CORRESPONDENCE
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Florida Public Service Commission
Docket No. 150102-SU
Utilities, Inc. of Sandalhaven

Thursday, September 24, 2015, 6 p.m. at Tringali Community Center, Englewood, Florida

Dear Commissioners and Staff:

The power of monopolies can be awesome. Monopolies can accomplish wonderful things that, because of physical size and level of capital commitment, would be difficult or impractical for companies to achieve while competing in a free market.

But the power of monopolies can also be formidable in a negative way, as we all know, and that is why we do not allow monopolies to exist in this country without appropriate oversight. Proper oversight replaces the free market forces that would otherwise be present as a check and balance. The consumer gives up his right to choose in exchange for the regulator's promise of protection.

The arrangement is mutually beneficial. Monopolies gain the security of investing huge sums of capital in a controlled environment, knowing they will be able to realize a stable return on their investment over a long period of time. Customers enjoy a service that may not be offered, otherwise, and they, too, have security, believing they will be able to use the service over a long period of time, at a competitive price. And the regulator ensures the public does not suffer monopolistic abuses. It is a grand bargain, indeed.

One method of regulating is to set a universal price: all who chose to provide a particular public service must sell it at said price. Sometimes these are referred to as promulgated rates or prices, and we have all experienced the benefits of such regulation, sometimes without knowing it. For example, every homeowner in this room who has title insurance paid a promulgated rate for the policy.

The State of Florida has chosen not to set a universal price for sewer services, but to regulate sewer company rates based on operating expenses and invested capital, presumably because it was determined that the cost of providing sewer service varied sufficiently from place to place across the state. Fair enough. Since it is not a universal price, the Commission has to ensure it is a fair price, in every jurisdiction. In most cases, effective and fair regulation can be simply a matter of calculating the capital invested, looking at the debt to equity ratio, adding up the operating costs and applying a standard rate of return formula to determine the new tariff. But not in all cases.

A formula may be the basis of day to day regulation, but a formula is not the essence of the grand bargain. The grand bargain demands sound business practices on the part of the utility. The grand bargain demands that the regulator be a substitute for free market forces that would act upon the utility. Otherwise, there is no bargain, because otherwise the public, with the assistance of its own government, is placed at the mercy of a monopoly without checks and balances.

Just as any business does, the utility has to control its overhead and other costs, it has to maintain its facilities, it has to plan well for the future, it has to implement its plans effectively and at reasonable cost, it has to provide good service to its customers, it has to collect and pay its bills, and so on. There is nothing in the grand bargain that relieves the utility from having to practice its business well in order to stay in business.

If the carwash in our neighborhood triples its prices, for whatever reason, good or bad, it will surely be out of business in no time. The same is true of the neighborhood gas station, or the restaurant, or the hair salon or the hospital or the bank. The free market does not allow companies to abuse the public. Free markets ensure that products and services are offered at appropriate prices. Why should our sewer company be allowed to triple its prices, for whatever reason, good or bad?

The free market would not allow it. The Commission, standing in the place of free market forces, being the protector of the rate payer, should not allow it.

We have heard the argument that Sandalhaven made certain business decisions that may have seemed rational and prudent at the time and in the context in which they were made. Although interesting, this argument misses the point entirely. Whether the decisions were good or bad at the time is completely irrelevant.

Consider a hypothetical gas station that tripled its size, tripled the number of pumps and tanks, tripled the area of its convenience store, tripled its staff, and so on, in anticipation of strong market growth that did not materialize. Would the free market allow the gas station owner to triple his prices to cover his bad decisions? Could he sell gas at $7.50 per gallon? Of course not. But here is the more interesting question: would drivers pay $7.50 per gallon, three times the market price, if they felt the gas station owner had been justified in making the decisions he made to triple his size? Of course not. Whether the decisions were good or bad is entirely irrelevant. The gas station owner has to accept the current market price, and find a way to carry on until the expanded customer base materializes, or he has to go out of business. Why should the Sandalhaven situation be any different?

Sandalhaven made the decisions it made, good or bad. The rate payers did not make those decisions. The Commission did not make those decisions. Sandalhaven made them, and Sandalhaven should have to live with them.

Sandalhaven is entitled to a fair price. If sewer rates have increased in our general area over the past few years, then we should expect Sandalhaven to seek and win a similar increase. If sewer rates in our general area are so many dollars per thousand gallons, then we should expect Sandalhaven to receive a similar amount.

But a tripling of prices in three years is preposterous. The public gives up its right to choose in exchange for the Commission's protection. We trust the Commission will protect us now and perform the function of the free market, as it should, and keep our rates in line with other rates in our general area.

There is one final concept I would like to discuss.

Any rate increase awarded to Sandalhaven serves to preserve Sandalhaven's capital investment. But at what cost? It is not simply a matter of rate payers digging a bit deeper and paying a higher monthly bill. A much bigger cost is the erosion of the capital investment of the rate payers. When household costs (or condominium maintenance fees) are increased at a rate faster than that typically experienced in the free market, the direct, inevitable result is a decrease in property values. The net effect of a large rate increase for Sandalhaven would be to take capital value away from the rate payers and give it to the monopoly. How ironic would it be if the commission allowed the party who made poor business decisions to preserve it's capital at the expense of those who had no part in the poor business decisions. The free market would not allow it. The Commission should not allow it.

Thank you for your time and consideration.

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