

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for Rate Increase in Water and Wastewater Rates in Charlotte, Highlands, Lake, Lee, Marion, Orange, Pasco, Pinellas, Polk, and Seminole Counties by Utilities, Inc. of Florida

DOCKET NO. 160101-WS BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Statement of Second Revised Positions of Summertree Water Alliance for Issues 10B, 30, 36, 53 and 62:

Pursuant to the Commission's pre-hearing order please find the revised statement of positions of the Summertree Water Alliance for Issues 10B, 30, 36, 53 and 62:

OPC New

ISSUE 10B: What should be done on a case-by-case basis in situations in which there is a substantial negative accumulated depreciation balance?

SUMMERTREE: UIF should not be rewarded for its poor asset management practices and accounting. **Longstanding utility practice where poor or no record keeping of assets is present, for instance, when a utility system is acquired, is to conduct an original cost study and book the results. The existence of substantial negative accumulated depreciation suggests that this standard practice has not been applied by UIF.** Where substantial negative accumulated depreciation exists due to UIF's poor practices and record keeping, no adjustment should be made to benefit the utility at the expense of its customers.

ISSUE 30: What is the appropriate return on equity (ROE) for rate setting purposes?

SUMMERTREE: Material differences exist between and among the natural gas utilities indicated in the ROE graph and Utilities, Inc. The authorized return on equity should reflect the level of investor risk associated with investment in a water and wastewater utility in Florida. UIF enjoys many risk reducing benefits pursuant to Florida law, Commission rules and utility industry practice. UIF long has enjoyed annual indexing of rates, pass-through of expenses and now has provided testimony indicating its intent to further utilize an expanded pass-through law thus removing revenue requirement recovery risk. UIF collects contributions in aid of construction in the form of plant and cash contributions. Where developers do not pre-pay contributions in aid of construction, UIF collects guaranteed revenue charges. UIF is permitted to collect AFPI payments from developers and customers at the time of connection to compensate it for capital and operations carrying cost. Many of these risk reducing recovery mechanisms are not available to natural gas utilities. In addition, UIF has access to environmental cost pass-through recovery and seeks to place more of its revenue requirement in its base facility charges in this rate proceeding for the purpose of further reducing its risk of not achieving revenue requirement recovery. UIF is allowed to collect significant levels of customer deposits to insure payment of customer bills and has taken full advantage of the Commission's staff assisted rate case process to secure the Commission's assistance in obtaining its revenue requirements from customers in the past. Furthermore, UIF has not produced evidence to establish that it has aggressively pursued no cost or low cost funding from the federal, state or local governments to which it may be entitled, nor that UIF

sought funding from the Florida Legislature for investments required to protect the environment or the public health. Summertree alone succeeded in securing such assistance. Each of these facts and factors should be considered by the Commission when establishing UIF's authorized return on equity. The authorized return on equity, from which further adjustments should be made to reflect poor quality of service and management deficiencies; should be 7.4%; **resulting in a final authorized return on equity of 6.4%.**

ISSUE 36: Are the costs allocated from WSC appropriate and reasonable, and are the allocation factors appropriate going forward?

SUMMERTREE: No. UIF suggests that its affiliate is responsible for accounting and record keeping services among other things. Commission audits in this proceeding and prior proceeding consistently have shown not only inadequacies in accounting and record keeping but a flagrant UIF refusal to correct these issues after repeatedly being informed by the Commission and its staff that they exist. UIF should not be rewarded for these deficiencies. **UIF has failed to produce any evidence that UIF audits the allocated costs from its affiliate WSC to confirm for UIF ratepayers that the costs are reasonable. UIF has failed to produce evidence that it has ever audited the performance of WSC activities to confirm for ratepayers that they are being competently conducted at the lowest reasonable cost. UIF has failed to provide evidence that it has made the services available to third party providers of the various services being provided by WSC to confirm for customers that the costs being allocated to UIF are the lowest cost possible for such services. As UIF has failed to provide any evidence of this nature, the Commission should disallow any allocation of costs from the UIF affiliate related to accounting or record keeping from UIF's affiliate. *Contested***

ISSUE 53: Should any further adjustments be made to the Utility's test year and pro forma O&M expenses?

SUMMERTREE: Yes. UIF's deficient management practices have resulted in excessive operating costs which should be reflected in a reduced revenue requirement. UIF has recognized its management deficiencies by initiating implementation of the asset management system and geographic information systems but only after customers have been made to bear the higher capital and operating costs which UIF has imposed upon them by failing to implement such systems on a timely basis, years ago when they first became available and were in use by 70% of utilities located throughout the nation. In addition, UIF management has indicated that prior repairs to plant, lines and equipment have been performed and associated costs treated as operating expenses. However, UIF has failed to present the Commission with the amount of these expenses so that they can be removed from test year and pro forma expenses. UIF's test year and pro forma O&M expenses should be reduced to prevent UIF from being rewarded for this mismanagement. **ISSUE 62: What are the appropriate rate structures and rates for the water systems?**

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SUMMERTREE: The Commission is obligated to set rates which are fair, just and reasonable; not only to the utility but the customers. UIF should not receive any consumption repression adjustment as UIF

has failed to meet its burden to justify such an adjustment. UIF has imposed many rate increases upon its customers in the past but in this proceeding failed to present any analysis to show the impact of such past increases on customer consumption (which study would have had to take into account factors such as weather, consumer implementation of water conservation techniques and other factors unrelated to price which may have affected consumption). No regression adjustment has been justified.