

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 100104-WU

WATER MANAGEMENT SERVICES, INC.

**IN RE: APPLICATION FOR INCREASE IN WATER RATES IN
FRANKLIN COUNTY BY WATER MANAGEMENT SERVICES, INC.**

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TESTIMONY OF:

GENE D. BROWN

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TESTIMONY OF GENE D. BROWN
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
IN DOCKET NO. 100104-WU
REGARDING THE APPLICATION OF
WATER MANAGEMENT SERVICES, INC.
FOR AN INCREASE IN RATES & CHARGES
AND A REVISION OF
SERVICE AVAILABILITY CHARGES

Q. Please state your name and business address.

A. My name is Gene D. Brown. My business address is 250 John Knox Road, No.4, Tallahassee, FL 32303.

Q. By whom are you employed and what is your position?

A. I am employed by Water Management Services, Inc. (“WMSI,” “utility,” or company”) as its president and chief executive officer (“CEO”).

Q. Please describe your duties and responsibilities in that position.

A. I have overall responsibility for all operations of the company.

1 **Q. Please describe your educational background and utility experience.**

2 A. I have a Bachelor of Science degree from Florida State University and a JD degree
3 from the University of Florida. I started the company in 1974 and have served as its
4 CEO since that time.

5
6 **Q. What is the size of the utility?**

7 A. By 2006, we grew to almost 1900 active customers. We now have about 1800
8 active customers.

9
10 **Q. When were your rates last set by the Florida Public Service Commission?**

11 A. In February of 2006, the Florida Public Service Commission (“Commission” or
12 “FPSC”) entered an order in a limited proceeding filed in Docket No. 000694-WU.
13 That case established the rates which were in effect for four years until February of
14 this year, 2010. The rates were then reduced to reflect the completed collection of
15 our rate case expenses in that limited proceeding.

16
17 **Q. What were your operating revenues in 2006?**

18 A. The operating revenues in 2006 were \$1,487,200.

19
20 **Q. How much water did you sell in 2006?**

21 A. We sold 221,110,000 gallons.

22

23

1 **Q. What were your operating revenues last year, in 2009?**

2 A. The operating revenues last year were \$1,319,558. This is a reduction of \$167,642
3 from 2006.

4

5 **Q. How much water did you sell last year, in 2009?**

6 A. We sold 151,136,000 gallons last year in 2009. This is down 69,974,000 gallons,
7 or 32%, from 2006.

8

9 **Q. What is the reason for this reduction in customers' revenue and water sales?**

10 A. There are several reasons. First, the general economy has deteriorated over the last
11 few years, especially on St. George Island. Second, many properties cannot be
12 developed and several businesses have been forced to close for lack of adequate
13 sewage treatment. Third, a significant number of property owners on St. George
14 Island have put in shallow wells and do not use our water at all, and some use our
15 water only for limited household uses.

16

17 **Q. Are the shallow wells consistent with governmental policy?**

18 A. Yes, they are now, although this is a recent change. Shortly after we started the
19 utility in the 1970's, both state law and a Franklin County ordinance prohibited
20 wells of any type within St. George's Plantation, which is the major residential area
21 of St. George Island. Until the last couple of years, the general policy of both state
22 and local government was that St. George Island should be developed with a
23 central water system and that central sewer should be used if it was available.

1 Now, governmental policy has shifted in favor of shallow wells and septic/aerobic
2 tanks as a development policy on St. George Island.

3
4 **Q. Can you be more specific about this change in governmental policy, and its
5 impact on your business?**

6 A. The utility relied on the legal prohibition against wells by investing in plant and the
7 infrastructure necessary to serve all the properties on St. George Island. By the end
8 of 2008, however, we had discovered approximately 100 illegal wells in the
9 Plantation. When we notified the Franklin County Commission and the Northwest
10 Florida Water Management District (“NFWWMD”) and requested that they
11 enforce the county ordinance and the state Development of Regional Impact Order
12 (“DRI”), which prohibited those wells, neither agency took any enforcement action.
13 In fact, they both refused to act. Moreover, not only did they refuse to act, the
14 NFWWMD filed a case in the First District Court of Appeal which resulted in an
15 opinion that declared the St. George Island DRI prohibition against wells to be void
16 and unenforceable. Then, in January of this year, the NFWWMD adopted a rule
17 amendment that encourages wells all over St. George Island by doing away with
18 the requirement for any type of notice or consumptive use permit, so long as the
19 well does not pump over 15,000 gallons per day (which is over 42 ERC’s) and so
20 long as it is said to be for “non-public” uses. Since there is no notice to the utility,
21 or any consumptive use permit required, there is no way for the utility to determine
22 where wells are drilled, when wells are drilled, whether they are actually pumping
23 within the 15,000 gpd limitation, or whether they are actually pumping only for

1 “non-public” uses. This allows unlimited individual wells throughout St. George
2 Island with no notice to WMSI. All of this has had, and is continuing to have, a
3 very negative effect on our revenue. It is very difficult to plan, and it is even more
4 difficult to borrow the funds necessary for capital improvements, when all lenders
5 know that the utility’s revenues can be substantially reduced at any time at the
6 discretion of the customers.

7
8 **Q. Has this policy change also allowed you to cut expenses?**

9 A. No, it has actually increased our expenses. For example, the wells on the island
10 require no notice to the utility; we now have to search them out to enforce our
11 cross-connection control program. Undetected shallow wells and septic tanks on
12 small lots which exist side by side with our water system constitute a serious health
13 hazard. This was shown by the engineering study prepared for WMSI as part of the
14 wastewater case we filed with the Commission last year, in 2009, in Docket No.
15 090189-SU. We still have to provide fire flow for the entire island, including non-
16 customers with wells. We are required to serve anyone who requests service,
17 which could be a large number during the next drought or when water quality
18 problems develop. It is very difficult to plan long-term, or for “peak day” demand,
19 when use of the company’s water system is totally optional for the customer while
20 the utility must remain ready, willing and able to serve anyone at any time. This
21 reduction in water use also requires the utility to flush more often at more locations,
22 which also increases our expenses. Also, many expenses are fixed in nature and do
23 not decline with reduced water sales.

1 **Q. Please describe your level of service?**

2 A. The last two inspections by the Florida Department of Environmental Protection
3 ("DEP") in 2009 and 2010 found no significant deficiencies. We are in substantial
4 compliance with all governmental rules and regulations, such as those imposed by
5 DEP, the Environmental Protection Agency, NFWFMD and the FPSC. We have
6 very few customer complaints, and almost none related to water quality and
7 service. I do not recall any service related complaints during the test year. Our
8 only two complaints related to customer deposits, and they were both resolved in
9 favor of the utility. We provide very good water with a high level of customer
10 satisfaction.

11

12 **Q. How have you been able to maintain that level of service?**

13 A. Primarily with qualified, experienced personnel who are committed to meeting all
14 required service standards. Our vice president has worked for the company for
15 over 29 years, since January, 1981. Our general operations manager, who is a
16 licensed water operator, has worked for the company for a total of 11 years. Our
17 assistant operations manager is a licensed water and wastewater operator who has
18 worked for the company for a total of 22 years, including 3 years as a part-time
19 operator. Our controller has worked for the company since 1998, and our
20 administrative assistant has worked for the company since 2005. Both of our field
21 technicians are long-time Franklin County residents who are making a career with
22 the water company. One is working to obtain his DEP water operator's license
23 with a view toward replacing one of our current operators upon their retirement.

1 Including me, each of the utility's four top management employees has worked for
2 the company for an average of 24 years. That is the key to the utility's success,
3 having experienced personnel who are dedicated to providing a consistent, high
4 level of service to customers.

5
6 **Q. What improvements have you made since the last rate case?**

7 A. We installed a new supply main pipeline across the bridge to the island, and we
8 have made various improvements to enhance fire protection on the island.

9
10 **Q. Do you plan to make any other improvements to enhance your service?**

11 A. Yes. Last year we asked our engineers, PBS&J, to conduct a complete evaluation
12 of the water system and to make recommendations for improvements that are
13 needed to maintain reliability and our current level of service.

14
15 **Q. What were the results of that evaluation?**

16 A. PBS&J concluded that we need to construct a new ground storage tank; construct a
17 little over 2,000 feet of new supply main; rebuild major parts of the pumping and
18 electrical system; and that we need to make various other improvements to increase
19 the reliability and integrity of the system.

20
21 **Q. Why are all of these improvements necessary at this time?**

22 A. The ground storage tank and parts of the electrical system are approximately 35
23 years old and have basically reached the end of their useful lives. The ground

1 storage tank is crumbling in places and we could have a catastrophic failure at any
2 time. The electrical system is problematic and unreliable. Parts of the supply main
3 are exposed and unsupported out in the Bay on the island side, making it subject to
4 damage from boats or storms as well as salt water intrusion. Any of these problems
5 could result in a sudden loss of water supply to the island, which would last for an
6 extended period of time until emergency repairs could be made. Needless to say,
7 we do not want that to happen.

8
9 **Q. What will these improvements cost?**

10 A. They will cost approximately \$2.2 million.

11
12 **Q. How does the company propose to pay for these improvements?**

13 A. We have a conditional written commitment from a local commercial bank to make
14 a \$5 million loan with a United States Department of Agriculture guarantee, subject
15 to approval of our requested rates. This loan will pay for all the needed
16 improvements, and will refinance all of the utility's existing debt except the State
17 Revolving Fund loan administered by DEP which was used for the new supply
18 main. It is necessary and prudent to refinance all of our existing debt at current
19 market rates, except for the State Revolving Fund loan which is at 3%.

20
21 **Q. Can you borrow this money without a rate increase?**

22 A. No. The proposed loan is expressly contingent upon new, increased rates necessary
23 to repay the loan.

1 **Q. What is the company's financial condition at this time?**

2 A. Since its rates were last set in February of 2006, the utility has lost approximately
3 \$750,000. These losses are continuing, with no end in sight. The utility has a
4 certificate from the FPSC, but does not have a monopoly. The utility is obligated
5 to provide water service and fire flow throughout the island to an unlimited and
6 unstable number of customers and potential customers, but those water users do not
7 have to buy water from the company and many do not. They can simply put in a
8 cheap shallow well, without notice or a permit, or they can just use our water on a
9 limited basis for strictly household uses.

10

11 **Q. You mentioned fire flow. Do you provide fire protection for the island?**

12 A. The utility does not have an official, legal obligation to provide fire protection to
13 the island. However, the company is the only source of water supply for fighting
14 fires on the island. In a response to concerns voiced at customer meetings in
15 Docket No. 000697-WU (supply main limited proceeding), the Commission
16 approved modifications to the system to provide for fire protection. The utility has
17 approximately 122 fire hydrants throughout the island, and it plans to install 40-50
18 more this year. The utility has a maintenance program to monitor and maintain the
19 hydrants. The utility also maintains an island-wide distribution system with looped
20 lines with sufficient pressure to provide a large volume of water for the sustained
21 period of time necessary to fight a fire.

22

23

1 **Q. How have you paid for this limited fire protection?**

2 A. The utility's only revenue comes from those service locations that are connected to
3 our system. Franklin County collects a fee or tax from each island property owner
4 to be used for fire protection, but we receive nothing from this. We do not have a
5 separate charge for fire protection.

6
7 **Q. Is that equitable?**

8 A. It seems somewhat inequitable that the customers who buy all of their water from
9 the utility are having to subsidize other water users who buy only part or none of
10 their water from the utility. Those water users are basically getting free water for
11 fire protection, as well as a free "stand-by" water system that is available in case
12 they have a problem with their well, which will happen at some point in time. This
13 increases the cost-per-customer for those who elect to buy water from the utility.

14
15 **Q. What percentage of your revenues are projected to be collected from base
16 facility charges ("BFC") based upon the Minimum Filing Requirements
17 ("MFR's") filed in this case?**

18 A. We are requesting that percentage to be 75%.

19
20 **Q. Why is this percentage necessary?**

21 A. As a resort location, the utility has a great variance between its highest month and
22 its lowest month. If the utility continues with its current ratio, which is 50% BFC's
23 and 50% water sales, it will collect about \$100,000 less during its lowest month or

1 months than during its peak month or months. This causes the utility a big problem
2 because our debt service, employee costs and most other O&M expenses remain
3 constant. If the utility goes to a 75%/25% ratio, the difference will be around
4 \$50,000. That is still a problem, but it is manageable. It would seem to be a more
5 equitable rate structure to allow those customers who elect to install shallow wells
6 to pay their fair share of the cost of fire protection and the cost of “stand by”
7 service protection in case their well goes dry or becomes contaminated.

8

9 **Q. Are there any other differences between WMSI and other water systems**
10 **which tend to increase the cost-per-customer for St. George Island?**

11 A. During the utility’s last rate case, a FPSC staff engineer with a great deal of water
12 utility experience stated that the SGI water system was a “horrendous” system to
13 operate and maintain. The basis for his comment was that most systems are not
14 located five miles out in the Gulf and did not have to install and maintain even one
15 supply main exposed and suspended under a bridge in a harsh environment. In this
16 case, the utility has had to install two supply mains to the island because the
17 government elected to tear down its first supply main when they tore down the
18 bridge built in 1966. The construction and maintenance of these lines has added a
19 great deal to the cost-per-customer. Also, the island extends over a narrow strip 20
20 miles long with shifting sand in a very harsh and exposed environment. All of this
21 adds costs that are not found in most water companies.

22

23

1 **Q. Why is the utility filing at this time, in this bad economy?**

2 A. There is no choice. The utility survived the losses in 2008, and hoped that 2009
3 would be better. Unfortunately, 2009 was worse than 2008, and 2010 is going to
4 be worse than 2009. Our first quarter revenue this year was \$269,208, \$17,548 less
5 than the first quarter last year. Our first quarter loss was \$146,139, \$44,167 more
6 than the first quarter of last year. Expenses cannot be reduced without affecting the
7 level of service, and the utility is risking an island-wide loss of water if the
8 recommended capital improvements are not made. It would be imprudent and
9 irresponsible not to request the rate relief necessary for the utility to maintain
10 reliability and consistent service to its customers.

11

12 **Q. How important are the interim rates that are being requested?**

13 A. They are extremely important. The utility must have interim financing while the
14 rate case is being processed, and no bank will make a loan to the utility without at
15 least some indication of increased revenue.

16

17 **Q. When do you plan to make the capital improvements?**

18 A. As soon as the utility has a decision as to whether the improvements are approved
19 as part of its rate structure, our engineers will prepare the bid documents, and
20 construction will proceed as soon as possible after that.

21

22

23

1 **Q. Why is the utility asking for an increase in service availability charges?**

2 A. When the utility finishes the capital improvements that are currently planned, its
3 ratio of net Contributions in Aid of Construction (“CIAC”) to net plant will be
4 approximately 24% at build out. The utility believes that ratio should be 75%, and
5 that the increased charges are necessary to reach that goal. It seems more equitable
6 to our existing customers to provide that our future customers pay for system
7 improvements and additions than charging those costs to our existing customers. If
8 we continue with the current service availability charges, the ratio of net CIAC to
9 net plant will never approach 75%. The difference will have to be passed on and
10 paid by our existing customers through the increased rates necessary for the utility
11 to recover increased interest costs, increased depreciation costs and other costs
12 relating to an increased rate base.

13

14 **Q. Why is the utility asking for an increase in miscellaneous service charges?**

15 A. The utility’s current charges were established approximately 30 years ago, and they
16 do not cover its current costs. The utility needs to recover its actual costs related to
17 these miscellaneous service charges rather than passing these costs on to its general
18 customer base. The utility should not be used as an after-hours maintenance/rental
19 management agent. The utility has many situations when emergency calls require
20 its personnel to respond at all times of the day and night because of problems on
21 the customer’s side of the meter. The current low and unrealistic charges encourage
22 calls to the utility rather than to a rental management company or a plumber.

23

1 **Q. Are you familiar with the O&M expenses outlined in the MFR's filed with this**
2 **case?**

3 A. Yes, I am.
4

5 **Q. In your opinion, are all those reasonable and necessary?**

6 A. Yes, they are. We have attempted to live within our means over the last several
7 years and have incurred significant losses. I do not know of anything that could be
8 cut without affecting our level of service.
9

10 **Q. Are you familiar with the test year adjustments included with the MFR's in**
11 **this case?**

12 A. Yes, I am.
13

14 **Q. Could you briefly explain those in the order set forth in Schedule B-3, starting**
15 **with the bridge maintenance contract?**

16 A. The new 12 inch ductile iron supply main is suspended under the new bridge by
17 approximately 550 plastic/stainless steel hangers. It was painted with a three coat
18 system required to meet Department of Transportation ("DOT") specs. This is a
19 fragile system that is out of normal view and needs to be constantly inspected,
20 repaired or adjusted, and repainted over time, starting with sections that have
21 already experienced substantial paint failure. This is a 10 year contract which
22 requires quarterly inspections and payments. It also requires the contractor to make
23 any necessary repairs or adjustments to prevent a catastrophic failure. Under the

1 contract, the pipe will be completely refurbished and recoated during the first six
2 years and the pipe and coating system will be appropriately maintained for the full
3 10 year term of the contract. The price of \$48,000 per year is reasonable and
4 necessary.

5
6 **Q. Please explain the billing software lease and maintenance contract.**

7 A. The billing system we had for years was outdated and did not provide the detail and
8 level of customer service that our customers need. Also, we could not get adequate
9 help in fixing problems with the system. The new system is more complete and
10 customer friendly. It is constantly updated and maintained on a real time basis.
11 The annual cost of \$4,960 is reasonable and necessary.

12
13 **Q. Please explain the engineering service contract.**

14 A. One thing I have learned over the years is that a utility such as WMSI must have
15 access to high quality engineering services on a consistent basis. With all the
16 governmental compliance issues and permitting requirements, some of which are
17 newly enacted, our operators and management team must have a contract which
18 assures that we will have a priority with a firm like PBS&J in order for us to
19 continue providing a high level of service and maintenance of all our operations.
20 The \$4,000 per month cost is reasonable and necessary. This PBS&J contract
21 includes various and sundry services.

1 **Q. Please explain the John Deere lease.**

2 A. We have a need for this 4-wheel drive utility vehicle for meter reading and other
3 work around the island. The annual cost of \$2,840.52 is reasonable and necessary.

4

5 **Q. Please explain the Hydra Platform lease.**

6 A. The Florida DOT required WMSI to suspend the new supply main in a difficult to
7 reach position under the new bridge with no metal to metal contact. Both the utility
8 and its contractor have to be able to work on any and all parts of the almost five
9 miles of pipe on short notice. The hydra platform is a specialized piece of
10 equipment that allows the utility access to the pipe. The annual lease expense of
11 \$20,580.24 is reasonable and necessary.

12

13 **Q. Please explain the stuffer machine lease and the mail machine lease referenced
14 as items 7 and 8 on Schedule B-3.**

15 A. Both of these machines are necessary to provide efficient customer service and to
16 save employee costs. The annual lease expenses of \$2,824.80 and \$2,568,
17 respectively, are reasonable and necessary.

18

19 **Q. Please explain the two vehicle leases shown as items 9 and 10 of Schedule B-3.**

20 A. The utility has three trucks on the island for use by our four full time employees.
21 One is owned and two are leased. The annual lease payments of \$7,940.64 and
22 \$8,863.80 respectively are reasonable and necessary.

23

1 **Q. Explain the increase for health insurance.**

2 A. This increase simply reflects the increased premium quoted by the company's
3 carrier based upon the personnel now employed by the company.

4

5 **Q. Can you explain the adjustments to employee costs reflected in sections 12 A-**
6 **H of Schedule B-3?**

7 A. In 2009, the company had several changes in one field technician position. The
8 utility recently employed a new field technician at a cost which is less than the cost
9 for the technician he replaced. The company also rehired its former operator with
10 over 20 years of WMSI experience to replace a field technician who did not have
11 an operator's license. My salary was reduced by \$30,000 per year. The utility has
12 the same number of employees that we have had for several years, and the overall
13 payroll will be less in 2010 than in 2009.

14

15 **Q. Can you explain the need for an accounting services contact?**

16 A. The utility has an accounting procedures manual to assure compliance with all of
17 the various requirements involving accounting issues, including those of the
18 National Association of Regulatory Utility Commissioners. The accounting
19 services contract assures that the company will have priority access to a high level
20 Certified Public Accountant for an average of 10 hours per month. A set monthly
21 retainer is better for our cash flow, and any unused hours are credited to the months
22 during which more hours are required. The annual cost of \$18,000 is reasonable
23 and necessary.

1 **Q. Please explain WMSI's general approach to customer service.**

2 A. All of the company's employees make every possible effort to provide prompt and
3 efficient customer service, including meter reading and billing issues, customer
4 calls, emergency response, 24 hours a day-7 days a week-365 days a year, water
5 quality issues, and all issues regarding new services.

6

7 **Q. What is the company's general approach to employee education and training?**

8 A. The company encourages its employees to attend all training and continuing
9 education courses that are available. The company also has an in-house training
10 program for all new employees before they are given total responsibility for a
11 particular task. The utility requires as much cross-training as is reasonably
12 possible, so there will not be total dependency on any one employee.

13

14 **Q. Do you have any final comments before concluding your testimony?**

15 A. WMSI recognizes that this is a difficult period financially for its customers as well
16 as the utility. If the company had a choice, it would not have filed this case until
17 the economy improves. However, there are critical capital improvements that must
18 be made to reduce the possibility of a complete water outage on the island. Also, it
19 is simply impossible to continue current operations with continuous, substantial and
20 increasing losses. Accordingly, it has become clear to management that WMSI
21 cannot continue to provide reliable and consistent water service to St. George
22 Island without new and increased rates as set forth in the MFR's.

23

1 **Q. Does that conclude your testimony?**

2 A. Yes, it does.

3

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