245244

STATE OF SOUTH CAROLINA

(Caption of Case)

Application of Palmetto Utilities, Inc. for adjustment of rates and charges for, and modification to certain terms and conditions related to the provisions of sewer service.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET NUMBER: 2013 - 42 - S

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(Please type or print)

Submitted by: John M. S. Hoefer, Esquire

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☐ **Emergency Relief demanded in petition**

☐ **Request for item to be placed on Commission's Agenda expeditiously**

☒ **Other:**

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
☐ Electric	☐ Affidavit	☐ Letter	☐ Request
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☐ Electric/Telecommunications	☐ Answer	☐ Motion	☐ Request for Investigation
☐ Electric/Water	☐ Appellate Review	☐ Objection	☐ Resale Agreement
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☐ Railroad	☐ Comments	☐ Petition for Rule to Show Cause	☐ Response to Discovery
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☐ Water/Sewer	☐ Expedited Consideration	☐ Proposed Order	☐ Other:
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July 15, 2013

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Via Hand Delivery

The Honorable Jocelyn D. Boyd
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29211

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. Docket No. 2013-42-S

Dear Ms. Boyd:

Enclosed for filing on behalf of Palmetto Utilities, Inc. are the original and one (1) copy of each of the rebuttal testimonies of Fred W. Melcher III, Edward Wallace Sr., CPA, and Gary E. Walsh, Esquire in the above-referenced matter. By copy of this letter, I am serving a copy of these documents upon the parties of record to this proceeding and enclose a Certificate of Service to that effect.

I would appreciate your acknowledging receipt of these testimonies by date-stamping the extra copies that are enclosed and returning to me by person delivering same.

If you have any questions or if you need any additional information, please do not hesitate to contact me. With best regards, I am

Sincerely,

WILLOUGHBY & HOEFER, P.A.

John M.S. Hoefer

JMSH/cm
Enclosures
cc: Nanette S. Edwards, Esquire
D. Reece Williams, III, Esquire

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2013-42-S

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SC PUBLIC SERVICE COMMISSION

IN RE:

Application of Palmetto Utilities, Inc. for adjustment of rates and charges for, and modification to certain terms and conditions related to, the provisions of sewer service.	)	**CERTIFICATE OF SERVICE**

This is to certify that I have caused to be served this day one (1) copy of each of the **Rebuttal Testimonies of Fred W. Melcher III, Edward R. Wallace Sr., CPA, and Gray E. Walsh,** via hand delivery to the addresses below:

Nanette S. Edwards, Esquire
Jeffery M. Nelson, Esquire
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, South Carolina 29201

D. Reece Williams, III, Esquire
Callison Tighe & Robinson, LLC
1812 Lincoln Street
Columbia, SC 29201

Cindy C. Mills

Cindy C. Mills

Columbia, South Carolina
This 15th day of July, 2013.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2013-42-S

RECEIVED
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SC PUBLIC SERVICE COMMISSION

IN RE:	)	
	)	
Application of Palmetto Utilities, Inc.	)	**REBUTTAL TESTIMONY**
for adjustment of rates and charges	)	**OF GARY E. WALSH**
for, and modification to certain terms	)	
and conditions related to,	)	
the provision of sewer service.	)	

Q. WOULD YOU PLEASE STATE YOUR FULL NAME AND PRESENT POSITION?

A. My name is Gary E. Walsh. I am retired from the Public Service Commission of South Carolina and am currently employed as a utility regulatory consultant by my own firm, Walsh Consulting Group, LLC.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I received a Bachelor of Science degree in Business Administration (Banking and Finance) from the University of South Carolina in 1972. During my thirty one year career at the Public Service Commission of South Carolina I attended numerous seminars, workshops, and educational forums sponsored by the National Association of Regulatory Utility Commissioners.

Q. WOULD YOU PLEASE DESCRIBE YOUR WORK EXPERIENCE?

A. Yes. I began working with the Public Service Commission as an auditor in 1972. In this capacity I was responsible for conducting audits of public utilities under the Commission's jurisdiction. In addition, I presented testimony before

1 the Commission in rate cases involving electric, gas, telecommunications, water,
2 and wastewater companies. My testimony in these matters related to audit results
3 and rate design issues. In 1987, I was promoted to the position of Assistant
4 Director of the Utilities Division. My responsibilities in this position were
5 supervision of the electric, gas, telecommunications and water and wastewater
6 departments. In July of 1994, I was promoted to the position of Deputy Executive
7 Director. My responsibilities in this position involved the supervision of
8 Commission employees in the Utilities and Transportation departments. In 1998 I
9 was promoted to the position of Executive Director of the Commission. In this
10 position, I reported directly to the Commissioners and had overall supervision of
11 all Commission staff members.

12 **Q. WOULD YOU PLEASE DESCRIBE THE REGULATORY CONSULTING**
13 **WORK YOU HAVE BEEN DOING SINCE YOU RETIRED FROM THE**
14 **COMMISSION?**

15 A. Yes. In 2003 I formed the Walsh Consulting Group and began working
16 with jurisdictional utilities on a wide variety of regulatory matters for companies
17 appearing before the Commission. Since 2003 I have been retained to provide
18 consulting services for electric, gas, telecommunications, water, and wastewater
19 companies. Included in this work has been both accounting and financial
20 analyses associated with rate relief proceedings.

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
22 **PROCEEDING?**

A. The purpose of my testimony is to respond to the testimony of David F. Russell on behalf of the two intervenors in this case, Sensor Enterprises, Inc. and J-Ray, Inc., regarding the continued use of the currently approved rate design for Palmetto Utilities, Inc., or "Palmetto." The approved Palmetto rate design employs a single family equivalency rating system based upon the "Unit Contributory Loading Guidelines" set out in Appendix "A" of DHEC Regulation 61-67. These DHEC wastewater flow capacity design guidelines are used in Palmetto's rate design to determine the distribution of Palmetto's revenue requirement among the various types of customers it serves. My testimony will address certain of the points raised in Mr. Russell's testimony regarding this aspect of the currently approved rate design.

Q. WOULD YOU PLEASE DISCUSS YOUR PREVIOUS SPECIFIC KNOWLEDGE OR EXPERIENCE THAT QUALIFIES YOU TO PROVIDE TESTIMONY IN THIS MATTER?

A. Yes. My knowledge and experience in this regard arises out of my employment with the Commission for thirty one years in the field of wastewater regulation and my subsequent consulting work on behalf of public utilities providing wastewater services. When I was employed with the Commission, it became necessary for me to become familiar with a variety of rate designs for public utilities providing wastewater services. Among these were flat-rate designs in which all customer classes, typically only residential and commercial, were charged the same flat rate; designs based upon metered water consumption where consumption data was available to the utility without cost; and single

family equivalency rating designs based upon the DHEC guidelines such as that currently authorized for Palmetto. Subsequent to my employment with the Commission, it has been necessary for me to remain familiar with sewer utility rate designs, including the single family equivalency design that is currently approved for use by Palmetto, as part of the consulting work I have done for public utilities providing sewer service.

Q. HOW DID THE UNIT CONTRIBUTORY GUIDELINES IN APPENDIX "A" TO DHEC REGULATION 61-67 COME TO BE USED IN RATE DESIGNS FOR PUBLIC UTILITIES IN SOUTH CAROLINA?

A. As is explained in the direct testimony of Palmetto witness Marion Sadler, the DHEC wastewater loading guidelines found in Appendix "A" to Regulation 61-67 were originally developed by the South Carolina Pollution Control Authority, a predecessor agency to DHEC, and utilized both biochemical oxygen demand, or "BOD," and wastewater flow as capacity design guidelines for wastewater treatment facilities. As Mr. Sadler's testimony also reflects, DHEC eventually eliminated the use of BOD in these guidelines in favor of wastewater flow loadings.

The first occasion of which I am aware that the Commission had to consider a rate design based upon wastewater treatment plant capacity design loading guidelines was in 1973 when Alpine Utilities, Inc. sought approval of a rate schedule that used an equivalency system that established monthly service charges for commercial customers expressed in monetary amounts for each equivalency factor associated with a given type of commercial customer. These

equivalency factors were based upon the loading factors contained in the Pollution Control Authority's published loading design guidelines. By way of example, a loading factor might be the number of seats in a restaurant, the square footage of a building, the number of chairs in a dentist's office, and so forth. Previously, Alpine Utilities, Inc. had only served single family residences and apartments and needed rates established to serve proposed commercial and non-residential customers. The Commission approved this rate design in its Order Number 17,177 issued October 4, 1973, in Docket Number 16,855.

In 1975, the Commission again approved a rate design for Alpine Utilities, Inc. based upon design loading guidelines, this time relying upon the DHEC Water Pollution Control Division Guidelines for Unit Contributory Loadings to Waste Water Treatment Facilities." In addition to approving rates for commercial customers using monetary amounts for the equivalency factors associated with the various types of commercial customers, the Commission also approved a "commercial rate" based upon BOD using a formula which applied to types of commercial customers not specifically identified in the DHEC guidelines. This was done in Commission Order 18,862 issued December 6, 1975 in Docket Numbers 18,314 and 17,764.

As the Commission is aware, in 2012, it approved a modification to the rate schedule for Palmetto Wastewater Reclamation LLC, doing business as Alpine Utilities, whereby rates for commercial customers served by the Alpine wastewater system were set based upon single family equivalencies derived from the hydraulic wastewater flow guidelines contained in Appendix A to current

DHEC regulation 61-67. The effect of this was to eliminate the use of BOD to determine commercial customer equivalencies for the Alpine commercial rates. As Mr. Wallace discusses in his rebuttal testimony, the effect of this transition from BOD to hydraulic wastewater flow is the subject of a report made to the Commission by the Office of Regulatory Staff, or "ORS."

Over the years, the Commission has approved sewer rates using single family equivalency ratings derived from the DHEC wastewater flow design guidelines set out in Appendix A to Regulation 61-67 for a number of wastewater utilities, most of which are larger in comparison to the majority of regulated sewer utilities. Currently, I am aware that there are ten sewer utilities, including Palmetto, that have rate designs employing single family equivalencies derived from the DHEC wastewater flow loading guidelines.

Q. WHEN DID PALMETTO UTILITIES, INC. BECOME AUTHORIZED TO CHARGE MONTHLY SERVICE RATES BASED UPON A RATE DESIGN USING EQUIVALENCIES DERIVED FROM THESE DHEC GUIDELINES?

A. Palmetto was previously known as WildeWood Utilities, Inc. and in Commission Order Number 79-605, issued November 1, 1979, in Docket Number 79-312-S, a rate design using single family equivalencies based upon the DHEC wastewater flow loading guidelines was first approved for it. At that time, the utility served only a small number of residential customers in the WildeWood subdivision and one commercial customer. However, in Order Number 79-605, the Commission ruled that the lone commercial customer, Spring Valley High

School, would have its bill calculated based on water consumption and not single family equivalencies due in part to the fact water consumed by the school during summer months did not flow to the utility's sewerage system and water consumption therefore provided a more reliable basis for determining the school's monthly sewer charges.

Q. DID THE COMMISSION THEREAFTER CONTINUE TO AUTHORIZE WILDEWOOD UTILITIES, LATER KNOWN AS PALMETTO UTILITIES, TO UTILIZE SINGLE FAMILY EQUIVALENCIES BASED UPON THE DHEC GUIDELINES FOR ITS MONTHLY SERVICE CHARGES?

A. Yes. In Order Number 90-868, issued September 27, 1990, in Docket Number 89-426-S, the Commission approved a rate design for WildeWood Utilities which included single family equivalencies based upon the DHEC wastewater loading guidelines for all commercial customers. When the application for rate relief in that docket was filed, however, WildeWood Utilities no longer served the WildeWood subdivision or Spring Valley High School as its wastewater utility system and previously approved service territory had been condemned by a governmental entity in 1986. Thus, the specific commercial rate for that school was discontinued and a uniform and minimum commercial rate based upon single family equivalencies using the DHEC wastewater loading guidelines was approved by the Commission for all of WildeWood's commercial customers.

In 1995, WildeWood sought rate relief from the Commission and received it in Order Number 96-1098, issued June 1, 1995, in Docket Number 94-116-S. Minimum commercial rates based upon single family equivalencies using the DHEC wastewater loading guidelines were again approved by the Commission in this proceeding. In 1996, the Commission approved the change in the name of the certificated utility from WildeWood Utilities, Inc. to Palmetto Utilities, Inc. by its Order Number 96-867. Since then, Palmetto has filed applications for rate relief on three separate occasions, and in each of these proceedings, the Commission approved minimum commercial rates based upon single family equivalencies using the DHEC wastewater loading guidelines. The pertinent orders and dockets are Order Number 97-699, issued August 12, 1997, in Docket Number 96-376-S, Order Number 2001-1119, issued December 14, 2001, in Docket Number 98-653-S, and Order Number 2011-617, issued September 14, 2011, in Docket Number 2011-24-S.

Q. WHAT IS YOUR UNDERSTANDING OF THE POSITIONS ADVANCED BY MR. RUSSELL REGARDING THE USE OF SINGLE FAMILY EQUIVALENCIES TO DETERMINE COMMERCIAL CUSTOMER MONTHLY CHARGES FOR PALMETTO'S SEWER SERVICE?

A. As I understand it, Mr. Russell believes that Palmetto is seeking to modify its rate schedule to permit it to charge the intervenors for sewer service based upon their number of single family equivalents derived from the DHEC wastewater loading design guidelines. I also understand Mr. Russell to suggest that the intervenors' water consumption alone should be used as a proxy for the

1 amount of, and thus the cost to treat, wastewater generated by their fast food
2 restaurant businesses that feature both seated dining and drive-thru window
3 service and that their rates should be set accordingly. In support of his contention
4 that the intervenors are being billed for more wastewater than they produce, Mr.
5 Russell further posits that the DHEC wastewater flow loading guidelines and
6 Section 12 of Palmetto's rate schedule directly relate to water consumption.
7 Based upon these positions, Mr. Russell concludes that "more appropriate and
8 accurate billing methods are available" and recommends that the intervenors be
9 billed based upon either their metered water consumption or, alternatively, that
10 wastewater flows attributable to the number of seats in their restaurants and cars
11 served by their drive-thru facilities be reduced such that the number of single
12 family equivalents attributable to them both is reduced to approximately ten.

13 **Q. WOULD YOU PLEASE COMMENT ON THE POSITIONS TAKEN AND**
14 **CONCLUSION REACHED BY MR. RUSSELL?**

15 A. Yes. I will comment on each of these positions and this conclusion.
16 However, I would like to preface these comments by noting that the question of
17 rate design is always within the Commission's discretion. To the extent that the
18 Commission determines that a modification to the number of single family
19 equivalencies attributable to a customer or group of customers in this case is
20 appropriate, Palmetto's revenue requirement would need to be redistributed
21 among all customers in order for Palmetto to have just and reasonable rates. As
22 evidenced by the settlement agreement between Palmetto and ORS that has been
23 filed with the Commission, the utility is not opposed to a modification to the

single family equivalencies attributable to fast food restaurants of the type operated by the intervenors. I believe that the modification embodied in the settlement agreement, as described in the rebuttal testimony of Mr. Wallace, is a more reasonable approach than the alternatives recommended by Mr. Russell.

Modification of Palmetto's Rate Schedule

It appears that Mr. Russell believes that Palmetto is seeking to modify its rate schedule so as to apply the single family equivalencies to the intervenors' restaurant businesses for the first time. This is not the case. Palmetto's rate schedule has, since at least 1979, provided for the application of single family equivalencies to restaurants using the DHEC wastewater loading guidelines as the basis for the equivalencies. As discussed in the rebuttal testimony of Palmetto witness Fred (Rick) Melcher, the intervenors' bills have always been calculated based upon single family equivalencies. As Mr. Melcher also discusses in his rebuttal testimony, prior billings by Palmetto to the intervenors were based upon a lower number of equivalency factors – specifically seats in their restaurants and cars served by their drive-thru facilities – than the company determined to be correct as a result of its equivalent residential customer survey undertaken prior to the filing of this rate case. Thus, the proposed increase in the monthly service rate and the gallons assigned the per seat and the per car equivalency factors provided for in the DHEC guidelines are not the only influences upon the intervenors' bills from Palmetto. Mr. Melcher addresses the contentions of the intervenors regarding the correct number of seats and cars as equivalency factors in his rebuttal testimony.

1

2 Water Consumption as a Proxy

3 Mr. Russell appears to assert that metered water consumption alone may
4 be used as a proxy to estimate relative wastewater contribution. Although I
5 certainly agree that water consumption bears on the amount of wastewater
6 discharged, it is clearly not the only factor that can be considered in determining
7 the distribution of a sewer utility's revenue requirement among the various classes
8 of customers it serves. In this regard, I read Mr. Russell's testimony to assume
9 that the pollutant strength of the wastewater discharged into the Palmetto system
10 by the intervenors is not different from that discharged by other Palmetto
11 customers in order to support his comparison of the intervenors' actual water use
12 to their "imputed" water use that he derives from the DHEC wastewater loading
13 guidelines. This is clearly not the case as residential and many other types of
14 commercial customers will have strength of flow that is significantly less than that
15 of fast food restaurants such as those operated by the intervenors. Mr. Melcher
16 also discusses this in his rebuttal testimony. It is clear that flows of greater
17 strength will require greater, and therefore more costly, treatment than flows of
18 lesser strength. Failing to account for this in a rate design would be inappropriate.

19 Moreover, Mr. Russell's conclusion that the intervenors should be charged
20 based upon a lower number of single family equivalents because their water
21 consumption is less than the amount of wastewater they discharge, again based
22 upon his imputation of water consumption arising from the DHEC Guidelines, is
23 flawed in two respects. First, Mr. Russell fails to recognize in this part of his

1 testimony that the DHEC guidelines are intended to establish peak wastewater
2 capacity demands and not replicate metered water consumption. Further, Mr.
3 Russell's analysis fails to recognize that any of Palmetto's customers can make
4 the same argument. Under the DHEC guidelines, peak wastewater design flow
5 for a residence is 400 gallons per day, which would be 12,000 gallons per month.
6 Thus, using Mr. Russell's water consumption figures that he imputes from the
7 DHEC guidelines, any residential customer who uses less than 12,000 gallons of
8 water per month could also claim that he or she is being charged for the treatment
9 of more wastewater that they could generate. In sum, the comparison advanced
10 by Mr. Russell is not valid as it fails to recognize that the DHEC guidelines are
11 used by Palmetto to establish rate equivalencies between customer classes based
12 on relative peak wastewater flows so as to effect a fair and reasonable distribution
13 of the utility's revenue requirement, not to establish precise rates based upon an
14 imputed level of water consumption derived from peak wastewater flows.

15 The Feasibility and Cost of Metering Water

16 As Mr. Russell acknowledges, there is a cost associated with a sewer
17 utility obtaining metered water consumption data and he assumes, for the purpose
18 of his analysis, that "metered water consumption is available at a reasonable
19 cost." He does not, however, provide the Commission with any information
20 indicating that metered water consumption can in fact be obtained by Palmetto
21 from the various water providers who serve Palmetto's sewer customers or
22 detailing the cost to do so. I note from the testimonies of the other witnesses for
23 the intervenors that one of them is served by the Town of Winnsboro water

system and another by the City of Columbia water system. Further, Mr. Russell does not explain how disputes between Palmetto's customers and their water providers over water consumption would be addressed in the context of Palmetto's billing for wastewater services. In this regard, I would note that the Commission lacks jurisdiction over municipal utilities. Thus, in the event a Palmetto customer contested its water bill, Palmetto and ORS would not be able to properly investigate the matter and the Commission would be unable to bring about any meaningful resolution in the event of a formal complaint. Similarly, Mr. Russell does not account for the delay in billing Palmetto's customers for sewer service which would necessarily result from his proposal that wastewater services be billed based upon metered water consumption. Further, he provides no data as to the cost that would be incurred by Palmetto to obtain and process water consumption information to be used in billing its customers and no analysis of how that process would be more cost effective than the current rate design. Thus, no factual basis exists to support Mr. Russell's recommendation.

The Guidelines and Section 12 of the Rate Schedule

Mr. Russell asserts that Section 12 of the Palmetto rate schedule improperly allows for only an upward adjustment to the number of single family equivalencies where customer water usage is greater than that "estimated by the SFE methodology." Accordingly, Mr. Russell contends that Palmetto's rate schedule should be modified so that when a customer uses less water, its number of single family equivalencies should also be reduced. This assertion and this contention are flawed for several reasons.

First, the DHEC wastewater flow loading guidelines are not premised upon water consumption, but upon wastewater discharges. While water consumption clearly influences the level of wastewater discharge, it is not the sole determinant as Mr. Russell's testimony appears to suggest.

Second, Mr. Russell's analysis fails to recognize that commercial rates derived under the single family equivalency methodology set out in Palmetto's current and proposed rate schedule are minimum rates. Accordingly, commercial customers whose equivalency factors do not total 400 gallons, or one single family equivalent, pay the same monthly charge as a commercial customer whose equivalency factors do total 400 gallons or one single family equivalent. Thus, the Commission has approved a rate design for Palmetto which employs some level of subsidization among residential and commercial customers. And such subsidization in sewer rate designs is not at all unusual. In my experience, any uniform sewer rate design has the potential for both inter-class and intra-class subsidization. For example, in a rate design based solely upon metered water consumption alone as Mr. Russell proposes, the cost to treat residential wastewater may well be less than the cost to treat certain types of commercial wastewater – for instance, fast food restaurants -- due to the strength of flow as Mr. Melcher notes in his testimony. Yet, residential customers would pay the same per unit rate as the commercial customers in this rate design scenario, resulting in inter-class subsidization among customers. Flat rate sewer designs, by contrast, can give rise to intra-class subsidization. A customer whose residence houses only one person can argue that he or she discharges less

1 wastewater than does a neighboring customer whose residence houses four
2 people. Again, the residential customers will pay the same per unit rate even
3 though their individual discharge circumstances differ. So, subsidization exists
4 in all three of these rate scenarios. In view of the minimum commercial rate
5 design approved by the Commission for Palmetto, it only makes sense that there
6 is no provision for a reduction in single family equivalents based upon reduced
7 water consumption as some level of subsidization is inherent in the rate design.

8 Third, Mr. Russell appears to interpret Section 12 of the Palmetto rate
9 schedule as equating wastewater flow with water consumption. This would be
10 incorrect. The provision of Section 12 providing that Palmetto may have access
11 to water consumption records applies only where the utility "has reason to suspect
12 that a [customer] is exceeding design loadings established by the Guidelines."
13 Thus, in addition to a physical inspection of customer premises, the utility has the
14 right to examine water usage records to assist it in determining whether a
15 customer's wastewater flow is greater than the design guidelines.

16 Finally, Mr. Russell's assertion that charges for wastewater treatment
17 service should be adjusted downward when water consumption is reduced is not,
18 in my opinion, a practical basis for a rate design. As I have already stated, there is
19 no factual basis provided by Mr. Russell upon which the Commission could
20 determine the cost to Palmetto of obtaining the metered water consumption of its
21 customers from the municipal water providers. Further, in the absence of that
22 information, it would become necessary for the utility to constantly monitor water
23 consumption of customers in an effort to find out which customers should be

1 charged more and which should be charged less at any given point in time. The
2 additional accounting and billing functions necessitated by such a rate design
3 would also increase the cost of providing service to customers and, potentially, be
4 of benefit to only a few customers. Mr. Russell's proposal in this regard involves
5 ratemaking on a customer by customer basis, as opposed to a system-wide basis,
6 which is the norm and favored under South Carolina law.

7

8 **Q. WOULD YOU COMMENT ON MR. RUSSELL'S PROPOSED**
9 **ALTERNATIVE CALCULATION OF SINGLE FAMILY EQUIVALENTS**
10 **ATTRIBUTABLE TO THE INTERVENORS UNDER PALMETTO'S**
11 **CURRENT AND PROPOSED RATE SCHEDULE?**

12 A. Yes. Mr. Russell asserts that the DHEC wastewater flow capacity design
13 guidelines of forty gallons per seat in a restaurant and forty gallons per car served
14 by a drive-thru facility should be reduced to ten gallons and two gallons,
15 respectively, if single family equivalencies are continued to be used to set rates
16 applicable to the intervenors.

17 The basis for Mr. Russell's assertion in this regard is, in part, his
18 contention that the design guidelines do not reflect actual average usage
19 associated with the customers of these two restaurants. The principal difficulty
20 with this contention is, again, that it fails to recognize that the DHEC guidelines
21 are used as a means of distributing Palmetto's revenue requirement among its
22 various customers and that other customers can also make the case that their

actual discharge of wastewater does not reach the peak capacity design flows set by the DHEC guidelines.

Further, it appears that Mr. Russell bases his analysis in part on the assumption that wastewater is generated by the intervenors' restaurants only through the use of restroom facilities, food preparation, and water used by its employees for sanitary purposes. As noted in Mr. Melcher's testimony, a significant portion of the wastewater generated by fast-food operations arises from the cleaning of cooking equipment, utensils and kitchen floor areas with commercial grade detergents. That wastewater is typically discharged to floor drains and is necessarily generated for meals that are to be consumed on or off-the premises.

Additionally, it appears that Mr. Russell equates a car with a single customer to reach his recommended equivalency of two gallons per car. However, and as Mr. Melcher points out in his testimony, a car may contain more than a single customer or a single customer ordering multiple meals. By contrast, a seat in a restaurant will serve only one customer consuming one meal.

Finally, Mr. Russell offers no quantitative basis for his recommended per seat and per car equivalencies of ten and two gallons for the intervenors' restaurants and they are therefore necessarily arbitrary. By contrast, the modifications to the equivalencies for seats in and cars served by all fast food restaurants which are customers of Palmetto as proposed by the settlement agreement and described in Mr. Wallace's rebuttal testimony do have a quantitative basis. I therefore recommend that the Commission, should it choose

to modify Palmetto's rate design by reducing the equivalencies attributable to the intervenors, do so for all similarly situated customers and in accordance with the terms of the settlement agreement between Palmetto and ORS.

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Yes. Rate design is a matter of discretion that rests with the Commission. Palmetto has not sought to change its rate design to employ single family equivalencies to distribute its revenue requirement. To the contrary, the rate schedule for this utility has always done so. The increase in monthly charges to the intervenors is a function of not only the proposed increase in rates, but also a determination of their current number of equivalency factors consisting of restaurant seats and drive-thru cars served. Some element of subsidization is inescapable in every sewer rate design, but this does not render a sewer rate design unreasonable or improper. No basis to set rates for the intervenors using their water consumption alone exists in the absence of facts demonstrating that the strength of flow for all customers is the same and that water consumption data can be obtained by Palmetto and at a reasonable cost. It may be appropriate to modify the equivalency ratings for certain classes of commercial customers if there is a factual basis to do so. In my opinion, the reduction in equivalency ratings for the intervenors recommended by Mr. Russell is not supported by any quantitative analysis and factually unsupported. The reduction in equivalency ratings for all commercial customers in the intervenors' classification proposed by Palmetto and ORS in their settlement is factually and quantitatively supported. Regardless of

1 the rate design adopted by the Commission, Palmetto should be allowed to
2 recover its revenue requirement and have rates set which permit it the opportunity
3 to earn the additional annual revenue provided for in the settlement agreement or
4 as otherwise determined by the Commission.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes, it does.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

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2013 JUL 15 PM 4: 13
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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.

REBUTTAL TESTIMONY OF FRED ("RICK") MELCHER, III

Q. ARE YOU THE SAME RICK MELCHER WHO HAS PREFILED DIRECT TESTIMONY IN THIS MATTER?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond on behalf of Palmetto Utilities, Inc., or "Palmetto," to some of the testimony given in this matter by Mr. Mike Pippin on behalf of the intervenor Sensor Enterprises, Inc., by Mr. Robert Christopher Valdes on behalf of the intervenor J-Ray, Inc., and Mr. David F. Russell on behalf of both intervenors. I would note that much of the testimony by Mr. Pippin and Mr. Valdes is duplicative, so I will address some of their testimony collectively and not separately.

Q. WHAT ARE YOUR GENERAL COMMENTS REGARDING THE DIRECT TESTIMONIES OF MR. PIPPIN AND MR. VALDES?

A. Generally, I would note that Mr. Pippin and Mr. Valdes appear to base their testimony in part upon the incorrect assumption that Palmetto is for the first time proposing to charge monthly sewer fees based upon single family equivalents, or "SFEs," derived from the wastewater flow loading design guidelines provided for in Appendix A

to Department of Health and Environmental Control, or "DHEC," Regulation 61-67. Palmetto has, since at least 1979, had approved by the Commission a commercial sewer rate based upon SFEs using the DHEC guidelines. In a letter sent on March 5, 2013, and prior to the filing of this rate case, I described to all of our commercial customers, including Sensor Enterprises, Inc. and J-Ray, Inc., how SFEs are used in Palmetto's Commission approved commercial rate design, the results of our study regarding the type and number of equivalency factors applicable to their account, and the anticipated effect on their monthly billing by Palmetto. Copies of the letters I sent to Sensor Enterprises, Inc. and J-Ray, Inc. are attached to my rebuttal testimony as Melcher Rebuttal Exhibit 1 and Melcher Rebuttal Exhibit 2, respectively.

As a result of this incorrect assumption, Mr. Pippin and Mr. Valdes are not taking into account in their testimonies the fact that, in addition to proposing that the monthly service charge per SFE be increased from thirty three dollars, Palmetto is also revising the number of drive-thru cars served per day and the number of seats contained in their respective McDonald's restaurants to reflect a current count. Under the DHEC guidelines, the number of such cars and seats are included as loading factors and under Palmetto's current rate schedule, they are therefore included as equivalency factors used to determine the total number of SFEs for these two fast food restaurants. The Palmetto invoices attached as exhibits to the testimonies of Mr. Pippin and Mr. Valdes establish that Sensor Enterprises, Inc. has been billed based upon 11.59 SFEs and that J-Ray, Inc. has been billed based upon 24.45 SFEs given that the current monthly rate is thirty three dollars. However, upon completing the equivalent residential customer survey that I described in my direct testimony, a follow-up investigation I conducted based in part upon the comments received from Sensor Enterprises, Inc., and data developed independently by the Office of Regulatory Staff that is reflected in the revenues arising out of its settlement agreement with Palmetto, we have determined that for Sensor Enterprises, Inc. the correct number of cars is 1,225 and the correct number of seats is 113 and for J-Ray, Inc. that the correct number of cars is 1,635 and the correct number of

seats is 79. These car and seat counts are not based upon assumptions, but on the information we have developed as I have just described. These counts would result in SFEs of 133.8 for Sensor Enterprises, Inc. and of 171.4 SFEs for J-Ray, Inc. under the current rate schedule. Thus, and as I mention in my March 5, 2013, letters to them, Palmetto has previously been undercharging the intervenors.

Both Mr. Pippin and Mr. Valdes also appear to believe that the results of the equivalent residential customer survey described in my direct testimony have been applied only to the SFE count for fast food restaurants with drive-thru facilities. This, too, is incorrect. The equivalent residential customer survey looked at all commercial customers served by Palmetto and the results were applied to all commercial customers. Accordingly, some commercial customers will have increases in the number of SFEs and some will have decreases. Again, these results have been taken into account by ORS and are reflected in its revenue calculations supporting the settlement agreement reached between Palmetto and ORS.

Finally, Mr. Pippin, Mr. Valdes and Mr. Russell also contend that Section 12 of Palmetto's current and proposed rate schedule provides for increases in the number of SFEs based upon water consumption and therefore should be modified to permit decreases in the number of SFEs based upon water consumption. This is an incorrect reading of this rate schedule provision as it simply provides another tool that the utility may use in considering whether a commercial customer's wastewater flow is exceeding the design flow loadings set out in the DHEC guidelines. Increased water consumption may support a determination that actual wastewater discharges are exceeding the design flows or loadings. These intervenor witnesses also fail to appreciate that the approved commercial rates are minimum rates. This section does not establish that rates are set based upon water consumption as the intervenors' witnesses suggest. I would note further that the contention that water consumption somehow equates to the cost of sewer service also fails to recognize that wastewater treatment plant design must account for

maximum wastewater flow capacity demands from all types of customers. The relatively higher potential peak demand from commercial customers creates greater costs and therefore warrants a higher charge.

Q. WOULD YOU COMMENT SPECIFICALLY WITH RESPECT TO MR. PIPPIN'S STATEMENT THAT THE "ACTUAL" NUMBER OF CARS SERVED PER DAY BY SENSOR ENTERPRISES, INC. IS 1,035?

A. Yes. Initially, Palmetto believed that Sensor Enterprises, Inc. served 1,400 cars per day as is reflected in my rebuttal Exhibit 1. As I noted above, Palmetto received comments from Mr. Pippin after I sent my March 5, 2013, letter regarding the outcome of our equivalent residential customer survey and the anticipated effect on his company's monthly billings at the current rate of thirty three dollars per month. In his April 10, 2013, email correspondence with me, Mr. Pippin indicated that the average number of cars served per day by his McDonald's restaurant was 1,036. A copy of that email is attached as RM Rebuttal Exhibit 3. However, in discussing this issue with ORS, it was determined that where information regarding an average number of cars was provided by a fast food restaurant with drive-thru facilities, a peaking factor of approximately 20% should be used for purposes of setting that equivalency factor. Accordingly, the number of cars used for determining the Sensor Enterprises, Inc. SFEs under the settlement agreement between ORS and Palmetto is increased to 1,225 and is no longer 1,400. I would further note that after discussion with Mr. Pippin, our seat count of 120 was reduced to 113.

Q. DID YOU RECEIVE ANY RESPONSE TO YOUR MARCH 5, 2013, LETTER FROM J-RAY, INC.?

A. No, I did not. However, based upon our site inspection, we have concluded that its average number of cars served per day is 1,635 and that its actual number of seats provided is 79. This is 494 more cars served per day, but 56 fewer seats provided, than Mr. Valdes acknowledges in his testimony.

Q. WHAT WOULD BE THE IMPACT UPON THE BILL TO SENSOR ENTERPRISES, INC. OF APPLYING THE NUMBER OF SFEs DERIVED FROM PALMETTO'S STUDY, ITS CONSULTATION WITH MR. PIPPIN, AND ITS CONSULTATION WITH ORS, UNDER THE CURRENT AND ORIGINALLY PROPOSED RATE SCHEDULES?

A. The DHEC guidelines provided for in Palmetto's currently approved rate schedule attribute 40 gallons of wastewater for each car served and for each seat provided in a fast food restaurant. Given that one SFE equals 400 gallons of wastewater, this means that each such car and seat equals one tenth of an SFE. The total number of SFEs attributable to Sensor Enterprises, Inc., based upon 1,225 cars and 113 seats would therefore be 133.8 and the monthly bill would be $4,415.40 under the current rate of $33 per SFE. Under the proposed rate of $39 per SFE, the monthly bill would be $5,218.20.

Q. AND WHAT WOULD THAT IMPACT BE UPON THE BILL TO J-RAY, INC.?

A. The total number of SFEs attributable to J-Ray, Inc., based upon 1,635 cars and 79 seats would be 171.4 and the monthly bill would be $5,656.20 under the current rate of $33 per SFE. Under the proposed rate of $39 per SFE, the monthly bill would be $6,684.60.

Q. DOES PALMETTO BELIEVE THESE TO BE REASONABLE CHARGES TO SENSOR ENTERPRISES, INC. AND J-RAY, INC.?

A. No, we do not. Even though these charges would be correct under the current rate schedule provisions based upon our car and seat counts, they would not be reasonable. This has led Palmetto to re-examine the gallons associated with the per car served equivalency factors as described in Mr. Ed Wallace's rebuttal testimony.

Q. WHAT PROPOSAL DOES PALMETTO MAKE TO ADDRESS THIS?

A. Palmetto proposes to reduce from forty to ten the number of gallons of wastewater attributable per car served by a fast food restaurant with drive-thru facilities. As discussed in Mr. Wallace's rebuttal testimony, this proposed reduction is based upon a formula that takes into account both water consumption as well as wastewater discharge. Mr. Pippin's proposal only takes into account the former. Palmetto is of the view that any modification to the gallons attributed to equivalency factors under the DHEC guidelines has to also take into account wastewater discharge.

Q. WHAT EFFECT ON PALMETTO'S BILLINGS TO SENSOR ENTERPRISES, INC. WOULD RESULT FROM THIS PROPOSED REDUCTION IN GALLONS PER CAR SERVED?

A. Under current rates, the bill to Sensor Enterprises, Inc. would be based upon a total of 41.925 SFEs and would be $1,383.52 per month. If the rate resulting from the settlement reached between Palmetto and ORS were applied, the bill for monthly sewer service would be $1,509.30. These figures do not include municipal franchise fees.

Q. WHAT EFFECT ON PALMETTO'S BILLINGS TO J-RAY, INC. WOULD RESULT FROM THIS PROPOSED REDUCTION IN GALLONS PER CAR SERVED?

A. Under current rates, the bill to J-Ray, Inc. would be based upon a total of 48.77 SFEs and would be $1,609.40 per month. If the rate resulting from the settlement reached between Palmetto and ORS were applied, the bill for monthly sewer service would be $1,755.72.

Q. DOES PALMETTO BELIEVE THAT THIS PROPOSAL WILL RESULT IN A REASONABLE CHARGE TO THE INTERVENORS?

A. We do. Although these monthly charges will still reflect a significant increase to each intervenor, we think that they are reasonable in view of the higher volume demands they place upon the Palmetto system relative to residential customers and the greater

strength of wastewater flow that they discharge relative to residential customers. The constituents in wastewater discharged from a fast food restaurant would be quite different from that discharged by a residential customer as food service businesses are required to constantly keep their cooking equipment, utensils, and kitchen, dining and sanitary facilities cleaned in order to meet minimum cleanliness standards set and enforced by DHEC. This translates into much greater concentrations of commercial grade detergents or cleansers than what are usually discharged by residential customers. Similarly, grease content from fast food restaurants is much higher, and therefore more costly to treat, than residential customer wastewater discharge. In sum, residential customers have significantly lower strength of flow as they are not required to engage in such frequent cleaning efforts. Also, even though Palmetto is recommending a 75% reduction in the number of gallons of wastewater attributable to drive-thru cars served by fast food restaurants, we think it should not be less than that. While customers in a car may not be as likely to utilize restrooms, they may be more likely to order multiple meals as a car may well contain more than one customer or one customer ordering for other persons.

Q. ARE THE MONTHLY SERVICE CHARGES TO THE INTERVENORS THAT WOULD RESULT UNDER THE PROPOSALS MADE BY THEM AND BY MR. RUSSELL ON THEIR BEHALF REASONABLE CHARGES?

A. No, they are not. None of these witnesses explain what charges would result to the intervenors, and other customers, if the proposal to base their rates on water consumption alone were adopted by the Commission. So, it is not possible for me to comment with more specificity in that regard.

Further, if Mr. Russell's proposal to reduce the number of gallons per car served to two and the number of gallons per seat provided to ten were adopted, the monthly charges to Sensor Enterprises, Inc. and J-Ray, Inc. that would result would be $322.20 and $365.40, respectively, based upon SFEs determined by the car and seat counts agreed upon by Palmetto and the ORS and at the proposed settlement rate of $36 per SFE per month.

These charges are below what the intervenors currently pay Palmetto as reflected in the testimonies of Mr. Pippin and Mr. Valdes and certainly cannot be reasonable in view of the increases in Palmetto's expenses and investments since its last rate relief proceeding.

Moreover, these charges are below what two nearby local governments, which are not subject- to taxes and regulatory oversight charges, have access to low cost funds through the issuance of revenue bonds, and are not required to earn a return on investment, charge for monthly sewer service. Of course, another provider of sewer services charges does not determine a reasonable rate for a public utility. However, in Mr. Pippin's testimony, he states that his company pays "about $571.64" for combined water and sewer services provided to "other McDonald's in the Columbia area" that it owns and operates. Mr. Pippin does not state whether these other providers are governmental or investor owned and whether his company's other locations are inside or outside municipal corporate limits.

The Sensor Enterprises, Inc. location served by Palmetto is inside the Town of Blythewood, and therefore outside the corporate limits of the Town of Winnsboro, which Mr. Pippin indicates is the water provider for this location. The Town of Winnsboro's published monthly commercial utility rates, which are shown in the schedule attached to my rebuttal testimony as RM Rebuttal Exhibit 4, reflect a sewer charge of $6.26 per thousand gallons of water consumed, plus a monthly base charge of $22.65. Mr. Pippin states at page one of Exhibit A to his testimony that the average monthly water consumption for his company's location served by Palmetto is 85,667 gallons. At that water consumption level, Sensor Enterprises, Inc. would pay the Town of Winnsboro $558.93 per month for sewer service. As an aside, I would note that the Town of Winnsboro's commercial water charges for Sensor Enterprises, Inc. would be $566.60, and the total combined bill would be $1,125.53 – which is almost double what Mr. Pippin testifies is the average his company's other locations pay for combined water and sewer service.

Although Mr. Valdes does not invite such a comparison with respect to the charges paid for sewer service at any of the eight McDonald's restaurants he personally owns and operates, he does indicate that the average monthly water consumption for J-Ray, Inc. at its location served by Palmetto is 14,275 cubic feet, which is purchased from the City of Columbia. The J-Ray, Inc. location is in unincorporated Richland County. As the Commission is aware from the rates it established in Docket Number 2012-273-S for Palmetto of Richland County LLC, the City of Columbia commercial sewer rate outside the corporate municipal limits is $4.93 per 100 cubic feet of water supplied plus a base fee of $10.20. The sewer bill that J-Ray, Inc. would be required to pay if it were served by the City of Columbia would be $713.96 per month.

Q. WOULD YOU AGREE THAT THE INCREASE TO THE MONTHLY CHARGES TO SENSOR ENTERPRISES, INC. AND J-RAY, INC. RESULTING FROM THE RATES PROPOSED IN THE SETTLEMENT AGREEMENT BETWEEN PALMETTO AND ORS ARE SIGNIFICANT?

A. Yes. But I think their significance has to be considered in light of the charges the intervenors have been paying and what they should have been paying.

Q. AND WHAT ARE THOSE CHARGES?

A. Under the terms of the settlement agreement, the monthly service charge to Sensor Enterprises, Inc. will increase from $382.40 to $1,509.30 and the monthly service charge to J-Ray, Inc. will increase from $806.86 to $1,755.72. But these increases are warranted in view of the fact that it is clear that Sensor Enterprises, Inc. and J-Ray, Inc. have been paying less than they should have been paying for many years based upon an incorrect determination of the SFEs attributable to their commercial operations. If Sensor Enterprises, Inc. had been billed under current rates using the number of SFEs provided for in the settlement agreement, its current monthly charges would be $1,383.52. If J-Ray, Inc. had been billed under current rates using the number of SFEs

provided for in the settlement agreement, its current monthly charges would be $1,609.40. Viewed in that perspective, the increases are not significant.

Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?

A. Yes. Palmetto is in need of rate relief and the issues raised by the intervenors are only related to rate design. The distribution of a utility's revenue requirement is a matter within the Commission's discretion and Palmetto is entitled only to rates that permit it an opportunity to achieve that revenue requirement. We believe that the current rate design, as modified for all fast food restaurants with drive-thru facilities, fairly distributes the company's revenue requirements among its customers. Palmetto submits that the alternative rate designs suggested by the intervenors do not fairly distribute the company's revenue requirement and should therefore be rejected.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2013-42-S

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SC PUBLIC SERVICE COMMISSION

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.	)

REBUTTAL TESTIMONY OF EDWARD R.WALLACE SR., CPA, ON BEHALF OF PALMETTO UTILITIES, INC.

Q. ARE YOU THE SAME EDWARD R. WALLACE, SR. WHO HAS PREFILED DIRECT TESTIMONY IN THIS MATTER?

A. Yes, I am.

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

A. The purpose of my rebuttal testimony is to respond on behalf of Palmetto Utilities, Inc., or "Palmetto," to the direct testimony of David F. Russell submitted on behalf of the intervenors in this case, Sensor Enterprises, Inc. and J-Ray, Inc.

Q. DO YOU AGREE WITH MR. RUSSELL'S ANALYSIS AND HIS CONCLUSIONS?

A. I agree with portions of Mr. Russell's analysis and conclusions, but disagree with portions as well. As an alternative to his primary recommendation, Mr. Russell asserts that the number of gallons assigned per seat and per drive-thru car served for purposes of determining the single family equivalents, or "SFEs," that are attributable to the two intervenors under Palmetto's rate schedule should be reduced based upon their metered water usage. Although I agree that the number of gallons attributable per drive-thru car served for all fast food restaurants discharging wastewater to Palmetto should be reduced, I do not agree that the gallons attributable to seats in a fast food restaurant should be reduced or that such a reduction be approved for the intervenors alone. A lesser reduction in the number of gallons attributable to the per drive-thru car served in the equivalency factors for all such restaurants, as contemplated in the settlement agreement reached between Palmetto and the Office of Regulatory Staff, is supportable and appropriate. Further, I completely disagree with Mr. Russell's analysis and principal recommendation that the intervenors' sewer rates be determined solely by reference to their water consumption. Of course, rate design is a matter within the Commission's discretion and there are alternatives available to the Commission as described in the rebuttal testimony of Palmetto witness Gary Walsh. As long as Palmetto is given the opportunity to achieve its revenue requirement, alternative rate designs may certainly be appropriate. I do not believe, however, that Mr. Russell's recommendations should be adopted by the Commission.

1 **Q. WHY DO YOU BELIEVE THAT THE NUMBER OF GALLONS ATTRIBUTED**
2 **TO EACH DRIVE-THRU CAR SERVED BY A FAST FOOD RESTAURANT**
3 **THAT RECEIVES WASTEWATER SERVICE FROM PALMETTO SHOULD BE**
4 **REDUCED?**
5 A. Simply put, we concluded that the distribution of our revenue requirement based
6 upon the single family equivalencies derived from the South Carolina Department and
7 Health and Environmental Control, or "DHEC," wastewater flow loading guidelines set
8 out in Regulation 61-67, Appendix A, placed a greater burden upon fast food restaurants
9 with respect to their drive-thru service than might be appropriate. As Mr. Melcher
10 describes in his direct and rebuttal testimonies, Palmetto has undertaken a study of the
11 single family equivalencies attributable to all of its commercial customers. This study
12 was performed not only in anticipation of this rate case, but also in retrospect of questions
13 that arose from the recent adoption of flow-based single family equivalencies using the
14 DHEC guidelines for its sister operating utility, Palmetto Wastewater Reclamation LLC,
15 doing business as Alpine Utilities. As a result of that study, and the limited customer
16 response we received from our communications with our commercial customers of which
17 the intervenor Sensor Enterprises, Inc. was one, Palmetto concluded that some
18 modification to the equivalencies for fast-food restaurants might be warranted. The
19 modification that we think is appropriate is to reduce the number of gallons assigned to
20 each car served by a fast-food drive-thru facility from forty gallons per car to ten gallons
21 per car as is set out in our settlement agreement with the Office of Regulatory Staff, or
22 "ORS."

1 **Q. WHY IS A REDUCTION IN THE GALLONS ASSIGNED TO DRIVE-THRU**
2 **CARS SERVED BY, AND NOT SEATS IN, A FAST FOOD RESTAURANT**
3 **APPROPRIATE?**
4 A. There are several reasons why Palmetto believes this is appropriate. First, the
5 number of seats in a fast-food restaurant is not variable on a day to day basis. Although a
6 fast-food restaurant may infrequently change the number of seats that it has, usually in
7 connection with a remodeling that seems to periodically occur in chain fast-food
8 restaurant locations, the number of seats is relatively fixed. By contrast, the number of
9 cars served by a drive-thru is variable. Further, there are fast-food restaurants which
10 usually do not have drive-thru facilities based on their business plans – chain submarine
11 sandwich shops primarily – or are co-located with convenience stores, in malls, or other
12 such settings where drive-thru service is not an option. We felt it would not be
13 appropriate to give fast-food restaurants with drive-thru facilities an advantage over fast-
14 food restaurants that do not have drive-thru facilities and therefore did not believe a
15 reduction in the number of gallons assigned per seat and per car for purposes of setting
16 single family equivalents was warranted. Also, we recognized that there is a lesser
17 likelihood that drive-thru customers will take advantage of restroom facilities than a dine-
18 in customer as Mr. Russell posits in his testimony. This translates into less wastewater
19 discharge from a drive-thru customer than a dine-in customer. Finally, the single family
20 equivalencies derived from the DHEC guidelines already take into account the fact fast-
21 food restaurants place less demand on a wastewater system than do the twenty four hour
22 restaurants with which they compete; as reflected in Appendix A to Regulation 61-67, the

number of gallons assigned on a per seat basis in a fast-food restaurant is only forty, while the number of gallons assigned to twenty-four hour restaurants is seventy.

Q. WHY SHOULD THERE BE A REDUCTION IN THE GALLONS ASSIGNED TO DRIVE-THRU CARS SERVED BY ALL FAST FOOD RESTAURANTS AND NOT JUST THE TWO OPERATED BY THE INTERVENORS?

A. We do not think it is sound regulatory policy to intentionally treat similarly situated commercial customers differently when it comes to monthly service rates. While the relative merits of any rate design can be debated, we do not think that an intentional discrimination within a discrete class of customers – in this case, fast food restaurants with drive-thru facilities – is proper. Thus, it is Palmetto's view that any modification to the single family equivalents made for fast food restaurants with drive-thru facilities in this case should apply to all such commercial customers and not only the intervenors.

Q. WHAT AMOUNT OF REDUCTION IN THE NUMBER OF GALLONS ASSIGNED PER DRIVE-THRU CAR SERVED BY A FAST FOOD RESTAURANT DOES PALMETTO RECOMMEND?

A. As reflected in the settlement agreement between Palmetto and the ORS that has been filed with the Commission, we recommend that the number of gallons be reduced from forty to ten per car. The effect of this is to reduce the single family equivalencies from 0.10 to 0.025 per car served by fast food restaurants with drive-thru facilities.

1 **Q. HOW DID PALMETTO DETERMINE THAT THIS AMOUNT OF REDUCTION**
2 **IN GALLONS AND SINGLE FAMILY EQUIVALENTS WAS APPROPRIATE?**
3 A. Although the temptation to do so is understandable in view of its simplicity, we
4 did not think that it was appropriate to base rates simply upon potable water usage as that
5 does not take into account the difference between the strength of flow from different
6 types of customers. Further, the DHEC guidelines are based on wastewater flow, not
7 metered water usage. So, with that in mind, we determined that it would be necessary to
8 include wastewater flow into the analysis, accepting the fact that water usage is a
9 component. Given this, we developed a formulaic approach that incorporated both water
10 usage and wastewater flow.
11 **Q. WHAT IS THE FORMULA THAT PALMETTO DEVELOPED?**
12 A. The formula is actual daily water consumption for fast food restaurants divided by
13 the product of the average daily volume of wastewater per single family equivalent
14 discharged into Palmetto's Spears Creek wastewater treatment plant multiplied by one
15 hundred and twenty percent of the four hundred gallons per day of flow for a single
16 family equivalent under the DHEC guidelines. In this formula, we used water
17 consumption figures for fast food restaurants that are customers of Palmetto of Richland
18 County LLC, or "PRC," because that consumption information is available at no cost as a
19 result of the contract between PRC and the City of Columbia that was submitted to the
20 Commission with the application in Docket Number 2012-273-S. We used the average
21 daily volume of wastewater divided by the total number of single family equivalents to
22 account for discharge and multiplied that by one hundred twenty percent of the volumes

projected under the DHEC guidelines to account for wastewater flow at peak levels. The result of the calculation supported a reduction in the number of gallons assigned per car served by drive-thru facilities from forty to ten.

Q. WHY IS THE DETERMINATION OF SEWER RATES BASED SOLELY UPON METERED WATER CONSUMPTION AS MR. RUSSELL SUGGESTS IN HIS TESTIMONY NOT APPROPRIATE GENERALLY AND IN THIS CASE?

A. Generally, setting sewer rates based only upon metered water consumption does not account for strength of flow, which, as Mr. Russell acknowledges, is a factor in the cost of treatment. In this case, it is inappropriate not only for that reason, but also for the reason that Palmetto does not have access to all commercial customers' metered water consumption billing records.

Q. YOU MENTIONED EARLIER THAT THE MONTHLY SERVICE CHARGES FOR PALMETTO OF RICHLAND COUNTY LLC ARE BASED UPON METERED WATER CONSUMPTION; WHY CANNOT PALMETTO UTILITIES, INC. ALSO BASE ITS CHARGES ON METERED WATER CONSUMPTION?

A. As the Commission is aware, the charges approved for PRC are based on water consumption as all of its customers were previously provided water and sewer service by the City of Columbia. When PRC acquired the wastewater collection facilities, service area and customer base that previously belonged to the City, it was a condition of the

agreement between those two entities that customers would continue to be charged the same rates that the City had imposed unless and until a different rate was approved by the Commission. Further, the City is contractually bound to provide the metered water consumption data to PRC. As a result, there was no financial impact on sewer customers acquired by PRC as a result of that aspect of the transaction. By contrast, Palmetto's customers are served by at least two different water providers, there is no obligation on the part of either of these providers to make customer water consumption data available to Palmetto, and the cost of obtaining that information would have to be added to the cost of service to be distributed among all Palmetto customers. Therefore, basing monthly wastewater service charges on metered water consumption for Palmetto's customers is not feasible.

Q. YOU MENTIONED THAT RATES FOR MEMBERS OF A DISCRETE CUSTOMER CLASS SHOULD NOT INTENTIONALLY DISCRIMINATE; BUT DOESN'T PALMETTO'S CURRENTLY APPROVED RATE DESIGN DISCRIMINATE IN FAVOR OF RESIDENTIAL CUSTOMERS AND AGAINST COMMERCIAL CUSTOMERS?

A. I do not think Palmetto's currently approved rate design discriminates against commercial customers. One has to recognize that there is a difference between discrimination and subsidization. As noted in the rebuttal testimony of Gary Walsh on behalf of Palmetto, there is some subsidization present in any rate design and it can occur within a customer class or between customer classes. As between Palmetto's commercial

1 and residential customers, there is clearly subsidization by the former of the latter
2 because commercial rates are minimum rates. Accordingly, a commercial customer
3 whose total number of equivalencies is less than one still pays the minimum monthly
4 charge. And this is appropriate for the reason that commercial customers are able to
5 utilize our service in an enterprise that is generally designed to generate revenue for the
6 customer on a day to day basis. By contrast, residential customers are simply ensuring
7 the habitability of their premises on a day to day basis. This alone warrants some level of
8 subsidization of residential customers by commercial customers. Similarly, the strength
9 of flow for many commercial customers will be far greater than that of residential,
10 domestic wastewater. Fast food restaurants such as those operated by the intervenors are
11 engaged in cleaning of cooking equipment, utensils, and floors with commercial grade
12 cleansers and detergents that are not used by the typical household. And these cleaning
13 efforts occur many times a day, every day. By contrast, a residential customer would not
14 have the type or frequency of discharges arising from cleaning in his or her domestic
15 premises. No discrimination exists since these two types of customers are not similarly
16 situated.
17
18 **Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?**
19 A. Certainly. While an adjustment to the single family equivalents attributable to
20 cars served by fast food restaurant drive-thru facilities is appropriate, Mr. Russell's
21 recommendation to reduce the loading for cars from 40 gallons to two gallons is not
22 supported by facts or any quantitative analysis. Palmetto's effort to support such an

1 adjustment is factually and quantitatively based and should be adopted. The
2 recommendation that Palmetto's monthly service charges be determined by reference to
3 water consumption alone does not account for the pollutant strength of wastewater flow
4 from commercial customers and is not feasible.
5
6 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**
7 A. Yes, it does.