

AQUA UTILITIES FLORIDA, INC.

DIRECT TESTIMONY

OF

WILLIAM T. RENDELL

(Docket No. 080121-WS)

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1 Division of Auditing and Financial Analysis in the Bureau of Accounting. In
2 October 1991, I transferred to the Division of Water and Wastewater as a
3 Regulatory Analyst IV in the Bureau of Industry Structure and Policy Development.
4 From March 1994 through April 1996, I held the position of Regulatory Analyst
5 Supervisor within the Bureau of Economic Regulation in the Division of Water and
6 Wastewater. Subsequently, from April 1996 through January 2008, I held the
7 position of Public Utilities Supervisor within the Bureau of Rate Filings,
8 Surveillance, Finance and Tax in the Division of Economic Regulation. In January
9 2008, I accepted my current position as Manager of Rates with AUF.

10 **Q. What were your duties during your tenure with the Commission?**

11 A. I began my career with the Commission as a Regulatory Analyst, working on rate
12 cases in the investor-owned natural gas industry. I was responsible for the analysis
13 and calculation of rate base, operation and maintenance expenses, conservation cost
14 recovery, interim revenue increases, and final revenue requirements in rate cases.
15 When I transferred to the Division of Water and Wastewater, I was responsible for
16 certification matters within the investor-owned water and wastewater industry. This
17 included original certificates, transfers, grandfather cases, and various related
18 dockets. I also testified on rate structure issues within the industry. When I initially
19 accepted the position of supervisor within that division, I was responsible for
20 calculation of rates, rate structures, service availability, and miscellaneous charges
21 for water and wastewater utilities. Prior to my departure from the Commission, I
22 was responsible for all rate cases, staff assisted rate cases, service availability cases,
23 index filings, complaints, and miscellaneous service charges for all of the investor-
24 owned water and wastewater industry. I also oversaw and was responsible for

1 various rate cases in the electric and natural gas industries. In that capacity, I
2 conducted numerous customer meetings throughout the state of Florida. I was also
3 a member of the Reuse Coordinating Committee, on behalf of the Commission.

4 **Q. Have you previously appeared and presented testimony before state regulatory
5 bodies?**

6 A. Yes. I testified before the Commission in Docket No. 930880-WS, Investigation
7 into the Appropriate Rate Structure for Southern States Utilities, Inc. for all
8 regulated systems. I also testified in Docket No. 020010-WS - Application for
9 Staff-Assisted Rate Case in Highlands County by the Woodlands of Lake Placid,
10 L.P. Further, I filed direct testimony in Docket No. 980992-WS - Complaint by
11 D.R. Horton Customer Homes, Inc. against Southlake Utilities, Inc.; Docket No.
12 960329-WS, Gulf Utility Company Rate Case; and Docket No. 880002-EG, the
13 Energy Conservation Cost Recovery docket.

14 **Q. What is the purpose of your testimony?**

15 A. The purpose of my testimony is to discuss AUF's proposal to consolidate its rate
16 structure in this case. I will provide a background of past Commission decisions on
17 consolidated rates and give an overview of the policy implications of rate
18 consolidation. I will also testify in regard to AUF's interim rate proposal, water use
19 repression analysis, and water conservation rate block structure.

20 **BACKGROUND AND OVERVIEW**

21 **Q. Please provide a general overview of AUF's rate filing proposal.**

22 A. AUF has filed an Application and supporting MFRs designed to increase annual
23 water revenues in the amount of \$4,518,353 for the 57 water systems subject to
24 the Commission's jurisdiction and annual wastewater revenue in the amount of

1 \$3,856,179 for the 25 wastewater systems in 16 counties subject to the
2 Commission's jurisdiction. As part of our filing, the Company is requesting that
3 it be permitted to place into effect on an interim basis \$2.9 million for the
4 proposed water increase and \$3.0 million of the proposed wastewater increase.
5 However, AUF is proposing to defer recovery of approximately \$1.5 million of
6 the interim increase to which it is entitled as discussed further below and in Mr.
7 Szczygiel's testimony.

8 **RATE CONSOLIDATION**

9 **Q. Can you please explain the basic concept of rate consolidation?**

10 A. Yes. Consolidated rates involve the use of a unified rate structure for multiple water
11 and wastewater utility systems that are owned or operated by a single utility. Under
12 consolidated pricing, customers pay a single utility the same rate for similar service.

13 **Q. Can you briefly describe the benefits of a consolidated rate structure?**

14 A. Yes. A consolidated rate structure can protect customers from sudden and
15 substantial rate increases ("rate shock"), protect customers from unaffordable rates,
16 address small system viability issues, and lower administrative costs for the utility
17 and agencies that regulate it.

18 **Q. Can you provide a simple example of how rate consolidation can help prevent
19 rate shock?**

20 A. Yes. If a small stand alone system (like many systems in Florida) needs major
21 capital improvements, a consolidated rate structure will spread those costs over a
22 larger customer base.

23 **Q. Could you further elaborate on how a consolidated rate structure is beneficial
24 to customers?**

1 A. Yes. By being able to minimize rate shock to customers and spread the increasing
2 cost of required capital improvements, AUF is able to respond to capital needs in a
3 more timely manner. If the risk of recovery is minimized, financial decisions may
4 be made to ensure that required capital investments, including investments to
5 comply with environmental requirements, are made in an efficient and timely
6 manner.

7 **Q. Has the Commission addressed uniform rates in the past?**

8 A. Yes. The Commission has repeatedly found in favor of a uniform rate structure
9 for multi-system utilities. At least twice, the Commission has emphasized the
10 benefits of uniform rates for Southern States Utilities, Inc. ("SSU") and
11 specifically ordered uniform rates in those proceedings. SSU was the predecessor
12 in interest to Florida Water Services Corporation ("FWS"). As explained more
13 fully below, in FWS' last rate case, the Commission only pulled back from a
14 statewide uniform rate structure to a capband rate structure because of the
15 constraint imposed at that time by an erroneous ruling of the First District Court
16 of Appeal ("First DCA").

17 **Q. Please provide the background concerning the Commission's prior**
18 **determinations regarding the appropriateness of a statewide uniform rate**
19 **structure.**

20 A. In 1992, SSU filed an application in Docket No. 920199-WS to increase rates for
21 127 water and wastewater systems subject to the Commission's jurisdiction. At
22 the time of the filing, the Commission had repeatedly ordered county-wide
23 uniform rates in a number of cases but had not been presented with a rate filing of
24 the magnitude filed by SSU.

1 **Q. What rate structure did the Commission order in SSU's 1992 rate case?**

2 A. In Order No. PSC-93-0423-FOF-WS issued March 22, 1993 ("Order 93-0423"),
3 the Commission ordered a statewide uniform rate structure for the 127 water and
4 wastewater at issue in that proceeding.

5 **Q. What factors did the Commission take into account in ordering a statewide**
6 **uniform rate structure?**

7 A. The Commission considered a number of alternative rate structures within the
8 framework of what it viewed to be the appropriate goals and objective for a large
9 statewide utility. The Commission determined that uniform, statewide rates
10 provide the following advantages: (1) administrative efficiencies in accounting,
11 operations and maintenance; (2) rate stability; (3) insulation of customers from
12 rate shock from major capital improvements or increased operating costs; (4)
13 recognition of economies of scale; (5) ease of implementation; and (6) lower rate
14 case expense in the long run. The Commission ultimately concluded that:

15 The wide disparity of rates calculated on a stand-alone
16 basis, coupled with the above-cited benefits of uniform
17 statewide rates, outweighs the benefits of the traditional
18 approach of setting rates on a stand-alone basis. Based on
19 the foregoing, we find it appropriate to calculate uniform,
20 statewide rates for the 127 systems filed in this rate
21 proceeding.

22
23 Order 93-0423, at 95.

24 **Q. Did the Commission take a further look at SSU's rate structure after**
25 **ordering statewide uniform rates in Docket No. 920199-WS?**

26 A. Yes. Approximately six months after issuing Order 93-0423, the Commission
27 initiated an investigation into the appropriate rate structure for SSU in Docket No.
28 930880-WS (the "Investigation Docket"). Once again, the Commission

1 considered the appropriate goals and objectives to be considered in evaluating
2 alternative rate structures and the impacts that various rate structures have on such
3 issues as rate stability, rate shock and the promotion of economies of scale
4 through acquisitions. The Commission heard evidence on numerous factors
5 related to rate structure. These factors included: (1) the relative costs of
6 providing service; (2) the level of contributions-in-aid-of-construction; (3) the
7 need for conservation rates; (4) geographic considerations; (5) long term benefits;
8 (6) potential cost savings; (7) public participation in rate case; (8) the relationship
9 between rates and acquisitions; and (9) the effect of uniform rates on customers.

10 **Q. What conclusion did the Commission reach in the Investigation Docket?**

11 A. In Order No. PSC-94-1123-FOF-WS issued September 13, 1994 in the
12 Investigation Docket, at page 29, the Commission determined that:

13 We believe that uniform statewide rates should be our goal
14 for this utility. We also believe that the benefits of uniform
15 rates outweigh any of the perceived disadvantages.
16 Accordingly, based upon the evidence of record and our
17 discussion above, we find that the appropriate rate structure
18 for SSU, on a prospective basis, is the statewide uniform
19 rate structure.

20
21 **Q. Did the Commission reject the application of stand-alone rates in the
22 Investigation Docket?**

23 A. Yes. The Commission noted that while stand-alone rates involved the lowest
24 overall level of inter-system subsidies, they produce unaffordable rates for the
25 customers of some systems. The Commission went on to emphasize that: (1)
26 “[s]tatewide uniform rates... result in rates that are affordable for all of SSU’s
27 ratepayers, even those at poverty level,” and “as improvements are needed in
28 individual systems, the associated costs will be spread among the customers of

1 each system, thereby enhancing rate stability and mitigating rate shock.” Order
2 No. PSC-94-1123-FOF-WS, at 26-27.

3 **Q. Did the Commission view itself to be on firm legal ground in ordering**
4 **statewide uniform rates for SSU?**

5 A. Yes. In Order 93-0423, at 93, the Commission concluded that “it is within this
6 Commission’s purview to fix uniform, statewide rates for the 127 systems
7 included in this rate application, if we so choose.” That legal conclusion provided
8 the legal basis for the Commission’s reaffirmation and approval of statewide
9 uniform rates in the Investigation Docket.

10 **Q. Were these decisions appealed and subsequently reviewed by the First DCA?**

11 A. Yes. On appeal of Order 93-0423 issued in SSU’s 1992 rate case, the First DCA
12 reversed the Commission’s decision approving uniform rates. In reaching its
13 decision, the court imported a jurisdictional statute, Section 367.171(7), Florida
14 Statutes, into the ratemaking and rate structure analysis and held that the
15 Commission lacked the authority to order uniform rates for water and wastewater
16 systems that were not first determined to be “functionally related” under that
17 statute. Citrus County v. Southern States Utilities, 656 So.2d 1307, 1310 (Fla. 1st
18 DCA 1995) (“Citrus County”). As a result, the uniform rates ordered for SSU
19 were reversed and the proceeding remanded back to the Commission. The First
20 DCA reached a similar conclusion in the appeal of the Investigation Docket based
21 upon its holding in the Citrus County opinion.

22 **Q. What rate structure did the Commission order for SSU on remand from the**
23 **Citrus County decision?**

24 A. The Commission ordered SSU to implement a modified stand-alone rate structure

1 which represented a movement toward a statewide uniform rate structure that was
2 not in violation of the First DCA's decision in Citrus County.

3 **Q. Did the Commission thereafter consider an appropriate rate structure for**
4 **SSU?**

5 A. Yes. In 1995, SSU's successor, FWS, filed an application for a rate increase for
6 over 150 water and wastewater systems subject to the Commission's jurisdiction.
7 In Order No. PSC-96-1320-FOF-WS ("Order 96-1320"), after considering a
8 number of rate structure alternatives, the Commission approved a "capband" rate
9 structure which it considered a further move towards the goal of uniform rates at
10 the time.

11 **Q. Was the Commission's decision reviewed by the First DCA?**

12 A. Yes. However, this time the First DCA upheld the Commission's decision. In so
13 doing, the First DCA took the extraordinary measure of overturning its previous
14 decision reversing the statewide uniform rate structure in its Citrus County
15 decision. The Court held, in pertinent part:

16 The opinion in *Citrus County* made an unjustified addition
17 of a factor - - germane only to the PSC's jurisdiction - - to
18 the list of statutory ratemaking criteria... We now hold
19 that, whenever the PSC has jurisdiction to set water and
20 sewer rates for multiple systems, inter-system functional
21 relatedness is no prerequisite to the PSC's setting rates that
22 are uniform across a group of systems. To the extent any
23 prior opinions of this court can be read otherwise, we
24 recede *pro tanto* from those decisions.

25
26 Southern States Utilities v. Florida Public Service Commission, 714 So.2d 1046,
27 1051 (Fla. 1st DCA 1998) ("Southern States"). The First DCA then noted the
28 following with respect to the capband rate structure approved by the Commission:

29 In the proceedings below, the PSC determined - - after
30 *Citrus County* had been decided - - that all of the systems

1 owned by Florida Water were functionally related, and
2 concluded on that basis that the Commission had authority
3 to set uniform, utility-wide rates. (Footnote omitted).
4 Instead of doing so, however, the PSC, perhaps looking
5 over its shoulder at the *Citrus County* decision, took the
6 intermediate step of setting rates that are uniform only
7 within each of several groups of systems.
8

9 Southern States, 714 So.2d at 1052. The First DCA further recognized that the
10 Commission has previously set uniform rates in other cases involving multiple
11 systems and noted its agreement with a conclusion reached by the Supreme of
12 Connecticut that the equalization of rates among different systems is not
13 unreasonably discriminatory as a matter of law. Southern States, 714 So.2d at
14 1052.

15 **Q. Did the First DCA approve the Commission's capband rate structure in**
16 **Southern States?**

17 A. Yes, and it is this rate structure that has remained in place for the water and
18 wastewater systems that were subsequently purchased by AUF. Specifically, of
19 the 82 systems at issue in this proceeding, 44 systems were previously owned by
20 FWS. This represents 54% of the total number of systems. It is important to note
21 that none of these 44 systems has been under a stand-alone rate structure since
22 1993. Thus, a comparison of strict stand alone rates and the related subsidies for
23 FWS systems is inappropriate since stand alone rates have not existed for
24 approximately fifteen years.

25 **Q. Could you briefly summarize your conclusions regarding the Commission's**
26 **authority to order statewide uniform rates and the appropriateness of**
27 **uniform rates for a large, multi-system utility such as AUF?**

28 A. While I am not an attorney, it is apparent from the First DCA's overturning of the

1 Citrus County decision that the Commission's initial conclusion that it has the
2 authority to establish uniform rates for multi-system utilities (without a
3 prerequisite finding of functional relatedness) has been vindicated. The
4 advantages of uniform rates previously articulated by the Commission are even
5 more relevant and applicable today as water and wastewater utilities such as AUF
6 strive to address increasing capital, operating and environmental compliance costs
7 while providing quality service at affordable rates.

8 **Q. Has the Commission previously established goals and objectives to be**
9 **addressed in determining an appropriate rate structure?**

10 A. Yes. In considering various alternative rate structures for FWS, the Commission
11 established goals and objectives of rate structures. In so doing, the Commission
12 determined that multi-system utilities offer latitude for the Commission to address
13 other considerations besides merely a rate structure that generates an appropriate
14 revenue requirement. Order 96-1320, at 213.

15 **Q. What are the goals and objectives to be accomplished through an appropriate**
16 **rate structure as previously established by the Commission?**

17 A. The Commission has determined that it is appropriate to consider the following
18 goals and objectives in evaluating a proposed rate structure (or alternative rate
19 structures): (1) affordability of rates for all customers, (2) ease of administration, (3)
20 customer acceptance and understandability, (4) fairness (to the degree to which
21 subsidies occur), (5) rate continuity/stability for all customers, (6) conservation and
22 resource protection, (7) revenue stability and predictability for the utility, and (8)
23 impact of rate structure on future acquisitions. The Commission determined that the
24 weight to be afforded these individual goals and benefits will vary depending upon

1 the particular issue addressed. Order 96-1320, at 215.

2 **Q. Does AUF's proposal to implement statewide uniform rates meet the goals and**
3 **objectives for an appropriate rate structure as previously established by the**
4 **Commission?**

5 A. Yes. When the Commission approved the capband rate structure for FWS in 1996,
6 it recognized that: (1) "the benefits of uniform rates outweigh the negative aspects;"
7 (2) uniform rates should be the long term for FWS; and (3) the capband structure
8 reflected a move towards the goal of uniform rates. Order 96-1320, at 221, 226.
9 The capband rate structure provided a balance between the competing policy
10 objectives of reasonable rates and cost of service, and also served as a fair and
11 reasonable step towards a uniform rate structure. AUF's proposal builds on the
12 Commission's prior movement toward a complete uniform rate structure by
13 implementing statewide uniform rates consistent with and in furtherance of the
14 specific rate structure goals and objectives - - including affordability and rate
15 continuity/stability - - previously established by the Commission.

16

17 **AUF'S PROPOSED RATE STRUCTURE**

18 **Q. What is AUF proposing in this current rate case?**

19 A. AUF is proposing a state-wide uniform rate structure for its water and wastewater
20 systems. In doing so, AUF has taken careful consideration of the Commission's
21 past decisions, as well as testimony filed by the Commission staff witnesses in not
22 only the AUF rate filing at Docket 060368-WS, but in the rate cases discussed
23 above. AUF has addressed both the competing objectives of affordability and
24 fairness, to the extent subsidies exist. AUF has also considered the Commission's

1 prior decisions determining that the benefits of uniform rates for large, multi-system
2 water and wastewater utilities outweigh any negative aspects and should be a long
3 term goal.

4 **Q. Please describe AUF's proposed state-wide uniform rate structure in more**
5 **detail.**

6 A. AUF is proposing a uniform water rate, with repression, that will result in a bill of
7 \$40.92 for all water systems at 5,000 (5K) gallons of usage. For the wastewater
8 systems, AUF is proposing uniform wastewater rates which result in a bill of \$88.91
9 at 5,000 gallons of usage.

10 **Q. Why is AUF proposing a state-wide uniform rate?**

11 A. For water, the resulting rates from AUF's subsidy and affordability calculation
12 produced 50 separate rate structures. It is important to note that subsidies varied
13 among the systems and are based on a calculated stand-alone rate. As I have
14 previously testified, the majority of these systems have not had stand-alone rates
15 since 1993. A decision by the Commission to now, some fifteen years later, move
16 these systems back to stand-alone rates would be counterproductive to the goals and
17 objectives established for rate structures. In addition, while the former FWS
18 systems have not had rate relief since 1996, many of the AUF systems that were not
19 owned by FWS have not had rate relief for many years prior to 1996, if ever. AUF's
20 proposal for statewide uniform rates builds on the Commission's movement toward
21 full uniform rates when it approved the capband rate structure, a form of
22 consolidated rates, for many of these systems in 1996. The uniform rates, with
23 repression, establish a water bill of \$40.92 for all systems. For the wastewater
24 systems, the analysis of AUF's subsidy and affordability calculations shows that

1 AUF would not recover its allowed revenue requirement if proposed. Thus, AUF is
2 proposing uniform wastewater rates that result in a bill of \$88.91. This is below the
3 affordability level of \$89.70 as described by Staff Witness Paul Stallcup in the
4 testimony filed by Mr. Stallcup in Docket No. 060368-WS, and does not result in 13
5 different rates for the various systems.

6 **FURTHER CONSIDERATIONS REGARDING CONSOLIDATED RATES**

7 **Q. Is there anything you would like to add concerning consolidated rates?**

8 A. Yes, as a result of this rate structure, AUF would like to be able to streamline many
9 of its processes in order to implement the efficiencies afforded by uniform rates. To
10 recognize the fact that stand-alone rates have not existed for the majority of these
11 systems for fifteen years, and that uniform rates are the goal for AUF, we request
12 that AUF no longer be required to allocate expenses and common plant among the
13 various Commission-regulated systems. This will eliminate the need to allocate
14 expenses and split timesheets, thus streamlining accounting requirements. Further,
15 all future index and pass-through applications should be developed and filed on a
16 utility-wide basis. In Order 96-1320, at 240-41, the Commission determined that as
17 a result of the capband rate structure, future price index adjustments would be
18 calculated on a utility-wide basis and pass-through adjustments would be calculated
19 on a system-specific basis. AUF's proposal to calculate and file price index and
20 pass-through adjustments on a consolidated, utility-wide basis would provide even
21 greater efficiencies and cost savings for AUF and our customers as well as for the
22 Commission Staff. In addition, all future annual reports and rate filings should be
23 prepared and filed on a consolidated basis. This provides further efficiencies and
24 greatly reduces rate case expense, thus further mitigating against and avoiding

1 substantial rate increases for the benefit of all of our customers.

2 **Q. Why are consolidated rates an important goal for AUF in this rate case?**

3 A. There are numerous reasons why a consolidated rate structure is an important goal
4 for AUF in this rate case. As previously discussed, the Commission has identified
5 goals and objectives for rate structures for multi-system utilities. A consolidated
6 rate structure will accomplish these goals as established by this Commission.
7 Further, a consolidated rate structure provides greater efficiencies. It eliminates the
8 need to allocate costs on a monthly basis, thus reducing accounting and
9 administrative costs. Further, it allows for streamlined billing and continuity in
10 rates. It also facilitates cost efficient compliance with the Safe Drinking Water Act
11 (“SDWA”) standards, under which capital costs incurred as a result of the SDWA
12 would be recovered from all customers with a substantially diminished impact on
13 future rate increases. This would eliminate system-specific rate shock for our
14 customers. Under stand-alone rates or similar rate structures, systems could incur
15 large rate increases due to capital costs to meet environmental compliance.
16 Although one system may not experience large capital costs in one year, it is likely
17 that such costs will be incurred in future periods.

18 **Q. Could you elaborate on this?**

19 A. Yes. The Environmental Protection Agency (“EPA”), recommends over \$277
20 billion in infrastructure improvements over the next 20 years for water utilities
21 across the nation. Many of these utilities, whether private or governmentally owned,
22 will be faced with significant rate increases over the next several years. By being
23 able to levelize these costs over a larger customer base, a multi-system utility like
24 AUF is able to minimize future rate increases. It also encourages utilities to make

1 prudent capital investments to make the necessary infrastructure improvements to
2 provide safe, efficient and environmentally compliant service. Many of the systems
3 purchased by AUF have experienced infrastructure problems. These problems can
4 be most efficiently addressed with minimal rate impact to our customers through a
5 uniform rate structure that spreads these costs amongst all of our customers subject
6 to the Commission's jurisdiction. In addition, as previously recognized by the
7 Commission, uniform rates facilitate small system viability throughout the state and
8 also encourage future acquisitions of smaller systems. This is extremely important
9 for the future of the water supply in the state of Florida.

10 **AUF INTERIM RATE PROPOSAL**

11 **Q. Could you discuss AUF's interim rate proposal?**

12 A. Yes. Consistent with the statutory provision of calculating interim rate relief as
13 contained in Section 367.082, Florida Statutes, AUF is entitled to an interim
14 increase of \$2.9 million for water and \$3.0 million for wastewater. However,
15 AUF has taken into consideration several very important aspects of its case
16 relating to interim rates. In making this proposal, AUF has taken into
17 consideration (1) affordability of rates; (2) minimizing rate shock; (3) rate
18 continuity; and (4) its proposed final rate structure of statewide, uniform rates.
19 The first three considerations are elaborated on further below.

20 **Q. Could you explain AUF's interim rate proposal and the consideration in its**
21 **final rates?**

22 A. Yes. AUF is proposing to recognize its proposed final consolidation of rates by
23 capping interim bills at the same level proposed in its final rate structure. In this
24 manner, customers will not experience a high increase in interim bills, then

1 subsequently receive a reduction in their final bills due to a change in rate
2 structure. In other words, when interim increases are applied as a percentage
3 across the board to each system, consistent with Commission practice, revenue
4 increases for purposes of final rates could actually result in rate reductions if
5 AUF's proposal to implement statewide uniform rates is approved. This creates
6 customer confusion. Such confusion would likely be exacerbated by the fact that
7 customers may not receive a refund of interim revenues, even though their final
8 rates may be reduced.

9 **Q. How does AUF propose to recover this shortfall of its interim revenues that it**
10 **is entitled to under Section 367.082, Florida Statutes, the Interim Rate**
11 **Statute?**

12 A. AUF proposes to defer recovery of this shortfall by amortizing it over a two-year
13 period. If this proposal is approved, AUF is willing to forego a rate of return by
14 not placing a regulatory asset in its rate base calculation. Further, AUF is not
15 seeking an adjustment to recognize the present value of money or interest. AUF is
16 simply requesting a deferral of its recovery of the interim increase to which it is
17 entitled from the interim period of 8 months to a longer recovery period of 2
18 years. The recovery of the amortized amount would terminate after the two year
19 recovery period.

20 **Q. If this mechanism is not approved, is AUF requesting full recovery of its**
21 **interim request?**

22 A. Yes. Pursuant to Section 367.082 of the Florida Statutes, the Company is entitled
23 to interim rate relief. The difference between the required rate of return and the
24 achieved rate of return applied to a December 31, 2007 year end rate base results

1 in a water and wastewater revenue deficiency of \$5.9 million. If AUF's primary
2 proposal for the recovery of interim revenues is not approved, the Company is
3 proposing to place into effect the total amount it is entitled to under interim rates,
4 subject to refund with interest.

5 **Q. Could you elaborate as to why AUF is requesting that the proposed rates be**
6 **put into effect on an interim basis if the mechanism is not approved?**

7 A. Yes. Due to the financial impact of regulatory lag in this case and AUF's current
8 financial situation, recovery of its statutory interim increase is critical. A
9 comparison of the full recovery of interim rates and the interim rates under AUF's
10 proposal is provided in the MFR G Schedules.

11 **REPRESSION**

12 **Q. Is AUF proposing a repression adjustment in this rate filing?**

13 A. Yes. AUF is proposing a repression adjustment applied to the residential
14 customers' usage above 5,000 gallons. The adjustment is consistent with the
15 methodology addressed by Commission staff witness Stallcup filed in Docket No.
16 060368-WS, with one exception. Originally, AUF contemplated proposing an
17 adjustment of -0.04 per 1% increase applied to only the residential discretionary
18 usage. However, upon further analysis, using this amount of repression created a
19 conflict in the subsidy levels in the rate structure. Therefore, to address
20 affordability, AUF is proposing an adjustment of -0.02 per 1% increase applied to
21 the discretionary usage. Since the statewide average usage of AUF's residential
22 customers is approximately 5,000 gallons, I believe this represents the non-
23 discretionary usage. Further, staff witness Catherine Walker from the St. Johns
24 River Water Management District ("SJRWMD"), indicated in her testimony filed in

1 Docket No. 060368-WS, that 6,000 gallons is a reasonable quantity for essential
2 domestic use.

3 **Q. Has Commission Staff or other regulatory agencies provided guidance on**
4 **repression adjustments?**

5 A. Yes. In his testimony filed in Docket No. 060368-WS, staff witness Stallcup states:

6 If the Commission approves either an increase in revenue
7 requirements large enough to significantly increase rates, or approves
8 a conservation oriented rate structure, I believe it would be
9 appropriate to make a repression adjustment. As discussed by
10 witnesses Yingling and Walker from the WMDs, the price signals
11 sent to consumers through higher prices are effective in causing a
12 reduction in the number of gallons sold (e.g. conservation). A
13 repression adjustment is simply the calculation that estimates the
14 magnitude of this reduction.
15

16 He further explained:

17 A repression adjustment insures that the rates customers will pay
18 will generate sufficient revenues to cover the utility's revenue
19 requirement. If a repression adjustment is not made when it would
20 have been appropriate to do so, the utility will under-earn and not be
21 able to cover its revenue requirement.
22 Therefore, in order for the rates to be compensatory as required by
23 Chapter 367.081(2)(a)l., Florida Statutes, I believe the Commission
24 should make a repression adjustment whenever it determines that an
25 increase in rates will cause a material reduction in the number of
26 gallons sold.
27

28 Thus, AUF agrees that a repression adjustment is appropriate.

29 **CONSERVATION RATES**

30 **Q. Is AUF proposing conservation rates in this filing?**

31 A. Yes. AUF is proposing a two tier inclining rate structure.

32 **Q. Why is AUF proposing this rate structure?**

33 A. In Order 96-1320, the Commission concluded that rates were just one component of

1 an effective conservation program and that the rates approved in SSU's last rate case
2 should not be adjusted to promote conservation at that time. However, the
3 Commission further stated that although they did not implement an inverted or other
4 conservation-oriented rate in that docket, it did not intend to discourage
5 consideration of such rates in further proceedings. The Commission thus put SSU
6 on notice that the issue of an inverted rate structure would be explored in its next
7 rate proceeding and indicated the utility shall file information sufficient for the
8 Commission to review conservation rates at that time.

9 **Q. Has Commission staff or other regulatory agencies provided guidance**
10 **concerning conservation rates?**

11 A. Yes. Staff witness Stallcup filed testimony in Docket No. 060368-WS supporting
12 conservation rates. In addition, Ms. Walker from SJRWMD testified in Docket No.
13 060368-WS that a two tier rate structure met the conservation requirements of the
14 district.

15 **Q. Does this conclude your testimony?**

16 A. Yes, it does.