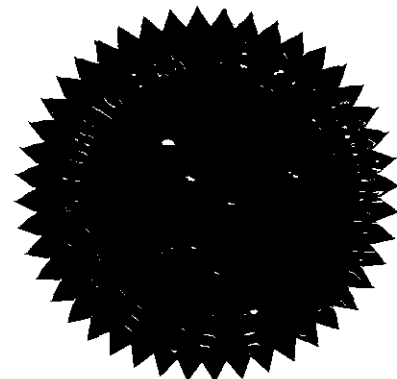


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070694-WS

In the Matter of:

APPLICATION FOR INCREASE IN WATER AND
WASTEWATER RATES IN ORANGE COUNTY BY
WEDGEFIELD UTILITIES, INC.



PROCEEDINGS: AGENDA CONFERENCE
ITEM NO. 10

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

DATE: Tuesday, December 2, 2008

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

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

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

1 PARTICIPATING:

2 PATRICIA CHRISTENSEN, ESQUIRE, Office of Public
3 Counsel, representing the Citizens of the State of Florida.

4 MARTIN S. FRIEDMAN, ESQUIRE, and JOHN WILLIAMS,
5 representing Wedgefield Utilities, Inc.

6 CAROLINE KLANCKE, ESQUIRE, JAN KYLE, RICHARD
7 REDEMANN, SONICA BRUCE, MARSHALL WILLIS and BART FLETCHER,
8 representing the Florida Public Service Commission Staff.

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

P R O C E E D I N G S

* * * * *

1
2
3 CHAIRMAN CARTER: Now we're on Item 10. Staff,
4 you're recognized.

5 MR. KYLE: Good morning, Commissioners. Jan Kyle for
6 Commission staff. Item 10 is staff's recommendation regarding
7 Wedgefield Utilities' application for increase in water rates
8 in Orange County in Docket Number 070694-WS. Staff has one
9 oral modification to Issue 18 of its recommendation.

10 On Page 35 the first sentence of the recommendation
11 paragraph should read, "The water rates should be reduced as
12 shown in Schedule Number 4 to remove \$39,678 of water rate case
13 expense, grossed-up for RAFs, which is being amortized over a
14 four-year period." On the same page a corresponding adjustment
15 should also be made in the last sentence of the first paragraph
16 of the staff analysis. That sentence should correctly read,
17 "The decreased revenue will result in the rate reduction
18 recommended by staff on Schedule Number 4. The statutory time
19 frame to process this case has been waived by Wedgefield
20 through the December 2nd, 2008, Agenda Conference. This
21 modification has no other effect on staff's recommendation,
22 including revenue requirement." Staff is available to answer
23 any questions.

24 CHAIRMAN CARTER: Thank you, staff.

25 Commissioners, any questions for staff on this

1 matter? Hearing none, it seems like there was just a
2 scrivener's correction in terms of going from 4A to Schedule
3 4 in their recommendation. No questions or debate?

4 Commissioner Edgar, you're recognized for a motion.
5 Wait a minute. Hang on a second. Let me hear from OPC.

6 COMMISSIONER EDGAR: I think OPC would like to speak.

7 CHAIRMAN CARTER: I'm sorry. I was on a roll. You
8 know, after all of this Gator -- the Gator bashing of my team I
9 was ready to get out of here.

10 MS. CHRISTENSEN: And I appreciate that.

11 CHAIRMAN CARTER: You're recognized. Good morning.

12 MS. CHRISTENSEN: Good morning, Commissioners. My
13 name is Patty Christensen. I'm with the Office of Public
14 Counsel. I'm representing the customers in this matter.

15 I just have a few points that I would like to make
16 this morning. I just wanted to address, one, the customer
17 meeting I attended. I was there with a lot of customers. When
18 we were at the customer meeting, a lot of those customers spoke
19 about the poor quality of service that they received from
20 Wedgefield Utilities. In particular, they were very upset
21 about the high amount of particulates in the water. And while
22 we recognize that the company very recently put in a new
23 magnetic, excuse me, ion exchange system or, what is it, MIEX
24 they call it to remove the sulfide and organic matters, they
25 just did this July 28th of 2008, which was just right before

1 the customer meeting, and the customers did not have the
2 benefit of seeing whether or not that system would actually
3 work to reduce the unpleasant taste and the bad smell that
4 these customers have had to deal with over numerous years. And
5 what I would ask that the Commission consider is that, you
6 know, these, these customers have been paying for basically a
7 monopoly service, monopoly water for a bad tasting, bad
8 smelling product for years, which if it wasn't a monopoly
9 product, they wouldn't be paying for it, they would have not
10 bought the product. And we would ask that you consider that
11 when you're setting the rates.

12 The other issue --

13 CHAIRMAN CARTER: May I ask you a question?

14 MS. CHRISTENSEN: Certainly.

15 CHAIRMAN CARTER: Has, has, has there been any
16 contact with the customers since the institution of the new
17 system?

18 MS. CHRISTENSEN: I've had contact with one customer
19 in particular, Ms. Neimuth (phonetic). And, you know, she's
20 still very upset about the rate increase and still very upset
21 about the high rates, so that's what I can report back to you.
22 I haven't talked to any of the other additional customers.
23 Maybe staff has kept up with that. I know that from what I
24 read in the recommendation the system is still new and they
25 were still kind of getting the system rolling and getting it

1 into place.

2 But what I would ask the Commission to consider is
3 that, you know, we would want to encourage companies to put
4 these types of systems in place as soon as the problem becomes
5 apparent, not right before they're coming in to do a rate case.
6 And maybe the timing in this case is just the way things
7 happen, that, you know, they put in a system and then they're
8 coming in for a rate case. But we would hope that these types
9 of bad water, bad quality issues are addressed as soon as they
10 arise, not waiting for a rate case to just come in and recoup
11 rate costs. That's one, one of the things that we would ask
12 the Commission to consider.

13 The other issue --

14 CHAIRMAN CARTER: Hang on. Hang on. Hang on. Hang
15 on. I'm still on the water quality. Excuse me, Commissioners.
16 I'm still on the water quality.

17 Staff, have you had any contact with the customers
18 since the institution of the new system has been in place as
19 regards to water quality?

20 MR. REDEMANN: There have been a couple of customers
21 that have contacted us. We also, the utility also did a test
22 on the water, and the test indicated that 96 percent of the
23 hydrogen sulfide is removed. And also they're only adding
24 25 percent of the amount of chlorine that they had before, so
25 the water is much superior than what it was before.

1 COMMISSIONER ARGENZIANO: Mr. Chair.

2 CHAIRMAN CARTER: Commissioner Argenziano.

3 COMMISSIONER ARGENZIANO: Just for the, just I guess
4 to straighten, get a few things made clear, OPC is indicating
5 that we take into consideration the water quality. Am I
6 hearing that staff said that the water quality now, the
7 hydrogen sulfide problem, which is a common problem in Florida
8 obviously, we hear it all the time, I have it in my own home,
9 has been, has been diminished? Is that what staff just said to
10 us?

11 MR. REDEMANN: Yes, that's correct.

12 COMMISSIONER ARGENZIANO: Okay.

13 MR. REDEMANN: The MIEX unit --

14 COMMISSIONER ARGENZIANO: I'm sorry. Go ahead.

15 MR. REDEMANN: The MIEX unit removes 96 percent of
16 the hydrogen sulfide in the water. So there -- I sampled the
17 water after treatment and you can't tell any hydrogen sulfide
18 is in the water anymore.

19 COMMISSIONER ARGENZIANO: That's nice. I wish I
20 could do that in my house.

21 Let me ask another question. If OPC, and I
22 understand people waited a long time, and sometimes smaller
23 companies, and I don't know how big this company really is,
24 have a harder time getting, getting new equipment in. But once
25 they do, isn't that the time they come in for a rate case, when

1 they expend money on the facility?

2 MS. CHRISTENSEN: Well, we, of course, expect them to
3 come in when they need to if they've expended money and it
4 causes them to earn below their rate of return, but we would
5 expect them also to address the problems in a more timely
6 manner. That's the point that we were trying to make.

7 COMMISSIONER ARGENZIANO: Sure.

8 MS. CHRISTENSEN: I think --

9 COMMISSIONER ARGENZIANO: And I -- excuse me. I
10 understand that. I'm just trying to figure out, excuse me, I'm
11 just trying -- I'm hearing my own voice twice, so it's getting
12 difficult.

13 And I understand that. But now that we've passed
14 that, I'm not sure what we can do, I'm not sure what you're
15 asking. So I guess I'm asking you when you say take it into
16 consideration, can you be more specific?

17 MS. CHRISTENSEN: Well, I think one of the issues
18 that we had was when we went down for the customer meeting, the
19 system had not been placed online long enough, sufficiently
20 long enough for the customers to enjoy the benefit of the new
21 system to see if it in fact really did improve the quality of
22 the water from the customers' perspective.

23 And I guess what we would be asking is that you take
24 that into consideration in the rate increase when you think
25 about the water quality of service and, you know, possibly

1 check for the customers again to see if their water quality has
2 improved, if they're more satisfied with the quality of water.
3 They are, according to the customers, paying the highest rates
4 in the county and for that they should be getting good quality
5 water, not just passable.

6 COMMISSIONER ARGENZIANO: Oh, I couldn't agree with
7 you more. Anybody, anybody paying for water should get good
8 quality of water. But hydrogen sulfide happens to be one of
9 our problems that we just have because we live in the State of
10 Florida, and in many places private wells have hydrogen
11 sulfide. So as long as the bacteria levels are down, that's
12 my, one of my main concerns. But you're right, quality of
13 water is important, especially when you're paying for it and
14 you have nowhere else to go for it. I understand that.

15 I think what I'm trying to get is a couple of things,
16 is if the system has been fixed -- and you indicated that you
17 spoke to only one customer since then and that the only thing
18 that she indicated to you was the high rates. Did you ask her
19 about the quality of water?

20 MS. CHRISTENSEN: That did not come up during the
21 conversation, in that particular conversation.

22 COMMISSIONER ARGENZIANO: Wow. I thought -- I think
23 that would be -- I thought I just heard you say that's one of
24 the things you wanted us to do. And, believe me, I'm going to.
25 I'd like to find out, I'd like to ask staff to find out how

1 those customers are feeling about the quality of water right
2 now. But I guess if I had had the opportunity to talk to one
3 of them, that would have been one of the first questions I
4 would have asked.

5 But what I would like to do, Mr. Chairman, is if
6 staff could tell me, go over the increase again from what it
7 was to what it's going to be. I'm glad to hear that the
8 quality problems, the quality issues, the hydrogen sulfide
9 issue is somewhat resolved. I'd still like to know and get
10 further reports on a wider sample of customers as to the
11 quality of that water that they're receiving now. But if staff
12 could tell me again, once again, please, the increase and what
13 it, you know, reflects on someone's today bill versus
14 tomorrow's bill.

15 CHAIRMAN CARTER: Staff, you're recognized. And, oh,
16 by the way, Commissioner, we're working on that feedback in the
17 system.

18 COMMISSIONER ARGENZIANO: Okay. Thank you. It seems
19 to be better now.

20 CHAIRMAN CARTER: Okay. Thank you, Chris.

21 MR. POTTS: Yes, sir.

22 MS. BRUCE: Good morning, Commissioners. My name is
23 Sonica Bruce, a rate analyst.

24 The bill has increased to 51 percent, which is
25 equivalent to the revenue requirement increase.

1 COMMISSIONER ARGENZIANO: I'm sorry. Say that again.
2 51?

3 MS. BRUCE: 51 percent.

4 COMMISSIONER ARGENZIANO: Okay. And what does
5 that -- how does that reflect on someone's bill? What am I
6 paying today, at how many gallons and what I'm going to be --

7 MS. BRUCE: The base facility charge has gone up
8 \$2.03, which is about 10 percent. The rates in the first block
9 have gone about 83 percent. It's gone up from, it's gone up to
10 \$4 from \$2.19. Previously it was \$2.19 overall gallons, all
11 gallons \$2.19 previously and it's gone up in the first block to
12 \$4. The second -- the first block, I'm sorry, is 0 to 5, it's
13 a three-tier inclining block rate structure with rate factors
14 set at 1.25 and 2.0. The first block is 0 to 5, which the
15 rates are \$4. The second block is from 5 to 10 kgals, which is
16 about \$5. And the third tier is about 10 kgals and over, which
17 is about \$8.01.

18 COMMISSIONER ARGENZIANO: Okay. And, staff, to
19 staff, has there been any other problems besides the odor and
20 the hydrogen sulfide, which is, again, pretty common in
21 Florida, not appreciated but it is pretty common in Florida,
22 has there been any bacteria problems, any consent orders or
23 anything from DEP that indicates the water is harmful?

24 MR. REDEMANN: No. The water was not harmful even
25 with the sulfides. As you may remember, the sulfides are a

1 secondary --

2 COMMISSIONER ARGENZIANO: Right.

3 MR. REDEMANN: -- concern. So the water was --

4 COMMISSIONER ARGENZIANO: Right. The reason I ask is
5 because my main concern would be the health and well-being of
6 those consuming that water, and I wanted to just check and make
7 sure there had been no other problems with the water as far as
8 bacteria is concerned.

9 MR. REDEMANN: No. There was --

10 COMMISSIONER ARGENZIANO: No microorganisms or
11 anything like that.

12 MR. REDEMANN: No. There was no other problems with
13 that.

14 COMMISSIONER ARGENZIANO: Okay.

15 MR. REDEMANN: I would like to point out a few years
16 ago, I mean, DEP had received numerous complaints, you know,
17 about the hydrogen sulfide in the water, and then DEP met with
18 Wedgefield and then Wedgefield decided to go ahead with this
19 MIEX unit. I did contact DEP yesterday and they haven't had
20 any water quality complaints for quite some time with the
21 Wedgefield system.

22 COMMISSIONER ARGENZIANO: Have we ever, ever asked
23 DEP for a study of the water in Florida and how many areas are
24 prevalent with hydrogen sulfide especially in low water
25 conditions? And is there -- and this is not maybe for today,

1 but because this is such a continuing issue and I've dealt with
2 it for years not only as a resident of Florida but as a
3 legislator, and perhaps if we had some information and then to
4 find out what -- let's see. How do I phrase this? What the --
5 I mean, we have to provide clean and clear water and water that
6 is not harmful and should hopefully not stink either. But what
7 is the direction that the state takes, whether it's by rule or
8 I don't know if it's by statute, indicating that hydrogen
9 sulfide -- let's put it this way, make it -- is it recognized
10 that hydrogen sulfide is a problem in the State of Florida for
11 everyone? And is that -- to what degree is that an issue? And
12 I don't mean to trivialize it because hydrogen sulfide can be a
13 real problem in large amounts and it can be very problematic
14 when you're the one receiving it, but I know it's not
15 dangerous to the health if it's under certain levels. And I'm
16 trying to figure out what our real direction is since we have
17 these over and over again.

18 And are we not, you know, I mean, are the people
19 understanding when you do have to buy water from a company, if
20 you are in an area where there is hydrogen sulfide and you want
21 the company to clean it up, it's going to cost more? And I
22 just don't know what our direction is -- if it's by rule that
23 hydrogen sulfide be addressed as far as maybe forcing a company
24 to go ahead and clean it up, I don't know if aeration systems
25 sometimes could work or something that's more elaborate. But

1 all I can tell you is that in the State of Florida there's a
2 lot of hydrogen sulfide. And if we, if we recognize that as a
3 problem that needs to be corrected, then everybody's bills are
4 going to go up.

5 CHAIRMAN CARTER: Thank you. Commissioner, I believe
6 Marshall Willis wants to address this. Marshall, you're
7 recognized.

8 MR. WILLIS: Commissioner, about in approximately
9 1990 the Commission and Department of Environmental Protection,
10 Department of Community Services, Water Management Districts
11 all got together and did a project basically on the corrosivity
12 of hydrogen sulfide in water and how it affects copper piping.

13 Part of the outcome of that actual project is that
14 DEP did change its rules concerning hydrogen sulfide. But
15 because of the magnitude of the cost in changing out or
16 treating hydrogen sulfide in present utility systems, the rules
17 that the Department of Environmental Protection came up with
18 only apply to brand new wells. And the DEP rules now require
19 that when a utility actually puts in a brand new well, puts it
20 into service, they have to test for hydrogen sulfide. There is
21 a requirement in their rules on how far you have to go as far
22 as treatment for hydrogen sulfide depending on the level of
23 hydrogen sulfide in the water.

24 COMMISSIONER ARGENZIANO: Right. Right. Marshall,
25 depending on the levels, and that's why --

1 MR. WILLIS: That's correct.

2 COMMISSIONER ARGENZIANO: That's the key there to me
3 because there are certain levels where it's not good to have,
4 you know, it's not healthy and other levels where it's
5 considered, you know, just more of a nuisance as far as smell
6 and color. I know that it stained my sinks and I understand
7 that. So, I'm sorry, just continue. I just wanted to make
8 sure we were on the same page as far as the levels. And it
9 sounds like what you're saying is that it is only really
10 applied to the corrosive nature for the facility, so it
11 wouldn't keep costing people, I guess, to repair the corrosion
12 caused by the hydrogen sulfide. Is that correct?

13 MR. WILLIS: Yes. DEP rules did not really address
14 anything to do with the existing wells. They were basically
15 grandfathered in. So if there is hydrogen sulfide in those
16 wells that are presently out there, those rules would not
17 apply. It only applies to brand new wells. And they did that
18 basically because of the cost. They believe that it would be
19 very dramatic as far as customers' rates to go in and actually
20 apply these rules retroactively.

21 COMMISSIONER ARGENZIANO: That's, you know, that's
22 the problem we have. We want, we, unfortunately we mandate
23 that the customers have to, have to buy from a certain company
24 because of the reasons, the way, the way the water grid is
25 split up, I guess, or however you want to phrase that. But

1 then they maybe start with a company that has older wells that
2 have hydrogen sulfide or, you know, wells that just do in the
3 State of Florida. And to what point I guess -- I guess, I
4 don't want to ramble, but I guess it just keeps coming up and
5 up and up and it's like, okay, you want the smell out of the
6 water and I don't blame you, you want the discoloration out of
7 the water, and then if the company does so, that's when they're
8 going to come in and ask for rate increases. And I just didn't
9 know if something addressed it other than for the corrosive
10 issues saying that people are, should have, you know, odor-free
11 water and aesthetically nice looking water. And, of course,
12 everybody wants that, especially if you're paying for it. So I
13 guess I'm trying to find something that points to how we are
14 really supposed to treat that other than for the corrosives,
15 and I don't think you're saying there is anything, unless there
16 were health dangers at high levels.

17 MR. WILLIS: That's correct. There is, there are no
18 rules that take care of the secondary portion except for the
19 hydrogen sulfide based on the corrosivity and the amount of
20 actual hydrogen sulfide found in the, in the well itself.

21 COMMISSIONER ARGENZIANO: It's starting to sound like
22 to me that since we have a policy of mandating, you know,
23 certain companies in certain areas that we may be mandating
24 additional charges when there are, when there are bad wells or
25 hydrogen sulfide. And are there instances where the hydrogen

1 sulfide does disappear with water table, you know,
2 replenishment of the water table?

3 MR. WILLIS: I believe you can find instances where
4 in drought conditions you'll find where some wells have
5 hydrogen sulfide that's worse at that time than they would be
6 when there's pretty much wet weather and monsoons going on.

7 COMMISSIONER ARGENZIANO: And, and just one other
8 question, and I hate to belabor the point, but I'm going to
9 start to talk to some people in the Legislature about some of
10 these issues.

11 If -- has anybody -- do we know if DEP or can staff
12 inquire of DEP in an area or company like this that might have
13 problematic wells when it comes to hydrogen sulfide, if the
14 surrounding neighborhoods, any private wells, if there are any
15 left, have the same problem and if it's just indicative of that
16 general geographic area? And maybe we can inquire, see if
17 there's been any kind of testing done or any kind of problems
18 that come from outside of the service area.

19 Because at some point, Mr. Chair, and the reason I'm
20 trying to make the point is at some point, you know, I mean,
21 I've known since the first day I came to Florida that we have
22 stinky water here a lot of the times. I'm not saying that's a
23 great thing, but that's a fact. And at some point, and we're
24 looking at scratching our heads hating to raise people's rates
25 anywhere because of the stresses we're under, the financial

1 stresses we're under, some of this stuff is just, you know,
2 it's just a no-brainer. Okay. We have hydrogen sulfide. If
3 it's not at dangerous levels and you can live with it, I guess,
4 fine. I had to put an aerator system on my home. I have a
5 private well which at least I have that option. And that's
6 where I'm talking legislatively; these people have no option.

7 But at some point when the company will -- you know,
8 we're telling them, hey, you've got to provide water that
9 doesn't smell to these people plus make sure it's healthy, but
10 go ahead and fix your facility and then the people are going to
11 get charged. I mean, that's just logic. It's going to happen.
12 So at some point I think we need to take a better look at the
13 hydrogen sulfide problem throughout the State of Florida and
14 figure out how these people have to deal with it and the
15 company too. Otherwise, we're just going to be saying, okay,
16 you know, you can, you can fix this problem and we'll keep
17 raising the rates, and the people obviously are not happy with
18 that. Sorry, Mr. Chair, but I just find it a very frustrating
19 situation that, you know, I think we need to look into a little
20 deeper.

21 CHAIRMAN CARTER: It is, it is, Commissioner. It's
22 just, you're right, you're right. And it's one of those things
23 that where, you know, I think what's happening is that as we
24 get to the process where these companies are upgrading the
25 facilities and dealing with new wells and things of that

1 nature, that's when the new rules kick in with DEP and that's
2 when, when you start with the new rules and the new wells and
3 those new systems coming in, there's a new cost involved with
4 that.

5 COMMISSIONER ARGENZIANO: Absolutely. Absolutely.
6 But we're maybe getting to the point where, you know, I don't
7 know, as a past legislator I'd be scratching my head by now, I
8 already have when I was in the Legislature, saying maybe we're
9 taking the wrong path, you know. And I know the companies are
10 going to hate me saying this: Maybe, maybe this is not the
11 right direction because there's no way to go but up in cost.
12 And if people can't afford it, at some point the Legislature is
13 going to have to look at it and say, okay. I've heard many
14 people, you know, that are home paying water bills saying we
15 don't mind paying, you know, we don't have a problem paying and
16 the company has to, of course, make a profit. But at some
17 point when it gets to be so high and there's water beneath your
18 house that you may be able to tap into, you know, that may
19 become a discussion in the future only because the costs are
20 going so high.

21 So with that, Mr. Chairman, I guess I'll ask DEP for
22 some additional information and perhaps talk to some
23 legislators about what they've been hearing and maybe, I don't
24 know, look at it. And I just don't know how we, we do not
25 allow when a company fixes their system to try to take care of

1 an odorous problem, not a health problem, but tries to take
2 care of a problem, and not only is it for the consumer who's
3 drinking it and paying for it but for themselves too, for the
4 corrosion issue, is how you tell them that they can't recoup
5 that money. I don't know how.

6 So with all respect to OPC, that's why I was asking
7 for specifics when you say give consideration. Give me a
8 number. You know, give me something that you're saying, you
9 know, because the people have suffered in the past, I'm not
10 sure that's the way to go, I want you to take this many dollars
11 off. When you say take into consideration and, yes, I've
12 considered that, now what is your suggestion? And I guess
13 that's where I'm going, Mr. Chair. So thank you.

14 CHAIRMAN CARTER: Thank you, Commissioner.

15 Commissioner Skop.

16 COMMISSIONER SKOP: Thank you, Mr. Chairman.

17 Just a quick question to staff, Mr. Willis. On
18 Page 45, which is the last page of the recommendation, the far
19 right column, four-year rate reduction, could you please help
20 me better understand the significance of that and how staff
21 determined those numbers?

22 MR. WILLIS: The four-year rate reduction is by
23 statute. The statute basically dictates that there's a
24 four-year amortization period for rate case expense for water
25 and wastewater companies, and we have to calculate exactly what

1 that dollar value is related to the rates that's included in
2 the rates for rate case expense and that's exactly how it's
3 allocated out in the rates. So at the end of four years the
4 company has this actual schedule and they will apply for a rate
5 reduction. Normally that will occur with an index or a
6 pass-through so it will be blended in.

7 COMMISSIONER SKOP: Okay. Thank you.

8 CHAIRMAN CARTER: Thank you. Let me do this,
9 Commissioners. In all fairness, I see Mr. Friedman. I want to
10 at least give him an opportunity to make a notice of appearance
11 and comment on where we've been so far.

12 Mr. Friedman, you're recognized.

13 MR. FRIEDMAN: Thank you, Mr. Chairman and
14 Commissioners. I'm Martin Friedman with the Law Firm of Rose,
15 Sundstrom & Bentley, and we represent Wedgefield Utilities. I
16 really don't have anything to add to what Mr. Redemann has
17 responded to on this issue other than to point out, as Mr.
18 Redemann did, that this is something that the company has been
19 working on for a number of years. They did a pilot project
20 with DEP before they went full scale on this. So it's not a
21 fix that you can just do overnight and it is something they
22 have been working on for a number of years to resolve the
23 problem. And I think they've done the responsible thing in
24 addressing this issue in making sure that what they want to
25 spend all this money on is in fact going to work. Thank you.

1 CHAIRMAN CARTER: Thank you.

2 COMMISSIONER ARGENZIANO: Mr. Chair, to that --

3 CHAIRMAN CARTER: Yes, you're recognized.

4 COMMISSIONER ARGENZIANO: -- to the company, have you
5 queried any of your customers since the new system is in and
6 are you getting any kind of response? And, of course, we're
7 going to be checking on that too because it's a real issue
8 obviously. But have you found a different sound from the
9 customers out there that's saying, hey, this is working better?
10 Are you checking, are you doing anything like that?

11 MR. FRIEDMAN: Well, I can't tell you, I'm just a
12 lawyer and I can't tell you whether they, whether the company
13 has or not. They certainly in their testing that they have
14 done themselves of the system and the water quality, they, they
15 certainly believe that the water quality is significantly
16 better.

17 COMMISSIONER ARGENZIANO: Well, you know, I just find
18 it -- and I appreciate that and I understand you're just a
19 lawyer. But I guess, I guess my, my concern here is -- and,
20 Larry, if you're listening, what I'd like you to do is find,
21 get a random sampling of customers and let's call ourselves
22 because I find it really interesting that nobody has asked the
23 question of how the quality has been. And I know time has been
24 short, but that would be an issue to me to find out from the
25 customers themselves, and a little customer PR from the company

1 would be good to find out, I mean, outreach, customer outreach
2 to find out if it's actually working for the customers.
3 Because after living with hydrogen sulfide for a long time, you
4 definitely recognize when it's not there anymore. So if we
5 could do that, I'd appreciate it.

6 CHAIRMAN CARTER: Thank you, Commissioner.

7 Ms. Christensen, I didn't forget you. We just went
8 off on that. You're recognized.

9 MS. CHRISTENSEN: Thank you. And I appreciate
10 Commissioner Argenziano's comments and I think that that will
11 help the customers.

12 I think basically what I heard at the customer
13 meeting is they want good quality, good quality water. They
14 don't want their appliances corroded. They want to be able to
15 drink the water and use the water they're paying for. And I
16 think if the system in fact does that, and we can get feedback
17 for it, I'm sure they'll -- although they won't be happy to pay
18 for it, it would certainly make it easier to pay for it.

19 CHAIRMAN CARTER: Okay. And also as we're asking,
20 staff is checking, and obviously, you know, OPC, feel free,
21 we'd ask you to check with the customers as well on that.

22 MS. CHRISTENSEN: Right. And we understand that
23 there are some limitations on the Commission, that, you know,
24 customers would love to have rates, you know, increased over
25 time, but that isn't an option. So sometimes what the

1 customers would like to have happen is just not a viable option
2 available to the Commission at this point because there's just
3 not legislation available for it. But I wanted to raise the
4 issue with you because it was a big concern at the customer
5 meeting and I think they need to have their voices heard here
6 today.

7 The other issue was one that was brought up at the
8 last agenda for Miles Grant, another Utilities Inc. system. It
9 was not addressed specifically in this recommendation, but
10 there is a pro forma adjustment that was made for the new
11 billing system, if you recall, from last time. They've
12 introduced a new billing platform accounting system. I believe
13 they have adopted a six-year depreciation life for that new
14 system. We still believe that that is not a reasonable useful
15 life. My understanding is there may be some outstanding data
16 requests on the useful life of this new system. Although the
17 information -- you know, there was certainly not sufficient
18 time to do some sort of formal discovery and we're trying to
19 keep rate costs down with these types of PAA cases.

20 Our office is also aware that while this is I think a
21 very legitimate issue, we're also concerned about having to
22 protest issues when it may ultimately not dollar for dollar
23 make sense for the customers because then you increase legal
24 expenses and it may offset any gains that you would get
25 ultimately in a PAA decision. So those are the types of things

1 that we need to balance and consider before we decide whether
2 or not it would be cost-effective for the customers to protest
3 a particular issue.

4 The reason I bring this up again is because this is
5 an issue that's going to continue throughout all of the
6 Utilities Inc. systems over time as they continue to come in,
7 and we think that we need to get the right answer. Whatever
8 the useful life is, we think that needs to be the time that's
9 used and allocated by ECRs to the different utility systems
10 that Utilities Inc. has and allocated down on an annual basis.
11 And we think that the right number of years is the one that
12 should be used. And I think for a \$20 million investment six
13 years does not seem to us to be a reasonable useful life.

14 So the last time we were here, the company, you know,
15 that was the first time they heard that issue. Obviously it
16 was brought up the last time. It's not a new issue. This time
17 they may have an answer and we would just respectfully request
18 that we get a response to that and that can be incorporated
19 into the Commission's decision.

20 CHAIRMAN CARTER: Staff, where are we on, on that?

21 MR. FLETCHER: Staff has requested that the utility
22 provide additional information regarding the useful life of
23 that computer system. We have yet to receive that information
24 yet. But I believe Mr., I've spoken to Mr. Williams for the
25 utility this morning and I think he can comment on that. He's

1 recently gotten some information regarding that service life.

2 CHAIRMAN CARTER: Mr. Williams.

3 MR. WILLIAMS: Good morning, Commissioners. I'm John
4 Williams. I'm Director of Governmental Affairs for Utilities
5 Incorporated, the parent company of Wedgefield Utilities.

6 In determining -- basically we filed using the
7 Commission's guidelines, a Florida Commission rule, which is
8 six years to amortize computer equipment over. According to
9 the generally accepted accounting principles, they say in
10 determining the estimated useful life over which the costs
11 incurred for internal use computer software will be amortized,
12 entities should consider the effects of obsolescence,
13 technology, competition and other economic factors. Entities
14 should consider rapid changes that may be occurring in the
15 development of software products, software operating systems or
16 computer hardware and whether management intends to replace any
17 technologically inferior software or hardware. Given the
18 history of rapid changes in technology, software often has a
19 relatively short useful life.

20 There is no definition for relatively short useful
21 life. However, based on a review of rulings of utility
22 regulatory commissions, government depreciation rules and
23 depreciation guidelines adopted by educational institutions, we
24 found a range between four to ten years is what's being used.

25 According to the American Gas, an American Gas

1 Association study presented to the Arkansas Public Service
2 Commission, it showed that 29 of the 32 companies in the survey
3 used a five-year depreciation period. Again, the Florida
4 Commission rule says six years to depreciate computer equipment
5 software. We're aware that the Australian government allows
6 software to be depreciated over a four-year period. The
7 University of California system used a seven-year depreciation
8 life for the software. And we've seen power companies that
9 have used a ten-year depreciation life so that the six-year
10 appears to be a reasonable period.

11 I will acknowledge that Utilities Inc. throughout our
12 company systemwide have used an eight-year depreciation life
13 for this particular, the Project Phoenix. We used six years
14 because that's what the rule in Florida said. But we have had
15 eight years approved in North Carolina as well as in Louisiana.
16 But, again, there's no magic number. And, again, we used the
17 Florida rule which was six years. And, again, from our
18 research we've seen anywhere from four years, the very maximum
19 we've seen was ten years.

20 CHAIRMAN CARTER: Ms. Christensen.

21 MS. CHRISTENSEN: I think with all due respect, I
22 think up until he said the company uses an eight-year useful
23 life for its own internal purposes -- you know, what other
24 Commissions or places use for different types of software may
25 not be applicable here. And I think that was the concern that

1 we have is that this isn't, you know, just software that you
2 would buy off the shelf or ready-made. This was a system that
3 was designed specifically for this company. And usually when
4 you have a system designed specifically for your company, it's
5 going to be designed to last a longer period of time than
6 something that's ready-made and not tailored to your business.

7 I think, given that they internally use an eight-year
8 useful life, that that would be an appropriate useful life over
9 which to depreciate the system now. And I believe last time,
10 as discussed by Ms. Merchant, that was the last system that
11 they had in place, which lasted for 17 years. The Commission
12 approved an eight-year depreciation life for that system. So
13 it lasted more than twice what the useful life was granted in
14 the last case. I think an eight-year useful life is more
15 appropriate certainly than a six-year useful life and I think
16 that would be a more appropriate number to use.

17 CHAIRMAN CARTER: Do you mean -- did you hear what
18 Mr. Williams said about the rule, our rule requiring six? So
19 you're saying that we should waive the rule requiring six years
20 and use the eight-year because they use an internal eight-year
21 cycle?

22 MS. CHRISTENSEN: I don't know that it's actually a
23 matter of waiving the rule. When we reviewed the rule for the
24 last case, the rule talked specifically about computer
25 equipment, laptops, hardtops, those kind of things. It doesn't

1 specifically address this particular instance where you're
2 talking about a computer system that's developed specifically
3 for the company. So it really in our opinion falls outside of
4 the specific guidelines of depreciation lines that are set,
5 depreciation, excuse me, lives that are set forth in the rule.
6 And I think the Commission does have the discretion where there
7 obviously is a longer useful life to set the longer useful
8 life. I don't think that you are pigeonholed into using six
9 years for computer equipment just because this is used with
10 computers. I think it's outside of that. I think you can
11 adopt the eight-year useful life that the company internally
12 uses because this doesn't fall specifically within those
13 outlined parameters. And I think that it would behoove the
14 Commission to, to exercise its discretion within the rule and
15 apply the eight-year useful life.

16 CHAIRMAN CARTER: Mr. Friedman, you heard what
17 Ms. Christensen said, that notwithstanding the rule about six
18 years that Mr. Williams mentioned earlier, this falls outside
19 of the perspective of that six-year rule. And because they're
20 using the internal eight-year cycle, then what would be the
21 harm in going with eight years? I'm paraphrasing what she
22 said.

23 MR. FRIEDMAN: Thank you, Mr. Chairman. I heard very
24 well what she said. I've got two points on that. One is that,
25 you know, just because the company uses an internal eight years

1 doesn't mean that that has any significance. I mean, companies
2 have different rules, they've got a whole different set of tax
3 rules, they depreciate things for tax purposes different than
4 they do for regulatory purposes. So I don't think that, the
5 fact that they do it internally eight years has any
6 significance to our evaluation.

7 And I do take exception that counsel doesn't believe
8 that the rule applies to software. It certainly does. It's an
9 average. Because I can tell you hardware doesn't last, doesn't
10 last six years. I mean, none of the hardware computer systems
11 we've got last six years. What that is is it is an average,
12 it's a composite of all types of hardware and software. And
13 then, and then what is determined is that is the average length
14 of time that you're going to get out of the hardware/software
15 packages. And so certainly that rule applies, and I think the
16 Commission has in the past applied it to software packages. So
17 I don't think that saying it's outside that rule, I think
18 that's just trying to grasp at some straw to say why six years
19 isn't the right amount of time. But the Commission has a rule
20 that says six years because that is the average life, and I
21 think the Commission should go with their, with their rule.

22 CHAIRMAN CARTER: Thank you. Commissioners?
23 Staff.

24 MS. BRUCE: I'm sorry. If I may.

25 CHAIRMAN CARTER: You're recognized.

1 MS. BRUCE: Commissioner Argenziano asked me a
2 question and I didn't fully answer her. I think she asked me
3 the, up under the old rate structure what the rates would be.
4 I calculated rates at average consumption and the rates at
5 average consumption would be about \$39.22.

6 CHAIRMAN CARTER: As opposed to --

7 MS. BRUCE: As opposed to the new rate, which would
8 be \$59.48 at average consumption, which is about a 51, which is
9 about a 51 percent increase.

10 COMMISSIONER ARGENZIANO: Okay. So we're talking
11 about a \$20 hit to the consumer.

12 MS. BRUCE: Exactly. \$20.

13 COMMISSIONER ARGENZIANO: Okay. Thank you.

14 MS. BRUCE: Yes, ma'am.

15 CHAIRMAN CARTER: Well, Commissioners, we have had
16 debate, we've had questions, we've had comments, and we've had
17 responses from the party, responses from OPC and responses from
18 staff. What's your pleasure on the disposition of this matter?

19 Commissioner Edgar, you're recognized.

20 COMMISSIONER EDGAR: Mr. Chairman, I think we've had
21 good discussion and I appreciate the comments that have been
22 raised about continuing to look into customer satisfaction and
23 how the changes that the company has made to try to address
24 some of the water quality concerns that have been raised, how
25 that will work on an ongoing basis.

1 At this point in time, if it's appropriate, I would
2 make a motion in favor of the staff recommendation on all
3 issues.

4 COMMISSIONER SKOP: Second.

5 CHAIRMAN CARTER: It's been moved and properly --

6 MS. KLANCKE: Mr. Chairman, can we make sure that the
7 motion with respect to this recommendation includes the oral
8 modification?

9 COMMISSIONER EDGAR: As modified by staff.

10 CHAIRMAN CARTER: Oh, yes. It does, as modified by
11 staff.

12 It's been moved and properly seconded.

13 Commissioners, any further debate, comment, question?

14 Hearing none, all those in favor, let it be known by the sign
15 of aye.

16 (Unanimous affirmative vote.)

17 All those opposed, like sign. Show it done.

18 Thank you, Commissioners.

19 (Agenda Item 10 concluded.)

20

21

22

23

24

25

1 STATE OF FLORIDA)
2 COUNTY OF LEON)

CERTIFICATE OF REPORTER

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

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 4th day of December,

2008.

Linda Boles
LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734