FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

DATE: May 6, 1997

RE: DOCKET NO. 960451-WS - Application for rate increase in Duval, Nassau, and St. Johns Counties by United Water Florida Inc.

Issue 1: Is the quality of service provided by United Water Florida Inc. (UWF) satisfactory?
Recommendation: Yes, the overall quality of service is satisfactory. The utility should be ordered by the Commission to provide data showing the results of treatment for hydrogen sulfide control and corrosive tendencies of the water.

APPROVED

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY	DISSENTING
Joe Garcia	
Susan F. Clark	
[illegible]	
J. Terry Deason	
Diane K. Kiesling	

REMARKS/DISSENTING COMMENTS:

PSC/RAR33(5/90)

DOCUMENT NUMBER-DATE
04657 MAY-8 5
FPSC-RECORDS/REPORTING

Rate Base
Issue 2: Stipulation.

Issue 3: Withdrawn.

Issue 4: Withdrawn.

Issue 5: Is the projected level of additions to plant-in-service appropriate for inclusion in rate base?
Recommendation: No. Average water and wastewater accounts as filed should be adjusted to reflect 1996 actual capital additions and the utility's revised projected capital additions proposed by the utility. Water plant-in-service should be decreased by $5,951,658 and wastewater plant-in-service should be decreased by $10,685,901 to show the utility's revised capital addition projections at average. In addition, land and land rights, accumulated depreciation, CIAC, accumulated amortization of CIAC, depreciation expense and property taxes should be adjusted.

APPROVED

Issue 6: What is the appropriate AFUDC rate for 1997, and what is the appropriate monthly discounted rate and effective date?
Recommendation: The appropriate AFUDC rate for 1997 is 11.12%, as approved for Jacksonville Suburban Utilities Corporation by Order No. 21492 issued on June 30, 1989. The monthly discounted rate is 0.882543%. The Commission should, on its own motion, approve an AFUDC rate of 9.57% and a monthly discounted rate of 0.79704% for UWF effective January 1, 1998, based on the 1997 capital structure developed in this docket.

APPROVED

Issue 7: What adjustments to plant in service are appropriate due to the AFUDC rates?
Recommendation: UPIS, associated depreciation expense and accumulated depreciation should be reduced to remove AFUDC recorded in excess of the authorized rate.

APPROVED

Issue 8: Is it appropriate to include property held for future use in rate base?
Recommendation: No. Of the $23,776 recorded in water UPIS as property held for future use, $15,000 should be excluded from water rate base. The remaining $8,776, an easement in the Ponte Vedra service area, should be reclassified as UPIS. The $1,175,700 added to wastewater UPIS during 1996 for the purchase of Yulee WWTP Land should be excluded from wastewater rate base and reclassified as plant held for future use.

APPROVED

Issue 9: Is there excessive unaccounted for water and, if so, what adjustments are necessary?
Recommendation: There is some excessive unaccounted for water, but no reduction in expenses should be made.

DENIED

Alternative Recommendation: Some of the systems have excessive unaccounted for water, and an adjustment to purchased water, purchased power, and chemicals should be made in the amount of $22,040.

APPROVED

Issue 10: Stipulation.

Vote Sheet
Docket No. 960451-WS
May 6, 1997

Issue 11: Should a margin reserve be allowed for the water system and, if so, in what amount?
Recommendation: No. A margin reserve for the water system is not necessary since staff recommends in Issues 13 and 15 that UWF's water treatment plants and distribution systems are 100% used and useful without a margin reserve.

APPROVED

Issue 12: Should a margin reserve be allowed for the wastewater system and if so, in what amount?
Recommendation: No. A margin reserve for the wastewater treatment plants and collection systems is not necessary since staff recommends in Issues 14 and 16 that UWF's wastewater facilities are 100% used and useful without a margin reserve.

APPROVED

Issue 13: What are the appropriate used and useful percentages for the water treatment plant?
Recommendation: All of the water treatment plants are 100% used and useful.

APPROVED

Issue 14: What are the appropriate used and useful percentages for the wastewater treatment plant?
Recommendation: All of the wastewater treatment plants are 100% used and useful.

APPROVED

Issue 15: What are the appropriate used and useful percentages for the water distribution system?
Recommendation: The water distribution system is 100% used and useful.

APPROVED

Issue 16: What are the appropriate used and useful percentages for the wastewater collection system?
Recommendation: The wastewater collection system is 100% used and useful.

APPROVED

Issue 17: Should CIAC be imputed on margin reserve and, if so, in what amount?
Recommendation: No. Staff is recommending that both the water and wastewater facilities are 100% used and useful with no margin; therefore, this issue is moot. If, however, the Commission finds that any facility is less than 100% used and useful, and does grant a margin reserve, CIAC should be imputed as a matching provision to the margin reserve calculation. However, only 50% of the amount of CIAC collected over the margin reserve period should be imputed to recognize that the imputed amount will be collected over the life of the period, not all at the beginning. In addition, the imputation should be limited to the amount of net plant included in the margin reserve.

APPROVED

Issue 18: Was the utility's decision to implement a depreciation rate change in 1986 appropriate and, if not, what adjustments are necessary?
Recommendation: The utility's decision to change its depreciation rates without Commission approval was appropriate. The rates implemented were appropriate and no additional adjustments are necessary.

APPROVED

Issue 19: What impact does the inclusion of UWF's revised projected additions to plant-in-service have on accumulated depreciation?
Recommendation: The revised projected average balances of water and wastewater accumulated depreciation reflect adjustments to the related plant components and no further adjustment is necessary.

APPROVED

Issue 20: Are any additional adjustments to accumulated depreciation necessary?
Recommendation: Other than those adjustments in Issues 5, 7, and 19, no further adjustments to accumulated depreciation are recommended.

APPROVED

Issue 21: Withdrawn.

Issue 22: What is the appropriate amortization rate and amount of accumulated amortization for acquisition adjustments?
Recommendation: The utility should reflect amortization of the acquisition adjustments accumulated from the date the acquisition adjustments were authorized over the utility's previously authorized amortization period of 20 years. The Commission should not change this amortization period. The appropriate amount for total accumulated amortization of the acquisition adjustments for the test year is $623,485: $209,982 for the water operation and $413,503 for the wastewater operation. Test year amortization should be increased by $6,918 for water and $13,789 for wastewater.

APPROVED

Issue 23: What is the appropriate amount of unamortized tank painting expense included in rate base?
Recommendation: The appropriate average amount of unamortized tank painting expense to be included in the test year rate base is $767,722. The allowance for working capital should be increased by $42,906. Based on the utility's allocations in its MFR, 34% of this amount, $14,588, is allocated to water and 66%, $28,318, to wastewater.

APPROVED

Issue 24: What is the appropriate allowance for working capital?
Recommendation: The appropriate 1997 test year allowance for working capital is $1,030,677. $350,430 is allocated to water and $680,427 is allocated to wastewater, as adjusted in Issue 23.

APPROVED

Issue 25: Should any unfunded liability for Other Postretirement Employee Benefits be reduced from rate base?
Recommendation: Yes. Rate base should be reduced by $415,080 and $737,920 for water and wastewater, respectively, to reflect the amount of the unfunded liability for 1997.

APPROVED

Issue 26: What is the appropriate rate base?
Recommendation: The appropriate projected average rate base for the 1997 test year is $27,194,751 for the water system and $49,217,880 for the wastewater system, based on the resolution of Issues 2 through 25.

APPROVED

Vote Sheet
Docket No. 960451-WS
May 6, 1997

<u>Issue 27</u>: What is the appropriate capital structure for ratemaking purposes for the projected test year ending 12/31/97?
<u>Recommendation</u>: The appropriate capital structure for ratemaking purposes should be based on a combination of the utility's parent company's capital structure and the utility's actual capital structure. The balances of investor sources of capital should be allocated based upon the relative percentages of investor capital maintained at the parent level and the balances of investment tax credits, deferred income taxes, and customer deposits should be specifically identified at the utility level.

APPROVED

<u>Issue 28</u>: What is the appropriate weighted average cost of debt?
<u>Recommendation</u>: The appropriate weighted average cost of long-term debt is 8.55%.

APPROVED

<u>Issue 29</u>: What is the net amount of deferred income taxes that should be included in the capital structure, if any?
<u>Recommendation</u>: The appropriate amount of net deferred income taxes to include in the capital structure is $1,202,950. This includes an additional $52,779 to correct a UWF error in calculating the 13-month average and $139,398 related to the amount of 1996 and 1997 plant additions. The amount also includes a $82,798 adjustment required to make implementation of SFAS 109 revenue neutral.

APPROVED

Issue 30: What is the appropriate amount and cost rate for unamortized investment tax credits that should be included in the capital structure?
Recommendation: The investment tax credit balance should be $1,264,033 which includes an adjustment to reduce the amount by $853,846 to correct an error made by UWF. The cost rate should be zero and amortization should be below the line.

APPROVED

Issue 31: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the projected test year ending 12/31/97?
Recommendation: The appropriate weighted average cost of capital is 9.57%. The cost of common equity is 11.57%, with a range of plus or minus 100 basis points.

APPROVED

Issue 32: What is the appropriate method of forecasting ERCs and consumption for the projected test year ending December 31, 1997, and what are the resulting projected number of water and wastewater ERCs and consumption to be used to calculate revenue for the 1997 projected test year and to calculate rates for service?
Recommendation: Although the utility used an averaging methodology to forecast the growth in customer bills (and, therefore, the resulting ERCs), the appropriate method of forecasting bills and ERCs is simple linear regression. Staff agrees with the utility that the appropriate method of forecasting consumption is multiple linear regression. Although UWF used an averaging methodology to forecast bills, the utility's number of projected bills are within 1.5% of the number of projected bills using simple linear regression; therefore, no adjustment to the utility's bills or ERCs projections are necessary. Therefore, the utility's projections for the 1997 projected test year of 315,523 ERCs and 4,445,919 gallons for the water system, and 255,172 ERCs and 3,522,367 gallons for the wastewater system are appropriate.

APPROVED

Issue 33: What adjustments, if any, are necessary to the 1997 projected test year revenues to reflect the appropriate number of water and wastewater ERCs and consumption?
Recommendation: There are no revenue adjustments necessary to the 1997 projected test year revenues to reflect the appropriate number of water and wastewater ERCs and consumption.

APPROVED

Issue 34: Should UWF's request for a $3 late charge be approved and, if so, should test year revenues be increased to reflect the impact of UWF's proposed $3 late payment fee?
Recommendation: No. UWF's request for a $3 late charge should not be approved at this time. UWF may file for this late payment charge pursuant to Section 367.091, F.S., once it has the capabilities to implement it. Therefore, no revenue from this late payment fee should be included in the test year revenues.

APPROVED

Issue 35: Are any adjustments necessary to the projected test year salary and wage expenses?
Recommendation: Yes. Test year salaries and wage expenses should be reduced by $63,653 and $113,160 for water and wastewater, respectively. Corresponding adjustments should also be made to reduce payroll tax expenses by $5,970 and $10,614 for water and wastewater, respectively. In addition, there should be an adjustment to reduce water expenses by $48 and an adjustment to increase wastewater expenses by $56,647 to correct a misclassification error.

APPROVED

Issue 36: Are any adjustments necessary to the utility's 1997 operation and maintenance (O&M) expense projection methodology?
Recommendation: No adjustments are necessary.

APPROVED

Issue 37: Is UWF's projected 9% increase in medical and dental costs occurring between 1996 and 1997 appropriate?
Recommendation: No. UWF's test year medical and dental costs should be based on a 5% increase between 1996 and 1997.

APPROVED

Issue 38: Is UWF's projected test year medical, dental and life insurance expenses reasonable?
Recommendation: No. The utility's projected medical, dental, and life insurance test year expenses should be reduced by $19,532 and $34,724 for water and wastewater operations, respectively.

APPROVED

Issue 39: Are any adjustments necessary to the projected test year expenses for Other Postretirement Employee Benefits (OPEBs)?
Recommendation: Yes. Test year OPEB expenses should be reduced by $5,342 and $9,496 for water and wastewater operations, respectively. Further, the utility's request for recovery of expenses from prior years should be rejected as unsupported by the record.

APPROVED

Issue 40: Are any adjustments necessary to the test year expenses related to the employee savings program (401k)?
Recommendation: Yes. Test year 401k expenses should be reduced by $4,018 and $7,144 for water and wastewater operations, respectively.

APPROVED

Issue 41: Should legal costs associated with UWF's defense of EPA or DEP violations be included in test year expense?
Recommendation: Yes.

APPROVED

Issue 42: Should the cost savings related to the Information Technology (I.T.) project be reflected in the test year level of expenses?
Recommendation: Yes. However, these cost savings are reflected in staff's recommendation for Issues 35, 38 and 39. No further adjustments are necessary.

APPROVED

Issue 43: Is the utility's requested expense for vehicle leasing reasonable and what adjustments, if any, are necessary?
Recommendation: The utility's requested expense for vehicle leasing is reasonable; therefore, no adjustments are necessary.

APPROVED

Issue 44: Withdrawn.

Issue 45: Withdrawn.

Issue 46: Should the Company's proposed five-year amortization of the "Miscellaneous Other Deferred Debits" be included in test year amortization expense?
Recommendation: No. Test year expenses should be reduced by $7,726 for UWF's water operations.

APPROVED

Issue 47: Should the test year amortization expense associated with UWF's proposed five-year amortization of the "Vision 2000" costs be allowed?
Recommendation: Yes. However, Purchased Power expenses should be reduced by $5,283 and $9,392 for water and wastewater operations, respectively, to reflect additional cost savings not factored into the test year.

APPROVED

Issue 48: Should the amortization expense associated with UWF's proposed five-year amortization of Moving Expenses that were deferred by UWF be included in test year expense?
Recommendation: No. Test year expenses should be reduced by $4,489 and $7,981 for water and wastewater operations, respectively. Further, the utility's suggestion to allow test year expenses equal to the average of the 1995 and 1996 levels should be rejected as unsupported.

APPROVED

Issue 49: Should expenses related to charitable contributions and membership dues be included in test year expenses?
Recommendation: No. Test year expenses should be reduced by $3,844 and $6,236 for water and wastewater operations, respectively.

APPROVED

Issue 50: Withdrawn.

Issue 51: Withdrawn.

Issue 52: Should public relations expenditures be included in test year expenses?
Recommendation: No. Test year water and wastewater expenses should be reduced by $1,525 and $2,711, respectively, to remove the public relations advertising costs. In addition, in order to remove public relations and acquisition related payroll expenses, test year water and wastewater expenses should be reduced by $15,326 and $27,247, respectively.

APPROVED

Issue 53: What is the appropriate provision for rate case expense?
Recommendation: The appropriate amount of rate case expense is $459,571, resulting in annual amortization expenses of $41,361 and $73,531 for water and wastewater operations, respectively. This represents an increase in the utility's requested test year expenses of $2,661 and $4,731 for water and wastewater, respectively.

APPROVED

Issue 54: Should depreciation expense be calculated based upon the thirteen-month average plant in service balance or the test year end balance?
Recommendation: Depreciation expense should be calculated based upon appropriate depreciation rates applied to adjusted thirteen-month average plant in service over the test year.

APPROVED

Issue 55: Were there any errors included in UWF's depreciation expense calculations?
Recommendation: Yes. UWF made a transposition error in its filing. If depreciation expense is recalculated, as all parties recommend in Issue 54, this error is no longer relevant and no adjustment should be made.

APPROVED

Issue 56: What adjustment to depreciation expense is necessary to reflect the impact of UWF's revisions to plant additions?
Recommendation: Depreciation expense should be calculated based upon appropriate depreciation rates applied to adjusted average test year plant in service. Based on the plant in service and CIAC from Issue 5, depreciation expense should be decreased from the filed year-end amount by $270,063 for the water system and $616,628 for the wastewater system to reflect the impact of UWF's revisions to its projected plant additions on depreciation expense. Depreciation expense should also be decreased by $1,334 for the water system and $6,901 for the wastewater system to remove the excess AFUDC (Issue 7). Stipulation 1 calls for the removal of merger costs which further reduce depreciation expense by $639 for the water system and $64 for the wastewater system. The total of these reductions to depreciation expense is $272,036 for the water system and $623,594 for the wastewater system.

APPROVED

Issue 58: What is the amount, if any, of above-the-line investment tax credit amortization?
Recommendation: There should be no ITC amortization above the line. See the discussion in Issue 30 of staff's April 24, 1997 memorandum.

APPROVED

Issue 59: What is the amount, if any, of the parent debt adjustment?
Recommendation: A parent debt adjustment in the amount of $108,392 is appropriate. This amount should be divided between water and wastewater on the basis of their respective rate bases.

APPROVED

Issue 60: What adjustments, if any, are required to income tax expense as filed?
Recommendation: This is a fall-out issue dependent on the resolutions of other issues. Based on staff recommendations in Issues 2 through 59, the appropriate income tax expense is $117,986 for water and $371,106 for wastewater.

APPROVED

Issue 61: What is the test year operating income before any revenue increase?
Recommendation: The test year operating income should be $7,286,448 and $15,673,782 for water and wastewater operations, respectively.

APPROVED

Issue 62: Withdrawn.

Issue 63: What is the appropriate revenue requirement?
Recommendation: The following revenue requirements should be approved:

	TOTAL	$ INCREASE	% INCREASE
Water	$ 9,648,188	$2,361,740	32.41%
Wastewater	$17,963,539	$2,289,757	14.61%

APPROVED

Issue 64: Withdrawn.

Issue 65: Should UWF be required to bill its residential customers on a monthly basis?
Recommendation: No. UWF should not be required to bill its residential customers on a monthly basis.

APPROVED

Issue 66: Withdrawn.

Issue 67: What is the appropriate wastewater gallonage cap?
Recommendation: The appropriate wastewater gallonage cap is 27,000 gallons or 3,600 cubic feet per quarter for UWF's single family residential customers. Therefore, the current residential wastewater gallonage cap should be reduced by 3,000 gallons or 400 cubic feet per quarter.

APPROVED

Issue 68: Should the wastewater gallonage charge be differentiated between residential and general service?
Recommendation: Yes. The wastewater gallonage charge should be differentiated between residential and general service, as shown on Schedule No. 4B of staff's memorandum, to recognize the variance in usage patterns.

APPROVED

Issue 69: What are the appropriate wastewater rates for Jacksonville University?
Recommendation: The appropriate gallonage charge for Jacksonville University is $4.13 per 1,000 gallons or $3.09 per 100 cubic feet and the appropriate base facility charge is the corresponding general service rates.

APPROVED

Issue 70: Withdrawn.

Issue 71: Withdrawn.

Issue 72: What are the appropriate water and wastewater rates?
Recommendation: Consistent with the recommendations in Issues 32, 67, 68 and 69, the rates should be designed to allow the utility the opportunity to generate annual operating revenues of $9,561,288 and $17,963,539 for water and wastewater respectively, excluding miscellaneous revenues. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), F.A.C. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

APPROVED

Issue 73: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense required by Section 367.0816, F.S.?
Recommendation: The water and wastewater rates should be reduced, as shown on Schedule No. 5 of staff's memorandum, to remove $43,310 for water and $76,996 for wastewater for rate case expense grossed up for regulatory assessment fees which are being amortized over a four-year period. The decreases in rates should become effective immediately following the expiration of the four- year recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariff sheets and proposed customer notices setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions.

APPROVED

Vote Sheet
Docket No. 960451-WS
May 6, 1997

Issue 74: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?
Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no interim refund is required. Therefore, the corporate undertaking should be released.

APPROVED

Issue 75: Withdrawn.

Issue 76: If any non-used and useful adjustments are made, should allowance for funds prudently invested (AFPI) charges be authorized and, if so, in what amount?
Recommendation: AFPI charges are not necessary based on the finding that the plant is 100% used and useful. If there is a non-used and useful determination, AFPI charges should be authorized based on non-used and useful adjustments, calculated in accordance with Rule 25-30.434, F.A.C., based on the non-used and useful plant.

APPROVED

Issue 77: Has the utility complied with the NARUC USOA?
Recommendation: No. The utility uses its own chart of accounts for its record keeping and cross-references these accounts to the NARUC USOA. However, because many of these cross-references are incorrect, the utility should be considered to be out of compliance with the NARUC USOA. The utility also does not comply with Accounting Instruction 2.A., NARUC USOA, in that it does not keep continuing property records.

APPROVED

Issue 78: If the utility has not complied with the NARUC USOA, what Commission action is appropriate?
Recommendation: The utility should be ordered to establish and maintain its books and records in accordance with the NARUC USOA. This includes cross-referencing the utility's own chart of accounts to the NARUC USOA and having readily available supporting documents for all plant accounts.

APPROVED

Issue 79: Should the utility be fined for prematurely destroying or losing the accounts payable files for the years 1990 and 1991, in violation of Rule 25-30.110(1)(a), F.A.C.?
Recommendation: No. Although UWF's failure to maintain its 1990 and 1991 accounts payable files is an apparent violation of Rule 25-30.110(1)(a), F.A.C., it should not be fined because the destruction or loss of the records was due to inadvertence and was not intentional.

APPROVED

Issue 80: Withdrawn.

Issue 81a: Withdrawn.

Issue 81b: Withdrawn.

Issue 82: Should this docket be closed?
Recommendation: Yes. The docket should be closed after the time for filing an appeal has run and the proper revised tariff sheets and customer notice have been filed by the utility and approved by staff.

APPROVED