

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and)	
wastewater rates in Brevard, Citrus, Duval,)	DOCKET NO. 20250052-WS
Highlands, Marion, and Volusia Counties by)	
CSWR-Florida Utility Operating Company, LLC.)	
_____)	

DIRECT TESTIMONY OF

MICHAEL DUNCAN

on behalf of

CSWR-Florida Utility Operating Company, LLC

1 IT, and general management.

2 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS**
3 **COMMISSION?**

4 A. No. While I have not previously filed testimony before the Florida Public Service
5 Commission (“Commission”), I have previously filed testimony before the state utility
6 commissions in Arizona, Kentucky, Louisiana, Mississippi, Tennessee, and Texas.

7 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN SUPPORT OF**
8 **THIS RATE CASE?**

9 A. The purpose of my testimony is to discuss CSWR-Florida’s request to consolidate rates
10 across all its Florida operations and how consolidation will help stabilize rates and
11 mitigate rate shock and encourage the acquisition of small, distressed systems.

12 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

13 A. No.

14 **RATE CONSOLIDATION**

15 **Q. HOW DOES CSWR-FLORIDA PLAN TO MITIGATE THE EFFECT ON**
16 **CUSTOMERS OF THE RATE INCREASES THAT IT SEEKS IN THIS CASE?**

17 A. It would be cost prohibitive for a small water / wastewater system to provide the
18 professional services that customers should expect from their utilities. CSWR-Florida
19 is able to provide these services by leveraging the economies of scale that have been
20 created across its 11-state affiliate footprint. Even then, however, it would still be cost
21 prohibitive to provide these services to many small systems if rates are established on
22 a system-by-system basis. For example, if wastewater rates were established on a
23 system-specific basis for the water system formerly owned by Aquarina Utilities, Inc.,
24 based on CSWR-Florida's proposed revenue requirement the system-specific average

1 bill would be \$74.29 as opposed to the proposed consolidated average bill of \$44.22.¹

2 CSWR-Florida seeks to maximize the economies of scale inherent from its
3 ownership of several systems in Florida and the ownership of hundreds of systems in
4 the United States by the CSWR affiliate group. These economies of scale and rate
5 consolidation mitigate the customer impact of the rate increase in this case.
6 Specifically, CSWR-Florida maintains that, by consolidating rates across its seven (7)
7 water systems and across its nine (9) wastewater systems, it can mitigate the "rate
8 shock" that would be experienced by many customers. Therefore, CSWR-Florida
9 proposes to mitigate the impact of the rate increases it requires by consolidating rates
10 for all of its Florida systems.² Under that consolidation proposal, all CSWR-Florida
11 customers would be charged the same statewide rate for water service and/or the same
12 statewide rate for wastewater service.

13 **Q. WOULD YOU DESCRIBE SOME OF THE BENEFITS OF CONSOLIDATED**
14 **TARIFF PRICING?**

15 A. It has been CSWR's experience that consolidated pricing results in several benefits.
16 **First**, as has been well-established in the industry, single tariff pricing helps to
17 encourage the acquisition of small, troubled water and wastewater systems by
18 spreading costs to a larger customer base.³ **Second**, the consolidation of systems into

¹ Still again, in a recent CSWR-Texas rate case, the Laguna Vista / Tres wastewater system would have had a \$537.55/month rate absent statewide consolidation. With consolidation, the rate for that system was mitigated to \$63.28/month.

² While I describe the policy reasons for consolidation and the benefits resulting from consolidation, Mr. Silas implements the consolidation in his proposed rate design.

³ In support of each of these assertions regarding the benefits of consolidation, CSWR-Florida notes testimony from the Staff in recent Missouri Public Service Commission rate cases. "The systems that MAWC [Missouri American Water Company] has been purchasing are small systems with mostly small, primarily residential customer bases. In order to keep these small systems in proper working order so that they can continue to provide safe, adequate, and reliable service to their customers, investment is needed or will need to be made in the future. When improvements need to be made, the higher cost of upgrades must be spread over the smaller customer base, which may cause rates to increase dramatically. The dramatic increases may result in rate shock to consumers. . . In Staff's opinion, moving away from a strict DSP [District Specific Pricing] rate design philosophy will encourage not only MAWC, but other water and sewer utilities, to invest in Missouri." (Missouri Public Service Commission Case No. WR-2015-0301, Busch Direct, filed January 20, 2016, pages 8 and 9).

1 a single tariff mitigates rate impacts and promotes affordability.⁴ **Third**, while there
2 may be different technologies utilized at different systems, all CSWR-Florida systems
3 share many of the same costs of service, generally use the same third-party operations
4 firm, and are managed to the same service quality standards.⁵ **Fourth**, the development
5 of a single set of tariffs provides for a heightened level of regulatory, administrative,
6 and billing efficiency. Specifically, CSWR-Florida, as well as the Commission, will
7 not have to maintain familiarity with a multitude of rules and rates, which will lower
8 customer costs.⁶ **Fifth**, since all systems will eventually require large capital
9 investments over the next number of years, any perceived inequities associated with
10 system subsidization will be short-lived and will eventually balance out.⁷ **Sixth**, since
11 consolidated tariffs provide a more simplified approach to rates and rules, I believe that
12 it is more consumer friendly than dozens of different rate sheets.

⁴ “Staff agrees that spreading out costs over a larger customer base will tend to lower rates.” “Mr. Jenkins makes a good point that complying with regulations is expensive and spreading those costs over a larger customer base allows for the benefit of economies of scale to lower costs to the customers.” (Missouri Public Service Commission Case No. WR-2017-0285, Busch Rebuttal, filed January 24, 2018, page 15 and 16). “The primary benefit of STP [Single Tariff Pricing] is that it spreads out costs to a larger customer base.” (Missouri Public Service Commission Case No. WR-2015-0301, Busch Direct, filed January 20, 2016, page 6).

⁵ “The consistency in costs to serve customers between districts is attributable to the fact that most of the costs of providing service to Missouri-American’s customers are very similar, if not the same, from district to district because a portion of Missouri-American’s statewide costs are allocated to the various districts. So, for example, Missouri-American’s costs of capital will be the same for each of the districts. When Missouri-American buys pipe, meters, and other supplies, the cost of those supplies will be the same in all districts. Similarly, management salaries for Missouri-American’s executives will be allocated equally to customers in each of the districts.” (Missouri Public Service Commission Case No. WR-2015-0301, Report and Order, at page 12).

⁶ “The reason for the difficulty in developing rates on a district-specific basis is the need to allocate corporate costs to each separate service territory. Corporate costs are a substantial portion of the cost of service for MAWC. Trying to determine the most equitable manner to allocate those costs to each service territory (especially the very small service territories) is difficult when attempting to determine the true cost of service to those service territories. Combining these service territories in the manner as Staff has in this proceeding alleviates some of the need for precision. (Missouri Public Service Commission Case No. WR-2015-0301, Busch Direct, filed January 20, 2016, page 7). Consolidation “may benefit the customers through reduced rate case expense, as it is likely that the Company will not have to allocate as many resources to future rate cases.” (*Id.*).

⁷ “All water systems will eventually require large capital investments. If the cost of making those investments is spread among consolidated districts, in the long term any perceived short-term unfairness will be balanced out.” (Missouri Public Service Commission Case No. WR-2015-0301, Report and Order, issued May 26, 2016, at page 16).

1 **Q. HAVE CONSOLIDATED RATES BEEN RECOGNIZED AS A SOLUTION TO**
2 **THE PROBLEM OF SMALL WATER AND WASTEWATER SYSTEMS?**

3 A. Yes. For years it has been recognized that single tariff pricing and the consolidation of
4 rates encourages the consolidation of small water and wastewater systems into larger
5 utilities. For instance, in a 2008 report, the National Regulatory Research Institute
6 stated:

7 Single tariff pricing is another way to encourage mergers. Enabling a
8 uniform rate structure or consolidated rates for systems owned by the
9 same entity may encourage a corporate utility to grow its business by
10 acquiring – whether contiguous or interconnected or not – other
11 systems. With consolidated pricing, customers pay the same price even
12 though their individual system may have unique operating
13 characteristics and needs. Single tariff pricing makes it easier to share
14 costs among larger numbers of customers.⁸

15 **Q. WILL CONSOLIDATED RATES REQUIRE CUSTOMERS SERVED BY**
16 **“BETTER” SYSTEMS TO SUPPORT THE COST OF IMPROVEMENTS**
17 **CSWR-FLORIDA IS MAKING TO SOME OF ITS WORST SYSTEMS?**

18 A. While this may appear to be true in the short run, it is not true if you take a longer-term
19 view. In each of the communities CSWR-Florida serves, all of the distribution and
20 treatment systems will eventually require major repairs and replacements. Some of
21 those systems require more urgent investments that require upgrades and improvements
22 now. However, over time, all the systems that CSWR-Florida acquires in Florida will
23 require those same or similar investments. So, whatever short-term support may flow

⁸ *Small Water Systems: Challenges and Recommendations*, National Regulatory Research Institute (“NRRI”), February 7, 2008 (citing to *Joint Report of the US EPA and NARUC, Consolidated Water Rates: Issues and Practices in Single Tariff Pricing*, September 1999).

1 between systems that are in differing states of repair and compliance initially, that
2 situation will inevitably reverse and even out over time.

3 I also note that average cost pricing and state-wide rates are the rule rather than
4 the exception in utility pricing. For example, although it may cost an electric or gas
5 utility much more to serve some individual customers than it does to serve others,
6 electric and gas utilities have for decades had uniform rates for all customers within
7 each rate class.

8 Consolidated rates reflect the common benefits all of its Florida customers will
9 receive from being served by CSWR-Florida, services that are provided more cost-
10 effectively by consolidating systems to realize economies of scale, rather than system-
11 specific rates, which would, in effect, punish customers of the currently most
12 challenged systems for necessary investments each community will certainly require
13 in the future.

14 Finally, consolidated rates have the effect of providing more gradual rate
15 increases as compared to the huge rate increases that some systems would see under
16 system-specific rates. For instance, a treatment plant upgrade for a system serving 26
17 connections such as Ocala Garden Apartments would result in a huge rate increase
18 under a system-specific rate structure. In contrast, however, the rate increase is
19 tempered if such costs are allowed to be spread across all of the CSWR-Florida
20 connections.

21 **Q. HAVE RATES BEEN CONSOLIDATED TO ANY DEGREE FOR CSWR-**
22 **FLORIDA SYSTEMS ALREADY?**

23 A. Yes. The assets CSWR-Florida acquired from Sunshine Utilities of Central Florida
24 under one water certificate of authorization consist of 23 water systems. The rates for
25 those systems were previously consolidated at a monthly rate of \$9.57 for Ponderosa

1 Pines and Quail Run, and \$8.72 for all other systems.

2 **Q. HAVE CONSOLIDATED RATES BEEN IMPLEMENTED FOR OTHER**
3 **CSWR AFFILIATES?**

4 A. Yes. CSWR affiliates operating in Louisiana, Mississippi, Texas, Missouri and
5 Kentucky have all had rates for their respective water and wastewater systems
6 consolidated. The following conclusion from the Kentucky Public Service
7 Commission is indicative of the logic utilized by these states in approving the
8 consolidation of systems:

9 The Commission supports the principle that utility rates should be cost
10 based, and that in most circumstances each class of utility ratepayers
11 should pay the costs which the utility incurs to provide that class with
12 utility service. The majority of Bluegrass Water's customers are in the
13 residential class. A separate rate for each geographically distinct
14 merged system of Bluegrass Water would create unreasonable and
15 undue hardship to individuals in some areas served by Bluegrass
16 Water.⁹

17 In Arizona, where CSWR has filed a rate case (Docket No. WS-2155A-24-0219) with
18 a proposal to consolidate rates, the Arizona Corporation Commission has issued a
19 definitive policy statement encouraging the consolidation of water and wastewater
20 systems.

21 The private water utility industry in Arizona is highly fragmented and
22 problematic. This Commission has seen first-hand the extent to which
23 small water utilities sometimes struggle both financially and

⁹ In re: Bluegrass Water Utility Operating Company, Case No. 2022-00432, issued February 14, 2024, at page 96.

1 operationally. The struggles of these companies can have direct impacts
2 on the service they provide to their customers. Consolidating the small
3 systems through purchases by larger systems has long been proposed as
4 a solution to the problems associated with small systems. This
5 Commission has endorsed consolidation through purchase at various
6 times over the past decades. We recognize that consolidation can be an
7 effective method of solving problems associated with small systems and
8 propose several policies here to encourage consolidation directly.

9 * * * * *

10 Policy Regarding Rate Consolidation for Small Jointly Owned Water
11 Utilities: The Commission has largely treated Small Utilities in rural
12 areas as stand-alone entities for ratemaking purposes. Traditionally, a
13 strict interpretation of the "cost user pays" principle has inhibited small
14 water systems that do not share common facilities from consolidating
15 rate designs. *As a general policy, the Commission believes that the*
16 *practical benefits from allowing rate consolidation involving small*
17 *water and wastewater utilities far outweigh the benefits of a strict*
18 *adherence to this theoretical principle.*¹⁰

19 CAPITAL PLANNING & RECOVERY

20 **Q. WHAT IS THE PROCESS CSWR-FLORIDA USES TO ASSESS CAPITAL**
21 **INVESTMENT REQUIRED FOR ITS SYSTEMS?**

22 **A.** Upon reaching an asset purchase agreement with a utility, CSWR-Florida commissions
23 third-party engineers to assess the condition of the utility assets, the compliance history

¹⁰ Docket No. W-00000C-16-0151, Decision No. 75626, issued June 25, 2016, at pages 1 and 18 (emphasis added).

1 of the public water system or wastewater treatment plant, and other available
2 operational data to develop an overall condition assessment for each system that is
3 being acquired. These reports have been submitted with each of CSWR-Florida's
4 acquisition applications , and they serve as the initial baseline for a capital plan for each
5 system. Next, in the 90 days prior to closing on utility acquisition transactions, two
6 additional assessments are completed by the CSWR Environmental, Health & Safety
7 (EHS) team and the third-party operations and maintenance contractor to note any
8 additional immediate capital investment needs for the system to address significant
9 safety or operational issues that for various reasons were not captured in the initial
10 assessment. From these three assessments, an initial capital investment schedule is
11 constructed for each utility that includes projects to be completed over the first 1,3 and
12 5 years of ownership. Typically, 1-year projects address immediate compliance,
13 service, and safety issues at the plant that do not require permitting from the Florida
14 Department of Environmental Protection ("FDEP") to complete. Three-year projects
15 are special projects that address compliance or service issues that require special
16 permitting from state regulators, such as additional or modified treatment processes in
17 wastewater treatment plans or additional treatment or capacity in water systems. Five-
18 year projects generally address replacing components of the systems that have
19 exceeded their useful life and have the most significant combined consequence and
20 likelihood of failure. These projects are stored in a capital planning database in the
21 Company's GIS system.

22 Once the Company owns a system, these project plans are updated as day-to-
23 day operations help further inform the system's needs. Projects can be reprioritized and
24 funded as needs arise in the system and service is stabilized for the community.
25 Additional project needs that are identified are added to this database as needs arise.

1 All of these projects then roll up to a master capital plan for all CSWR-Florida, which
2 allows the Company to plan capital sourcing for planned projects.

3 **Q. HOW DOES THIS CAPITAL PLANNING EFFORT BENEFIT CUSTOMERS?**

4 This capital planning process benefits customers by providing a roadmap for
5 maintaining safe, reliable service for the long-term future. A five-year capital plan that
6 is constantly being reviewed, augmented, and adjusted ensures that the Company can
7 provide clear visibility to capital markets and to the Commission about the capital needs
8 of the Company to continue providing safe, reliable service through prudent and
9 targeted capital investment.

10 **Q. DOES CSWR-FLORIDA PLAN TO USE ANY RATE MECHANISMS**
11 **RELATED TO THIS CAPITAL PLAN?**

12 Unfortunately, no such mechanisms exist in Florida to create surcharges for capital
13 investment programs. CSWR-Florida would welcome the opportunity to implement a
14 mechanism similar to Gas Reliability Infrastructure Program surcharge (GRIP) in
15 Florida to provide regular review and recovery of capital investment in water systems.
16 Capital investment surcharge programs are established and well utilized in other
17 jurisdictions where CSWR-affiliated utilities operate, such as Arizona, Kentucky,
18 Missouri, Tennessee, and Texas. Current cost adjustments for water and wastewater
19 utilities in Florida allow for adjustments for increased expenses but do not adequately
20 allow such utilities to recover costs of needed capital investment in systems without
21 the burden of a full rate case. Creating a mechanism in Florida for capital investment
22 programs would encourage required investment in systems to ensure safe, reliable
23 service for customers while reducing regulatory lag for utilities while giving the
24 Commission annual visibility into capital investment and the benefits those investments
25 provide to customers.

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

2 A. Yes.