

a

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

**ORIGINAL
FILE COPY**

**DIRECT TESTIMONY OF JOSEPH P. CRESSE
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
ON BEHALF OF
SOUTHERN STATES UTILITIES, INC.
AND
DELTONA UTILITIES, INC.
DOCKET NO. 920199-WS**

DOCUMENT NUMBER-DATE
08060 JUL 22 1992
PSC-RECORDS/REPORTING

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Joseph P. Cresse. My address is P. O.
3 Box 1876, Tallahassee, Florida 32302-1876.

4 Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL
5 BACKGROUND AND EXPERIENCE.

6 A. I am currently employed as a non-lawyer Special
7 Consultant with the law firm of Messer, Vickers,
8 Caparello, Madsen, Lewis, Goldman & Metz, P.A. I
9 graduated from the University of Florida with a
10 B.S.B.A. Major in Accounting in 1950. A copy of my
11 resume is attached as Exhibit _____ (JPC-1) under
12 cover page entitled "Resume of Joseph P. Cresse."

13 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

14 A. The purpose of my testimony is to explain and
15 justify why it is fair, just and reasonable to
16 establish maximum rates as proposed by Southern
17 States Utilities, Inc. and Deltona Utilities, Inc.
18 (referred to collectively as "Southern States" or
19 the "Company") in this case and recover the
20 resulting revenue deficiencies from customers served
21 by other systems operated by SSU.

22 Q. WILL YOU PLEASE EXPLAIN WHAT SOUTHERN STATES IS
23 PROPOSING?

24 A. Southern States is proposing a maximum bill at
25 10,000 gallons of consumption for the residential

1 (5/8") customers of any single system of \$52.00 per
2 month for water service and \$65.00 per month for
3 residential (5/8") sewer service. Of course,
4 customers who consume less than 10,000 gallons would
5 pay less than the maximum bill. Water customers who
6 use more than 10,000 gallons would pay more, but
7 because we are proposing a 10,000 gallon usage cap
8 for calculating wastewater bills, the highest
9 monthly wastewater bill for any residential (5/8")
10 customer would be \$65.00.

11 Southern States is not proposing rate
12 reductions for 10 systems for which a stand alone
13 cost of service study would reflect lower required
14 rates than those proposed in this case. Southern
15 States is proposing that the revenue deficiency
16 resulting from implementation of the proposed
17 maximum bill be recovered from customers served by
18 other systems. This method of recovery would
19 increase the revenue requirements of such systems
20 by 1.9% above the levels indicated through a stand
21 alone cost of service study.

22 Q. WHY IS THIS PROPOSAL JUSTIFIED?

23 A. This proposal is justified because it is in the best
24 long term interest of all customers of the Company
25 and it recognizes the economies of scale that a

1 large multi-system company can bring to all of its
2 customers. It can help prevent rate shock to all
3 customers as capital investment is made in the
4 future, and it permits the Company to recover
5 investment from small undeveloped systems that they
6 are required to serve, without imposing rates that
7 could cause disconnection or discourage additional
8 customers from connecting to our systems. Also, it
9 should not be forgotten that if any of these ten
10 systems were truly "stand alone," their rates would
11 be significantly higher than current rates because
12 the economies enjoyed by such customers would not
13 then be available.

14 **Q. HOW DID SOUTHERN STATES ARRIVE AT THE MAXIMUM BILL**
15 **FIGURE OF \$52.00 FOR WATER AND \$65.00 FOR SEWER?**

16 **A.** The weighted average residential bill for 10,000
17 gallons of water consumption is \$17.39 and for
18 wastewater is \$32.92. The maximum bill we are
19 proposing of \$52.00 (water) and \$65.00 (wastewater)
20 at 10,000 gallons are approximately 3 times and 2
21 times, respectively, these average bills. These
22 maximum bills are based on the Company's and my
23 judgment of the maximum fair rates a residential
24 customer should face at this time (absent specific
25 conditions in servicing a given geographic area that

1 would cause costs to exceed these amounts for a
2 reasonably sized system).

3 Q. YOU ADMIT THEN THAT THE MAXIMUM RATE CAPS PROPOSED
4 ARE SUBJECT PRIMARILY TO A JUDGMENT CALL.

5 A. Yes, it certainly is, and the Commission makes these
6 type of judgments in nearly every rate case it
7 decides.

8 Q. PLEASE EXPLAIN.

9 A. In electric rate cases, a cost of service study is
10 used to allocate revenue requirements to each class
11 of customers, however, the Commission does not
12 usually set rates to recover 100% of the revenue
13 requirements of each class. On many occasions, the
14 Commission has limited the percentage increase of
15 any particular class to 150% of the average increase
16 for all classes. Further, the Commission normally
17 does not reduce existing rates of a class of
18 customers that are paying in excess of 100% of their
19 calculated cost. In other words, to maintain
20 stability of rates and to avoid rate shock, the
21 Commission historically has applied its judgment in
22 rate design issues. It is rare that approved rates
23 require each class of customers to pay exactly 100%
24 of their cost of service, and even if they did, the
25 next cost of service study would demonstrate that

1 100% parity was not in fact accomplished.

2 Furthermore, it is recognized that electric
3 utilities must serve all customers with similar
4 characteristics at the same tariff rates, thus no
5 customer in a new undeveloped subdivision pays
6 higher electric rates than customers in older fully
7 developed areas. The same principles are applied
8 in telephone service - undeveloped areas do not pay
9 higher rates than fully developed areas. There is,
10 however, one major difference between electric
11 ratemaking and telephone ratemaking. The electric
12 utilities have developed reasonably good cost of
13 service studies while the telephone companies have
14 not, so absent cost of service studies for telephone
15 services, the Commission must rely almost entirely
16 on their own judgment to establish rates that are
17 fair, just and reasonable.

18 **Q. ARE YOU SUGGESTING THAT SOUTHERN STATES SHOULD HAVE**
19 **A TARIFF RATE APPLICABLE TO EACH CLASS OF CUSTOMERS**
20 **STATEWIDE AS IS DONE IN ELECTRIC AND TELEPHONE**
21 **RATEMAKING?**

22 **A. No, Southern States is not proposing statewide rates**
23 **in this case. However, I hope that the Company and**
24 **the Commission can move in that direction in the**
25 **future.**

1 Q. I SHOW YOU EXHIBIT ____ (JPC-1) UNDER COVER PAGE
2 ENTITLED "REVENUES REQUIRED TO BE REDUCED FOR
3 SYSTEMS WHICH EXCEED MAXIMUM RESIDENTIAL BILL AT
4 10,000 GALLONS CONSUMPTION," AND EXHIBIT ____ (JPC-
5 3) UNDER COVER PAGE ENTITLED "REVENUES FOR SYSTEMS
6 THAT WERE HELD TO EXISTING REVENUE LEVELS." WERE
7 THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR
8 DIRECTION AND SUPERVISION?
9 A. Yes, they were.
10 Q. DO THESE EXHIBITS DEMONSTRATE THE EFFECT OF CAPPING
11 RATES AS PROPOSED BY THE COMPANY?
12 A. Yes, they do.
13 Q. PLEASE EXPLAIN.
14 A. Exhibit ____ (JPC-2) shows that 31 systems will
15 benefit from the implementation of the proposed
16 maximum bill at 10,000 gallons of usage producing
17 a shortfall of \$775,541 in revenue requirements for
18 those systems. The exhibit also shows that with
19 one exception these systems are very small. Exhibit
20 ____ (JPC-3) shows that \$365,477 of the shortfall is
21 recovered by Southern States' proposal to not reduce
22 rates for 10 systems. The balance of \$410,064 would
23 be recovered from Southern States' remaining
24 approximately 97,000 customers, at a cost of less
25 than 36¢ per customer per month.

1 Q. DO YOU HAVE ANY FURTHER COMMENTS?

2 A. Yes, Southern States is a large water and sewer
3 company, but compared to the large electric and
4 telephone companies, it is relatively small. The
5 Company's acquisitions of smaller water and sewer
6 companies has been approved by the Commission as
7 being in the long term interests of the Company's
8 customers. The Company deserves the same
9 opportunity to earn a fair rate of return on its
10 prudent investments in utility plant as the
11 Commission affords to other utilities. In response
12 to the Commission's criticism of the Company's
13 inclusion in Docket No. 900329-WS of only systems
14 in need of significant rate relief, the Company has
15 attempted to meet the needs and desires of the
16 Commission by including all jurisdictional systems
17 (except the Marco Island Systems due to a large
18 amount of post-1991 investment) in this case. The
19 long term goal of both the Company and the
20 Commission regarding rate design should be to
21 encourage long-term economies, rate stability, and
22 fair treatment for both the Company and its
23 customers.

24 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

25 A. Yes, it does.

Exhibit ____ (JPC-1)
Cover Page

RESUME OF JOSEPH P. CRESSE

JOSEPH P. CRESSE

Presently employed as a non-lawyer Special Consultant with the law firm of Messer, Vickers, Caparello, Madsen, Lewis, Goldman & Metz P.A. in Tallahassee, Florida; former Chairman of the Public Service Commission having served seven years on the Commission; former State Budget Director for State of Florida under Governor Reubin Askew, and former Assistant Secretary for the Department of Administration, State of Florida.

Resides in Tallahassee, Florida, with wife, Beverly; has two children; born in Indiana, and attended public schools in Frostproof, Florida; attended University of Florida - graduated in 1950 B. S. B. A. Major in Accounting; served in the U. S. Army as Staff Sergeant; member of Beta Alpha PSI Fraternity.

Career accomplishments include recipient of Florida Senate and House Resolution of Commendation; Administrator of the year in 1975; recipient of University of Florida Distinguished Alumnus Award; served on the Executive Committee of National Assn. of State Budget Officers, National Assn. of Regulatory Utility Commissioners, and President of the Southeastern Assn. of Regulatory Utility Commissioners; assisted in passage and implementation of the Career Service System, State of Florida; assisted in the implementation the Governmental Reorganization Act; implementation of program budgeting and computerizing substantial budgeting information; assisted in development of Education funding program for the State of Florida; assisted in development of financial plan to reduce appropriations to operate within available funds when revenue of the State was approximately 10% less than anticipated; assisted the Governor and Legislature during Special 1978 Legislative Session in drafting and passing legislation protecting title to state sovereign lands; served as member of the Florida Advisory Council on Intergovernmental Relations; appointed by Governor as member of the Deferred Compensation Advisory Committee and elected chairman; chaired a Task Force which developed financial and organizational plans to dismantle the Inter-American Center Authority with real estate assets of the Authority preserved for public use; appointed by Governor to state team which successfully negotiated a major settlement involving oil, gas and mineral rights on state-owned submerged lands; appointed to task force overseeing litigation, State v. Mobil Oil, Sovereign Lands; member Growth Management Committee; appointed by Governor and co-chaired Telecommunications Task Force. In 1985 received the National Governor's Association award for Distinguished Service to State Government. Retired from State Government December 1985 to assume present position with Messer, Vickers law firm. Since 1985 I have been engaged in regulatory consulting work with both utilities and non-utilities. I lecture at Indiana University twice a year, and have testified before the Georgia, North Carolina and South Carolina Regulatory Commissions.

REVENUES REQUIRED TO BE
REDUCED FOR SYSTEMS WHICH EXCEED
MAXIMUM RESIDENTIAL BILL AT
10,000 GALLONS CONSUMPTION

REVENUES REQUIRED TO BE REDUCED FOR SYSTEMS WHICH EXCEED
 MAXIMUM RESIDENTIAL BILL AT 10,000 GALLONS CONSUMPTION
 (RESIDENTIAL CAP: WATER - \$52 AND WASTEWATER - \$65)

LINE NO.	SYSTEM NAME	REQUIRED REDUCTION				TOTAL
		AVG. NO. OF CUSTOMERS	WATER	AVG. NO. OF CUSTOMERS	WASTEWATER	
1	APACHE SHORES	161	\$5,980	112	\$11,318	\$17,298
2	BEECHER'S POINT			16	\$10,868	\$10,868
3	BURNT STORE	186	\$9,065			\$9,065
4	CHULUOTA			132	\$188,305	\$188,305
5	CITRUS PARK			259	\$66,077	\$66,077
6	FOUNTAINS *	8	\$48,390			\$48,390
7	FOX RUN	92	\$22,987			\$22,987
8	GOSPEL ISLAND ESTATES	8	\$7,367			\$7,367
9	HERMITS COVE	178	\$732			\$732
10	HOLIDAY HAVEN	113	\$676	96	\$4,026	\$4,702
11	JUNGLE DEN	116	\$7,392	115	\$81,583	\$88,975
12	LAKE AJAY ESTATES	35	\$13,779			\$13,779
13	LAKEVIEW VILLAS	13	\$5,833			\$5,833
14	MARION OAKS UTILITIES			1,276	\$85,133	\$85,133
15	MORNINGVIEW			35	\$5,425	\$5,425
16	PALISADES COUNTRY CLUB *	27	\$10,366			\$10,366
17	PARK MANOR	30	\$1,661	25	\$5,398	\$7,059
18	POINT O'WOODS			114	\$39,503	\$39,503
19	QUAIL RIDGE *	21	\$2,515			\$2,515
20	ROSEMONT	47	\$29,401			\$29,401
21	SALT SPRINGS	112	\$53,886			\$53,886
22	SARATOGA	40	\$12,070			\$12,070
23	SILVER LAKE OAKS	26	\$8,006	25	\$6,923	\$14,929
24	STONE MOUNTAIN	6	\$2,046			\$2,046
25	SUNNY HILLS UTILITIES			175	\$24,623	\$24,623
26	WOOTENS	17	\$4,207			\$4,207
27	TOTAL REVENUE REQUIRED	<u>1,236</u>	<u>\$246,359</u>	<u>2,380</u>	<u>\$529,182</u>	<u>\$775,541</u>

* - New systems reflecting annualized number of customers.

REVENUES FOR SYSTEMS
THAT WERE HELD TO
EXISTING REVENUE LEVELS

REVENUES FOR SYSTEMS THAT WERE HELD TO EXISTING REVENUE LEVELS

LINE NO.	SYSTEM NAME	AMOUNT CONTRIBUTED TO MAX. BILL ADJ.				TOTAL
		AVG. NO. OF CUSTOMERS	WATER	AVG. NO. OF CUSTOMERS	WASTEWATER	
1	AMELIA ISLAND	1,157	\$99,302			\$99,302
2	APPLE VALLEY	917	\$10,668	166	\$14,665	\$25,333
3	FERN TERRACE	123	\$2,793			\$2,793
4	MEREDITH MANOR			27	\$1,757	\$1,757
5	ROLLING GREEN	76	\$3,013			\$3,013
6	SALT SPRINGS			110	\$19,703	\$19,703
7	SILVER LAKE ESTATES	935	\$28,992			\$28,992
8	SPRING HILL UTILITIES			4,846	\$180,913	\$180,913
9	WESTMONT	<u>122</u>	<u>\$3,671</u>			<u>\$3,671</u>
10	TOTAL REVENUES CONTRIBUTED	<u>3,330</u>	<u>\$148,439</u>	<u>5,149</u>	<u>\$217,038</u>	<u>\$365,477</u>