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DeSanty, Tricia

From: Boyd, Jocelyn
Sent: Tuesday, November 01, 2016 4:38 PM
To: Easterling, Deborah; Duke, Daphne; DeSanty, Tricia
Cc: Melchers, Joseph; Spearman, James; Richardson, William; Ellison, Tom; Ballentine, Lynn; Butler, David; Dong, Randall; Minges, Josh
Subject: FW: Prefiled Testimony
Attachments: Prefiled Testimony Robert G. Gross.pdf

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Date: 11/2/16

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From: Bob Gross [mailto:bob@beaufortgroup.net]
Sent: Tuesday, November 01, 2016 3:44 PM
To: Boyd, Jocelyn <Jocelyn.Boyd@psc.sc.gov>
Cc: Alvarez, Colanthia <Colanthia.Alvarez@psc.sc.gov>; tom@mikellaw.com; Scott, Dukes <Dukes.Scott@regstaff.sc.gov>; Morgan, Willie <wmorgan@regstaff.sc.gov>; Schellinger, Matthew <mschellinger@regstaff.sc.gov>; Easterling, Deborah <Deborah.Easterling@psc.sc.gov>
Subject: Prefiled Testimony

Docket 2016-29-WS

Ms. Boyd:

Please find attached my prefiled testimony as required by your office in its August 29, 2016 letter.

Please let me know if you need any additional information.

Bob Gross
Harbor Island Utilities, Inc.

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BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2016-29WS

In the Matter of:

Application of Harbor Island Utilities, Inc.)
for approval of sewer rates, terms, and)
conditions for residential and commercial)
customers in all areas served.)

PREFILED
DIRECT TESTIMONY
OF
ROBERT G. GROSS

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1 **Please state your name, business address, and your affiliation with the applicant,**

2 **Harbor Island Utilities, Inc.**

3 Robert G. Gross, P.O. Box 1028, Beaufort, SC 29901-1028. I am the owner and president
4 of Harbor Island Utilities, Inc., which I will refer to in my testimony as HIU.

5 **Please describe your educational and professional background.**

6 I graduated from the University of South Carolina with a B.S. Degree in Chemical
7 Engineering in 1970 and earned a Masters from USC in Chemical Engineering in 1971. I
8 was employed as an engineer from 1972 to 1987 by the South Carolina Department of
9 Health & Environmental Control (DHEC). From 1987 until the present, I have been an
10 environmental consultant specializing in water quality and regulatory matters. I am
11 also registered as a Professional Engineer by the State of South Carolina. I am the
12 owner and president of Harbor Island Utilities, Inc, and T. J. Barnwell Utility, Inc.
13 located in Beaufort, SC. I also own The Beaufort Group, LLC, which provides contract
14 operations, maintenance, and management services to Harbor Island Utilities, T.J.
15 Barnwell Utility and three other wastewater systems in the Beaufort area. Also, my
16 environmental consulting business is conducted through The Beaufort Group.

17 **Mr. Gross, describe Harbor Island Utilities, Inc and its operations.**

18 Harbor Island Utilities owns and operates a water storage and distribution plant and a
19 wastewater collection, treatment, and disposal system on Harbor Island in Beaufort
20 County. Harbor Island Utilities provides potable water service to approximately 468
21 residential and commercial water customers and provides wastewater services to
22 approximately 451 residential and commercial customers. HIU purchases potable

23 water from the Beaufort-Jasper Water & Sewer Authority (BJWSA). There is no
24 ownership connection between Harbor Island Utilities and BJWSA. Harbor Island
25 Utilities has no control over the price of water. HIU treats the wastewater to a very
26 high degree and then pumps it approximately five (5) miles across Hunting Island to
27 Fripp Island where it is used for irrigation on the Ocean Point Golf Course. Harbor
28 Island Utilities is regulated by SCDHEC and the Public Service Commission, and
29 provides services under existing schedule of rates approved in PSC Order No. 2007-888
30 in Docket No. 2007-243-WS.

31 **Please relate the facts and circumstances leading up to this request for rate**
32 **adjustments before the PSC.**

33 It has been almost ten years since Harbor Island Utility's last rate case. A critical need
34 now exists to increase operating revenue to ensure the financial soundness of the utility.
35 Harbor Island Utilities has been losing money for several years. Expenses have
36 increased substantially as evidenced by the fact that the cost of living has increased by
37 14.7% since the last rate increase in 2007. Harbor Island Utilities has absorbed those
38 costs for the past ten years. Harbor Island Utilities has made major capital
39 improvements to both the water and sewer systems. The utility has spent almost
40 \$300,000 of borrowed money to make these improvements. For example, we
41 completely replaced the water pumping system with a state-of-the art pumping system
42 that will ensure customers have reliable water service under all expected demands.
43 And, we have rebuilt a major component of the wastewater system and added a state-
44 of-the-art effluent filter to comply with the very stringent limits in the SCDHEC permit

45 to achieve "reclaimed water" status. Other improvements that we spent money on were
46 items noted in recent SCDHEC inspections as items that needed attention or
47 replacement. It is imperative for HIU to have sufficient revenue to assure payment of
48 existing debt and the rising cost of debt. As can be seen from the exhibits in our
49 application, the accounting pro forma adjustments necessitate the requested increases
50 over the test year ending December 31, 2015 to maintain the financial soundness of HIU.

51 **Mr. Gross, can you explain why the requested increase is so large?**

52 In the world of rate increases, Harbor Island Utilities is going through a "Perfect Storm".
53 What I mean is that there are three events - each affecting rates - that are coming to bear
54 at the same time. The first event is that The Beaufort Group - who operates, maintains,
55 and manages the water and sewer systems - has not increased its rates in sixteen (16)
56 years. Beginning in January of this year, The Beaufort Group raised its rates by 10%
57 and also added an engineering and management fee. The second event is that the cost
58 of living has increased as mentioned earlier. The third event, as previously mentioned,
59 is that HIU has made major repairs and major capital improvements to the water and
60 sewer systems. The combination of these three events has resulted in this large
61 requested increase.

62 **Mr. Gross, can you please give some examples of the increased costs incurred by**
63 **Harbor Island Utilities?**

64 Sludge disposal costs for the years 2010-2013 averaged \$4,393 per year. For the years
65 2014-2015, sludge disposal costs have averaged \$14,365 per year. That is a 327%

66 increase. Similarly, annual electricity costs at the treatment plant have risen from an
67 average of \$19,807 in 2007-2009 to an average of \$29,360 for 2014-2015. That is a 47%
68 increase. These are just two examples of many increases that Harbor Island Utilities
69 has absorbed in the past ten years.

70 **Mr. Gross, why did you wait almost ten years before requesting an increase in rates?**

71 Requesting small rate increases more frequently - perhaps every 3-5 years - would
72 result in smaller increases each time; but each rate increase comes at a cost. HIU is a
73 small utility and each rate case for us requires a large amount of time, energy, and
74 expense. The costs of each rate case are ultimately passed on to the customers. Part of
75 the time and energy and costs require that HIU hire special consultants like CPAs and
76 attorneys to prepare the rate increase cases. My view, in retrospect, is that the
77 customers have benefitted from our having fewer rate increase cases because of the
78 reduced expenses over time.

79 **Mr. Gross, please discuss how Harbor Island Utilities prepared for Hurricane**
80 **Matthew in October of this year, what effect the hurricane had on the utility, and**
81 **what lessons you learned from it.**

82 Harbor Island Utilities is located on one of the barrier islands at an elevation of less than
83 five (5) feet above the mean high water mark, so it is vulnerable to flooding and tidal
84 surge. Our water supplier, BJWSA, turned off the water service two days before the
85 storm arrived but that was not a problem because our storage tank was full and only
86 one family chose not to evacuate and they knew that water and sewer service were

87 being discontinued. To prepare for the hurricane, we removed all electrical control
88 panels and almost all electrical motors, and relocated them to higher ground. We left
89 one blower at the wastewater treatment plant running and left a small sludge pump in
90 place. None of the relocated items was damaged and we were able to re-install them
91 after the storm passed. We also pumped down all pump stations so they were empty
92 before the storm. As a result, we were able to activate the water and sewer systems
93 shortly after electrical power was restored by SCE&G and the water service was
94 restored by BJWSA. The storm surge was about two feet deep across the entire island.
95 It filled all of the pump stations and damaged the one blower motor and the sludge
96 pump motor. They had to be rebuilt at a cost of approximately \$1,300. One pump
97 station was completely submerged and was damaged beyond repair. Since we recently
98 purchased a replacement pump station, we will be able to restore service quickly. The
99 preparation and recovery required a lot of manpower, and the total costs were about
100 \$25,000, excluding replacing the pump station. Harbor Island Utilities requests that
101 those costs be allowed in this rate case or that the Commission allow accounting of the
102 hurricane costs to be deferred and included in the next rate case. Hurricane Matthew
103 taught us that our plan was both effective and efficient. We need to purchase
104 equipment to enable easier removal of heavy equipment. Also, when we replace the
105 damaged pump station, we plan to raise the electrical components to a height above the
106 recent historical flood level.

107 **Mr. Gross, are you familiar with each of the exhibits filed with Harbor Island**
108 **Utilities' rate application?**

109 Yes, I have personally been involved with the preparation of the information in each
110 exhibit and those which were not directly prepared by me were prepared under my
111 supervision and agreement.

112 **Is Harbor Island Utilities, Inc. in compliance with DHEC permitting requirements?**

113 Yes, Harbor Island Utilities, Inc. is compliance with the permitting requirements. We
114 experienced some wastewater non-compliance last year and earlier this year when the
115 system was under repair and under construction.

116 **Mr. Gross, are the expenses, revenue and adjustments to operating expense as**
117 **exhibited in the application of Harbor Island Utilities, Inc. in the docket accurate?**

118 Yes, I believe they have been accurately presented based upon the disclosure of the
119 information and knowledge available to the company at this time. Harbor Island
120 Utilities request that rate case expenses incurred subsequent to November 2, 2016 be
121 included.

122 **Do you expect that the proposed rate increases will produce sufficient revenues to**
123 **allow the company to meet its expenses and earn a fair return in the future?**

124 Yes, I do. This increase should last for five years or so barring any unusual
125 circumstances.

126 **Mr. Gross, does this complete your testimony?**

127 Yes.

128 Thank you.