.

14 Q. Okay. That same sentence then, the second  
15 sentence under financial review states that changes in  
16 the City's customer base and the updated CIP presented  
17 herein necessitates that the financing methods of the  
18 utility be evaluated, is that right?

19 A. Reevaluated.

20 Q. Reevaluated.

21 A. Correct.

22 Q. So the financial methods needed to be  
23 reevaluated at that point even though the capital  
24 improvements in question either some or all had not yet  
25 been bid or completed, is that right?

1           **A.**    That is true.

2           **Q.**    Okay.  That same page, the last sentence,  
3 which is the last two lines of the page there.  The last  
4 phrase says, "It appears that some adjustments to the  
5 city's rates and charges may be warranted to provide  
6 sufficient funding for the CIP presented."  Do you see  
7 where I'm reading, Mr. Woodcock?

8           **A.**    I do.

9           **Q.**    So let me make sure I understand.  The rates  
10 may need to be increased to provide sufficient funding  
11 for the capital improvements even though the capital  
12 improvements in question, some or all, had not yet been  
13 bid and had not yet been completed, is that right?

14          **A.**    That is correct.

15          **Q.**    Okay.

16          **A.**    I would also like to say that none of the  
17 estimates or anything that were included in this master  
18 plan were ever considered for any type of a rate base  
19 calculation.

20          **Q.**    Let's turn to the next page, if you would.  
21 ES-6, which is Bates label 4-000307.  Are you there, Mr.  
22 Woodcock?

23          **A.**    Yes.

24          **Q.**    Okay.  Under the heading summary, the second  
25 sentence reads various transmission and distribution

1 system improvements are needed to increase -- excuse me,  
2 to increase system reliability, available pressure, and  
3 flows. Do you see that, Mr. Woodcock?

4 **A.** I do.

5 **Q.** Would you agree that even in the absence of  
6 growth, system improvements are periodically needed in  
7 order to maintain or increase system reliability?

8 **MR. McGLOTHLIN:** Could I hear the question  
9 again, please?

10 **THE WITNESS:** Yes, I need to hear that again.

11 **BY MS. SCOLES:**

12 **Q.** Would you agree that even in the absence of  
13 growth, system improvements are periodically needed in  
14 order to maintain or increase system reliability?

15 **A.** If there is no growth in a system, generally  
16 the improvements that you are going to find are going to  
17 be related to either renewals and replacement to replace  
18 aging assets or to improve a level of service in  
19 response to a regulatory mandate.

20 **Q.** So your answer to that question would be yes?

21 **A.** A qualified yes, with what I said.

22 **Q.** On that same page, which is ES-6, Bates  
23 labeled 307, Table ES-1. Are you there, Mr. Woodcock?

24 **A.** I am.

25 **Q.** Would you read for us the title of the column



1 on the extreme right?

2 A. On the extreme right, the description?

3 Q. That's right.

4 A. Okay. I'm sorry, what were you -- I thought I  
5 answered it.

6 Q. The title on the Table ES-1 over the figures  
7 reads, "Estimated Construction Cost," is that right?

8 A. Yes, I'm sorry. You are correct. I  
9 apologize.

10 Q. So, again, these figures are not based on bids  
11 or invoices, they are engineering estimates, is that  
12 correct?

13 A. Absolutely.

14 Q. All right. Let's move on, if we would, to  
15 Page 7-3 of the report, or its Bates labeled 4-000383.

16 A. I'm there.

17 Q. Okay. And this is Table 7-1. That middle  
18 column is similarly titled, "Estimated Construction  
19 costs," is that correct?

20 A. Correct.

21 Q. The footnote on that title says that the cost  
22 includes materials, installation, contingency, and  
23 engineering fees, is that right?

24 A. That is correct.

25 Q. Okay. And these are also engineering

1 estimates?

2 A. Yes, they are.

3 Q. Okay. Footnote 2 says construction should  
4 begin in 2013. However, planning, engineering,  
5 permitting, and bidding should begin in 2011. Do you  
6 see that, Mr. Woodcock?

7 A. I do.

8 Q. So this is a 2007 report, correct?

9 A. Correct.

10 Q. So we are talking about projects that would be  
11 bid four years down the road and implemented or  
12 construction would begin six years down the road, is  
13 that correct?

14 A. Yes.

15 Q. Okay. All right. Let's turn to Page 8-1, if  
16 you would, or that is Bates label 4-000402. So it's 8-1  
17 or 402.

18 A. I'm there.

19 Q. Okay. Under Paragraph 8.1, existing  
20 financing, the second sentence of the first paragraph  
21 reads, "The purpose of this section is to review the  
22 city's water utility and develop the projected cash  
23 flows showing the proposed CIP in relation to financial  
24 performance." Do you see that?

25 A. I do.

1           **Q.**    So is it fair to say that a utility must  
2 consider capital improvements when looking at its  
3 projected cash flow?

4           **A.**    Yes.

5           **Q.**    Would you agree that the financial impact of  
6 capital improvements must be considered by the utility  
7 when it does that projection of cash flow?

8           **A.**    It should, yes.

9           **Q.**    On that same page, under 8.2, which is  
10 entitled existing revenue requirements, that paragraph  
11 refers to operations, and maintenance, and non-operating  
12 expenses, is that correct, Mr. Woodcock?

13          **A.**    Correct.

14          **Q.**    Would you agree that in determining revenue  
15 requirements one must look at both O&M as well as  
16 non-operating expenses?

17          **A.**    Yes.

18          **Q.**    The last sentence of that first paragraph  
19 under 8.2 reads the non-operating expenses includes  
20 certain general and administrative allocations, debt  
21 service, capital improvements, and other expenses and  
22 transfers. Do you see that, Mr. Woodcock?

23          **A.**    I do.

24          **Q.**    Would you agree that non-operating expenses  
25 include debt service and capital improvements?

1           **A.**    Yes.  It says so right there, yes.

2           **Q.**    All right.  Let's turn, if you would, to Page  
3 8-6, or that is Bates number 4-000406.  Do you see Table  
4 8.4, Mr. Woodcock?

5           **A.**    I do.

6           **Q.**    Okay.  The very last row on the table, rather  
7 small, is entitled planned CIP funding requirements.  Do  
8 you see where I'm looking?

9           **A.**    I do.

10          **Q.**    And the first paragraph under that table talks  
11 about pay as you go capital improvement expenses.  Do  
12 you see that?

13          **A.**    I do.

14          **Q.**    Can you explain what that means, the pay the  
15 as you go capital improvements?

16          **A.**    Sure.  Pay as you go is basically where you  
17 are paying for a capital improvement based on the cash  
18 you have on hand.

19          **Q.**    Do you believe that is a reasonable way to pay  
20 for capital improvements?

21          **A.**    Absolutely.

22          **Q.**    And why?

23          **A.**    It's one of the standard ways.  It is not the  
24 only way, but certainly, in fact, renewal and  
25 replacement generally for government owned utilities is

1 a pay as you go. You put away a certain amount every  
2 year and then you are pulling it out as you need it to  
3 renew and replace the assets in your system as they age.  
4 It is definitely a viable -- and it's frequently used.

5 Q. Let's look back at that first sentence there  
6 under Table 8.4, the last phrase of the sentence, which  
7 is on Lines 2 and 3 under there. I'm sorry, it reads,  
8 "Little cash is available to fund the R&R and the CIP as  
9 detailed in this report."

10 R&R is repair and replacement, is that right,  
11 Mr. Woodcock?

12 A. Renewal and replacement.

13 Q. Renewal and replacement, okay.

14 A. And let me say that pay as you go is  
15 definitely a viable financing option. It is used by  
16 utilities. It's not the only means. In the case  
17 of Bartow, we definitely found that given the magnitude  
18 of the capital improvement programs that a pay as you go  
19 method would not in and of itself be sufficient.

20 Q. So it sounds like to me that the City of  
21 Bartow you said had little cash available?

22 A. Relative to the magnitude of the CIP, yes.

23 Q. So in this case, what about Water Management  
24 Services, does it have adequate cash to fund the needed  
25 capital improvements recommended by PBS&J?

1           **A.**    I have not looked at any of the cash balances.  
2           And, once again, it is an investor-owned utility, I  
3           cannot say anything on that.

4           **Q.**    Were you not requested to look at the  
5           financials by Office of Public Counsel?

6           **A.**    What do you mean by financials?

7           **Q.**    You just indicated that you do not have the  
8           information on Water Management Services to address my  
9           question, so I'm wondering --

10          **A.**    I have not done any detailed analysis as to  
11          what fund balances the utility maintains and what is  
12          within those fund balances. I have no idea how this  
13          type of transaction works for an investor-owned utility.  
14          I don't testify in investor-owned rates and finances. I  
15          do just the engineering side, so I couldn't tell you. I  
16          haven't even looked at that aspect of Water Management  
17          Services as part of this rate case.

18          **Q.**    So you were not requested to do that, even  
19          though you are recommending that the capital  
20          improvements not be put in rate base?

21          **A.**    I'm recommending that -- I'm not recommending  
22          that the capital improvements don't be put rate base,  
23          I'm saying that the level of documentation for the  
24          amounts does not meet the test to go into rate base.

25          **Q.**    Still on Page 8.6, right under the paragraph

1 we were just discussing, there is a line followed by  
2 three bullet points. And that reads the three major  
3 options to fund the CIP are the following: Increased  
4 user rates, increased impact fees, and leveraging CIP  
5 costs with debt financing. Do you see that, Mr.  
6 Woodcock?

7 A. I do.

8 Q. So the report is outlining three ways to fund  
9 the capital improvements, including increasing rates  
10 before those projects have been bid or construction has  
11 been completed, is that correct?

12 A. That is correct.

13 Q. Let's turn to Page 8.7, which is also Bates  
14 number 4-000407. Are you there, Mr. Woodcock?

15 A. I am.

16 Q. Okay. The second full sentence at the top of  
17 the page -- I'm sorry, I think it's the first full  
18 sentence. Well, I'm sorry, the first full sentence at  
19 the top of the page. After the comma it reads, "It  
20 would benefit the city to review the rates and consider  
21 the practicality of increasing rates to meet the needs  
22 of the utility."

23 In this segment that I just read, by the needs  
24 of the utility, does that mean the capital improvements  
25 that you have recommended?

1           **A.**    Yes.

2           **Q.**    And still on that same page, moving down --  
3           excuse me, under 8.7, which is entitled conclusions and  
4           recommendations, the last sentence, and I'm reading here  
5           from your report, "Based on the review of the water  
6           utility and subject to the limitations of this cursory  
7           review for the water utility cash flows, it appears that  
8           some adjustment to the city's rates and charges may be  
9           warranted to provide sufficient funding for the CIP as  
10          presented."

11                        Do you see where I'm reading, Mr. Woodcock?

12           **A.**    I do.

13           **Q.**    So your recommendation was a rate increase  
14          based on engineering estimates of the capital  
15          improvements, even though the projects had not yet been  
16          bid or completed, is that right?

17           **A.**    My recommendation was not a rate increase. My  
18          recommendation was that given this capital improvement  
19          program that has been presented in this report and the  
20          city's current financial condition in its water  
21          utilities that the city may want to investigate  
22          increasing its rates.

23           **Q.**    But you do say that -- I'm sorry, please  
24          finish.

25           **A.**    No rates were presented. This is not a rate



1 study. We did not make any rate recommendations. We  
2 simply pointed out the need for it to be there.

3 Q. But you did indicate that some adjustment to  
4 the city's rates may be warranted, correct?

5 A. Correct.

6 MS. SCOLES: Okay. I think that's all I have  
7 on the City of Bartow, Chairman.

8 COMMISSIONER SKOP: All right. Very well.

9 MS. SCOLES: For purposes of the record, I  
10 don't know if you want this full report, Chairman, or if  
11 I can just take it back with me.

12 COMMISSIONER SKOP: Staff, Ms. Helton. It  
13 would seem to be that we would probably want the full  
14 report.

15 MS. HELTON: I think that would probably be  
16 good.

17 COMMISSIONER SKOP: Very well. We'll enter  
18 the full report, Ms. Scoles.

19 MS. SCOLES: All right. Chairman, I have  
20 another packet of excerpts.

21 COMMISSIONER SKOP: Okay. It will be Exhibit  
22 Number 82. And if we could get a short title, please.

23 MS. SCOLES: Orange City Report.

24 COMMISSIONER SKOP: All right. Thank you.

25 MS. SCOLES: I'm sorry, Chairman, let's make

1 it Excerpts from the Orange City Report.

2 **COMMISSIONER SKOP:** All right. Thank you.

3 **MS. SCOLES:** And what number is this,  
4 Chairman?

5 **COMMISSIONER SKOP:** That will be 82.

6 **MS. SCOLES:** Thank you.

7 (Exhibit Number 82 marked for identification.)

8 **MR. SAYLER:** Mr. Chairman.

9 **COMMISSIONER SKOP:** Mr. Sayler.

10 **MR. SAYLER:** For Exhibit 81, are we going to  
11 change the title from excerpts of City of Bartow report,  
12 to just Full City of Bartow Report?

13 **COMMISSIONER SKOP:** I guess we can if that is  
14 to everyone's liking. I mean, I entered it as Excerpts  
15 from the City of Bartow Report, but we can put the whole  
16 report, whatever the preference of the parties are.

17 Ms. Scoles.

18 **MS. SCOLES:** It doesn't matter to me. I guess  
19 if we are going to enter the full report -- I have three  
20 of them, we can just do it for each one.

21 **COMMISSIONER SKOP:** Okay. We'll just call it  
22 the City of Bartow Report for 81, and 82, is it your  
23 intent also to enter the full report?

24 **MS. SCOLES:** Yes, Chairman.

25 **COMMISSIONER SKOP:** Okay. So we will call it

1 the Orange City Report.

2 **MS. SCOLES:** Sounds good.

3 **COMMISSIONER SKOP:** All right. Very well.

4 You may proceed.

5 And, Commissioners and the parties, for  
6 planning purposes, staff has informed me that we need to  
7 probably recess the technical portion on or about 4:45,  
8 so I guess in about 15 more minutes, so we can get set  
9 up for the 6:00 p.m. customer service hearing. So, with  
10 that in mind, you are free to proceed.

11 **MS. SCOLES:** Okay. Thank you, Chairman.

12 **BY MS. SCOLES:**

13 **Q.** Mr. Woodcock, do you have the excerpts from  
14 the Orange City report in front of you?

15 **A.** I do.

16 **Q.** And this is dated August 2006, is that  
17 correct?

18 **A.** Yes, it is.

19 **Q.** And does this appear to be a report that you  
20 prepared and produced in response to the utility's  
21 request for production?

22 **A.** Yes.

23 **Q.** Let's look at the second page, which I believe  
24 the Bates number is 5-001847, but it is a bit hard to  
25 read. This is a letter from you to Paul Johnson dated

1 August 11, 2006. Do you see that?

2 A. I do.

3 Q. The second sentence says, "This report  
4 summarizes the basis for the proposed rates and charges  
5 of the water and wastewater services that are necessary  
6 to meet the expenditure requirements of the city's  
7 utilities."

8 Do you see that, Mr. Woodcock?

9 A. I do.

10 Q. In the second paragraph, the second sentence  
11 says, "The single most important objective was to  
12 produce rates and charges that meet the expenditure  
13 requirements of the utility's systems so as to maintain  
14 financial sufficiency while equitably distributing the  
15 revenue generation load among the city's customers."

16 Do you see that, Mr. Woodcock?

17 A. I do.

18 Q. In doing that, maintaining financial  
19 sufficiency, does the utility have to consider capital  
20 improvement costs?

21 A. Yes.

22 Q. The third paragraph, the very first sentence  
23 reads, "It was determined that the city's existing rates  
24 are unable to meet the fiscal requirements of the water  
25 and wastewater systems." Do you see that?

1           **A.**    I do.

2           **Q.**    Based on that statement, what was your  
3 recommendation?

4           **A.**    If you will give me a second to refresh. I  
5 mean, there was a rate increase that was recommended. I  
6 don't know if you want more specifics than that.

7           **Q.**    And the rate increase included capital  
8 improvement projects, is that right?

9           **A.**    I cannot remember from this document if the  
10 rate increase was triggered by capital improvement  
11 projects or if it was just triggered because they  
12 haven't had a rate increase in a while and they are  
13 required to periodically go back and reevaluate. I  
14 would need to review the document in a little more  
15 detail, unless you can point out to me where that is the  
16 case.

17          **Q.**    That's fine. Let's move on to Page 12, which  
18 is also Bates number 5-001863. Whoops. I'm sorry, I  
19 think I'm on the wrong page. It is Page 14, just two  
20 pages back. In the first paragraph, under Table 10, do  
21 you see that, Mr. Woodcock?

22          **A.**    I do.

23          **Q.**    The third sentence of that paragraph, the part  
24 there after the comma reads, "A failure to adjust rates  
25 will result in larger shortfalls in future years as

1 inflation, renewal and replacement costs, and capital  
2 costs discussed in further sections will erode the  
3 ability for operating revenues to cover all  
4 requirements."

5 Do you see that, Mr. Woodcock?

6 A. I do.

7 Q. Would you agree that a need for -- that once a  
8 need for a capital improvement is identified, it should  
9 be included sooner rather than later since postponing  
10 will likely result in higher costs?

11 A. That is generally my recommendation, although  
12 typically utilities -- you know, a CIP is a living  
13 document, so what may be for two years from now, because  
14 of slow growth may get pushed out, because of high  
15 growth may get pushed forward. There is more at play  
16 there than just doing things as soon as possible to  
17 offset inflationary impacts.

18 Q. All right. Turn with me, if you would, to  
19 Page 31, which is a big leap forward. It is also Bates  
20 number 5-001882. And this is part of the report's  
21 conclusion. If you turn back a page there is a heading  
22 that says that, findings, conclusions, and  
23 recommendations. So Paragraph 3 on Page 31, Mr.  
24 Woodcock, is part of your findings, conclusions, and  
25 recommendations. In the first sentence you say,

1 "Although well managed and maintained, the systems are  
2 getting older and certain maintenance will become more  
3 costly in the future."

4 Then skipping to the very last couple of  
5 lines, you say a capital funding program compatible --  
6 excuse me, it will need -- "The city will need to  
7 identify a capital funding program compatible with the  
8 ability of the rates to provide needed revenues."

9 Do you see that?

10 **A.** Yes.

11 **Q.** Would you agree that if a utility has a  
12 capital improvement program, it has to have some sort of  
13 a funding program compatible with the ability of the  
14 rates to provide revenues?

15 **A.** Yes, that's what it says there.

16 **MS. SCOLES:** All right. That's it with the  
17 Orange City report.

18 This is the full report.

19 **MR. SAYLER:** Thank you.

20 **MS. SCOLES:** Being mindful of the time,  
21 Chairman, I think I will spare us going through another  
22 report.

23 **BY MS. SCOLES:**

24 **Q.** Mr. Woodcock, you provided several dozen, I  
25 would say, reports similar to the ones that we have just

1 looked at as part of your response to our request for  
2 production. Would it be fair to say that those reports  
3 are similar to the two that we have looked at here today  
4 in the types of recommendations that you have made?

5 **A.** Over 80 percent of them are, correct, yes.

6 **Q.** In the other reports, which I have not  
7 inflicted upon us today, would you say there is anything  
8 inconsistent with what we have looked at in the two  
9 reports?

10 **A.** No.

11 **MR. MCGLOTHLIN:** I have to object. There is  
12 no way the witness can make that determination without  
13 more specific reference to which report she has in mind.

14 **COMMISSIONER SKOP:** Ms. Scoles, to the  
15 objection.

16 **MS. SCOLES:** Can I rephrase, Chairman?

17 **COMMISSIONER SKOP:** You may rephrase.

18 **BY MS. SCOLES:**

19 **Q.** Mr. Woodcock, those other reports that are not  
20 here today include reviews of systems, is that right?

21 **A.** Yes, that is correct in a general sense.

22 **Q.** And generally you make recommendations for  
23 capital improvements in those reports?

24 **A.** For most of them. There may be a few where it  
25 was just a due diligence review, or just a master plan



1 without a financial component, yes.

2 Q. And the recommendations regarding capital  
3 improvements and the ways to finance them would be  
4 similar to the reports that we looked at here today?

5 A. They would follow the same, yes.

6 MS. SCOLES: We're looking at the clock,  
7 Chairman. I was wondering if this would be an  
8 opportunity to break for the evening.

9 COMMISSIONER SKOP: Very well. Pursuant to  
10 staff's request, they wanted to break around 4:45, and  
11 it is real close to that time, so we will adjourn.  
12 Excuse me, not adjourn, we will recess the technical  
13 portion of the hearing and pick that up tomorrow morning  
14 at the appropriate start point, which I believe staff  
15 had said 9:30 tomorrow, or 10:00 o'clock.

16 MR. JAEGER: 9:30.

17 COMMISSIONER SKOP: 9:30, okay. So we will  
18 reconvene the technical portion of the hearing at 9:30  
19 tomorrow morning, and we will stand on recess and  
20 reconvene the customer portion at 6:00 p.m. this  
21 evening. So stand in recess. Thank you.

22 MR. McGLOTHLIN: Thank you.

23 MS. SCOLES: Thank you, Chairman.

24 (The hearing adjourned at 4:41 p.m.)

25 (Transcript continues in sequence with Volume

3.)

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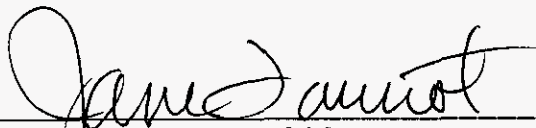
STATE OF FLORIDA        )  
                                  :  
                                  :     CERTIFICATE OF REPORTER  
COUNTY OF LEON        )

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 15th day of October, 2010.

  
\_\_\_\_\_  
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