Commissioners: J. TERRY DEASON, CHAIRMAN SUSAN F. CLARK LUIS J. LAUREDO JULIA L. JOHNSON

State of Florida



STEVE TRIBBLE, Director Division of Records and Reporting (904) 488-8371

Bublic Service Commission

DATE:

September 21, 1993

TO:

Parties of Record

FROM:

Steve Tribble, Director

Division of Records and Reporting

RE:

Docket No. 920199-WS - Application for a rate increase by Southern States

Utilities, Inc.

Docket No. 930880-WS - Investigation into the appropriate rate structure for Southern States Utilities, Inc. for all regulated systems in Bradford,

Brevard, Citrus, Clay, Collier, Duval, Hernando, Highlands, Lake,

Lee/Charlotte, Marion, Martin, Nassau, Orange, Pasco, Putnam, Seminole,

St. Johns, St. Lucie, Volusia, and Washington Counties.

This is to inform you that the Commissioners have reported the receipt of the following communication in the above referenced dockets.

Letter from Senator W. G. Bankhead, representing the 8th District, dated August 31, 1993.

Also attached are responses to the above letter from Chairman Deason and Commissioner Clark dated September 17, 1993.

These letters, copies of which are attached, are being made a part of the record in these proceedings and you may file a response to them with this office, within ten days of receipt of this notice.

OPC ____ST/cp

Attachments

WAS ST/cp Jea del Rob Vandiver/w/letters



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE:

September 20, 1993

TO:

Commissioner Lauredo Commissioner Johnson

FROM:

Steve Tribble, Director

Division of Records and Reporting

RE:

Receipt of Ex Parte Communication

Chairman Deason and Commissioner Clark have reported the following to this office as a possible exparte communication in Dockets Nos. 920199-WS and 930880-WS to which you are assigned.

- Letter from Senator W. G. Bankhead, representing the 8th District, dated August 31, 1993.

We are preparing to distribute these letters to the parties to this docket. If you have received a similar communication, please report it to this office as soon as possible.

ST/cp

cc: Rob Vandiver/w/letters



THE FLORIDA SENATE

Tallahassee, Florida 32399-1100

93- N L S L

SENATOR W. G. "BILL" BANKHEAD 8th District

August 31, 1993

COMMITTEES: Professional Regulation. Vice Chairman Appropriations, Sub. C Criminal Justice Health and Rehabilitative Services International Trade, Economic gelopment and Tourism

RECEIV

SELECT COMMITTEE: Hurricane Rellat & Disaster Preparedness JOINT COMMITTEE:

Mr. J. Terry Deason Chairman Public Service Commission 101 East Gaines Street Tallahassee, Florida 32399-0850 SEP = 9 15: | Advisory Council on Environmental Education

Florida Public Service Comm. Commissioner Deason

Dear Commissioner Deason:

Several years ago I closely monitored your Commission's handling of a water rate increase proposal in St. Johns County and was disappointed, not only with the outcome, but with the way in which the Commission and its staff handled the proceedings.

As I review your handling of the Southern States Utilities case, I am once again disappointed. I ask your reconsideration of both the rates allowed and the lumping of a large number of dissimilarly situated rate payers into one extremely large pool for the purposes of rate-making.

It is my understanding that the uniform rate design, which you have approved, causes a subsidy among customers in a random and discriminatory fashion. Customers who contributed to the investment in their systems are deprived of lower rates to which they are entitled, while customers who made no contribution benefit from the subsidy. It looks to me like your decision favors your own administrative convenience while it neglects a duty to establish nondiscriminatory rates.

I also understand that the revenue level approved by the Commission is based upon a hypothetical and inflated level of investment rather than the actual investment made by Southern States. The clear intent of the Florida Statutes is to provide utility earners a return on the actual investment they made. You also fail to take into account Southern States' \$6 million profit on the sale of the St. Augustine Shores system to St. Johns County.

In addition, I am concerned about your routine acceptance and approval of administrative and general expenses without a qualitative review to ensure those expenses are actually required for the operation of the utility or are at least reasonable in amount relative to service rendered and good business practice. I am especially concerned about your practice of allowing the

REPLY TO:

P. O. Box 41624, Jacksonville, Florida 32203-1624 (904) 359-1014

348 Senate Office Building, Tallahassee, Florida 32399-1100 (904) 487-5030

ANDER CRENSHAW President

PAT THOMAS President Pro Tempore JOE BROWN Secretary

TODD, JR.

405%

Public Service Commission August 31, 1993 Page 2

Utility to recover most of its rate case expense through increased prices to its customers, with minimum inquiry into the reasonableness of the charges. There is virtually no incentive to control rate case expense. This occurred in the St. Johns County case, when there was no rate increase justified but the Commission granted the Utility a rate case expense of over \$160,000 and turned a rate reduction into a rate increase.

Commissioner Deason, in the St. Johns County case, it took my intervention to get the Public Service Commission to conduct a public hearing in the community and at a time convenient to the rate payers.

I am extremely concerned that if all the Southern States Utilities customers in the entire State of Florida are grouped into one rate-making pool, there will be absolutely no opportunity for rate payers to have any meaningful kind of input into the rate-making process.

The truth is, you are in business to protect the best interests of the rate payers. I don't think you did that in the St. Johns County case, nor do I think that has happened in the current Southern States case. Please take this opportunity to reconsider your actions.

Cordially,

W.-G. Bankhead

WGB/cs



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: September 17, 1993

TO: Steve Tribble, Director

Records & Reporting

FROM: J. Terry Deason Chairman

RE: Letter and Response For Filing In Docket 930880-WS.

FPSC-RECORDS / REPORTING

Please file the attached letter from me to Senator Bankhead, along with Senator Bankhead's letter to me in Docket 930880-WS. In addition, please send a copy of the two letters to all interested parties in this docket. Please also note that I have filed one copy for reference in the file of Docket 920199-WS which is the now - concluded Southern States Utilities rate case.

JTD/gs

J. Terry Deason
Chairman



Fletcher Building 101 East Gaines Street Tallahassee, FL 32399-0853 (904) 488-2986 FAX # (904) 488-0914

Public Service Commission

September 17, 1993

Honorable W. G. Bankhead Senator, 8th District P.O. Box 41624 Jacksonville, Florida 32203-1624

Dear Senator Bankhead:

Thank you for your letter, dated August 31, 1993, in which you expressed many concerns over the final action taken by the Commission in the recent Southern States Utilities, Inc. (SSUI) rate case. It is my understanding that Commissioner Clark is responding separately to your individual concerns arising out of that case. I am taking this opportunity to respond to what I believe is your request for reconsideration of the SSUI rate case and to advise you of action we are taking to address your concerns.

Motions for reconsideration were filed by several parties including the Office of Public Counsel, Citrus County, and Cypress and Oak Villages Association. Those motions for reconsideration were denied by the Commission on July 20, and August 3, 1993. The Commission on July 20, 1993, received a new Petition filed by Citrus County, Hernando County, Cypress and Oak Villages Association, Spring Hill Civic Association and Senator Ginny Brown-Waite. The Commission considered these petitions to be petitions to reconsider the issue of statewide rates in the SSUI rate case. These petitions were also denied on August 31, 1993, since they were filed after the time for reconsideration had expired. Once the time for reconsideration has expired, the case cannot legally be reconsidered.

I would also like to take this opportunity to inform you that the Commission, on our own motion on August 31, 1993, voted to open a new docket so that the all five Commissioners can review the rate structure for all of the regulated systems of Southern States Utilities, Inc. The Commission will be holding service hearings throughout the affected areas of the state. We will advise you of the dates and times.

4061

I hope that I have addressed your main concern to your satisfaction.

Sincerely,

J. Terry Deason

Chairman

JTD/gs

Docket 920199-WS cc:

Interested parties in docket 930880-WS w/attachment



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: September 17, 1993

TO: Steve Tribble, Director of Records and Reporting

FROM: Susan F. Clark, Commissioner

DECEIVED
SEP 17 1993

RE: Letter from Senator W.G. Bankhead regarding:

FPSC-RECORDS / REPORTING

Docket No. 930880-WS, Investigation into the appropriate rate structure for Southern States Utilities, Inc. for all regulated systems in Bradford, Brevard, Citrus, Clay, Collier, Duval, Hernando, Highlands, Lake, Lee/Charlotte, Marion, Martin, Nassau, Orange, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties; and

Docket No. 920199-WS, Application for rate increase in Brevard, Charlotte/Lee, Citrus, Clay, Duval, Highlands, Lake, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, Volusia, and Washington Counties by Southern States Utilities, Inc.; Collier County by Marco Shores Utilities (Deltona); Hernando County by Spring Hill Utilities (Deltona); and Volusia County by Deltona Lakes Utilities (Deltona).

Please find attached a copy of my letter of September 17, 1993, to Senator W.G. Bankhead and a copy of his letter of August 31, 1993. I received Senator Bankhead's letter September 8, 1993. Because these letters address matters relevant to pending proceedings, it is necessary to place this memorandum and attachments on the record of the above-referenced proceedings pursuant to section 350.042, Florida Statutes. Please give notice of this communication to all parties to the docket and inform them that they have 10 days from receipt of the notice to file a response.

SUSAN F. CLARK Commissioner



FLETCHER SUILDING 101 EAST GAINES STREET TALLAHASSEE, FL 32399-8153 (904) 488-5573

Public Service Commission

September 17, 1993

Honorable W. G. Bankhead Senator, 8th District Post Office Box 41624 Jacksonville, Florida 32203-1624

Dear Senator Bankhead:

Thank you for your letter of August 31, 1993, in which you expressed many concerns about the Commission's decision in the recent Southern States Utilities, Inc. (SSUI) rate case. I would like to take this opportunity to address your concerns and to assure you that this Commission did handle this case appropriately.

Your first concern was in regard to the statewide rates established by the Commission. The Commission voted to approve statewide uniform water and wastewater rates because the record developed in the case showed that it is in the long-term best interests of all of SSUI's utility customers. Statewide rates do allow some revenues to flow from one system to another, but the actual effect to customers is very small on a dollar comparison at various usage levels. Most customers benefit by actually having rates lower under statewide rates than they would under individual system stand alone rates. For example, in comparing uniform statewide rates to stand alone rates, we found that for locations with both water and wastewater systems, at a consumption level of 6,000 gallons per month, approximately 30 locations or 60 systems, would have paid higher water and wastewater rates under a stand alone method. In fact, seven locations out of ten locations covered by your senate district benefit from the statewide rates. For instance, in the Deltona Utilities system in Volusia County, the statewide rate for 6,000 gallons of consumption produces a water and wastewater bill of \$44.61. However, if rates were set for this system by itself, the same consumption would produce a bill of \$53.59.

Statewide rates gives the Commission the ability to minimize rate shock to the customers and provide rate stability. For example, statewide rates help prevent substantial rate increases

in individual systems facing major plant improvements due to new state Department of Environmental Protection (DEP) and federal Environmental Protection Agency standards by spreading the expense over the entire customer base of SSUI. Rate stability is achieved because the underearnings of SSUI will be tested on a statewide basis instead of for each individual system. This will reduce the number of rate cases filed by this company which translates into less in rate case expense and lower rates for customers in the long run.

Administrative and general expenses of the company are also reduced because of statewide rates. Administrative efficiencies are gained by consolidating functions thus reducing internal accounting and operating costs. For example, instead of having to maintain 127 separate tariffs on file at the Commission, the company will only have to maintain one tariff. Likewise, costs for Southern States' billing system will be greatly reduced as a result of the simplified uniform rate.

An added benefit of considering the 127 systems owned by SSUI in a combined fashion is that the total rate case expense per system was substantially less than what it would be if the systems were considered on an individual basis. Rate case expense averages about \$50,000 - \$80,000 for a small system rate case. However, a recent case filed by SSUI outside of this particular case had a rate case expense of over \$200,000 for one system. These are expenses that the customers of the utility end up paying through rates, as prudently incurred costs are a legitimate expense of a regulated utility. In this latest SSUI case, the rate case expense averaged out to be \$10,000 per system, which represents a minimum savings of \$5 million dollars to customers, when compared to having individual rate cases for each system.

The Commission believed the combined benefits as described above provided support for the development of statewide rates. We believed that these rates would be in the best long-run interests of SSUI's customers. This is especially true for the small volume customer because it will allow any future major capital costs to be spread over the entire general body of SSUI ratepayers.

Uniform statewide rates are not new to the water and wastewater industry. An example would be Jacksonville Suburban Utilities, Inc., which operates in Nassau, Duval and St. Johns counties. This company has had uniform rates since the early

1970's. In addition, statewide rates are the norm in the electric, gas and telephone industries. At no time were the benefits of rate consolidation considered in any context other than that which was to the benefit of the ratepayer.

The second concern addressed in your letter was your understanding that the Commission used a hypothetical or inflated level of investment rather than the actual investment made by SSUI. Apparently you refer to the fact that the Commission did not include, as a reduction to rate base, what is termed a negative acquisition adjustment. An acquisition adjustment is the difference between the book value and the purchase price. Since 1981, this Commission has had a policy of allowing no acquisition adjustments absent extraordinary circumstances. book value of a purchased system does not change as a result of a purchase regardless of whether the price paid is above or below book value. The evidence presented to the Commission on this issue showed that the purchase of these various systems by SSUI was beneficial to customers of those systems. Some of the benefits included the infusion of cash from the parent company, credit support from the parent, which has been instrumental in obtaining favorable debt financing, and the ability of SSUI to satisfy many DEP mandated improvements. One such improvement made at the Deltona Lakes system to stop the discharge of effluent into Lake Monroe cost in excess of \$5,000,000. It is my belief that the Commission acted correctly based on the evidence in the record.

The fact that the Commission did not take into account the gain on sale of the St. Augustine Shores system was your third concern. The evidence presented showed that the St. Augustine Shores customers were the only SSUI customers that paid for that system through their rates. Because no other customers contributed toward the St. Augustine Shores system, the Commission found that they were not entitled to any of the gain on sale. If uniform statewide rates had been in effect at the time the system was sold, an argument could have been made that all SSUI customers had paid for the system and were thus entitled to some portion of the gain. I would also like to note that the Commission did exclude over \$254,000 of administrative and general expenses that would have been allocated to the St. Augustine shores system if it had not been sold. These costs were not borne by the remaining SSUI customers.

Next was your concern over the Commission's "routine" acceptance and approval of administrative and general expenses

without a qualitative review. Let me assure you that our approval of these costs could not be considered "routine" by any means. There were in excess of fifteen issues concerning administrative and general expenses which the Commission decided based on the evidence in the record. In addition, the Commission's staff, as part of their investigation, performed an audit of this company's books and records which did include the administrative and general expenses of this company. I believe that the record of the proceeding easily shows that the Commission's review of administrative and general expense of this company was anything but routine.

You next express concern over what you believe to be the Commission's practice of allowing rate case expense with minimal inquiry into the reasonableness of the charges. The utility, at the hearing, did reduce its requested rate case expense by \$466,801. Staff of the Commission analyzed the remaining rate case expense by reviewing reams of invoices filed by the utility to support the remaining costs, comparing it to other cases, reviewing the professional performance of the consultants hired and critiquing the stacks of minimum filing requirements file by the company. The issue of rate case expense has always been of great concern to the Commission. A review of past water and wastewater cases will assure you that rate case expense is always scrutinized thoroughly by this Commission before any costs are passed on to the ratepayers.

Lastly, you are concerned that all the SSUI customers in the State of Florida will have no opportunity to have meaningful input into the ratemaking process because of the statewide rates. I do not believe that is true. In this last case, the Commission held ten service hearings throughout the state to ensure customer input. The Commission also had numerous customer groups appear before them at the technical hearings in Tallahassee. This Commission has always desired and obtained customer input in all rate cases before the Commission. The Commission's policy in water and wastewater cases is to make every attempt to hold our service hearings as well as our technical hearings as close as possible to the communities affected. This will not change because of a statewide rate structure.

I would also like to take this opportunity to let you know that the Commission has recently opened a new docket to have the full Commission investigate the rate structure of Southern States Utilities, Inc. for all of its regulated systems. The Commission will be holding service hearings throughout the state and I will

endeavor to keep you informed about the date, time and location of these service hearings.

I hope that I have addressed all of your concerns to your satisfaction.

Sincerely,

Susan F. Clark Commissioner

I Clark

SFC/mww

Julia L. Johnson
Commissioner



Fletcher Building 101 East Gaines Street Tallahassee, FL 32399-0854 (904) 488-2445 FAX# (904) 488-0914

Public Service Commission

September 23, 1993



MEMORANDUM

TO:

Steve Tribble, Director of Records and Reporting

FROM:

Curtis Williams, Assistant To Commissioner Johnson

SUBJECT:

Letter Received from Florida Senator W.G. "Bill" Bankhead Regarding the St. Johns County and Southern States Utilities Rate Proceedings.

Please find attached a copy of a letter received by Commissioner Johnson on September 9, 1993, from Florida State Senator W.G. "Bill" Bankhead, which references matters that were considered in the above referenced proceedings. Because this letter contains possible exparte communication in Dockets 920199-WS and 930880-WS, we are requesting that this memorandum and attachments be placed on the record of these proceedings pursuant to section 350.042, Florida Statutes. Please give notice of this communication to all parties to the docket and inform them that they have 10 days from receipt of the notice to file a response.

EAG ____CJW:sf

APP __

CAF -

CMU _

Attachments:

DPC _____

RCH ____

SEC _

o is ext



FPSC-RECORDS / REPORTING

DOCUMENT NO. 172-93

001531



SENATOR W. G. "BILL" BANKHEAD 8th District

THE FLORIDA SENATE

Tallahassee, Florida 32399-1100

August 31, 1993

COMMITTEES: Professional Regulation, Vice Chairman Appropriations, Sub. C **Criminal Justice** Health and Rehabilitative Services International Trade, Economic Development and Tourism

SELECT COMMITTEE: Hurricane Relief & Olsaster Preparedness

JOINT COMMITTEE:

RECEIVED JOINT COMMITTEE:
Advisory Council on Environmental Education

SEP

Ms. Julia L. Johnson Public Service Commission 101 East Gaines Street Tallahassee, Florida 32399-0850

Florida Public Service Commission COMMISSIONER JOHNSON

9 1993

Dear Commissioner Johnson:

Several years ago I closely monitored your Commission's handling of a water rate increase proposal in St. Johns County and was disappointed, not only with the outcome, but with the way in which the Commission and its staff handled the proceedings.

As I review your handling of the Southern States Utilities case, I am once again disappointed. I ask your reconsideration of both the rates allowed and the lumping of a large number of dissimilarly situated rate payers into one extremely large pool for the purposes of rate-making.

It is my understanding that the uniform rate design, which you have approved, causes a subsidy among customers in a random and discriminatory fashion. Customers who contributed to the investment in their systems are deprived of lower rates to which they are entitled, while customers who made no contribution benefit from the subsidy. It looks to me like your decision favors your own administrative convenience while it neglects a duty to establish nondiscriminatory rates.

I also understand that the revenue level approved by the Commission is based upon a hypothetical and inflated level of investment rather than the actual investment made by Southern States. The clear intent of the Florida Statutes is to provide utility earners a return on the actual investment they made. You also fail to take into account Southern States' \$6 million profit on the sale of the St. Augustine Shores system to St. Johns County.

In addition, I am concerned about your routine acceptance and approval of administrative and general expenses without a qualitative review to ensure those expenses are actually required for the operation of the utility or are at least reasonable in amount relative to service rendered and good business practice. I am especially concerned about your practice of allowing the REPLY TO:

P. O. Box 41624, Jacksonville, Florida 32203-1624 (904) 359-1014

☐ 346 Senate Office Building, Tallahasses, Florida 32399-1100 (904) 487-5030

ANDER CRENSHAW President

PAT THOMAS President Pro Tempore JOE BROWN Secretary

Sergeant at Arms

Public Service Commission August 31, 1993 Page 2

Utility to recover most of its rate case expense through increased prices to its customers, with minimum inquiry into the reasonableness of the charges. There is virtually no incentive to control rate case expense. This occurred in the St. Johns County case, when there was no rate increase justified but the Commission granted the Utility a rate case expense of over \$160,000 and turned a rate reduction into a rate increase.

Commissioner Johnson, in the St. Johns County case, it took my intervention to get the Public Service Commission to conduct a public hearing in the community and at a time convenient to the rate payers.

I am extremely concerned that if all the Southern States Utilities customers in the entire State of Florida are grouped into one rate-making pool, there will be absolutely no opportunity for rate payers to have any meaningful kind of input into the rate-making process.

The truth is, you are in business to protect the best interests of the rate payers. I don't think you did that in the St. Johns County case, nor do I think that has happened in the current Southern States case. Please take this opportunity to reconsider your actions.

Cordially

prints.

W. G. Bankhead

WGB/cs

Julia L. Johnson Commissioner



Fletcher Building 101 East Gaines Street Tallahassee, FL 32399-0854 (904) 488-2445 FAX# (904) 488-0914

Public Service Commission

September 16, 1993

Honorable W. G. Bankhead Senator, 8th District State of Florida Post Office Box 41624 Jacksonville, Florida 32203-1624

Dear Senator Bankhead:

This letter is in response to your letter dated August 31, 1993, in which you expressed concerns over the final action taken by the Commission in the Southern States Utilities, Inc., and St. Johns County rate cases. Because I did not participate in those proceedings, I believe it would be inappropriate for me to address the Commission's rationale in the two proceedings. It is my understanding that Commissioner Clark will provide a response to address your concerns.

In addition, it is my understanding that Chairman Deason will provide a response to you addressing your request for reconsideration of the Southern States Utilities rate case. Let me add that the Commission, on August 31, 1993, voted to open a new docket to have the full Commission review the <u>rate structure</u> for all regulated systems of Southern States Utilities, Inc. Let me assure you that I will review the issues raised in the new docket and the issues that you have raised with an open mind.

Thank you for sharing your concerns with me. I hope we have been of assistance to you. If you have any additional questions or concerns feel free to contact me.

Sincerely

Julia L. Johnson

Commissioner

JLJ:brf

cc: Records and Reporting (Dockets Nos. 930647-WS & 930880-WS)

Printed by Cpurvis 9/23/93 8:44am

MHS MAIL

9/21/93 10:31am

TO: STRIBBLE @ PSC(Steve Tribble)

FROM: JDEAN @ PSC (Jim Dean)
FWD: STRIBBLE @ PSC (Steve Tribble) -> Cpurvis

CC:

SUBJECT: <None>

MESSAGE-ID: 7361A12C8175B9D1 VIA-HOST: PSC.PSC

MESSAGE:

Steve, we also received the letter from

Senator Bankhead. JIM

Here

FPSC-RECORDS / REPORTING