1. Refer to the Direct Testimony of Scott J. Rubin ("Rubin Testimony"), page 5, line 15. Mr. Rubin states, 'The Commission can make certain judgments about the relative level of rates in the two service areas (Clinton and Middlesboro) from the revenue requirements exhibits of the company and other parties. If it appears that the cost to serve customers (on a per-gallon basis) . . . [is] similar in the two service areas, then steps should be taken to move toward consolidated rates."

a. Explain whether it is Mr. Rubin's opinion that the Commission should make these judgments and assumptions without a cost-of-service study.

Answer:

Yes, these judgments can be made without a cost-of-service study, especially for a utility this size. A cost-of-service study is a very useful tool in designing utility rates, but it is not the only useful tool. Measurements, such as the revenue requirement per unit (per customer or per 1,000 gallons, for example), the level of rate base investment per unit, or the level of O&M expenses per unit can also be useful in determining whether two water systems have similar costs of service. In addition, the American Water Works Association recognizes that it may not be feasible or cost effective for smaller utilities to prepare full cost-of-service studies. Nevertheless, there are ratemaking procedures that can be used to ensure that rates are fair to all customers and reasonably reflective of the cost of providing service. See *Developing Rates for Small Systems*, Manual M54 (AWWA 2004).

2. Refer to the Rubin Testimony, page 6, line 1. Mr. Rubin states that the costs to provide service in the two service areas are not similar.

a. Explain whether Mr. Rubin's above referenced statement contradicts his statement on page 5 at line 15.

b. Based upon Mr. Rubin's response to Item 2.a. above, explain why the Commission should consider consolidating the rates in these two service areas.

Answer:

a. The statements are not contradictory. On page 5, lines 19-21, Mr. Rubin states: "Of course, the Commission may decide to move toward consolidated rates even if the cost to serve the two areas are not similar, but there would need to be significant policy justifications for doing so." Mr. Rubin believes that there is a good policy justification for moving toward consolidated rates at this time. Substantial savings can be achieved for Clinton customers without imposing a significant burden on Middlesboro customers. In addition, moving toward consolidation ultimately should result in a savings in administrative costs (administering a single tariff, keeping one set of accounting records, and so on) that would benefit all customers.

It will almost always be the case that it costs more (on a per-unit basis) to serve customers in smaller utility service areas, due to the economies of scale. One important policy issue for consolidation is whether the customers in the smaller service area can be given the benefit of the larger area's lower rates without imposing an unreasonable burden on the customers in the larger service area. Whether a burden is reasonable is, of course, a question for the Commission to determine. In Mr. Rubin's opinion, full rate consolidation at this time would impose an unreasonable burden on some customers in Middlesboro, but significant movement can be made toward consolidation while keeping the burden reasonable, in Mr. Rubin's judgment.

b. See response to (a), above.

3. Refer to the Rubin Testimony, page 6, line 10. Mr. Rubin concludes that it costs 75 percent more to provide service (on a per-gallon basis) in Clinton than it does in Middlesboro. Explain how Mr. Rubin came to this conclusion.

Answer:

The information used to reach that conclusion is shown in the table on page 6. The total cost of service in Clinton divided by the gallons sold in Clinton equals an average cost of service of $10.45 per thousand gallons. The same calculation in Middlesboro equals an average cost of service of $5.99 per thousand gallons. $10.45 ÷ $5.99 = 1.7446. Thus, on a per-gallon basis, it is approximately 75% more costly to provide service in Clinton than in Middlesboro.

4. Refer to the Rubin Testimony, page 12, line 5. Explain whether the rates provided were produced without a standard cost-of-service study.

a. Explain Mr. Rubin's opinion that without a standard cost-of-service study, a change in rate design is generally more difficult to evaluate as to the costs allocations to alter the rate design.
b. Explain how Mr. Rubin determined the rates proposed were appropriate for the customer charge (or meter charge) and the volumetric rates.
c. Explain why Mr. Rubin used meter size ratios that are approximately one-half of the meter capacity ratios as developed by the American Water Works Association.
d. Provide the meter charge using the meter size ratio as developed by the American Water Works Association.
e. Explain why Mr. Rubin set the volumetric rates as separate per-1,000-gallons rates for the two service areas.
f. If the meter charges are the same, why should the volumetric rates be different?

Answer:

Yes, the rates were produced without a standard cost-of-service study (COSS).

a. See response to question 1, above.

b. Mr. Rubin considered two factors in developing the proposed customer charges. First, he applied ratios for each meter size based on approximately one-half of the standard AWWA meter capacity ratios. He chose these ratios because applying the full meter capacity ratios would have resulted in extremely large rate increases for some customers with larger meters. Using these smaller ratios is designed to be part of the transition to rates that better reflect the cost of service.

Second, Mr. Rubin selected a customer charge for the 5/8-inch and 3/4-inch meter that would result in approximately one-third of revenues being collected through the customer charges. Without a valid cost-of-service study, it is not possible to determine a cost-based amount of customer-related revenues, but there is some guidance available. As the Company has noted, the Florida Public Service Commission uses a guide of 40% of revenues from customer charges. The California Urban Water Conservation Council has a best management practice for water utility rate design (BMP 1.4) that has no more than 30% of non-fire revenues collected from customer charges. Considering this guidance along with the existing level of rates and customer impact, Mr. Rubin selected a $10.00 per month customer charge for 5/8-inch and 3/4-inch customers.

For volumetric rates, please see the response to (e), below.

c. See response to (b), above.

d. The rates using meter size ratios would depend on the rate selected for a 5/8-inch meter. AWWA's standard meter size ratios are shown in the following table:

AWWA Meter Size Ratios

Meter Size	Ratio
5/8"	1.00
3/4"	1.50
1"	2.50
1-1/2"	5.00
2"	8.00
3"	16.00
4"	25.00
6"	50.00

AWWA, *Principles of Water Rates, Fees, and Charges* Manual M1 (6th ed. 2012), p. 274.

e. The separate usage tier for Middlesboro is designed as a transitional measure to mitigate the effect of large rate increases that high-use customers would bear under a unified (one-block) rate. Such a mitigation measure is not necessary in Clinton because Mr. Rubin set the consumption charge in Clinton equal to the existing charge for water usage in excess of 100,000 gallons per month. Thus, high-use customers in Clinton will not see any increase in their consumption charges.

f. Separate volumetric rates in the two service areas are needed, in Mr. Rubin's judgment, to avoid extremely large rate increases for some customers in Middlesboro; that is, to mitigate the impact of moving toward rate consolidation. In addition, the unit cost (that is, the per-gallon cost) to provide service in Middlesboro is lower than the unit cost to serve Clinton, so it is not unreasonable to have a lower volumetric rate in Middlesboro as a transitional measure.

5. Refer to the Rubin Testimony, page 13, line 18. Mr. Rubin recommends that if the Commission finds that a reduction in revenue requirement is warranted, the Commission should accept his rates and rate structure and reduce the Middlesboro's volumetric rates accordingly. In the absence of a cost-of-service study, explain why it is not equitable that all customers benefit from any reduction to the revenue requirement.

Answer:

Mr. Rubin's proposal is to give the benefit from any reduction in the proposed revenue requirement to those customers who are being asked to pay higher rates. Nearly all customers in Clinton would receive rate reductions under Mr. Rubin's proposal, and nearly all customers in Middlesboro would receive rate increases. Total revenue collections from Clinton non-fire customers under Mr. Rubin's proposal would be approximately $40,000 less than is collected from those customers under present rates. In contrast, Middlesboro customers would pay approximately $530,000 more than they do under present rates. That is, Middlesboro customers would pay the entire rate increase plus an additional $40,000 to help reduce the rates in Clinton. It is reasonable, therefore, to provide the benefit of a lower revenue requirement solely to Middlesboro customers, since Clinton customers are not paying any of the proposed increase.

6. Fire protection rates are not addressed in the Rubin Testimony.

a. Explain why fire protection rates are not addressed.

b. Does Mr. Rubin believe that the fire protection rates should be increased by 24.62 percent across the board, as proposed by the utility in this case? If not, explain Mr. Rubin's proposal for fire protection rates. Provide all calculations made in support for the proposed rates.

Answer:

a. In the absence of a valid cost-of-service study, Mr. Rubin could not make a judgment about fire protection rates as they relate to the cost of service. In the absence of such information, it is reasonable to increase the rates by the overall percentage increase in revenue requirement. This is the same as the Company's proposal, so Mr. Rubin did not discuss the issue in his testimony.

b. Yes.

7. Refer to the Rubin Testimony. State whether it is Mr. Rubin's testimony that WSKY's calculated revenue requirement and requested revenue increase are reasonable.

Answer:

Mr. Rubin does not have an opinion about the reasonableness of the Company's proposed revenue requirement.