

Collin Roehner

From: Office of Commissioner Brown
Sent: Thursday, February 02, 2017 9:17 AM
To: Commissioner Correspondence
Subject: FW: Pennbrooke Hearing, 2/1/17, Exhibit 19
Attachments: Water Commission.docx

Please place the attached in Docket Correspondence, Consumers and their Representatives, in Docket No. 160101-WS.

Thank you.

From: Don Manfre [<mailto:flyboy46@live.com>]
Sent: Wednesday, February 01, 2017 6:11 PM
To: Office of Commissioner Brown
Subject: Pennbrooke Hearing, 2/1/17, Exhibit 19

Water Questions/Comments

2/1/17

A utility in its simplest term is a government regulated monopoly, I emphasize the word monopoly, because we as customers have nowhere else to go but to Utilities Inc ("UI"). So we homeowners must rely on you, the Public Service Commission, to safeguard us from any form of abuse and/or overreach by UI. More specifically, our reliance on the commission extends to Utility rate making, where UI has the right to set rates that they will charge us. Therefore, we rely on you and you alone to be fair across different groups of consumers, that is to say the 12 different districts. And here is where the crux of the issues resides. I do not believe that Pennbrooke customers are being treated fairly and need your intervention.

Recognizing that the commission's purpose is to serve both the customers AND the utility, it must attempt to equally and fairly serve the interests of both. However, in this case, I see a regulatory conflict. One between Pennbrooke and, what I believe to be, an overreaching hand of UI.

Utility rates cannot be set so high as to be viewed as confiscatory. This, in turn, demands that rates be fair, reasonable, and non-discriminatory across its customer base. Yet in this rate case, I believe that, as the numbers substantiate, the proposed rate increase is not reasonable, nor fair, and discriminatory, based on district BIAS, via the extent of capital improvements to be made to each.

Rates must be impartial, and based on real and factual applicability. This is to say based on consumption, maintenance and required capital improvements. This is NOT the case here. I believe the BASIS for UI's rate hike is BIASED, by virtue of the 12 company consolidation and the unfair capital expenditure base for cost.

I question the foundation of UI's proposed rate hikes, which are both biased & flawed... therefore, invalid. I don't believe that the proposal is illegally based, however, I do question UI's ethical practices and bloated proposal.

When I received the UI's letter signed by UI president John Hoy, I was incredulous. To me, a 42% increase in one year implied that someone really screwed up or the proposal is grossly overstated or both. If 42% wasn't bad enough, the consolidation of 12 regulated companies into 1, to me, was a red flag.

I want to provide input regarding Mr. Hoy's letter:

1. I believe it to be little more than a bland attempt to soften the blow of its' enormous impact to residential customers. It is crowded with distortions, platitudes and vagaries. I couldn't help but wonder, "where is the pertinent requirements basis, cost back-up per district and supporting justification that can withstand in-depth scrutiny?" Does this even exist, because if so, it absolutely requires specific supporting details to verify exactly how it aligns with the Pennbrooke district and only the Pennbrooke district.

2.a I see it as a masquerade in order to cloak the real issue of significant disparity of water and waste system operational costs, varying equipment needs and questionable long term planning and execution over the 12 company base.

2.b If they ask for 42%, get approval for, say 25%, which is twice what you really need, which is probably 4-5 times of what is really required. So obtaining all relevant details is necessary in order to access the fundamental realities of base requirements.

3. EPA "estimates of expenditures over the next 20 years". The Federal EPA is presently in a state of flux, and probably followed, in time by the state. I question if anyone, TODAY, can estimate the cost to "bring the state's water & waste systems up to date". It is a shifting baseline. Also, ask yourself "up to date" implies that it has it been out of date? Why isn't "up to date" already as part of a long term program?

So, *exactly* what is UI's capital plan basis? Specifically what regulations? What projects by line item & bottoms up estimates?

"This rate case includes...." Where are the written results of an in depth fact finding required or ordered by the commission? Was there one performed already? How do the specific detailed result affect Pennbrooke alone? What is the validity of both the project baselines and realism of estimates? Where is the Long Term Capital Improvement Plan that Mr. Hoy's letter addresses? Is it a five year plan, updated and projected out each year?

MOST IMPORTANTLY, HOW CAN THE COMMISSION APPROVE ANY PRICE INCREASE INVOLVING SUCH A LARGE UNDERTAKING WHICH IS NOT PRICED SPECIFICALLY TO EACH DISTRICT?

When Mr. Hoy stated that he will "minimize the rate shock that... can occur in a single community". This can be translated that he will, with commission approval, Pennbrooke residents will have no choice, but to pay unfairly high rates to subsidize other more cost affected districts.

So let's ask, why is UI going to bias our rates with an artificial cost allocation basis? This is not only inappropriate, but it violates the essence of the Commissions charter to ensure customers of fair and impartial rates. Fair means that the district that gets the improvement pays for it and not spread their burden on to Pennbrooke.

How, in one breath that one say that you "can't describe the average customer" and then, by his own actions, make sure that you never will by combining 12 districts into 1. This is a self fulfilling prophecy. UI's consolidation muddies the waters, via obscuration and cost averaging among the 12 water companies. It's OK to consolidate from an operational standpoint, but not for rates.

Mr. Hoy stated that there is "no average customer", of course there isn't. More correctly stated... **THERE IS NO AVERAGE WATER DISTRICT.** Mr Hoy's statement is misleading, because the consolidation will force Pennbrooke to subsidize other more cost affected districts, to "average" out the rates... at Pennbrooke's expense. Please consider that individual districts have varying needs, equipment, maintenance, that simply cannot be averaged. It is terribly unfair for Pennbrook to subsidize other districts.

I am not concerned with UI's predicament of significant and erratic cost differences across its customer base. Nor would I expect other districts to be concerned about and to agreeably subsidize Pennbrooke. I believe that the commission has an obligation to make things fair and to do so, need's to terminate the entire basis for this subsidizing reapportionment. Also, far as "... rate decreases for many of our customers" I'm sure it will be at Pennbrook resident expense. The commission can prevent this from happening.

Looking further, these questions are relevant for the commission to consider:

1. Do we know and understand the consolidated one company total capital expense budget upon which the projected rates are predicated? Has it been scrubbed to satisfy needs that are absolutely required; i.e. those which we can't live without.
2. Does the amortization basis line up with the useful service life of the equipment?
3. Exactly what was the basis that UI is justifying its proposed rate hike figures? That is not just cost basis, but how UI is allocating real costs over the 12 companies.
4. Has UI's overstatement of prerequisite requirements been audited for accuracy?

5. Has UI's capital plan, upon which the proposed costs are based, been scrutinized . Do we fully understand the fundamentals regarding the reality of any cost increase basis', "EPA requirements" and cost allocations?

6. In light of this huge rate hike and based upon a void in hard supporting documentation, is the commission convinced beyond the shadow of a doubt, that UI has only asserted the necessary known requirements today to absolutely minimize the cost impact to Pennbrooke?

7. Is UI's proposed capital/operational cost baseline versus the minimum requirement of what is needed real? or is it inflated? If so, by how much?

Fundamental concerns:

1. Given that need drives requirements and requirements drive work scope (maintenance & capital improvement), work scope drives the funds necessary to satisfy the requirement. So, if the requirement baseline is faulty, overstated, subsidizing part of another district's cost, then it directly translates to UI's work scope being overstated and, accordingly, the proposed rate hikes, as stated, are flawed. Proposed numbers constructed on a flawed foundation is like building a house on sand. I believe the foundation of price construction to be questionable.

Has UI has demonstrated all of the **direct** links from real and supportable requirements to work scope. Work scope that drive water rates up. If they do exist, were they disclosed? If they don't exist or are weakly supported or poorly founded, then the proposal should be rejected as not credible.

2. Regarding subsidy to other districts: As a UI customer, I am personally convinced that this rate increase is both unfair and unsubstantiated. If approved by the commission, Pennbrooke will be required by law to subsidize costs of other water districts, owing to UI's overt cost reapportionments.

UI's rate consolidation alleging to be operationally efficient, only masquerades as a benefit to all districts. However in reality is little more than an abusive method to provide financial subsidy to some districts at the expense of others. Any such reapportionment would be enabled as a direct result of a commission approval of such rate consolidation.

Each district has totally different needs & requirements, therefore, UI's approach is not rational. It's unfair.

Recommendations;

1. I assert that there exists a vague and contestable basis for UI's price increase approach. Accordingly, I recommend that this highly questionable price hike be subjected to an in-depth fact finding to question line by line, with a construction from the bottom up.
2. I recommend that you demand that UI's long term capital expense program provide complete, factual and verifiable base for immediate and necessary only equipment needs directly connected with Pennbrooke alone, which should include quality.
3. I believe that this price increase is unethical with regard to cost subsidies. I recommend that you seriously assess the consolidation, with regard to price determination.

Accordingly, I implore you, the decision makers and decision influencers, to use your authority and remedy this wrongdoing. Reject UI's proposed price increase.