DOCKET NO.: 950495-WS - [Southern States Utilities, Inc.]

WITNESS: **Direct Testimony of John Williams,** Appearing On Behalf of the Staff of the Florida Public Service Commission, Division of Water and Wastewater

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DIRECT TESTIMONY OF JOHN WILLIAMS

Q. Would you please state your name and business address?

A. My name is John Williams, and my business address is 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0873.

Q. By whom are you employed and in what capacity?

A. I am employed by the Florida Public Service Commission (FPSC) as Chief of the Bureau of Policy Development and Industry Structure.

Q. How long have you been employed with the Commission?

A. For approximately 21 years.

Q. Would you state your educational background and give a summary of your experience?

A. I received a Bachelor of Science degree from the University of Florida with a major in Business Administration. During the course of my employment with the Florida Public Service Commission, I have spent approximately 15 years as a rate analyst, rate supervisor and bureau chief of rates. I have testified in many cases and have participated in making recommendations regarding rate structure, rate design and service availability policies and charges in hundreds of cases over the course of my employment. For the last seven years, I have been the Bureau Chief of the Policy Development and Industry Structure Bureau. I have attended many training courses and seminars on utility regulation and ratemaking sponsored by the NARUC and the American Waterworks Association. I am chairman of the staff subcommittee of the NARUC Water Committee, and for the last nine years have been on the faculty of the Eastern Rate Seminar sponsored by the NARUC Water Committee. I am also a member of the American Waterworks Association's Rates and Charges Committee

which is responsible for writing the AWWA's rate manuals.

I am currently responsible for the FPSC's Water Legislative program and am the FPSC's liaison with the Florida Water Management Districts and the Department of Environmental Protection.

Q. Have you ever testified as an expert witness?

A. Yes, I have testified as an expert witness before the Commission in a number of cases involving rate structure and design and service availability policies. I testified in Docket No. 800161 (Investigation of CIAC), Docket No. 800634 (Dyna-Flo Rate Case), Docket No. 810433 (Seagull Utility Rate Case), Docket No. 810485 (Palm Coast Utility Company Rate Case), Docket No. 870743 (Marco Island Utilities New Class of Service), and the previous Southern States rate case (Docket No. 920199), and the SSU Rate Structure Investigation (Docket No. 930880). I have also been qualified as an expert witness in the area of rates and service availability in several proceedings before hearing officers of the Division of Administrative Hearings.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to provide an overview of the Commission's rules and policies on service availability charges and conditions, as well as SSU's current service availability charges and conditions, and to discuss how service availability charges relate to the structure of the monthly service rates. I will also discuss which service availability goals are consistent with various monthly rate structure options that Mr. Shafer outlined in his pre-filed testimony.

Q. Please give a brief overview of service availability and the Commission's policy regarding the collection of CIAC.

A. In the 1950's as Florida developed, growth spilled into un-urbanized areas leading to the growth of privately owned utilities. These developer related utilities either included the cost of these facilities in their land sales or charged some form of connection fee or property contribution to allow customers to connect to the system. While the Commission had traditionally reduced rate base based upon each utility's level of CIAC, it became apparent, in the early 1970's that how such charges were structured and the resulting level of CIAC were at the discretion of the utility. The Commission began an investigation into the appropriate levels of CIAC for a water/wastewater utility in 1980. I was the leader of a group of staff that worked on the investigation and the rules that were developed as a part of the investigation. The service availability rules, Part VI of Chapter 25-30, F.A.C., were adopted in 1983. The rules set guidelines in developing service availability charges for the first time in this industry in Florida.

Q. What were these guidelines and what was the regulatory basis for their implementation?

A. The rule established guidelines regarding minimum and maximum CIAC levels to be determined when the utility's plant and facilities are operating at design capacity. The Maximum CIAC level is 75% of total plant based upon original cost. The minimum level is the percentage of either the water distribution or wastewater collection system to total plant. There are several rationales for the rule. The maximum provides that the utility retain some investment in the utility as an incentive to continue ownership and operation. The minimum is tied to the concept that growth should pay for itself. If the policy and charges are based upon either the distribution or

collection systems, then each new customer would pay a share of those systems and the direct cost for services, laterals or meters needed to provide service. The rule still recognizes that each utility is somewhat unique by providing a wide range in which utility management can establish its policy. Additionally, the rule provides for exemptions from these guidelines if compliance causes unusual hardship or unreasonable difficulty, and it is demonstrated that the guidelines are not in the best interest of the customers of the utility.

Q. What has been the impact of this rule?

A. When utilities have come before the Commission for rate proceedings, we have evaluated their CIAC levels and taken action, when necessary, to bring utilities within the rule guidelines. In instances of low CIAC levels, we have implemented or increased charges. For over-contributed utilities, we have reduced or eliminated charges. Obviously, changes in charges will only affect a growing utility. To correct these intergenerational inequities, the Commission has varied from each customer paying his pro-rata share of cost to developing charges with the intent to adjust the CIAC level on a total utility basis. Additionally, several utilities already within the guidelines have opted to increase their charges.

Q. In your opinion, what is the major problem with CIAC as it applies to this rule?

A. A utility's CIAC level, which is the basis for complying with the rule is a moving target. Rule 25-30.580 is a forward looking rule that directs that you look at the CIAC level when the utility plant is at designed capacity. This type of analysis requires projections of growth rates and

requires many assumptions that can be controversial. The rule bases compliance on the CIAC level at a given point in time, while all factors used to calculate this level are constantly changing. Cash CIAC is collected as a one-time charge paid in order to connect to the system. For a new utility, CIAC will defray a portion of the original investment and growth will pay for itself as the utility expands. However, in the long run, as facilities depreciate and need replacement or additional capital is needed to meet regulatory standards, there may be little or no additional CIAC depending upon a utility's customer growth. Therefore, over time, it is inevitable that some utilities will be under-contributed with no apparent means available to inject additional CIAC into the system under the traditional scheme.

Q. Have you reviewed SSU's service availability filing in this docket?

A. Yes, I have.

Q. How did SSU arrive at its present situation regarding service availability and its resulting CIAC level?

A. SSU has evolved into the largest FPSC regulated water/wastewater utility. Prior to the late 1980's, SSU was growing through acquisition of mostly small utilities, many of which were previously unregulated due to their size or location in a county that was self regulated. At the time of acquisition of these systems, SSU inherited the individual system CIAC levels which were based upon various levels of charges, donated property as well as imputed CIAC. Upon acquisition, SSU would generally impose its own charges which consisted of a charge for a service line, meter and line extension if applicable. SSU did not have plant capacity charges. In the numerous instances when the individual systems were built out, SSU could not change the

CIAC level through implementing its charges.

In the late 1980's, SSU was purchased by the Topeka Group. At that time the acquisition program of the utility shifted to larger established utilities. Within a three year period, SSU's acquisitions included Amelia Island, Lehigh, and the utilities affiliated with the Deltona and Punta Gorda developments. These later acquisitions were characterized by SSU inheriting utilities with substantial CIAC based upon property donations as well as substantial service availability charges, including plant capacity charges. In these larger acquisitions, the utilities already had established sophisticated service availability policies and charges that had been in place for many years. In these cases, the existing policy and charges were not changed when SSU acquired ownership, and generally are still in place at this time.

SSU's present mix of individual system service availability charges and CIAC levels are to a great extent dependent upon the service availability policies implemented by the prior owners of the systems. Without a historic goal oriented service availability policy by SSU which was applied to each system from its inception, wide ranges in CIAC levels are expected.

Q. Has service availability been an issue in the recent rate cases?

A. Prior to the 1990's, service availability was not at issue in SSU cases. However, in Docket No. 920199-WS, SSU was ordered to file a service availability case in order that the Commission could evaluate its charges and policy on a utility wide basis. The utility chose to file this service availability case as part of its rate case. This is the initial full company case in which the Commission has had to seriously address whether compliance

with Rule 25-30.580 should be considered on a per plant or utility-wide basis. As is apparent from SSU's recent rate cases, the uniform rate docket and the jurisdictional docket, there is much controversy on whether, from a regulatory standpoint, SSU should be considered one large utility or a conglomeration of small service areas. It has long been established that there is an inverse relationship between rates and CIAC level. This relationship is highlighted and complicated by SSU's many and varied service areas. Therefore, I believe that the policies regarding rate structure and service availability should complement one another and should not conflict in reaching broader goals.

Q. What is the impact of service availability charges and the resulting CIAC level on rate structure?

A. Service availability charges are reflected as CIAC on the utility's books and records. CIAC offsets the utility's investment in facilities used to provide service. Since the revenue requirement upon which rates are based includes a return on investment, the rate level will be lower dependent upon the level at which CIAC offsets the utility's investment.

Q. Why has this relationship between CIAC and service rates caused controversy among SSU's customers?

A. From some of the customer's perspective, payment of CIAC has been viewed as an investment in lower future rates. The impact of initially paying a hefty charge to connect to the system has been softened by the benefit of lower service rates. However, inherent in a uniform rate structure is the averaging of all ratemaking factors including CIAC. The customers' concern is that this averaging dilutes the benefit of high CIAC levels achieved by individual plants. This scenario sent a signal to the Commission staff that

in a multiple plant utility, care must be taken to recognize this interrelationship in developing service rates and service availability charges. Service availability charges may need to be modified to compliment the chosen rate structure.

Q. Have you reviewed the testimony of Gregory L. Shafer, wherein he presents five rate options?

A. Yes, I have.

Q. Could you briefly identify each rate option and comment based upon each option what you would consider the most desirable service availability philosophy?

A. Yes, the options noted range from the two extremes of stand alone to uniform rates. Also presented are variations of either rate structure designed to recognize other ratemaking factors. For clarity, I will briefly describe each rate option and discuss the service availability philosophy which I believe complements the rate structure.

Q. What is your opinion regarding Mr. Shafer's first option?

A. Mr. Shafer's first option is essentially a stand alone rate modified to include a level of subsidy needed to peg bills at an affordable level at average consumption levels. Based upon the stand alone nature of the rate, I believe that individual plant service availability charges are appropriate. Under this approach, both rates and service availability would be based upon the same cost and related factors and the relationship of individual plant CIAC and rates would remain intact. Whatever goal which may be established for service availability could be accomplished without being impacted by stand alone rate levels.

Q. What is your opinion regarding Mr. Shafer's second option?

A. This option is pure stand alone rates. As with the first option, I believe that individual plant charges would be appropriate. This would allow the flexibility to adjust individual CIAC levels in response to whatever overall goal may be established regarding service availability policy.

Q. What is your opinion regarding Mr. Shafer's third option?

A. This option represents another version of the capped rate structure outlined in option one. The difference being that Option one caps the level of the total bill at average consumption levels and Option three provides that both the base facility charges and gallonage charges will not be set below prescribed minimum levels. Again, as previously discussed for the first two options, I believe individual plant charges are appropriate.

Q. What is your opinion regarding Mr. Shafer's fourth option?

A. This option is the uniform rate. Since this rate is based upon the average cost and investment of all SSU facilities, it would seem logical to also use these averages to develop a uniform service availability charge. However, if the goal of the utility and/or Commission were to raise or lower individual plant's CIAC levels to move toward equating investment per customer, then individual system charges would be appropriate.

Q. What is your opinion regarding Mr. Shafer's fifth option?

A. Mr. Shafer's fifth option is a modified uniform rate which uses as a starting point the uniform rate which is then adjusted to fit each plant based upon it treatment type and contribution level. This is a unique rate structure which highlights the need to evaluate rates and service availability in regard to the goals we as a Commission must wish to achieve. This rate

option would lower or increase the rate based upon individual plant CIAC levels at a given point in time. While the rate recognizes the varying CIAC levels, it does nothing to change those levels going forward. Only changes in service availability charges can drastically move these levels. Therefore, if the goal is to move toward equating investment per customer, then the flexibility to change the charges of the various plants is desirable. If it is determined that based upon the structure of the utility, meeting the minimum CIAC level referenced in the rule is unnecessary, then a uniform service availability charge at a reasonable level may be appropriate. This methodology would recognize that an increased charge would have no impact on a built out system or one with little additional growth.

Q. You had previously mentioned built out plants. Since these plants will not derive additional CIAC through customer growth, is there any reasonable way for these plants to generate additional CIAC?

A. Yes. While I am not aware of any similar charge in other jurisdictions, I do not believe it would be unreasonable to have a surcharge on customer's bills to share in the cost of replacing facilities or adding equipment due to regulatory or environmental mandates. Under this scenario, all or a portion of these additional capital costs would be recovered as CIAC through a charge which would be separate from the monthly service rate. This could be viewed similar to the way a governmental authority may levy a special assessment to existing customers to cover specific capital expenditures. The key to any such method of cost recovery is that funds be recorded as CIAC and not revenue.

Q. Do you believe that the current FPSC service availability rules, with

the minimum and maximum levels, should apply to a large, multi-county utility such as SSU?

A. I believe that the rules should be used as "guidelines". It will probably be difficult to develop service availability charges that are fair, just and reasonable, and still be able to achieve the minimum guidelines for SSU on a total company basis. Among Florida's water and wastewater utilities, SSU is unique in that it purchases existing systems which come in at varying levels of CIAC with varying potential for customer growth. Service availability charges designed to bring the company to a 75% CIAC (maximum) level would be unreasonably high in many cases, and would unnecessarily stifle system growth. I believe that the appropriate service availability goal for SSU would be to design charges that will help to move the utility closer to the minimum levels as outlined in the rules.

If the Commission finds that it is appropriate to calculate separate service availability charges for each service area, it will be very difficult to design reasonable charges and still comply with the minimum/maximum guidelines contained in the rule. For example, a service area where water is purchased, would have a minimum level that exceeds the maximum level. In another instance, for service areas that are near build out, it will be very difficult to change the level of CIAC in the absence of significant growth. The charges that would result if the rule were strictly followed would be unreasonable.

In summary, I believe that, on a total company basis, the service availability goal should be the minimum guidelines as contained in Rule 25-30.580(1)(b), F.A.C. However, the Commission should be prepared to grant

exemptions from the guidelines if charges are set on a service area by service area basis.

Q. Does this conclude your testimony?

A. Yes, it does.