DOCUMENT ME

1	BEFORE THE							
2	FLORI	IDA PUBLIC SERVICE COMMISSION						
3	In the Matter o							
4		DOCKET NO. 080695-WU						
5	APPLICATION FOR GENERAL RATE INCREASE BY PEOPLES WATER SERVICE							
6	COMPANY OF FLOR	RIDA, INC.						
7								
8		AGENDA GOMEEDENGE						
9	PROCEEDINGS:	AGENDA CONFERENCE ITEM NO. 7						
10	COMMISSIONERS	COMMISSIONER NANCY ARGENZIANO						
11	PARTICIPATING:	COMMISSIONER NANCI ARGENZIANO COMMISSIONER LISA POLAK EDGAR COMMISSIONER NATHAN A. SKOP						
12		COMMISSIONER NATHAN A. SKOP COMMISSIONER DAVID E. KLEMENT COMMISSIONER BEN A. "STEVE" STEVENS III						
13	DAME .	Tuesday, January 26, 2010						
14	DATE:							
15	PLACE:	Betty Easley Conference Center Room 148						
16		4075 Esplanade Way Tallahassee, Florida						
17	REPORTED BY:	•						
18		Official FPSC Reporter (850) 413-6734						
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PROCEEDINGS

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CHAIRMAN ARGENZIANO: Let's move on to Item 7.

MR. CASEY: Good morning, Commissioners. Bob Casey on behalf of staff.

Item Number 7 addresses a rate case filed by
Peoples Water Service Company of Florida, a Class A
water utility providing service to approximately
8,300 customers in Escambia County. At the January 5th,
2010, Agenda Conference the Commission approved the rate
base, capital structure and operating income issues for
Peoples and directed staff to bring back alternatives
regarding rate structure and repression to the next
Agenda Conference. This recommendation addresses the
remaining issues to be voted upon in the case.

With us today we have Mr. Marty Deterding,
Ms. Denise Vandiver and Mr. Steve Reilly, and I believe
they would like to address the Commission.

CHAIRMAN ARGENZIANO: Absolutely.

Mr. Deterding. Excuse me.

MR. DETERDING: Thank you, Madam -- thank you, Madam Chairman.

I just want to briefly address the alternatives proposed by the staff for the differing rate structures. I will not address the repression

issue unless it's brought up and there's questions concerning it.

Just for a little background again, as you'll recall, this is the first rate increase for this company in approximately 18 years. It is a rate increase of approximately a little less than 12 percent, which is relatively small in a general rate case like this. All the customers of this utility were noticed and, of a customer meeting, and in fact two customer meetings rather than the normal one were held for, for a couple of minor reasons, and only four customers complained out of approximately 8,200, as a staff analyst noted.

The alternatives proposed by the staff are, I guess there are five including the original staff recommendation for rate structure. We believe that the, the original staff recommendation is the preferable rate structure for many reasons. I want to briefly address the other four offered by the staff and then one additional one that I raised at the agenda last time at the end very briefly.

Alternative 1 I believe arguably violates the MOR and the -- by establishing two different rate structure classes, one for the low users and one for the higher users.

Alternative 2 I believe violates Chapter 367

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in that it is not compensatory to the utility in a low-usage month, and it's clearly contrary to what the Commission has done in every water case that I've ever been involved in or, or observed and in, I believe, all other types of utilities in that it eliminates a base charge. There's no base charge proposed in Alternative 2.

Alternatives 3 and 4 I believe are also violative of Chapter 367 in that they are discriminatory between the rates charged for low and high end users.

mentioned at the last Agenda Conference, which is the retention of the current rate structure and simply an across the board increase of the 11.9 percent proposed or approved by the Commission at the last Agenda Conference. This would allow recognition of the concerns that several of the Commissioners had with the high impact on the low end users. It however has the negative impact of not implementing a conservation rate structure which the utility was required to seek from this Commission by the Water Management District. I believe that that issue could be dealt with simply with the Commission's finding that under the circumstances of this utility and the low usage characteristics of its customer base relative to state averages and so forth,

that, that a conservation rate structure is not necessary.

In conclusion, I just believe that the Commission should adopt the rate structure proposed by the staff in the original recommendation, and in the alternative maintain the same rate structure that the utility currently has with a finding that a conservation rate structure is not necessary. Thank you.

CHAIRMAN ARGENZIANO: Mr. Reilly.

MR. REILLY: We were not going to take the forefront on the rate design question, but I guess since we're having that opportunity, I'll go ahead and speak to the, to the fact that the original design is not fair in the sense that the people who are using so little water were having such a tremendously greater impact on them. So I think staff did go to work and tried to work out a rate design that addressed that problem.

I don't think we would be looking too favorably at either the first or second choices. I don't -- it's inconsistent with what the Commission has done in many of its other cases. I think getting rid of the base facility charge is probably not something that you would want to do either. I think the ones that we looked at that you would want to look at is Alternatives 3 and 4, which do I think in great measure address the

problem of the equitable sharing of the cost of the rate increase. And I guess the only thing we would add to that would be -- and it does. It does address the widow and the older people, the very fixed income, very small usage, not having so much of this impact on them.

The only other little concern on our desire to have this shared, this equal sharing of this

11.9 percent increase is that other little class that we're also concerned about, the people of very modest incomes that are working, both working, maybe have kids, children at home, and just by the, by the size of the family are using more water.

CHAIRMAN ARGENZIANO: Uh-huh.

MR. REILLY: So by shifting that too much doesn't address them.

We actually made a stab at it. I don't want to throw too much at you.

CHAIRMAN ARGENZIANO: Come on. Bring it on.

MR. REILLY: But a seventh alternative. But it just shows that it can be done. It can be done keeping the base facility charge -- establishing a base facility charge and then tweaking the inclining -- and still keeping the inclining block rate, which is what you want to do with your conservation rates, we came up with at least a design that, that addressed about

91 percent of the usage of all the bills, and it allows them to be at or around the 11.9 percent increase.

And what, what it basically does is it establishes a base facility charge of \$6.60, which is lower than the \$10.05, and then it established a zero to 3,000 of \$1.55 a gallon. In fact, I can pass this out if you want to go into that much detail.

CHAIRMAN ARGENZIANO: I think that would, that would -- do we have copies? Is that, is that --

MR. REILLY: I just want ran into a technical difficulty.

CHAIRMAN ARGENZIANO: Okay.

MR. REILLY: The wrong copy was, was, was, was copied, but I can describe it to you.

CHAIRMAN ARGENZIANO: Wait a minute.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Mr. Reilly, you know, I love your suggestions, but I don't like getting them at the last minute. I mean, is there a reason that this was not filed with the Commission sooner so we could see some of this in the docket, or have you filed it? Because, again, I always see this at the twelfth hour and it makes it very hard to digest when you're, you know, committed to what staff is proposing. And I'm open-minded, but --

MR. REILLY: I think it's just a matter of the time frames. It was filed Wednesday, and we were looking at it and critiquing it. And literally we're talking about a 24-, 48-hour period. I hadn't really planned on taking the forefront on this, was going to let staff explain what they wanted to do. I was going to say I thought both Alternatives 3 and 4 did address largely --CHAIRMAN ARGENZIANO: And this is a separate alternative. MR. REILLY: This is just addressing the issue

of, of trying to do what I thought the Commission might want to do. It basically just, it just establishes a set base facility charge. It's not terribly complicated and it just provides an inclining gallonage charge.

CHAIRMAN ARGENZIANO: Okay. What was the problem with handing it out?

MR. REILLY: I think that we just need to make a copy of it. We thought we made copies of it and it turns out the wrong copy was made. So that would take a few minutes. That could be done while you're considering staff's justification of what they're offering.

CHAIRMAN ARGENZIANO: Okay. Staff?

COMMISSIONER STEVENS: Madam Chair.

1	CHAIRMAN ARGENZIANO: Commissioner Stevens.					
2	COMMISSIONER STEVENS: I have, I have two					
3	questions that I'd like to					
4	CHAIRMAN ARGENZIANO: I think your mike is					
5	is your mike not on?					
6	COMMISSIONER STEVENS: Hello.					
7	CHAIRMAN ARGENZIANO: There you go.					
8	COMMISSIONER STEVENS: Hello. Now?					
9	CHAIRMAN ARGENZIANO: Yeah. There you go.					
10	COMMISSIONER STEVENS: I have a couple of					
11	questions. I want to, to reiterate or make sure that					
12	from our prior meeting and clear up my understanding,					
13	are 43 percent of all the bills at the consumption level					
14	of 3,000 kilogallons or less?					
15	MS. LINGO: Good morning, Commissioners. I'm					
16	Jenny Lingo with Commission staff.					
17	Yes, sir, that's correct. 43 percent of the					
18	bills are captured at consumption levels of					
19	3,000 gallons or less.					
20	COMMISSIONER STEVENS: Okay. The in each					
21	one of these alternatives and the original					
22	recommendation, do these, do each one of these produce					
23	enough annual revenues to meet the 1 through 11 that					
24	we've already approved?					
25	MR. STALLCUP: Yes, sir.					

1 COMMISSIONER STEVENS: Okay. Do Alternatives 2 2 and 3 meet the Water Management District's 3 requirements of implementing a conservation-oriented 4 rate structure, an inclining block and the base facility 5 charge less than 40 percent of total revenues and 6 provides the least increase to low volume customers? Do 7 we meet all those requirements in those alternatives? 8 MS. LINGO: Commissioner, if we're looking at 9 Alternatives 2 versus 3, it, it meets the Water 10 Management District's requirements that it go to an 11 inclining block rate structure. It meets the Water 12 Management District's alternative that it go to a more 13 conservation-oriented rate structure. 14 However, because in Alternative 2 we've loaded 15 all of the revenue requirement recovery into the 16 gallonage charge --17 COMMISSIONER STEVENS: I'm sorry. I misspoke. 18 Alternatives 3 and 4. I'm sorry. 19 MS. LINGO: Yes, sir. The simple answer to 20 that would be yes, sir. 21 COMMISSIONER STEVENS: Okay. Thank you. 22 MS. LINGO: Yes, sir. 23 Thank you, Madam Chair. COMMISSIONER STEVENS: 24 CHAIRMAN ARGENZIANO: Commissioner Skop. 25 COMMISSIONER SKOP: Thank you, Madam Chair.

Just to staff, and again I'm, Mr. Reilly, I look forward to looking at what you passed out. It's just a, you know, last minute type of thing, so I look forward to getting that when we get a copy of it as an alternate additional alternative to consider.

But to staff, on Alternate 1, 2 and 3 and 4 -
CHAIRMAN ARGENZIANO: All the alternatives?

COMMISSIONER SKOP: All the alternatives.

Sorry. My, my, my brain and my mouth are not working too well this morning.

Alternative 1, if I, if I understand the table on Page 11 to be correct, is basically, what staff did is it took the BCF with inclining blocks and kept the 3,000 kilogallon, I mean the 3 Kgallon allotment that previously existed.

MR. STALLCUP: That's correct.

COMMISSIONER SKOP: Okay. All right. And what we see from that is basically there's really no bill change from the 0 to 3 Kgallons, but then after that it slightly goes down and then goes up to reflect a conservation rate structure.

MR. STALLCUP: Correct.

COMMISSIONER SKOP: Okay. Looking at Alternative 2, there's a substantial reduction for services, and that's because there's no BCF and no

allotments and it's just based on gallonage consumption. 7 MR. STALLCUP: Correct. 2 COMMISSIONER SKOP: Okay. And that basically, 3 if you don't use a whole lot, you don't, you don't pay a 4 whole lot. 5 MR. STALLCUP: Right. 6 7 COMMISSIONER SKOP: Okay. Alternative 3 and Alternative 4, which I think Commissioner Stevens got 8 into, seemed to be more conducive to achieving all of 9 the competing objectives that we have before us, keeping 10 existing rates low for those consumers that use low 11 consumption, but also adopting an inclining rate tier 12 structure to promote conservation by, as recommended by 13 the Water Management District. Is that --14 MR. STALLCUP: That's correct. 15 COMMISSIONER SKOP: Okay. And the only 16 difference between Alternative 3 and 4 is the base 17 18 facility charge? MR. STALLCUP: No. The difference between 3 19 and 4 is actually a little subtle. 20 21 COMMISSIONER SKOP: Okay. MR. STALLCUP: In the repression adjustment, 22 it kind of comes in two steps, if you will. The first 23 step is to calculate the extent to which consumption 24 will go down, the amount of gallons the company will

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sell.

The second step is to adjust the prices per gallon in order to keep the company whole for having sold fewer gallons. In that second step of keeping the company whole, what staff did differently in 4 rather than 3 is that it recovered all of the repression associated dollars from the gallons in excess of 3,000; that is, the repression recovery was not applied to the nondiscretionary, nondiscretionary gallons.

In Alternative 3 the repression recovery was done as staff typically does it and spreads it over all the gallons.

COMMISSIONER SKOP: Okay. That's, that's what I was trying to discern is basically Alternative 3 includes a repression adjustment, whereas Alternative 4 does not.

MR. STALLCUP: Of the first 3,000 gallons.
Yes.

COMMISSIONER SKOP: Okay. All right. Great.

And, Commissioner Stevens, I thank you for your characterization on 3 and 4. I mean, it's exactly well put. So I'm comfortable with either of those. I know repression -- I think Chairman Argenziano had an issue with repression, so I think that gives us two flavors to look at before we get to Mr. Reilly's

document. But I commend staff for their work. Commissioner Stevens, again, I can't say enough of how well put that was.

> CHAIRMAN ARGENZIANO: Mr. Reillv.

MR. REILLY: And I share the commending of staff with the efforts on 3 and 4. Again, what you're looking at here, the only attempt that we've made here is to try to address the 6, 7, 8, 9,000 gallon type users, the families that are working. And you'll see that it still really holds harmless and really takes well care of the people who are losing -- are using very little gallons.

But if you use a \$6.60 base facility charge across the board and then just start working with the gallonage charges, it produces these bills and these percentages of increases or decreases. So there's just no way to deal with not having a decrease for the zero, zero to one because of the rate situation.

But even when you get as little as 2,000 gallons, they're, they're pretty close to breaking evening, slightly -- slight reduction. But then at 3,000 gallons, the people who are using 3,000 gallons are just having their fair share of the rate increase in effect. They're not being subsidized.

And that's really a policy question.

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policy question of this Commission whether they want to shift costs and have a person that's only using 3,000 gallons to actually have no increase or even a decrease. By having this break of \$1.55, it does, it does in fact produce that they would have a par cost of this 11.9. And then you can see how it affects the others. You do have the inclining block rate. to 3.92 for the next block, and that produces the resulting bills and the resulting percent of increase. Those, those all the way, 4, 5, 6, 7,000 gallons, they're still under 11.9. They're still being, you know, pretty well -- and it continues on all the way up to ten or 11,000 gallons. It's not until you start really getting to 11, 12, 13 that the inclining rate, block rate of the usage really starts, starts kicking in. So, I mean, that, that is just a tweaking of what staff did in an effort to address.

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Now I want to point one more thing out. There is no repression in these numbers and they may have to be looked at even a little more closely by your staff because this is complicated business, and I think Denise did what she could with a very limited time frame. And, again, this was not an attempt to spring something on this Commission on agenda day. She was literally working on this late yesterday afternoon. So I think —

CHAIRMAN ARGENZIANO: I understand.

2 Commissioner Skop.

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COMMISSIONER SKOP: Thank you, Madam Chair. And I appreciate that, Mr. Reilly. And, again, I wasn't insinuating the springing. But, again, you guys have the ability to communicate to our staff where we don't. And, you know, I just -- it's hard to digest things on the fly and give them due consideration. In this case it's pretty simple. I look at the percentage increases here and at 3,000 gallons customers are seeing a rate increase. And I think that balancing what you're suggesting versus what I heard my colleague Commissioner Stevens initially say is he was adamantly opposed to any increase to begin with. And through having an open, vetted discussion we looked at what was appropriate to not penalize those customers that, you know, need a certain unit of water every month and are doing their part to conserve versus the discretionary consumption and passing costs on to those in conservation rates.

So I'm not so sure that the proposal by Public Counsel necessarily achieves some of the concerns I heard at bench. I do think Alternative 3 or 4, or more importantly I think Alternative 4 addresses that across the spectrum of, of the average household is not seeing their bill go up for something that they didn't have to

pay for in a gallonage charge before because they had 1 their allotment, but whereas the high power users or the 2 large consumers are starting to pick up that increase 3 which promotes conservation rates. 4 So I think 3, Alternative 3 and 4 are win-win, 5 but I would probably lean towards 4 to address all the 6 issues raised by Commissioner Stevens. 7 CHAIRMAN ARGENZIANO: To staff, and I'm not 8 9 sure, I don't know if I recall, what does a typical, let's say, family -- let's see, I'm trying to think --10 11 with three children, so a family of five, what -- do we 12 know a number on gallonage? I know 3,000 gallons is 13 pretty low even for a two-family. COMMISSIONER STEVENS: I wrote down a note --14 15 it's off again. Here we go. 16 I wrote down a note that 75 percent of the 17 residential bills, and correct me if I misspeak, utilize 6,000 Kgallons or less. 18 CHAIRMAN ARGENZIANO: That's about --19 MR. REILLY: That's correct. 76,000 -- 76 20 21 percent is 6,000 or less. 22 CHAIRMAN ARGENZIANO: And that -- my point being is that that 3,000 gallons is pretty low --23 COMMISSIONER STEVENS: Very low. Yes, ma'am. 24 CHAIRMAN ARGENZIANO: -- to begin with. 25

I -- and you know how I feel about this issue. But I
also don't want to penalize families because they happen
to have three or four children.

COMMISSIONER STEVENS: Right.

CHAIRMAN ARGENZIANO: And -- or two children.

You know, they have to take baths. They play with the water even though we teach them not to.

But, and I didn't know what the average would be. If the average is 75 percent, that's probably pretty inclusive. And I think in another issue once before I said it was probably about 6,000 to 7,000 is the average gallonage used probably in a family of three.

COMMISSIONER SKOP: Madam Chair.

CHAIRMAN ARGENZIANO: Okay. Commissioner Skop.

COMMISSIONER SKOP: And -- sorry. And to that point that you just made, I think that's why Alternative 4 is attractive to me is that basically you're seeing a slight change through the typical consumption levels and then at those above 6,000 Kgallons you're starting to feel the impact of conservation rates. So it's kind of -- it's to me a good solution to the, to the constraints that we're presented with.

CHAIRMAN ARGENZIANO: While appreciating all

1 the work you put into that, I understand you were trying 2 to level it out and we do appreciate that. Members, any, any other questions? 3 COMMISSIONER STEVENS: No, ma'am. 4 MR. DETERDING: Commissioners, may I just 6 raise one point? 7 CHAIRMAN ARGENZIANO: Yes. Mr. Deterding. 8 MR. DETERDING: If we're not going to get 9 heavily into this new alternative that I've just seen and can't analyze, I do want to note that there is a --10 11 I don't see anything in the staff recommendation about 12 the effect on nonresidential gallonage rate in here or 13 nonresidential rates. So I would assume that the staff is going to address that issue or it will be addressed 14 through the staff's final analysis. 15 CHAIRMAN ARGENZIANO: Okay. Staff? 16 17 MR. STALLCUP: Staff's recommendation is only dealing with the residential class. There would be no 18 effect on the rates in the original recommendation for 19 the general service class or any other rate class. 20 21 MR. DETERDING: Okay. Thank you. 22 CHAIRMAN ARGENZIANO: Could you remind me what 23 the original recommendation was to the nonresidential? MR. STALLCUP: It's a BFC uniform gallonage 24 25 charge across the board.

1 CHAIRMAN ARGENZIANO: Any questions? 2 COMMISSIONER STEVENS: No, ma'am. 3 CHAIRMAN ARGENZIANO: All right. Mr. Reilly, 4 anything else? Okay. If there's no questions or no 5 more discussion, do I have a motion? 6 **COMMISSIONER SKOP:** Yes, Madam Chair. 7 believe, and staff correct me if I'm wrong on this, but the motion would be to, for Issue 12, to adopt 8 9 Alternative 4 and basically noting to approve the staff 10 recommendations on Issues 13, 14, 15, 16, 17 and 18, noting that we had adopted Alternative 4 in Issue 12. 11 12 Does that sound right? CHAIRMAN ARGENZIANO: Did we get that right? 13 MR. STALLCUP: Sir, I would also --14 COMMISSIONER STEVENS: Second. 15 MR. STALLCUP: I would also include the notion 16 brought up that we would be approving the rates for the 17 nonresidential class included in staff's original 18 recommendation. 19 Show that included? CHAIRMAN ARGENZIANO: 20 COMMISSIONER SKOP: That's embodied. 21 **COMMISSIONER STEVENS:** Yes, ma'am. 22 CHAIRMAN ARGENZIANO: Okay. We have a second. 23 24 All those in favor, aye. (Simultaneous vote.) 25

Opposed, same sign. Show that approved. Thank you very much. COMMISSIONER STEVENS: Thanks, y'all. (Agenda Item 7 concluded.) FLORIDA PUBLIC SERVICE COMMISSION

	A
1	STATE OF FLORIDA)
2	: CERTIFICATE OF REPORTER COUNTY OF LEON)
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4	I, LINDA BOLES, RPR, CRR, Official Commission
5	Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein
6	stated.
7	IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision;
8	and that this transcript constitutes a true transcription of my notes of said proceedings.
9	I FURTHER CERTIFY that I am not a relative,
10	employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties'
11	attorneys or counsel connected with the action, nor am I financially interested in the action.
12	DATED THIS day of Jebruary.
13	2010.
14	
15	LINDA BOLES, RPR, CRR
16	FPSC Official Commission Reporter (850) 413-6734
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Peoples Water Service Company of Florida, Inc.

	Alternative 5 Rate Structure							
		Bills with	Base			Percent		
Gallonage		Original	Facility	Gallonage		Increase/		
Level		Rates	Charge	Charge	Total Bill	(Decrease)		
	0	10.05	6.60	1.55	6.60	-34.33%		
	1	10.05	6.60	1.55	8.15	-18.91%		
*	2	10.05	6.60	1.55	9.70	-3.48%		
	3	10.05	6.60	1.55	11.25	11.94%		
	4	13.96	6.60	3.92	15.17	8.68%		
	5	17.87	6.60	3.92	19.09	6.84%		
	6	21.78	6.60	3.92	23.01	5.67%		
	7	25.69	6.60	4.78	27.80	8.21%		
	8	29.60	6.60	4.78	32.58	10.08%		
	9	33.51	6.60	4.78	37.37	11.51%		
	- 10	37.42	6.60	4.78	42.15	12.64%		
	11	40.89	6.60	4.78	46.94	14.79%		
	12	44.36	6.60	4.78	51.72	16.59%		
	13	47.83	6.60	6.27	66.89	39.84%		
	14	51.30	6.60	6.27	73.15	42.60%		
	15	54.77	6.60	6.27	79.42	45.01%		
	20	72.12	6.60	6.27	110.76	53.57%		
	25	88.87	6.60	6.27	142.09	59.89%		
x.	30	105.62	6.60	6.27	173.43	64.20%		

Parties/Staff Handout Internal Affairs Agenda on 1 136170 Item No. 7