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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 20190031-WU

APPLICATION FOR INCREASE IN
WATER RATES IN HIGHLANDS
COUNTY BY PLACID LAKES
UTILITIES, INC.

_____ /

PROCEEDINGS: COMMISSION CONFERENCE AGENDA
ITEM NO. 11

COMMISSIONERS
PARTICIPATING: CHAIRMAN ART GRAHAM
COMMISSIONER JULIE I. BROWN
COMMISSIONER DONALD J. POLMANN
COMMISSIONER GARY F. CLARK
COMMISSIONER ANDREW GILES FAY

DATE: Tuesday, December 10, 2019

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: ANDREA KOMARIDIS WRAY
Court Reporter and
Notary Public in and for
the State of Florida at Large

PREMIER REPORTING
114 W. 5TH AVENUE
TALLAHASSEE, FLORIDA
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1 P R O C E E D I N G S

2 CHAIRMAN GRAHAM: Okay. Let's drop down to
3 Item No. 11.

4 MS. RAMOS: Good morning. I'm Marissa Ramos
5 speaking on behalf of Commission staff. Item
6 No. 11 addresses the request of Placid Lakes
7 Utilities, Inc., for an increase in water rates.

8 Staff held a -- sorry. Placid Lakes is a
9 Class B utility providing water service to
10 approximately 2,000 customers in Highlands County.
11 Staff held a customer meeting on September 12th,
12 2019, in Lake Placid where two customers provided
13 feedback and a third customer provided a water
14 sample.

15 Furthermore, as a result of the DEP-issued
16 consent order, the utility made the necessary
17 facility modifications in accordance with the
18 requirements outlined in that consent order.

19 Staff's recommended revenue increase of
20 \$60,335, or 8.6 percent, differs from the utility's
21 requested increase of \$97,116, or 14.5 percent,
22 largely due to staff's recommended adjustments to
23 its test-year revenues.

24 Representatives from the utility and OPC are
25 here to address this item and staff is available

1 for any questions you may have.

2 CHAIRMAN GRAHAM: Thank you, staff.

3 I'll start with OPC.

4 MR. DAVID: Good morning. Thank you,
5 Commissioners.

6 I'm not here to expressly object to or oppose
7 the recommendation in this docket, but I did simply
8 want to expressly note that, even in the
9 recommendation, there were some borderline concerns
10 regarding customer satisfaction and water quality
11 that I just felt like needed to be, once again,
12 expressed on the record.

13 Once again, not opposing the -- the staff
14 recommendation, but did want to note that, with the
15 pro forma items that were being approved and -- and
16 noted for the rate increase, that -- that it just
17 needs to be on the record that hopefully those --
18 those items will address and will continue to
19 address customer satisfaction and the water
20 quality.

21 Thank you.

22 CHAIRMAN GRAHAM: Thank you.

23 Mr. Friedman?

24 MR. FRIEDMAN: Thank you, Mr. Chairman and
25 Commissioners. Marty Friedman on behalf of Placid

1 Lakes Utilities.

2 I'm compelled to address -- and the only issue
3 I'm going to address is going to be Issue No. 2 as
4 it relates to the staff's recommendation to apply
5 the antiquated and outdated lot-count method to
6 determine used-and-useful of a water-distribution
7 system.

8 Staff recommends following the method that was
9 used in prior rate cases, arguing that the utility
10 did not provide any change in conditions to justify
11 any change from the prior case. And I strenuously
12 disagree.

13 The lot-count method unreasonably penalizes a
14 utility if there are vacant lots, even though the
15 utility doesn't have the ability to remove that
16 segment of the pipe without impairing the ability
17 to serve the remaining customers. It's illogical
18 from a rational and engineering standpoint.

19 If you've got two houses on each side of a lot
20 and there's a vacant lot in between, this lot-count
21 method penalizes a utility, although it has no
22 alternative but to run that line in front of that
23 person's house.

24 As staff acknowledges, the utility pointed out
25 that there are no areas in the water-distribution

1 system that could be wholly removed without
2 impacting the ability of the utility to serve the
3 remaining customers.

4 What the staff has ignored -- while
5 recognizing that position, what the staff has
6 ignored in its recommendation is that the concept
7 of being able to remove a portion of the line
8 without impacting the ability of the utility to
9 serve other portions of the system is not something
10 in my imagination.

11 As I pointed out to staff, in its recent
12 Bocilla Utilities rate case, this Commission
13 rejected the antiquated and outdated lot-count
14 method in favor of the more practical and rational
15 argument that I made.

16 And in doing so, the Commission stated: There
17 are no large, undeveloped parcels in Bocilla's
18 territory; however, there are undeveloped lots
19 interspersed throughout the distribution system.
20 All lines are required to serve the existing
21 customers, and no portion of the distribution
22 system could be isolated as not used-and-useful;
23 therefore, Bocilla's transmission-and-distribution
24 system shall be considered a hundred percent used-
25 and-useful.

1 Staff doesn't mention this order anywhere in
2 its recommendation. And, in fact, I believe that
3 that is the last file-and-suspend rate case that
4 the Commission addressed this issue in.

5 Further, in a rulemaking workshop, the staff
6 had proposed a -- a used-and-useful role for a
7 distribution system at the request of OPC. And it
8 determined in its draft -- granted, this is just a
9 draft position that was going to be workshop-ed and
10 hasn't gone anywhere, but, at least at that point,
11 the staff's position was consistent with the
12 Bocilla rate case in which they said a system would
13 be a hundred percent used-and-useful when there are
14 no areas in the water-transmission or distribution
15 system which could be wholly removed without
16 impacting the ability to reliably serve customers
17 more than five years after the end of the test
18 year.

19 So, in conclusion, since, in this case, no
20 portion of the distribution system for Placid
21 Electric Utilities can be removed in front of those
22 vacant lots, it's appropriate that this Commission
23 reject the outdated and antiquated lot-count method
24 as it relates to Placid Lakes Utilities, Inc.

25 Thank you.

1 CHAIRMAN GRAHAM: Thank you, Mr. Friedman.
2 Commissioners, any questions of staff, the
3 utility?

4 Commissioner Brown.

5 COMMISSIONER BROWN: Thank you.

6 First, I'd like to hear from staff regarding
7 Mr. Friedman's argument on used-and-useful.

8 MS. KNOBLAUCH: Good morning.

9 So, just to kind of address Marty's arguments
10 that he brought up -- so, there's kind of two
11 different things. With Bocilla, as Marty pointed
12 out, it was a little bit different than this case
13 because there were, like, a whole line of houses
14 and then there would be vacant lots kind of
15 interspersed between those.

16 With Placid Lakes, it's a little different,
17 again, because you have one or two houses with a
18 line that's running all the way out to those
19 houses. So, it's not vacant lots among other
20 houses.

21 The second thing that Mr. Friedman pointed
22 out -- this methodology has been used in the last
23 three cases and --

24 COMMISSIONER BROWN: The file-and-suspend
25 cases?

1 MS. KNOBLAUCH: Correct. The one before that,
2 they used, like, a traditional lot count. And that
3 was a SARC, but the last three were a file-and-
4 suspend.

5 COMMISSIONER BROWN: Okay. Mr. Chairman, I
6 have just a couple of clarification questions --

7 CHAIRMAN GRAHAM: Sure.

8 COMMISSIONER BROWN: -- on Issue 1 for staff.
9 You talk -- it deals with the customer
10 complaints. I guess, the 66 work orders that
11 were -- Placid Lakes responded to -- are th- --
12 does that mean that there were 66 complaints? It
13 is not clear in the recommendation.

14 MS. KNOBLAUCH: It is a little bit different,
15 kind of, than our normal write-up.

16 COMMISSIONER BROWN: It is.

17 MS. KNOBLAUCH: So, we requested the
18 complaints, and that's what the utility provided in
19 response. So, it was usually the work orders where
20 it appeared that a complaint came in and then they
21 had the follow-up -- follow-up action. So, I
22 believe they are still classified as complaints,
23 though.

24 COMMISSIONER BROWN: Is -- isn't that -- is
25 that over the test-year period or is that over 2014

1 through 2018?

2 MS. KNOBLAUCH: That would be for the test
3 year.

4 COMMISSIONER BROWN: 66 complaints in the test
5 year?

6 MS. KNOBLAUCH: Uh-huh.

7 COMMISSIONER BROWN: Mr. Friedman, is that
8 correct? Do you know?

9 MR. FRIEDMAN: I do not know the answer to
10 that question; although, 66 complaints in 365 days
11 doesn't seem particularly egregious to me. And
12 those -- we don't know what the nature of those
13 complaints are without looking at them in more
14 detail. It could be a building complaint. It
15 could be somebody calling in and saying, a line
16 broke. It could be somebody wanting their meter
17 reread.

18 COMMISSIONER BROWN: Obviously, pro -- you
19 know, we'd like to hope that the pro forma
20 improvements will address those type of issues,
21 like the flushing and --

22 MR. FRIEDMAN: Yeah, the big one was is the
23 TTHM, which is an issue with -- every utility in
24 the state of Florida, at one point or another --

25 COMMISSIONER BROWN: Yeah.

1 MR. FRIEDMAN: -- has had that problem.

2 COMMISSIONER BROWN: Okay. Thank you.

3 Just two more questions on -- clarification
4 questions on Items 9 and 10. I'll --

5 MS. KNOBLAUCH: Just one clarification -- I
6 apologize. That was my mistake. For the MFRs, we
7 request the complaints for the test year, but the
8 66 were from 2014 to 2018.

9 COMMISSIONER BROWN: Oh, that's much more
10 reasonable.

11 MS. KNOBLAUCH: My apologies.

12 COMMISSIONER BROWN: Okay. Thank you.

13 Issue 9, regarding the utility's O & M
14 expense -- is chemical expense the only item in
15 Issue 9 for a total amount? It's -- is that
16 correct?

17 MS. KNOBLAUCH: Correct.

18 COMMISSIONER BROWN: There's no other O & M?

19 MS. KNOBLAUCH: For this issue, specifically,
20 it's just the adjustment for chemicals.

21 COMMISSIONER BROWN: And then, for Issue 10,
22 you have \$1,700 for travel; however, there's no
23 details at all in the recommendation. Usually, we
24 have details, supporting documentation, et cetera.
25 What is the 1700 for? Not saying that it's

1 unreasonable, but there's just no information here
2 on it.

3 MR. SMITH: Correct. And I'm -- I apologize
4 for not having my nameplate.

5 COMMISSIONER BROWN: It's okay.

6 MR. SMITH: It's Lee Smith with Commission
7 staff.

8 The travel includes the customer meeting, the
9 interim agenda, and this agenda as well for the
10 utility and counsel. And I used the IRS rates.
11 You know, there are ho- -- hotels involved, you
12 know, for up here. And those were all reasonable
13 expenses for this utility.

14 COMMISSIONER BROWN: Thank you.

15 That's all.

16 CHAIRMAN GRAHAM: Commissioner Polmann.

17 COMMISSIONER POLMANN: Thank you,
18 Mr. Chairman.

19 For staff, the -- again, looking at questions
20 Commissioner Brown was asking about the 66 work
21 orders over a period of time, it indicates here,
22 looking at Page 5 of -- of the agenda item, 59 work
23 orders regarding flushing.

24 Do we understand that that was principally in
25 regard to water-quality management, the flushing?

1 MS. KNOBLAUCH: Correct. So, I believe, when
2 I was looking through them, it would be a complaint
3 from a customer about water quality, as you said,
4 and the utility would go out and flush the lines.

5 COMMISSIONER POLMANN: Mr. Friedman, do -- do
6 you interpret the degree of flushing within this
7 system to be particularly high? The volume that's
8 being flushed -- is that, in your experience,
9 working with a variety of utilities, do you see
10 the -- the water that's being flushed to be
11 relatively high, these --

12 MR. FRIEDMAN: I haven't done that analysis,
13 but it didn't stick out -- it didn't stick out to
14 me to be particularly high, but I haven't done a
15 detailed analysis of that. And as you know, every
16 system is different.

17 COMMISSIONER POLMANN: Sure.

18 Ms. Knoblauch, what -- what percentage of
19 water is accounted -- I understand the flushed
20 water is -- is metered; is that correct?

21 MS. KNOBLAUCH: I believe the flushing is done
22 by an estimation. So, they have specific flushing
23 points. And then, when the flushing is done, they
24 estimate based off of timing and how much they
25 believe is coming out of that specific spot.

1 COMMISSIONER POLMANN: And then, in terms of
2 the -- looking at the lost water and then the
3 unaccounted-for water and so forth, the flushed
4 water is brought into that calculation. So,
5 compared to the revenue water, what percentage
6 is --

7 MS. KNOBLAUCH: I --

8 COMMISSIONER POLMANN: -- brought in here and
9 how does -- my real question is: How does that
10 compare to other utilities that you're familiar
11 with? Is -- does this seem extraordinary to you,
12 is -- is my real question.

13 MS. KNOBLAUCH: I'm not sure if I could say
14 it's extraordinary or not, but I can tell you the
15 amount sold was around 84 million and then the
16 amount flushed was around 11 million gallons.

17 COMMISSIONER POLMANN: Okay. So, 13 to
18 15 percent.

19 To Public Counsel, you identified the --
20 Issue 1, I understand -- or at least, you mentioned
21 the water-quality customer service. And I -- I
22 took that to mean water-quality-related since
23 that's where the customer service -- did you want
24 to elaborate on your concern about the customer
25 service at all? Because I think that's -- that's

1 one of the questions that we have as well.

2 MR. DAVID: Right. No, sir, Commissioner.
3 I -- it was basically the -- the water quality and
4 the responses to the water quality. That was --
5 that was it. There was no other -- not -- there
6 was no customer-satisfaction issue separate from
7 the water-quality flushing issues there.

8 COMMISSIONER POLMANN: Mr. Friedman, this all
9 ties back into the used-and-useful aspect of -- of
10 the pipeline, which is why I'm -- I'm bringing
11 forward the flushing and the use of the flushing as
12 a water-quality management.

13 And in -- in my belief, this has to do with
14 how the -- how the distribution system is
15 configured, where the -- the customers are taking
16 water off of that distribution system; so -- so,
17 which way the water is flowing in the pipeline and
18 where -- where I would anticipate you have stagnant
19 water because there are deadends.

20 Water is not flowing. It's aging. Water
21 quality is deteriorating. And there's a potential
22 for a loss in -- in disinfectant residual. You
23 potentially have -- and I say potentially because
24 I -- I don't know, but from my experience
25 elsewhere, you're going to have potential

1 deterioration in water quality that leads to taste
2 and o- -- and odor.

3 And then, you know, there's this cascading
4 effect where you're going to end up with customer
5 complaints about taste and odor, which appears to
6 be in the record, and a call for flushing. And all
7 of this has a cascading effect. And it -- and
8 ultimately, it gets back to the water-distribution-
9 system layout. And it typically is -- the
10 management aspect is to flush the system.

11 So, then the question is: How -- how is the
12 pipeline actually being managed? And it gets back
13 to the used-and-useful, how the thing is laid out,
14 the plumbing.

15 So, my real question, then, is: You say
16 there's no alternative for the utility other
17 than -- the pipe is what it is. And you're
18 claiming here today that the utility has no other
19 alternative. There's no way to segregate out
20 portions of this, but how -- are you speaking to
21 that issue in terms of what the rule says and just
22 a practical matter, or has there been any pipe-
23 network engineering analysis that says, well, if we
24 put a valve in here and say -- and close that off,
25 this thing would work better?

1 Has there been any kind of other modeling,
2 engineering analysis that -- that would -- would
3 support the assertion that there is no alternative?
4 Or is this just operational experience that says,
5 well, this is the way it works?

6 MR. FRIEDMAN: Well, let me start at the
7 beginning, and that is water quality. You know,
8 they had a customer meeting and -- and I don't
9 remember whether there were two or three people
10 that showed up, but --

11 COMMISSIONER POLMANN: Well, it was two,
12 apparently.

13 MR. FRIEDMAN: You know, they, obviously --
14 there's -- there's not some groundswell of people
15 that were complaining about water quality. Now,
16 you know, it -- they -- people did complain during
17 that four-year period. 66 people, apparently,
18 complained about something, but -- but don't be
19 misguided to think that there is a terrible water-
20 quality problem.

21 COMMISSIONER POLMANN: No, I understand.

22 MR. FRIEDMAN: The TTHMs was really the only
23 issue that DEP pointed out and -- and, as you know,
24 that's -- I mean, whether you believe that's a real
25 threat to cancer or not is a -- is a whole

1 different argument, but --

2 COMMISSIONER POLMANN: Well, it doesn't
3 matter. It's a pr- -- it's a primary standard.

4 MR. FRIEDMAN: Yeah, but everybody has got a
5 problem with -- not -- I shouldn't say everybody
6 because there's exceptions to everything, but --

7 COMMISSIONER POLMANN: Well, that's a pretty
8 bold statement.

9 MR. FRIEDMAN: Most -- most of my clients
10 and -- and government utilities that I'm familiar
11 with have had TTHM problems. And so, the fact
12 they've got a problem and they're resolving it is
13 not a -- you know, shouldn't be -- shouldn't be
14 held against them.

15 As far as the used-and-useful is concerned,
16 Bocilla Utilities, which was the -- which is the
17 last file-and-suspend case that this Commission has
18 ruled on this issue on -- flushes a ton of water on
19 water quality to make sure that they've got the
20 water quality.

21 Theirs may be different or not. I don't --
22 you know, I haven't analyzed it, but the point of
23 the matter on -- on this used-and-useful issue is
24 that there are houses interspersed around the
25 community and there are vacant lots in between

1 those ho- -- houses.

2 You can -- you know, we obviously provide a
3 map to the -- to the -- to the staff. One of
4 the -- the MFR requirements is a map that
5 identifies where all of our customers are on the
6 system. So, they've got a map that shows where all
7 of our customers are and -- and shows the vacant
8 lots and where those are located.

9 And I would suggest to you that -- that
10 there's been no indication from staff that says you
11 can -- you don't need to have this section of line
12 here; you can get rid of that section and not worry
13 about that poor guy on the end of the line down
14 there; let him dig a well.

15 It's an -- it's an integrated water-
16 distribution system that requires that all of the
17 lines that are in place be in place to serve the
18 existing customers. And that should be the -- the
19 inquiry.

20 Are there sections -- are there portions of
21 undeveloped land -- which is the analysis that you
22 did in Bocilla. You looked to see if, maybe, at
23 the end of the line there was a big piece of
24 undeveloped property. And -- and there wasn't, and
25 there isn't in this case.

1 There are vacant lots interspersed throughout
2 the community. And the utility can't remove lines
3 without cutting somebody off.

4 COMMISSIONER POLMANN: Okay.

5 MR. FRIEDMAN: And that's the only argument I
6 make. The fact that -- that this Commission, in --
7 in the last rate case with this particular company
8 used the lot-count method doesn't mean that we
9 should perpetuate that outdated and antiquated
10 method.

11 COMMISSIONER POLMANN: Okay. I understand.
12 So --

13 MR. FRIEDMAN: And that's what I'm asking, is
14 that -- is that you just kind of take a re- --
15 rethink on it that's says this is what's different
16 that those last Placid Lakes cases is this
17 Commission has realized that the lot-count method
18 doesn't always work, and it penalizes a utility,
19 such as Placid Lakes, for something that they have
20 no control over; and that is whether somebody is
21 going to build on the lot in between two houses or
22 whether that lot is going to stay vacant.

23 COMMISSIONER POLMANN: Okay. So, we can
24 debate the -- you know, the -- the geography of
25 where the houses are or not and how the plumbing

1 is, but I think, if I understand your point, you --
2 you are suggesting that the precedent of how we
3 dealt with Bocilla is -- should carry the day and
4 that it's an interpretation of the rule that
5 you're -- and -- and our methodology that we should
6 look to Bocilla as -- as controlling in how we deal
7 with this utility. Is --

8 MR. FRIEDMAN: Yeah, I --

9 COMMISSIONER POLMANN: Is that your point?

10 MR. FRIEDMAN: Yeah -- I mean, yeah, you don't
11 have a rule --

12 COMMISSIONER POLMANN: Okay.

13 MR. FRIEDMAN: -- on -- on used-and-useful
14 of -- of the -- of a distribution system.

15 COMMISSIONER POLMANN: But it's the
16 methodology of the lot count and -- and how we
17 dealt with Bocilla that's -- that's your position.
18 We should follow that.

19 MR. FRIEDMAN: Yes, that is --

20 COMMISSIONER POLMANN: Okay.

21 MR. FRIEDMAN: That is the most-recent
22 determination in a file-and-suspend rate case that
23 this Commission has made. I think that the facts
24 are the same. They're both my clients. I think
25 the facts are the same. And -- and I don't see

1 any --

2 COMMISSIONER POLMANN: Okay.

3 MR. FRIEDMAN: -- reason why you should vary
4 from that just because that's the way you did it in
5 the past.

6 COMMISSIONER POLMANN: I understand. And --
7 and staff has a different position that there are
8 facts on the ground and -- and so forth that --
9 that influence their recommendation. I'm just
10 making that distinction.

11 MR. FRIEDMAN: Well, they never pointed them
12 out to me. They never asked me in a data request.
13 They asked for my position and I explained it.
14 They never, in any data request, challenged that
15 position --

16 COMMISSIONER POLMANN: Thank you,
17 Mr. Friedman.

18 MR. FRIEDMAN: -- to say, you're wrong.

19 COMMISSIONER POLMANN: I -- I understand your
20 position and -- and they have a different position.

21 MR. FRIEDMAN: Well, I -- no, they can't take
22 a different position on whether they asked me or
23 not.

24 COMMISSIONER POLMANN: No. No, I'm not saying
25 that.

1 MR. FRIEDMAN: And so --

2 COMMISSIONER POLMANN: I'm --

3 MR. FRIEDMAN: -- how can I explain my
4 position if the staff doesn't ask me --

5 COMMISSIONER POLMANN: Mr. Chairman, I'm done.

6 CHAIRMAN GRAHAM: Commissioner Fay.

7 COMMISSIONER FAY: Thank you, Mr. Chairman.

8 It's with items like these I feel lucky to
9 have a water expert as my -- my neighbor here
10 because the -- the complexities of this I -- I get
11 a little bit lost in, but I did just want to follow
12 up on the question about the 66 work -- 66 work
13 orders that -- it's my understanding, when staff
14 made this data request, it related to the number of
15 complaints that were there.

16 The item, itself, seems to speak to 66 work
17 orders in a four-year period. I think we -- you
18 answered. The 66 are within a one-year period.
19 So, I'm just -- I'm trying to figure out, if you're
20 asked for a number of complaints, why would you
21 respond with a list of work orders?

22 MR. FRIEDMAN: They -- and it was -- I
23 understand from staff that was not over one year;
24 it was over those -- that four- or five-year
25 period, those 66 were.

1 COMMISSIONER FAY: Okay. So, that -- just for
2 clarification, your position is correct that staff
3 is saying, within those four years, it's 66; not
4 within --

5 MR. FRIEDMAN: Yeah, I wasn't --

6 COMMISSIONER FAY: Okay.

7 MR. FRIEDMAN: Yeah, it's not something I had
8 focused on before --

9 COMMISSIONER FAY: Okay.

10 MR. FRIEDMAN: -- we're sitting down here
11 today because nobody had -- had raised that issue.

12 COMMISSIONER FAY: Yeah, I guess --

13 MR. FRIEDMAN: And so, I haven't analyzed
14 those 66 to see, you know, what those 66 work-order
15 complaints involved.

16 And some -- you know, if somebody calls and
17 says, you know, there's a line break, I guess
18 that's a complaint. If somebody calls and says,
19 you know, come reread my meter, I mean, I guess
20 it's a complaint.

21 I mean, I -- I think a lot of that would be
22 maybe better characterized as inquiries, but we
23 haven't characterized those 66 over that four-year
24 period --

25 COMMISSIONER FAY: Yeah, thank you.

1 MR. FRIEDMAN: -- one way or the other.

2 COMMISSIONER FAY: Yeah.

3 MR. FRIEDMAN: And I don't think of 66 over
4 four years is a -- is a --

5 COMMISSIONER FAY: Maybe staff can answer my
6 question. So, you request the number of
7 complaints. Is it typical for a utility to not
8 give you the number of complaints, to give you work
9 orders in response to those complaints and --
10 because I -- I would presume that the number of
11 work orders almost could potentially look worse
12 or -- or create a different picture than the number
13 of complaints. So, I don't know why someone would
14 want to include those.

15 MS. KNOBLAUCH: Correct. So, in response to
16 the minimum filing requirements, the MFRs, they
17 provided the 66 work orders. And I believe the
18 MFRs just request the complaints in the test year.

19 I think the previous quality-of-service rule
20 requested the test year and five years prior where,
21 now, we just limit it to the secondary
22 complaints -- or secondary quality standards.

23 So, I'm not sure why they provided the
24 additional years, but I believe the rule just
25 requests the one year and they provided from 2014

1 through the test year.

2 COMMISSIONER FAY: Okay. Thank you.

3 CHAIRMAN GRAHAM: Commissioner Clark.

4 COMMISSIONER CLARK: Mr. Chairman, I'm fixing
5 to go way beyond my level of expertise and I'm
6 going to ask it to -- to staff. And maybe, if
7 there's not a simple answer to this question, I'm
8 going to forget it, we'll move on.

9 The used-and-useful calculation -- when you
10 look at the lot-count method -- and -- and for
11 example -- in Mr. Friedman's example, you run a
12 mile of line to get to one house. There's 50 lots
13 in between it. You're not getting credit for the
14 ability to serve those lots.

15 Is there a calculation in which the capacity
16 of the system is calculated in that? Let's say, if
17 you were running a -- a line a mile to serve one
18 house, you would need a two-inch line, but if you
19 were taking into account all the lots that you
20 could serve out of that, you would have installed a
21 six-inch line or a eight-inch line. So, you have a
22 higher cost of installation for that particular
23 system -- is that calculated in the used-and-useful
24 calculation anywhere? I know it's not in the lot-
25 count method, but if we use Mr. Friedman's example,

1 would it?

2 MS. KNOBLAUCH: Correct. So, like the
3 traditional lot count, you would not account for
4 that.

5 COMMISSIONER CLARK: Right.

6 MS. KNOBLAUCH: But I will say, for Placid
7 Lakes, three -- three rate cases ago, they're using
8 a non-traditional method, so they're not using the
9 traditional lot count. So, they are actually
10 taking into account the size of the lines as well
11 as the original cost.

12 So, for this one, specifically, staff decided
13 that any transmission lines -- so, anything greater
14 than six inches or above -- is a hundred percent.
15 So, they are trying to account for some of that,
16 that those transmission lines are needed.

17 COMMISSIONER CLARK: Mr. Friedman, would you
18 agree with that?

19 MR. FRIEDMAN: Well, that's the transmission,
20 but not the -- not the distribution lines. And I
21 agree with you on that, but -- but you know, as a
22 practical matter if somebody decided they wanted to
23 build a house on -- on Lot No. 77, and it's in the
24 utility service area, I don't think the utility can
25 tell them they can't build on Lot 77. And it

1 doesn't make sense to run a two-inch line or
2 three- -- three-quarter-inch line to Lot 77 and
3 then, all of a sudden, lot 6- -- 76 wants to be
4 built on. You go, it's not enough; I've got to
5 build a bigger line.

6 And that's why the -- one of the reasons why
7 that lot-count method doesn't work.

8 COMMISSIONER CLARK: Right. That -- that was
9 my exact point I was trying to make --

10 MR. FRIEDMAN: Yes, sir.

11 COMMISSIONER CLARK: -- is that you -- you are
12 sizing that system for future growth. How do you
13 get the -- how do you account for that in the
14 accounting of what goes into the revenue
15 requirements. Let's say it needed that -- one
16 house needed a two-inch line, but you put a six-
17 inch line in that place, not for -- not for
18 transmission, but for distribution, do you get the
19 full value of the six-inch line or do you get a
20 value for a two-inch line?

21 MR. FRIEDMAN: You get the full value for
22 the -- for whatever line you put in -- I mean,
23 value, as in, you get a return on that
24 investment --

25 COMMISSIONER CLARK: Right.

1 MR. FRIEDMAN: -- for whatever size line you
2 made it and -- and assuming it's a reasonable-sized
3 line. I think that there -- may be appropriate to
4 adjust that if somebody, you know, did something
5 that was unreasonable, but there's no -- there's no
6 contention in this case that any of the line sizing
7 in this system were -- are unreasonable.

8 COMMISSIONER CLARK: So -- so, would there be
9 any -- any concession to a calculation that said,
10 okay, we're going to calculate -- you're going to
11 get 70 percent of that value up and to the point
12 that -- of that line -- of the value of the line up
13 until the point that the system grows out and fills
14 it?

15 MR. FRIEDMAN: Yeah, you know, I -- and, of
16 course, you're going to my -- my basic philosophy
17 on used-and-useful, which is that -- that the water
18 industry micromanages used-and-useful like no other
19 utility industry that we have, even though the --
20 the statute is basically the same used-and-useful
21 language for all -- all industries, and we
22 micromanage it for water and wastewater. And I --
23 and I don't think it's appropriate to do that.

24 I think you need to look at the lines and say,
25 is what they did reasonable to serve their service

1 area and are there any areas that are undeveloped
2 that -- that shouldn't be -- have a big line to
3 them, and that's not the case here.

4 Every -- every foot of line in this system,
5 distribution system, is needed to serve the
6 existing customers. And -- and nobody -- I said,
7 nobody has contended that there's anything done
8 from an engineering standpoint that -- that is
9 unreasonable. So, we can't take out that section
10 of line between Lots 70 and 76.

11 COMMISSIONER CLARK: Thank you --

12 MR. FRIEDMAN: Thank you.

13 COMMISSIONER CLARK: -- very much.

14 CHAIRMAN GRAHAM: Commissioner Polmann.

15 COMMISSIONER POLMANN: Thank you,
16 Mr. Chairman.

17 I'm concerned that we're off in the weeds
18 here, but there's a -- and I'm about to move the
19 entire -- the entire item after I make one more
20 comment because I think, if we proceed in the
21 manner that Mr. Friedman is suggesting, I think
22 there's a horrible precedent.

23 And I'll just make one comment as to why that
24 would be the case and I'm going to recommend
25 that -- that the Commission accept all the issues

1 here, but I want to -- I want to put on the record
2 why we should not do what Mr. Friedman is
3 suggesting. And that is -- well, twofold.

4 First of all, Ms. Knoblauch just explained to
5 Commissioner Clark that, according to the normal
6 way of -- of accounting for the lot-based
7 calculation -- and in reviewing, in -- in my
8 briefing with staff on this, the used-and-useful
9 would -- would have been a much lower percentage
10 than they had already been granted several years
11 ago. They're currently at 79 percent. So, what
12 Mr. Friedman is asking for is a hundred percent.

13 So, it's not like they're at 40 percent, which
14 would have been a different type of calculation, 40
15 or 50 percent. So, they are a non-traditional
16 method. So, they've already been granted that in
17 prior -- in prior rate cases. So, that's one
18 point.

19 The second is, if they're granted a hundred
20 percent used-and-useful, based on just saying,
21 well, this is the only way that it can be done --
22 that implies to me that a -- a developer can simply
23 go out and put pipe in the ground by any method, by
24 any engineering design, by any -- by any means
25 whatsoever without regard to how the -- the

1 development, the housing, would -- would be brought
2 in, in phasing or whatever, and come to us and say,
3 well, I put all this in the ground; I deserve to
4 earn a return on it. Period. End of story.

5 Whether or not the houses are -- are ever --
6 the lots are ever sold, then there is no
7 methodology. That is a precedent that -- that, in
8 my suggestion to the Commission, we do not want.
9 That throws out the -- the entirety of the used-
10 and-useful. It automatically becomes a hundred
11 percent used-and-useful if it's never used. Then
12 there's no basis. So, I would strongly suggest
13 that that not be the case.

14 To simply say, well, we put the plumbing in
15 willy-nilly, and it's all connected to everything,
16 we haven't engineered this such that there are
17 segments that are valved off and -- and there's no
18 houses in this particular segment, however small
19 they may be, and we're smart about it and we
20 designed it in such a way that segments can be
21 disconnected -- well, that's just the way we did
22 it, so, therefore it's all used-and-useful -- that
23 makes so sense to me.

24 So, I would recommend -- and, in fact,
25 Mr. Chairman, I would approval of all issues

1 according to staff recommendation. And if there's
2 anything else that staff needs to bring this to
3 closure, I would include that.

4 CHAIRMAN GRAHAM: It's been moved and second,
5 all issues.

6 Did -- did you have anything that you want to
7 add? Roll the dice if you wish.

8 MR. FRIEDMAN: Yeah, I just -- my only comment
9 would be that -- and believe it or not, I agree
10 with Commissioner Polmann. If that were the facts,
11 I would agree with Commissioner Polmann, but that's
12 not the facts in this case.

13 Thank you.

14 CHAIRMAN GRAHAM: Okay. Any further
15 discussion?

16 Seeing none, all in favor, say aye.

17 (Chorus of ayes.)

18 CHAIRMAN GRAHAM: Any opposed?

19 By your action, you have approved the motion
20 of staff recommendation.

21 Thank you very much.

22 (Agenda item concluded.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, ANDREA KOMARIDIS WRAY, Court Reporter, 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 19th day of December, 2019.



ANDREA KOMARIDIS WRAY
NOTARY PUBLIC
COMMISSION #GG365545
EXPIRES February 9, 2021