

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

DECEMBER 5, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (GROOM) *exc @*
DIVISION OF LEGAL SERVICES (O'SULLIVAN) *MO JH CA*

RE: DOCKET NO. 961231-WS - FLORIDA CITIES WATER COMPANY - LEE
COUNTY DIVISION - APPLICATION FOR APPROVAL OF AGREEMENT
FOR TREATMENT AND DISPOSAL OF RECLAIMED WATER WITH LEE
COUNTY AND FOR APPROVAL OF RATE-MAKING TREATMENT FOR
REVENUES RECEIVED
COUNTY: LEE

AGENDA: 12/17/96 - REGULAR AGENDA - TARIFF FILING - INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: 1/3/97

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\961231WS.RCM

DOCUMENT NUMBER-DATE
12944 DEC-5 96
FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Florida Cities Water Company (FCWC or utility) is a Class A utility that provides wastewater service for two communities in Ft. Myers, Florida: a northern sector and a southern sector. The South Ft. Myers wastewater system, the applicant in this proceeding, was serving approximately 7,928 equivalent residential connections (ERCs) at December 31, 1995. The utility serves an area that has been designated by the South Florida Water Management District as a critical use area. During the twelve months ended December 31, 1995, the utility recorded operating revenues of \$3,153,103 for wastewater service; the corresponding income amount was \$489,052 and its achieved rate of return is 6.22%. The last allowable rate of return for this utility was set at 8.89% by Order No. PSC-93-1288-FOF-SU.

On October 11, 1996, FCWC filed an application for approval of agreement for treatment and disposal of reclaimed water with Lee County and approval of rate making treatment of revenues received. FCWC's application did not request relief pursuant to a specific statutory provision. However, consistent with past dockets, staff has processed this request as an application for a new class of service pursuant to Section 367.091, Florida Statutes.

On November 4, 1996, staff sent a letter requesting from the utility proposed tariff sheets and additional information pursuant to Rule 25-9.005(4) and (5), Florida Administrative Code, and Section 367.091(4) and (5), Florida Statutes. On November 5, 1996, staff received the tariffs and the requested additional information. On November 20, 1996, staff requested and received additional information regarding the calculation and cost justification of the proposed rates. Pursuant to Section 367.091(5), Florida Statutes, the sixty-day suspension date for the proposed tariff sheet is January 3, 1997. This recommendation addresses whether this new class of service should be approved and, if so, what should be the appropriate rate charged to Lee County and how should those revenues received be treated.

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DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the new class of service between FCWC and Lee County? If so, what should be the appropriate rate charged and how should the revenues received be treated?

RECOMMENDATION: Yes. The new class of service agreement between FCWC and Lee County for treatment and disposal of reclaimed water should be approved. However, the appropriate rate should be \$1,175.20 for the base facility charge and \$1.95 per one thousand gallons for the first six million gallons treated per month and \$1.70 per one thousand gallons for all excess gallons over six million per month. Therefore, the tariffs filed by FCWC on November 5, 1996, should be denied as filed. If the utility files revised tariff sheets within thirty days of the issuance date of the Order, which are consistent with the Commission's vote, staff should be given administrative authority to approve the revised tariff sheets. If revised tariff sheets are filed and approved, the rates should become effective on the stamped approval date of the revised tariff sheets, provided Lee County has received notice. The utility should provide proof that Lee County has received notice within ten days after the date of the notice. In addition, as set forth in the agreement, FCWC should apply the approved rate to the commencement of delivery of reclaimed water and grant Lee County the appropriate credit, without interest. This credit should be the amount representing the difference between the general service rate currently being charged and staff's recommended rate, discussed above. The revenues should be treated as non-recurring, however, FCWC should file with the Commission semi-annual earnings reports to allow staff to monitor its earnings. Therefore, if the revenues associated with this agreement places FCWC outside their approved rate of return, staff will address the over earnings in a subsequent docket. Staff recommends that no show cause be initiated because although the agreement was signed on July 10, 1996, the new rate will not go into effect until it has been approved. (GROOM)

STAFF ANALYSIS: On October 11, 1996, FCWC filed a request with the Commission to approve an Agreement dated July 10, 1996, and amendment thereto dated August 28, 1996 (Agreement) entered into between FCWC and Lee County which provides for Lee County to interconnect its reclaimed water distribution facilities with the wastewater transmission facility of FCWC. The transmission of reclaimed water will meet public access reuse standards by FCWC and will flow through the facilities of FCWC to its Fiesta Village advance wastewater treatment plant. The reclaimed water will require further treatment and disposal of the reclaimed water as

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permitted by the Florida Department of Environmental Protection (DEP).

On May 8, 1996, Lee County approached FCWC regarding treatment and disposal of reclaimed water from its Ft. Myers Beach wastewater treatment plant as a short-term response to an emergency situation which had developed at the plant. Lee County indicated to FCWC that due to inadequate disposal capacity through the reuse of reclaimed water, its storage ponds had overflowed. Furthermore, Lee County indicated that it had entered into a consent order with the DEP mandating that it present a plan for eliminating the pond overflow situation. Mr. Glenn Greer, the director of Lee County Utilities, indicates in a letter addressed to the Commission dated October 8, 1996, that a deep well injection option was selected to serve as an additional backup for the existing reuse and pond system. However, Mr. Greer indicates that the design, permitting and construction of the required injection well system will require some time, and that they expect the system to be operational prior to the beginning of the rainy season in 1998. Therefore, without this interim arrangement, Mr. Greer states that it is likely that some discharge would have occurred due to higher than normal rainfalls experienced again in 1996. It is anticipated by all parties that the need for the interconnection will not exceed beyond July, 1998.

After an internal technical review, consultation with the DEP and the performance of hydraulic studies by its consulting engineer, FCWC concluded that its wastewater collection system, the Fiesta Village wastewater treatment plant and associated effluent transmission facilities were capable of transporting, further treating and disposing of varying quantities of reclaimed water depending upon the loading from FCWC's service area. However, FCWC indicated in the agreement that this conclusion was subject to it having full control of the quantities and flow rates of reclaimed water transferred to its system and the periods during which the transfers would take place. Furthermore, the reclaimed water must continuously meet public access water quality standards as prescribed by Florida regulators.

The utility proposes a specific rate in order to provide the new service of the treatment and disposal of reclaimed water. As noted in the Case Background, while the utility requested approval of the agreement, this matter involves the creation of a new class of service, as addressed by Section 367.091, Florida Statutes. Therefore, the standard and requirements of that statute have been applied in staff's analysis of the proposed rate. FCWC requests that it be allowed to charge Lee County a base facility charge of \$1,461 and a gallonage charge of \$2.25 per one thousand gallons for

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the first six million gallons per month and \$2.00 per thousand in excess of six million gallons per month. FCWC's proposed rates are based on the cost of service study, supplied in its filing, for a high volume user requiring less treatment.

After reviewing the utility proposed cost study, staff believes the base facility charge should be based on its current tariff with a conversion for the expected eight inch connection size. The current 5/8 inch meter size base facility charge is \$14.69 and an eight inch equivalent is 80 times or \$1,175.20 based on American Water Works Association. The utility believes an eight inch equivalent should be 100 times or \$1,461 the current residential base facility charge. Staff believes that the American Water Works Association's equivalent factor should be used to base this eight inch meter size. Regarding FCWC's proposed gallowage charge, its analysis uses the following major assumptions:

- ◆ Only 60% of the net utility plant in service would be used in processing of these additional flows. (This is due to the fact that the collection system utilized is much less than for the entire system)
- ◆ Only 55% to 60% of the treatment process is required. (This is because the flows are of an effluent quality and do not require the chemicals and other processing that raw wastewater from the entire system requires)
- ◆ 100% of general and administrative costs and return on rate base are required.

FCWC's analysis is a very abbreviated cost of service study for a high volume user requiring less treatment. FCWC's proposed volume charge of \$2.25 is an attempt to split the calculated volume charges for the estimated annual flows of 110,000 gallons per day at \$2.33 and the annual flows of 200,000 gallons per day at \$2.20. FCWC's proposed charge of \$2.00 for flows over 200,000 gallons per day on a monthly basis reflects the lower volume charge at the higher flows. The parties agreed that a minimum monthly take of 1.6 million gallons per month is proposed to reflect readiness to serve and to encourage stabilization of flows.

Staff recommends that the gallowage charge should be \$1.95 per one thousand gallons for the first 6 million gallons per month and \$1.70 per one thousand gallons in excess of 6 million gallons per month. Staff does not believe 100 percent of general and administrative costs, income taxes and return on rate base is required. The utility's filing states that it chose 100 percent even though not all of the plant or processing is required.

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Therefore, staff recommends that it is more appropriate to base these costs on an allocation of 60 percent instead of 100 percent. In addition, staff adjusted the utility's calculated rate base, return on rate base and income taxes. Staff based its calculation on FCWC's 1995 annual report. As shown on Schedule 1, the cost per one thousand gallons based on staff's revised numbers is \$1.95. Staff does agree with the utility that a lower volume charge at the higher flows should exist and that a minimum monthly take of 1.6 million gallons per month should be used to reflect readiness to serve and to encourage stabilization of flows. Thus, a charge of \$1.70 per one thousand gallons in excess of 6 million gallons per month should be approved, as shown on Schedule 1. Staff recommends that the Commission find these rates to be just, reasonable and compensatory, based upon the analysis set forth above.

Pursuant to Section 367.091(4), Florida Statutes:

If any request for service of a utility shall be for a new class of service not previously approved, the utility may furnish the new class of service and fix and charge just, reasonable, and compensatory rates or charges therefor. A schedule of rates or charges so fixed shall be filed with the Commission within 10 days after the service is furnished. The Commission may approve such rates or charges as filed or may approve such other rates or charges for the new class of service which it finds are just, reasonable, and compensatory.

FCWC's filing indicates that service was commenced at Lee County's request on July 19, 1996. However, FCWC did not file for approval of the new rate until October 11, 1996. Therefore, staff considered whether a show cause proceeding should be initiated against the utility for this apparent failure to comply with this statute.

The agreement indicates that if the delivery of reclaimed water commences prior to the Commission's approval of the proposed rate, the rate shall be the general service rate as specified in FCWC's approved tariff. FCWC further agrees to apply the approved rate retroactively to the commencement of delivery of reclaimed water and grant Lee County credit, without interest, in an amount representing the difference between the general service rate and the Commission approved rate. Furthermore, in the event the Commission approved rate is materially greater than the proposed rate, Lee County may terminate this agreement upon thirty days written notice.

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While FCWC commenced service on July 19, 1996, it is currently charging its approved general service rate. The new rate will not go into effect until the Commission has approved it. For these reasons, staff does not believe FCWC has violated Sections 367.091(3) and (4). Therefore, staff recommends that a show-cause action is not necessary.

In addition, FCWC seeks the Commission's approval to treat the revenues received by FCWC pursuant to this agreement to be non-recurring so that revenues will not be considered in determining the level of regulated earnings for FCWC and if the revenue from this agreement results in over earning then the Commission should defer such over earning to subsequent years. After reviewing FCWC's 1995 annual report, staff determined FCWC's rate of return to be 6.22 percent. As indicated in the utility's last rate order, its rate of return's zone of reasonableness is from 8.60 percent to 9.18 percent. Based on FCWC's 1995 annual report, the utility is not earning its allowed rate of return. In addition, the agreement indicates that service is only being supplied to Lee County on a temporary basis and that it will not exceed beyond July, 1998. Therefore, staff recommends that the estimated annual revenues of \$122,912 associated with this agreement should be treated as non-recurring. However, FCWC should file with the Commission semi-annual earnings reports to allow staff to monitor its earnings. Therefore, if the revenues associated with this agreement places FCWC outside their approved rate of return, staff will address this over earnings in a subsequent docket.

In summary, staff recommends that the agreement between FCWC and Lee County for treatment and disposal of reclaimed water should be approved. Staff recommends that a charge of \$1.95 per one thousand gallons for the first 6 million gallons per month and \$1.70 per one thousand gallons in excess of 6 million gallons per month of reclaimed water delivered to FCWC's system should be approved. In addition, a monthly minimum charge based on the delivery of 1.6 million gallons per month plus a base facility charge of \$1,175.20 should be approved. Therefore, the tariffs filed by FCWC on November 5, 1996, should be denied as filed. If the utility files revised tariff sheets within thirty days of the issuance date of the Order, which are consistent with the Commission's vote, staff should be given administrative authority to approve the revised tariff sheets. If revised tariff sheets are filed and approved, the rates should become effective on the stamped approval date of the revised tariff sheets, provided Lee County has received notice. The utility should provide proof that Lee County has received notice within ten days after the date of the notice. Therefore, in accordance with the agreement, FCWC should apply the approved rate to the commencement of delivery of

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reclaimed water and grant Lee County the appropriate credit, without interest. This credit should be the amount representing the difference between the general service rate currently being charged and staff's recommended rate, discussed above. Furthermore, the estimated annual revenues of \$122,912 associated with this agreement should be treated as non-recurring, however, FCWC should file with the Commission semi-annual earnings reports to allow staff to monitor its earnings. Therefore, if the revenues associated with this agreement places FCWC outside their approved rate of return, staff will address the over earnings in a subsequent docket.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes, the docket should be closed upon the utility's timely filing revised tariffs according to the Commission's order, proper notice being provided to Lee County, 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 Commission approved tariff, the utility's proposed tariff may be implemented. Furthermore, if the utility's proposed tariff is implemented then all charges collected should be held subject to refund pending resolution of the protest.
(O'SULLIVAN, GROOM)

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 Commission approved tariff, the utility's proposed tariff may be implemented. Furthermore, if the utility's proposed tariff is implemented then all charges collected should be held subject to refund pending resolution of the protest. In the event of such protest, staff will prepare an additional recommendation to address the appropriate security of such refunds.

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, proper notice being provided to Lee County, and staff's verification that the tariffs reflect the Commission's order.

Docket No. 961231-WS
 Florida Cities Water Company - Lee County Division
 Wastewater Agreement with Lee County
 Computation of Rates

Schedule 1

	High Estimate	Low Estimate	Average Estimate	Gallons:		Year	Month			
Total Wastewater Gallons Treated (MG)	835,360	867,760	851,560			55,800	4,650			
	795,760									
Source: 1995 Annual Report	Year	%		Costs per	Allocated	Annual	Cost Per	Utility's	Staff's	
	12/31/95	of Total	Allocation	1,000 Gallon	to Lee	Costs	Month	Proposed	Proposed	
				Treated	County			Charge	Charge	
Capacity Related Costs										
Treatment Expenses	0	0.00%	0.00%	0.0000	60.00%					
Customer Accounting Expenses	0	0.00%	0.00%	0.0000	20.00%					
General & Admin. Expenses	0	0.00%	0.00%	0.0000	60.00%					
Total Depreciation	300,694	77.39%	50.00%	0.3531	60.00%	\$11,822	\$985			
Taxes Non-Income - Reg. Asses Fees	42,313	10.89%	29.80%	0.0497	60.00%	\$1,664	\$139			
Taxes Non-Income - Property Taxes	36,280	9.34%	100.00%	0.0426	60.00%	\$1,426	\$119			
Taxes Non-Income - Payroll Taxes	9,276	2.39%	0.00%	0.0000	60.00%					
Income Taxes	0	0.00%	0.00%	0.0000	60.00%					
Return on Rate Base	0	0.00%	0.00%	0.0000	60.00%					
Total Capacity Related Costs	388,563	100.00%		0.4454		\$14,912	\$1,243	\$1,461	\$1,175.20	
Volumetric Related Costs										
Source of Supply/Sewage Collection	54,943	1.81%	100.00%	0.0645	15.00%	\$540	\$45			
Pumping Expenses	173,107	5.70%	100.00%	0.2033	15.00%	\$1,701	\$142			
Treatment Expenses	776,800	25.56%	100.00%	0.9122	60.00%	\$30,541	\$2,545			
Transmission & Distribution Exp.	0	0.00%	100.00%	0.0000	0.00%					
Customer Accounting Expenses	81,429	2.68%	100.00%	0.0956	20.00%	\$1,067	\$89			
General & Admin. Expenses	536,558	17.66%	100.00%	0.6301	60.00%	\$21,095	\$1,758			
Total Depreciation	300,694	9.89%	50.00%	0.3531	60.00%	\$11,822	\$985			
Taxes Non-Income - Reg. Asses Fees	99,677	3.28%	70.20%	0.1171	60.00%	\$3,919	\$327			
Taxes Non-Income - Property Taxes	85,485	2.81%	0.00%	0.0000	60.00%					
Taxes Non-Income - Payroll Taxes	21,853	0.72%	100.00%	0.0257	60.00%	\$859	\$72			
Income Taxes	209,610	6.90%	100.00%	0.2461	60.00%	\$8,241	\$687			
Return on Rate Base	698,703	22.99%	100.00%	0.8205	60.00%	\$27,470	\$2,289			
Total Volumetric Costs	3,038,858	100.00%		3.4682		\$107,256	\$8,938			
Total Costs	3,427,421						\$1.92			
								\$2.25	\$1.95	
								\$2.00	\$1.70	
Rate Base (12/31/95):	7,859,421									
Allowable Rate of Return:	8.89%									
Source: PSC-93-1288-FOF-SU										
								Minimum Monthly Charge:	\$5,061	\$4,295
								Estimated Monthly Revenues:	\$11,924	\$10,243
								Estimated Annual Revenues:	\$143,082	\$122,917

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961231

State of Florida Public Service Commission

2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0870



11-27-96

Please change as follows

Florida Cities Water Company Lee County Division
~~Mr. Paul W. Bradtmiller~~ Gerald S. Allen

~~P. O. Box 21119
Sarasota FL 34276 4119~~

FLC1119 34276 015 1806 11/26/96
NOTIFY SENDER OF NEW ADDRESS
FLORIDA CITIES WATER
4037 SWIFT BRIDGE 100
SARASOTA FL 34276 4119

