BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2011-24-S

IN RE: Application of Palmetto Utilities, Inc. for adjustment of rates and charges for, and modification to certain terms and conditions related to, the provision of sewer service.	))))))))	**DIRECT TESTIMONY OF FRED ("RICK") W. MELCHER III**

Q. PLEASE STATE YOUR NAME, PRESENT POSITION AND BUSINESS ADDRESS.

A. My name is Fred W. ("Rick") Melcher III and I am employed as Manager of Public Relations for Ni America Operating, LLC. My business address is 10913 Metronome Drive, Houston, Texas 77043.

Q. WHAT IS NI AMERICA OPERATING, LLC?

A. Ni America Operating, LLC (Ni America) is owned by Ni America Capital Management, LLC, which owns Ni South Carolina Utilities, Inc., the sole shareholder of Palmetto Utilities, Inc., the applicant in this proceeding. Ni South Carolina Utilities, Inc. was formerly known as Wateree Utilities Holding, Inc. Company witness Ed Wallace, CPA, President of Ni America Capital Management, LLC, will address in more detail the corporate structure of Ni America Capital Management, LLC and its direct and indirect subsidiaries, including Palmetto Utilities, Inc.

Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?

A. As Manager of Public Relations for Ni America, it is my responsibility to serve as the liaison for all operating subsidiaries with regulators, customers, media and the general public. In that capacity, my duties include coordinating meetings between operating subsidiary personnel and regulators, customers, and the media, attending state commission public meetings on behalf of all utilities when appropriate, and testifying in state commission hearings when necessary. I coordinate any requested presentations from our operating subsidiaries at these meetings. I also monitor matters before state agencies and legislatures as they relate to our operating subsidiaries.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I am a 1980 graduate of Texas A&M University with a Bachelor of Business degree. I was first employed in the regulated industry field in 1978 by Southwestern Bell Telephone Company and trained to manage personnel working with customers in the Business Office and in AT&T Phone Center Stores. From 1997 to 2002 I was Manager of Public Relations for AquaSource Utility Company, a provider of water and wastewater services. I have been Public Relations Manager for Ni America since its inception in 2007.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

A. The purpose of my testimony is to support the Application of Palmetto Utilities, Inc., which I will refer to in my testimony as "Palmetto" or the "Company", for an increase in sewer rates. Specifically, I will be discussing the Company's efforts to educate customers about the rate relief proceedings in general, its specific need for the rate relief sought in this case, and the need to eliminate the introduction of grease into the Company's system.

Q. WHY WOULD PALMETTO NEED TO MAKE AN EFFORT TO EDUCATE CUSTOMERS ABOUT RATE RELIEF PROCEEDINGS IN GENERAL?

A. The primary reason is the amount of time that has passed since Palmetto's last rate case. As the Commission is aware, it has been more than eleven years since Palmetto filed an application for rate relief. In that time period, the Company has added eleven thousand customers. Many of these new customers may have never been involved in a rate relief proceeding and none of them have been involved in a rate relief proceeding pertaining to Palmetto. So, we thought it was important that these new customers obtain some idea of how a rate relief proceeding works, why it is needed from time to time, what occurs in a typical proceeding, and how customers may participate.

Q. WHY HAS IT BEEN ELEVEN YEARS SINCE PALMETTO LAST FILED A RATE RELIEF APPLICATION?

A. Simply put, the Company did not need rate relief until recently. Company witness Stan Jones, P.E., discusses the specific reasons for this in his testimony.

Q. WHAT EFFORTS HAS PALMETTO MADE TO EDUCATE CUSTOMERS ABOUT RATE RELIEF PROCEEDINGS IN GENERAL?

A. The Company sponsored a series of "Town Hall" meetings in September 2010 which were advertised by a notice included on the monthly bills issued on September 1, 2010. A copy of the text of this notice is attached to my testimony as RM Exhibit 1 and a copy of the meeting discussion notes is attached as RM Exhibit 2. As RM Exhibit 2 reflects, the subject matter covered by these meetings went beyond information concerning rate relief proceedings in general. Although attendance was not what we would have wished, we think the effort was worthwhile.

Q. WHY WOULD PALMETTO NEED TO EDUCATE CUSTOMERS ABOUT THIS RATE RELIEF PROCEEDING?

A. Obviously, the potential economic impact of a rate application will be of interest to the Company's customers. In our experience, we find that the greatest number of customer inquiries and complaints in the ratemaking process more often than not result from a lack of understanding about regulated utilities and the role of regulatory agencies. In addition, we think that having a customer base that is educated with respect to the workings of a specific rate relief proceeding lends itself to more meaningful participation by customers in the process when they do choose to participate.

Q. HOW HAS PALMETTO GONE ABOUT INFORMING CUSTOMERS OF THE SPECIFICS OF THIS CASE?

A. We prepared a narrative description of the Company's application for a rate increase, its need for relief, the changes made in facilities, a description of the process and opportunities for customer participation, and a dedicated contact for questions or comments about the proceeding. A copy of the text of this document, entitled the "Palmetto Utilities 2011 Rate Case", is available to our customers in Palmetto's office and is posted on Palmetto's website. A copy is attached to my testimony as RM Exhibit 3.

Q. WHY WOULD PALMETTO NEED TO MAKE AN EFFORT TO EDUCATE CUSTOMERS ABOUT THE INTRODUCTION OF GREASE INTO THE WASTEWATER SYSTEM?

A. It is a fact that grease, cooking oils and fat that make their way into the Company's facilities become extremely problematic and are costly to remove. Grease causes blockages within the collection system, can damage lift stations and result in sanitary sewer overflows, or "SSOs". Grease can also damage wastewater treatment plant equipment, which results in a less efficient treatment process. The labor intensive

process of removing grease and the cleanup and treatment of SSOs caused by grease results in unnecessarily increased costs, which are ultimately passed on to our customers. Therefore, we feel the more educated our residential customers become about how Palmetto's wastewater collection and treatment systems work, the better the facilities will operate and the less these grease problems will cause increased costs that impact rates.

Q. WHAT METHODS DOES PALMETTO EMPLOY TO INFORM RESIDENTIAL CUSTOMERS ABOUT THE PROBLEMS CAUSED BY GREASE?

A. We use a variety of methods. One method is to discuss the problem with customers at the Town Hall meetings that I have mentioned. Also, whenever a significant SSO or sewer back-up attributable to grease occurs in a residential area in the Company's service territory, we may send a letter to customers regarding the issue. In some circumstances, we may also distribute door-hangers in a given area. We may also post something on our website. All of these methods will include a description of the problem, its causes, its adverse environmental effects, and its impact on costs that are absorbed by customers. A copy of the text of the door-hangers we use is attached to my testimony as RM Exhibit 4. Customers can also get information from the Company about the problems with grease when they visit our office.

Q. DOES THE COMPANY UNDERTAKE TO PREVENT COMMERCIAL CUSTOMERS FROM DISCHARGING GREASE INTO COMPANY FACILITIES?

A. Yes. Mr. Jones discusses this in his testimony.

Q. YOU MENTIONED THE COMPANY'S OFFICE; DO CUSTOMERS REGULARLY HAVE AN OCCASION TO VISIT THE COMPANY OFFICE?

A. Some customers do regularly visit the office, particularly in view of the fact that it is located in the middle of one of the larger subdivisions we serve, Woodcreek Farms.

There are customer service representatives on duty at the office to accept applications for establishment of service, bill payments and final bills. The customer service representatives are also able to address billing and service issues.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

RM Exhibit 1
Docket No. 2001-24-S

[redacted]

29.50

[redacted]

THIS IS YOUR RETURN ENVELOPE

1 DETACH ALONG THIS PERFORATION.
2 INCLUDE REMITTANCE STUB WITH PAYMENT.
3 MOISTEN AND FOLD FLAP TO SEAL.

Palmetto Utilities, Inc.
TELEPHONE: 803-699-2422

OFFICE HOURS:
8:30 A.M. TO 4:30 P.M.
MONDAY THRU FRIDAY EXCEPT HOLIDAYS
CLOSED SATURDAY & SUNDAY

PAYABLE BY THE DUE DATE INDICATED.

Palmetto Utilities invites you to attend a forum to discuss our wastewater service, rates and other issues of concern to our customers. We value your input and hope to see you there!

All meetings will be held from 6:30 p.m. to 8:30 p.m.

9/15/10 Blythewood Community Center
9/16/10 Lake Carolina Elementary School
9/21/10 Pontiac Elementary School
9/22/10 Blaney Elementary School

REMITTANCE STUB

Palmetto Utilities, Inc.
TELEPHONE: 803-699-2422

PHYSICAL ADDRESS: 1710 WOODCREEK FARMS ROAD
ELGIN, SOUTH CAROLINA 29045

ALL RATE SCHEDULES ARE APPROVED BY THE PUBLIC SERVICE COMMISSION AND AVAILABLE FOR VIEWING AT OUR OFFICE. FOR EMERGENCIES CALL 803-699-2422 (24 HOURS A DAY).

SEPARATE REMITTANCE STUB AT THE PERFORATION

CUSTOMER NAME: [redacted]

ACCOUNT NUMBER: [redacted]

CURRENT CHARGES DUE DATE: 9/30/2010

TOTAL AMOUNT DUE: 29.50

KEEP THIS COPY FOR YOUR RECORDS

ACCOUNT NUMBER	DAYS USED	CURRENT CHARGES DUE DATE	PAST DUE BALANCE
[redacted]	30	09/30/10	0.00

	SERVICE FROM	SERVICE TO	AMOUNT
	08/01/10	08/31/10	
SEWER FEES			29.50

We accept Mastercard, Visa, Discover, and American Express.

SERVICE ADDRESS		TOTAL AMOUNT DUE
[redacted]	TOTAL AMOUNT DUE	29.50

RM Exhibit 2

Town Hall Meeting for Palmetto Utilities

Introduction:

We have invited you here tonight to:

- Talk about the **Palmetto Wastewater System** and how it works
- Discuss some of the **improvements** that have been made recently and some that are planned for next year
- **Rate Process** and how customers are involved
- **Most importantly**, we want your input and any questions or concerns you have with the system

Collection System / Treatment Plant:

- **300 miles** of pipe where wastewater flows by gravity from residences, to one or more of the **50 Lift Stations**
- The lift stations then pump waste on to the treatment plant for processing
- **Several 1,000 manholes –** throughout the system that provide access to the pipes (for cleaning and servicing and changing pipe direction). When collection system becomes blocked/clogged with debris, the sewage will overflow through these manholes
- **Treatment Plant – Presently the** process takes about 3 days to treat raw waste

Avoidable Problems:

- Some items should NOT go into the system - **Rags, Grease, debris** (thousands of pounds of **cleansing towels** are removed from a single lift station every other week!)
- Removal of these items is very costly and time consuming AND can result in overflows/spills that we all want to avoid

The Rate Process:

- **Public / Private** – Privately owned utilities' rates are determined by the actual costs to provide the service while city utility rates are subsidized in a variety of ways.
- To change rates - An **APPLICATION** must be filed and a determination on that application governs the amount of increase (if any) that should be allowed
- **NOTIFICATION** – the rate process requires customers of the system must be notified to allow them opportunity to make comments during the process

- **A detailed review of PUI's books, records and facilities is conducted in every rate case**
- Palmetto has had in the past, **very high growth rate** that kept rate increases from being needed. The growth in the number of customers has declined.
- **No rate case since 1999**

Improvements:

- Almost **23 million dollars** has been added to the PU plant and collection system over the last 10 years (since the last rate case)
- New Lift station pumps, electrical equipment, controls
- **odor control systems** will be installed at appropriate locations throughout the system, where there have been problems.
- **Odor sensor equipment** will be installed to evaluate the entire system to help determine all sites that will require odor control equipment (where flow is not as rapid as desired)
- The 2011 Capital Budget funds additional **surge protection** devices at appropriate locations throughout the system

Office of Regulatory Staff (ORS)

"The **ORS** represents the public interest with regard to the regulation of rates and services of privately owned water and wastewater utilities in South Carolina and has sole responsibility for the inspection, auditing, and examination of public utilities. "

CUSTOMER COMPLAINTS *– customers can call*
ORS Consumer Services Division (803) 737-5230

RM Exhibit 3

PALMETTO UTILITIES 2011 RATE CASE

Changes at Palmetto since our Last Rate Case

Palmetto Utilities has experienced great changes in the last 10 years. Since 1999, Palmetto has added over 11,000 customers and invested over $24 Million in capital improvements to the system. Palmetto has invested over $6 Million in upgrades to the Spears Creek Wastewater Treatment Plant alone, which treats all of our customers' sewerage. To meet the needs of our customers, Palmetto has also added 223 miles of collection pipe, 4196 new manholes, 45 new lift stations and a corresponding number of pumps, lift station control panels, security fencing and privacy fencing in customers' yards. Additionally, we have invested in monitoring and alarm equipment designed to allow faster response to wastewater overflows, which has been installed at over 50 lift stations. We have also installed ozone units to treat H_2SO_4 in three lift stations as part of our ongoing odor control program.

Why a Rate Case is Necessary

Until recently, Palmetto's substantial growth in the number of customers and in service revenues helped to offset cost increases and the capital requirements needed to grow and maintain the system.

As the Palmetto service area has expanded and aged, it has required additional maintenance costs. To meet regulatory standards and to keep the system running efficiently, the collection system pipes require ongoing video inspection, cleaning and clearing of tree roots, and clearing of miles of utility easements so that personnel and equipment can better maintain remote areas of the system. As well, there have also been significant increases in other costs, such as labor, energy, and sludge hauling over the past 10 years.

Information pertaining to the Rate Case

By now, customers will have received a Notice of Filing and Hearing for our request for rate relief to the Public Service Commission of South Carolina ("PSC"). A copy of the request is available on its website under Docket No. 2011-65-S. To earn a reasonable return on the investments made to the system and to recover the increased expenses of doing business, Palmetto Utilities seeks an increase in monthly sewer service of less than $1 for each year since the last rate case. This request is a $9 increase in monthly sewer service, from $29.50 to $38.50 per single family equivalent.

In exchange for providing adequate and non-discriminatory service to all customers in our service area, we are entitled to have the opportunity to earn a reasonable return on investment and to recover our operating expenses. Our capital investments must be used and useful in our provision of sewer service to customers and our expenses incurred in providing that service must be prudently incurred. As a public utility providing wastewater service, the rates and charges we are permitted to collect from our customers are set by the PSC. As part of our ratemaking proceeding pending before the PSC, the South Carolina Office of Regulatory Staff ("ORS") will conduct an inspection of our facilities, audit our books and records, and examine our business practices and will make its recommendations to the PSC .

Some customers may have attended the series of "townhall" meetings that we sponsored in 2010 to discuss our system, its operation, and the potential need for rate relief. As we mentioned in those meetings, when a utility has invested capital to meet regulatory standards or meet service needs of its customers, or when operational costs have increased, the utility may apply for an increase in the rates it charges customers. Palmetto Utilities has made such investments and experienced such increased costs and, moreover, has not requested a rate increase in over 10 years (1999).Therefore, it has filed the request pending before the PSC in Docket No. 2011-65-S.

The rate process will include one or more public hearings that will allow customers to speak. We are proud of our system and believe that we provide a very high quality of service. However, we know that we can always learn more about how customers perceive us. We therefore encourage customers to contact us directly with any comments they may have or to appear at a hearing. Either way, we are ready to listen.

For Comments Please Contact Us

While no one, including Palmetto Utilities, prefers to have increased rates, we believe that the requested increase is justified and appropriate. We would be glad to hear what you think. If you have any questions, please do not hesitate to email our Customer Service Department at customerservice@palmettoutilities.com

We look forward to hearing from you.

RM Exhibit 4

NOTIFICATION

Your residential area was recently identified as causing obstruction to the sanitary sewer system due to grease buildup and accumulation of non-biodegradable rags. The United States Environmental Protection Agency (EPA) and the Department of Health and Environmental Control (DHEC) require Palmetto Utilities to take action to prevent sanitary sewer overflows.

Prevent Sewer Back-ups: Sewage backups and overflows are often the result of grease buildup, which leads to costly clean-ups and repairs, as well as environmental and health concerns. When grease and oils are repeatedly washed down the sink they accumulate in your plumbing system and the sewer system at large. Grease blockages can cause harmful sewer overflows which pollute area streams and lakes. These overflows are costly to treat and affect future rates for Palmetto customers.

USE THESE TIPS:

- Use an old coffee can or jar as a grease container.
- Pour greasy or oily food waste into the container, NEVER down the drain, garbage disposal, bathroom sink, toilet or other drains.
- Allow animal fats to cool or solidify in the container before scraping the pan or throwing the grease container in the trash.
- Never flush rags, paper towels or sanitary wipes! These contribute quickly to blockages and overflows in the sewer system.

Please do your part to prevent sewer line

overflows and help prevent pollution of our environment.