BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. UNDOCKETED

In the Matter of

INFORMAL WORKSHOP TO DISCUSS AND CONSIDER RATE CONSOLIDATION ISSUES FOR WATER AND WASTEWATER UTILITIES.
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PROCEEDINGS: WORKSHOP

BEFORE: CHAIRMAN LISA POLAK EDGAR
COMMISSIONER MATTHEW M. CARTER, II
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NATHAN A. SKOP

DATE: Monday, October 29, 2007

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

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P R O C E E D I N G S

CHAIRMAN EDGAR: Good morning.

Call this workshop to order, and we will begin by asking our staff to read the notice.

MS. GERVASI: Good morning.

Pursuant to notice, this time and place has been set for an undocketed informal workshop concerning rate consolidation within the water and wastewater industry.

CHAIRMAN EDGAR: Thank you. And Mr. -- oh, there you are. Good morning. I will ask Mr. Stallcup of Commission staff to get us started and give us a bit of an introduction as to the background as to why we are here today, and then he will lead us into the meat of the material.

Mr. Stallcup.

MR. STALLCUP: I will do that.

Good morning, and welcome to the Commission workshop on rate consolidation in the water and wastewater industry. My name is Paul Stallcup of the Commission staff, and with me is Ms. Jennie Lingo.

CHAIRMAN EDGAR: Mr. Stallcup, hold on just a moment. We are having a little difficulty hearing, so maybe you could pull the microphone towards you a bit. And I know they're going to work on the volume, as well.

MR. STALLCUP: Is that better?

CHAIRMAN EDGAR: That is better. Thank you.

MR. STALLCUP: Okay. And with me is Ms. Jennie Lingo, also of the Commission staff.

Before we get started, I would like to point out that we have a sign-up sheet in the back of the room and would ask that everybody in attendance please sign in. We also have copies of the slides available, and they are located on the same table as the sign-up sheet.

The reason this workshop was called today was that in the last Aqua rate case the utility had requested as part of their filing to consolidate rates on a countywide basis. Because that case did not go forward, and because rate consolidation was an important issue to the utility, the utility requested that this Commission hold a workshop to discuss rate consolidation issues.

For that reason, we have scheduled this workshop. It is a generic workshop on rate consolidation in general, and staff will be presenting a generic overview of what rate consolidation is about and what the appropriate issues are. And following staff's presentation, the utility, Aqua Utilities, will have their presentation to discuss the specifics of rate consolidation as it applies to them. We also have with us other parties who may wish to speak at the conclusion of Aqua's presentation.

Today's workshop on rate consolidation is broken into two sessions. In the first session, Ms. Lingo and I will present a generic overview of what rate consolidation is, what issues can arise when rates are consolidated, and how this Commission and other state commissions have handled these issues in the past.

At the conclusion of staff's presentation, we will take about a ten-minute break; and then in the second session, Mr. Chris Franklin of Aqua Utilities will offer a presentation on how rate consolidation specifically affects his utility. Following Mr. Franklin's presentation, we will offer the floor to any other interested party who would like to address the Commission.

If there are no questions at this point, we can go ahead and get started.

CHAIRMAN EDGAR: Commissioners, any opening questions or comments before we move into the slide material?

No? Okay. We're ready.

MR. STALLCUP: Okay. A reasonable way to start a discussion of rate consolidation is with a definition. As this NARUC definition implies, rate consolidation involves taking two or more stand-alone systems and calculating a single set of rates that would apply to all customers. That is, a single tariff would be used to calculate customer bills for each of the systems being combined. Also, as indicated in this NARUC definition, it is not necessary for the individual stand-alone systems to be interconnected for the concept of rate consolidation to apply; that is, it is possible to calculate consolidated rates for systems which may be scattered across the state. As Ms. Lingo will point out in a few minutes, there is precedent in Florida for consolidating rates for systems that are not interconnected.

Finally, I should point out that wastewater systems as well as water systems can have their rates consolidated, too. However, for the sake of simplicity, I will refer to both water and wastewater systems as simply water systems.

This slide illustrates the mechanics behind calculating consolidated rates. In this example, two stand-alone systems are being combined into a single larger system. As can be seen here, we have the usual data found in a rate case. We have, for each stand-alone system, their annual revenue requirements and a set of billing determinants. These billing determinants list the number of customers, how many bills are rendered per year, and how many gallons are sold. From this data we can calculate each system's stand-alone rates that will generate the stand-alone revenue requirements. We can also calculate how much a customer's bill will be at any level of usage. As indicated in the slide, rate consolidation involves simply aggregating together the stand-alone revenue requirements and the stand-alone billing determinants in calculating rates on an aggregate basis. There's nothing complicated about these mechanics.

But there are two important points to be learned from this example. The first point is for the utility rate consolidation is revenue neutral; that is, regardless of whether rates are calculated on a stand-alone basis or on a combined basis, the utility will earn the same amount of revenue, $240,000 in this case.

The second point is that rate consolidation is not revenue neutral for customers. As can be seen from this example, customers of the smaller system will see their bills go down from $100 per month to $25 per month and customers of the larger system will see their bill increase from $20 to $25 per month.

There are several reasons that a utility would want to pursue rate consolidation. I have labeled these reasons as intended consequences. For the utility, rate consolidation results in increased operational and regulatory efficiencies. By combining many small stand-alone systems into one larger system, the utility will be able to enjoy the benefits of economies of scale. Furthermore, subsequent rate filings will be made simpler and be less costly, simply because there will be fewer MFRs to prepare.

Finally, very small stand-alone systems can be made more economically viable by merging them with larger systems. I believe that Mr. Franklin from Aqua Utilities will be able to elaborate on these points.

There are benefits to customers as well resulting from rate consolidation. As we've seen in prior cases, customers of small systems can see their bills rise dramatically following major plant upgrades. This is because there are relatively few customers over which to spread cost-recovery. By combining these systems, and having more customers over which to spread these costs, rate shock and affordability issues can be mitigated. Another significant advantage to customers is that in subsequent rate filings, rate case expense can be reduced. We have seen in prior cases that rate case expense can be the single largest expense to be recovered in a rate case. By combining many small systems together, multiple rate cases and the associated rate case expense can be replaced by a single rate proceeding.

There are, unfortunately, a couple of downsides resulting from rate consolidation, which I have labeled as unintended consequences. For the utility, the consumptive use permits issued to the utility by the water management districts are system specific. That is, they are issued to the stand-alone systems not the combined system. If a specific system is ordered by its water management district to implement a more aggressive conservation-oriented rate structure, the only way to achieve that would be to impose the more aggressive structure on all customers of the combined system.

The second unintended consequence of rate consolidation is the creation of cross-subsidies between customer groups of the combined system. As I described earlier, following rate consolidation, some customers will pay less and some customers will pay more. For those customers paying more, the incrementally higher bill they receive represents a subsidy they are paying to allow other customers to pay less.

CHAIRMAN EDGAR: Paul, please, just a couple of very brief questions.

MR. STALLCUP: Sure.

CHAIRMAN EDGAR: First is you mentioned the cost of rate case expense being significant. Is there an average amount or range that is typical for rate case expense with a rate filing or do they vary so much depending on the individual circumstances?

MR. STALLCUP: They would vary quite a bit, depending on the amount of expertise the utility chooses to hire. I don't have a dollar amount. Perhaps Ms. Lingo does.

MS. LINGO: And I would, unfortunately, have to punt to Mr. Willis in that regard, since I'm more rate design. Mr. Willis would certainly have more expertise in that area.

MR. WILLIS: Since I have been punted to here, normally for your Class B companies, those who are not getting a staff-assisted rate case, you normally see rate case expense that averages somewhere between 150 to $250,000. We did see when the original Florida Water Company filed its last rate case, that was somewhere in the neighborhood of about 1.2 million to do that rate case. And they did have 170 systems, I believe, in that case.

CHAIRMAN EDGAR: Thank you.

And then, also, the last point that you made, Paul, about the potential for cross-subsidies and customers paying, what I'll call at this point a little bit more. I think that is in the eye of beholder, of course. But what -- and you may get into this later, but what criteria does the Commission use to kind of evaluate the benefits of that subsidy issue, the benefits or the opposite of benefit?

MR. STALLCUP: That is really a judgment call. It is a policy question. There are no hard and fast dollar amounts that you can use. There is a history that the Commission has in prior decisions that gives us a sense of what those dollar amounts are, and Ms. Lingo will be able to talk about that. It's really a judgment call. How much is it worth to have the benefits of rate consolidation, the avoidance of rate case expense and the other things I mentioned compared to the possible downside of having some customers subsidize other customers. It's a policy question to which there is no real hard and fast answer.

CHAIRMAN EDGAR: Commissioner Carter.

COMMISSIONER CARTER: Thank you, Madam Chairman. I just wanted to ask this before we get too far down the road, and I may forget it. You mentioned about this precedent for rate consolidation in Florida. Can you give me some kind of idea how to quantify that? I mean, is it a rare occurrence? Is it a frequent occurrence? Is it past occurrences? Is it current -- help me put some kind of framework to that.

MR. STALLCUP: The precedent in Florida, there are really two cases. The most significant of which is the Southern States case that happened back in the mid-'90s. And Ms. Lingo will be talking about that. And the most recent case is the Utilities Inc. rate case from about -- what was that, about three years ago, Jennie, four years ago?

MS. LINGO: 2002 docket, yes.

MR. STALLCUP: In which case the utility had requested to consolidate rates within the counties in which it operated.

CHAIRMAN EDGAR: Commissioners, any other questions or comments before we move on? Okay.

MR. STALLCUP: Okay. This slide illustrates how subsidies are calculated. A subsidy is simply the difference between the customer's bill under their stand-alone rates and the combined rate. In this example, customers of the smaller system would receive a subsidy of $75 per month, because their bill falls from 100 to $25. This is a good thing. However, customers of the larger system would pay a subsidy of $5 per month because their bill increases from 20 to $25. The fact that these customers are paying more to subsidize other customers can be viewed as a form of rate discrimination, and, therefore, gives rise to an important policy question.

As you know, under Florida Statutes the Commission is charged with establishing rates that are, among other things, not unduly discriminatory. The policy question is if the Commission decides to approve a rate consolidation plan in order to achieve the positive aspects of rate consolidation, how large can these subsidies become before they can be deemed as being unduly discriminatory?

This Commission and other commissions around the country have addressed this policy question before. At this point, Ms. Lingo will take over and present an overview of those cases where this policy question has been addressed.

MS. LINGO: Good morning, Commissioners. I'm Jennie Lingo with Commission staff.

First, I would like to begin with an overview of cases that have been decided in Florida and how it has shaped where we are today.

Commissioners, in May of 1991, Marion County transferred its jurisdiction of its water and wastewater systems to the Commission. And then four months later, a utility called Sunshine Utilities filed for a staff-assisted rate case. This utility had 16 separate water systems and operated under three different types of rate structures. They had flat rates, declining block rates, and a step rate which had a gallonage allotment included in the base facility charge.

Now, despite the number of different systems and despite the different number of rate structures, the Commission approved a consolidated single tariff pricing rate structure for Sunshine to be applied uniformly to all 16 systems. Now, the Commission found in that case that single tariff pricing specifically provided -- it provided the customer with greater control over their water bill, as well as providing the utility with a less complicated and less expensive billing procedure.

Commission, the interesting aspect about this case is despite the number of rate structures and despite the number of different disparate systems located across the county, the Commission approved single tariff pricing, and the subsidy question was never an issue.

The next significant case, Commission, involves Southern States Utilities, which later became known an Florida Water. Just for some background, Commissioners, in 1992 there was a case involving Southern States in which the Commission approved a single tariff pricing for the utility. This case was appealed and the First District Court of Appeal said that we didn't have the authority to approve single tariff pricing, and so the case was remanded back to the Commission. According to the record, SSU believed that single tariff pricing was the most appropriate for its company for a variety of reasons. And, not surprisingly, the intervenors believed that stand-alone rates were the most appropriate for Southern States' customers, because those rates were actually the most reflective of what it actually cost each system to provide service to its customers; and, secondly, that the stand-alone rates actually best reflected the amount of investment each customer had in his or her individual system.

As you might imagine, Commissioners, the subsidy issue was really the hot button issue in the case, and in September of 1993, the Commission on its own motion initiated an investigation to address what rate structure was the most appropriate for Southern States on a going-forward basis. Now, the Commission in that case considered a number of different factors related to the rate structure issue. These factors included, but weren't limited to, the relative cost of providing service, the level of CIAC, the need for conservation rates, geographic considerations, long-term benefits of single tariff pricing, potential cost savings to customers and relationships between both rates and acquisitions.

Commissioners, after looking at all of these factors, the Commission found that based on alternative rate structures that it had examined, any of the alternative rate structures were actually designed to really alleviate the more immediate effects of single tariff pricing of one group or another, but that on a going-forward basis the differences would shift between one customer group and another, so that over time there would be little, if any, future merit to other rate structures we examined. So ultimately the Commission found that the benefits of single tariff pricing outweighed any of the perceived disadvantages, and statewide single tariff pricing was approved for Southern States on a going-forward or perspective basis.

CHAIRMAN EDGAR: Jennie, could you speak to the -- and I realize that you said there were a number of factors, and so, it's -- you know, I recognize probably not possible to pull one out in isolation. However, could you speak a little bit to the conservation rate piece of that? You know, were conservation rates an issue in one geographic area but not in another, or how did that issue kind of factor in?

MS. LINGO: In that particular case, while we examined conservation rates, it wasn't necessarily with the idea of applying it to one specific area of the state versus another. But as I go forward, we'll discuss that more. The conservation rates issue in that case was important, because there were intervenors who said that the Commission did not have the authority to implement a conservation rate structure. Later it was determined by the courts that we do, in fact, have that authority.

CHAIRMAN EDGAR: Thank you.

MS. LINGO: Yes, ma'am.

Moving along --

CHAIRMAN EDGAR: Hold on, I'm sorry, another question.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. I will just let her get through this section and reserve my question until then.

CHAIRMAN EDGAR: Okay.

MS. LINGO: Commissioners, Southern States later filed for a rate case in 1995. In that case, the Commission approved not a single tariff pricing rate structure, but what is known as a cap band rate structure. This type of rate structure groups specific systems with similar cost characteristics together for rate setting purposes.

In that case, the Commission found that the cap band rate structure accomplished several goals. One is that it actually reduced the subsidies between systems, it addressed the affordability issue, and it also represented a greater move toward the goal of single tariff pricing. And that was important, because as I just mentioned, in the 930880 docket, the Commission found that the appropriate rate structure for Southern States on a going-forward basis was single tariff pricing.

The subsidy benchmark in the Southern States rate case was set at approximately $2 per month, and affordability benchmarks were $52 at 10,000 gallons of usage for water and $65 for 6,000 gallons of wastewater.

Commissioners, the single tariff pricing in the electric and telephone industries have traditionally met with much less resistance to the water industry, mainly because to a great extent the electric facilities and the telephone facilities are physically interconnected, so it makes it much easier to conceptually recognize multiple systems as one single unit.

In the SSU case, the Commission found that state law supported the view that the facilities do not have to be physically interconnected to be considered a single system. And, Commissioners, what I mean by physically interconnected, it is that there do not have to be lines in place connecting one system to another in order for it to be considered one system.

The Commission found that a multi-system utility, such as Southern States, could be considered a single system because its facilities and land were functionally related in terms of its management, its operations, and its administration. This recognizes the economic efficiencies of being functionally related.

The order from that case was appealed to the First District court of Appeals. The First DCA not only upheld the cap band rate structure, but it also held that the Commission did not need to make a determination whether facilities were functionally related before rendering a decision whether or not to consolidate the rates.

Commissioners, in a 1992 case, Utilities Inc. of Florida requested countywide consolidation for its rates in Pasco and Seminole Counties. You may remember that I mentioned earlier that a subsidy benchmark from the Southern States rate case was approximately $2 per bill per month. In the Utilities Inc. case, the $2 benchmark was indexed forward to 2.35 per month to reflect the effects of inflation. Then that $2.35 per month benchmark was then used as a subsidy benchmark in the Utilities Inc. case. And based on that $2.35 benchmark, the Commission approved countywide rates for the utility's water systems in both Pasco and Seminole Counties. Utilities Inc. also requested countywide rates for its wastewater systems in Pasco County.

But, Commissioners, just because the water system subsidies were under the $2.35 per bill per month benchmark certainly didn't mean that the wastewater analysis would yield the same result. In fact, Commissioners, in large part due to the capital intensive nature of wastewater facilities, one would expect that, all other things being equal, it would be more difficult to combine wastewater systems such that the subsidies would fall under the $2.35 bill per month benchmark.

Based on analysis in the case, the wastewater subsidy level was found to be $4.85 per bill per month, or more than double the subsidy benchmark of 2.35 that was used on the water side.

Commissioners, since the subsidy level for wastewater was found to be $4.89 per bill per month, the Commission found that countywide wastewater rate consolidation was neither consistent with the requirements of Chapter 367.081, nor was it consistent with prior Commission decisions. So the wastewater rates in Pasco County remained on a stand-alone basis and not combined.

Commissioners, certainly a judgment is required in making a determination whether or not any rate structure option is going to be in the public interest. You've heard several judgment type phrases used as criteria by the Florida Commission in determining whether or not single tariff pricing would be appropriate. These phrases include, just, reasonable, and not unduly discriminatory; mitigates rate shock; mitigates revenue instability, and is in the best interest of all customers. And you are about to hear these same phrases mentioned as criteria used by other states as they also grapple with the single tariff pricing issue.

Commissioners, this decision in West Virginia has been really the least controversial, but among the best examples of single tariff pricing, and it was approved by the West Virginia Commission back in 1984. Commissioners, to set the stage for the decision, let's consider first the economics and the population of West Virginia at that time. West Virginia is classified as a rural state by the U.S. Census Bureau. And, in addition, at that time the unemployment rate in West Virginia was more than double the national average. Regardless of whether we look 20 years back or whether we look at the present, it's intuitive that water systems that are located in rural mountains are typically going to be smaller, high cost systems when compared to those systems that are located in larger urban areas.

In 1984, the West Virginia Commission approved the single tariff pricing proposal for West Virginia American Water Company, and specifically the West Virginia Commission found that single tariff pricing, indeed, struck a balance between the interests of current and future water customers, the general interest of the state's economy, as well as the interests of West Virginia American Water. The West Virginia Commission also found that those rates, single tariff rates, were just, reasonable, and not unduly discriminatory, and that the Commission had, in fact, complied with its duties that it provide adequate, economical, and reliable utility rates.

In 1986, the Pennsylvania Public Utility Commission followed with a single tariff pricing proposal and approval for Western Pennsylvania Water Company. The Pennsylvania Commission listed four major reasons for approving the utility's single tariff pricing request, including a larger rate and revenue base would ameliorate the impact of large capital additions when they were needed in each service area; a larger revenue base would promote flexibility in terms of both the financing and timing of major plant additions. It would also mitigate the impact of fluctuating gallonage sales between systems because that instability would be spread over a larger economic base. And by reducing the number of rate filings and individual accounting units that it should result in administrative efficiencies, which in the end would potentially reduce the costs to ratepayers.

Ultimately, Commissioners, the Pennsylvania decision that the single tariff pricing proposal and single tariff pricing as a rate structure was so successful that in 1996 the Pennsylvania Commission made single tariff pricing a central component of its incentives, acquisition incentives that it actually provides to jurisdictional utilities.

So, Commissioners, this is important because single tariff pricing has moved -- at least in Pennsylvania, it has moved from just a rate structure to a way to provide acquisition incentives for utilities. And the Pennsylvania Commission has found this to be very successful.

Commissioners, in a 1997 case, the Indiana Utility Commission approved single tariff pricing for Indiana American Water. And in single tariff pricing cases during this time period, both the Indiana Commission and the New Jersey Commission began to shift the focus of the debate away from the cost of service to the value of service. And there are a litany of reasons given by the Indiana Commission for approving single tariff pricing, including that it was in the best interests of all customers, that it increased rate stability, that it mitigated the impact of construction costs, and it improved meeting demands associated with environmental compliance, replacing infrastructure, and adequacy of service to customers. Again, all of these buzz phrases that you are hearing as to reasons why other commissions are approving single tariff pricing are consistent with what the Florida Commission had grappled with when it was making its decisions.

The Indiana Commission also pointed out that all current customers had benefitted from water facilities that had been built in the past, and largely at the expense of an earlier generation of customers. The Indiana Commission also found that there was no undue price discrimination as long as customers paid an equivalent price for an equivalent product.

Commissioners, there are really countless criterion you may select when designing a single tariff pricing rate structure. However, these criterion really can be boiled down into two conceptual methods.

The first method is based on geography; that is, you may consolidate the rates for all of the systems located within a county, or in the alternative, you are may consolidate certain systems within a county, or if you have multiple counties, the rates may be consolidated on either a regional or statewide basis. Now, the purpose of combining based on geography would be to recognize and target managerial and operational efficiencies that result from consolidation in that manner.

Commissioners, the second methodology would be the economic method, which not only targets affordability, but it also reduces the subsidies between the systems. And there are any number of ways to do this. Two major ways of grouping systems are by grouping them by similar costs. An example of that would be the cap band rate structure. And, conversely, and almost counter-intuitively, by grouping systems by dissimilar costs, and this combines the high and the low cost systems in order to eliminate high cost outliers in future cases. One such method of that would be referred to as rate balancing, and Mr. Stallcup will present explanations of both cap band and rate balancing approaches in just a minute.

Remember, there are as many ways to consolidate rates as your imagination and creativity will allow. Another method, Commissioners, for example, might be to have a consolidated base facility charge rate structure, but to design the gallonage charges on either a stand-alone or a regional basis, and this would be to recognize the need for conservation rates in certain areas.

Single tariff pricing, Commissioners, is very much a public policy issue because it involves the trade-off between cost-based rates on the one hand versus such things as affordability, economic efficiency, rate and revenue stability, conservation, and small system capacity. On a short-term basis, the goals of single tariff pricing really seem to focus more on affordability and improving financial capacity of the water systems. And on a long-term basis the goals are more related to consolidating management and operations or regionalization, for lack of a better word, and to also achieve whatever other policy goals the Commission may deem important.

Commissioners, at this point I would like to turn the presentation back over to Mr. Stallcup so that he may explain the cap band rate structure and the rate balancing rate structure in greater detail.

CHAIRMAN EDGAR: Jennie, before you do that, I think there may be a couple of questions. I know I have one, and I think Commissioner Skop did, too.

Go ahead.

COMMISSIONER SKOP: Thank you, Madam Chair.

I have a few questions, and I think -- like I said, I was going to try and jump in, and I appreciate the Chair allowing us to get some questions in at this point.

I guess, at least from what I have seen so for, there seems to be historical precedent supporting various forms of rate consolidation for the public good. And I know that varies in flavor between statewide and, I think, cap band, and some of the issues that we are getting into. But if I could draw your attention, I think, back to Page 4 of the slides, where they were trying to show, you know, how subsidies are created under rate consolidation and the impact on the bill where some customers save and some pay just a little bit more, but at the end of the day I think some of the issues that had been raised where it prevents wide swings as a result of large capital investments that are required.

So looking at Page 4, and I know that previously there was some discussion about rate case expenses, and I think the Chair raised that issue, and I know that's not reflected in there. And then subsequently a few pages later we talk about the statutory requirement, about not being unduly discriminatory. So I'm kind of wondering, in a nutshell, if it would be -- would considering anticipated future rate case expenses perhaps weigh in favor of a finding that a cross-subsidy created by any form of rate consolidation was not unduly discriminatory?

And, again, I think that was one of the concerns that was kind of fleshed out that one of the potential benefits is you save on these rate cases. And I'm wondering if, you know, just in the hypothetical example that is on Page 4, perhaps whether those future rate case expenses would weigh in favor of finding that, again, that subsidy, per se, was not unduly discriminatory. I just wanted to get some input on that briefly.

MR. STALLCUP: Absolutely. Hypothetically speaking, you can look ahead and anticipate that there would be future rate case expense that would be avoided through rate consolidation, and that would certainly argue in favor of being able to determine that a subsidy was not unduly discriminatory on that basis.

COMMISSIONER SKOP: Thank you.

And, Madam Chair, one more. And, again, perhaps Marshall may be able to chime in here also, but also staff. Noting that, how well -- and given some of the precedent, I'm just wondering and speaking out loud, how well do the water and wastewater utilities lend themselves to this regulatory approach? For instance, you know, is statewide or perhaps is cap band a preferable approach? There seems to be some merits, and I'd just like to -- before we move into a detailed discussion, I'd just like to get --

MR. STALLCUP: We have looked at this before, like take -- let's take the last Aqua rate case, for example, that had 50-some water systems and 20-some wastewater systems. The utility had requested to come in and consolidate rates on a countywide basis. They could have, had they chosen to do so, requested to consolidate rates on a statewide basis and just move, you know, in one jump to consolidated rates, you know, throughout the state.

What staff has found in analyzing the data is that it might be a better approach to take it piecemeal. You move partially in one rate case and then in a subsequent rate case you can move up to a higher level of aggregation, if you will, closer to the statewide. Like perhaps from countywide to regional to statewide, or something along those lines. As we will talk about in a minute when we talk about cap bands and the rate balancing approach, it's not necessary to consolidate the rates of all systems all at once. You can move in increments. And perhaps in the Aqua case you could have ended up with eight sets of consolidated rates as opposed to the original 80 they had when they filed, such that you have an opportunity to minimize the subsidies that would exist within each rate consolidation rate structure. And I think staff tends to favor that approach because of the subsidization issue.

COMMISSIONER SKOP: Marshall, if you could just -- would you concur with that?

MR. WILLIS: Yes, I would concur with that. I would just add that I think there are a lot of decisions that go into what the Commission would consider in taking either of those steps or going to a complete jump to statewide, and I think the subsidy issue has a lot to do with that. If you're looking at a very small subsidy, it might be beneficial for the Commission to move straight to a statewide rate; whereas, if you had a higher subsidy where it was considered unrealistic to move that far, you might want to take the smaller steps to do that.

COMMISSIONER SKOP: Thank you.

Thank you, Madam Chair.

CHAIRMAN EDGAR: Thank you.

Commissioner McMurrian.

COMMISSIONER McMURRIAN: Thank you, Chair.

When we were on Page 3, and we were talking about the unintended consequences, and if the water management district had concerns about water shortages in the area, I think the statements were made that the only way to achieve that under rate consolidation would be to apply the same rate to customers the entire system, so that would be an unintended consequence. But when we got to Page 18 and we talked about the fixed versus variable and those -- Jennie pointed out where you could have uniform base facility charge with zonal gallonage charges, and said this was a way to address the conservation issue.

I guess I point that out -- has anyone used this? Because it does seem like we are going to have be to cognizant of the water management district's concerns given our MOU with them and with some of the statutory language, I believe, if I'm correct, about making sure that we take conservation into consideration in our rate structures. So has anyone used this, and if so -- or has anyone considered it and not used it?

MS. LINGO: Commissioner McMurrian, I'm unaware of any utility or any commission that has approved this specific type of rate structure in the country. But just because there hasn't been a commission that's approved it doesn't mean that we couldn't do it. As I stated, there are an infinite, really, number of ways that you can combine rates into rate consolidation. Ultimately, regardless of how these rates get combined, it's going to be a policy decision for the Commission as to whether or not the rates are not unduly discriminatory. The rates may be -- all rates are inherently discriminatory in some fashion. And the best way to illustrate this would be the customer living right next to a treatment plant. It costs less to serve them. Theoretically, you know, if you think about it, it costs less to serve them than a customer ten miles down the road. So there are subsidies inherent in any rate design.

The ultimate question is going to be whether the subsidies are unduly discriminatory or not, and whether or not the rate structure that you are deciding upon meets the goals that you believe are important. That's the reason we stress that single tariff pricing or rate consolidation as a whole is very much a public policy issue because it involves a trade-off among so many things.

The water management districts are very concerned about certain areas in the state regarding water supply and water resource issues, and the example that I list on Page 18 would be a way to mitigate their concerns. But without working through the numbers for a particular utility, you know, it would be impossible to know a priori whether or not, you know, that particular type of rate structure would work.

COMMISSIONER McMURRIAN: As a follow-up to that, too, if you were to put that kind of a rate structure in place, wouldn't it be more likely to be changed over time, given water management district concerns that would come up after the fact? I mean, if suddenly there were a water shortage in a certain water management district, would it be more likely that you would have requests to change them more often, based on that if you put that kind of thing in place, or would it just be as you had a rate case you would address any changes in the situation?

MS. LINGO: Commissioner, I believe that it would really have to go from rate case to rate case. I don't think we could -- if that sort of rate structure were to be approved, then those systems could not be cherry-picked and brought back in for rate relief. That's a good question, though. But there also would be changes in plant additions that would be occurring also throughout other systems, such that if consolidated rates -- if conservation rates needed to be changed for some systems, you might have plant additions that would need to be made for other systems, and I would anticipate that the conservation aspect alone would not be a driving force in a utility bringing its systems back in for a rate case.

COMMISSIONER McMURRIAN: And I guess just to follow up on that, I guess it would still be up to a utility to come in and request for some change. For instance, if a water management district was trying to put pressure on them about addressing a conservation issue in their area, then they would still -- perhaps a water management district has some way to put pressure on the utility about addressing that through some kind of a rate filing. But it would still be -- there wouldn't be any way for a water management district to raise that issue with us or anything, it would still be based on the utilities filing for a rate case.

MS. LINGO: Well, Commissioner, it is ultimately a utility's burden to come in and file for rate relief. But as we are seeing more and more with every case that gets filed, water management districts are placing requirements on utilities in their consumptive use permits to either install or implement a conservation-oriented rate structure with specific language that requires the utility to file a rate case with us within a certain number of years or a certain time period. We also see language regarding the utility implementing certain types of conservation measures.

So the utility -- the water management districts certainly have ways that they can put pressure on utilities to try to change consumption habits of its customers. And we also work with the water management districts as well, when they believe there are areas of a critical nature that need to be addressed. But, again, ultimately, it always gets back to it's the utility's burden to come and file for rate relief.

COMMISSIONER McMURRIAN: Thank you, Chairman.

Thank you, too.

MR. WILLIS: Chairman, if I could just add to that.

CHAIRMAN EDGAR: Sure.

MR. WILLIS: Marshall Willis with the Commission.

I just wanted to point out that one of the benefits of rate consolidation happens to be in the area of conservation rates themselves. Because we have a lot of our utilities that are low cost systems, and when they were brought in stand-alone it's almost impossible to develop a conservation rate for that company that works, because you are limited by the cost of the company. But when you have this company which is a small cost company combined with companies that are larger costs, you end up where you can actually develop a uniform conservation rate structure. So there are some benefits in combining that you wouldn't have on a stand-alone basis if you are pushing conservation rates in the state.

The other thing that we have talked about among ourselves is the issue of drought pricing. That has been brought up many, many times in our state. What happens if we actually have a severe drought, and the water management districts want to do a form of drought pricing? There is nothing wrong with adding a subsidy, a surcharge that is, onto a bill. If you have one water management district area where you already have a conservation rate in place, but they wish to impose a higher rate, it is possible to put a drought subsidy or a drought surcharge onto a rate at that point without having to bring a company in for a rate case. We would just have to decide what we would do with the extra funds that are collected at that point. So I have just wanted to add that from the conservation.

CHAIRMAN EDGAR: Commissioner Carter.

COMMISSIONER CARTER: Thank you, Madam Chairman. I was intrigued -- to thank Commissioner McMurrian for asking most of my questions about the water management districts. I am almost there with you, but they are not here with us today. So in the context of dealing with this issue about this conceptual rate consolidation, is there some way to look geographically in the context of when you are setting the rates more of on a regional basis versus a statewide basis? Is there some kind of geographical perspective that you can go through that -- it may or may not even be practical, but it's just that it would seem to be unfair both to the ratepayers and to the company to come in for a rate case, we go through the dotting the i's and crossing the t's, and everybody is proceeding along that line, and then later on the water management districts say the rates should be X-plus, and it is only X-plus for this small portion of a subdivision or this small portion of a county versus the entire body of ratepayers. Am I making any sense here? I'm trying to zero in on how do we do that?

MR. STALLCUP: I think it ties into what Marshall was just saying with respect to drought pricing, is that if there is a specific system or subdivision within an aggregated consolidated rate group, you may be able to target that way in the same way that you would with drought pricing. Absent that, I'm not sure of any way that I can think of doing it, unless it was, perhaps, the zonal pricing that Jennie was talking about just a minute ago.

COMMISSIONER CARTER: And, Chairman, I'm just kind of thinking aloud. It's just that we could go through this process and come up with what we think is, you know, the best mousetrap, and then the facts on the ground could be totally different. So that's why I was really interested in seeing this whole dialogue about the water management districts, and I am still thinking about that. I am not really sure I am there yet, but I'm just still thinking about that. Thank you.

MS. LINGO: Commissioner Carter, if I may, at the beginning of every rate case, as soon as a rate case is filed, we get the water management districts involved. So to the extent they have specific concerns in a specific area or regarding a specific utility, we know up front instead of on the tail end, so we can better take that into consideration in trying to design the appropriate rate structure for those systems.

COMMISSIONER CARTER: Yes. I'm just kind of thinking aloud, is that you could let them know on the front end when they file the case, and they could say, well, we don't have anything pending at this point in time. And then after the case is over, maybe a year later or maybe -- or something happened with the Legislature or something, and then they could say, oh, we have got to go back in and do some adjustments.

So I'm saying that notice is good, but from your discussion and what Commissioner Skop said, we went back to Page 4, that kind of reminded me of something you said at the outset is that sometimes after we go through this process, there could be an opportunity for the water management district to set some other parameters on that that would cause the rates to change. And if we are going say nondiscriminatory or unduly discriminatory -- it's a double negative, really, on the rate structures that -- I don't know. I'm just -- I'm not there yet. I'm just not there on that. Thank you.

CHAIRMAN EDGAR: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And just moving on from Commissioner Carter's comments and also Commissioner McMurrian's with respect to the geographical consideration, which I think is a very good point that has been flushed out in light of what the various water management districts may have to say with their respective inputs, I guess the question to staff in that regard, synthesizing the concerns there and what staff has already kind of articulated, but, with that in mind, would cap band be envisioned as something that would be limited to a specific county or adjacent counties?

For instance, would it take things from various far-reaching geographical regions of the state to combine them, or would it be -- I guess would it be envisioned in being able to do that or would it be more geographically focused to a specific region to kind of address and perhaps mitigate some of the concerns raised by Commissioner Carter and Commissioner McMurrian?

MS. LINGO: The essence of the cap band rate structure would be to look at the cost of service for each system and combine them in that fashion. So to the extent a water management district has imposed additional costs on a system, that would affect what band that system may end up in in the cap band approach. The cap band approach is not envisioned as a way to combine systems on a geographical basis, but merely by looking at systems with similar costs and combining those systems together so that we mitigate the subsidies for the systems within that band. And by doing so, we have fewer -- we have collapsed, really, the rates such that in a future proceeding, you can move in a step-wise fashion to a statewide uniform rate if that is, indeed, your desire.

COMMISSIONER SKOP: Madam Chair, a follow-up for that. I understand that the cap band is a matching to achieve subsidization parity, and I think that's a good thing. But, I guess, based on the gravity of the concerns raised, I'm kind of wondering if -- I guess two things, whether maybe there is a cap band plus that does incorporate some of the geographical type considerations, but also, too, if, in fact, some of the issues that we have with our current utilities, they tend to be concentrated in adjacent type counties. So, perhaps, there may be some room for consolidation that would take into account geographical considerations, or that might be some sort of a factor in addition to the matching to achieve parity. Is there any --

MR. STALLCUP: Let me take a shot at it. As Ms. Lingo said a little while ago, there is as many ways to consolidate rates as the imagination can come up with. Again, going back to the last Aqua case with, you know, multiple systems, a bunch of which were located in the central part of the state. I could imagine how it could be possible to construct a cap band rate system for the systems just in the central part the state. That way you would be capturing the area where the majority of the concerns of the water management districts are located and still have the advantages of subsidization limitation that the cap band structure offers. So I see no reason up front why you can't mix and match the two approaches if the situation on the ground dictates that.

COMMISSIONER SKOP: Thank you.

CHAIRMAN EDGAR: And I just wanted you to touch briefly on the issue of intergenerational costs that was mentioned a little bit or briefly on Page 17 discussing the Indiana decision.

MS. LINGO: Madam Chairman, that would be regarding the Indiana utility?

CHAIRMAN EDGAR: Let me back up.

MS. LINGO: Page 17?

CHAIRMAN EDGAR: Yes. And that's where this issue of intergenerational is kind of mentioned. But I just wondered if you could -- you know, in the context of the discussion we've had with some of the other factors, drought, conservation, et cetera, just some general discussion as to how this Commission addresses in the water area this issue of intergenerational costs and cost sharing.

MS. LINGO: Typically, the main way this Commission has addressed intergenerational equity is through the design of service availability charges, both the main extension charge and the plant capacity charge. And in that way, the Commission has found that it is appropriate for current customers not to pay for future growth. When a customer connects in the future, they're paying for the costs associated with the plant capacity and the main extension to serve them and the current customers are not saddled with trying to pay for future growth associated with that system. So that has been the main way this Commission has addressed that question.

CHAIRMAN EDGAR: Commissioners, any other comments or questions before we move on?

Yes.

COMMISSIONER CARTER: I'm sorry. I must be asleep at the switch. I did not follow that last answer in the context of intergenerational. I understand that, in fact, we had several issues before us where we said current customers don't pay for future customers. But in the context of what we are talking today, I didn't get the link-up there. Did I miss something?

CHAIRMAN EDGAR: Jennie, could you try one more time for our benefit?

MS. LINGO: I will absolutely try one more time, Commissioner. The concept of intergenerational subsidy and how we avoid certain customers paying for service or paying for something that should really be borne by someone else. From what I got from Chairman Edgar's question, she asked how the Commission typically addressed the question of intergenerational equity. And my response was it's typically not through the base facility and gallonage charge itself. It's typically by how the Commission designs and approves service availability charges, such that the current customers pay for their current costs through whatever rate structure the Commission deems appropriate. That way the future customers in paying for -- when they hook up, paying the system capacity charge and the main extension charge and plant capacity charge, those future customers are paying their burden of the costs associated with that system when they hook up.

And you still have a puzzled look on your face, Commissioner, and that disturbs me to no end.

COMMISSIONER CARTER: I was almost with you, but that's okay.

CHAIRMAN EDGAR: It's up to you.

COMMISSIONER CARTER: No, let's go on. It will probably shake out in the --

CHAIRMAN EDGAR: But it is an issue that I expect we will have more discussion about in a variety of forums. And certainly recognizing that the water and wastewater statutes and case law and precedents are different from the electric, but I know in my mind that's kind of what is bouncing around in my head, as well, as we look at other issues. You know, current costs or short-term costs and trying to identify benefits and where those benefits reside. So that's kind of where I was coming at with the question.

Are we ready to move on?

MR. STALLCUP: Yes, ma'am.

CHAIRMAN EDGAR: Okay.

MR. STALLCUP: Okay. Moving on now, we're going to change focus here just a little bit and offer two examples of an economic form of rate consolidation. These two examples show how rate consolidation can be used -- can be shaped to mitigate affordability and subsidization issues.

This slide illustrates the cap band approach that was used in the Southern States rate case described by Ms. Lingo. As a side note, in case the names of these systems look familiar to you, these systems and their associated costs were taken from the last Aqua rate case. The cap band method relies on two metrics, both of which would be subject to Commission approval.

The first metric is an affordability amount that defines the maximum -- defines what the maximum customer bill should be at any given level of usage.

The second metric is the maximum subsidy amount. This amount marks the threshold for subsidies that become large enough to be considered unduly discriminatory.

In this example the affordability metric was $71.81 and the maximum subsidy metric was set at $5.75.

The first step in implementing the cap band approach is to identify those systems whose stand-alone rates result in bills greater than the affordability metric. In this example that would be the top three systems. Next, you would combine the three systems, but then cap their rates such that the customer bill would be equal to the affordability metric. Because these capped systems would not have rates high enough to cover their revenue requirement, the underrecovery from these systems is made up by increasing the revenue requirements of the remaining systems by a corresponding amount. And, finally, of the remaining non-capped systems, systems with similar stand-alone rates are combined such that no customer pays a subsidy greater than the maximum subsidy metric.

The name cap band rate structure comes from the way the rates are capped for the most expensive systems, and then you create rate bands where within each band you have similar cost systems. In this example on Page 19, there is a set of three capped rates and then two rate bands. The middle group of four, Palm Terrace, Summit Chase, Piney Woods, and Chuluota, are grouped together and constitute a rate band. They all have a uniform rate. Similarly, the bottom three would have a uniform rate, as well. And the reason that that grouping is selected is because the stand-alone rates for those systems are very similar, which also means that their costs are very similar.

So that, in essence, is what the cap band rate structure does. It addresses affordability by imposing a cap on the most expensive system, and then it addresses subsidization by grouping together systems with similar costs.

CHAIRMAN EDGAR: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just on a question of that, I know that's a hypothetical. I guess in looking at that and trying to follow through the slide, it looks like the three systems that have very high stand-alone costs, you're looking to subsidize those to a large degree to regulate what the bill is through the two other remaining logical groupings. Is that correct?

MR. STALLCUP: That's exactly correct.

COMMISSIONER SKOP: Okay. I guess where I'm looking at, just looking at that, and I know that -- I don't know if there is anyone here from Chuluota, but that they might not take too kindly to the fact that -- what have you. But that being said, under this capping of rates, I mean, where you have current communities that already have very large high costs in the existing bills, is it -- should they not be grouped in some sort of a stand-alone grouping similar to the middle grouping there where they have existing bills that are very, very similar, but yet some of those are going up and going down as a result of this higher priced grouping that they are looking to bring down.

I guess -- maybe I misunderstood, but I thought that cap banding looked at the similar systems. I know the revenue requirements is the same, but I just kind of wonder how much of a subsidy is too much of a cross-subsidy to the extent that, you know, the top grouping there is receiving a substantial subsidy at the expense of others that may be more closely aligned in terms of what their stand-alone bill is. And I'm kind of wondering whether that is the intent.

I mean, I can see logical groupings that have similar rates to kind of diversify risk, perhaps of capital investments on one unit to another. But I know that when you have these small systems, and you have a large capital expenditure, the impact to rates is significant, if not substantial. So I'm just trying to get a little bit of a comfort handle on this, because to me this -- I knows it's only a hypothetical, but it seemed to be somewhat of an egregious hypothetical. And like I say, I know those people from Chuluota, if they were here and they saw that they were going to be paying $3.10 more, they would probably be throwing things at us about right now. But I know this is just a hypothetical.

MR. STALLCUP: If I may, Commissioner, try and answer that. When you cap the rates for the upper three systems, and then increase the revenue requirements for the remaining noncapped systems, it's true, you will be increasing their rates on the consolidated basis, the guys who were not capped. Those dollars that are moved down to the noncapped systems are included in whatever subsidy metric you deem to be appropriate.

Like if you think $5 a month is okay, anything greater than $5 is not okay.

That subsidy that we measure inside each one of the capped bands will include the dollars moved down from the capped systems, as well as any differences between the individual systems within each band. So if you think $5 is okay, hypothetically, I guess it really shouldn't matter if it comes from moving down from the capped systems or originates just within that band. So I hope that answered your question.

COMMISSIONER SKOP: It did. Thank you. And I recognize -- and I just want to be clear. I know that this is just a hypothetical, and it is not even proposed, it's just to understand. But I'm just trying to get a handle on the overall impact, you know, because I think logical groupings, you know, probably could be a good thing if it diversifies risk and solves some of the problems from a policy perspective that the Commission, I think, has been faced with in the past. But, again, I'm just trying to make sure I understand the examples and hypothetical so I can, you know, follow through on myself. Thank you.

MR. BECK: Madam Chair, could I ask a question of staff? Charlie Beck.

CHAIRMAN EDGAR: Mr. Beck.

MR. BECK: I just wondered if could ask a question.

CHAIRMAN EDGAR: Certainly.

MR. BECK: Paul, I had the impression this is not a hypothetical. Are these actual numbers from the existing cap band filings?

MR. STALLCUP: These were actual numbers from the last Aqua rate case, but I extracted, you know, a subset of all the systems being used simply to include as an example here.

MR. BECK: So this is an example of the implementation of the Commission's cap band rate that they actually implemented and exists right now.

MR. STALLCUP: The cap band rate system was last implemented in the Southern States case.

MR. BECK: Right.

MR. STALLCUP: Way back. And so I applied that methodology to this subset of Aqua systems.

MR. BECK: Okay. So these are the numbers from Aqua's case, and you have shown how they are working?

MR. STALLCUP: Yes. If we were to take that and apply a cap band methodology.

MR. BECK: And would it be true that the bottom grouping in general is subsidizing the top grouping?

MR. STALLCUP: Yes.

MR. BECK: Okay.

MR. STALLCUP: If the Commission were to feel that affordability was a very important issue to address, and imposed this cap band system, that would be the case.

MR. BECK: And if you had uniform rates the subsidies would be even greater. Is that generally true?

MR. STALLCUP: I didn't follow your question, Charlie.

MR. BECK: Well, this shows the subsidies using the cap band approach that has a number of groupings.

MR. STALLCUP: Yes.

MR. BECK: If you actually had uniform rates, the subsidies would be greater on both sides.

MR. STALLCUP: Absolutely.

MR. BECK: Okay. Thank you.

CHAIRMAN EDGAR: Commissioner McMurrian.

COMMISSIONER McMURRIAN: Thank you.

I have two or three, I think, and they are similar to the questions that Mr. Beck just asked. The revenue requirement column, is that the revenue requirement that the company filed in the rate case as their proposal for the revenue requirements for each of those systems?

MR. STALLCUP: That was the company's requested revenue requirement, but if I remember correctly -- this came out of one of my spreadsheets that I was using when I was analyzing the case. I think I knocked it down by about 10 percent to recognize that more than likely the company would not get what they were asking for.

COMMISSIONER McMURRIAN: Okay. And in your footnote about the capping for the higher systems would result in 136,822 underrecovery and that that is spread over the remaining, I guess, seven.

MR. STALLCUP: Correct.

COMMISSIONER McMURRIAN: So do those revenue requirements in the bottom seven, do they have some piece in there that is part of the 136,822 in that revenue requirement column, or is that just factored into the subsidy calculation and we don't see it anywhere?

MR. STALLCUP: It is factored into the subsidy calculation.

COMMISSIONER McMURRIAN: Okay. And this is something I probably should know the answer to, but I am going to ask anyway. When you compare -- let's compare Hermits Cove and Piney Woods. There is approximately the same number of bills. The revenue requirements -- well, they are about $30,000 off. But the stand-alone bill at five Kgal is significantly different between those two. So you see one 110.99 for Hermits Cove and 42.48. What is the -- I know there are probably a lot of factors, but what is the main factor in that kind of a difference, given that the number of customers is basically very close, and even though the reference requirements are a little bit off?

MR. STALLCUP: Quite honestly, I would have to go back and look. I don't recall.

COMMISSIONER McMURRIAN: Okay. Then maybe it wasn't that obvious.

CHAIRMAN EDGAR: Just what I was thinking. I don't know the answer to that, either.

COMMISSIONER McMURRIAN: Perhaps there are other people that might know the answer.

Thank you, Madam Chair.

CHAIRMAN EDGAR: Mr. Beck.

MR. BECK: Could I do a follow-up question, if it's acceptable.

CHAIRMAN EDGAR: Yes.

MR. BECK: And I don't know these specific systems, either, but couldn't some of the things that would affect that would be the type of treatment that they are being given as well as the CIAC levels or contributions in the different systems?

MR. STALLCUP: I'll accept that.

CHAIRMAN EDGAR: Commissioner Carter.

COMMISSIONER CARTER: Thank you, Madam Chair. I must have turned it off. I'm glad I was on task.

CHAIRMAN EDGAR: Just a moment.

Commissioner.

COMMISSIONER CARTER: What I was going to ask in picking up where Commissioner Skop was on this whole cap band process, and I understood your answer to him this time about the $5, but, really, does that really get us to a standpoint to where we get back to the unduly discriminatory? If I'm living in rate band two, and any of these guys here, versus rate band one, or however you -- whatever you got it here. But the first grouping, I'm saying that I'm subsidizing the guys up front and I'm subsidizing them -- it looks like it only goes up maybe a couple of bucks, but, really, when you look at the grouping -- the first grouping, there is like an $85 subsidy. I'm just trying to see how these numbers jibe.

MR. STALLCUP: For the top three systems, one whose rates are capped, after you consolidate them you arbitrarily select whatever that affordability number was that you selected. If you really think $71 is the most anybody should pay, you set rates such that that is what your bill is.

COMMISSIONER CARTER: I got it. It's arbitrary. Okay. I got it. You have to select it at the beginning of the process then. Is that right, Marshall?

MR. WILLIS: Commissioner, I didn't hear your question.

COMMISSIONER CARTER: I said I've got it, is that you arbitrarily set what that would be at the beginning of the process of setting the cap band.

MR. WILLIS: Yes. The Commission would have to decide that.

CHAIRMAN EDGAR: Okay. Just a moment.

Did you have a comment, sir, that you wanted to make at this time?

MR. SMELTZER: Well, if you like, I could address the question about the differences between Piney Woods and Hermits Cove.

CHAIRMAN EDGAR: Sure.

MR. SMELTZER: I am Dave Smeltzer. We will introduce ourselves later, but the two primary things that go on between those two systems in particular, Hermits Cove has about twice the investment per customer as Piney Woods, and that is really the driving force behind the cost differential. But the other thing that is very important is these numbers are all at 5,000 gallons per month, and I think that is a good benchmark to look at because it is typical domestic use inside the home, not a lot of extravagant outdoor use.

But, having said that, there is a vast difference in the water usage in these systems. So, for example, Piney Woods uses over 7,000 gallons a month, whereas Hermits Cove only uses 2,300 a month. So the customers from Piney Woods are producing their revenue requirement by using a lot of water, whereas the customers in Hermits Cove need to get their revenue requirement from much less water, and, therefore, have higher rates.

CHAIRMAN EDGAR: Thank you. I appreciate that additional information.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

And thank you, also, for that additional information.

I guess what threw me, and I think Commissioner Carter kind of highlighted this also, it seemed like the logical groupings were based on the customers' actual bill as opposed to what Commissioner McMurrian, I think, kind of fleshed out, matching systems that are similar in terms of revenue requirement and number of customers in terms of lumping those together. So, again, I do think that this is more of a hypothetical. I know Mr. Beck kind of pointed to the fact that this may be something that would be proposed, but I'm not willing to make that quantum leap yet.

But I just think that that probably lends itself to the manner in which this hypothetical was constructed was that it looked at the stand-alone bill as the basis for logical ordering as opposed to maybe a more applicable criteria such as number of customers and the system revenue requirement that Commissioner McMurrian emphasized.

Thank you.

CHAIRMAN EDGAR: Thank you.

Commissioners, anything further?

Mr. Stallcup, yes.

MR. STALLCUP: Okay. Moving on now. This is our one and only color slide, and I'm the one responsible for picking out the colors, and I do apologize for that. This is an example of the rate balancing rate consolidation scheme, and it was offered in staff testimony in the last Aqua rate case.

In this example we have the same systems and costs as in the previous cap band slide. The basic idea here is to consolidate small high cost systems with larger low cost systems into a single average cost system. If you will, what you are trying to do is dilute the very small but high cost systems into a much larger low cost system.

As shown by the color scheme and the arrows on the right-hand side, this approach would combine the high cost Wootens and Stone Mountain systems with the low cost Ocala Oaks system to yield an average bill of $33.48. Next, with those three systems combined, you would move on to the next high cost and low cost systems and combine them. This process continues converging towards the center until all systems are combined.

In this example there would be three sets of rates as denoted by the matching colors up there. I would also note in combining systems, the combinations are formed such that the maximum subsidy metric that we had talked about before is not violated. So, again, this is another example of how you can shape rate consolidation schemes in order to address the issues of affordability and subsidization.

CHAIRMAN EDGAR: Commissioner Carter.

COMMISSIONER CARTER: We may be in trouble because I actually understand this. And I think what you're saying is that -- we probably should have had somebody else select the colors, but, anyway, Stone Mountain and Ocala Oaks will be paying the 33.48.

MR. STALLCUP: Correct.

COMMISSIONER CARTER: For the average 5,000 gallons, right?

MR. STALLCUP: Correct.

COMMISSIONER CARTER: Then Hermits Cove, Lake Osborne and Jasmine Lakes will be paying the 36.38, right?

MR. STALLCUP: Correct.

COMMISSIONER CARTER: And Palm Terrace, Summit Chase Piney Woods, and Chuluota will be paying 38.79, right?

MR. STALLCUP: That's correct.

COMMISSIONER CARTER: I'm just trying to figure out where did the other -- I don't see how it's offset. Maybe it's something I'm missing. But let's don't stop the process for me. I'll bring my calculator this afternoon or after the break.

CHAIRMAN EDGAR: If you have further questions --

COMMISSIONER CARTER: No, no, I will bring my calculator.

CHAIRMAN EDGAR: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair. And, again, with respect to the color selection, I myself would prefer orange and blue, but I know my colleagues would want garnet and gold in terms of being able to follow along. But I do see this, and I think the question I had that I wanted to flesh out, when you speak to the maximum subsidy, you are only looking at it at the incremental increase to a customer's bill, not the order of magnitude in which somebody's bill may be reduced, is that correct?

MR. STALLCUP: That is correct, it's the increment.

COMMISSIONER SKOP: Because I see the ordering here, and, again, I mean, I understand the concept of wanting to match small high cost systems, which I think is the policy problem that the Commission has been facing, how do you keep all the rates, you know, in balance so that they don't explode in the manner in which they have. But I understand the logical groupings. Again, the order of magnitude of the subsidy in some instances seems to be a windfall for some customers at the small incremental expense of others. But I do understand the logical groupings.

I think what I don't understand in this particular slide is the grouping under which, again, you have the avocado color, I think, for lack of a better term -- I was going to look to the chair to help me out, the ladies for color selection here, but I guess, I see groupings where, again, I don't understand that. We have the three, Palm Terrace, Summit Chase, and Piney Woods, again receiving somewhat of a benefit at the expense of Chuluota, and I don't think that that would fly too well with the customers in Chuluota.

But, again, I wonder how that is lining up to the extent, why isn't that more smooth? I mean, if that is a logical grouping, and I know it looks like that you want everyone to have nearly the same, or actually the consolidated bill turns out to be the same, but does it matter if the bill is a little bit different so that, you know, it's not such a subsidy for some folks at the others -- I guess what I'm saying is the green one appears to be somewhat well matched, but, again, the subsidies are all inuring to the benefit of other entities and Chuluota is paying more, as opposed to it seems like that could be smoothed a little bit where bills for the top three might be a little bit higher, and then Chuluota's might be a little bit lower or higher, no matter what it needs it be.

But it just seems like that that green area might need to be smoothed a little bit. I know it's a hypothetical, but I'm wondering why the manner in which it fell out the way it did. It just seems like some curve smoothing could happen there to make things a little bit more palatable to people that aren't being asked to pay more, if you will. So if you have any quick insight to that.

MR. STALLCUP: I think if, you know, that were something that the Commission wanted to do, what would have been possible -- and I guess that is avocado, I will take your word for it -- you could have combined simply Palm Terrace and Summit Chase into one, and then Piney Woods and Chuluota into another. Or perhaps there could have been other combinations there that didn't have whatever irregularities that the Commission didn't like. There are numbers and numbers of options that you can use to perform these combinations to achieve whatever policy goal the Commission would like.

I'd like to point out one thing about this rate balancing approach though, however. In the Aqua case where we came up with this approach to try to address the affordability issues and that sort of thing, on the water side, we had 50-something systems, and, you know, you can mix and match those things all day long and probably come up with just about anything that, you know, would satisfy your needs. On the wastewater side, on the other hand, there were fewer systems and many more of those systems from a proportional point of view were very high cost. There were very few low cost systems.

And in that kind of scenario this approach did not work. We could not find combinations that gave us the sense that the subsidies were reasonable, so forth, and so forth. And had that case gone forward, I think staff probably would have tended to favor the cap band approach there as opposed to this one. So I just wanted to point out that this approach is not universally applicable.

COMMISSIONER SKOP: Thank you.

Thank you, Madam Chair.

CHAIRMAN EDGAR: Commissioner McMurrian.

COMMISSIONER McMURRIAN: Thank you.

I have one quick question, Paul. You said it didn't violate the maximum subsidy metric. Is the $2.98, is that just the 2.35 with interest or something? $2.98 for Jasmine Lakes. Is the $2.35 the benchmark or would it be more than 2.35 now because it is some kind of inflated benchmark?

MR. STALLCUP: That's exactly correct. We carried what was done in the Utilities Inc. case forward to be roughly equal to $5 now, 5.75.

COMMISSIONER McMURRIAN: Thank you. That's all.

CHAIRMAN EDGAR: Okay. We are ready to keep going.

MR. STALLCUP: Well, in that case, then, I am ready to wrap up staff's portion of this presentation, and I'm going to remind you what you just heard.

In staff's presentation we presented five points. We described what rate consolidation is, what it is supposed to accomplish, what some of the issues are that need to be resolved, how this Commission and other commissions have handled these issues in the past, and we have gone over two examples of how rate consolidation can be shaped to mitigate affordability and subsidization issues. And if you have no questions, I believe we could probably take about a ten-minute break, and then we can begin the second session.

CHAIRMAN EDGAR: Commissioners? Okay.

We are ready for a break. Thank you very much. We will come back at, let's see, 25 after.

(Recess.)

CHAIRMAN EDGAR: We are going to get back on the record. And we have had our staff presentation, and next on our agenda is to hear presentation and discussion with the opportunity for questions and discussion from Aqua Utilities.

And, Mr. Hoffman, I'll look to you to get us started.

MR. HOFFMAN: Thank you, Madam Chairman.

Very quickly, I know we're running a little bit behind on our schedule.

I'm Ken Hoffman. I want to quickly thank the Commission for taking the time this morning to allow us to engage in a discussion which involves an issue which is of critical importance to the company.

With me to my right is Chris Franklin, who you have met before. Chris is the Regional President for Southern Operations for Aqua America. To Chris Franklin's right is Dave Smeltzer. Dave is the Chief Financial Officer for Aqua America. As far as Aqua's presentation goes this morning, we're going to kick it off with Mr. Franklin.

So, Chris, if you would.

MR. FRANKLIN: Thank you, Ken.

Since we've last been together, I've spent a great amount of time, my personal time, on our Florida company; and I thought I had stepped up to the plate and committed myself and the team at what was a real extraordinary level since we were last together. However, as I explained to a couple of folks, we have reached a new level in that commitment to our Aqua Florida Company in that last night Dave Smeltzer and I were on our way down to Florida, actually we started yesterday afternoon.

We made it as far as Charlotte and our flight was canceled, but they wouldn't let us go. They didn't let us know until about midnight last night. So Dave and I got in our vehicle, our car from Charlotte and drive here to get here about 7:30 this morning. So, I'll tell you, our commitment has reached a new height. We did take showers. So if I nod off in the middle of my own presentation, you'll know why.

Thank you. I really appreciate and the company really appreciates this forum, workshop that we are all participating in today. As Ken said, the issue is of critical importance. Rate consolidation is of critical importance, and a clear path forward for us is just, you know, about as important as it comes.

Before I get into that piece of the presentation, I just felt that it was important that I just follow up a little bit since the last time I appeared before the Commission. It was probably one of the lower points in my 15-year career at Aqua, and I vowed to never let that ever occur again. And we have made, I think, significant progress. And ultimately you and our customers will be the judge of that progress. And we continue to hold the customer service meetings with our customers on a monthly basis for six months. Tomorrow is the next one, and so we get to hear from our customers what they're thinking.

But just by way of background, our call centers, I know you were concerned about that, our call centers are now back to our target levels, about 5 percent abandonment rate, and we are answering the phone under 90 seconds, so that's good news. And we have installed about 5,000 meters and RF devices, and we have a plan and the capital budget to finish all the year exchanges in 2008. And, of course, on an ongoing basis, as water quality issues arise, we are on those with our commitment, our on-going commitment to meet all state and federal standards. And so I think we have really stepped up to address these issues. We still have work to be done, no question, but we will make sure that work is really on-going and our commitment is at higher and higher levels.

I also think since we last met in addition to our customer service improvements that we have been focused on, we have really been focused on this meeting today. And we have had a lot of folks working in the company and have had some what I would consider very productive and constructive meetings with the Commission staff on these issues. And while there is no agreements or anything like that, the nature of the discussion was very collaborative, and I appreciate the openness of the staff to discuss the issues.

I will say that while we all understand this is an open forum today, an exchange of ideas, if you will, and certainly it was not the intent of the Commission, at least to my knowledge, to at the end of the day bless one concept or idea over another, and so we fully understand that. By the same token, it's our hope that at some point in the coming weeks that your counsel and guidance in terms of what would be acceptable in terms of rate concept and consolidation is very important to us obviously. Before we would consider refiling again, we want to fully understand where everybody's minds are on these important issues.

So before I turn it over to Dave, and Dave is really going to handle the meat of our rate consolidation discussion, I'm going to roll through some slides to reacclimate you, maybe, to the water utility industry and to the company. And I'm going to move fairly quickly because I know there are time constraints in the room, so please stop me or slow me if you desire.

The agenda is the first slide. And I just mentioned the topics we will be covering. And I think, as you can see, the piece on the single tariff pricing at the tail end is what Dave is going to cover, and we'll spend more of our time there than the rest.

The water utility industry, as it stands today, is a very fragmented industry, and with over 50,000 water utilities across the nation, it is far from what you would think of in terms of electric utilities and gas utilities. Hence, the discussion of consolidation. Subsidization is still occurring within the water utility industry, whereas we wouldn't, of course, think in most cases to suggest that there is subsidization going on in many of the electric utilities who run lines further or shorter depending on where their customers lie.

There is no substitute for water at this point. And it is the only utility that has a product that is ingested, so it takes it to, in our minds, the next level. It's the only utility that has a product that is ingested.

The widely recognized Society of Civil Engineers in 2005 said that basically the water utility industry infrastructure was getting a D minus, and it is largely as a result of age. The infrastructure continues to age across the country, and not only pipes and mains but also plant. And as that infrastructure ages, it's going to need to be replaced, and so I think these folks have recognized not only in the private side of the industry, but also in the public side that there is a desperate need for investment and upgrade.

And we know that federal funding isn't going to get us there. There's not going to be a large bailout of utilities that are failing. And so, where does the capital come from? And because of this significant need for capital, Wall Street is keeping a particularly close eye on companies like ours, New York Stock Exchange companies.

You can see the numbers there, 277 billion is what the EPA estimates will be needed in infrastructure improvements over the next 20 years in water utilities. Just staggering numbers in terms of dollars needing investment. And I mention that this is in plant and in pipe.

We are unique in some ways. You will note that the water utility industry in the United States is basically broken up into about 15 percent private and 85 percent municipal, and the particular challenge that a lot of municipals have are around -- excuse me, rate filing or rate increases are very similar to tax increases. Very difficult to pass. So many times the public companies, or private companies, I should say, publicly traded companies, have a greater ability then to actually make investment and do what it takes to go in and seek the rate relief on a timely basis. It's many times much more difficult for municipals to do that on a regular basis.

Now, regulatory lag plays a significant role in all of this, as well. As you can imagine with a large capital investment and the component of regulatory lag, it is particularly pointed when you look at this chart. You can see that for one dollar of revenue, water utilities need to invest $3.43. More capital per revenue dollar than any other utility or manufacturing industry. So that's a pretty important number to look at. Couple that with our slow depreciation and you can see as compared to gas, telephone, and electric, our depreciation rate is much lower. You depreciate pipe over a much longer period of time than you would, say, technology associated with the telephone industry.

Now, here is some of the numbers I gave you just a minute ago about the overall look at the United States water utility industry. And you can see there are 50,000 community water systems, 16,000 wastewater systems. It's too small, too inefficient, and very difficult for economies of scale to take place with such a fragmented industry.

If you take that down to the state level in Florida, I believe these are your numbers, about 4,500 water and wastewater systems, and broken almost in half by water and wastewater. And look at the average number of connections. That's a very, very, small number and very difficult -- you can imagine, and I believe it was Commissioner Carter pointed out, if you make a significant capital investment in plant or pipe in any one of those systems and try to share that over only 257 customers, there is a potential for rate shock. Hence, the need and the desire to consolidate and share those costs over a greater number of customers.

Now, let's talk about Aqua for a moment. We are the largest U.S. based publicly traded water utility. I mentioned when we were together before that the company was started by a group of Swarthmore professors in 1886, and the model we run at the company is really an asset ownership model as compared to some other water utilities that run really an O&M contract basis where they run the systems. They don't actually own the assets. Our model is to own and run the assets. And it has been our reputation to invest the needed capital and leverage our debt ratings at S&P to get favorable rates, which as you know in ratemaking, any savings associated with better interest rates is actually passed on to the customers.

So, the fact that our flagship, our largest subsidiary in Pennsylvania has the high rating helps us with debt across the entire company. And, of course, we have a strong focus, and hopefully an improved focus on regulatory and customers relations particularly here in Florida.

Here is a quick view of where Aqua is. We are in 13 states, mostly Texas and east. And you get a sense for our southern states we consider Texas, Florida, North and South Carolina, and Virginia, which are my areas of particular responsibility.

Now, how did we grow to the company we are today? In

Florida, we purchased Aqua Source in 2003, formerly owned by an electric utility, as you know. And then in 2004 we purchased the remaining Florida Water properties, and many of you know the story there. The Florida Water properties we purchased were not necessarily the properties that were in the best condition or the most desirous for purchase. In fact, there were no other bidders for those systems when we took them over. They needed significant work.

But as you look at how we have grown in Florida, you can see some examples of these systems. We have systems as small as ten customers. Stone Mountain, ten customers. Even Morning View at 34 customers. And as you look at trying to make the necessary capital improvements and share costs among these small units, it is almost impossible. In fact, we talk a lot about aging infrastructure in the northeast, in the Philadelphia and New York areas. But, in fact, there are a lot of aging systems here in Florida, as well. Probably not to the same age as some of the wooden pipes that have be found in the Philadelphia area, but, nevertheless, a great need for infrastructure improvement here in Florida.

Let's talk just a second about reliability because that is, I think, one of the things that a consolidated larger company brings to the table. And reliability, I believe, is probably one of the most critical points beyond water quality in what we provide. It's critical to residential sanitary needs, and, again, we said it's the only utility service that is ingested.

In 2004, a year that I'm sure no one in Florida ever forgets, as the hurricanes hit, we went into action very quickly and were able to marshal forces from our many states and brought folks here to Florida to quickly mobilize and bring generators in. And what we would do is basically put our employees on a circuit ride. And they would ride around, put a generator on a well, pulp the tank up, make sure that that community had water and then put the generator back on the vehicle and move on to the next one, and continue to move around so that we provided almost immediate recovery in terms of clean drinking water from that, what I would consider, disaster. The fact that we were able to move manpower from other states only comes from a larger company.

So let me just talk, then, about our track record and then I am going to turn it over to Dave. I think we have worked particularly hard to improve our customer service. I will concede that we have a lot of work yet to do, and we will ultimately face our customers in the agreed-to town hall meetings, six of them planned for 2008, and it will be our hope that we will see improved relationships with our customers.

We continue to have a willingness to solve problems. And many of the small troubled systems come our way, and I think we would like to be an answer, as we are to many states, in those troubled systems to invest needed capital and turn them around and please the customers.

As the need for capital investment continues, with our low-cost debt and our access to capital, I think we can provide some significant solutions. And we're going to continue to infuse technology where we can for cost-effective operations. And I use radio frequency meter readings as one of those cost-effective solutions to improve our operations.

And, finally, we will invest the needed capital and the expertise to improve our system security and reliability for the long-term.

I appreciate your attention, and I would be happy to answer any questions or we will move on directly to Dave.

CHAIRMAN EDGAR: Any questions? Not at this time.

MR. FRANKLIN: Thank you very much.

CHAIRMAN EDGAR: Thank you.

MR. FRANKLIN: Dave.

MR. SMELTZER: Thank you.

Commissioners, staff, other guests, I want to reiterate Chris's thank you for being here today. It is great to have this opportunity to talk with everyone. I, too, want to be sensitive to the time, so I will try to avoid duplication with some of the very nice work that Mr. Stallcup did earlier today.

I do want to note that I'm not here in my present capacity necessarily. I'm here because before the job I have now, I did spend seven years responsible for the rates and regulatory affairs of the company, so I do have some experience. And this is my favorite area to work in, and it is all coming back to me. I enjoyed the discussion this morning very much despite the lack of sleep.

I would like to start off and talk a little bit about single tariff pricing. But I would like to first address just a couple of the issues that came up earlier today and give you a little bit of our perspective on them. One of the interesting discussions that took place revolved around water management districts. And one of the interesting aspects of single tariff pricing is that once you get there it really is okay to have some separate rates within those companies that are joined together to make those systems. And I will give you one example just because I'm familiar with it in Pennsylvania. We have over 400,000 customers in Pennsylvania on single tariff pricing, and they range from southeast Pennsylvania to northwest Pennsylvania literally. And certainly, you know, those systems are not interconnected.

Having said that, we have a number of different rate schedules in the state of Pennsylvania for a variety of different reasons. Although, in general, it is our goal to move those systems to a uniform rate, it is not necessarily the case that they need to be moved all at once. So there is a more gradual approach that exists, but during that gradual approach there is no need to support individual cost of service while they are moving together.

At the same time we have some unique rates that are established. For example, for a large customer that, you know, might look to develop its own water supply, but the loss of that customer would be detrimental to our other customers. We have been able to design unique rates to keep that customer on the system with a lower rate while still providing contribution of fixed costs to support the other customers on the system. So things like that are done in a number of different jurisdictions, and I believe have paved the way for the development of a rate, a single tariff structure that has different aspects to it, including what could be considered water management district conservation rates.

We also mentioned the intergenerational equity matter today, and I won't get into that in great detail except to say that in many regards single tariff pricing resolves the problems that can be associated with intergenerational equity. And the main way that it does that is this: Water systems last a very long period of time, and over that long period of time there will be different periods of time where significant investments may be necessary in a particular water system. And if you happen to be there when that significant investment comes on board, you are going to bear the brunt of that cost for those that come beyond you.

But the concept of molding all of those systems together into one price allows those kinds of individual system-oriented additions to be done without significantly bearing any one set of customers because they are spread over a larger group of customers and are, therefore, less significant to the whole group.

Okay. This is actually Paul's definition, so I'm not going to get into the details of the definition. I will say that not being physically interconnected is not a key metric from my standpoint. In our example, Pennsylvania and Florida and any of the states, our systems may not be physically interconnected, but they are very close cousins. And we will talk later about the many commonalities and consistencies among those systems, and the only differences tend to be source of supply and some very specific system characteristics.

Chris mentioned earlier about other utilities, and I'm going to show a few slides comparing size just to put in perspective Aqua Utilities Florida versus some of the large electric utilities that we see in Florida. And I'm not going to spend a lot of time on this one. I just wanted to show that for the metrics that I am using, I've put together the data points from Progress Energy, Florida Power and Light, and Tampa Electric, and formulated averages among those three. And then for these particular data points and then for the others that I will show you very quickly, I'm going to use that kind of combination methodology.

So in the next slide you will see, 26, I'm comparing the three major electric companies to Aqua Utilities Florida. And, again, just to highlight the differences. They average about $6 billion in revenue. Ours is 17 million. They average about 2.2 million customers. We have 37,000. And their bill is, of course, much larger, and it includes all classes of customers. I'm sure they have some big customers that are moving that bill. We tend to be almost entirely residential in nature. And, please, like Chris said, if there is anything that spurs your mind and you want to stop and chat about it, please feel free.

The next slide, again, I have done the same thing and put in numbers of employees. Florida average utility among the big three, 5,100 employees. We have 71. And that's a large reason why you see four people here from the Philadelphia area. We don't have, nor should we have to have as a large consolidated utility, expertise to do everything in every jurisdiction. It's really sharing that expertise that creates some of the economies of scale and some of the benefits associated with consolidation.

We tend to look a little bit more efficient, and that is what really surprised me, the second line. Our number of employees -- our number of customers per employee is higher than the electrics, so that did surprise me a little bit. And, lastly, on a per employee basis, we have about 1/5th the revenue. That one did not surprise.

The last comparison here is very interesting. And I'm going to focus your attention on the last couple of lines here. We took a look at specific residential tariff divisions. And what we found was among the three big electrics, I think, a couple of them had one, and one had three, actually, were the underlying numbers. They averaged 1.7 tariff divisions. We actually have 91 for our 37,000 customers in Florida.

And the last line is really the interesting one. From a rate filing, from a presentation to the Commission standpoint, the electrics have 1.2 million customers within a rate filing within a tariff division. Again, on average using big picture numbers. We have about 364 customers, so it makes it that much more difficult from a management standpoint. And we will talk a little bit about that, and I will show you some examples of specific rate case costs in a future slide.

The other utilities never experienced a fragmentation like we have. And Chris mentioned that a little bit, so I won't dwell on that, but I will show you a couple of statistics. In the U.S. today we have about 2,700 electric plants, 69 of those in Florida. And I thought it was very interesting that our small utility serving 37,000 customers, we have more facilities in Florida at 91 than all the electric plants in the state of Florida. So we have much more going on from a local standpoint. You can see it drives a lot of the work that we do.

Lastly, in the other utilities -- and, again, Chris mentioned this. Costs of service certainly have differed over the years, but they were able to expand from one consolidated system with one -- typically one or a series of interconnected generation sources, and it never really became an issue.

A couple of observations. Again, these were mentioned earlier. Customers living different distances from the supply could, in theory, be charged different rates. And some discrimination is naturally going to result from rate setting, and I think this was again something Mr. Stallcup mentioned, so I won't dwell on this.

This is the best example of single tariff pricing that we have in our country today, or at least the best one that I could think of. It always gets me when I mail my wife her birthday card, because I put it in my mailbox with a stamp on it and the postman takes it out and cancels the stamp and puts it back in. And I didn't think I got great value from that action. But, on the other hand, I can bring it to Florida when I come and I can mail it home to her for the same 42 cents.

But there has always been that concept that it is one service, it's a consistent service, and it deserves to be priced the same. And I think some could argue the government has taken that to the extreme, because obviously there is a much greater subsidization going on for that postage stamp that travels across the country than there is for the one that comes out of my mailbox and back in. But nonetheless it is a system that works, it keeps the price affordable, it allows everyone to mail a stamp, and really that is the concept that we are hoping to achieve with a rate consolidation strategy here in Florida.

Another example of single tariff pricing occurred in Great Briton some 18 years ago when they consolidated a bunch of systems into ten investor-owned water utilities around the country, and each one of those was assigned a single tariff. So they understood the benefits of that, and I will show you some slides a little bit later on where other states have fallen in line with that concept in the United States.

Similarities. I mentioned a few moments ago that we feel there are some similarities among our systems, and I think there are a great deal of similarities among the systems. I won't go into all of them. Chris mentioned some. Corporate oversight, the capital attraction. A small system that requires great improvements in many instances can't afford to do them. And, in fact, Chris mentioned our growth program and some acquisitions that we have done. A number of those have come at times when small systems could not afford or could not get the financing to make the necessary improvements and that has actually driven them out of business.

We have national engineering capabilities that a small system certainly could not afford that we are able to spread around and look at water quality problems and understand what needs to be done. We have systems in place that, again, small systems couldn't afford, but we are able to share those costs across our 950,000 customers around the country, and everyone can benefit from those.

Purchasing practices, operating policies and procedures, quality of service, shared resources, all the kinds of things that you get when you are able to be a larger company consolidating smaller systems. As Chris mentioned, the tow-behind generator that we were able to pull around to different systems in Florida and keep them in water for a fairly long period when they had no power as individual residents.

There are some differences, I mentioned them early on. Water supply tends to be different, system characteristics tend to be different, economies of scale tend to be different from time to time. They are the primary differences we see in our systems. But, again, the similarities, I think, are significant. And although we have cost of service for individual systems, when you take all of those things that are similar and recognize that those costs are being allocated to systems, I'm not sure how terribly accurate those individual costs are. There may be years where that tow-behind generator is used much more heavily in one system than it is in another. And if all else was equal, that system should bear the cost of that, which might not be affordable for its few customers, but the benefit of owning that in Florida, the benefit of sharing that cost among all the systems is in and of itself a concept of single tariff pricing, although we might not have gone in that direction just yet.

Keys to a sound rate structure. Pretty straightforward stuff. Simplicity, effectiveness in establishing revenue requirements, stability, fairness, efficiency. And I would go so far as to say that single tariff pricing accomplishes all of these goals. And the one thing that is outstanding that I think you as a Commission, we, as a utility, and our customers all need to come to grips with eventually is the fairness issue as it relates to the subsidization question, and we will chat about that momentarily.

When it comes to discrimination, and actually I think Mr. Stallcup might have mentioned this, too, in one way, I believe charging different rates for a consistent level and quality service could be considered a form of discrimination, and we see that in other venues. It's certainly not the case in electrics. They charge the same rates for the same service.

And eventually, we feel that would be the ideal position to be in, charging the same rate for a consistent level of service. While perhaps allowing for some differentiation within those rates schedules as we discussed, and I will show you some examples of, again, in a few moments.

There are a number of advantages to single tariff pricing. Again, many of them mentioned. I will just highlight a couple. Protecting against unaffordable rates is obviously number one, and is very important to us, and lower administrative costs. And I have a slide that is going to touch on that, as well, and perhaps address a question that came up earlier today.

Again, more advantages. I'll skip these, and start off talking about some efficiencies and get to, you know, one of the issues that came up today. I think, Chairman Edgar, you raised a question about some of the efficiencies. We would really like to accomplish this for the benefit of the customers. We find some benefits, honestly, as a company, one of that being the opportunity to actually process a rate filing. We found the last one to be overly burdensome for the company. You saw the results of that. It was not working very well.

But based on the filing requirements and having 80 systems, we had to file 80 MFRs. It amounted to 80 boxes of paper, 400,000 sheets of paper. And when I think about that volume and I think about, A, preparing that, B, having to review that, if someone were to spend one minute on each page, it is a three-year job. And I think that the magnitude of effort established with that, in and of itself, is one reason to consider a movement towards single tariff pricing. It is not something that can be duplicated. We didn't do it well. We are looking for ways to improve, and I'll give you some ideas a little bit later how we would like to accomplish that.

This is a quick look at what those 80 boxes looked like. I don't think it is worth dwelling on, but, nonetheless, a very significant group of paper to support our customers in Florida.

Now, this gets to, I think, one of Chairman Edgar's questions. A little bit theoretical in response, but these are real numbers. I contacted a fairly regular utility rate filing consultant, and asked this hypothetical question, what would you charge me if I took 20 of the systems -- and let's start with 20, if I took 20 of the systems out, what would you charge me per system to go through and file a rate case in the state of Florida given the MFRs? And his answer was $18,000 per system. And obviously you can see how that compounds out over 20 systems to $360,000. Again, at the same token, it was his opinion that a consolidation of those 20 systems, if they were consolidated, not necessarily the consolidating case, but if they were consolidated, he felt 95,000 was a fair bid to provide that same filing with one MFR.

And you can see the significant savings that can be achieved under that situation. And that is excluding legal costs, company resources, any other consultancies that might be required, and excluding the Commission staff, which certainly comes at a cost that's borne by our customers. So I think there is something to be gained there that certainly could be documented.

Other efficiency can be gained. We file 80 versions of an annual report. We process numerous journal entries and allocations to move money to these 80 systems. We have a harder time budgeting and tracking accountability as a result of that, and we spend a lot of time splitting invoices and timesheets to try to get the precise cost to each system. I said before I'm not sure how great a job we accomplish that, but we certainly do try to follow those rules and accomplish that objective.

Now, I have a couple of survey pages to share with you. This is a look at which state public utility commissions have done what in addressing single tariff pricing. And you can see the two to the left are states in which they are generally accepted, and states which it has been approved and are typically accepted on a case-by-case basis where it makes sense, and that is certainly the preponderance of the survey taken. There are a couple of states there where it has never been approved. Although there are some interesting single tariff-like provisions going on in some of those states that we could talk about, if we had a bunch of time, but I'm not sure if it warrants going into it all right now. And there are some states where it has never been considered, simply because they don't have water utilities that serve in a bunch of different systems.

Now, this is, again, I think in answer to a question that was raised by Commissioner Carter earlier in terms of what has been done in Florida. This is actually Florida's response to a questionnaire which was answered by all the states which precipitated that schedule on the prior page, but the interesting data points I thought here that perhaps would be of interest to Commissioner Carter as a result of your question was the number of multi-system utilities listed as 60 to 70, and then two lines down, the number of those utilities presently using a single tariff pricing concept, and that's 20. So I thought that was an interesting look at what is happening in Florida, how many systems could one day move to this kind of a metric, and how many appear to be on it today. And, again, reasons for approval, listing all the same things we are talking about here today. It makes a lot of sense.

The considerations. We know what they are, and these are the things that we have to deal with. Cost of service principles. And, of course, it depends on how you look at it.

I could look at Florida and I could see one cost of service and I could see fairness in that. But no doubt we could get our bean counters and we could account for every dollar in every system and we could prove that there are slightly different costs and there is subsidization involved in that, and that is really the public policy issue that, you know, we are all going to have to deal with to reach the right answer.

And we hope that we can reach that answer and balance all of the initiatives and address the small system issues, address the rate stability matters that we have where investments are necessary. And really we want to provide uniform service, universal uniform service and affordability to all customers in Florida while complying with the environmental standards. And we think the best opportunity to do that and the fairest opportunity to do that for our customers involves a version of single tariff pricing.

A couple of interesting quotes I threw in there, not necessarily to read them, but just because it was clear to me when I saw these that a couple of pretty well known guys a long time ago during the industrialization phase of the country realized that we weren't quite at single tariff pricing as they viewed it in the electric space. Because, in their mind, a megawatt of power or a kilowatt of power should be priced the same for everyone. So I thought it was interesting that mind-set was there really nationally as it related to power many, many year ago.

Implementation. Whoops, history. Sorry. Rural utility services have always been subsidized by city services. The city was first there; it built the plant; it built the plant large knowing that there would be customers coming on board later on; and there has always been that subsidization in the utility space. In the public sector it has been there, as well. In the public sector it is often not just between utility customers, it is often between different departments in the municipality. We have seen instances where, for example, the water utility makes money and that money goes to another department. We have seen the opposite, of course, where the utility does not and is subsidized by another department in the state, but lots of different forms of subsidization that exist in the states.

So where are we? We have some ideas, again, like Mr. Stallcup, we would like to chat with you about. And start with implementation from a standpoint of what we would like to try to accomplish. We would, one day, like to file a new Florida statewide rate case. And although we have looked at a variety of forms of combination, many of which were discussed earlier today, we have concluded for now, but we could reach another conclusion after more discussion and hearing some of your desires that something else will work, but we have concluded for now that a statewide look may be preferable, and I will show you the results of that.

When we do that, we would propose to cap some systems lower than the statewide rate. And, again, what I was talking about earlier, I think it is okay to have multiple rate schedules within what is otherwise a uniform tariff and one cost of service. We would do that to honor the Commission's subsidization threshold, whatever that may be. We have chosen a number from Mr. Stallcup's calculation of an earlier number that is inflated to today's standards. But, again, you know, there could be many opinions and other ways to calculate that number.

But, eventually, we would even presume that over time those systems that are capped at an affordability threshold would be moved, perhaps on a gradual basis, to the overall statewide rate. Not automatically necessarily. Perhaps in future rate cases and, again, as gradually as was necessary.

Again, from an implementation standpoint, we would like to do some things to facilitate this second very complex rate filing in the state of Florida. We would like to get some initial acceptance of conceptual approaches, and we think that would be very helpful to get on the same page and be focused there as to what we can and cannot accomplish.

We would like to get the Commission out to preaudit whatever cost elements could be considered in that category and get some of that heavy-duty lifting that occurs during the context of a rate case behind us. And from our standpoint, we don't want time to be our enemy. We hope we can take it away from being our enemy as a combined entity, and we'd like to extend the time, if necessary, to ensure full regulatory review and adequate company responsiveness.

We don't want to fall into the trap where 100 interrogatories come in and we can't answer them in time, and people are not happy, and the staff is up against the deadline to file their testimony and we can't answer them. We would like to do it in a fashion that has a time line that everybody is comfortable with, where we can respond attentively and staff still has time to file other testimony and the case can proceed. Perhaps at a slower pace and perhaps delaying our ultimate revenue increase, but I think for the common good if we could do it with all the systems, I think everybody would be better off and it would be the best alternative.

So I'd like to take a breather for one moment and then move right into a preview of some potential outcomes. As I mentioned earlier, we looked at a variety of methods. I did not bring all of those today. That's certainly something we could do at another time with all parties, perhaps with the staff, however we wanted to proceed.

We do have numbers that we are going to show you. These are not necessarily the numbers that we would file in the next rate case, but have been taken from the last case, and I think Mr. Stallcup mentioned that he cut 10 percent off of our request in the last rate case. We actually cut a little bit more than that and used numbers, for example, purposes that you are about to see. So, again, the numbers are somewhat outdated, but I do believe they are indicative of what we can accomplish if we move forward.

Let's start off with this slide, just pointing out how many customers we have in our average system; 278 customers in our average system with a pretty wide range, 1,700 down to a small of ten. I would like to start out with some examples of system-specific rate increases. What you see here on Slide 37 are the specific -- are the range of system-specific rate increases that would be necessary if we looked at the 55 water systems individually and uniquely upon their cost of service. And you can see that presents an average increase among those 55 of 103 percent, and a tremendous range of increases among those 55 companies from a high of 590 percent to a low, actually, of a rate reduction of 31 percent.

And the rate reduction is interesting, and we have left it in for now, but, you know, I think that is something that we talked about earlier today, as well, that we could in the context of combining these systems, look at a system whose rates would be reduced for this, and perhaps decide to leave them at their stand-alone rates and thereby using that extra money to bring down other customers who would otherwise see larger than expected rate increases. So I think there could be some flexibility used there.

I would like to show you some examples now of a consolidated increase at 5,000 gallons a month.

COMMISSIONER CARTER: Hold on one second. Commissioners, do you have any questions?

Proceed.

MR. SMELTZER: Okay. Thank you.

If we look at consolidating all 55 water systems, you can see the numbers are dramatically different. And I will actually put them on the same page in the next slide just so you can see them compared to one another.

System specific increases generated an average increase of 103 percent. Consolidated increase average of 34 percent. Now, the first question here is how does the math work, because really we need to get the same amount of money in the end. And it's fairly straightforward. The 103 percent is a mathematical average of the 55 systems. So to the extent there is a ten-customer system in there, that gets the same weighting as the 1,700 customer system. But when you move to the consolidated approach, the 34 percent is across the board. And so it mitigates things by combining the highs and lows, but it does a better job, a more efficient job of it because it uses the whole state rather than some subset of the state as we saw earlier. And you can see the dramatic difference in the range as well that is utilized there.

Now, one thing I would like to touch on for a minute. We mentioned the range, and in a moment I will show you a few slides that highlight those systems that even in the consolidated world are going up over 100 percent because there are specific things going on there that I think will be helpful to highlight. But, first, I would like to show you this wild chart, which is actually my favorite, but it's a little bit hard to read and it requires some words to go along with it.

This is a look across the X axis of all 55 of our systems. And the red boxes represent the percentage associated with each of the 55 system-specific rate increases. So you can see from just a general look at the chart, those red boxes are pretty high. And I counted them, and nearly half of them are at or above the 100 percent line.

On the other hand, the little blue box that is set on an end represents the percentage increases in each of the 55 systems following their consolidation among the 55. And, again, optically you can see that those percentage increases are far more reasonable than those represented by the red boxes which, again, are system specific.

Taking it to the next slide, I have done the same chart, but here I have put in the average monthly bill at 5K. And, again, the red boxes represent the average monthly bills at 5,000 gallons of consumption on a system-specific rate increase basis. And, again, you can see how high they are. In fact, many over $50 per month. But having the opportunity to combine the whole state into one, you can see most -- and that's important -- not all, but most of the customers come in around the $33 system bill. You do see, however, a number of systems that are below that. And that's because we have capped them at the $5.75 subsidy level.

So, for example, the first system on the left where you see both the red box and the blue box below 33.30, that difference between those two is probably about $5.75. It could be less, some of them are less, but we did not move it all the way up to the 33.30 to honor that subsidization threshold that Mr. Stallcup talked about at $5.75.

Now, within this look you see different rates. We would not propose that there be accountability, cost structures behind those rates. We would not propose to file MFRs behind those different rates. We would propose over time, perhaps over a gradual amount of time, that they all be merged together into one uniform state rate. Having said that, and addressing one of Chairman Edgar's questions earlier on, we feel very comfortable that within a structure like this we could maintain some separate rate structures, for example, for the water management district conservation requirements.

And, in fact, from a rate design perspective, there are a number of ways to implement a conservation-oriented rate without even changing the overall revenue requirement that's associated with the system. So although it would be our general thought process to wait for the next rate case, as was mentioned earlier, to implement such a mechanism in a member of a 55 consolidated utility system, by implementing it in a fashion that does not change the overall revenue requirement and simply shifting it from the lower blocks which would represent early usage of indoor plumbing to perhaps higher blocks that would get hit harder for outdoor watering when you reach over a certain level of usage, we could do it in a fashion that wouldn't change the revenue requirements so it wouldn't help or harm the company, but it would, perhaps, achieve the goals required by the water management district. So we think there are a number of ways to tackle that important issue.

I would like, then, to move to this slide, which I promised you three or four slides ago, which talks to why under this wonderful consolidation scheme do we still have customers going up 100 percent. And I have chosen the six systems who show customer increases that exceed 100 percent just to talk to them and talk about the key reasons behind it. The first reason, an obvious reason is that you look at the second column, their present 5,000-gallon monthly bill is very, very low. These are among the lowest cost systems that we have, and, therefore -- well, and in addition to that, I should say, they have been out of rates for a very long time, some upwards of 15 years. And just as an example, if you took a 15-year period and you assigned a 6 percent increase -- and I realize that is high, it is not necessarily commensurate with inflation, but it may be commensurate with the need for infrastructure replacement, Safe Drinking Water Act additions and the like -- if you took that 6 percent over 15 years, I think it is in the neighbor of 130 percent increase. And so we see the effect of that on some of these customers.

But, interestingly, though, if you were to look at systems on Lines 1, 2, 5, and 6, right, the nonhighlighted systems, you will see that despite their large increases, they are still being subsidized by other systems. Their standalone rates, which appear in the third column, system specific 5K monthly bill, you can see on those four systems are greater than the $33.30 statewide bill. So, again, despite their high increase they are being subsidized.

The other two, on Lines 3 and 4, you can see I have highlighted. I have highlighted them because they are actually subsidizing the others. And while System 3 was able to reach the statewide rate by not exceeding the subsidy cap, you can see their subsidy is 5.23, so with that 5.23 it was able to reach the statewide rate. On the other hand, System 4 was not. And we stop increasing its rate when it got to the $5.75 subsidization threshold, and it had only moved up to 25.41.

So, again, an example here of statewide rates with System 4 coming in at a slightly lower rate as a result of our desire to achieve compliance with the objective of subsidization. And, again, if there is a different number, you know, we rerun the numbers, and take another look at it. But this is the number we chose to look at right now.

So what have we accomplished? We have a maximum monthly bill statewide under $35 for the typical indoor necessary usage at the 5K level. We have achieved compliance with the affordability guidelines, and we have achieved compliance with the subsidization guidelines. Because, as you saw, and if I just go back a few slides to this which shows the stand-alone bills at 5,000 gallons, the affordability threshold was somewhere around $71. And if you just draw a line in your mind there, I guess I could have drawn one for you, but it is a little late now. There, Chris will draw one. You can see a bunch of systems above that affordability threshold. So we have been able to accomplish that, again, by the consolidation and by moving to a statewide rate, which, in the end, appears to us to be an affordable, reasonable rate as we compare it to other systems not only around Florida but around the country.

So I apologize. I have been talking a lot, and I have been talking fast, so maybe now would be a good time just to take a break, and perhaps we don't need to go into the identical analysis which I have on the next ten slides or so for our 21 wastewater systems. I'm happy to do that if the Commission would like, but I think the points are all the same, the concepts are very similar, and I would be happy to answer any questions that you might have.

COMMISSIONER CARTER: Commissioners, any questions? Commissioner McMurrian, you're recognized.

COMMISSIONER McMURRIAN: I have one about the preaudit that you mentioned earlier. And would a preaudit, at least as you are proposing it now, would that still involve at the time you get closer to the case that you would do some kind the verification that all the things are still the same, and so that it is quicker when you actually get into the meat of the case just to verify some things you have done on a preliminary basis, or is it that you do a preaudit and then that puts it to bed at that point? Am I clear?

MR. SMELTZER: That's a very good question. I'm not terribly familiar with the process. We have never used that. I imagine there is someone from the staff that can answer it. But from our perspective, you know, we are looking for ways to extract issues from the rate case itself, because it's so big and difficult to manage, and get them behind us to the extent we can. If it needs to be revisited in the context of the case, you know, we are certainly fine with that. But the more work we can get done before that heat of the filing is underway, the more capable we feel in conducting that case in a fashion that the Commission can live with.

MR. WILLIS: Commissioner McMurrian, I can answer your question on preaudits. We have used the concept quite a bit. We have used it in cases where we know we have a large volume coming in. For instance, in the Utilities Inc. cases that came in last year, we actually did a preaudit of the allocation costs which effect every one of the companies. They are normally done on the same test year. Test years won't change, so you won't have the problem of when the company files you are looking at different information. It's the same test year historical costs that are being audited for the same year.

In the last large Florida Water case, they had well over 100 systems in that, we actually arranged with the company to go in and do a preaudit of the test year historical costs so that we could get that past us and make it a little earlier to goes forward on. So that is how we have used preaudits in the past.

COMMISSIONER CARTER: Mr. Beck, I think you wanted to comment on this.

MR. BECK: I do want to express a concern. We agreed with Aqua as part of the resolution of their past rate case that we wouldn't object to them seeking or requesting a workshop on the reconsolidation issues. And I think we have gone from that to getting more very specific where the company is seeking approval from the Commission of certain things for their next rate case, and I don't think that's appropriate.

I can understand where the company would want to have direction from the Commission saying this is what you do and, if you do it this way, you know, we will look upon it favorably. But that is not the role of the Commission. We will have a case to be litigated. And the notion of asking for a preaudit, and perhaps with the staff that is okay, but we are going to have a litigated case where there is due process rights for all the parties to be involved, and I don't think it is appropriate for the Commission just generically in this case to be preapproving anything for the company. That's up to them to ask in a case where parties are involved and have due process rights in that case.

COMMISSIONER CARTER: I appreciate that, Mr. Beck, and I can assure you that we are in no posture to preapprove anything at this point. This is merely a workshop, and that's the context that we will keep it in.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

And also I have an equal concern about us, as a Commission, as my colleagues getting in a position where effectively we may be asked to give what is analogous to an advisory opinion. I think that certainly, you know, having a workshop I think is productive. Certainly various parties engaging staff is productive. But I think there are some demands where we have to proceed cautiously such that we don't put ourselves in peril. Thank you.

COMMISSIONER CARTER: Absolutely.

Commissioner McMurrian, you're recognized.

COMMISSIONER McMURRIAN: Thank you, Chairman.

I just wanted to say that my intent was definitely not to give any kind of preapproval, it was just that because it has been brought up, and we are all here to talk about it -- and I appreciate your feedback actually, Mr. Beck, and I was hoping that you would jump in. Because I think it is just good for us to start thinking about those things that are going to come up.

But, no, I didn't intend to, and I don't believe the company intended to get preapproval, although any advice we might give them, I'm sure they would be glad to have. But that wasn't my intent in the question.

Thank you, Chairman.

MR. HOFFMAN: And, Commissioner, if I may?

COMMISSIONER CARTER: Mr. Hoffman.

MR. HOFFMAN: Yes. I just wanted to make sure the record is clear. I agree with Mr. Beck that a workshop would not be the appropriate place to try to get some sort of preapproval of any form of rate structure for the company.

Where I disagree with Mr. Beck is I'm not sure where he got the idea that we were trying to accomplish that. I think that we have been very clear from the beginning that we're trying to educate and show you some concepts, and I think that we thought the best way to do that, to sort of show you the rate structure concepts that we think make sense would be by the use of some numbers. But we have been very clear, and we agree with Mr. Beck that we are not here today trying to get you to preapprove anything, and that you could only do that through a formal proceeding.

COMMISSIONER CARTER: I appreciate that. And I'm sure that is not what Mr. Beck meant. He was the canary in the mine, was just making sure that we didn't go down that cavern where all the poisonous gas is.

Is that right, Mr. Beck?

MR. BECK: Sure, I'll be the canary.

COMMISSIONER CARTER: Thank you so kindly.

Commissioners, any further questions in this matter?

Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chair.

And, again, I will just chime in to Mr. Hoffman. I do think that it is a good thing in terms of the narrative approach, the presentation, because it shows potential impacts, and I think that's right in the gist of the workshop in terms of providing knowledge such it would get everything out in the open and it is like a "what if" type of scenario.

I think the uncomfort -- and I don't want to speak for Mr. Beck -- but a little bit of uncomfort I was having in terms of seeking guidance and such as it is framed with the narrative, I think that gives me just a tiny bit of uncomfort. But, again, I think we are working through this and making positive progress. Thank you.

COMMISSIONER CARTER: Thank you.

I think, Commissioner Skop, you are right on it this morning when you were saying we were looking at this as a hypothetical. Not necessarily something that is before us nor would come before us, but just a process of having a discussion and a dialogue more of on a workshop basis. And I think that the Commissioners are clear on it, and I hope the parties are clear on that as well.

Commissioners, any further questions from the people from Aqua?

Staff?

MR. STALLCUP: Yes, Commissioner.

COMMISSIONER CARTER: You're recognized.

Ms. Lingo.

MS. LINGO: Thank you, Commissioner.

Commissioners, if I may get you to turn back to Page 29 of Aqua's slide presentation. Commissioners, if you look at the left-hand column, it's the middle slide where it discusses the summary of the state policies regarding single tariff pricing. I found this to be an interesting slide because if you just look at the numbers, adding up the generally accepted and the has been approved single tariff pricing, it may appear that less than half of the states have approved single tariff pricing.

But if you know the underlying data, in fact, what has happened is almost 80 percent of states who have the jurisdiction, and where multi-system utilities exist, almost 80 percent of the utilities -- almost 80 percent of the states have pro-single tariff pricing. If you start with 51 jurisdictions, including D.C., and you remove the states that don't have any jurisdiction regarding water, and you remove states that have no multi-system utilities, so it's not even an issue, and you also remove those states where single tariff pricing has never even been addressed, you end up with 28 remaining states. So the data on this slide actually indicates that 22 out of 28 jurisdictions have approved single tariff pricing, so that is almost 80 percent.

So I wanted to make that clarification. Because if you didn't know that underlying information, you might be left with an impression that the approval of single tariff pricing among the other states across the country would be something much less than what it actually is.

COMMISSIONER CARTER: Thank you.

Staff, any further clarifications?

Commissioners, any questions of staff? Okay, then.

Thank you so kindly. Let's keep on going while we are going. I think we have comments here from Utilities Inc., is that correct?

Mr. Williams, you're recognized, sir.

MR. WILLIAMS: Good afternoon. I am John Williams, Director of Government Affairs for Utilities Inc. We are happy to be here to participate.

We generally favor the ability of a utility to request consolidation. We have some consolidated rates in Florida as well as in other jurisdictions that we operate in. And we believe it is appropriate and it is a mechanism to achieve cost savings for customers in many of the ways that have been explained this morning, but we don't have any specific recommendations at this time.

COMMISSIONER CARTER: Okay.

Commissioners, any questions of Mr. Williams?

Staff, any questions of Mr. Williams?

Stick around, John. Don't go away. You look like you're getting ready to leave us. Hold on.

Commissioners, if it's okay, I think that OPC has been here all morning, and they have listened, and they have had a couple of comments from time to time, but I think if it's appropriate, I would like to hear from OPC at this point in time, and then we can hear from any other people here within the confines that want to make a presentation.

Mr. Beck, Mr. Reilly, however you deem it necessary.

MR. BECK: We don't have any formal remarks prepared, but I would like to make a couple of observations.

COMMISSIONER CARTER: You're recognized.

MR. BECK: Office of Public Counsel represents all customers in any rate case proceeding. So on issues of revenue requirement, for example, we will raise every reasonable issue we believe is present and will bring it to the Commission and will advocate those issues on customers' behalf before you.

With regard to rate consolidation, what we will not do is advocate the interests of one group of customers against the interests of another group of customers because we have an issue there where if there is an argument that one group of customers could subsidize another, you have both sides, and we simply won't advocate either side in those instances.

There is one time in the past, a very large Southern States case where our office actually hired attorneys to represent both of those sides. Mike Twomey was retained by our office to represent the side of those who would be subsidizers. Joe McGlothlin at that time was with John McWhirter and Vicki Kaufman in a firm, and he represented the interests of those who would be subsidized.

There is only once in the past this happened, and that was quite awhile ago, but just to let you know how we view at least the issue of rate consolidation. With regard to the workshop, we favor the workshop today. I don't want to be misconstrued on that. It is an important issue. There are big issues, and I think it is a good idea to get together and discuss the concepts of what is present. I am very uncomfortable when you get into specific companies proposing things that will be in the rate case and will be litigated in the case.

I wanted to say a few things about stand-alone rates if I could, and it is not to take a side on this, but just the whole momentum today has been towards consolidation of rates, and uniform rates, or single tariff pricing, and I wanted to just say a few things. This has been a very, very contentious issue in the past. I'm not sure the flavor of how contentious this issue has come out today, but in the Southern States cases, in particular, it is very contentious.

If you could look at Page 2 of the staff's handout. What they did very early on, there is a hypothetical, an example of how rate consolidation works, and it shows the effect on smaller systems and larger systems and compared it to consolidated. And you see they are very beneficial -- if you are a customer of the smaller system there is a very beneficial impact from the consolidated rates. It takes the base facility charge from $40 to $10 a month, and it takes the gallonage charge from $12 to 3.

But from the viewpoint of the customers in the other system, it would be hard to overestimate how much some of those customers might oppose the idea of a uniform rate. You see that under this, there is a subsidy of what would be an $8 per month rate for base facility charge to $10. That's a 25 percent increase over what the customers would pay under a stand-alone. The same thing applies to the gallonage charge. If you applied those customers paying their own costs, it would be $2.40 per gallon, it goes to $3, or a 25 percent increase. Those customers would argue that it is not fair to them to charge them more than their cost, and that they should pay more so that somebody else can pay less. These are tough issues, and I think they have a point when they argue that.

Some of the things that have been raised in the past in particular are the effect of CIAC on rates. From their viewpoint they paid higher, some of these customers paid higher up front costs and contribute property with the expectation that paying high up front costs and a one-time charge would result in lower charges later in the monthly rates. That's just how that works. They would say that they get the burden of the high CIAC and the up-front charges, and then they don't get the benefit later on. So you have that issue from customers, as well. I think Steve Reilly has a few comments also.

COMMISSIONER CARTER: I was waiting for Mr. Reilly.

MR. REILLY: He has taken a number of my points.

Certainly the CIAC is a very big issue. The concept of equivalent price for equivalent product sounds very good, but the issue here is when the cost of providing that equivalent product is much, much more, then that is where the tension comes in. That is where the issue of fairness, that is where the issue of unduly discriminatory starts playing in. Because if a person chooses to go in an area of the state, that is where the geography comes in, because the quality of the water is different from one place in the state to another.

And as that quality degrades, then the cost, the capital cost as well as the O&M cost can go significantly higher. The cost of reverse osmosis on a barrier island in a remote area can be vastly higher than in a central part of the state with larger customer base and with high quality, quantity and quality of water. So you have these choices of people locating in different places of the state, you know, and the issue of fairness and nondiscriminatory going to the people in this part of the state, you know, having to subsidize those choices.

So I think that the concept of equivalent price for equivalent product is fine in and of itself, but you have that tension of you have to still look at what the cost of providing that equivalent product is. And that's especially true with some of these systems that have 80 or 85 percent contributed plant. That makes a much lower revenue requirement. And some of these -- and we've been involved in some of these cases where the CIAC was too low and we have actually -- our office has been involved with the utility actually trying to let growth pay for growth's sake, and actually participate in getting those contributions higher so to mitigate even worse impacts of rates in the future.

So that's where we have got to look at the system, system specific to try to do fairness so this person over here doesn't have to pay twice, pay with a much higher contribution and then find themselves subsidizing all of these other systems. So there is the tension.

One other small thought. Earlier in the meeting we were talking about a drought subsidy and it kind of raised a little red flag to me. How do you implement a drought subsidy? If we determine the revenue requirement, and this is a fair revenue requirement and now we have worked out all different ways about how we are going to spread that revenue requirement over all of these disparate systems, when you have a drought situation in one particular area of the state, how are you going to impose some sort of a surcharge on those people? Is that a windfall for the company? Is that an opportunity to overearn on those systems? I mean, that concerns me and raised a red flag, and I hope that it will be something that you could look at that we got to make it revenue neutral. How do we make it revenue neutral if we are going to superimpose at some point in the future some sort of a drought subsidy? So I would urge you to think about that.

The other thing, and this is an argument that Aqua has said is we are just trying to develop a business model that is going to work. And I think that's certainly understandable. But when Aqua came in and purchased all of these Florida Water systems, in fact, it is in one of their slides, they said we had to buy it all. We had to buy some troubled, small, high cost, difficult systems with the good systems.

And I made this argument to them privately and I will make it here publicly. I have urged Aqua to please identify those systems that are troubled, that are very high cost, that have poor quality water. And those systems that are located, feasibly located close to a municipality or to a county government, that it would be feasible for them to possibly be subsumed and brought into that governmental system, that that is a key thing that we cannot overlook. Because if they would be willing to sell some of these very troubled systems, we can take them off the table. We don't have to merge in those high costs and cause all of this merging to take place. I mean, it's a win, win, win situation.

If Aqua could identify some of the small troubled systems that are geographically physically located close enough to a municipality or county, it could be a win, win, win situation. A win to Aqua because they have gotten some of their most troubled, most expensive systems off the table. A win for the remaining private customers because they don't have to subsidize and absorb them. And it's a win for those particular customers, because by even selling these systems at their cost, I mean, at their rate base, or at their book value, it is a neutral to them, but to those customers you could get the benefits of governmental ownership, which no income taxes, no ad valorem taxes, no rate cases, no regulatory assessment fees. There are built-in economies to -- if it's physically possible and could take them over, that those economies could be used to mitigate and to reduce the high rates that those people would otherwise have to face.

And we are actually, our office is actually volunteering and are facilitating these kinds of governmental takeovers of troubled systems. And the model is that these systems would necessarily go into that county or into that system and let those people subsidize them and absorb them, but they could even go in on a stand-alone basis. That these governmental entities could actually -- and we are having these conversations in Bay County now, and we're having them in some other counties. In fact, in Pasco County where we are looking at some systems that are very troubled there. But that they could be brought in and actually have lower rates than they would be if they were owned and operated by a large publicly traded profit earning company.

I'm suggesting that the Aqua model is not a good model for some of these very small troubled systems. And that if there is a way we could all work together to at least identify those most troubled systems and take them off the table, that that would help us with our consolidation issue, it would help those customers, it would help the remaining customers, and it would probably even help the bottom line of Aqua.

So that's one of my suggestions.

COMMISSIONER CARTER: It is always a pleasure. You have talked at length about these water cases and water issues and all like that, and it is as refreshing as ever to discuss that.

Commissioners, any questions?

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chair.

Just at the appropriate time I would just like to probably make some closing comments.

COMMISSIONER CARTER: Okay.

What I want to do now, Mr. Reilly, you closed for OPC? Mr. Beck, we got him started, didn't we?

MR. BECK: We have made our comments. Thank you.

COMMISSIONER CARTER: Okay. Thank you.

We allowed Mr. Williams with Utilities Inc. Mr. Hoffman, your client is finished? Okay.

Is there anyone else within the confines of the room -- I will come back to you in a minute -- anyone else in the confines of the room that wanted to be heard that did not get an opportunity? Anyone from the public? Okay.

Mr. Hoffman.

MR. HOFFMAN: Thank you. I think Mr. Franklin has a comment that he would like to add.

COMMISSIONER CARTER: Mr. Franklin.

MR. FRANKLIN: Just one. I think Mr. Reilly made some very good points, and I just wanted to make sure that we don't leave the room thinking that the company has not considered what we call pruning of those systems that really don't make economic sense for us. But I think one of the key things to remember is as we have said many times today, those Florida Water systems were not left for us to pick up because they were desirable systems.

And for a lot of reasons, those were left and there is not really a good match for them, or we probably would have gone through those pruning efforts. And we have done that many places, not only in Florida, but in other places where it makes economic sense. Because I think Mr. Reilly's argument is a very valid argument, where it makes sense. Unfortunately, we haven't come across those opportunities here in Florida. So, thank you.

COMMISSIONER CARTER: Thank you. We have heard from everyone else.

Commissioner Skop, you are recognized. And then we will go to Commissioner McMurrian and then we will close.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chair.

Again, I think today's workshop has been very productive, at least from my perspective and hopefully from the perspective of my colleagues, staff, the parties. It's difficult, because I think with the water and wastewater there are some significant challenges that the Commission and staff, as well as the parties, are facing in Florida in how to deal with these situations when they arise, particularly with the very small units that require -- don't have a lot of customers, yet they are required from a system revenue requirement to absorb tremendous capital investments. And in some instance, those aren't the low cost producers, or there may be some underlying quality issues, or what have you.

But, again, you know, part of the competitive environment is to be able to do it better and cheaper than anyone else. And that is seemingly, in some instances, not always available to the consumer due to the limited monopoly that the utilities have. So, again, I'm struggling, as a Commissioner, to try and find what best practices there are out here. Because, again, some of the approaches mentioned by the utilities are innovative. They may have some merit. Certainly some of the points that OPC has raised with respect to divestment and the potential opposition to subsidies that may become apparent at some future point in time are all points that are worthy of consideration.

But, you know, I'm tempering that by the fact that, again, at the end of the day there has to be the service for the people. But the way things are now, it's as some consumers have approached me -- and, again, it is Halloween, it's right around the cuff, so it envisions things of late night grave robbers -- but the pricing in such instances, you know, with the constraints that people's salaries aren't keeping par with the bills that they are required to meet on a monthly basis, and you see people getting behind on their bills or defaulting on being overextended on credit.

But, you know, the way this trend is going, you know, consumers have approached, as we also heard at prior service meetings, about covertly sticking in a well and septic tank. I mean, that doesn't really seem to be an option when you look at cost-effectiveness. Certainly it's not good for the environment, and that is why the state is taking action to prevent such things. But, I mean, desperate times for desperate measures.

So, again, I think some of the points here, I think this has been a very positive morning in terms of some of the approaches that have been laid out. And, you know, hopefully, you know, aspiring to have a regulatory environment that encourages future investment and provides a rate of return for quality service, I think that that also needs to be tempered into the mix. So, again, I think this is instrumental in getting some of the concerns of the parties, the consumers, the consumer advocates, staff, getting all the stakeholders kind of involved in a dialogue in a nondocketed workshop manner where we have a little bit more freedom and latitude to vet ideas and to kind of come up with some what may be best practices without giving specific guidance or blessing certain actions on behalf of what may be thrown out there as proposals.

But I think that, just to close, I do think there are some substantial issues that, you know, I have hit on. And we want to, again, encourage that investment, and deter consumers from having to do that midnight septic tank digging or installation and well dropping. But, you know, I just think that there are some very, very, very good points that were raised here today, and certainly some of the proposals I would like to commend staff, and I know Marshall and Cheryl particularly worked very hard, as well as our other staff members in the water and wastewater sector as well as the parties and also OPC.

So, again, I thought this morning was very, very, very productive as we seek to try and address some of the issues and move forward with a stable regulatory environment in water and wastewater in Florida.

Thank you.

COMMISSIONER CARTER: Thank you, Commissioner.

Commissioner McMurrian.

COMMISSIONER McMURRIAN: I will be short. I will just quickly thank all the affected parties that shared information with us today about some of these different ideas they have. And I realize that Paul and Jennie both pointed out that there probably is as many ideas to do this as we could all think of. But I appreciate all the information, and I'm sure we will be getting more information in the future on some of these and maybe what other states are doing. But I appreciate the breadth of the information. And I think no matter what our next step is that we are definitely more educated after today, so I thank you all for that.

COMMISSIONER CARTER: Just before I make closing comments, Staff, did we accomplish all the goals for our workshop today? Is there any unreadiness?

MR. STALLCUP: I think we have covered it all.

COMMISSIONER CARTER: All right. Well, then let me say to staff, to the parties, to OPC, to the public who is also tuning in, how much we sincerely appreciate this opportunity in a nondocketed matter such that we can have a clear open discussion and open dialogue where OPC can be heard, the companies can be heard, staff can be heard, and Commissioners can ask questions without any perspective on whether or not this has an impact on an issue before us. And I think that gives us a good common bond to where we can kind of look and see what is out there.

Commissioner Skop, I think you are right in terms of finding the best practices. Is that it is one thing to look at what other states are doing, but don't look at what other states are doing -- as my grandmama used to say, if everybody jumps off the hill, are you going to jump off the hill with them? And I used to say, no, I wouldn't do that. So we want to see what those best practices are before we say yea or nay.

But I do thank staff for the hard work; I thank the parties for the hard work. I think you guys did a yeoman's effort of getting down here from Charlotte, and we do appreciate you.

If there is no further -- anything for the good of the order? Hearing none, we're adjourned.

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, 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 16th day of November, 2007.

Linda Boles for

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Official FPSC Hearings Reporter
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