

FLORIDA PUBLIC SERVICE COMMISSION
Gunter Building, 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

September 26, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF WATER AND WASTEWATER (RENDELL, STARLING,
WASHINGTON) *RS*
DIVISION OF LEGAL SERVICES (AGARWAL) *RS*

RE: UTILITY: PALM COAST UTILITY CORPORATION
DOCKET NO.: 951593-WS
COUNTY: FLAGLER
CASE: PETITION FOR REVISED SERVICE AVAILABILITY
CHARGES

AGENDA: OCTOBER 8, 1996 - REGULAR AGENDA - TARIFF FILING AND
PORTION OF ISSUE 1 DISCONTINUING SERVICE AVAILABILITY
CHARGES IS PROPOSED AGENCY ACTION - INTERESTED PERSONS
MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: FEBRUARY 26, 1996
8-MONTH DEADLINE: AUGUST 27, 1996 - WAIVED BY
UTILITY

SPECIAL INSTRUCTIONS: THIS ITEM SHOULD BE SCHEDULED AFTER
DOCKET NO. 951056-WS

LOCATION OF FILE: I:\PSC\WAW\WP\951593.RCM

CASE BACKGROUND

Palm Coast Utility Corporation (PCUC or utility) is a Class A utility providing water and wastewater service in Flagler County. PCUC is located in a critical use area as designated by the St. Johns River Water Management District (SJRWMD). According to its December 31, 1994 annual report, the utility was serving 14,617 water customers (approximately 14,846 equivalent residential connections (ERCs)) and 9,868 wastewater customers (approximately 12,435 ERCs). During the twelve months ending December 31, 1994, the utility recorded operating revenues of \$5,007,702 for water service and \$2,951,217 for wastewater service. During the same period, PCUC reported a net operating loss of \$2,247 for water and net operating income of \$281,533 for wastewater.

On December 27, 1995, the utility filed an application for authority to increase its system capacity charges for water and wastewater service pursuant to Section 367.101, Florida Statutes. The filing fee was paid on December 27, 1995, which was designated

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the official filing date for this proceeding pursuant to Section 367.083, Florida Statutes. By Order No. PSC-96-0346-FOF-WS, issued March 11, 1996, the Commission suspended the proposed changes to system capacity charges in the utility's tariff. At the February 20, 1996 agenda conference, the Commission granted the utility request that the service availability application be processed concurrently with its rate case application in Docket No. 951056-WS. It should be noted that pursuant to Section 367.091, Florida Statutes, the statutory 8 month time limitation has passed, however, the utility has agreed not to implement the requested charges.

The utility's present service availability charges were established in Docket Nos. 810485-WS and 840092-WS, Orders Nos. 12957 and 14174, issued February 6, 1984 and March 14, 1985, respectively. The test year for this proceeding is the projected year 1995. The utility has requested approval of system capacity charges of \$1,500 and \$1,600 per ERC for its water and wastewater systems, respectively. The current charges are \$766 for water and \$1,466 for wastewater.

The utility states that the basis for the requested change in charges is to move it toward the guideline maximums set out in Rule 25-30.580, Florida Administrative Code, based on the adjusted cost of plant in service established for the projected year 1995 and contributions projected to be received through the buildout years of the treatment plants.

DISCUSSION OF ISSUES

ISSUE 1: Should the Utility's tariff filing to modify its service availability charges be approved as filed?

RECOMMENDATION: No. PCUC's water and wastewater level of contribution in aid of construction (CIAC) exceed the 75% maximum specified in Rule 25-30.580(1)(a), Florida Administrative Code. Therefore, the tariffs filed on December 27, 1995 for water and wastewater system capacity charges should be denied as filed. Further, PCUC should be ordered to discontinue collection of all authorized service availability charges, as of the effective date of the order. The utility should be ordered to file revised tariff sheets within 10 days of the effective date of the Order, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. (RENDELL, WASHINGTON)

STAFF ANALYSIS: As stated in the case background, on December 27, 1995, PCUC filed an application to increase its system capacity charges for water and wastewater service pursuant to Section 367.101, Florida Statutes. By Order No. PSC-96-0346-FOF-WS, issued March 11, 1996, the Commission suspended the proposed system capacity charges changes to the utility's tariff.

The utility has requested approval of system capacity charges of \$1,500 and \$1,600 per ERC for its water and wastewater systems respectively. The current charges are \$766 for water and \$1,466 for wastewater. The utility states that the basis for the requested change in charges is to move it toward the guideline maximums set out in Commission Rule 25-30.580, Florida Administrative Code, based on the adjusted cost of plant in service established for the projected year 1995 and contributions projected to be received through the buildout years of the treatment plants. According to the utility's application, its water system is presently 55.38% contributed (net CIAC to plant) and the wastewater system is presently 70.79% contributed.

Staff believes there are several flaws in PCUC's schedules which provide the calculation of its proposed system capacity charges for water and wastewater. For its calculation of the proposed system capacity charges, PCUC adjusted its utility plant in service (UPIS) as of 1995. The adjustment reflects the limiting factor of ERCs in plant. This results in UPIS net of used and useful. This is shown on Schedule No. FS-5, pages 1 & 2 of PCUC's application. This methodology deviates from the Commission practice in calculating service availability charges. Staff

believes that the purpose of calculating service availability is to make growth pay for itself as the utility expands. Therefore the calculation of service availability charges should be based on total UPIS and total ERCs at design capacity.

Also, as shown on Schedules Nos. A-12 & A-14 of PCUC's application, the utility did not include the amount of prepaid CIAC. PCUC recorded \$34,440,537 in prepaid CIAC and \$8,124,376 in CIAC in trust as of December 31, 1995. Staff believes these amounts should be included in the calculation of service availability charges. In Docket No. 951056-WS, the utility's witness Frank Seidman testified concerning these amounts. Specifically, Mr. Seidman stated that the recorded prepaid CIAC reflects prepayments turned over to PCUC by ITT Community Development Corporation for both water and wastewater service. These amounts are turned over in lump sums as prepayments until a customer requests service. It should be noted that Mr. Seidman was also the preparer of the service availability application.

At the time a customer requests service this amount is then considered used and useful. Regardless of timing, service availability charges are calculated at design capacity. Therefore, the total amount of prepaid CIAC will be included in the calculation. Mr. Seidman further testified that although all prepaid CIAC is recorded in one CIAC wastewater subaccount, this amount includes both water and wastewater charges.

Mr. Seidman stated that PCUC is platted for approximately 46,000 lots, but currently serves just under 12,000 customers. He further indicated that additions would have to be made to the water transmission system, the wastewater PEP system, the water supply and storage capacity, and the wastewater treatment and disposal capacity. However the utility did not provide any projected capital improvements pursuant to Rule 25-30.565(o), (p), and (r), Florida Administrative Code.

In calculating the appropriate service availability charges, staff has included these amounts of CIAC. Staff prorated the amount of prepaid CIAC to the water and wastewater systems based upon PCUC's projected ERC growth and existing charges. Staff's calculation of CIAC is shown on Schedule No. 3.

Based on the data provided in the utility's application, the average growth for the utility's water and wastewater systems is 813 and 725 connections, respectively, per year through 2001. Further analysis of information provided in the utility's application revealed that the utility has outstanding guaranteed revenue agreements which will not result in contributed property

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within the next 24 months, other than approved capacity charges that have not already been included in CIAC for 1995.

Staff calculated the appropriate service availability charges for the water and wastewater system on Schedule Nos. 2-A and 2-B. Staff also included Schedule Nos. 1-A and 1-B from the recommendation in Docket No. 951056-WS. These schedules reflect the UPIS used in the calculation of the appropriate service availability charges. Based upon these calculations, the utility's current contribution level of 86.55% for water and 98.03% for wastewater.

These contribution levels exceed the maximum contribution levels as specified by Rule 25-30.580(1)(a), Florida Administrative Code, which states:

The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity.

The maximum level provides that the utility retain some investment in the utility assets as an incentive to continue ownership and operation. If the owner has no investment in the utility, and no rate base to earn a return on, any increase in operating expenses would result in losses which would discourage proper operation of the facilities.

Further, staff's schedules show that the collection of PCUC's requested system capacity charges of \$1,500 would yield a 116.16% contribution level for water and collection of a charge of \$1,600 would yield a 153.75% contribution level for wastewater in 2001, assuming historical growth rate continues. Staff believes that the utility should be required to invest in any additional required capacity to ensure that there is an on-going interest in the utility.

Staff recommends the tariffs filed on December 27, 1995 for water and wastewater system capacity charges should be denied as filed. Further, PCUC should be ordered to discontinue collection of all authorized service availability charges, as of the effective date of the order. The utility should be ordered to file revised tariff sheets within 10 days of the effective date of the Order which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the

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Commission's decision.

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ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes, the docket should be closed upon the utility's timely filing of revised tariffs according to the Commission's order, staff's verification that the tariffs reflect the Commission's order, and if no protests are filed by a substantially affected person within 21 days of the issuance of the order. If any timely protest is filed, the docket should not be closed. If a protest is filed regarding the denial of the proposed tariff or the Commission's approval of the proposed tariff, as addressed in Issue 1, the utility's proposed tariff may be implemented. If the utility's proposed tariff is implemented then all charges collected under the proposed tariff should be held subject to refund pending resolution of the protest. If a protest is filed regarding the proposed agency action portion of the Order as addressed in Issue 1, then that portion of the Order will be null and void and any revenues collected under the existing tariff should be held subject to refund. (AGARWAL, RENDELL, WASHINGTON)

STAFF ANALYSIS: If any timely protest by a substantially affected person is filed, the docket should not be closed. If a protest is filed regarding the denial of the proposed tariff or the Commission's approval of the proposed tariff, as addressed in Issue 1, the utility's proposed tariff may be implemented. If the utility's proposed tariff is implemented then all charges collected under the proposed tariff should be held subject to refund pending resolution of the protest. If a protest is filed regarding the proposed agency action portion of the Order as addressed in Issue 1, then that portion of the Order will be null and void and any revenues collected under the existing tariff should be held subject to refund.

If no timely protest is filed, this docket should be closed upon the utility's timely filing of revised tariff sheets according to the Commission's Order, and staff's verification that the tariffs reflect the Commission's order.

PALM COAST UTILITY CORPORATION
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 1-A
 DOCKET NO. 881068-WS

COMPONENT	TEST YEAR PER UTILITY YEAR-END	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJ. AVERAGE TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 83,505,519	(2,128,199)	\$ 81,377,320	(1,089,914)	80,287,406
2 LAND & LAND RIGHTS	504,632	0	504,632	0	504,632
3 NON-USED & USEFUL COMPONENTS	(8,602,553)	0	(8,602,553)	(10,464,781)	(19,067,314)
4 CWIP	3,992,210	(3,992,210)	0	0	0
5 ACCUMULATED DEPRECIATION	(20,998,438)	1,074,085	(19,922,373)	938,154	(18,984,219)
6 CIAC	(18,390,083)	0	(18,390,083)	1,027,079	(15,363,004)
7 AMORTIZATION OF CIAC	3,241,580	0	3,241,580	(248,931)	2,994,649
8 NET DEBIT DEFERRED TAXES (USED)	1,118,911	0	1,118,911	(264,759)	855,152
9	0	0	0	0	0
10 ADVANCES FOR CONSTRUCTION	(2,672,139)	2,672,139	0	0	0
11 WORKING CAPITAL ALLOWANCE	0	0	0	0	0
12 OTHER	0	0	0	0	0
RATE BASE	\$ 23,702,830	(2,374,206)	\$ 21,328,434	(10,101,132)	11,227,302

PALM COAST UTILITY CORPORATION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 1-B
 DOCKET NO. 861058-WS

COMPONENT	TEST YEAR PER UTILITY YEAR-END	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJ. AVERAGE TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 56,249,291	2,128,199	\$ 58,377,490	(1,924,077)	54,453,413
2 LAND & LAND RIGHTS	1,153,532	0	1,153,532	(525,555)	627,977
3 NON-USED & USEFUL COMPONENTS	18,346,667	426,872	18,772,539	(5,654,054)	13,118,505
4 CWIP	0	0	0	0	0
5 ACCUMULATED DEPRECIATION	(18,107,234)	(986,635)	(19,093,869)	892,137	(18,201,732)
6 CIAC	(61,045,743)	0	(61,045,743)	300,877	(60,744,866)
7 AMORTIZATION OF CIAC	16,511,375	0	16,511,375	(786,524)	15,724,851
8 DEBIT DEFERRED INCOME TAXES	1,940,403	0	1,940,403	332,444	2,272,847
9	0	0	0	0	0
10 ADVANCES FOR CONSTRUCTION	(990,073)	405,534	(584,539)	(75,803)	(660,342)
11 WORKING CAPITAL ALLOWANCE	0	0	0	0	0
12 OTHER	0	0	0	0	0
RATE BASE	\$ 14,057,238	1,973,970	\$ 16,031,208	(9,440,555)	6,590,653
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SERVICE AVAILABILITY CHARGE ANALYSIS

WATER

GROSS BOOK VALUE	\$	61,377,320
LAND		504,632
DEPRECIABLE ASSETS		<u>60,872,688</u>
ACCUMULATED DEPRECIATION TO DATE		19,922,373
ACCUMULATED DEPRECIATION AT DESIGN CAPACITY		<u>31,714,021</u>
NET PLANT AT DESIGN CAPACITY	\$	<u>29,663,299</u>
TRANSMISSION & DISTRIBUTION LINES	\$	27,239,401
MINIMUM LEVEL OF C.I.A.C.		44.38%
C.I.A.C. TO DATE	\$	41,962,453
ACCUMULATED AMORTIZATION OF C.I.A.C. TO DATE		6,085,251
NET C.I.A.C. TO DATE		<u>35,877,202</u>
LEVEL OF C.I.A.C. TO DATE		<u>86.55%</u>
ACCUMULATED AMORTIZATION OF C.I.A.C. AT DESIGN CAPACITY	\$	<u>14,115,270</u>
FUTURE CUSTOMERS (ERC) TO BE CONNECTED		4,880
COMPOSITE DEPRECIATION RATE		3.30%
COMPOSITE C.I.A.C. AMORTIZATION RATE		3.26%
NUMBER OF YEARS TO DESIGN CAPACITY		5.87

EXISTING SERVICE AVAILABILITY CHARGE PER ERC	\$	766.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		105.26%
NET C.I.A.C. AT DESIGN CAPACITY	\$	31,222,522
REQUESTED SERVICE AVAILABILITY CHARGE PER ERC	\$	1,600.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		116.16%
NET C.I.A.C. AT DESIGN CAPACITY	\$	34,456,855
MINIMUM SERVICE AVAILABILITY CHARGE PER ERC	\$	0.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		44.38%
NET C.I.A.C. AT DESIGN CAPACITY	\$	27,847,183
MAXIMUM SERVICE AVAILABILITY CHARGE PER ERC	\$	0.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		75.00%
NET C.I.A.C. AT DESIGN CAPACITY	\$	27,847,183

SERVICE AVAILABILITY CHARGE ANALYSIS

WASTEWATER

GROSS BOOK VALUE	\$	58,377,490
LAND		627,977
DEPRECIABLE ASSETS		<u>57,749,513</u>
ACCUMULATED DEPRECIATION TO DATE		19,093,869
ACCUMULATED DEPRECIATION AT DESIGN CAPACITY		38,143,990
NET PLANT AT DESIGN CAPACITY	\$	<u>20,233,500</u>
COLLECTION LINES	\$	35,523,684
MINIMUM LEVEL OF C.I.A.C.		60.85%
C.I.A.C. TO DATE	\$	52,178,666
ACCUMULATED AMORTIZATION OF C.I.A.C. TO DATE		13,667,704
NET C.I.A.C. TO DATE		<u>38,510,962</u>
LEVEL OF C.I.A.C. TO DATE		<u>98.03%</u>
ACCUMULATED AMORTIZATION OF C.I.A.C. AT DESIGN CAPACITY	\$	30,880,141
FUTURE CUSTOMERS (ERC) TO BE CONNECTED		7,354
COMPOSITE DEPRECIATION RATE		3.25%
COMPOSITE C.I.A.C. AMORTIZATION RATE		3.25%
NUMBER OF YEARS TO DESIGN CAPACITY		10.15

EXISTING SERVICE AVAILABILITY CHARGE PER ERC	\$	1,466.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		149.69%
NET C.I.A.C. AT DESIGN CAPACITY	\$	30,286,704
REQUESTED SERVICE AVAILABILITY CHARGE PER ERC	\$	1,600.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		163.76%
NET C.I.A.C. AT DESIGN CAPACITY	\$	31,108,270
MINIMUM SERVICE AVAILABILITY CHARGE PER ERC	\$	0.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		60.85%
NET C.I.A.C. AT DESIGN CAPACITY	\$	21,298,525
MAXIMUM SERVICE AVAILABILITY CHARGE PER ERC	\$	0.00
LEVEL OF C.I.A.C. AT DESIGN CAPACITY		75.00%
NET C.I.A.C. AT DESIGN CAPACITY	\$	21,298,525

PALM COAST UTILITY CORPORATION
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TEST YEAR ENDED DECEMBER 31, 1995

SCHEDULE NO. 3

CIAC ANALYSIS

<i>Water</i>	CIAC	Accum Amort
Plant Capacity Fees	\$9,512,590	\$2,029,065
Meter Installation Fees	2,812,617	596,807
Contributed Lines	2,449,786	442,778
Other - Advance Capacity Charges	1,614,000	172,930
Prepaid CIAC ($\$34,440,537 \times 25.75\%$)	25,573,460	2,843,671
<i>Total CIAC</i>	<u>\$41,962,453</u>	<u>\$8,085,251</u>
<i>Wastewater</i>		
Plant Capacity Fees	\$16,106,163	\$4,846,216
Contributed Lines	2,374,667	620,081
Other - Trust	8,124,376	
Prepaid CIAC ($\$34,440,537 \times 74.25\%$)	25,573,460	8,201,407
<i>Total CIAC</i>	<u>\$52,178,666</u>	<u>\$13,667,704</u>
Water Projected CIAC ($4,880 \times \$766$)	<u>\$3,738,080</u>	25.75%
Wastewater Projected CIAC ($7,354 \text{ ERCs} \times \$1,466$)	<u>\$10,780,984</u>	74.25%
	<u>\$14,519,064</u>	100.00%