

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into the) DOCKET NO. 930880-WS
appropriate rate structure for) ORDER NO. PSC-94-1123-POF-WS
SOUTHERN STATES UTILITIES, INC.) ISSUED: September 13, 1994
for all regulated systems in)
Bradford, Brevard, Citrus, Clay,)
Collier, Duval, Hernando,)
Highlands, Lake, Lee/Charlotte,)
Marion, Martin, Nassau, Orange,)
Osceola, Pasco, Putnam,)
Seminole, St. Johns, St. Lucie,)
Volusia, and Washington)
Counties.)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING

APPEARANCES:

KENNETH A. HOFFMAN, ESQUIRE, Rutledge, Ecenia, Underwood, Purnell, & Hoffman, P.A., P.O. Box 551, Tallahassee, Florida, 32302-0551, and BRIAN P. ARMSTRONG, ESQUIRE, Southern States Utilities, Inc., 1000 Color Place, Apopka, Florida, 32703
On behalf of Southern States Utilities, Inc.

MICHAEL TWOMEY, ESQUIRE, Route 28, Box 1264, Tallahassee, Florida, 32310, and MICHAEL GROSS, ESQUIRE, c/o the Office of the Attorney General, Department of Legal Affairs, The Capitol, Tallahassee, Florida, 32399-1050
On behalf of Citrus and Hernando Counties.

SUSAN WHALEY FOX, ESQUIRE, MacFarlane, Ausley, Ferguson & McMullen, P.O. Box 1531, Tampa, Florida, 33601
On behalf of Cypress and Oak Village Association.

SUZANNE F. SUMMERLIN, ROBERT J. PIERSON, and EVONNE SAGER, ESQUIRES, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0863
On behalf of the Commission Staff.

DOCUMENT NUMBER-DATE

09434 SEP 13 1994

FPSC-RECORDS/REPORTING

RICHARD BELLAK, ESQUIRE, Florida Public Service
Commission, 101 East Gaines Street, Tallahassee, Florida
32399-0862
Counsel to the Commissioners.

FINAL ORDER DETERMINING APPROPRIATE RATE
STRUCTURE FOR SOUTHERN STATES UTILITIES, INC.,
ESTABLISHING BULK RATES FOR HERNANDO COUNTY,
AND DISPOSING OF MOTIONS

BY THE COMMISSION:

BACKGROUND

On September 28, 1993, this Commission, on its own motion, initiated an investigation to address the question of what rate structure is most appropriate for Southern States Utilities, Inc. (SSU or utility) on a prospective basis.

By Order No. PSC-93-1516-PCO-WS, issued October 14, 1993, the Prehearing Officer conferred party status on those persons and entities who had expressed an interest in the proceeding, including Citrus and Hernando Counties (Counties), COVA, the Cypress Village Property Owners Association, the Spring Hill Civic Association, Senator Ginny Brown-Waite, and SSU. The Attorney General of the State of Florida, who did not intervene as a party, acted as co-counsel for the Counties. There was varying participation among the parties. However, by the time of the technical hearing, only Citrus and Hernando Counties, COVA, SSU, and Staff participated.

We required SSU to provide notice of the initiation of this proceeding to all of its customers in systems regulated by the Commission, as well as to those served by SSU systems in Polk, Hillsborough, Sarasota and Charlotte Counties, which are not regulated by the Commission. We also required SSU to provide notice, to the same customers, of the customer hearings we held throughout the state, as well as of the technical hearings.

CUSTOMER HEARINGS

Prior to the technical hearings, we held eleven customer hearings throughout the state to receive testimony from SSU customers regarding their views on the appropriate rate structure for SSU on a going forward basis.

JACKSONVILLE - MARCH 11, 1994

At the customer hearing in Jacksonville, nine customers from the River Grove, Pomona Park, Interlachen, Clay County, Palatka, and Amelia Island systems testified in favor of uniform rates. They discussed the benefits of spreading costs among a larger customer base, particularly to cover future capital expenditures. One witness submitted a petition in support of uniform rates, signed by twenty-eight people from the Interlachen system. The Board of County Commissioners for Clay County also submitted a letter in support of uniform rates.

Four customers, from the Woodmere and Beacon Hills systems, testified in opposition to uniform rates. These customers objected to subsidizing other areas through their rates. They also addressed issues such as quality of service, wastewater rates based on water consumption, rate increases in general and allowing price index increases without a public hearing.

FT. MYERS - MARCH 15, 1994

Of the customers who attended the Ft. Myers customer hearing, fifteen offered testimony regarding rate structure and other issues. Customers from the Lehigh Acres and Marco Island systems expressed concern or opposition to uniform rates. Their testimony addressed the unfairness of subsidization, the difficulty of putting all of SSU's diverse systems into "one pot", the potential dilution of customer participation in rate proceedings, the encouragement of SSU to purchase non-viable systems, and that customers who benefit from uniform rates now will ultimately have to pay increased rates in the future.

Four customers from the Covered Bridge system offered testimony in support of uniform rates. One of these customers explained his preference for uniform rates by stating that, although the residents of Covered Bridge are currently better off under stand-alone rates, in the long run, the system will need improvements, and the uniform rate structure will spread the cost of the improvements. The remaining six customers offered testimony regarding miscellaneous topics including rate affordability, service problems and impact fees.

STUART - MARCH 16, 1994

At the customer hearing in Stuart, six customers presented testimony. Two customers from the Fox Run System and one from Fisherman's Haven were in favor of uniform rates because of their ability to spread out costs and mitigate rate shock. Three

customers from Leilani Heights addressed quality of service issues and the need for performance criteria in rate proceedings. While two of these customers opposed uniform rates and one had no opinion, both argued that no increase, regardless of rate structure, should be granted until the quality of service improves.

TEMPLE TERRACE - MARCH 23, 1994

Although this Commission does not regulate systems in Hillsborough County, we found it appropriate to hold a customer hearing in Temple Terrace because Docket No. 930945-WS, regarding our jurisdiction of SSU's systems statewide could affect these customers in the future. Attendance was very low at this hearing. Two customers, both from Pasco County, testified in favor of the uniform rate structure because the costs of future repairs for any system would be spread to all of SSU's customers.

OCALA - MARCH 24, 1994

At the Ocala customer hearing, eleven customers provided testimony. Seven customers from the Marion Oaks, Citrus Springs, Golden Terrace and Rosemont systems testified in favor of uniform rates. The customers testified that they believed that uniform rates would allow SSU to improve management functions, allow this Commission to focus on regulation, improve SSU's administrative efficiency by eliminating the need to deal with 127 separate rate structures, keep rates from rising as rapidly, and equalize water consumption among the systems.

One customer from the Marion Oaks system stated that the customers need more information concerning uniform rates, but that he did not agree with having to subsidize other systems. Four customers discussed their concerns over increasing water and wastewater rates in general. Two customers specifically discussed their concerns over wastewater rates being so much higher than water rates. Two customers testified that they were dissatisfied with the quality of the water. Several customers discussed their concerns about the management of SSU, and the use of company vehicles for personal use. Other customers were concerned by SSU's purchase of new equipment and stated that by maintaining older equipment, the company could establish a more uniform rate for a longer period of time.

SUNNY HILLS - APRIL 4, 1994

Of the twelve customers who testified at the Sunny Hills customer hearing, four were in favor of uniform rates and four were opposed. The remaining four had questions regarding rates and did

not speak to the rate structure issue. Several raised concerns about the quality of the water, the need for testing, and the loss of water service during severe weather. Many customers believed that the rates are too high, regardless of the rate structure.

HOMOSASSA SPRINGS - APRIL 11, 1994

Forty-eight persons addressed the Commission at the Homosassa Springs customer hearing, including all five members of the Citrus County Commission. The County Commission members spoke against uniform rates and asked this Commission to be fair and equitable in its decision.

The majority of the customers who testified were from Sugarmill Woods and were adamantly opposed to uniform rates. Only one customer spoke in support of uniform rates. Many residents of Sugarmill Woods questioned the fairness of uniform rates. They argued that they have a solid system and that they are paying subsidies to cover substandard systems elsewhere in the state. Customers contend that uniform rates cause them to lose the benefit of their high level of contributions in aid of construction (CIAC) and that, based upon their high subsidy level, they will never get back the subsidy they are paying. Further, they argue that SSU is not one big system, that uniform rates do not equate to economies of scale, are not related to conservation or the environment, and provide no incentive for efficient operation of the utility.

BROOKSVILLE - APRIL 12, 1994

At the Brooksville customer hearing, all five members of the Hernando County Commission spoke in opposition to the uniform rate structure and in favor of a special bulk wastewater rate for the County. In addition, the County Commission presented a resolution rescinding this Commission's jurisdiction over privately-owned water and wastewater utilities in Hernando County. The County Commissioners further expressed their concerns that under the uniform rate structure the customers of the Spring Hill system were subsidizing customers of other systems around the state.

Thirty-nine of the customers who testified stated that they were in favor of stand-alone rates. In support of their position, many customers discussed the large increase in their bills under the uniform rate structure. A number of customers testified that they do not mind paying their share, but do not want to subsidize other systems in other parts of the state. Several customers testified that uniform rates are unfair and unequitable, and that they do not want to subsidize systems which were in poor condition when purchased by SSU. A number of customers testified that they

are retired, living on fixed incomes, and cannot afford the uniform rate. Another customer stated that the resale values of their homes have declined because no one wants to buy homes with costly wastewater service. State Senator Brown-Waite testified that the issue of uniform rates was not discussed at the customer service hearing for Docket No. 920199-WS held in Brooksville. In addition, Senator Brown-Waite questioned the kind of information being distributed by SSU to its customers about the rate structure issue and the motivations of our Staff in this proceeding.

Two customers testified in favor of uniform rates. Two other customers spoke in favor of conservation rate structures. A representative of the Southwest Florida Water Management District testified that the District had not taken an official position on uniform rates, but would not oppose them so long as there were provisions to allow the implementation of more aggressive water conservation rate structures where per capita use exceeds targeted levels. Another representative from the District presented an overview of the aquifer system, concluding that it can be quite different throughout the state.

Five customers testified that they are in favor of a separate bulk wastewater rate for Hernando County. Four customers discussed their preference that Hernando County take back jurisdiction of the utility. Five customers discussed their concern over increasing water and wastewater rates in general. Two customers specifically discussed their concern over wastewater rates being so much higher than water rates. One customer discussed his preference not to pay a base facility charge. One customer expressed his concern that the utility could do more to cut costs, and suggested that one method would be to eliminate double billing for customers with separate irrigation meters. Finally, one customer testified that he believes the customers need more information concerning the different rate structures.

DELTONA - APRIL 13, 1994

At the Deltona customer hearing, sixteen witnesses presented testimony regarding the rate structure issue. Of these, five customers from the Chuluota, Jungle Den and Sugarmill systems were in favor of the statewide uniform rate structure. One witness brought a petition in support of the uniform rate structure signed by ninety customers of the Jungle Den system. Nine customers from the Deltona system spoke against the uniform rate, with five of those in favor of a rate grouping based on geographic location. These customers were opposed to subsidizing customers outside of their region but stated that they could support some sort of rate grouping on a regional basis. One of the customers suggested that

to derive a more uniform, equitable rate, all systems with similar type treatment, number of customers and consumption should be put together for ratemaking purposes. He further suggested that it is not fair that low water users pay the same rate as those with high consumption. He would prefer a rate structure which rewards the low water user and penalizes those with high consumption.

In addition to comments on the rate structure issue, customers offered testimony concerning service problems including poor water quality, low pressure, faulty meters, service interruptions mistakenly caused by SSU. Two customers testified that the gallonage cap for wastewater rates should be increased from the 6,000 gallons to 12,000 gallons per month. One customer objected to the wastewater rate being higher than the water rate. Another customer pointed out that Deltona has wastewater customers who benefit from the uniform rates, but water-only customers pay more under the uniform rates. Some customers recommended that the Commission do more to promote conservation and reuse.

In addition to customer testimony, the Administrative Support Manager for the Public Utilities Department of Hillsborough County testified at the hearing on behalf of the Hillsborough County Commission. He spoke in opposition to uniform rates and any action this Commission might take in future proceedings to diminish the jurisdiction of the Hillsborough County Commission over public utilities in Hillsborough County.

ORLANDO - APRIL 13, 1994

At the customer hearing held in Orlando, one customer from Westmont stated that he was in favor of the uniform rate structure but expressed concern that rates continue to increase. He asked whether the residents in his subdivision could purchase the system and turn it over to the County. A customer of the Morningview system testified that she was suspicious about SSU's marketing endeavors to support uniform rates. She also expressed concern that, over time under a uniform rate structure, it would be more difficult to monitor SSU. One customer from Lake Conway Park testified in favor of uniform rates because he believed it was the most equitable. Another witness from the University Shores system stated that she believed that stand alone rates offered the most protection for the customer in rate cases. She expressed her concern that, under a uniform rate structure, it would be very difficult to properly analyze SSU due to its size. She suggested that rates be based on some geographical region with similar environmental conditions. The last witness expressed no opinion on the rate structure issue, but stated that the rates were too high.

SARASOTA - APRIL 27, 1994

We held a customer hearing at the Sarasota County Fairgrounds to hear from the Sarasota and Charlotte County customers concerning the appropriate rate structure. Although this Commission does not regulate the systems in these counties, we found it appropriate to hold this hearing since the Commission may regulate those systems at some point in the future. At the hearing, ten witnesses offered testimony. Although, none of the customers testified on the appropriate rate structure for the utility, they stated that their rates are too high, that the utility should read the meters bimonthly or quarterly rather than monthly, that the wastewater rates should not be higher than water rates, and that the County should make reuse available to residents for irrigation purposes. The Utilities Director for Sarasota County testified concerning the jurisdictional determination that is before this Commission in another docket. Several customers also gave opinions as to whether this Commission should regulate the systems in Sarasota County.

WRITTEN COMMENTS

In addition to the comments made at the customer hearings, we received 1,412 written comments by customers throughout the state. Of these, 447 were in favor of uniform rates and 163 were in favor of stand alone rates. The remaining letters expressed no opinion about the rate structure or stated that they needed more information before they could reach a conclusion. Some of these letters contained comments on other rate structure issues, including wastewater rates based on water consumption, the base facility charge, and vacation rates. Some of the comments concerned increasing rates in general, bi-monthly billing, quality of service, and the times of the customer hearings.

TECHNICAL HEARING

This Commission held a technical hearing on this matter on April 14 and 15, 1994, in Orlando, and in Tallahassee on May 4, 5, and 10, 1994. At the technical hearing, the Commission received testimony and exhibits from twenty-one witnesses sponsored by SSU, Citrus and Hernando Counties, COVA, and Staff.

MOTIONS

At the technical hearing, we considered and disposed of a number of motions made by the parties. Each of these motions is discussed, separately, below.

Motion for Leave to File Supplemental Testimony

On April 6, 1994, SSU filed a Motion for Leave to File Supplemental Prefiled Testimony for Bert T. Phillips. SSU argued that it should be permitted to file supplemental testimony of Mr. Phillips because Hernando County had passed a resolution, on March 29, 1994, to rescind Commission jurisdiction. According to SSU, Hernando County had threatened that, upon such rescission, it would immediately reduce the rates of the customers of the SSU systems in Hernando County, which would result in a revenue shortfall. SSU argued that this proceeding was an appropriate forum to address the impact of the resolution on the rates of other SSU customers.

The Counties responded that SSU should not be permitted to file supplemental testimony for Mr. Phillips because it was untimely and because his testimony was irrelevant to this case. Staff agreed with the Counties.

Upon consideration, we were more persuaded by the arguments of the Counties and Staff. Accordingly, SSU's motion was denied.

Motion for Continuance

At the Brooksville customer hearing, the Counties made an oral motion for continuance. The Counties argued that Order No. PSC-94-0425-PCO-WS, issued April 11, 1994, by which the Prehearing Officer quashed their subpoenas of several Commission staff members, who were not offered as witnesses, as well as an employee of SSU, denied them procedural due process and the opportunity to fully explore various issues, and that the only appropriate remedy would be for the Commission to grant them a continuance pending their taking an interlocutory appeal. However, the Counties did not know whether an interlocutory appeal was possible under the circumstances. Although the Counties did not argue for reconsideration of the Prehearing Officer's Order at that time, they did attempt to argue the merits of that decision in support of their motion for continuance. COVA stated that it desired that the hearing proceed as scheduled, but that the Commission should allow the Counties to take the depositions and suggested that the Commission permit posthearing depositions.

SSU responded that the Counties had waited too late in the process to pursue the depositions to justify a continuance just days prior to the hearing. SSU also asserted that an interlocutory appeal would not be available for the Counties when discovery had been denied, that an appeal of the final order would be their remedy and, therefore, no continuance should be granted. Also, SSU argued that it was prepared for the hearing and had all of its

witnesses available. Staff agreed with SSU and stated that it believed it would have been necessary for the Counties to have requested reconsideration of the Prehearing Officer's Order before taking an interlocutory appeal.

Upon consideration, we found the arguments of SSU and Staff to be more persuasive. Accordingly, we denied the motion.

Motion for Rehearing

The Commission also heard argument on COVA's Motion for Rehearing on the Prehearing Officer's Order Granting SSU's Motion to Strike Portions of Judge Mann's Testimony. COVA argued that the Prehearing Officer had made a mistake of law because, although the stricken testimony contained legal opinions, such testimony is acceptable in this type of proceeding. COVA argued that the Commission should take a more liberal view and permit testimony that might not be appropriate in a jury trial. COVA also asserted that other witnesses had testified on legal matters and that it was unfair to strike portions of Judge Mann's testimony and not that of other witnesses. The Counties supported COVA's motion.

SSU argued that the Prehearing Officer had not made any mistake of law or fact and that her order should, therefore, be upheld. Staff asserted that legal argument is not appropriate in testimony and that the parties could address any legal argument necessary in their briefs.

Upon consideration, we found the arguments of SSU and Staff more persuasive. We, therefore, denied COVA's motion.

Motion for Reconsideration

On April 26, 1994, the Counties filed a motion for reconsideration of Order No. PSC-94-0425-PCO-WS, by which the Prehearing Officer quashed their subpoenas of a number of non-testifying Commission Staff members and an SSU employee. The Counties argued that, under Rule 1.280, Florida Rules of Civil Procedure, it is entitled to "discovery regarding any matter, not privileged, that is relevant to the subject matter of the pending action". According to the Counties, at a minimum, they should have been allowed to ask questions of the witnesses, and only if they then attempted to elicit some privileged information should a protective order have been issued. Accordingly, the Counties argued that the Commission should reconsider Order No. PSC-94-0425-PCO-WS and allow them to depose the Commission staff members and the SSU employee.

SSU argued that the Counties had not pointed out any error or omission of fact or law, but had either reargued arguments already considered or introduced arguments not previously considered. Accordingly, SSU argued that the Prehearing Officer's order quashing the subpoenas should stand.

Staff also argued that the Counties had not pointed out any error or omission of fact or law. Staff further argued that the staff members selected by the Counties, as well as the documents that were requested, clearly indicated that the discovery sought was not relevant to the subject matter of this proceeding, and that the proposed depositions of staff members and the SSU employee was an attempted abuse of the discovery process.

Upon consideration, the Counties made no showing that anything relevant to this proceeding could have or would have been obtained from deposing the non-testifying Staff members or SSU's employee. The Counties also failed to show that the Prehearing Officer's decision was based upon any mistake or omission of fact or law. Accordingly, we denied the Counties' motion for reconsideration of Order No. PSC-94-0425-PCO-WS.

POST HEARING FILINGS

On July 1, 1994, SSU filed its post-hearing brief. Also on July 1, 1994, the Counties, COVA, and the individual customers represented by counsel for the Counties (hereinafter referred to collectively as Intervenors) filed a consolidated post-hearing brief. On July 6, 1994, the Intervenors filed a corrected consolidated post-hearing brief. The Attorney General of the State of Florida filed a post-hearing statement that its involvement in this proceeding was precipitated by its concerns that interested parties may not have received adequate notice and an opportunity to be heard in SSU's prior rate case, Docket No. 920199-WS. The Attorney General also stated that it was concerned that the Counties be represented by counsel with the requisite expertise, and that it was not its intent to side with any group of citizens against any other. The statement concluded that this docket has afforded interested parties an opportunity to be heard, and that the Counties have had the benefit of competent legal counsel.

FINDINGS OF FACT, LAW, AND POLICY

Having considered the testimony of witnesses, exhibits, the briefs filed by the parties, and the recommendations of Staff, the following represents our findings of fact, law, and policy.

CONSERVATION RATESETTING AUTHORITY

In their brief, the Intervenor's argue that: 1) the Commission does not have any authority to modify rates to affect water conservation or environmental protection of any type; 2) Chapter 367, Florida Statutes, does not mention the word "conservation"; 3) the statutory responsibility for water conservation is vested exclusively with the Department of Environmental Protection (DEP) and the Water Management Districts (Districts); and 4) since Chapter 367, Florida Statutes, is silent with respect to conservation, the Legislature obviously did not want the Commission "to concern itself with the highly complex and clearly regional problems of water conservation in conjunction with utility ratesetting."

In support of their arguments, the Intervenor's cite Chapter 366, Florida Statutes, where the word "conservation" is referenced with regard to the regulation of electric utilities. The Intervenor's also cite Chapter 373, Florida Statutes, which, they argue, gives DEP and the water management districts the exclusive authority to regulate water usage for conservation purposes.

In its brief, SSU argues that Chapter 367, Florida Statutes, which grants to the Commission exclusive jurisdiction over water and wastewater utilities' authority, service, and rates, is an express exercise of the police power of the state for the protection of the public health, safety, and welfare. According to SSU, Chapter 367, Florida Statutes, grants the Commission the power to modify rates to affect conservation, because water conservation invokes the public health, safety, and welfare. In support of its position, SSU cites Sections 373.250 and 403.064, Florida Statutes, and Rule 17-40.310, Florida Administrative Code, which, taken together, explicate a state policy of water conservation.

SSU also cites a Memorandum of Understanding (MOU), dated June 27, 1991, between this Commission, DEP, and the Water Management Districts. In the MOU, the signatories agreed to a goal to ensure the efficient and conservative utilization of water resources. Under the MOU, the Districts are responsible for regulating withdrawal rates and identifying improvements necessary to enhance water resource management, and this Commission is responsible for the economic and ratemaking aspects of such improvements.

SSU further cites to the recently enacted Section 367.0817, Florida Statutes, which expands this Commission's authority to affect conservation through rates associated with reuse projects.

The Intervenor's are correct that Chapter 367, Florida Statutes, does not mention the word "conservation". They are also correct that DEP and the Districts are the agencies with primary responsibility for effecting water conservation. However, their argument that the Legislature, therefore, did not intend for this Commission to concern itself with conservation issues whatsoever is not persuasive. To construe our authority in a narrow sense would defeat the expressed intent of the Legislature that "[t]he regulation of utilities is ... in the public interest, and [Chapter 367] ... is an exercise of the police power of the state for the protection of the public health, safety, and welfare. The provisions of this chapter shall be liberally construed for the accomplishment of this purpose." (Emphasis added.)

Moreover, under Section 367.081, Florida Statutes, in fixing rates which are just, reasonable, compensatory, and not unfairly discriminatory, we are compelled to consider, among other things, the value and quality of service. The conservation of this state's water resources is inextricably tied to value and quality of service because it will enhance the present and future availability of water resources. It also invokes the public health, safety, and welfare and, as such, this Commission's authority under Section 367.011(1), Florida Statutes.

Although Chapter 367, Florida Statutes, does not explicitly mention the word "conservation", the authority granted therein necessarily implies the authority to consider conservation in establishing rate structures. Accordingly, we find that this Commission has the authority to modify rates to affect conservation.

APPROPRIATE RATE STRUCTURE

Section 367.081(2)(a), Florida Statutes, requires that this Commission "fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service...." This issue addresses which rate structure possesses the attributes which will result in rates that best meet these standards. It should be emphasized that the purpose of this investigation is not to reevaluate SSU's revenue requirement, as established in Docket No. 920199-WS. This docket is revenue neutral.

¹ See, for example, Insurance Co. of North America v. Morgan, 406 So.2d 1227, 1229 (5th DCA 1981).

According to the record, SSU believes that uniform rates are the most appropriate for a variety of reasons. SSU contends that it operates as one centralized utility and that uniform rates more accurately reflect the nature of its operations. It also argues that there are significant cost savings associated with collecting uniform rates. SSU also argues that uniform rates can operate to provide rate stability and mitigate rate shock.

The record also shows that the Intervenor believe that stand alone rates are the most appropriate rates for SSU's customers. They argue that stand alone rates are more reflective of what it costs for each system to provide service to its own customers. They also contend that stand alone rates better reflect the investment each customer has in his or her own individual system. COVA, in particular, objects to subsidizing other systems.

Factors Related to Rate Structure

We have considered the relationships of a number of factors to the rate structure issue. However, any rate structure designed to primarily address any one factor is unlikely to be the best rate structure to respond to any or all of the others. Each of the factors that was specifically identified is discussed, under separate heading, below.

Relative Cost of Providing Service

The Intervenor contend that the cost of providing service to each separate utility system should be the primary, if not sole, criterion in determining rates in this case. They further argue that costly treatment types required by any system are reflective of factors within the control of the persons served by that system and they should have to bear the economic consequences of their decisions.

The traditional rate setting standard has been to establish rates as close to the cost of service as possible. This standard is relatively easy to apply to a stand alone system. However, when dealing with multiple systems, issues regarding common cost allocations and subsidization make the traditional cost of service standard difficult to apply. In this proceeding, we have considered a number of variables including treatment type, CIAC levels, customer density, and the age of the system.

All other things being equal, the costs associated with advanced treatment, such as reverse osmosis or lime softening, are greater than the costs of standard treatment. Therefore, one would expect stand alone rates for advanced treatment systems to be

greater than stand alone rates for standard treatment systems. However, SSU Witness Gartzke stated that it is rare that all other things are equal. SSU Witness Ludsen testified that the cost to serve per equivalent residential connection (ERC) at Burnt Store, a reverse osmosis facility, is much less than at Point O'Woods, a standard treatment facility. He explained that other factors, such as customer density, age of the systems, or operating costs, may affect the cost of service.

There are three water and one wastewater systems utilizing advanced treatment at issue in this proceeding. When all of the water systems at issue in this proceeding are ranked according to their stand alone rates, a bill for 10,000 gallons for Sugar Mill, which utilizes advanced treatment, would fall in the middle third. Stand alone bills for 10,000 gallons for Marco Shores and Burnt Store, the other two systems utilizing advanced treatment, would fall in the upper third; however, closer examination reveals that other factors, including CIAC levels and consumption patterns, also affect their rates. Interestingly, a stand alone bill at 6,000 gallons for University Shores, the only advanced wastewater treatment system in this docket, would be in the bottom third when compared to the rankings for stand alone bills of all of the wastewater systems.

Level of CIAC

This issue involves whether CIAC is a sufficiently important determinant of cost to warrant a rate design based on the amount of CIAC paid in each system. Due largely to how SSU was formed, the CIAC levels of the water systems vary from 0 percent to 96 percent, and that of the wastewater systems vary from 0.2 percent to 210 percent. There was much discussion as to whether and how this disparity should be considered in deciding the appropriate rate structure for SSU.

The Intervenors argue that CIAC represents the customers' investment in their local systems. They argue that this investment must be recognized in their rates on a system specific, as opposed to a collective, basis. According to the Intervenors, failure to reflect CIAC represents an unconstitutional taking of property under both the U.S. and Florida Constitutions.

Implicit to the Intervenors' position is the notion that, systems with high levels of CIAC should, intuitively, have lower stand alone rates than uniform rates. However, according to data in the record, four of the six water systems with CIAC levels greater than 75 percent benefit from uniform rates. Conversely, there are water systems with CIAC levels as low as 41 percent that

do not benefit from uniform rates. There is a little better correlation for the wastewater systems. Only two of the six systems with CIAC levels greater than 75 percent benefit from uniform rates. However, there is one system with a CIAC level of 6 percent which is better off under stand alone rates.

Staff Witness Williams testified in Docket No. 920199-WS that he considered the disparity in CIAC levels to be the main obstacle to implementing uniform rates for SSU. He, therefore, recommended that a uniform rate for SSU should only be implemented after a service availability case. In this docket, Mr. Williams testified that CIAC level should not be the deciding factor in rate design since it is a constantly moving target and each rate case is only a "snapshot" in time. He further testified that we should look beyond the test year and consider the ability of SSU to provide quality service at reasonable rates, replace facilities, expand to meet growth, and comply with increasingly stringent environmental requirements. According to Mr. Williams, as SSU replaces or refurbishes existing facilities due to age or to meet environmental standards, much of the additional plant investment will not be offset by additional CIAC. This will have the effect of lessening the CIAC disparity between systems over time.

COVA Witness Hansen testified that he did not believe that it would ever be possible to bring all systems to a fair and equitable CIAC level, since many of the systems with low CIAC levels are at or near 100 percent used and useful. However, his argument was based upon the present situation, not the long term.

SSU provided its construction budget for each system for the period 1993 through 1997. Although the record does not indicate projected growth for SSU's systems, it indicates that the CIAC contribution levels of some of the more highly contributed systems may become significantly diluted due to additional investment in plant to meet environmental requirements or other factors unrelated to growth.

Based upon the discussion above, it appears that the level of CIAC is not significant to the point that rate structure should be adjusted to recognize this factor. It further appears that a rate structure based on the relative CIAC levels of the systems would be flawed because these levels are constantly changing. Moreover, while stand alone rates best recognize the current levels of CIAC, this rate structure could lead to rate shock as the level of CIAC is diluted through further investment. Uniform rates, on the other hand, may help mitigate this effect.

The Need For Conservation Rates

As noted by Mr. Ludsen, the Water Management Districts are encouraging water conservation, and conservation rates are one aspect of SSU's conservation plan. Mr. Ludsen further stated that SSU has systems in designated Water Resource Caution Areas which may need conservation measures. SSU indicated that it will consider requesting conservation rates in its next rate proceeding. This issue concerns mainly whether a move from stand alone to uniform rates will act as a disincentive for conservation and whether, on an ongoing basis, a uniform rate has the flexibility to be modified into a more aggressive conservation rate.

COVA argues that uniform rates are inconsistent with conservation because they reduce some customers' rates below cost. SSU Witness Grantmyre disagreed. He also argued that stand alone rates are inconsistent with conservation, since high average system use would result in lower gallonage charges being set. We believe that the present rates are conservation rates in that, through the gallonage charge, customers are given the opportunity to understand the effect of, and control, their usage.

All parties acknowledged that, in the transition from stand alone to uniform rates, the rates for some customers were increased while those for others were decreased. The record indicates that, based upon the theory of demand elasticity, some customers may use more water and some may use less, but that the overall impact is probably neutral. The record also indicates that many factors other than price, including, but not limited to, affluence, size of lawn, and the number of persons in the household, affect water usage. The record did not include any studies of demand elasticities or projected changes in use due to the change from stand alone to uniform rates.

Counties Witness Parker, a hydrologist with the District, believes that rate structure is the most important element of a conservation plan. Mr. Ludsen disagreed. Counties Witness Radacky testified that, in his experience, Hernando County's inverted uniform county-wide rate has resulted in decreased usage. This shows that conservation rates can be effective, and can be incorporated into a uniform rate structure.

Presently, SSU has fourteen systems with average monthly residential usage in excess of 10,000 gallons. Five of these systems have average monthly residential usage in excess of 15,000 gallons. However, listing average system use does not reflect that every system may have individual customers with excessive usage. In order to reach these customers, a statewide conservation rate

may be necessary. Nevertheless, the import of conservation to rate structure in this docket is that uniform rates would not preclude the implementation of conservation rates, either statewide or system-specific, in subsequent cases.

Geographic Considerations

This issue concerns whether there are any geographic factors which result in a homogenous group for which costs are sufficiently similar for ratesetting purposes. SSU witnesses testified that a county's political boundaries bear no significance to the cost of service being provided to customers in the county. SSU witnesses further testified that there was no regional basis by which its systems could be logically grouped.

The Intervenors agreed that geographic location has little to do with economic ratesetting. COVA Witness Mann testified that some geographical factors, such as treatment requirements and availability of water, affect cost of service and are, therefore, relevant to rate design. Counties Witness Cicchetti testified that customers living in environmentally sensitive service territories require higher levels of service which should be reflected in their rates.

Our examination of the record does not indicate that grouping systems by county results in sufficiently similar costs to warrant a rate design based upon this factor. When systems are grouped by county, factors affecting cost, such as CIAC level, plant or operational and maintenance cost per ERC, age of system, or number of bills can vary widely. Further, grouping by county would result in stand alone rates for six water and seven wastewater systems in counties where there is only one SSU system.

Another rate structure option discussed involved grouping systems by Districts. Mr. Radacky testified that it may be logical to lump systems regionally based on the Districts that provide water to these facilities. However, grouping by Districts does not result in sufficiently similar costs to warrant a rate structure based upon this factor. Additionally, grouping by District results in an uneven distribution of systems; there would be only one each in the Northwest and Suwannee districts, twenty-seven in the Southwest Florida Water Management District, thirteen in the South Florida district, and sixty-four in the St. Johns River district. Further, grouping the wastewater systems by water management district bears no correlation to wastewater costs.

One geographically linked argument advanced by SSU in support of uniform rates is that its water systems should be considered

interconnected through the Floridan Aquifer. SSU Witness Stewart testified that the surface and groundwater systems of the State are interconnected over large distances. He further stated that most environmental laws and regulations concerning water quality are uniform throughout the state and do not recognize specific geographic areas. SSU also argues that water is a statewide resource and should be managed on a statewide basis to ensure that vital recharge areas continue to function normally and that the aquifers are continually replenished.

The Intervenors countered SSU's interconnection argument by sponsoring Mr. Parker, a hydrologist with the Southwest Florida Water Management District. Mr. Parker argued that it is inaccurate to characterize the Floridan Aquifer as one consistent unit. He explained that activities in one basin do not necessarily have any effect on any other basin. He also explained that a natural flow divide bisects the state and that water does not typically cross the divide. Mr. Parker further testified that water is managed today on a regional basis due to varying needs, drainage, hydrologic systems, and physical aquifer characteristics.

SSU's argument that its systems are interconnected via the aquifer system is neither persuasive, nor adequately supported by the record. Accordingly, we have not considered its argument in the overall issue of rate design.

Long Term Benefits

The Intervenors argue that there are no demonstrated long term benefits obtained by uniform rates over the benefits, if any, of SSU's consolidated operations. They further argue that the only demonstrated savings resulting from uniform rates is approximately \$20,000 alleged to have been saved in the preparation of SSU's annual report.

Notwithstanding the Intervenors' argument, a number of witnesses testified that there will be long term benefits resulting from uniform rates. For instance, witnesses testified that uniform rates will result in rates which are more affordable over time than those resulting from any other rate structure examined in this proceeding. The record also indicates that water and wastewater utilities are very capital intensive, and will continue to be so due, in part, to increasingly stringent environmental requirements. Under uniform rates, new plant investment will be absorbed by all SSU customers. Thus, rate stability will be enhanced while rate shock is minimized. In fact, the record demonstrates that the uniform rates currently in effect are affordable, even to individuals whose income is lower than the poverty level.

A second benefit of uniform rates is that, since uniform rates afford greater revenue stability, creditors are more likely to reward the reduced risk with lower financing costs. Lower financing costs result in a lower overall rate of return, a lower revenue requirement, and, therefore, lower rates.

Another advantage unique to the uniform rate structure is the potential revenue requirement reduction based upon a netting of rate bases in future rate cases. Under a uniform rate structure, since rate bases are averaged among all systems, negative rate bases can be factored into the rate base determination. This will have the effect of lowering the overall, total company rate base, revenue requirement, and rates.

Mr. Ludsen testified that, under stand alone rates, SSU would have the right to file for rate relief for each individual system as needed. This would lead to more total rate cases and an overall increase in rate case expense per customer. Under uniform rates, SSU will file fewer rate cases since it will only be able to file on a total company basis.

Potential Cost Savings

The Intervenor's argue that the cost savings benefits urged by SSU under a uniform rate system are negligible. In support of their argument, they point to the testimony of Mr. Ludsen that the cost savings are "unquantifiable". The Intervenor's further argue that, despite SSU's vague claims that such savings exist, the only concrete example given is that it will be easier to prepare annual reports, a total savings of approximately \$20,000 per year.

SSU attempted to demonstrate savings due to the uniform rate structure. SSU Witness Vierima testified that consolidated financing results in more favorable terms than system by system financing. In support of his statement, he produced a letter from the National Bank for Cooperatives, which confirms that large utility operations possess certain economies of scale that allow the bank to loan funds at lower overall interest rates. Mr. Vierima asserted that the SSU systems all benefit from consolidated financing, which facilitates a least cost, flexible financing program that would not be available to any one system on its own. He further asserted that uniform rates add an additional level of predictability, stability and recoverability for creditors.

The strongest argument for reduced borrowing costs came from SSU Witness Ford, Group Vice President and Manager of SunTrust Public Finance, who testified that there are capital attraction impacts associated with rate design. According to Mr. Ford, a

uniform rate structure, which promotes risk diversity and presents less uncertainty and lower credit risk, is better for purposes of capital attraction. However, under cross examination, Mr. Ford was hesitant to quantify the savings.

SSU also contended that there are other cost savings associated with uniform rates, such as bulk purchases of materials and supplies, billing, customer service, and accounting. However, under cross examination, Witnesses Ludsen and Phillips agreed that most of these savings would continue regardless of rate structure. SSU asserts that the amount of savings would increase under uniform rates, but had difficulty quantifying the additional savings. Mr. Grantmyre testified that, under a uniform rate structure, Heater Utilities experienced reductions in recordkeeping, rate case expense, and system-specific financial statements. With respect to rate case expense, SSU argues that filing for increased rates on a consolidated basis will require less preparation; however, it was unable to quantify the expected savings.

The record demonstrates few clear, quantifiable cost savings due to a uniform rate structure. While we agree that its customers benefit from the savings discussed by the SSU, we believe that most of these savings are due to the size and centralization of the operations and not due to rate structure. In fact, many of the cost benefits associated with economies of scale, bulk purchasing and centralized operations have already been taken into account in determining the revenue requirement.

Public Participation in Rate Cases

The Intervenor's argue that this Commission's proceedings are already inaccessible to customers and that uniform rates will make customer participation even more difficult, if not impossible. They argue that the monetary savings resulting from, for example, a customer finding a mistake in a rate filing, would be diluted under uniform rates to such an extent that participation would not be economically feasible. The Intervenor's also argue that uniform rates will deprive customers of the benefit of the Office of Public Counsel (OPC) because they create potential conflicts of interest between customer groups.

Customer participation in rate proceedings is available through several means. Individual customers can present testimony at service or technical hearings, or contact this Commission or OPC to outline their concerns. Customers may also formally intervene or petition OPC to intervene on their behalf. The customers' right to any of these options is not affected by rate structure.

The Intervenors' argument regarding OPC would lead one to believe that uniform rates will result in a lack of advocacy by OPC in future SSU rate proceedings. We do not agree. Traditionally, OPC participates in all aspects of determining a revenue requirement, regardless of the rate structure, but does not involve itself in issues, such as rate structure, that may lead to a conflict of interest between customer groups. OPC's participation in rate proceedings should, therefore, remain unchanged by our choice of rate structures.

As for their argument regarding the dilution of the effect of customer participation, COVA Witness Desjardin cited an example in which, in a previous rate case, COVA found a mistake which reduced expenses by \$38,000 for their system. This savings more than offset their legal expenses in that docket. According to Mr. Desjardin, under a uniform rate structure, these savings would have been diluted to the extent that the savings would not have covered its legal expenses.

Although the impact of customer participation may become somewhat diluted, we note that many other ratemaking components will be diluted, or shared, to the benefit of customers. However, the customers' ultimate right to participate in rate proceedings will not be affected by any choice of rate structure.

Relationship Between Rates and Acquisitions

This factor considers the relationship of rate structure to acquisitions. This relationship is highlighted by the increasing number of cases in which larger utilities purchase smaller systems with existing rates and request approval to implement their own rates in the acquired system. Specifically, this issue deals with whether uniform rates will act as an incentive for SSU to purchase small systems. The Intervenors believe that uniform rates will allow SSU to purchase small, troubled systems at the expense of the current customers. They argue that there is no statutory authority that allows this Commission to alter customer rates to either enhance or deter a utility's ability to acquire other utilities.

When confronted with the purchase of a small utility by a large utility, this Commission must balance the often competing interests of the ratepayers of both the acquiring and the acquired utility. Several witnesses stated that it is becoming increasingly difficult for small utilities to meet expanding environmental regulation and that larger companies are better able to keep up with technological advances, develop a combined capital spending program, and plan in advance on a total company basis.

Mr. Williams suggested that the sale or takeover of a small system by a larger, healthier company is a positive step toward achieving a balance between the need to meet increasing costs and the ratepayers' interests. Mr. Cicchetti testified that companies which purchase small systems benefit the state, and that we should encourage them to continue to purchase these systems.

All parties agreed that uniform rates would act as an incentive for SSU to purchase small systems. Mr. Phillips quoted a recent order of the New York Public Service Commission, which stated that the equalization of rates acts as an incentive to purchase small systems because it allows the acquiring utility to institute compensatory rates as soon as possible.

Uniform rates do seem to offer incentives to purchase smaller utilities. There is an obvious incentive if the rates of the acquired system are lower and SSU is allowed to institute its rates upon acquisition. Historically, however, when SSU has purchased a system with existing rates, we have retained those rates at least until SSU's next rate proceeding for the system involved. Some of these systems were later combined under a countywide uniform rate. Others remained on a stand alone basis for ratemaking purposes.

A uniform rate structure could act as an incentive to acquire smaller systems even if rates are not adjusted at the time of acquisition, if rates are combined at some time in the future. Mr. Phillips testified that there are some systems that SSU would not acquire under a stand alone rate structure because compensatory rates for those systems would be unreasonable. Under uniform rates, the investment in these systems would be shared by a larger customer base, resulting in more affordable rates.

COVA expressed concern about the effect that this type of acquisition might have on the existing ratepayers of SSU. COVA apparently believes that over time, under a uniform rate structure, the addition of systems with higher than average stand alone costs would result in higher rates for all of SSU's customers. COVA's concerns appear to be based upon the notion that all acquisitions of systems with high stand alone rates would be detrimental to SSU's existing customers. However, when SSU takes over such a system there can be a reduction in cost of service due to economies of scale, lower cost of capital, and other cost savings resulting from its consolidated operations. In many cases, existing customers can benefit from having additional customers over which to spread costs, particularly administrative and general expenses. It is interesting to note that SSU has been able to acquire systems which, on their own, may not have been viable, yet offer a rate which has been described as affordable to all of its ratepayers.

Realistically, the acquisition of a system may have the effect of raising the rates of all of SSU's customers. In such a case, we must determine whether the public interest is best served by approving or disapproving the transfer, by considering, in part, the rate impact on existing ratepayers as opposed to the magnitude of the acquired system's stand alone rates. Our Staff is currently studying the issue of acquisitions.

Effect of Uniform Rates on Customers

The Intervenor's argue that, aside from forcing involuntary subsidization of customers of other systems, uniform rates will cause property taxes of customers paying the rates to increase, as well as depreciate the values of their homes. There was testimony to the effect that customers whose rates increased under uniform rates might experience such results.

While uniform rates may have an initial negative impact on some customers, the record demonstrates that levels of subsidization will change, and possibly reverse, over time as conditions affecting cost of service change. Moreover, the record indicates that a uniform rate structure will provide better rate and revenue stability over time than any other rate structure discussed during this proceeding. Future plant investment, which could have a tremendous impact on the rates of the customers of any one system, will be spread among SSU's entire customer base, minimizing rate shock. Cost savings, such as reduced capital costs, are shared by all customers. In addition, customers could see lower rates under the uniform rate structure than under a stand alone rate structure due to the netting of rate bases in future rate cases.

Alternate Rate Structures

As noted above, although the testimony and other evidence primarily focused on the dichotomy between stand alone and uniform rates, we have considered a number of different rate structures based upon the evidence presented at the hearing. The various rate structures, including stand alone and uniform rates, are discussed below.

Uniform Rates With Subsidy Cap

The first alternate to uniform or stand alone rates is a modified uniform rate with a subsidy cap. This rate structure begins with a uniform rate, but caps the level of subsidy per bill at \$2.00 per month for water service and \$5.00 per month for wastewater service. The resulting revenue deficiencies are then

spread among those systems remaining under the uniform rate, several times, if necessary. The drawback to this rate structure is that the subsidy cap results in higher uniform rates for most customers, yet individual rates for others.

Prospective Uniform Cost Recovery (PUCR) Rates

The second alternative, referred to as PUCR rates, uses as a starting point, the stand alone rates in effect prior to SSU's most recent rate case. It then increases the base facility and gallonage charges, per ERC, by a uniform company-wide amount. This alternative is virtually identical to the manner in which interim rates were derived in Docket No. 920199-WS. This rate structure would recognize not only the historical differences in cost of service but the fact that SSU operates as one centralized company. It would also serve to mitigate the impacts of future rate shock and assure affordability.

A problem with PUCR rates is that, prior to its last rate proceeding, SSU had a wide variety of water rate structures, including inclining block rates, declining block rates, and base facility charges that included certain levels of consumption. Its wastewater rate structures included both flat rates and various consumption caps. SSU also had countywide uniform rates in eight counties, involving fifty-nine water and twenty-one wastewater systems. Some of its systems never even charged compensatory rates, since their rates were approved under "grandfather" rights. Thus, PUCR rates would perpetuate differentials which have no logical justification, while ignoring any valid differentials which may arise in the future.

Uniform Rate Excluding Return on Investment

This alternative rate is derived by calculating a uniform rate that excludes any element of return on investment. Without any further modification, this rate would be collected from customers of all systems which are 75 percent or more contributed. The amount of return on investment (\$149,584) thus excluded would then be allocated among the systems that are 75 percent or less contributed. As noted below, there appears to be less correlation between contribution level and stand alone rates than urged by the Intervenor. The validity of this rate structure is, therefore, questionable at best.

Modified Stand Alone Rate Structure

A modified stand alone rate structure would cap a residential bill at some level of consumption. This rate structure would move

in the direction of uniform rates, yet maintain greater historical rate stability. However, the modified stand alone rate structure does not adequately address all of the concerns, such as affordability, raised in this docket. In addition, for the limited benefits that might be derived from this rate structure, it is unnecessarily complicated.

County-Wide Rates

Uniform countywide rates are nothing new. In fact, we have previously established countywide uniform rates for SSU in eight counties. The reasons for the approval of county-wide rates are much the same as those espoused in support of a statewide uniform rates: normalization of rates, simplification, and reduction of rate case expense. However, as noted above, the record does not indicate any correlation between costs and county boundaries.

Uniform vs. Stand Alone Rates

The task facing this Commission in this proceeding is to select a rate structure which best balances competing and often irreconcilable interests. The balance between rates that include reasonable levels of subsidization and rates that are affordable is difficult to strike, especially when considering that the water and wastewater industry is a rising cost, capital intensive industry, facing ever more stringent regulatory standards and the need to repair or replace aging infrastructure.

Subsidization is inherent in any rate structure. It clearly costs more to serve a customer who is remote from the treatment plant than one who is immediately adjacent, therefore, from a pure, cost to serve basis, the fairest way to set rates is on an individual ratepayer basis. However, we know that such a rate structure is unworkable because it would be hopelessly complex and unwieldy. Once one rejects customer specific rates and accepts the concept of subsidization, the question becomes: what level of subsidization is acceptable?

In this proceeding, stand alone rates involve the lowest overall level of inter-system subsidies, yet result in unaffordable rates for the customers of some systems. Statewide uniform rates, on the other hand, involve the greatest level of subsidies, yet result in rates that are affordable for all of SSU's ratepayers, even those at poverty level.

Under uniform rates, as improvements are needed in individual systems, the associated costs will be spread among the customers of each system, thereby enhancing rate stability and mitigating rate

shock. For example, under stand alone rates, a \$10,000 increase in revenue requirement for the Piney Woods system would result in an increase of \$5.55 for a bill at 10,000 gallons. However, under uniform rates, the bill would not increase at all. Inter-system subsidies are, in this manner, analogous to insurance premiums.

Ratepayers have long accepted the principle of system-wide rates. Many have already accepted the principle of uniform, countywide or even statewide rates. Mr. Grantmyre testified that, after the initial transition, customers become accustomed to uniform rates and the issue of subsidization disappears. We note that there was not one single customer already under uniform county-wide rates who testified regarding any problems or inequities under countywide rates.

An inference throughout these proceedings has been that certain systems, such as Sugar Mill Woods and Spring Hill, are somehow significantly different from the other systems and should, therefore, be treated differently. An additional inference was that certain factors that impact the revenue requirements of the individual systems are significant enough that, to the extent they are different among the systems, specific adjustments should be made in rates to reflect these differences.

In order to test these inferences, our Staff prepared a matrix using data gathered from the record. The matrix included, for each water and wastewater system: the number of bills and ERCs, the treatment type, the age of each system, the level of plant per ERC, the level of operational and maintenance (O&M) expenses per ERC, county, District, and CIAC level. For the water systems, the matrix also included the number of gallons billed and the average consumption of each system. The matrix further included the system stand alone revenue requirements and a residential bill comparison under stand alone rates at 10,000 gallons for water service and 6,000 gallons for wastewater service.

The purpose of the matrix was to attempt to identify any dominant cost characteristic that would result in a homogenous grouping of the systems for rate design. It was anticipated that, if any single factor was instrumental in driving cost, the subsidizing systems should be grouped together when sorted by that factor. Such was not the case. For each sort, the subsidizers were randomly placed, not grouped as expected if that factor was a dominant force in cost/revenue determination.

Our Staff also performed some simple statistical analyses on the data in an attempt to identify significant correlations between the cost factors and revenues/rates that would support adjustments

in individual system rate levels. Staff calculated the mean and standard deviation for each factor considered and examined the plots of data points around the means. In addition, Staff performed a simple regression analysis, using the revenue requirement per system as the dependent variable and specific factors considered during this proceeding as independent variables. Staff also constructed simple regression models for each factor at a 10,000 gallon bill with the system specific revenue requirement per ERC as the dependent variable. Staff further ran a stepwise multiple regression analysis using all factors identified as independent variables and the revenue requirement per system as the dependent variable. Finally, Staff ran two multiple regression analyses using revenue requirement per ERC as the independent variable and bills at 10,000 gallons as the dependent variable.

The purpose of these statistical analyses was to identify how variation in the dependent variable was answered by the independent variable (or in the case of multiple regression, how much is answered by the group of independent variables), and to identify outliers. Outliers are data points that fall outside the grouping of the other data points and, therefore, require further analysis.

The scattergrams for these analyses did not indicate any significant differences in the systems, with one exception: Deltona and Spring Hill showed up as outliers for the plots of number of customers. Other than that, there were no significant patterns and those systems did not show up as outliers in the other scattergrams. Furthermore, the coefficient of the independent variables in all of the runs did not indicate that any factor was significant to the point that some adjustment should be made. As expected, the number of customers/bills was the most significant factor. Gross O&M and gross plant show varying levels of significance for the simple regression but add very little to the model using multiple regression.

The results of these analyses indicate that there are no significant differences in the systems examined, and that there is no factor significant enough to warrant a specific adjustment. While the results of these analyses may seem counterintuitive, they nevertheless make sense. Although each of the factors is important in determining a revenue requirement, the effect of that factor can be, and often is, offset by one or more of the other factors.

Conclusion

Most of the alternative rate structures were designed to alleviate the immediate effects of uniform rates on one group of customers or another. However, under any of the alternative rate

structures, differences between groups of customers, whether justified or not, are perpetuated. These differences may, in fact, shift and change among the various customer groups over time, such that any interim measures we take in order to account for any present difference may have little, if any, merit down the road. We believe that uniform statewide rates should be our goal for this utility. We also believe that the benefits of uniform rates outweigh any of the perceived disadvantages. Accordingly, based upon the evidence of record and our discussion above, we find that the appropriate rate structure for SSU, on a prospective basis, is the statewide uniform rate structure.

The appropriate uniform rates, as adjusted to reflect our decision with regard to the bulk wastewater rate for Hernando County, are depicted on Schedule No. 1, for water, and Schedule No. 2, for wastewater, which are appended to this Order. Prior to instituting the rates approved herein, SSU shall file revised tariff pages and a proposed notice to its customers of the rates approved and the reasons therefor. The approved rates shall be effective for service rendered on or after the stamped approval date on the revised tariff pages. The revised tariff pages will be approved upon verification that they are consistent with our decision and upon approval of the proposed customer notice.

BULK WASTEWATER RATE - HERNANDO COUNTY

This issue concerns whether a separate bulk wastewater service rate should be established for Hernando County and, if so, what that rate should be. SSU believes that a separate bulk rate is appropriate and that, in designing such a rate, we should consider the level of costs allocated to Hernando County and the County's avoided costs of building and operating its own facilities. SSU argues that the bulk rate should be \$2.35 per 1,000 gallons.

The Intervenor also believe that a bulk service rate should be established. However, they contend that, since Hernando County does not utilize SSU's collection lines, meter readers, or other services, it is entitled to a bulk rate of \$1.20 per 1,000 gallons.

Prior to our final decision in Docket No. 920199-WS, SSU had a bulk wastewater rate for Hernando County. In Docket No. 850099-SU, Deltona Utilities, Inc., the prior owner of SSU's Spring Hill wastewater system, requested a bulk service rate of \$1.02 per 1,000 gallons. By Order No. 14341, issued May 2, 1985, we approved a bulk rate of \$2.15 per 1,000 gallons based upon cost of service considerations. That rate was subsequently increased to \$2.19, \$2.21, \$2.24, and \$2.31 through price index adjustments occurring between 1987 and 1991. In Docket No. 920199-WS, by Order No. PSC-

92-0948-FOF-WS, issued September 8, 1992, we further increased the rate to \$3.57 on an interim basis. By Order No. PSC-93-0423-FOF-WS, issued March 22, 1993, we determined that the appropriate rates for Hernando County were the final approved general service rates, including base facility charges of \$300.25 for a four-inch meter and \$1,381.15 for a ten-inch meter, and a gallonage charge of \$4.09 per 1,000 gallons.

Through the course of this proceeding, eight separate bulk wastewater rate alternatives have been discussed. The rates range from a single gallonage charge of \$1.20 per 1,000 gallons to a uniform gallonage charge of \$4.15 per 1,000 gallons plus a base facility charge. Several of these alternatives were designed in accordance with a memorandum authored by Staff Witness Chapdelaine, dated July 10, 1985, entitled Bulk Rates/Special Rates. A copy of this memorandum was attached as an exhibit to his testimony as well as to the testimony of Mr. Radacky.

At the hearing in this docket, Mr. Chapdelaine testified that the original bulk rate established in Docket No. 850099-SU was designed pursuant to the second bulk rate design example discussed in his memorandum. Mr. Chapdelaine also testified that, in Docket No. 850099-SU, he did not believe that it was appropriate to classify Hernando County as a general service customer, due to the nature of the service provided to Hernando County.

Mr. Chapdelaine testified that his memorandum has become an accepted methodology by which Staff evaluates bulk rates; however, he agreed that bulk rates could be calculated in other ways. He further stated that, when determining an appropriate bulk rate, it is important to ensure that customers already served by the bulk service provider will not be disadvantaged by serving the bulk customer.

During this proceeding, a number of alternate methods of establishing a bulk rate were discussed. One of these alternates was the approval of a negotiated rate. However, Mr. Chapdelaine testified that he would not be persuaded by a negotiated rate unless he was certain that the rate was equitable and that no class of customer was treated differently from any other class. Another alternative discussed was setting a bulk rate based upon the buyer's avoided cost. Mr. Chapdelaine testified that he had never considered the avoided cost. The other alternative discussed was setting a rate based upon the value of service. Mr. Chapdelaine testified that he had not looked at value of service in the past, and is troubled by the notion now. Mr. Chapdelaine testified that all of the rate work he had done was based on cost of service.

As for the particular bulk rate alternatives before us, the low end, and the rate espoused by the Intervenor, is \$1.20 per 1,000 gallons. This rate is based upon a cost of service study performed by SSU. Mr. Radacky testified that he had reviewed the utility's calculation of the \$1.20 rate. He also testified that the data used in the calculation appeared to be correct, that the calculations appeared to be consistent with the methodology discussed in Mr. Chapdelaine's memorandum, and that the \$1.20 rate is fair and reasonable. Mr. Cicchetti testified that the methodology referenced by Mr. Radacky represents a sufficient, practical approach to calculating bulk wastewater rates. Mr. Chapdelaine testified that, upon a quick review of the cost study, it appeared to comport with the methodology contained in his memorandum.

The next lowest rate is \$1.22 per 1,000 gallons of wastewater treated. This rate represents the rate just discussed, increased by 1.57 percent to reflect a 1993 price index adjustment.

The next rate is \$1.93 per 1,000 gallons, plus a base facility charge. Mr. Ludsen testified that, in Docket No. 920199-WS, SSU had requested base facility charges of \$284.50 for a four-inch meter and \$1,308.70 for a ten-inch meter, and a gallonage charge of \$1.93 per 1,000 gallons, for the Hernando County bulk rate. He added that these rates are the same rates requested for general service customers. However, Mr. Ludsen testified that SSU had not thoroughly analyzed the validity of that rate for Hernando County. When asked why the requested rate was lower than the previously approved rate, Mr. Ludsen stated that SSU had probably not given the rate the attention it deserved. He added that if he had to do it over again, he would not have requested a rate lower than the prior rate. Mr. Ludsen further stated that SSU had not conducted a cost of service study prior to requesting those rates.

The next rate is \$2.31 per 1,000 gallons, which is the rate that was in effect prior to SSU's last application for increased rates. This rate is the originally approved rate, as adjusted for price index adjustments between 1987 and 1991. Mr. Ludsen agreed that, under this rate, SSU would recover its operating expenses and a reasonable return on its investment. Hernando County's last rate increase was in July, 1991. As such, the rate of \$2.31 per 1,000 gallons is incorporated into the rates that the County charges its customers. Hernando County has, since March, 1993, been paying SSU at the rate of \$2.31 per 1,000 gallons. The County escrows that portion of each monthly bill that represents the difference between the rate of \$2.31 and the currently approved uniform rate.

The fifth rate is \$2.35 per 1,000 gallons. This represents the prior rate of \$2.31 increased by a 1993 price index adjustment of 1.57 percent. Mr. Ludsen testified that \$2.35 is a fair and appropriate rate. Mr. Ludsen also stated that this rate would cause a revenue shortfall that would have to be made up by other customers. However, he testified that SSU's customers still benefit from offsetting revenues that they would have to pay as opposed to if SSU was not selling bulk service.

The sixth rate is \$2.99 per 1,000 gallons. This rate was calculated using Mr. Chapdelaine's methodology, with costs allocated based on 2,130 customers behind the two bulk meters, rather than on the meters themselves. Mr. Ludsen testified that SSU purchases bulk water and wastewater service from Charlotte County and that these rates were calculated by allocating costs based upon the number of customers behind the meter rather than the meter size. However, Mr. Ludsen stated that he does not agree with this method.

The seventh rate considered is \$4.09 per 1,000 gallons, plus a base facility charge. These are the rates which were approved in Docket No. 920199-WS. They are equal to the uniform general service rates approved for all general service customers. Mr. Ludsen testified that these rates are too high.

The final bulk rate is \$4.15 per 1,000 gallons, plus a base facility charge. These rates represent the current uniform rates increased by a 1993 price index adjustment of 1.57 percent. These are the currently authorized bulk service rates.

Initially, we reject the rates of \$1.20, \$2.31, and \$4.09 per 1,000 gallons. While the original basis for these rates may have been sound, each of these rates would have been subject to a 1993 price index adjustment, regardless of the outcome of Docket No. 920199-WS or this proceeding. We also reject the rate of \$4.15 per 1,000 gallons because the record strongly indicates that Hernando County is sufficiently different from the general service class of customers to warrant a separate rate. Similarly, we reject the rate of \$1.93 per 1,000 gallons originally proposed in Docket No. 920199-WS. When this rate was proposed, it was equal to the rates proposed for the general service customers of the Spring Hill Wastewater System, and did not take into account any unique characteristics of a bulk service customer.

The arguments in favor of the rates of \$1.22 and \$2.99 per 1,000 gallons are more persuasive. Both were calculated using a bulk service ratesetting methodology. The difference between the two rates is that the \$1.22 rate was calculated by allocating

elements on the basis of the number of meters. The \$2.99 rate was calculated by allocating elements based upon the total number of customers. We are not convinced, however, that either allocation method is completely correct. Some items may be more appropriately allocated based on the number of meters, while others are more appropriately allocated based on the number of customers. While the argument has been posed that Hernando County has been overcharged at the \$2.31 rate, as compared to the \$1.22 rate, it could just as easily be argued that it has been undercharged.

The arguments in favor of the \$2.35 per 1,000 gallons rate are persuasive as well. The record indicates that the original bulk wastewater rate charged to Hernando County was calculated using the methodology described in Mr. Chapdelaine's memorandum. The \$2.35 rate represents that original rate increased for several price index adjustments. Witnesses Ludsen and Radacky both testified that Hernando County incorporates the prior \$2.31 rate into the rates it charges its customers. Both also testified that Hernando County is presently paying the \$2.31 rate for this service.

The evidence suggests that no class of service has been adversely affected by the bulk wastewater rates in effect prior to the rate change in Docket No. 920199-WS. With the exception of the increase due to the price index adjustment, the \$2.35 rate would return the Hernando County customers to the point they were at prior to the rate changes in Docket No. 920199-WS. In fact, Mr. Radacky testified that, if we approve a bulk rate below \$2.31 per 1,000 gallons, Hernando County would not reduce the rates it charges its customers. He testified that it is difficult to get a rate increase in the public sector, and that any excess funds would be used to delay a rate increase.

Based upon the discussion above, we find it appropriate to establish a separate bulk rate for Hernando County. We further find that the appropriate rate is \$2.35 per 1,000 gallons, as depicted on Schedule No. 2, which is appended hereto. Prior to instituting the rate approved herein, SSU shall file revised tariff pages and a proposed notice to its customers of the rate approved and the reasons therefor. The approved rate shall be effective for service rendered on or after the stamped approval date on the revised tariff pages. The revised tariff pages will be approved upon verification by Staff that they are consistent with our decision and upon Staff's approval of the proposed customer notice.

CONCLUSIONS OF LAW

1. This Commission has jurisdiction to determine the appropriate water and wastewater rates and rate

structure for Southern States Utilities, Inc., pursuant to Sections 367.081 and 367.121, Florida Statutes.

2. The Commission has the inherent authority to consider conservation issues in setting rates, pursuant to Sections 367.011 and 367.081, Florida Statutes.
3. The rates and charges approved herein are just, reasonable, compensatory, not unfairly discriminatory and in accordance with the requirements of Section 367.081(2), Florida Statutes, and other governing law.
4. Pursuant to Chapter 25-9.001(3), Florida Administrative Code, no rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the Commission.

Upon consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that the appropriate rate structure for the systems of Southern States Utilities, Inc. involved in this proceeding is a statewide uniform rate structure. It is further

ORDERED that the appropriate rates for the systems of Southern States Utilities, Inc. involved in this proceeding are as depicted on Schedule No. 1, for water, and Schedule No. 2, for wastewater. It is further

ORDERED that the appropriate bulk wastewater rate for Hernando County is \$2.35 per 1,000 gallons, as depicted on Schedule No. 2. It is further

ORDERED that, prior to implementing the rates approved in this Order, Southern States Utilities, Inc. shall file revised tariff pages. It is further

ORDERED that, prior to implementing the rates approved in this Order, Southern States Utilities, Inc. shall file a proposed notice to its customers of the rates approved herein and the reasons therefor. It is further

ORDER NO. PSC-94-1123-FOF-WS
DOCKET NO. 930880-WS
PAGE 35

ORDERED that the rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff pages. It is further

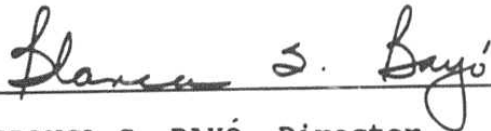
ORDERED that the revised tariff pages shall be approved upon Staff's verification that they are consistent with our decision and upon Staff's approval of the proposed customer notice. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are, by reference, incorporated herein. It is further

ORDERED that this docket is closed.

By ORDER of the Florida Public Service Commission, this 13th day of September, 1994.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

RJP

DISSENT

Chairman J. Terry Deason dissented on whether to reconsider Order No. PSC-94-0425-PCO-WS. He also dissented regarding the appropriate rate structure. With regard to rate structure, although Chairman Deason did not specifically disagree with the concept of uniform rates, he argued that the uniform rates approved in this proceeding are too burdensome to some of SSU's customers. Chairman Deason believes that the Commission should have chosen one or another of the alternate rate structures in order to insulate these customers from rate shock.

ORDER NO. PSC-94-1123-FOF-WS
DOCKET NO. 930880-WS
PAGE 36

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

Rate Schedule
Water

Residential and General Service:

(All Systems except Spring Hill)

Base Facility Charge:

Meter Size:

| | |
|-----------|----------|
| 5/8"x3/4" | \$5.13 |
| 3/4" | \$7.70 |
| 1" | \$12.83 |
| 1-1/2" | \$25.66 |
| 2" | \$41.05 |
| 3" | \$82.10 |
| 4" | \$128.29 |
| 6" | \$256.57 |
| 8" | \$410.51 |
| 10" | \$590.11 |

Gallage Charge
 per 1,000

\$1.23

Residential and General Service:

(Spring Hill)

Base Facility Charge:

Meter Size:

| | |
|-----------|----------|
| 5/8"x3/4" | \$5.05 |
| 3/4" | \$7.58 |
| 1" | \$12.63 |
| 1-1/2" | \$25.25 |
| 2" | \$40.40 |
| 3" | \$80.80 |
| 4" | \$126.25 |
| 6" | \$252.50 |
| 8" | \$404.00 |
| 10" | \$580.75 |

Gallage Charge
 per 1,000

\$1.21

Private Fire Protection:

(Amelia Island, Burnt Store, Keystone Heights,
 Meredith Manor, University Shores, Zephyr Shores)

Meter Size:

| | |
|-----------|------------------------------|
| 5/8"x3/4" | --- |
| 3/4" | --- |
| 1" | --- |
| 1-1/2" | --- |
| 2" | \$13.69 (Amelia Island only) |
| 3" | --- |
| 4" | \$42.76 |
| 6" | \$85.53 |
| 8" | \$136.84 |
| 10" | \$196.70 |

ORDER NO. PSC-94-1123-FOF-WS
DOCKET NO. 930880-WS
PAGE 38

Rate Schedule
Wastewater

Residential Service:

(All Systems except Spring Hill Utilities)

Base Facility Charge:

Meter Size:

All Meter Sizes: \$12.67

Gallage Charge

per 1,000 \$3.66

Gallage Cap 6M

General and Multi-Family Service

(All Systems except Spring Hill Utilities)

Base Facility Charge:

Meter Size:

5/8"x3/4" \$12.67

3/4" \$19.01

1" \$31.68

1-1/2" \$63.37

2" \$101.39

3" \$202.77

4" \$316.83

6" \$633.66

8" \$1,013.85

10" \$1,457.41

Gallage Charge

per 1,000 \$4.39

Residential Service:

(Spring Hill Utilities)

Base Facility Charge:

Meter Size:

All Meter Sizes: \$12.26

Gallage Charge

per 1,000 \$3.54

Gallage Cap 6M

General and Multi-Family Service

(Spring Hill Utilities)

Base Facility Charge:

Meter Size:

5/8"x3/4" \$12.26

3/4" \$18.39

1" \$30.65

1-1/2" \$61.30

2" \$98.08

3" \$196.16

4" \$306.50

6" \$613.00

8" \$980.80

10" \$1,409.90

Gallage Charge

per 1,000 \$4.25

Residential-RWO (Apache Shores)

Flat Rate:

All Meter Sizes: \$17.27

Residential-RWO (Beacon Hills)

Flat Rate:

All Meter Sizes: \$31.86

Residential-RWO (Fisherman's Haven)

Flat Rate:

All Meter Sizes: \$26.37

Residential-RWO (Leilani Heights)

Flat Rate:

All Meter Sizes: \$31.03

Residential-RWO (Morningview)

Flat Rate:

All Meter Sizes: \$29.84

Residential-RWO (Palm Port)

Flat Rate:

All Meter Sizes: \$25.16

Residential-RWO (Spring Hill)

Flat Rate:

All Meter Sizes: \$24.86

Residential-RWO (Sugar Mill)

Flat Rate:

All Meter Sizes: \$23.45

Residential-RWO (University Shores)

Flat Rate:

All Meter Sizes: \$30.01

Residential-RWO (Venetian Village)

Flat Rate:

All Meter Sizes: \$28.81

Reclaimed Water:

(Deltona Utilities)

Gallage Charge
per 1,000 \$0.06

Spray Irrigation Charge:

(Florida Central Commerce Park)

Gallage Charge
per 1,000 \$0.06

Bulk Wastewater Rate:

(Spring Hill Utilities)

Gallage Charge
per 1,000 \$2.35