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October 17, 1996

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 960258-WS

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket are the original and 15 copies of Citizens' Comments of Proposed Rule.

Please indicate the time and date of receipt on the enclosed duplicate of this letter and return it to our office.

Sincerely,


Harold McLean
Associate Public Counsel

ACK	<input checked="" type="checkbox"/>
AFA	<input type="checkbox"/>
APP	<input type="checkbox"/> HM:bsr
CAF	<input type="checkbox"/> Enclosures
DMU	<input type="checkbox"/>
STR	<input type="checkbox"/>
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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

11147 OCT 17 96

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition to Adopt Rules on)
Margin Reserve and Imputation of)
of Contributions-in-Aid-of Construction)
on Margin Reserve Calculation,)
by Florida Waterworks Association)
_____)

Docket No. 960258-WS

COMMENTS ON PROPOSED RULE

The Citizens of the State of Florida, by and through JACK SHREVE, Public Counsel, hereby submit comments to Proposed Rule 25-30.431, Florida Administrative Code, proposed by the Commission on July 26, 1996, and say as follows:

1. Florida statutes authorize the Commission to approve rates which provide a reasonable return on investment which is used and useful in the provision of utility services to the public. Both the intent and language of Proposed Rule 25-30.431, however, inappropriately include investment "which is required to meet the expected demand due to customer growth" as used and useful investment.¹ While the investment which is required to meet the expected demand due to customer growth will be used and useful in the future (if the expectations of growth are correct), it is neither used by, nor useful to, present customers and, therefore, should not be included in the used and useful calculations.

Present customers have no interest in future growth. Inclusion of margin reserve in the used and useful calculations causes current customers to underwrite the provision of service to future customers.

¹ Proposed Rule 25-30.431(1)

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FPSC-RECORDS/REPORTING

2. If margin reserve is included in the used and useful calculations, then, to achieve a proper matching of Contributions-in-Aid-of Construction (CIAC) and investment, an amount of CIAC equivalent to the number of equivalent residential connections (ERCs) represented by the margin reserve should be reflected in the rate base. The CIAC that will be collected from these future customers would, at least, serve to mitigate the impact on the existing customers resulting from requiring them to pay for plant that will be used to serve future customers.

Imputation of CIAC on margin reserve has been a longstanding policy of the Commission. The Commission's practice of imputing CIAC on margin reserve is well documented in Order No. 20434 and Order No. PSC-93-0301-FOF-WS. If the Commission does not continue to impute CIAC associated with margin reserve, it will place the risk of future customer connections on the backs of current ratepayers. The risk that future customers will not connect to a utility's system, as projected by the utility in its margin reserve calculations, is a risk that should be borne by stockholders, not customers. This is a risk that the utility is compensated for in its allowed return on equity. If the Commission changes its policy and does not impute CIAC on margin reserve, it will need to adjust its leverage graph formula to account for the lower risk of the utility inherent in requiring current customers to bear the risk that future customers will not connect to the system.

In addition, if the Commission does not impute CIAC on margin reserve, it will provide the utility with an opportunity to overearn. This occurs because the utility will collect this CIAC (assuming its projections are correct), yet the associated CIAC will not be included as an offset to the rate base. Moreover, failure to impute CIAC on margin reserve would create a significant incentive for the utility to overproject customer growth for margin reserve purposes. Imputation of CIAC on margin reserve provides the utility with an incentive to properly project future connections,

and it matches plant in service with CIAC.

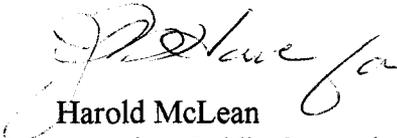
3. In paragraph 19 of its Petition, The Florida Waterworks Association (FWA) makes a flawed analogy to the electric industry. Residential electric customers do not contribute substantial sums of money up front when requesting service from an electric utility. Water and wastewater customers do. This contribution is ideally targeted at 75% of the cost of the “piece” of plant constructed to serve one customer. By investing in the utility up front, the water and/or wastewater customer has already paid for his or her share of the utility’s requirement to stand ready to serve based on anticipated usage patterns. In addition to the initial contribution, the customer pays the utility a return on the portion not contributed.

In paragraph 20b of the Petition, the water and wastewater industry makes the argument that if a margin reserve is not allowed, then service to existing customers will be degraded. Existing customers should not have to pay a premium, in the form of a margin reserve, to ensure that adequate service is provided them when they have already paid for their service.

Margin reserve is inherently unfair to the existing customer. In paragraph 24 of the Petition, the FWA argues that margin reserve provides a “cushion” for the utility so changing load conditions for existing customers can be met. Averages used to calculate used and useful already take plant load fluctuations into consideration. Finally, in paragraph 26 of its petition, the FWA argues that the margin reserve is a component of used and useful plant and no portion of its cost is recovered through an Allowance for Funds Prudently Invested (AFPI) charge. Public Counsel believes that margin reserve should not be considered as a component of the used and useful calculation and should be eliminated entirely. It serves no benefit to existing customers. Eliminating the margin reserve and replacing it with AFPI would alleviate the FWA’s concern of lost returns on imputed CIAC and give

relief to existing customers paying a return on plant not serving them.

Respectfully submitted,



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**CERTIFICATE OF SERVICE
DOCKET NO. 960258-WS**

I HEREBY CERTIFY that a copy of the foregoing has been furnished by U.S. Mail or hand-delivery to the following parties representatives on this 17th day of October, 1996.



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