

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for an increase in water and
wastewater rates in Charlotte, Highlands, Lake,
Lee, Marion, Orange, Pasco, Pinellas, Polk,
and Seminole Counties by Utilities, Inc. of Florida

Docket No. 160101-WS

REBUTTAL TESTIMONY

OF

JOHN P. HOY

on behalf of

Utilities, Inc. of Florida

1 **Q. Please state your name, position and business address.**

2 A. My name is John Hoy. I am President of Utilities, Inc. of Florida (UIF) and my business
3 address is 200 Weathersfield Ave., Altamonte Springs, FL 32714.

4 **Q. Have you previously presented testimony in this case?**

5 A. Yes. I have previously presented direct testimony on behalf of the applicant, Utilities, Inc.
6 of Florida (UIF).

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Office of
9 Public Counsel witnesses Denise Vandiver, Andrew Woodcock, and Donna Ramas with
10 regard to Quality of Service and Infrastructure Investments.

11 **Q. Are you sponsoring any additional exhibits?**

12 A. No.

13 **Q. Ms. Vandiver recommended a finding of marginal or unsatisfactory quality of service
14 for a number of UIF systems. Do you agree with that recommendation?**

15 A. No, I do not. Let me begin by saying that the quality of service that is provided to our
16 customers is a high priority at UIF. It is a major component of the key performance
17 indicators that we measure throughout the company and strive to achieve high levels in that
18 regard. Ms. Vandiver utilized a number of different data points in an attempt to develop
19 an arbitrary measure as a threshold for quality of service. The reasons used for
20 recommending a less than satisfactory quality of service included DEP findings, Prior
21 Commission Orders and customer complaints.

22 **Q. What issues do you see with those measures?**

23 A. First of all, they do not accurately reflect the current situation. The DEP findings included
24 deficiencies that have been corrected and Consent Orders that have been closed. A more

1 accurate portrayal of the current state of UIF environmental compliance is Staff Witness
2 Jessica Kleinfelter's testimony that summarizes the findings of non-compliance and
3 concludes that none are "unusual or excessive". In addition to the outdated DEP findings,
4 the reliance on prior Commission Orders for quality of service does not accurately reflect
5 the work that the company has done to address issues that were raised in those particular
6 cases.

7 Secondly, the number of customer complaints included all of those collected in this docket.
8 The filing of a change in rates, either up or down, can greatly impact the number of
9 complaints that are filed during the proceedings. As examples, in the prior rate cases for
10 both Sandalhaven and Labrador, where a rate increase was being requested, the turnout for
11 the customer meeting was extremely heavy. Contrast that to the current case where the
12 final rates requested are lower than the current rates and virtually no customers showed up
13 for those service hearings. The opposite is true for Sanlando. In prior cases, there was
14 very little customer participation but with the increase requested in this rate case for these
15 customers, the level of participation has been much higher.

16 **Q. What do believe is a better indicator for current Quality of Service?**

17 **A.** The Commissioners, Staff, OPC, UIF and the customers spent a considerable amount of
18 time and effort to hold the eight service hearings around the state. I believe there are a few
19 obvious conclusions to be drawn from those hearings regarding quality of service. Those
20 fall into three categories:

21 First, as I mentioned previously, in cases where the turnout was down considerably from
22 prior cases, the major issues with respect to quality of service and/or rates have been
23 addressed. Second, there are a number of systems that have been deemed satisfactory in
24 the past and few customers participated this time around as well. Lake Utility Services
25 with its large percentage of the total UIF customer base is a good example of that. The

1 final category includes three systems that had a large group of customers attend the hearing
2 and I'd like to address those specifically.

3 Summertree customers voiced concern about the history of water quality issues and
4 opposition to any rate increases. Since the last UIF rate case, the company has worked
5 with the customers and OPC to find a resolution to the water quality issue. That culminated
6 in a customer vote for interconnection with Pasco County which was completed in
7 December of 2016. The testimony by the Summertree customers at the service hearing
8 indicated a virtually unanimous opinion that they were satisfied with the quality of the new
9 water. With respect to rates, the consolidated rates requested would result in a rate decrease
10 for Summertree customers.

11 In Pennbrooke, the issue has been the high level of iron in the water from the underlying
12 aquifer. UIF worked with the customers to develop treatment alternatives and present a
13 recommended option with the associated rate impact. In the end, the cost was deemed too
14 high to spread over the relatively small customer base so a decision was made by the
15 customers not to move ahead. In my opening statement at the Pennbrooke service hearing,
16 I mentioned this effort and the ultimate result but then suggested that the project could be
17 revisited since the rate impact to a Pennbrooke customer would be much lower if the
18 proposed rate consolidation was approved. UIF would be open to moving ahead with the
19 recommended project as a commitment in this proceeding if a mechanism was also
20 approved to include it in rates once completed.

21 For the Sanlando customers, the major concern voiced at the hearing was around the high
22 percentage rate increase. Sanlando currently has the lowest rates of all the UIF systems
23 and, not surprisingly, it also has the highest average consumption per customer. On a
24 percentage basis, the proposed consolidated rates would be significantly higher than the
25 current rates, but competitive with other utilities in the area. From that perspective, we

1 believe that the consolidated rates are justified and in the best interest of all the UIF
2 customers.

3 **Q. With respect to infrastructure investment, Ms. Vandiver stated in her testimony that**
4 **the American Society of Civil Engineer’s Infrastructure Report Card, that I**
5 **referenced in opening remarks at the service hearings, was prepared four years ago.**
6 **Do you have an update to that report?**

7 **A.** Yes. The ASCE report is published once every four years and they just released the 2016
8 report card. The assessment for Florida is unchanged with water infrastructure receiving a
9 grade of C+ and wastewater a C. They also reiterated the need in Florida to invest over
10 \$16.5 billion for water infrastructure alone over the next 20 years and the growth in demand
11 which is expected to increase by about 20% by 2030.

12 **Q. Ms. Vandiver also stated that UIF has never “discussed that it has proactively**
13 **developed an improvement plan for its Florida operations”. What plans has UIF**
14 **developed to address the infrastructure needs of its systems?**

15 **A.** As I stated in my pre-filed direct testimony, UIF has invested more than \$100 million in
16 capital improvements over the past decade in our Florida facilities. In addition, there is
17 over \$35 million of proforma capital projects included in this rate case. These investments
18 fit into the Asset Management Plan that we have developed to support systematic
19 maintenance and replacement of our assets. We are in the process of developing the tools
20 to automate our mapping and records followed by the implantation of an Operations
21 Management System encompassing all of our field work. We are also adding additional
22 trained personnel to perform the needed maintenance on the facilities as they grow older
23 in order to extend their useful life as much as possible. This additional headcount was
24 requested in the filing but Ms. Ramas removed them as part of the recommendations in her
25 testimony. These new tools and the additional staff to implement and use them will be

1 critical to the continuation of quality service going forward. The hiring of the additional
2 field staff in the second quarter of 2017 coincides with the implementation schedule of
3 OMS across all Florida systems and facilities later this year.

4 **Q. Are there any adjustments that OPC has made to the infrastructure investments that**
5 **would discourage those investments going forward?**

6 **A.** Yes. As I also stated in my pre-filed direct testimony, UIF is committed to providing
7 quality service and has the access to capital in order to make the necessary capital
8 investments to do so. But the utility must also have the opportunity to earn its allowed
9 return on investment in order to continue to attract the capital for the necessary projects in
10 the future. To that end, timely recovery of major capital investments is a key component
11 to that equation. Mr. Woodcock, in his testimony, did not challenge the prudence of the
12 proforma projects but rather excluded the ones that did not have adequate information at
13 the time of his analysis. In the past, the Commission has included proforma projects that
14 are substantiated with contracts and invoices and that are completed within 24 months of
15 the end of the test year. That standard should be continued in this case.

16 **Q. Are there any other adjustments that are of concern?**

17 **A.** Yes. The Used & Useful rules used in this rate case result in a considerable amount of
18 wastewater plant being excluded from rate base. Of all the states where Utilities, Inc.
19 operates or previously operated, Florida is the only one that applies such a rule in this
20 manner and it unfortunately acts as a deterrent for prudent capital investment to meet the
21 state's future needs. In addition to the presence of the rule itself, it's also the liberal
22 interpretation of it that can be a further penalty. As an example, in Mr. Woodcock's U&U
23 adjustments for the Sandalhaven system, the result is an elimination from rate base of more
24 than 75% of the investment that was made to serve those customers. The bottom line is
25 \$293 thousand of total rate base being allowed. That kind of disallowance would deter any

1 utility from making an investment in that system, or for that matter, in the state of Florida
2 if that's the rule. Mr. Seidman addresses the specific calculations in his rebuttal testimony
3 but I wanted to stress the point here as a policy issue for a state that needs to be encouraging
4 investments to meet the demand from a growing population.

5 **Q. Does that conclude your rebuttal testimony?**

6 A. Yes, it does.

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