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EXHIBITS

NUMBER:	ID	ADMITTED
271 - UIF responses to OPC POD 6, 7, 8, 10 and 17	159	
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P R O C E E D I N G S

(Transcript follows in sequence from
Volume 1.)

CONTINUED EXAMINATION

BY MR. ARMSTRONG:

Q Could I turn your attention to 117, where you were asked to provide a copy of wastewater spill reports? Do you agree with the response that any wastewater spill report that may have occurred in 2017 are outside of the test year and not material to this rate case?

A That -- I don't have an opinion on that.

Q Would you similarly have no opinion with respect to the responses to 118 and 119 where the utility was asked to provide copies of boiled water notices, as well as current system maintenance schedules for 2017 and 2018?

A Correct.

Q Correct? You have no opinion or correct you agree with them?

A Correct. I think it's up to the Commission to decide what's relevant in this case.

Q Okay. UIF is asking the Commission to include in rates pro forma plant investments through 2016 and 2017, isn't that correct?

1 A Correct.

2 Q If I can ask you to turn your attention to
3 what's described as UIF responses to OPC POD 6, 7, 8,
4 10, 17, and I've labeled it with a D, a big D.

5 A Got it.

6 COMMISSIONER BROWN: All right. We're going
7 to go ahead and mark that as 271, UIF responses to
8 OPC POD 6, 7, 8, 10 and 17.

9 (Whereupon, Exhibit No. 271 was marked for
10 identification.)

11 MR. ARMSTRONG: Thank you, Madam Chair.

12 BY MR. ARMSTRONG:

13 Q If I can turn your attention to
14 Interrogatories 5, 8 and 10. Do you see them?

15 A Yes, I do.

16 Q Oops. That's not five, though. That's
17 actually six, eight and ten, not five. Six, eight and
18 ten. Do you see the last sentence in those responses
19 where it says 2016 is beyond the test year?

20 A Correct.

21 Q Do you believe that the Commission shouldn't
22 consider that information as requested?

23 A This is a historical test year. So in some
24 isolated cases where things may have changed materially,
25 things are included, but in general, no.

1 Q Did you give direction yourself to your staff
2 when preparing the MFR's in preparing this rate case to
3 exclude anything beyond 2015?

4 A When preparing the MFR's, I think we included
5 everything that was required in the MFR's.

6 Q And that was limited strictly to '15. 2015,
7 correct?

8 A I believe so.

9 Q Okay. What if UIF's expenses decreased
10 dramatically in 2016? Shouldn't the Commissioners and
11 the customers know that?

12 A I think in some cases they have and they were
13 included, so in the case of, for example, Summertree
14 where some of the expenses have gone down, those were
15 included. And in the case of Sandalhaven where a change
16 in operations made a difference, those were included,
17 those performance adjustments, those went down. So
18 those were included, as well.

19 Q So it's your testimony -- can you tell me
20 where those adjustments were made? Do you have any
21 knowledge, or who should I speak to about where those
22 adjustments were made?

23 A That would be Ms. Swain, who is our financial
24 witness, but those should have been included in the
25 MFR's.

1 Q They should have been included. And you
2 mentioned Summertree and you mentioned Sandalhaven?

3 A Correct.

4 Q Can you think of any others?

5 A No.

6 Q How about Ravina Park where the company
7 interconnected Ravina Park with a contiguous system?

8 A I think this is probably a line of questioning
9 for Mr. Flynn, but I think in that case I believe our
10 answer was that the emergency water that was being
11 purchased for Ravina Park is a good surrogate for the
12 ongoing operating costs that are going to be required
13 after the test year. So just to replace purchased water
14 with other operating expenses.

15 Q So it's your testimony that the \$60,000 of
16 reduced purchased water cost was replaced by additional
17 operating costs?

18 A There are additional operating costs, yes.

19 Q And were those identified in your --

20 A That I don't know.

21 Q Now, you would agree that if that was the
22 case, additional operating costs would be incurred, that
23 should have been provided -- that information should
24 have been provided in the MFR's or testimony or
25 somewhere for that to be reviewed, correct?

1 A If a question was asked, we would have
2 answered it.

3 Q Interesting answer. Mr. Hoy, I wonder, I
4 mean, you're the president of the utility company.
5 Shareholders and customers, I would think, should be
6 treated alike. But what you just suggested I heard
7 before several times and that is if we don't ask, you
8 don't have to provide information that would reflect
9 rate reductions or cost reductions or lower investments.
10 Is that your policy?

11 A No, that's not --

12 Q Is that your direction to your staff?

13 A No. No, that's not the case. What we put in
14 the MFR's was what we thought was an accurate reflection
15 of the cost of doing business.

16 Q Okay. But you just said if I didn't ask, then
17 I wouldn't have received that information.

18 A No. I said if it was asked, we would have
19 provided it.

20 Q Okay. If it was asked, you would have
21 provided it. You don't feel any obligation for the
22 customers to know that if there are cost reductions,
23 they should know what they are and that should be
24 reduced from your --

25 MR. FRIEDMAN: I object as to asked and

1 answered and it's argumentative.

2 COMMISSIONER BROWN: I agree on both counts.

3 Mr. Armstrong, can you please move along?

4 MR. ARMSTRONG: Uh-huh.

5 COMMISSIONER BROWN: Thank you.

6 MR. ARMSTRONG: I'm going off of that thing.

7 BY MR. ARMSTRONG:

8 Q Could I call your attention to the question
9 response to No. 7? Do you see where you're requested to
10 provide instructions, assumptions and directions given
11 to employees for purposes of preparing the 2015 and 2016
12 capital and operating budgets; do you see that?

13 A No, I'm sorry. What document do you mean now?

14 Q No. 7. We're still on Exhibit No. 271, No. 7.

15 A Okay.

16 COMMISSIONER BROWN: It's on page four of that
17 exhibit.

18 THE WITNESS: Thank you. Okay.

19 BY MR. ARMSTRONG:

20 Q You were requested to provide instructions,
21 assumptions and directions given to employees for
22 purposes of preparing the 2015 and 2016 capital and
23 operating budgets. And your response is, no such
24 document exists. There is no document by which
25 management was instructing or informing its employees --

1 A No.

2 Q -- how to prepare their capital and operating
3 budgets?

4 A No, not an actual document, but there are --
5 there is a process in place, which we follow every year
6 as we put our plans together.

7 Q So, I mean, I guess, would that explain, then,
8 that Mr. Flynn's Exhibit 50, for instance, is replete
9 with notifications and justifying pro forma plan that
10 the plant is to be placed into service by the end of
11 2017 because that's the test year for this rate
12 proceeding?

13 A No. No. That's the effective date for that
14 project that makes the most sense for putting in
15 service.

16 Q Okay. So if it says -- if it refers
17 specifically to this -- to the rate case, that you
18 wouldn't modify your suggestions just then?

19 A I'm not sure what the question is.

20 Q Okay. The fact that Exhibit 50 is replete
21 with documents that refer to the filing of this rate
22 case with respect to pro forma adjustments, was there
23 not any direction given to -- is it your testimony there
24 was no direction given to your staff to identify pro
25 forma adjustments and get them done so that they could

1 be included in this rate case?

2 A We had a capital plan for the year that, as we
3 put the rate case together, we pulled the projects that
4 were going to be completed and included them in the
5 filing.

6 Q Could I ask you to look at what I call Exhibit
7 E, and it's titled with a description UIF Responses to
8 OPC Interrogatories 152, 154, and I would suggest 153,
9 as well.

10 COMMISSIONER BROWN: Okay. So what we're
11 going to do is label that as Exhibit 272 and give
12 it a title, UIF Responses OPC to Roggs 152 through
13 154.

14 (Whereupon, Exhibit No. 272 was marked for
15 identification.)

16 BY MR. ARMSTRONG:

17 Q Drawing your attention to interrogatory 153B.
18 B requested the amount of chemicals expensed to Mid
19 County for each year, 2012 through 2014 and for 2016
20 year-to-date. And the response from the company is,
21 these amounts are found in UIF's annual reports for 2012
22 to 2015. 2016 is beyond the scope of this rate
23 proceeding. Do you see that?

24 A Yes.

25 Q And if we refer down to C, 153C, we see the

1 same response: 2016 is beyond the scope of this rate
2 proceeding. Do you see that?

3 A Yes.

4 Q Can I draw your attention up to -- just above
5 that on the page, to Interrogatory 152? That question
6 relates to a request by UIF for a labor adjustment of
7 \$46,000 -- or \$46,690, which is a 20 percent increase
8 above prior year salaries and wages. Do you see that?

9 A Yes.

10 Q Can you read the response there?

11 A The increase in annual salary and wage expense
12 in Mid County in the test year reflects the absence of
13 one operator for about 11 months of the year, which we
14 were actively recruiting to replace. This vacancy
15 represents one-fifth of the workforce assigned to the
16 Mid County facilities. There may have been differences
17 from year to year in the amount of capitalized time
18 recorded and overtime paid.

19 Q So here the company is requesting and making
20 an adjustment to the test year to reflect salary which
21 wasn't incurred in the test year, because you're
22 actively recruiting somebody to replace an employee,
23 right?

24 A Correct.

25 Q So it's okay for the utility to adjust the

1 test year for increases?

2 A Like I said earlier, there were some decreases
3 that we adjusted for them, as well. This is a vacancy
4 that we're basically annualizing the test year.

5 Q But this is an increase not to your test year.
6 This is -- you didn't incur this expense in your test
7 year. The response here says there wasn't anybody there
8 for 11 months, Mr. Hoy, correct?

9 A Correct.

10 Q So you're going to have to hire a person
11 outside of the test year, in the next test year?

12 A Correct.

13 Q Correct? So what you're asking for is to be
14 given credit to give additional dollars, \$46,000, for
15 hiring not in a test year but outside in the next test
16 year, which is 2016, I believe, correct?

17 A Oh, I don't know what the next test year is.

18 Q Well, not the next year. How about calendar
19 year, right?

20 A No. Those are different.

21 Q I didn't ask if it was different. I asked if
22 what you're requesting is to get recovery of dollars you
23 didn't expense in the 2015 but you expected to in 2016,
24 isn't that correct?

25 A And like I answered before, there are some

1 things where we asked for decreases, as well.

2 Q I'd like to refer you to what I've marked as
3 Exhibit F. The description is UIF Responses to Staff
4 Interrogatory 298 and OPC Admissions.

5 COMMISSIONER BROWN: We are going to label
6 that as 273 and the description will be, UIF
7 Responses to Staff Rogg 298 and OPC Admissions.

8 (Whereupon, Exhibit No. 273 was marked for
9 identification.)

10 COMMISSIONER BROWN: Mr. Hoy, do you have a
11 copy of it?

12 THE WITNESS: I think so.

13 MR. SAYLER: Madam Chair, I don't have a copy
14 of that.

15 COMMISSIONER BROWN: All right. Staff, can
16 you help assist Mr. Sayler?

17 THE WITNESS: Can you confirm for me, as well?
18 Read the description again.

19 COMMISSIONER BROWN: Sure. It is UIF
20 Responses to Staff Interrogatories 298 and OPC
21 Admissions. And then under documents it says, Rogg
22 298 Admission 16.

23 THE WITNESS: Got it. Thank you.

24 COMMISSIONER BROWN: You may proceed.

25 BY MR. ARMSTRONG:

1 Q Thank you. Before I actually go to that
2 exhibit, I'd like to ask you to turn your attention to
3 page two, lines five and six of your testimony.

4 A I'm sorry. The reference one more time.

5 Q Sure. Page two, lines five and six. Do you
6 see where you state that, "we have not earned our
7 allowed return as a consolidated company at any time in
8 the past ten years." Do you see that?

9 A Correct.

10 Q Mr. Hoy, Utilities, Inc. has been purchased by
11 three multi-billion conglomerates and around this same
12 period of time, isn't that correct?

13 A The ownership has changed. I believe that was
14 in that ten-year-period, correct.

15 Q The Commission approved the purchase of
16 Utilities, Inc. by Hydro Star, an affiliate of AIG, on
17 February 9th, 2006. Do you recall that?

18 A I don't recall the exact date.

19 Q Around 2006?

20 A Sounds about right.

21 Q And that was Order No. 06-0093?

22 A I don't know.

23 Q And the Commission approved UIF's purchase
24 from Hydro Star by its current owner, Corix in 2012, as
25 well, right?

1 A Correct.

2 Q And Corix is owned by British Columbia IMC,
3 which is a 124 billion dollar global investor?

4 A They are an investor in Corix, yes.

5 Q I've seen reports that Corix paid in the
6 vicinity of 500 million dollars for Utilities, Inc.
7 Does that sound about right?

8 A I don't know.

9 Q You don't know at all?

10 A No.

11 Q You don't know what was paid?

12 MR. FRIEDMAN: Object; asked and answered
13 twice.

14 COMMISSIONER BROWN: Mr. Armstrong, I know
15 you're moving along, aren't you?

16 MR. ARMSTRONG: I'm moving.

17 BY MR. ARMSTRONG:

18 Q Given Utilities, Inc.'s ability to attract a
19 multi-billion dollar investors, is it really credible to
20 suggest that if the Commission does not provide you a
21 seven million dollar rate increase that you might lose
22 your attractiveness to that investor?

23 A Yes. I think that's an unfair question
24 because the utility will do what it needs to do in order
25 to maintain service. What I've said is if it's

1 consistently unable to earn -- or have the opportunity
2 to earn close to the allowed return, there will be other
3 places that the capital can go for discretionary
4 projects.

5 Q So how do you explain that in 2006 and 2012?
6 You had buyers come, multi-million dollar investors
7 buying your utility?

8 A With the opportunity to get it back to the --
9 earning the allowed return.

10 Q Even though you hadn't been earning that
11 authorized return according to your testimony?

12 A They saw that opportunity.

13 Q Now I'll refer over to Exhibit 273 and ask
14 that you go to admissions. Could you turn to No. 16 on
15 page three, please, of the admissions? UIF -- I'll wait
16 until you get there.

17 A I'm sorry. Page three you said?

18 Q Yeah, it's page three of the admissions.

19 A Okay.

20 Q You were asked to admit -- or the company was
21 asked to admit, "when UIF acquired the Summertree water
22 system, UIF knew there were secondary water quality
23 complaints." Could you read that response to me,
24 please?

25 A UIF has made reasonable inquiry in the

1 information known or readily obtainable by UIF is
2 insufficient to enable -- to able it to admit or deny.

3 Q Okay. Could I ask you to just look further in
4 that exhibit and you'll see a Commission Order No.
5 24259? Do you see order approving transfer and setting
6 rates and charges --

7 COMMISSIONER BROWN: It's a separate document.

8 THE WITNESS: Thank you. Okay.

9 BY MR. ARMSTRONG:

10 Q You'd agree this is the order approving the
11 transfer to Utilities, Inc. of the system for -- the
12 Summertree system from the prior owner?

13 A Where am I seeing that? I see PPW.

14 COMMISSIONER BROWN: Folks, there is an order
15 that is attached to Exhibit 273 and the order is
16 entitled order approving transfer and setting rates
17 and charges. Do you have that, Mr. Hoy?

18 THE WITNESS: I've got an order, application
19 of transfer.

20 MR. FRIEDMAN: That's it.

21 COMMISSIONER BROWN: Yeah, that's it. That's
22 it.

23 THE WITNESS: Two of them. Is that the same?

24 COMMISSIONER BROWN: Yeah, it's the --

25 MR. FRIEDMAN: Somebody doesn't have one.

1 COMMISSIONER BROWN: It's duplicative.

2 All right. Mr. Armstrong, can you restate
3 your question?

4 MR. ARMSTRONG: I was asking him if he agrees
5 that this is the order approving the transfer of
6 the Summertree system to Utilities, Inc.

7 THE WITNESS: That I don't know. I don't see
8 Summertree in the order here.

9 BY MR. ARMSTRONG:

10 Q So this order was never provided to you by
11 staff or anyone to respond to the admission?

12 A Not that I'm aware of.

13 Q Okay. Let me just draw your attention to the
14 second page of that order.

15 A Okay.

16 Q Do you see the second full paragraph where it
17 says PPW is not in compliance with Department of
18 Environmental Regulation standards?

19 A Okay.

20 Q Can you read the next sentence?

21 A According to Utilities, Inc. one of the four
22 wells has collapsed and another is out of service due to
23 excessive iron.

24 Q And then two sentences later it says, the
25 sewer system is currently under consent order for

1 repeated pollution violations, is that correct?

2 A Yes.

3 Q Could you look at page three at the top of the
4 page? The order refers to Utilities, Inc. owning and
5 operating several water and sewer systems throughout
6 Florida and suggests that Utilities, Inc. has the
7 expertise and capital necessary to make the required
8 improvements and to provide the costumers with a good
9 quality of service. Do you see that?

10 A Yes.

11 Q Now, to your knowledge, you don't know whether
12 or not this is the order that approves the Summertree
13 system being conveyed to Utilities, Inc.?

14 A I'd have to look through it and determine
15 that.

16 COMMISSIONER BROWN: Mr. Hoy, if you can do
17 that within this time that is allotted then you can
18 answer the question. If not, you can answer that
19 you just don't know.

20 THE WITNESS: I do not know because I see PPW
21 Water Company. I'm not sure where in here it
22 references Summertree.

23 MR. ARMSTRONG: Mr. Hoy, thank you for your
24 testimony. I don't have any further questions.
25 Madam Chair.

1 COMMISSIONER BROWN: Thank you, Mr. Armstrong.
2 All right. Mr. Bilenky, you're up.

3 MR. BILENKY: I don't have as many questions,
4 but I talk a lot slower.

5 THE WITNESS: Thank you.

6 COMMISSIONER BROWN: I appreciated Mr.
7 Armstrong's speed, I've got to tell you.

8 MR. BILENKY: I'll speed it up.

9 EXAMINATION

10 BY MR. BILENKY:

11 Q Mr. Hoy, going back to Exhibit 264, do you
12 have that in front of you?

13 A That was one of Mr. Armstrong's exhibits.

14 Q I believe it was Office of Public Counsel.

15 COMMISSIONER BROWN: It was Office of Public
16 Counsel and it's entitled Evolving New Standards.

17 MR. BILENKY: Give me one second and I really
18 will be done fairly quickly.

19 COMMISSIONER BROWN: Take your time.

20 THE WITNESS: I think I have it.

21 BY MR. BILENKY:

22 Q You have it?

23 A Yes.

24 Q Okay. Numbered page six, please, about the
25 third sheet in. Do you have that?

1 A Yes.

2 Q **Top paragraph, first full sentence where you**
3 **see it says, the Florida Water Management Districts have**
4 **also been more restrictive?**

5 A Yes.

6 Q **Could you read that whole sentence? I don't**
7 **care if you read it out loud or to yourself for a minute**
8 **here. It's part of your response, I believe.**

9 A Sure. The Florida Water Management Districts
10 have also been more restrictive in their approval of
11 consumptive use permits which results in tapping
12 alternative water supplies with higher production and
13 treatment costs in order to meet customer demand.

14 Q **Is it your testimony that the water management**
15 **districts, in granting consumptive use permits, look at**
16 **the cost of the systems that they're approving in those**
17 **permits? Is that what that's saying?**

18 A No, I think it's the reverse, that the
19 requirement by the water management districts find
20 alternate sources of water has resulted in higher costs
21 of production.

22 Q **Okay. So that's not a condition for the**
23 **issuance of the consumptive use permit?**

24 A Correct.

25 Q **That's the explanation I was looking for. And**

1 what are alternative water systems and supplies?

2 A I think in this case, we may have been looking
3 at, for example, our Lake Utility Services system where
4 most of the wells have been in the Upper Floridan
5 aquifer, new consumptive use permits requiring us to
6 drill deeper into Lower Floridan, that results in higher
7 pumping costs, higher treatment costs. That's just an
8 example.

9 Q Okay. Now, the B part of that question. So
10 it says, identify any specific investments the utility
11 is making to comply in involving with the new standards
12 referred to. Then it would be -- which one of those
13 responses, then, is responsive to that particular
14 sentence? Is it the first sentence?

15 A Yes, the first one.

16 Q Okay. Thank you. That helped. You were
17 asked a question a few minutes ago by Mr. Armstrong
18 concerning your testimony on page two and you were very
19 quick and very correct in correcting the fact that you
20 are authorized to earn a return on equity, is not a
21 guarantee, is it?

22 A Correct.

23 Q And you went with the -- the fact that you
24 have not been meeting your authorized rate of return is
25 impairing the capital going to discretionary projects?

1 A It could. It could have the inability to do
2 that.

3 Q Okay. And those discretionary projects have
4 not been identified in this rate case, have they?

5 A No. I think I had them in -- might have been
6 the rebuttal testimony, projects like automated metering
7 that we see could definitely benefit the customer.
8 That's his -- is a discretionary kind of project.

9 Q I see. And in your counsel's opening
10 statement, he said there is --

11 COMMISSIONER BROWN: Mr. Bilenky, could you go
12 closer to the mic for the court reporter, please?

13 MR. BILENKY: I'm sorry. I tend to move.

14 BY MR. BILENKY:

15 Q In his opening statement he said when talking
16 about the consolidated rate, and I believe it was the
17 search -- well, it was the supplement that my clients
18 were paying over the cost of service, he said in the
19 short term it was going to hurt, but in the long term it
20 was going to benefit. Do you remember that statement?

21 A Yes.

22 Q Now, what assurance does my client have when
23 you're increasing his rates above the cost of service
24 that those discretionary funds, which I think is how you
25 labeled them, will be coming back to benefit that

1 particular customer? Are you going to -- what mechanism
2 are you going to put in? Are you going to put those in
3 reserves? Are you going to line-item identify those
4 excessive revenues you're getting above the cost of
5 service to benefit Sanlando Utility?

6 A No. No. I think the point that Mr. Friedman
7 was trying to make is that the benefit to the customers
8 overall is that CAPEX expenditures are required for all
9 of our systems. We just -- we have a number of them.
10 In those cases we have a number of them in just in the
11 previous few years that have benefited certain systems.
12 Going forward, and Sanlando is one of them that's in
13 Seminole County, Sanlando is one of them that will need
14 significant capital investments because of the age of
15 the system. So just because it's not in this particular
16 case, there will be CAPEX projects that not will be
17 required going forward for all of our customers. So the
18 belief is that to have it spread over the entire state
19 will minimize the impact of -- going forward into the
20 future.

21 Q So because they are discretionary and have not
22 been identified and have not been related to the subsidy
23 that we will be paying, it's basically the customer is
24 put in a position of just trusting you, is that it?

25 A I think it's the benefit, again, of being part

1 of a larger customer pool that with the capital
2 expenditures that are required for the future they will
3 get that benefit. It's not just discretionary items.
4 It could be mandated items, too.

5 **Q I'm sorry. I didn't mean to interrupt. Was**
6 **that a yes or a no?**

7 A I'm sorry. That you should trust us?

8 **Q Yes.**

9 A Yes. As your utility provider, that's part
10 of -- and the Commission -- as we go forward in this
11 rate setting process that set rates now and into the
12 future.

13 **Q But my client is going to be paying the**
14 **subsidy regardless of whether they can expect to receive**
15 **that or not over the lifetime of the consolidated rate,**
16 **is that correct?**

17 A Not necessarily, because it could be a time
18 just after this rate case where the capital expenditures
19 required to serve your client are higher than they are
20 for the other systems. So they could come back around.

21 **Q Again, we're back to speculating. Yes or no?**

22 A Not just speculating, no, because I can
23 guarantee you that investment will be needed for the
24 infrastructure that's serving your client.

25 **Q Well, that's true, but if the infrastructure**

1 will be needed for serving other aging systems, as well,
2 is that correct?

3 A Correct.

4 Q And the funding will be prioritized -- and I
5 hate that word because it doesn't exist -- according to
6 need. So we could be pushed further down the list
7 because more pressing requirements are being met, is
8 that correct?

9 A There is some prioritization that go on, but I
10 think the older facilities -- you've seen our commitment
11 just in this case of the amount of pipe replacement that
12 we're doing. There's about 12 million dollars in the
13 pro forma project. It's just for pipe replacement.
14 Seminole County -- and a lot of that is in Seminole
15 County -- and our Seminole County -- and our larger --
16 Seminole County system will need additional investments
17 in the future.

18 Q And that's why you called it discretionary?

19 A No, the discretionary projects I talked about
20 were things like automated metering. Pipe replacement
21 isn't always discretionary.

22 Q Well, but isn't it true that you recover
23 through depreciation expenses and the accumulation of
24 depreciation expenses revenues that are intended for the
25 replacement of assets that are retired because of age?

1 A Not always. A lot of our assets were
2 contributed. So there is no depreciation on those
3 contributed assets. So there is no reserve being built
4 up for the replacement of those. The other thing is --
5 to keep in mind is that we make these investments, and a
6 lot of times they're not timely for a rate proceeding.
7 So we take the risk of the regulatory lag on that
8 capital investment before that investment finally gets
9 put into regs.

10 Q One other thing from a regulatory standpoint.
11 On page four of your testimony you make the statement,
12 starting at line five, that prudent investments are
13 incrementally less expensive to construct now, should be
14 encouraged as smart long-term planning, and is in the
15 best interest of the consumer. Are you saying that it
16 is better for the consumer to construct additional
17 capacity now than to delay the construction of that
18 additional capacity? Is that what that statement is?

19 A The statement here is meant to talk about the
20 Used and Useful rule that's applied in Florida. So when
21 you have the opportunity -- for example, you'll hear
22 testimony from Mr. Seidman tomorrow, or whenever it is,
23 that we make a decision to not only buy or invest in
24 capacity for a plant, but for example, in eight.

25 So in the example of Sandalhaven, we're going

1 to talk about we built a force main there to handle the
2 capacity that that system could deliver. But to the --
3 if the decision was made just on the Used and Useful
4 rule as it stood, we would have put in a much smaller
5 main and then had to come back and put in a second or
6 third main periodically as we go along. So that
7 statement is meant to talk about making prudent
8 investments at the time that benefit the customer for
9 the long term.

10 **Q Would you agree that the cheapest form of new**
11 **capacity by far is demand management?**

12 A Yes. If -- that's a component of it. It is.

13 **Q And what programs do you have for conservation**
14 **and demand management in place that would offset the**
15 **need for additional capacity?**

16 A The -- right now we haven't built additional
17 capacity, but that's a question for maybe Mr. Flynn to
18 answer, but since the economic downturn, we haven't
19 added a lot of capacity. So the programs that we put in
20 place, and we're thinking about it for our Sanlando
21 customers is, if these rates go up, is to adopt a
22 program of conservation and some education along those
23 lines.

24 **Q So your answer is you don't have any programs**
25 **in place at the current time for demand management --**

1 A We don't have specific programs in place, but
2 we do have -- well, let me take that back. We have
3 programs in place that communicate with our customers
4 about their allotment of our usage or our capacity that
5 they can use. So we monitor. In some particular places
6 we monitor actual consumption by customers and then we
7 let them know when they're exceeding their allotment.

8 **Q Isn't it true that if you encouraged**
9 **conservation and demand management that would actually**
10 **decrease your revenues because you'd be selling less**
11 **water?**

12 A In the short-term, yes. In the long-term,
13 that cost would have to be recovered through another
14 rate proceeding to cover the fixed cost.

15 **Q But if you delay the construction of new**
16 **facilities into the future, you get more useful life out**
17 **of your current assets, don't you?**

18 A Not necessarily. You've got to remember, too,
19 we've got a commitment. When we sign agreements with
20 folks who want to develop in Florida, and we've got an
21 obligation to serve them, we've got to build those
22 facilities and we can't build them, you know, on a dime.
23 We have to plan ahead.

24 **Q Good point. I had forgotten that. So what**
25 **you're asking is current customers to pay for the**

1 capacity that new customers will be coming into the
2 system to?

3 A No. That's what's taken into account in this
4 proceeding is we look at the amount of capacity that's
5 used in serving existing customers.

6 Q Well, isn't it true that the -- in order to
7 avoid such subsidies, that services availability charges
8 are approved by the Commission for new additions to your
9 system?

10 A Yes.

11 Q And wouldn't those -- aren't those funds
12 intended to fund those new capacity additions?

13 A Partly, yes.

14 Q Partly?

15 A The capacity fees?

16 Q Well, why are you saying partly? That's what
17 I'm trying to understand.

18 A Because they come in increments. So a new
19 development comes on. You have to pay a portion of the
20 capacity fees and it provides a portion of the capacity.

21 Q But that capacity will eventually be taken up
22 by growth and that additional growth will pay the
23 additional parts of the capacity charge, will it not?

24 A If you get -- if you get enough growth to
25 cover it, yes.

1 Q Well, that's a matter of planning, isn't it?
2 If you overplan then you may not recover your
3 investment. That is a risk that the investor takes, is
4 it not?

5 A Well, you have to remember, too, that we have
6 an obligation --

7 Q That's a yes or no question. I'm sorry, sir.
8 Can I have a yes or no first?

9 A Yes, that's a risk.

10 Q Yes.

11 A If I could add on to that. We also have to
12 have the capacity available for whatever that customer
13 wants to use. So in the case of some of our systems
14 where we've got seasonal residents, they come in and
15 they're there three months of the year, or four months
16 of the year, we still have to have the capacity for them
17 in the event they want to spend all year here. So
18 that's -- so we may not get the revenue that's
19 associated with that capacity because they're part-time
20 residents.

21 Q Well, if it is a new development, though, even
22 if the residents are seasonal, you would be getting the
23 capacity payments through your service availability
24 charge, would you not?

25 A But the capacity --

1 Q I'm sorry. Yes or no.

2 A Yes. Yes. You would get part of it, because
3 the capacity fees don't cover the entire cost of the
4 plant or the cost to operate the facilities.

5 MR. BILENKY: I yield, Madam Chairman.

6 COMMISSIONER BROWN: Thank you. Staff.

7 EXAMINATION

8 BY MR. TRIERWEILER:

9 Q Mr. Hoy, I'd like to direct your attention to
10 post-2000 tap fees. Did UIF pay income taxes on tap fee
11 income post-2000?

12 A Yes, we did.

13 Q Do you understand which years you paid the tap
14 fees?

15 A That I'm not -- I'm not aware --

16 Q Who would be the better witness to get in the
17 details on the tap fees?

18 A I think that would be Ms. Swain.

19 Q As the utility president, you wouldn't mind if
20 we came back to you on rebuttal if she wasn't able to
21 adequately address those issues for us?

22 A That's fine.

23 MR. TRIERWEILER: Thank you.

24 COMMISSIONER BROWN: Thank you.

25 Commissioners. Commissioner Patronis.

1 COMMISSIONER BRISE: Thank you, Madam Chair.
2 Mr. Hoy, thank you for your testimony. Just a
3 couple of questions. So when I'm looking at the
4 proposed rates, what -- something jumped out at me
5 in the question that OPC posed to you in terms of
6 the value that consumers are getting for the
7 normalizing of the rates, and your answer was it's
8 not any cost savings, but it's more of potentially
9 efficiency or more ease of running the operation.
10 So if I am a Sanlando customer and I am going to
11 see a difference of plus \$37, what is the benefit
12 to me to -- when the company is moving forward or
13 seeking to consolidate the rates as it's seeking to
14 do now?

15 THE WITNESS: I think that the benefit, again,
16 is to all the customers across the state including
17 Sanlando customers. Like I mentioned in previous
18 questioning, the capital investments that are
19 required will be required across all our systems.
20 Sanlando is no different. It's just not a -- it's
21 one of our larger systems and one of our older
22 ones, so there will be significant capital required
23 as that system continues to age. So the customers
24 there will be part of a larger pool across the
25 state as we go forward and stabilize the rates in

1 the future.

2 COMMISSIONER BRISE: So does that mean that
3 there's going to be less rate cases in the future
4 that will help absorb some of the expenses that --
5 the capital expenses that may be necessary in the
6 future?

7 THE WITNESS: We're hoping that there will
8 be -- with the consolidation of the 12 companies,
9 we're hoping for sure there will be less rate
10 cases. I'm not sure of the second part of that
11 question.

12 COMMISSIONER BRISE: In terms of absorbing
13 some of that CAPEX that would go forward since now
14 you're getting a more normalized -- potentially a
15 more normalized rate structure to level out that,
16 the source of revenue?

17 THE WITNESS: I mean, going forward the
18 additional capital will be, like in this case, will
19 be spread across that entire customer base so it
20 will levelize, you know, the base for developing
21 rates in the future.

22 COMMISSIONER BRISE: So if as the -- if the
23 Commission were to consider moving forward with
24 what you propose here and say, well, you know,
25 we'll move forward with this but with the caveat

1 that you sit out for six years in order for us to
2 see the value that will be provided to customers,
3 so therefore the company will have to manage within
4 that time frame, achieve the efficiencies that it
5 says that it hopes to achieve, not only in terms of
6 operations, but also financially.

7 THE WITNESS: I don't think we said that we're
8 were looking at operational savings because of
9 this, the -- you know, the consolidation of the
10 rates. And I don't think we're talking about less
11 capital -- not making any additional capital
12 investments in the future, so I'm not sure I'm
13 answering your question, but I don't see an
14 opportunity here where we're going to have
15 significant cost savings going forward because I
16 see a need for more capital investment in the
17 future.

18 COMMISSIONER BRISE: Okay. So then I go to my
19 original question. What is the value to me as a
20 customer, independent of the system that I'm
21 looking at, what is the short-term, mid-term value
22 to me if my system, if there are secondary water
23 quality issues that currently exist, there are
24 other customer service type things that are of
25 concern to me? What is the value to me that if I

1 end of paying more then I'm going to see
2 post-approval of this rate case, and including
3 whatever investments that are included in the test
4 year that have already been made?

5 THE WITNESS: Right. I think the example that
6 Mr. Friedman made in his opening statement, about
7 Pennbroke, is a good one. Now, we didn't include
8 the Pennbroke project here to address the iron
9 issues, but we could. We could. Because what we
10 told the Pennbroke folks is -- we worked with them
11 along the way -- was the cost to that system was
12 going to be a significant increase in their rates.
13 If we consolidate the rates across the state it has
14 a lesser impact on them and we could easily go
15 forward with that project. So that's one system
16 where the water quality issue would be changed
17 dramatically in terms of the investment we can make
18 in order to address it.

19 If I can make one other point. We look at
20 water quality. All of our systems today meet
21 primary and secondary water quality standards. So
22 there are some that -- Pennbroke is an example of
23 we are meeting it, but there's still iron in the
24 water that requires sequestration. With that
25 sequestration, we're able to still meet the

1 secondary standard. But it's not a quality that
2 the customers -- they like to see improvement, but
3 again, the cost was too high for them to move ahead
4 with it so they opted for putting in their own
5 individual treatment or living with it instead of
6 having the rate increase. If we put in this
7 consolidated rate across the state, we could go
8 ahead with the project.

9 COMMISSIONER BRISE: So with the consolidated
10 rates across the state, whatever system would see
11 issues like that, that could be absorbed as a
12 result of the consolidated rates?

13 THE WITNESS: No. No. If you're saying if
14 this is all we need for, you know, for the next 6,
15 10 years, no. I can't make that commitment here
16 today, because I don't -- I think we'd have to
17 still make that investment and then look for
18 recovery, but across a broader customer base that
19 won't impact those Pennbroke customers as much as
20 it is -- or did when we put the proposals together
21 for them.

22 COMMISSIONER BRISE: That's all I have for
23 now. Thank you, Madam Chair.

24 COMMISSIONER BROWN: Thank you, Commissioner
25 Brise. And just a follow-up. You know, along the

1 service hearing trail, we heard a lot of testimony
2 that said that customers said that, you know, under
3 consolidated uniform rate structure the company's
4 picking -- some systems are winners, some systems
5 are losers, and you see that there. If you look
6 along on the sheet here, how many rate cases around
7 the country -- Utility, Inc. is in 16 different
8 states. How many cases has Utilities, Inc.
9 actually implemented a uniform consolidated rate?

10 THE WITNESS: I know Illinois. I mean, we
11 are -- have proceedings in other places which we're
12 looking that direction. We've moved that
13 direction, but Illinois for sure, where we had
14 consolidated, I think we had 20-some different rate
15 structures there, and consolidated it down into
16 one.

17 COMMISSIONER BROWN: So right now the only
18 state out of the 16 states is Illinois?

19 THE WITNESS: The only one I can think of that
20 we've gone to just single rate is Illinois, but I
21 think there may be one or two others.

22 COMMISSIONER BROWN: And you have current rate
23 proceedings in other states?

24 THE WITNESS: We do.

25 COMMISSIONER BROWN: Since Corix acquired

1 Utilities, Inc., how has the operation's business
2 model changed? Is this -- in Florida specifically.
3 Is this an edict coming down from the parent or --

4 THE WITNESS: No. I think it's a reflection
5 of Corix as an investor, and its investor above
6 that is in the utility business, so they see a
7 commitment to -- see the value in utilities and
8 also a long-term commitment. So I think they're
9 thinking about the long term and do the right
10 things as we move towards a longer-term vision of,
11 you know, like gas and electrics, why not have one
12 system, one rate, spread across an individual
13 state.

14 COMMISSIONER BROWN: And you were asked a
15 question by Mr. Armstrong regarding Exhibit 270,
16 the roggs, regarding boil water notices for 2017,
17 wastewater spills for 2017, the response. In that
18 interrogatory was that if they were outside the
19 test year, could you just inform the Commission
20 what the -- how many boil water notices or
21 wastewater spills that have occurred for 2017 for
22 the utility?

23 THE WITNESS: That I don't have on the top of
24 my head. We can certainly provide that.

25 COMMISSIONER BROWN: Is there another witness

1 that would have that information that we could ask?

2 THE WITNESS: Probably Mr. Flynn.

3 COMMISSIONER BROWN: Okay. Great.

4 Commissioners, any other questions?

5 Commissioner Polmann.

6 COMMISSIONER POLMANN: Good afternoon, Mr.

7 Hoy.

8 THE WITNESS: Almost evening.

9 COMMISSIONER POLMANN: Still afternoon. I
10 know UIF previously consolidated, I believe it was
11 12 regulated utilities. Is that the right number?

12 THE WITNESS: Correct.

13 COMMISSIONER POLMANN: And we've heard that
14 those were either water, wastewater or both. I
15 have some questions about the individual systems
16 within those utilities. Some had multiple systems.
17 I struggled a little bit between utility and
18 systems and so forth. If you could help me out
19 here. I guess there were a couple dozen, 25 or
20 some. I've seen different lists. Please forgive
21 me. I wanted to talk a little specifically about
22 the drinking water. I counted 22 distinct drinking
23 water systems. Do you happen to know that number,
24 sir?

25 THE WITNESS: I don't have that on the top of

1 my head. Mr. Flynn would, but that sounds about
2 right.

3 COMMISSIONER POLMANN: So we'll -- for this
4 discussion, we'll call it 22 or about 20. Is
5 that -- can we work with that?

6 THE WITNESS: Sure.

7 COMMISSIONER POLMANN: Okay. Thank you. Now,
8 you've been with the company about -- in Florida
9 about 15 years, thereabouts?

10 THE WITNESS: Since 2006. So about ten years.

11 COMMISSIONER POLMANN: Okay. Thank you.
12 During that period of time, in your various
13 positions, is it fair to say you visited all of the
14 drinking water systems at one time or another? Do
15 you have a general familiarity with those?

16 THE WITNESS: Generally, yes. There may have
17 been some smaller ones that I missed.

18 COMMISSIONER POLMANN: Okay. Do you know,
19 sir, if all of those systems use the same source of
20 raw water? Is that true?

21 THE WITNESS: Well, they're all ground water
22 systems. So to the extent they're pulling from the
23 aquifer -- well, let me take that back. The ground
24 water systems are purchased water systems. So the
25 same general source.

1 COMMISSIONER POLMANN: Okay. So they're all
2 ground water?

3 THE WITNESS: Right.

4 COMMISSIONER POLMANN: To the best of your
5 knowledge. Okay. Thank you. But at each location
6 they have individual wells?

7 THE WITNESS: Correct.

8 COMMISSIONER POLMANN: Okay. And these
9 systems are spread apart by many miles. In some
10 cases many miles, is that --

11 THE WITNESS: In some cases. In some cases
12 they're fairly close.

13 COMMISSIONER POLMANN: All right. So to the
14 best of your knowledge, do they all utilize the
15 same type of treatment? Is there different
16 treatment at different sites?

17 THE WITNESS: Again, a question for Mr. Flynn,
18 but to my knowledge, yes, to -- there's some
19 differences, but basically the same treatment.

20 COMMISSIONER POLMANN: As president, would you
21 have been provided notice of any deficiency in
22 meeting regulatory compliance requirements at the
23 drinking water systems?

24 THE WITNESS: I would be aware of those.

25 COMMISSIONER POLMANN: Certainly.

1 THE WITNESS: Yes. Are you saying am I the
2 person that would be notified?

3 COMMISSIONER POLMANN: Yes. Well, you would
4 receive notice personally, but you would be
5 aware -- you would be made aware of them?

6 THE WITNESS: Yes.

7 COMMISSIONER POLMANN: And have you been made
8 aware of regulatory compliance at the drinking
9 water systems within the past five years?

10 THE WITNESS: I'm sorry. One more time.

11 COMMISSIONER POLMANN: Within the past five
12 years, have you been made aware of drinking water
13 system compliance issues, regulatory compliance
14 issues?

15 THE WITNESS: In the past five years,
16 compliance issues?

17 COMMISSIONER POLMANN: Yes, sir.

18 THE WITNESS: If there were some, yes, I would
19 be aware of them, but I'm trying to think of
20 exactly, you know, what may have happened in the
21 last five years.

22 COMMISSIONER POLMANN: Okay. So sitting here
23 today, you would have been made aware, but you
24 don't have any in mind?

25 THE WITNESS: Correct.

1 COMMISSIONER POLMANN: Okay. With regard to
2 quality of service, and in this case, the instant
3 case, did UIF take into account the quality of
4 service over the past five years?

5 THE WITNESS: Yes, we did.

6 COMMISSIONER POLMANN: On the proposed pro
7 forma projects, I have a few general questions, not
8 the particulars. I see there are different types
9 of projects, different places. So I take from that
10 level of effort the capital expenditures are
11 distinctly different, again with regard to these
12 drinking water systems, you'll be expending a
13 different level of effort, therefore, different
14 dollars at different places.

15 THE WITNESS: Correct.

16 COMMISSIONER POLMANN: That's correct. Okay.
17 Thank you. And in your own words, can you explain
18 for me that type of projects? There were some
19 discussions here in general, expansion or repair?

20 THE WITNESS: Like I mentioned before, one of
21 the largest portions of the pro forma project group
22 is pipe replacement, so asbestos cement pipe that's
23 passed its useful life, that's about 12 million
24 dollars, I believe, of the 36 million. There's
25 another large project to take an existing

1 wastewater treatment plant that needs -- passed its
2 useful life and needs to be either upgraded or
3 consolidated and we chose the route to consolidate
4 it into one of our other plants to basically create
5 a smaller regional facility. So that's -- that was
6 about eight million dollars.

7 So the combination of those two is a good bit
8 of that pro forma project list. There's also
9 projects for road widening. So we have to move our
10 facilities. And those are the ones that come to
11 the top of my head. Electrical upgrades, you know,
12 at facilities, and that kind of thing.

13 COMMISSIONER POLMANN: Okay. If I
14 characterize those as upgrades, technology,
15 relocation, just normal repair/replacements and so
16 forth, is that a fair statement?

17 THE WITNESS: Yeah.

18 COMMISSIONER POLMANN: To Mr. Bilenky's
19 question, you don't have any expansion, is that
20 correct?

21 THE WITNESS: No. No. I think there was one
22 small project in there for bringing a new
23 subdivision online that had individual wells.
24 That's it.

25 COMMISSIONER POLMANN: Other than the Lake

1 Utility Services member and treatment plant -- and
2 is it correct that that's because of a change in
3 source? You mentioned going to a different depth
4 in the aquifer --

5 THE WITNESS: That's part of it. So having to
6 go to the Lower Floridan aquifer required
7 additional treatment and now subsequently needs
8 additional treatment in order to meet the
9 disinfection by rule.

10 COMMISSIONER POLMANN: Now, within the
11 projects, are there any other projects that you
12 have plans for to address water quality that's
13 delivered to your customers?

14 THE WITNESS: That one you just cited that's
15 in this case is --

16 COMMISSIONER POLMANN: Are there any others?

17 THE WITNESS: Well, that's the engineering for
18 that project, the actual project expense itself is
19 outside of this case. Other projects to deal
20 with -- I'm sorry -- with water quality?

21 COMMISSIONER POLMANN: With quality of your
22 drinking water product that you're delivering to
23 the customers. Do you know of any other projects?

24 THE WITNESS: Can't think of one off the top
25 of my head of that group. I think Mr. Flynn might

1 be able to.

2 COMMISSIONER POLMANN: Okay. If I may, Madam
3 Chairman, I have a few more questions and perhaps
4 we'll come back on other subjects, but -- or I can
5 break now if others have questions.

6 COMMISSIONER BROWN: You've got the floor.

7 COMMISSIONER POLMANN: All right. Thank you,
8 ma'am.

9 Mr. Hoy, if we can look at your direct
10 testimony, and it's not numbered so different
11 people referred to it --

12 THE WITNESS: I apologize.

13 COMMISSIONER POLMANN: Thank you. I called it
14 page two, but I think it's the first page of the
15 text. If you would please refer to lines 17
16 through 19. In the middle of line 17 it says, we
17 must now seek relief -- and I'll just highlight a
18 couple of words there of that sentence -- we must
19 now seek great relief to provide safe and reliable
20 service to our customers now. Could you please
21 elaborate on the notion that you're seeking great
22 relief now to provide safe and reliable service now
23 in the context of now and now? Could you please
24 explain that for me? I'm a little unclear on that.

25 THE WITNESS: I think the purpose of that

1 statement was that we are making investments. I
2 mean, we take the obligation to provide safe
3 reliable service very seriously and we will make
4 those investments in order to do that. We're
5 hoping that what we can do is have a chance to
6 recover those investments in a timely manner so
7 that -- and we have the opportunity, as I said,
8 before in my testimony to earn our allowed return
9 and continue to attract the capital for that.

10 COMMISSIONER POLMANN: So is it your testimony
11 that this refers principally to the infrastructure
12 improvements?

13 THE WITNESS: As I said, the infrastructure
14 improvements are a key part of this case and that's
15 the case.

16 COMMISSIONER POLMANN: Okay. Moving on to the
17 next page, sir. In lines six and seven, I'm struck
18 by the power in the simple statement: Our current
19 rates will not be adequate to cover cost of
20 providing service. Now, in a simple reading of
21 that, it just strikes me as a very powerful
22 statement. Is that to say that you don't have
23 enough money to provide service? Can you elaborate
24 on that for me?

25 THE WITNESS: I think it's a strict rate

1 making frame of mind. So of the cost of providing
2 service include investing capital to provide that
3 service, then also getting, you know, a return on
4 that capital so that you can provide that return to
5 your investors, whether it's debt holders, equity
6 holders and then on top of that the cost of the
7 operating expenses, taxes. So what we're saying is
8 our current rates don't cover all of those costs as
9 they stand today.

10 COMMISSIONER POLMANN: So just for clarity,
11 you're including the cost of providing service as
12 achieving a reasonable rate of return?

13 THE WITNESS: Yes. We believe that providing
14 a return to the people who provide the capital to
15 do that is a cost.

16 COMMISSIONER POLMANN: Okay. I appreciate
17 that clarification. Thank you. At the bottom of
18 that same page, sir -- and this has been addressed
19 be others. I want to ask what I hope is a related
20 but different question. This has to do with the
21 evolving EPA regulations. And I'll refer you to
22 Exhibit 264 introduced by Mr. Sayler, OPC. Do you
23 have that available Mr. Hoy?

24 THE WITNESS: Just one minute. Sorry. Didn't
25 mark the exhibits. What's the title description?

1 Evolving New Standards?

2 COMMISSIONER BROWN: What number is it?

3 COMMISSIONER POLMANN: Evolving New Standards.

4 COMMISSIONER BROWN: It's 264.

5 THE WITNESS: Evolving New Standards. I've
6 got that one.

7 COMMISSIONER POLMANN: All right. If we look
8 at -- just for identification purposes -- the
9 bottom of page five, it's the Interrogatory 244.
10 And I'm just referring to page five, paragraph A.
11 And my real issue is on the top of the next page,
12 sir.

13 THE WITNESS: Okay.

14 COMMISSIONER POLMANN: Where it says, recently
15 enacted provisions right at the top, that sentence,
16 are you referring in that sentence to potential
17 enforcement actions that go beyond the EPA rules
18 such that the actions that could be implemented by
19 the Public Service Commission?

20 THE WITNESS: Yeah, I think that references
21 either Mr. Sayler -- I think it was in that line of
22 questioning -- talked about the secondary water
23 quality standard rules enacted by the legislature.

24 COMMISSIONER POLMANN: Okay. Is it your
25 understanding as president, or is it the

1 understanding of Utilities, Inc. Florida that it
2 was the intent of the legislature to enable this
3 Commission to expand enforcement authority with
4 regard to secondary water quality standards as it
5 is related to delivery of water to the customers?

6 THE WITNESS: I believe that's the case, yes.

7 COMMISSIONER POLMANN: Okay.

8 COMMISSIONER BROWN: And, Commissioner
9 Polmann, we have another Commissioner who has a
10 question.

11 COMMISSIONER POLMANN: Yeah, I will yield. I
12 many have some other questions on another subject.

13 COMMISSIONER BROWN: You can get him on
14 rebuttal, too.

15 COMMISSIONER PATRONIS: Thank you, ma'am.

16 COMMISSIONER BROWN: Commissioner Patronis.

17 COMMISSIONER PATRONIS: Thank you, Madam
18 Chairman. The only place I could start with is
19 asking, which may not be totally fair, is about
20 other state consolidations, because -- I mean, how
21 much of a role, if any, did play in any other state
22 consolidations?

23 THE WITNESS: A direct role? None. But
24 involved, you know, through the company and knowing
25 what was going on.

1 COMMISSIONER PATRONIS: I've got a few
2 questions.

3 COMMISSIONER BROWN: Sure.

4 COMMISSIONER PATRONIS: I guess I'm trying
5 to -- in reading of the thought process of what
6 maybe some of the benefits are with the
7 consolidations, from your knowledge and some of the
8 other state, how long ago was the most recent one,
9 would you say?

10 THE WITNESS: Fairly recently. I think the --
11 now, when we're talking about consolidation -- that
12 may be back to an earlier question. I think the
13 question was, where have we consolidated all of our
14 rates down to one. In a number of places we've
15 consolidated the companies like we did earlier here
16 in Florida from a number of companies to one. So
17 in Illinois, for example, we went to one company.
18 In -- trying to -- I think in the Carolinas where
19 we've gone to one or went down to one company, so
20 North Carolina.

21 COMMISSIONER PATRONIS: One company or -- I
22 guess what I should specifically ask is one rate
23 structure?

24 THE WITNESS: No, one company.

25 COMMISSIONER PATRONIS: So this is the first

1 time one rate structure has been attempted?

2 THE WITNESS: No. Illinois was one rate
3 structure. The others I was talking about was one
4 company consolidating the entities, not the rates.

5 COMMISSIONER PATRONIS: In the case with
6 Illinois when you -- what was the -- I guess what
7 was the biggest pleasant surprise that you had
8 after seeing that come on line?

9 THE WITNESS: First of all, I think it was the
10 fact that they accepted it and did it because there
11 were some -- like in this case there were some ups
12 and some downs, as you would imagine. So the
13 ability to do it and not do it in steps because
14 they thought that would be painful they went to one
15 rate across the board. And, again, it has allowed
16 them to make it the costs in Illinois, to make
17 investments to some of the smaller systems that we
18 might not have been able to because of the
19 significant rate impact.

20 COMMISSIONER PATRONIS: What was the biggest
21 challenge that you're aware of?

22 THE WITNESS: The biggest challenge in terms
23 of just getting it done or after the fact?

24 COMMISSIONER PATRONIS: After the fact.

25 THE WITNESS: And not being directly involved

1 in it, I don't know the answer.

2 COMMISSIONER PATRONIS: That's fair enough. I
3 think I'm asking you questions that put you at a
4 little disadvantage. I'm studying the rates of
5 where there's going to be increases and decreases
6 and just trying to get my arms around it. I can
7 see some potential predictability that comes from
8 this, but it -- maybe I'll have something after a
9 while, but I appreciate it. Thank you, Madam
10 Chair.

11 COMMISSIONER BROWN: Thank you. And, again,
12 Commissioners, he comes back up for rebuttal. So
13 if there are no more questions from
14 Commissioners -- how many do you have? It looks
15 like 20. Do you want to save them for rebuttal?
16 Okay. That's a good idea. All right. Redirect.
17 You okay saving them for rebuttal?

18 COMMISSIONER POLMANN: It's your question,
19 Madam Chairman.

20 COMMISSIONER BROWN: Thank you. Redirect.

21 MR. FRIEDMAN: I will keep it short.

22 EXAMINATION

23 BY MR. FRIEDMAN:

24 Q Mr. Hoy, do you know of any other water
25 utilities in Florida that have implemented the

1 operations management system that UIF is going to
2 implement?

3 A No, I don't.

4 Q Do you know any other water and sewer utility
5 in Florida that's implemented the GIS portion of that?

6 A No, I don't.

7 Q Do you know any other water and sewer
8 utilities in the United States that have implemented
9 that operation management system?

10 A Not that particular one, no.

11 Q Were all the Florida regulated companies
12 operationally consolidated even before the legal
13 consolidation took place?

14 A Yes.

15 Q Are the Sanlando customers among the highest
16 per capita users of the water systems?

17 A They are. Yeah, their consumption is
18 significantly higher than the others, in the range of
19 16,000 gallons a month.

20 Q In prior rate cases, are you aware of whether
21 the Commission attempted to create some conservation in
22 the rate structure for that utility?

23 A Yes, it did.

24 Q And do you believe that's been successful?

25 A No, doesn't look like it from the consumption.

1 Q Do you believe then that maybe one of the
2 possible benefits of consolidation is to finally get
3 those folks to start conserving?

4 A Yes, I think even in the last rate case in an
5 attempt to get the water rates up in order to promote
6 conservation some of the revenue requirement of the
7 sewer was moved over to the water, so those rates have
8 been extremely low compared to our other systems.

9 Q All right. And this order that -- do you have
10 the order that Mr. Armstrong pointed out? Yes. Now, if
11 you look on page two of that order where the explanation
12 is, assuming that this is the order for the transfer of
13 the Summertree portion of the system, let's assume that,
14 do you see anywhere where it mentions secondary water
15 quality standards?

16 A Brief look here, no, I don't.

17 Q And does it mention any water quality issue?

18 A I don't see that here.

19 Q All right. Do you see the mention of iron?

20 A Correct. I'm sorry. Yes.

21 Q Okay. Is that the only water quality issue
22 that you see in this order?

23 A From what I'm looking at, yes.

24 MR. FRIEDMAN: No further questions.

25 COMMISSIONER BROWN: Thank you. All right.

1 Exhibits. Oh, I thought you were done.

2 MR. FRIEDMAN: I'm through, but I would like
3 to move Mr. Hoy's exhibit --

4 COMMISSIONER BROWN: 26?

5 MR. FRIEDMAN: That's correct.

6 COMMISSIONER BROWN: All right. Seeing no
7 objections to Mr. Hoy's pre-filed exhibit, it's
8 labeled as 26. We're going to go ahead and enter
9 that into the record.

10 263 through 267, Public, would you like to
11 move those in?

12 MR. SAYLER: Yes, ma'am, we would.

13 COMMISSIONER BROWN: Any objection?

14 MR. FRIEDMAN: I do have one objection with
15 the portion of 263 is a couple of pages printed off
16 a web page and we don't know whether that was
17 selective and there may be -- that obviously
18 indicates a particular way that the Public Counsel
19 wanted this company to be viewed, and the website
20 may have more -- or information that may be not
21 towards that and I don't think it's fair to put it
22 in one or two pages that they pulled off that web
23 page. Other than that, I don't have any problem
24 with the rest of the exhibit, but I do have a
25 problem with those pages.

1 COMMISSIONER BROWN: Fair enough. Mr. Sayler.

2 MR. SAYLER: Yes, ma'am. I'm happy for the
3 Commission to -- I'm not going to -- I don't think
4 I can print off every page off of that website,
5 even with the help of Google. However, I think
6 those are some of the pages that are representative
7 of what this firm does as it relates to crisis
8 strategy and other things and we would like them in
9 just -- but then again -- we would like them in the
10 record if possible, as you see that they do some
11 from their particular website by the header and
12 footer and if this Commission wants to --

13 COMMISSIONER BROWN: Although there is a
14 contract, though, that is attached to that exhibit.

15 MR. FRIEDMAN: We don't have a problem with
16 the contract.

17 MR. SAYLER: Yeah, the contract was part of
18 the response to discovery and I believe those pages
19 just speak for themselves. I understand Mr.
20 Friedman's concern that we were selective and if he
21 would like to supplement it to show a different
22 picture of his firm, then I'm happy for him to
23 supplement it.

24 COMMISSIONER BROWN: I can't -- I'm not going
25 to do that.

1 MR. SAYLER: No, Mr. Friedman. Sorry.

2 COMMISSIONER BROWN: Mr. Friedman.

3 MR. FRIEDMAN: I just think it should be
4 stricken. I mean, he admitted that they picked and
5 choosed what he wanted to pick and choose, which
6 means that there's more out there and I don't think
7 it's -- I don't think it's appropriate.

8 COMMISSIONER BROWN: So this Commission, when
9 we have hearsay evidence like this, we have
10 sometimes allowed it and other times we haven't.
11 This, I'm trying to see the probative value here
12 along with the prejudicial value and I'm trying to
13 balance that. It does look very selective. Legal.

14 MS. CRAWFORD: Madam Chairman, this discussion
15 I think would have been better had it been Mr.
16 Friedman's objections been raised about the exhibit
17 when Mr. Sayler was actually conducting his cross
18 examination so there could have been a discussion
19 and maybe a way for both parties to overcome their
20 issues. So I will request with your permission
21 that all parties if they have an objection to an
22 exhibit being used for cross examination purposes
23 that any objections be raised at that time so we
24 can deal with them at that time.

25 COMMISSIONER BROWN: Nonetheless.

1 MS. CRAWFORD: Nonetheless.

2 COMMISSIONER BROWN: I don't know if this is
3 prejudicial to the point where the Commissioners
4 can't just give this the weight that it's due.

5 MS. CRAWFORD: I think that probably is the
6 case.

7 COMMISSIONER BROWN: We're going to go ahead,
8 and again seeing that no parties have objections to
9 263 through 267, we're going to go ahead and enter
10 all of those into the record, again noting that we
11 will give the weight that it's due to 263.

12 (Whereupon, Exhibit No. 263 through 267 were
13 admitted into evidence.)

14 COMMISSIONER BROWN: All right. Moving on to
15 Summertree, Brian, 268 through 273 were the
16 exhibits that you proffered. Would you like to
17 have those moved into the record?

18 MR. ARMSTRONG: Yes, Madam Chair, could you
19 please place them into the record?

20 COMMISSIONER BROWN: Any objection? Great.
21 Seeing no objection we'll go ahead and enter into
22 the record 268 through 273. Would you like your
23 witness excused for the moment?

24 MR. FRIEDMAN: I'm sure he would like to be,
25 yes. Thank you.

1 A No.

2 Q Did you sponsor any exhibits?

3 A Yes.

4 Q All right. How many exhibits did you sponsor?

5 A I believe it was five including qualifications
6 and experience.

7 Q Okay. Thank you. I would like to ask that
8 Mr. Guastella's testimony be inserted into the record as
9 though read.

10 COMMISSIONER BROWN: We'll go ahead and insert
11 into the record Mr. Guastella's prefiled direct
12 testimony into the record as though read.

13 (Prefiled testimony entered into the record as
14 though read.)

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1 **Q. Please state your, name, profession and address.**

2 A. My name is John F. Guastella. I am President of Guastella Associates, LLC. My business
3 address is 725 N. Highway A1A, Suite B103, Jupiter, Florida 33477.

4 **Q. State briefly your educational background and experience.**

5 A. I have been involved in all aspects of utility regulation, rate setting, valuation and
6 management as a utility regulator and a consultant. Exhibit JFG-1 is a statement of my
7 qualifications, including my educational background and experience.

8 **Q. Have you previously appeared and presented testimony before any regulatory
9 bodies?**

10 I have prepared and presented expert testimony in 25 states before regulatory agencies,
11 including the Florida Public Service Commission, municipalities and in court proceedings.
12 The subject matter of my testimony included issues regarding rate setting, valuation,
13 accounting, engineering, used and useful, and rate design.

14 **Q. On whose behalf are you presenting this testimony?**

15 A. I am presenting this testimony and appearing on behalf of Utilities, Inc. of Florida. (UIF),
16 the applicant for rate increase in the present docket.

17 **Q. What is the purpose of your direct testimony?**

18 A. The purpose of my direct testimony is to present information supporting the consolidated
19 single tariff rate schedules.

20 **Q. Are you sponsoring any exhibits?**

21 A. Yes, I am sponsoring 5 exhibits. As mentioned previously, JFG-1 is a statement of my
22 qualifications and experience. The rate design schedules developing the water consolidated
23 single tariff pricing (STP) rates are found in Exhibit JFG-2. The rate design schedules
24 developing the sewer consolidated single tariff pricing rates are found in Exhibit JFG-3.
25 Exhibit JFG-4 contains Schedule W-A a table showing the single tariff water rates

1 compared to the rates of individual water systems under proforma revenue requirements,
2 and Schedule W-B showing a table comparing average bills at current water rates, at rates
3 of individual systems under proforma revenue requirements and at proposed consolidated
4 single tariff pricing rates. Exhibit JFG-5 shows the same rate and average bill comparisons
5 for the UIF sewer divisions. As shown on Schedule S-A and Schedule S-B, respectively.

6 **Q. Would you please tell us how you approached the issue of consolidated or single tariff**
7 **pricing in general terms?**

8 A. Yes. Single tariff pricing may be defined as the establishment of a single rate structure
9 applicable to all customers of a utility which serves two or more separate service areas.
10 Single tariff pricing is a rate design issue, not a revenue requirement issue. Once a utility's
11 revenue requirement is established, the utility will not receive more or less revenue if its
12 rate structure is based on single tariff pricing or individual system pricing. Single tariff
13 pricing is, therefore, an issue which may be resolved strictly in terms of what is in the best
14 interest of the customers. With this in mind, I have considered consolidated or single tariff
15 pricing in terms of general regulatory policy, cost and economic principles, and the
16 application of equitable rate design policies and judgement.

17 **Q. Would you please explain how you considered general regulatory policy with respect**
18 **to single tariff pricing?**

19 A. The public interest aspect of utility service is the basis for the creation of utility regulatory
20 agencies which are given the responsibility to assure that utilities provide safe and adequate
21 service at just and reasonable rates. Carrying out that responsibility, in my opinion, requires
22 recognition that all customers are entitled to receive an adequate level of utility service.
23 The entitlement to a reasonably equal level of service at similar rates among all customers
24 (existing and new, regardless of location) has been well-established by regulatory agencies,
25 including the Florida Public Service Commission, regarding such other utility services as

1 electric, gas and communication. In other words, customers should pay the same rates for
2 the same service. Such entitlement is taken for granted with respect to those utility services.
3 For a little historical background that I think is of interest, I note that in a 1929 speech,
4 Franklin D. Roosevelt stated, in part:

5 "Now, I am sorry to say that the principle of reasonably
6 equal service at reasonably equal cost to all the people of
7 the State has not been carried out with regard to the two
8 latest forms of public service--the telephone and
9 electricity.

10 It is, of course, well known that the cost of the telephone
11 to the farmer, for example, depends very largely on what
12 county and even more on what particular road he happens
13 to live.

14 If he happens to be born on a farm on a highway away
15 from neighbors, he has to shoulder practically the entire
16 original cost and upkeep of his telephone line, whereas,
17 if he happens to live close to many neighbors the cost of
18 the very essential telephone is enormously reduced, both
19 for service and installation charges.

20 By the same token the service given by the telephone
21 company is as a matter of public knowledge vastly better
22 in some localities than in others. In other words, the
23 practical use of the great utility known as the telephone is
24 dependent on cost and usefulness in too many cases on the
25 place where a man's house happens to be located.

1 The other example, and one which is even more glaring
2 in its unfairness, is that of the use of electricity in the
3 homes

4 Why should families in one section be so grossly
5 penalized over families in another section?

6 "During recent years the small local company furnishing
7 electric light has been rapidly absorbed into larger
8 companies. There may have been some reason for
9 differences of rates in the earlier days when each company
10 stood on its own earning power. Today, however, things
11 are far different."

12 **Q. Aside from a rate setting concept that utility customers are entitled to equal service**
13 **at equal rates, are there other significant considerations for which consolidated or**
14 **single tariff pricing has been recognized by regulators for water and wastewater**
15 **utilities?**

16 A. Yes. It has been my experience that the smaller water and wastewater utilities are least
17 able to provide safe and adequate service simply because of their size. They are unable to
18 maintain a professional staff of administrators, accountants and engineers in order to handle
19 the increasingly complex financial, operational and environmental requirements necessary
20 to provide adequate service. The smaller systems are unable to attract capital at a
21 reasonable cost, if at all. One of the most effective solutions that regulators have found is
22 the acquisition of small utilities by larger companies. Single tariff pricing has been
23 recognized as one of the incentives which should be offered to these utilities to encourage
24 their acquisition of small water companies. The relatively slow progress the water and
25 wastewater industry has experienced in merging large and small systems may be the reason

1 this industry has lagged behind the electric, gas and communication industries with respect
2 to single tariff pricing. In relatively recent years, however, regulators, including the Florida
3 PSC, have recognized that single tariff pricing is appropriate for functionally integrated
4 water systems, regardless of whether they are physically connected. The water and
5 wastewater industry is increasingly providing the opportunity for all customers of a multi-
6 operational utility to have equal level of service at equal rates.

7 **Q. Mr. Guastella, do you believe that single tariff pricing is inconsistent with traditional**
8 **cost of service principles?**

9 A. No. Single tariff pricing is basically an averaging process. All of the revenue
10 requirement components or all of the costs of providing service are totaled for all
11 operations, and when applied to the total billing units in terms of numbers of bills or units
12 of consumption, the resulting rates represent an average rate per service among all of the
13 operations. Traditional rate setting principles have always recognized a similar averaging
14 process with respect to rate setting. For example, all utilities are required to charge new
15 customers the same rates as existing customers; the rates contained in the utility's filed
16 tariff schedule. The new customers are not charged a higher rate related to the higher
17 current cost of the more recent plant additions compared with the lower historical cost of
18 the older plant. Regulatory agencies have rejected the concept of vintage rates.
19 Accordingly, all customers, new and existing, pay the same rates for service based on an
20 averaging of all costs, both capital and operating costs. It simply has not mattered that
21 there may be a difference in the cost to serve new and existing customers. Another example
22 of the averaging process in the traditional rate setting is reflected in the fact that customers
23 close to the source of supply are charged the same rates as customers far from the source
24 of supply. It hasn't mattered that the cost of providing service on an individual basis to
25 each of those customers may be significantly different -- the rates are averaged. Yet another

1 example is a utility with a single system, but in which some sections are older than others.
2 Under traditional rate setting, the costs are averaged, and all customers pay the same rates
3 for service regardless of location. Traditional rate setting principles, as well as regulatory
4 law, recognize that rates are reasonable if they are not unduly discriminatory. There is no
5 regulatory requirement that rates must reflect the precise cost of providing service to each
6 and every customer or each and every group of customers at different locations. In my
7 opinion, single tariff pricing is simply another averaging process that does not produce
8 unduly discriminatory rates, particularly in light of the many advantages that are directly
9 attributable to single tariff pricing.

10 **Q. Mr. Guastella, would you briefly describe some of the major advantages with respect**
11 **to single tariff pricing?**

12 **A.** As I previously stated, single tariff pricing is one of the incentives regulators are using to
13 encourage large utilities to acquire small utilities. Regulators have recognized the
14 economies of scale attributable to large utilities with respect to combined operations,
15 personnel, purchasing and cost of capital. Large utilities generally are more capable of
16 meeting environmental requirements, because of in-house expertise, resources and ability
17 to finance improvements. The increasing environmental requirements and need to make
18 capital improvements and replace aging plant are widening the gap between small and large
19 companies in terms of their ability to provide safe and adequate service. The smaller
20 operations which are part of large utilities automatically receive these benefits. I would
21 note that the larger operations within the multi-operational utility also automatically
22 receive these benefits. Another advantage of single tariff pricing is the significant cost
23 savings associated with rate filings. The instant case is a good example. The cost would
24 be much higher if separate rates cases and rate applications were made for each individual
25 system. In the future, rate case savings will be even much greater if under a consolidated

1 single tariff there would only be a need for a single set of MFRs. Another important
2 advantage of single tariff pricing is rate stability. Eventually all operations will require
3 significant capital improvements either to install new plant for new environmental
4 requirements or to replace existing lower-cost assets with newer higher-cost assets. On an
5 individual system basis, those swings in capital requirements would require significant rate
6 changes. Sooner or later, the customers who might object to single tariff pricing because
7 their rates might now be lower on an individual system basis, would likely at some point
8 in time welcome single tariff pricing (average rates) when the system serving them is the
9 one requiring major capital improvements and commensurate rate increases.

10 **Q. Mr. Guastella, would you summarize your conclusion with respect to consolidated**
11 **or single tariff pricing as a general regulatory policy?**

12 A. Yes. In my opinion, a general regulatory policy which encourages single tariff pricing is
13 in the best interest of the customers. Single tariff pricing is consistent with the regulatory
14 goal of assuring safe and adequate service to all customers at a reasonably equal price. It
15 is consistent with traditional cost of service principles. It does not produce unduly
16 discriminatory rates. It encourages the acquisition of small utilities by large utilities (which
17 has thus far been the single most successful solution to the problems caused by small
18 companies). It reflects the economies of scale that are automatically enjoyed by the
19 individual operations of a large utility. It produces specific cost savings in terms of
20 regulatory rate proceedings. It stabilizes rates which not only protect customers from the
21 impact of severe rate shock, but also provides for stabilized earnings and the ability to
22 attract lower cost capital.

23 **Q. Mr. Guastella, has the Florida PSC recognized the benefits of consolidated or single**
24 **tariff pricing?**

25 A. Yes, I believe so. I have reviewed the PSC's Order No. PSC-09-0385-WS in Docket No.

1 080121-WS, and find recognition of the benefits of single tariff pricing. The PSC also
2 addressed its concerns about the impact of converting to single tariff pricing on the
3 customers' bills.

4 **Q. Do you agree that the impact of single tariff pricing on customers' bills is a valid**
5 **consideration?**

6 A. Yes. It should also be recognized, however, that the differences between single tariff rates
7 and rates calculated for individual systems do not reflect an accurate comparison between
8 consolidated single tariff rates and rates for "stand alone" systems. The MFRs and
9 proforma revenue requirements for individual systems reflect built in economies of scale
10 of the multi-system utility in which the individual systems benefit by sharing only a portion
11 of such allocated corporate costs as professional supervisory and administrative staff,
12 engineers, accountants, common structures and equipment, billing and accounting, and
13 financing. If the individual systems were truly stand-alone, their costs and rates would be
14 higher and/or the adequacy of service would be at a lower standard.

15 **Q. Mr. Guastella you have identified exhibits you are sponsoring. Was a rate design**
16 **analysis performed by you or under your direction to develop consolidated or single**
17 **tariff pricing rates?**

18 A. Yes.

19 **Q. Would you briefly describe the schedules, calculations, and process reflected in your**
20 **exhibits?**

21 A. The rate design schedules developing the water and sewer single tariff rates are contained
22 in Exhibit JFG-2 and JFG-3, respectively. Within these Exhibits, Schedule W-1 and
23 Schedule S-1 show the rate development calculations. Schedule W-2 and S-2 contain the
24 summary tables of the individual systems' revenues generated by their current rates.
25 Schedule W-3 and Schedule S-3 reflect the summary tables showing the number of bills

1 issued during the test year. Schedule W-4 and Schedule S-4 reflect the detailed metered
2 usage by system and customer groups. The existing water and sewer rates are shown on
3 Schedules W-5 and S-5, respectively. Schedule W-6 and W-7, within Exhibit JFG-1,
4 provide the calculation of the repression impacts the rates will have on UIF's two largest
5 water system (Sanlando and Lake Utility Services, Inc.).

6 The compilation and consolidation of the information was required for the
7 development of the single tariff pricing or consolidated rates. The first step was to compile
8 the billing unit data of each of the respective individual water and sewer systems to be
9 consolidated under the single tariff rate structure. This step was performed by tabulated
10 the number of test year bills issued, the metered usage information and the current tariff
11 rates for each system under consideration. The sources of this information were primarily
12 the E-1 rate schedules, E-2 billing analyses and the E-14 consolidated factor analyses
13 presented in UIF's minimum filing requirements. The summary information for the water
14 systems is detailed on Schedules W-3 (Bills), W-4 (Usage), and W-5 (Rates) within Exhibit
15 JFG-2. The similar information for the sewer systems is shown on Schedules S-3 (Bills),
16 S-4 (Usage) and S-5(Rates) within Exhibit JFG-2. To insure that the test year billing units
17 and information were compiled correctly, the W-2 and S-2 schedules reference the three
18 previously mentioned schedules and bringing that information forward to calculate
19 revenues for each system. These amounts were checked against the E-2 annualized test
20 year revenues as shown at the bottom of the W-2 and S-2 schedules.

21 The single tariff rate design takes the consolidated billing data for both water and
22 sewer and develops rates that will recover the cost of providing service for UIF's
23 consolidated water systems and sewer systems across the State. The development of the
24 single tariff water rates are shown on Exhibit JFG-2, Schedule W-1 and the single tariff
25 sewer rates on Exhibit JFG-3, Schedule S-1.

1 **Q. Please explain the rate design components and calculations shown on Exhibit JFG-2**
2 **Schedules W-1, and Exhibit JFG-3, Schedule S-1, in greater detail.**

3 A. The W-1 and S-1 schedules bring forward the test year number of bills from Schedules W-
4 3 and S-3 and the volumetric billed usage from Schedules W-4 and S-4. Meter factors are
5 applied to the number of bills to produce factored bills. The meter factors used on both
6 Schedule W-1 and S-1 are consistent with the meter factors of the existing water and sewer
7 rates.

8 The consolidated water revenue requirement of \$16,370,621 was reduced by any
9 anticipated miscellaneous revenues to produce the revenue to be recovered by the
10 customers' monthly water service bills. The total amount of \$16,276,725 to be recovered
11 through the rate structure was then allocated at 35% to be recovered by the base service
12 charge, related to fixed costs; 64.9% to be recovered by the usage rates, and 0.1% fire
13 service related costs. These allocations are based on typical ratios and judgement on the
14 basis of comprehensive cost allocation studies of other utilities. The resulting water base
15 service revenue requirement was then divided by the factored bills to produce the factor 1
16 monthly water rate and the rates for the various meter sizes were determined by the various
17 meter factors.

18 The sewer revenue recoverable through monthly customer sewer bills was
19 developed in the same way as the water. The amount billed for sewer service of
20 \$19,775,438 was allocated based on the consolidated current test year revenue ratios of
21 51.8% base and 48.2% usage related costs. Similarly, the resulting sewer base service
22 revenue requirement was then divided by the factored bills to produce the factor 1 monthly
23 sewer rate and the rates for the various meter sizes (based on their water meter sizes) were
24 determined by the various meter factors.

25 The residential conservation block rate usage factors shown on Schedule W-1

1 reflect the average factors used in the current rate structures of the four water division that
2 currently have a three-tiered block rate structure. The basis for the first block containing
3 the first 8 thousand gallons of water usage, the second block containing the next 8 thousand
4 gallons of water usage and the third block representing all water used over 16 thousand
5 gallons per month is the current Sanlando rate structure. Sanlando was used as the basis
6 because it is the division with the second highest number of customers, the customers with
7 the highest water consumption, and the division most impacted by the proposed single tariff
8 rates. The general service usage factor reflects the approximate average factor of the two
9 largest water divisions representing approximately 82% of the consolidated number of
10 general service water customers and is similar to the 1.50 usage factor of Block 2 residential
11 usage rates.

12 The Schedule S-1 general service usage factor of 1.15 times the residential factor
13 reflects the average factor of the current water rate structures. The bulk service factor of
14 .95 reflects that of the current bulk service tariff rates and the reuse service factor of .30
15 reflects the approximate average of three current reuse rates.

16 **Q. Was any consideration made for the potential pricing impacts the single tariff**
17 **volumetric rates may have on consumption?**

18 A. Yes. An analysis of the rate impacts were performed for the two largest divisions, Sanlando
19 and Lake Utility Services. (LUSI). These analyses are shown in Exhibit JFG-2 on
20 Schedules W-6 and W-7, respectively. As expected, because Sanlando's current usage
21 rates are relatively very low and about 72% of the water use is billed at the third block or
22 usage exceeding 16,000 gallons per month, there is potentially a substantial impact on their
23 overall water usage. The repression analysis on Schedule W-6 shows an overall reduction
24 of 11.67% of the water used over the 8,000 per month block 1 usage, representing essential
25 domestic monthly water use which would not be significantly sensitive to pricing. On the

1 other hand, LUSI whose current rates and bills will vary little under the proposed single
2 tariff rates will show insignificant impacts on water usage.

3 **Q. As a result, were your water use projections for Sanlando changed from those shown**
4 **for the test year?**

5 A. Yes. As shown on Schedule W-4 the second block usage was decreased by 95.2 thousand
6 gallons and the third block usage by 112.7 thousand gallons which is an 11.67% reduction
7 of Sanlando's test year usage.

8 **Q. Mr. Guastella do the water and sewer rates developed in your exhibit and shown on**
9 **Schedule W-1 and Schedule S-1 recover the appropriate and corresponding revenue**
10 **requirement components?**

11 A. Yes.

12 **Q. In your opinion, are the rates developed fair and reasonable?**

13 A. Yes. Exhibits JFG-4 and JFG-5 contain water and sewer rates and bill comparisons. These
14 tables are self-explanatory and provide the impact that consolidated STP rates will have on
15 the individual systems. There is a wide range of revenues because most of the systems are
16 relatively small, with revenues at about \$1.0 million or less, and many less than \$500,000
17 in revenues. Although Sanlando would have revenues that primarily support single tariff
18 pricing, its current rates are relatively very low and it will benefit under single tariff pricing
19 when, as expected, significant capital improvements are made to its system. In any event,
20 the proposed single tariff rate structure on a consolidated basis meets the criteria I discussed
21 in general, and it accomplishes the major goal of having the customers of all of the systems
22 paying the same rates for the same service.

23 **Q. Does that conclude your testimony at this time?**

24 A. Yes.

25

1 BY MR. FRIEDMAN:

2 Q Mr. Guastella, do you have a brief summary
3 you'd like to give?

4 COMMISSIONER BROWN: Oh, just a second, Mr.
5 Friedman. Staff.

6 MS. JANJIC: Thank you.

7 MR. FRIEDMAN: Oh, I'm sorry.

8 MS. JANJIC: That's okay.

9 COMMISSIONER BROWN: This new process.

10 MR. FRIEDMAN: I understand.

11 MS. JANJIC: Good evening, Mr. Guastella.

12 Have you had an opportunity to review staff's
13 comprehensive exhibit list, specifically staff's
14 exhibits identified with your name?

15 THE WITNESS: Yes.

16 MS. JANJIC: And did you prepare these
17 exhibits or were they prepared under your direction
18 and supervision?

19 THE WITNESS: Yes.

20 MS. JANJIC: Are they true and correct to the
21 best of your knowledge and belief?

22 THE WITNESS: Yes.

23 MS. JANJIC: Would your answers be the same
24 today as they were when you prepared these
25 exhibits?

1 THE WITNESS: Yes.

2 MS. JANJIC: Are any portions of your listed
3 exhibits confidential?

4 THE WITNESS: No.

5 MS. JANJIC: Thank you.

6 COMMISSIONER BROWN: Thank you. Now Mr.
7 Friedman.

8 MR. FRIEDMAN: Now I can't remember where I
9 was. Did I already ask for his testimony to be
10 inserted into the record?

11 COMMISSIONER BROWN: We did that one.

12 BY MR. FRIEDMAN:

13 Q Okay. Would you like to give a summary of
14 your testimony, Mr. Guastella?

15 A Sure. My assignment was to prepare a single
16 tariff pricing or consolidated rates. The methodology
17 was simply to combine all the billing units and apply
18 rates that would generate the revenue requirement on a
19 pro forma basis. The reasons that I recommend
20 consolidated single tariff pricing are fairly numerous.
21 One is rates for customers should be the same for the
22 same service. So a customer receiving the same service
23 should pay the same rates as a regulatory policy. Rate
24 setting is an averaging process and has been an
25 averaging process for throughout all the jurisdictions

1 that I've testified and worked. And let me give you a
2 couple of examples. A person close to the well pays the
3 same rate as the person far from the well. Although
4 there might be a difference in cost, the rates for the
5 customers in that system are charged the same for all
6 customers, despite a cost of disparity, which means
7 those rates are not unduly discriminatory.

8 Rates for existing customers are the same as
9 the rates for new customers being added, even though
10 they might be higher or lower cost to serve a new
11 customer, the rates are not unduly discriminatory
12 because rate setting is an averaging process. There is
13 conservation rights. Typically when you look at the
14 cost the more you sell the lower the cost per unit. The
15 Commission and the regulatory agencies around the
16 country have established conservation rights because the
17 public policy that's in the best interest of all
18 customers, of all systems. And, therefore, those rates
19 despite they might be contrary to cost allocations are
20 not considered unduly discriminatory because they're --
21 they represent a regulatory policy that's in the best
22 interest of all the customers.

23 Single tariff pricing reflects a sharing of
24 costs. The way the individual systems are now, they all
25 share in costs. They all receive the benefit, the

1 smallest and the largest receive the benefit of
2 economies scale. There are shared costs for
3 administrative costs, administrative equipment,
4 purchasing, financing, which is significant in this
5 case. Accounting. Billing. They all share in those
6 costs so that the individual system rates based on
7 individual systems under a rate base rate of return are
8 generating economies of scale that have benefited all of
9 the systems under one corporate management. Those
10 benefits are achieved automatically now. These are not
11 stand-alone utilities, because if these were truly
12 stand-alone utilities, the rates would be higher because
13 they each would have individual costs for all the items
14 I just mentioned.

15 One of the major benefits is financing. The
16 system's capital costs are paid for through financing,
17 which is done at a corporate level so that at a
18 corporate level financing is larger, for one thing.
19 There is also internally-generated funds through
20 depreciation and retained earnings at a corporate level
21 that contributed by each one of these systems. So the
22 more internally generated funds you have and cash flow
23 to pay for capital improvements, the less you have to
24 finance and the benefits of that cash flow go to all the
25 systems, the smallest to the largest.

1 And then the big benefit that has been
2 discussed before and earlier today is that if each
3 system needs capital improvements the rate impact is
4 mitigated for all of the customers because those costs
5 for capital depreciation return on investment are not
6 assigned just to one of the individual systems, but to
7 all of the systems. So there's a long-term benefit.

8 In terms of just a concept, I believe if you
9 ask the customers, do you believe it's fair to pay the
10 same rates for the same service, I don't think you get a
11 customer saying no. If you start to talk about price
12 increases, well customers don't like price increases no
13 matter what they are or where they are.

14 So I think for all those reasons you have a
15 benefit of single tariff pricing that represents sound
16 regulatory policy that's in the best interest of
17 customers, and they're not unduly discriminatory rates
18 for all the reasons I stated.

19 And if I may, not in my direct testimony, but
20 the question was asked, I testified on single tariff
21 pricing in Indiana some years ago. Back then I believe
22 there was something like 17 jurisdictions that have gone
23 to single tariff pricing.

24 COMMISSIONER BROWN: Thank you, Mr. Guastella.

25 THE WITNESS: Thank you.

1 hall that if I mispronounce your name you are certainly
2 entitled to mispronounce mine, as well. So we have that
3 understanding.

4 A Thank you. I appreciate that.

5 Q I like this concept of the same service and
6 the same rate. And at first when I read your inclusion
7 of Franklin Roosevelt's quote, I thought that was kind
8 of interesting. Equal service at equal rate. And
9 that's what you are advocating for this company, as
10 well, is that right?

11 A Yes.

12 Q Now, what was the problem why there wasn't
13 equal service for equal customers for the provision of
14 electricity when Roosevelt made that statement?

15 A I believe regulatory agencies at the time were
16 looking at the different costs of customers near
17 generating plants and far some generating plants in the
18 rural areas compared to urban areas. So it --

19 Q So it was customary --

20 A I wasn't there in 1929, but I think they're
21 the same issues that we're looking at now. There is a
22 difference in the cost of providing service based on
23 proximity to plants and aging of systems and according
24 to what Roosevelt called for was a recognition for
25 utility services that are essential, same rates for the

1 same service is a good regulatory policy. If it was
2 good for electric, I think it's even more so for water
3 and wastewater because those are a fact just as
4 essential services.

5 Q Yes. And the problem was density, as you say,
6 and the fact that in the rural areas there could be many
7 miles between customers. At that time the country was
8 very rural versus in the city, is that correct?

9 A That's correct.

10 Q And so the cost of providing the electricity
11 20 miles from the city was considerably higher because
12 you had to string two wires 20 miles to get to that
13 customer, is that correct?

14 A Well, I'm not familiar with how many wires,
15 but that's the general concept.

16 Q A minimum of two wires. So it was a cost of
17 service issue, was it not?

18 A Yes.

19 Q And so that the providers of that electric
20 service, be it Con Edison in New York City, just did not
21 provide that service, it was too far for them to
22 transport it economically, is that correct?

23 A Well, I think what Roosevelt was discussing
24 are rates that existed for both telephone and electric
25 so there were -- there was service being provided and

1 for the service that was being provided, they call for
2 the same rates for the same service.

3 **Q So it was the cost of service problem and**
4 **trying to get a rate. And how was the problem solved?**
5 **How was the rural portion of this country electrified?**

6 A It's my understanding through single tariff
7 pricing. I mean, the facility -- the service was
8 provided, but single tariff pricing or the same rates
9 for the same service were established if Roosevelt's
10 recommendations were accepted.

11 **Q So they forced the investor-owned utilities to**
12 **provide service to the rural electrification at the same**
13 **rates they provided to the cities?**

14 A I don't know if they forced them to extend
15 lines or not, but where there were lines that were
16 serving rural areas or if there were requests for
17 service, I don't think they were forcing it. I think
18 they were taking the total cost of providing that
19 service and establishing a consolidated or single tariff
20 pricing.

21 **Q Are you familiar with the Rural**
22 **Electrification Act?**

23 A No.

24 **Q That was passed during the Roosevelt**
25 **administration?**

1 A No.

2 Q Do you know what the origin of the electrical
3 cooperatives are in the United States?

4 A No.

5 Q Would you be surprised to learn that those
6 entities, and now those acts like the Tennessee Valley
7 Act, were government-subsidized generation facilities to
8 provide rural --

9 MR. FRIEDMAN: Objection. It sounds like to
10 me he's testifying.

11 COMMISSIONER BROWN: I agree. Objection
12 sustained.

13 MR. BILENKY: Darn. And I was really getting
14 rolling there.

15 BY MR. BILENKY:

16 Q So you're not familiar with the Rural
17 Electrification Act?

18 A No.

19 Q Okay. And if it had any relevance to
20 Roosevelt at the time it might change your opinion.
21 Would that be a fair statement?

22 A It doesn't change my opinion as to what
23 Roosevelt said because I think what Roosevelt said is
24 applicable to what we're dealing with today with this
25 water and wastewater case.

1 Q Okay. Now, on page five of your testimony,
2 you say single tariff pricing has been recognized as one
3 of the incentives in line -- starting on line 22. Do
4 you see that?

5 A Yes.

6 Q What is the attribution of that statement?

7 A The NARUC, and I believe NAWC, NARUC, of
8 course, National Association of Regulatory Utility
9 Commissioners and NAWC, National Association of Water
10 Companies, have either jointly or assisted each other in
11 putting out a source document and a best practices
12 recommendations where they encourage larger utilities to
13 acquire smaller utilities. And one of the
14 encouragements is to have consolidated or single tariff
15 pricing.

16 Q But we're not talking in this case about
17 acquiring any further small utilities, are we?

18 A I'm not. I'm talking about the --

19 Q It's a general --

20 A -- the systems that have filed this as part of
21 this rate case. I'm not dealing with acquisitions of
22 other utilities.

23 Q But we've heard the company say that their
24 single pricing strategy was so that they would have
25 additional capital for systems enhancement, isn't that

1 **what they said?**

2 A No. I think -- I don't know. I don't recall
3 that specific testimony. I don't think single tariff
4 pricing generates additional capital. I think what it
5 does is it spreads the cost of new facilities over a
6 customer base that enables each system benefit by
7 sharing those costs and mitigating the impact on any one
8 system.

9 There is, I think, a benefit of lower cost of
10 capital under consolidated rates because you have for
11 each system that's then faced with the capital
12 improvements, because as I've indicated before you have
13 depreciation that's being generated by all systems which
14 provides a cash flow for improvements. You have
15 internally-generated funds that's generated by all
16 systems that provides additional cash flow. It probably
17 has an impact on the cost of new capital because you
18 have a lower amount of debt financing to do if you have
19 a larger source of internally-generated funds. And the
20 benefit of that goes to the utility that needs the
21 higher amount of capital improvements at any point in
22 time as you move forward.

23 **Q Do you know -- going back to your same rates**
24 **for the same service, do you know if municipal electric**
25 **utilities in Florida can provide and are authorized**

1 under the statutes to provide service outside of the
2 municipal boundaries?

3 A I believe there is service outside of the
4 municipal boundaries.

5 Q Provided by the municipality?

6 A Yes.

7 Q And are you aware whether under Florida
8 Statutes -- strike that.

9 Whenever you draw a line, like a municipal
10 boundary, it defines different sections of the service
11 area, does it not?

12 A Yes.

13 Q And in that municipal boundary could have
14 municipal customers within the city on a street that is
15 divided by a municipal boundary. Can that happen?

16 A Yes.

17 Q And both those customers could be served off
18 the same distribution network, is that correct?

19 A Well, eventually. I mean, there would be
20 different location of the customers so there would be a
21 different --

22 Q I'm just saying --

23 A -- they're different mains involved.

24 Q If you had a line going down a street and the
25 houses on the right-hand side of the street were within

1 the city and those customers on the left-hand side of
2 the street were just outside of the city but served by
3 the city they were likely served by the same facilities.
4 Would that be a reasonable assumption?

5 A If that theoretically existed, yes.

6 Q Yes. And do you recognize the fact that this
7 service then would be identical for each of them, would
8 it not?

9 A Yes.

10 Q And do you know that in Florida the
11 municipalities that are large are entitled to charge a
12 higher rate for the citizen residing outside the city
13 boundaries than within the city boundary for the
14 identical service?

15 A Yes.

16 Q Now, you also mentioned in your statement that
17 for the new customers added to the system, they pay the
18 same rates as the old customer. Did I hear you say
19 that?

20 A New customers pay the same rates as existing
21 customers in accordance with the utilities tariff
22 schedule.

23 Q And you're not talking about -- are you
24 talking about new customers who are moving into, like,
25 an existing facility already served in the city, or are

1 you talking about additions of customers who have no
2 connection and are building new facilities and new
3 demand. What do you mean by new customers?

4 A All new customers, whether they're attaching
5 to an existing main or whether there's a main extension
6 to serve those customers when it comes to the general
7 rates for water and wastewater service, those rates are
8 the same.

9 Q Great answer. Lousy question. Let's start
10 the question over again.

11 When you say a new customer, you are not
12 referring to I moved to Tallahassee into an existing
13 house, I am not the new customer that you're talking
14 about, is that correct? You're talking about the new
15 customer who takes a piece of rural -- or an unoccupied
16 piece of ground -- could be a lot, it could be
17 subdivision and built a new facility providing new
18 demand for the system. Which new customer are you
19 talking about?

20 A Well, all new customers. Whatever
21 circumstance you're describing, whether someone sells a
22 house to a new customer, whether a new customer is added
23 to a line where no house exists and one is built, or
24 whether you have an extension of service for a new
25 customer individually or as a development, all customers

1 existing in new pay rates in accordance with the
2 approved tariff schedule.

3 Q That is correct, but there is another tariff
4 schedule, is there is not, approved by this Commission
5 for service availability charges that new customers
6 adding new capacity of the system will pay an additional
7 charge for that service.

8 A That's not a new tariff schedule. That's a
9 separate rate for a separate charge.

10 Q But that does exist?

11 A Sure.

12 Q And so they don't pay -- they may pay the same
13 rate as an existing customer over time when they join
14 the system, but to get on this system they have to pay
15 additional expenses to purchase capacity in effect, is
16 that correct?

17 A Well it's correct in the sense that their
18 service availability charges, whether it's for capacity
19 or mains or anything else, but those charges are based
20 on capital costs with the intent of putting new
21 customers on an equal footing with existing customers.
22 So if those formulae work correctly, then the new
23 customer is paying a share of the cost similar to the
24 existing customer. It doesn't always work perfectly,
25 but that's the intent, which is the same intent as

1 customers paying the same rates for the same service.

2 Q And for that -- for the existence of those
3 service availability charge is to eliminate the fact
4 that the existing customers would be subsidizing the new
5 customer if absent that charge because they had already
6 provided the investment and cost for the facilities that
7 the new customer would be using, is that correct?

8 A They're trying to -- the utilities are,
9 through service availability charges, are trying to put
10 the new customer on equal footing with existing
11 customers.

12 Q That's right. And it's to eliminate the
13 subsidy that would come from the existing customers
14 having paid for that plant that the new customer is now
15 using, is that correct?

16 A Oh, I don't know if you'd call it a subsidy.
17 I think it's just a cost recovery where you're trying to
18 balance the cost recovery.

19 Q Well, do you know -- have you seen any -- have
20 you been advised or seen any cases where that particular
21 issue on the legality of the service availability
22 charges in Florida were tested?

23 A Were -- excuse me -- tested?

24 Q Yes, sir.

25 A I'm not familiar with any specific case where

1 it was tested.

2 Q Okay. Now, you just mentioned the fact a
3 little earlier that one of the functions of the
4 collection of depreciation expense was to offset -- it
5 was to recover the cost of investment in plant as it
6 aged, is that correct?

7 A Yes.

8 Q And so the replacement of existing facilities
9 the Commission authorizes the recoveries of the those
10 costs so that in effect new customers are not paying for
11 that replacement. It's being paid for by the customers
12 who have used those facilities over time, is that
13 correct?

14 A Depreciation is based on the recovery cost of
15 the average service life of the assets so that today's
16 customers pay their fairest of costs that they're using
17 to serve them today and future customers pay their
18 fairest of costs to use and serve them in the future.

19 Q I asked a question -- and it's a point of
20 personal information. In your career and your position,
21 what is -- how would you define what you are marketed
22 as? We have professional engineers. We have lawyers.
23 Are you a consultant or are you a rate structure expert?
24 What is your particular expertise that you market?

25 A I'm a rate expert, valuation expert,

1 management expert, and all regulatory matters expert.

2 **Q Okay. Is there --**

3 A And cost allocation and rate design and
4 depreciation and I've pretty much done everything there
5 is to do with respect to water and sewer utility rate
6 setting and valuation.

7 **Q Is there a certification for your profession**
8 **at all by any professional organization?**

9 A No.

10 **Q No. And you have published --**

11 MR. ARMSTRONG: I'd like to object at this
12 time. It sounds like we're getting into voir dire
13 and voir dire is waived because it wasn't raised
14 prior to the pre-hearing per the OEP and we had
15 that discussion.

16 MR. BILENKY: Well, I was actually going to
17 get to something that was quite meaningful but I'll
18 get there another way.

19 COMMISSIONER BROWN: Okay.

20 BY MR. BILENKY:

21 **Q So you're familiar with publications and**
22 **manuals. I think you mentioned in a number when I asked**
23 **you before about the source. Are you a member of AWWA?**

24 A Yes.

25 **Q Are you familiar with M-1?**

1 A Yes. I was one of the committee members that
2 developed 1983 edition of the M-1 rate manual.

3 Q Are you being involved in the re-writing of
4 that edition?

5 A No.

6 Q Do you know who is?

7 A No.

8 Q Do you know Mr. Robert Orie?

9 A No.

10 Q Okay. In -- just give me a moment. I want
11 to -- it will save time, I think.

12 You say on page eight of your testimony that
13 single tariff is consistent with traditional
14 cost-of-service principles, is that correct?

15 A Yes.

16 Q Let's talk about that. What are those
17 principles?

18 A The establishment of rates based on an
19 averaging process, and I believe I described some of
20 those examples in terms of customers close to the well,
21 far from the well, conservation rates, new customers,
22 existing customers, rate setting --

23 Q Wait, wait, wait. I'm sorry. I'm going to
24 interrupt you you're averaging -- is this averaging;
25 distance from the source, new customers? I'm trying to

1 **understand what --**

2 A Rate setting is an averaging process. When
3 you do a cost allocation and rate design study you don't
4 design rates for a specific customer. You design rates
5 for classes of customer and those classes of customer,
6 be it residential, commercial, industrial, public
7 authority, fire protection customers -- they're all
8 separate classes of customers. In each of those classes
9 there are different customers, multiple customers whose
10 cost of providing service on an individual basis could
11 differ widely. One example is customer close to the
12 well, one far from the well.

13 However, when you do rate setting, you
14 establish cost allocations to recognize that rate
15 setting is an averaging process so that you develop
16 rates on the class of service, taking into account
17 diversity of demands, and in the case of a water system
18 the relative maximum demands or in relation to average
19 demands called load factors, peak hour demands, fire
20 demands, and then customer costs that don't fluctuate
21 with water usage at all, but fluctuate with average
22 number of bills. So rate setting is -- consistently
23 been an averaging process.

24 **Q Okay. And the customer that you have in the**
25 **Sandalhaven Utility that's owned by UIF, have you looked**

1 at those customers and their averages to see if they're
2 comparable to those in, say, Sanlando?

3 A I'm not sure I understand you. If I look at
4 the customers to see --

5 Q See if they fit these principles.

6 A Well, the customers don't fit the principles,
7 the cost of providing service fits those principles.
8 The customers could vary for many reasons one to the
9 other.

10 Q So did you look at the cost of providing
11 services by the -- to the customers and the individual
12 rate classifications in Sandalwood versus Sanlando?

13 A I provided a schedule that shows what the cost
14 would be for individual systems as opposed to single
15 tariff pricing so that the Commission would have
16 information as to the impact of going to single tariff
17 pricing. I did not do a cost allocation for each one of
18 the systems and the costs being incurred are in large
19 part common cost to the benefit of each one of the
20 systems and, therefore, each one of the customers.

21 Q Okay. Since you're familiar with M-1, I'm
22 going to read a list of considerations and ask you if
23 you believe that they are part of the principles of
24 cost-based rate making. Do you believe that
25 effectiveness in yielding total revenue requirements

1 full cost recovery.

2 A I'm sorry. I didn't hear your first couple of
3 words.

4 Q I'm sorry. Maybe if I got closer. How about
5 that? The objectives of -- the principles for setting
6 cost-based rate making, I'm going to read you through a
7 list of considerations and you can tell me whether you
8 believe that they are appropriate. Effectiveness in
9 yielding total revenue requirements full cost recovery.

10 A Yes.

11 Q Revenue stability and predictability?

12 A Yes.

13 Q Stability and predictability of rates
14 themselves from unexpected or adverse changes?

15 A Yes.

16 Q Promotion of effective resources, conservation
17 effective use?

18 A Yes.

19 Q Fairness in apportionment of total costs among
20 the different ratepayers?

21 A Yes.

22 Q Avoidance of undue discrimination in subsidies
23 within rates?

24 A Yes.

25 Q Dynamic efficiency in response to changing

1 supply-and-demand patterns?

2 A Yes.

3 Q Freedom from controversy as to proper
4 interpretation of the rates?

5 A It's a good goal. Nice to achieve. Not
6 always available, though.

7 Q It's one of the objectives. It's an
8 objective. It's not an outcome necessarily. Okay.
9 Simple and easy to understand?

10 A Yes.

11 Q Simple to administer?

12 A Yes.

13 Q And legal and defensible?

14 A Yes.

15 Q And is it your opinion that in setting this
16 single rate in this case meets all of those objectives
17 to the best of your ability?

18 A Yes, yes, yes, yes, yes, yes, yes.

19 Q Okay. Great. I'm going to -- let me go back
20 to your testimony. What is an unduly discriminatory
21 rate?

22 A One that creates a subsidy. So if rates are
23 not unduly discriminatory, there is no subsidy.

24 Q Do you believe that the unified rate here
25 doesn't create a subsidy?

1 A Absolutely does not.

2 **Q It does not?**

3 A No, because these rates are not unduly
4 discriminatory. These rates reflect a regulatory policy
5 that's in the best interest of customers for all of the
6 categories and reasons I described.

7 **Q And you don't believe 144 percent increase in**
8 **one utility's customers is not an unduly discriminatory**
9 **subsidy?**

10 A That wouldn't -- no, that does not -- that
11 does not define an unduly discriminatory rate because if
12 you take a look at all of the systems and the benefits
13 that that system would achieve in mitigation going down
14 the road, the benefits that the system -- and we're
15 talking about Sanlando -- the benefits that Sanlando
16 receives now by sharing in all of those common costs
17 that I described before, and if you look at Sanlando's
18 rates, they're a small fraction in many cases of all the
19 other rates so they're going to just be brought up to
20 the level of service and the rates that everyone is
21 going to pay.

22 So they're going to be paying the same rates
23 as everyone else and their rates now are very low so the
24 percentage increase is significantly high, and I
25 recognize that it's a high percentage increase, but they

1 will receive -- they have been receiving the benefit of
2 the consolidated multiple systems under the corporate
3 umbrella and they will continue to receive those and
4 they will received the added benefit of mitigation of
5 cost increases for capital improvements that they're
6 going to need that would impact them individually, but
7 not if you have consolidated rates. Those costs are
8 going to be spread to everyone else.

9 **Q Let me ask you something. The centralization**
10 **of the billing system is already in place, is it not?**

11 A Yes, it is.

12 **Q And the company does consolidated raising of**
13 **capital through debt and equity, is that correct?**

14 A Well, it doesn't consolidate it. It's already
15 part of what they do. They finance on a corporate level
16 so the benefit of that financing goes to each one of the
17 systems including Sanlando.

18 **Q Okay. And that's going on right now and**
19 **everybody's receiving the benefit of that even though**
20 **there is not a unified rate, is that correct?**

21 A That's correct.

22 **Q And the accounting system is being**
23 **administered on a unified basis. Is the hiring also**
24 **done on a unified basis?**

25 A I don't know whether they hire -- local people

1 hire local people or not, but the corporate level I
2 would imagine also there's a benefit in terms of
3 corporate-level hiring.

4 **Q So that all of the types of functions that**
5 **these utilities run that can be consolidated, have been**
6 **consolidated, would that be your opinion?**

7 A No, because you have individual rates.

8 **Q No, no. What I'm saying as far as expenses.**

9 A I'm not understanding your question, then.

10 **Q Okay. These operational entities, the**
11 **billings and acquisition of capital, accounting,**
12 **probably health insurance, all of those functions which**
13 **are unrelated to volumetric production of water, what we**
14 **would call burden rate, those have been consolidated,**
15 **have they not?**

16 A I don't know if I would describe that as being
17 consolidated. What they're -- the impact of that is
18 that all systems large and small, all systems benefit by
19 those economies of scale, there is not a consolidation,
20 there is just an allocation of costs among all the
21 systems on a ERC basis, I believe, in many cases, not
22 necessarily financing. That just goes to the benefit of
23 all systems at the point that each individual system
24 needs financing, but all of those benefits now are
25 benefits that are being received on the individual

1 system rates.

2 **Q But there are other costs. So all of those**
3 **costs, like the cost for the preparation of one bill, is**
4 **uniform across all of the companies, is that correct?**

5 A The cost of billing is at the corporate level
6 and I believe those billing and accounting costs are
7 spread on a ERC basis.

8 **Q And each utility makes contributions to those**
9 **through their -- through the revenues that they derive**
10 **from the sale of services, is that correct, on a uniform**
11 **rate basis?**

12 A The total revenue requirement of the
13 utility --

14 **Q Not the question.**

15 A -- is lower because of those economies of
16 scale and each individual system benefits by them.

17 **Q And they pay their pro rata share based on the**
18 **number of ERU's, is that correct?**

19 A The rate's reflected. There it not a separate
20 payment for those expenses to the company. There is an
21 incurrence of those economies of scale that benefit all
22 of the systems. I don't think they have each system
23 paying upstream the costs that are simply reflecting
24 economies of scale.

25 **Q Okay. Now, you want to average also the --**

1 like the chemical costs and the electric cost, and those
2 can vary from system to system because of different
3 system providers, is that correct?

4 A Well, I'm really not averaging individual
5 costs. I'm saying single tariff pricing is going to
6 have everyone paying the same rates for the same
7 service. I'm not at a point where I'm averaging and
8 identifying each cost and saying, let's average that
9 across to everyone.

10 Q What you're doing is you're collecting all of
11 the costs. You're taking the overall revenue
12 requirement and dividing it uniformly and applying it at
13 a common rate to all of the utilities?

14 A Correct.

15 Q And you're not recognizing the fact that some
16 of the utilities have higher chemical costs or higher
17 electrical costs because of where they're located?

18 A That's correct.

19 Q That's correct. And the fact that the ranges
20 of that can be orders-of-magnitude difference is
21 irrelevant to you?

22 A That's correct.

23 Q And so when we go back -- strike that.

24 So if the costs are relatively different to
25 these ratepayers, then there is a subsidy going on, is

1 **there not?**

2 A No.

3 **Q No?**

4 A There is no subsidy because the rates that
5 we're proposing on a single tariff pricing reflect
6 rate-setting policies that reflect averaging rates,
7 customers closest and far from the system, conservation
8 rates. Those are all reflecting different rates or rate
9 structures that are different from the costs, but
10 they're good public policy and the best interest of
11 customers now and they're going to be in the best
12 interest of customers in the future when you mitigate
13 impact. As a regulatory policy that's acceptable -- if
14 it's acceptable to the Public Service Commission as a
15 regulatory policy, then those rates are not unduly
16 discriminatory and there's no subsidy if it's not unduly
17 discriminatory. It's for a good purpose that's in the
18 public interest.

19 **Q And you're saying that that's policy level?**

20 A Well, the Commission is going to be making the
21 policy and it's my recommendation to the Commission that
22 single tariff policy is one that's in the best interest
23 of customers.

24 **Q And so from your perspective, regardless of**
25 **the differences in the relative cost ages, investments,**

1 utility sizes in these systems, it's irrelevant to you
2 that you that no matter how disparate they can be, there
3 is no subsidy when you combine all of these utilities.
4 That's your opinion?

5 A My opinion is single tariff rates do not
6 create rates that are unduly discriminatory and there's
7 no subsidy involved. There are differences in cost of
8 providing service on an individual basis, but that's not
9 a subsidy because there are differences in costs serving
10 every individual customer, new customers, existing
11 customers, just to go through the list. All of that is
12 not unduly discriminatory although there's a difference
13 in cost, and those differences in cost are not
14 considered subsidies.

15 Q So when my customers in my client area are
16 looking at what the cost of providing them service today
17 is and recognizing that and accepting that those are
18 reasonable costs set by a regulatory agency and tomorrow
19 those costs go up by 144 percent without any changes in
20 the costs providing the service by those who -- that
21 utility to my customers, you don't look at that as a
22 subsidy?

23 A Not a subsidy. Single tariff pricing.

24 MR. BILENKY: I don't think no matter how I
25 characterize it --

1 COMMISSIONER BROWN: Or how many times you've
2 asked it.

3 MR. BILENKY: I tried, Madam Chairman. So
4 help me I've been very good today. You ought to
5 see me on a bad day.

6 BY MR. BILENKY:

7 **Q So you have not in any sense in doing your**
8 **single service, your single tariff rate, looked at the**
9 **component called value of service in doing it. This is**
10 **strictly a cost-of-service study?**

11 A Well, this really isn't even a cost-of-service
12 study, per se, where I allocate costs among different
13 classes of customers. I'm accepting the rate structures
14 that the Commission now has for base facility charges,
15 usage rates, bulk service, flat rate service. All of
16 that I'm not changing. I'm just recommending that the
17 consolidated single tariff pricing is to take the entire
18 revenue requirement and apply the same rates for the
19 same service.

20 **Q Okay. Can we go back now and can you answer**
21 **my question? My question was you did not consider value**
22 **of service in doing this example, is that correct?**

23 A Rate setting does not consider value of
24 service. It considers the cost of providing service.

25 **Q And you did not look at -- this has nothing to**

1 do with affordability either. Are you familiar with the
2 term affordability?

3 A No.

4 Q You're not familiar with the term
5 affordability?

6 A I'm familiar with the term affordability, but
7 rate setting doesn't make adjustments for affordability
8 unless the Commission is going to establish some
9 low-income type rate. And if it establishes a
10 low-income-type rate that's not cost justified, but it's
11 good public policy, that rate is not a subsidy being
12 given to those low-income customers. That's a
13 regulatory policy that's not unduly discriminatory.
14 That comes into this umbrella of what the regulatory
15 policy is so that all customers are able to get service
16 now and in the future and at the best cost possible by
17 averaging the cost.

18 Q So affordability, I think you are talking
19 about something like lifeline rates for electric?

20 A Well, I wasn't talking about it all with
21 respect to --

22 Q I was talking about it.

23 A -- but that would be one of these.

24 Q Right. And you and I are both old enough to
25 remember POTS. Do you even know what POTS are?

1 A No. I'm not that old.

2 Q I'm taking a beating here. POTS, plain old
3 telephone. It was the lifeline -- this Commission did
4 it as a matter a fact that's why I thought you might
5 know. You've got a black dial-up telephone called POTS
6 and it was -- you're not that old.

7 Well, it's been a joyous occasion and I
8 enjoyed it very much chatting with you and I thank you
9 Mr. Guastella.

10 A Thank you.

11 MR. BILENKY: Thank you Madam Chairman. See,
12 I was watching your 6:30 time.

13 COMMISSIONER BROWN: I'm watching it like a
14 hawk. I know our court reporter needs to take a
15 break in a moment, but I'm going to see how many
16 questions staff has.

17 MS. JANJIC: I'm going to make you very happy.
18 None.

19 COMMISSIONER BROWN: Okay. Commissioners.
20 Commissioner Brise first, then.

21 COMMISSIONER BRISE: Thank you. I just have a
22 couple. So referencing the subsidy issue net that
23 was just discussed. So is Sanlando receiving a
24 subsidy now? Are their customers receiving a
25 subsidy now?

1 THE WITNESS: No.

2 COMMISSIONER BRISE: No? Okay. And so would
3 they be subsidizing other customers with the
4 increase moving forward?

5 THE WITNESS: No.

6 COMMISSIONER BROWN: Sir, can you make sure
7 you speak into the microphone?

8 THE WITNESS: Sorry. No.

9 COMMISSIONER BROWN: Thank you.

10 COMMISSIONER BRISE: Okay. This sounds very
11 rational to me. So on page eight, line 20 to 22.
12 So in this docket some customers will receive
13 significant rate shock if the rate case is approved
14 as requested today. How do you address the rate
15 shock some customers will be facing in this docket
16 if approved?

17 THE WITNESS: Well, I believe the largest
18 increase will be Sanlando, but Sanlando's rates are
19 now in some cases 20 percent of the other rates,
20 usage rate, and smaller. So what Sanlando's rates
21 are going to do is they're going to go up by those
22 significant percentage increases. I don't know
23 whether they're going to look at that as a rate
24 shock or not because what they're going to do is be
25 paying same rates as everyone in the those other

1 smaller systems are going to be paying. So
2 everything is relative.

3 When you ask a customer do you want to have a
4 hundred percent rate increase they're not going to
5 be happy with it, but ultimately they're going to
6 be paying the same rates as everyone else, and
7 everyone else is living with those rates despite
8 the demographics of the Sanlando customer base
9 compared to the demographics of the other customer
10 base. And I don't set rates based on what people
11 can afford, but I question whether or not that's
12 going to be a factor.

13 I don't think anybody likes big rate
14 increases, but ultimately when it's Sanlando's turn
15 to get the benefit of having the other customers
16 pay for major capital improvements to the millions
17 of dollars rather than them paying for it through
18 individual rates, then I think they'd be the happy
19 party. So I think now is the time to go to single
20 tariff pricing, give the customers for some of the
21 other systems benefit of single tariff pricing, and
22 then when it gets to be Sanlando's turn to benefit
23 from sharing those costs among the other systems,
24 they will get that automatically. They probably
25 won't know about it, but they will get those

1 benefits automatically.

2 COMMISSIONER BRISE: So would you say that the
3 rates that Sanlando customers are paying now, are
4 they compensatory or are they -- I mean, if -- are
5 they compensatory?

6 THE WITNESS: Well, they're compensatory in
7 the sense that the Commission approved the rates.
8 So to the extent that the Commission approved the
9 existing rates they're compensatory except for any
10 cost of providing service increases that are not
11 reflected in the existing rates, but because the
12 company needs rate increase, they're not
13 compensatory. The company needs a rate increase in
14 order to make all rate compensatory.

15 COMMISSIONER BRISE: Okay. I have a couple
16 questions, but I'll leave that there for now.

17 COMMISSIONER GRAHAM: Sure. Commissioner
18 Polmann.

19 COMMISSIONER POLMANN: Thank you, Commissioner
20 Graham. Good evening.

21 THE WITNESS: Good evening.

22 COMMISSIONER POLMANN: Let's look at your
23 direct testimony on page three, please, line ten.

24 THE WITNESS: Line ten?

25 COMMISSIONER POLMANN: Yes, please. This has

1 been referred to. Have a question. Single tariff
2 pricing is a rate design issue, not revenue
3 requirement. Like to know if you were involved at
4 all in determining the revenue requirement in this
5 case?

6 THE WITNESS: No.

7 COMMISSIONER POLMANN: And who provided that
8 revenue requirement to you?

9 THE WITNESS: I don't know who individually.
10 I received the copy of the overall revenue
11 requirements on a consolidated basis and also for
12 the individual systems.

13 COMMISSIONER POLMANN: Okay. Thank you. So
14 do you have any opinion at all on that revenue
15 requirement?

16 THE WITNESS: No. I'm simply recommending
17 rates to cover the full revenue requirement.

18 COMMISSIONER POLMANN: Okay. Thank you. Also
19 on that page, then, lines 12 through 16, a couple
20 of things. You indicated pricing is an issue
21 resolved strictly -- my emphasis is strictly -- in
22 the best interest of customers. So this tells me
23 that provided that the company receives the revenue
24 that's required, we should be pricing from the
25 customer side. Is that what you mean? If it's to

1 be resolved strictly in the best interest of the
2 customers -- and provided that the company receives
3 the revenue, do you mean to say that the pricing
4 should be viewed from the customer side?

5 THE WITNESS: No. I think the rates -- I'm
6 assuming that the Public Service Commission is
7 going to come out with a decision in this rate case
8 in which the Public Service Commission believes
9 that it is covering the cost of providing service
10 and allowing the utility an opportunity to earn a
11 return that will enable it to maintain financial
12 viability and track capital, and I'm not -- I'm in
13 no position to comment on what that decision is
14 going to be and whether or not it accomplishes that
15 goal. I'm assuming that's the goal that the
16 Commission is going to carry out because that's its
17 responsibility to allow rates that cover costs and
18 a reasonable return on investment.

19 There is also another aspect to the
20 Commission's responsibility, if I may, and that is
21 the problems of small water utilities around the
22 country have been significant for many years single
23 tariff pricing is one way where you're, as a policy
24 matter as a regulatory agency, you want to make
25 sure that all customers of the small systems that

1 would otherwise have problems will get service at a
2 reasonable price. Single tariff pricing is one of
3 the methods of doing that, aside from encouraging
4 with other incentives, large utilities to acquire
5 small utilities.

6 COMMISSIONER POLMANN: Sir, I understand, and
7 I've heard your testimony provided, your response
8 to questions and my question in reading your
9 testimony, if I may -- and I don't mean to ask the
10 same question again, but you indicate here pricing
11 an issue resolved strictly in the best interest of
12 the customers. And I'm just trying to understand.
13 You're making an argument in various places here
14 that the single rate tariff is preferred or you're
15 recommending it. You seem to have an opinion that
16 it's the right thing to do. The company has
17 obviously put this forward and you're supporting
18 it?

19 THE WITNESS: Yes.

20 COMMISSIONER POLMANN: So I'm trying to
21 understand if you're focus is on the customer side
22 based on this statement?

23 THE WITNESS: Yes.

24 COMMISSIONER POLMANN: Thank you. In the next
25 line you say, consider pricing in terms of cost and

1 economic principles. I simply don't understand
2 what you mean be economic principles if you could
3 take just a moment and explain that for me. I
4 think I understand cost. I'm trying to understand
5 economic principles.

6 THE WITNESS: Well the economic principles
7 probably have to do more with the economies of
8 scale that are attributable when you have a utility
9 company that has multiple systems. Those costs
10 then are spread among the individual systems and
11 provide the economies of scale. The other part of
12 the economic principles is the averaging process of
13 rate setting, and I won't repeat all the reasons --

14 COMMISSIONER POLMANN: Yeah, I heard those
15 answers, so thank you. Moving on down the page. I
16 think we're still on -- yeah, page three. In lines
17 23 and 24, and I'll make reference to several other
18 places. I don't mean to jump around in your
19 testimony, but there is a key phrase in here. You
20 say a reasonably equal level of service has similar
21 rates. This is a point, I believe, Mr. Bilenky was
22 making. So equal service similar rates. And then
23 further, page four lines one and two. Customer
24 should pay the same rate for same service. You
25 mention this again on page five, lines 12 and 13.

1 Customers are entitled. Equal service, equal
2 rates. The phrase appears again on page six, lines
3 five and six. I believe the last occurrence is on
4 page 13 at line 22. So I'm reading in your
5 indirect testimony, I believe it's in five places
6 where you discuss or you rely upon this concept,
7 the premise, that same rates for same service, the
8 notion and equal service, equal rates. And if I
9 understand this is simply a key element in your
10 argument and is that a fair statement if I could
11 simply say that's really fundamental to your
12 position, a key element, the same for same. Is
13 it --

14 THE WITNESS: Yes, its one of the key elements
15 and then I support that element with the
16 rate-setting process that essentially reflects
17 that.

18 COMMISSIONER POLMANN: Okay. I just wanted
19 to -- I just saw that throughout and I just wanted
20 to make sure. That seemed to be prevalent. On
21 page 13 -- if we could jump ahead there a little
22 bit.

23 THE WITNESS: I have it.

24 COMMISSIONER POLMANN: On lines 19 and 22 --
25 19 through 22, you make a statement, in any event

1 proposed single tariff rate structure on a
2 consolidated basis meets the criteria discussed in
3 general. Now -- and it accomplishes the major goal
4 of having customers all system paying same rate,
5 same service. In my simple reading of this, those
6 are two separate points. The single tariff meets
7 your criteria in general. I believe this is some
8 of the discussion we've already had.

9 And then referring back to Mr. Bilenky's
10 questions, is it more than that or am I
11 understanding this general criteria? And I believe
12 that was back on page three, lines 15 and 16. I
13 don't want to re-hash that I just want to --

14 THE WITNESS: No, I don't think it's two
15 separate points. I think they're all consistent
16 with the whole concept of rate setting and
17 averaging process, providing service to systems on
18 an equal cost for equal rates. So I think it's all
19 part and parcel of the whole recommendation as a
20 policy matter to go to single tariff pricing.

21 COMMISSIONER POLMANN: Well, what I'm reading,
22 sir, is there are general criteria and then there
23 is the issue of -- and it says a major goal of same
24 rate same service. And, in fact, if you're
25 starting with the notion of a single tariff rate

1 structure, wouldn't the outcome necessarily be that
2 regardless of your goals, the general criteria. If
3 you start with the revenue requirement and you're
4 key element is a single rate structure, that's
5 where you're going to end up?

6 THE WITNESS: Yes.

7 COMMISSIONER POLMANN: How did you consider
8 equity in the rate design?

9 THE WITNESS: Equity in terms of fairness or
10 equity in terms of return on equity.

11 COMMISSIONER POLMANN: Oh, no. Not a return
12 on equity. So fairness in equity issue. You refer
13 to averaging, which I do understand.

14 THE WITNESS: Yeah.

15 COMMISSIONER POLMANN: Was there any
16 consideration of fairness in equity across the
17 customer base?

18 THE WITNESS: Yeah. I think single tariff
19 prices reflects equitable rates because you have
20 the benefit of economy of scale being shared and
21 the benefits of new capital by system being shared
22 rather than putting an impact on the individual
23 system. And then you have equity more in the sense
24 of -- as a regulatory rate setting process for
25 water and wastewater utilities so that the small

1 ones don't -- you mitigate the problems that each
2 individual small system faces on the stand-alone
3 basis. And I've dealt with this issue for years in
4 every state. Literally thousands of small systems
5 that have problems standing on their own and the
6 cost of providing service strictly on a stand-alone
7 basis. Not on individual systems that are already
8 sharing the cost, but strictly stand-alone
9 utilities where they have to do it all there.
10 There are problems that have been addressed as long
11 as I've been in this business, which is a long
12 time.

13 COMMISSIONER POLMANN: Okay. I think I've
14 heard your testimony on that. On the issue of
15 savings, and Mr. Bilenky made the point which I
16 think you've responded to, that the idea of savings
17 due to corporate financing and the notion that it's
18 easier, perhaps cheaper, to generate capital based
19 on the corporate financing, those things are
20 already in place. Do you have -- and you've
21 mentioned economies of scale. Do you have any
22 information that is specific to the savings in this
23 case that you're aware of that's in the docket? Is
24 there evidence of those savings that has been
25 presented? And I understand the concept. I'm just

1 asking if you're aware of any evidence that's --

2 THE WITNESS: No. My concept -- and I believe
3 I testified to that. The cost of putting together
4 this rate filing --

5 COMMISSIONER POLMANN: Yes, sir. Yeah, I'm
6 aware of that.

7 THE WITNESS: Is much higher than it would
8 otherwise be if this was single tariff pricing.

9 COMMISSIONER POLMANN: Okay. I understand
10 that. That is a concept. Are you aware of any
11 evidence or numbers?

12 THE WITNESS: No.

13 COMMISSIONER POLMANN: Okay. Thank you. On
14 your direct testimony, page eight, lines two
15 through nine, you speak about rate stability in the
16 context of capital cost averaging across the larger
17 customer base. So all of the systems aggregate
18 together to create a larger customer base. And if
19 I'm correct, there is a phrase, sooner or later,
20 has the time frame of the benefit. And I'll look
21 at that page in just a moment.

22 COMMISSIONER BROWN: Is there a question
23 there, Commissioner Polmann?

24 COMMISSIONER POLMANN: Yes. Do you have an
25 ability to be more specific on the time frame in

1 terms of --

2 MR. BILENKY: Line six, Commissioner Polmann.
3 It's on line --

4 COMMISSIONER POLMANN: Yeah, line six on page
5 eight. Can you give us any idea on any time frame
6 when benefits accrue from this idea of rate
7 stability?

8 THE WITNESS: I don't have a specific cost of
9 capital. I mean, I haven't developed what the
10 anticipated capital needs are going to be of each
11 of the systems --

12 COMMISSIONER POLMANN: No, I'm not speaking of
13 that, sir. I don't mean to interrupt. You speak
14 about rate stability as a benefit, and then the
15 phrase of sooner or later, which is the benefit a
16 concept but we can't identify a priority.

17 THE WITNESS: No, I believe that's --

18 COMMISSIONER POLMANN: When and to whom that
19 would accrue?

20 THE WITNESS: It's going to have to --

21 COMMISSIONER POLMANN: Do you agree with that?

22 THE WITNESS: Eventually it's going to happen
23 sooner or later, eventually. Each one of these
24 systems is going to have capital improvements and
25 replacements or new capital added. When that

1 happens for each one of the systems, they're going
2 to benefit under single tariff pricing.

3 COMMISSIONER POLMANN: I understand.

4 THE WITNESS: Because they won't have to bear
5 that cost alone.

6 COMMISSIONER POLMANN: Madam Chairman, that's
7 all I have for now. Thank you.

8 COMMISSIONER BROWN: Thank you, Commissioner
9 Polmann. Redirect.

10 MR. FRIEDMAN: None.

11 THE COURT: All right. We have one -- 27
12 through 31. Would you like those moved into the
13 record?

14 MR. FRIEDMAN: I would, please, Madam
15 Chairman.

16 COMMISSIONER BROWN: Seeing no objections
17 we'll go ahead and enter into the record 27 through
18 31.

19 (Whereupon, Exhibit Nos. 27 through 31 were
20 admitted into evidence.)

21 COMMISSIONER BROWN: All right.

22 MR. FRIEDMAN: Mr. Guastella doesn't have any
23 rebuttal so I would like to make sure he can be
24 excused.

25 COMMISSIONER BROWN: Mr. Guastella.

1 THE WITNESS: Thank you.

2 COMMISSIONER BROWN: Thank you for coming and
3 you're excused. Hope you have a good night.

4 All right. It's getting near the dinner hour
5 and I did promise that we would stop early tonight
6 and so with that we will recess until tomorrow
7 morning. Reminder, 9:00 a.m. start time. Thank
8 you all for a smooth morning and day.

9 (Transcript continues in sequence in Volume
10 3.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, DANA W. REEVES, Professional Court Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 11th day of May, 2017.



DANA W. REEVES
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