

VOTE SHEET

DATE: June 10, 1997

RE: DOCKET NO. 960233-WS - Application for increase in rates and service availability charges in Lee County by Gulf Utility Company.
DOCKET NO. 960234-WS - Investigation of rates of Gulf Utility Company in Lee County for possible overearnings.

Issue A: Should the proposed stipulations be approved?

Recommendation: Yes.

— APPROVED —

Quality of Service

Issue 1: Is the quality of service provided by Gulf Utility Company satisfactory?

Recommendation: Yes, the quality of service provided by Gulf Utility Company to its customers is satisfactory.

APPROVED

COMMISSIONERS ASSIGNED: CL DS

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Susan Clark
J. Terry Dean

REMARKS/DISSENTING COMMENTS:

PSC/RAR33 (5/90)

DOCUMENT NUMBER-DATE

05870 JUN 11 97

FPSC-RECORDS/REPORTING

Issue 2: Does the Utility provide adequate fire flow to its entire certificated area?

Recommendation: No. Areas exist in the service area which do not meet minimum flow standards required by the Lee County Development Code and the Insurance Service Organization (ISO). Staff recommends that Gulf Utility be ordered to coordinate with representatives from the fire districts in its service area to correct low flow problems where they exist and report to this Commission in 6 months and 12 months, after the issuance date of the final order, detailing the corrective measures taken and the progress of the corrective action.

APPROVED

Rate Base

Issue 3: Should the one million gallon reject holding tank for the Corkscrew Water Treatment Plant be included in rate base?

Recommendation: No.

APPROVED

Issue 4: Should any adjustments be made to the chlorine contact chambers at the new Three Oaks Wastewater Treatment Plant?

Recommendation: Yes. However, the chlorine contact chambers are included in Account 380.4 (Treatment and disposal equipment). All adjustments to Account 380.4 are addressed in Issue 15.

APPROVED

Issue 5: Should any adjustments be made to the old Three Oaks Wastewater Treatment Plant?

Recommendation: No adjustments should be made. The facility is necessary to meet DEP Class I reliability requirements as stated in Rule 62-610, FAC, and should be considered 100% used and useful.

APPROVED

Issue 6: Should the costs associated with the Florida Gulf Coast University (FGCU) be included in this rate proceeding, and what, if any adjustments are necessary?

Recommendation: Costs associated with the Florida Gulf Coast University were incurred during the test year and should be included in rate base. No adjustments are necessary.

APPROVED

Issue 7: Should a margin reserve be allowed for the water and wastewater systems, and if so, what amount?

Recommendation: Yes. Staff recommends that a margin reserve, using the linear regression method of forecasting future growth, should be included in the used and useful calculations. Margin reserve should be 18 months for water treatment plants (283,773 gpd) and 36 months for the Three Oaks Wastewater Treatment Plant (225,623 gpd). No margin reserve is recommended for the San Carlos Wastewater Treatment Plant, which is operating at capacity and recommended to be 100% used and useful in Issue 15. The water distribution and wastewater collection systems are contributed and therefore also considered to be 100% used and useful. The recommendation for a 36-month Margin Reserve is a change from existing Commission policy.

MODIFIED

Approved with exception that margin of reserve on wastewater be 18 percent with a 50 percent imputation D. CIAC

Issue 8: Should fire flow be included in the used and useful calculations for the water system, and if so, what is the appropriate allowance?

Recommendation: Yes. Fire flow should be included in the used and useful calculations. The appropriate amount for Gulf Utility Company is 750 gpm at 20 psi for four hours (180,000 gallons).

APPROVED

Issue 9: Should economies of scale be considered by the Commission in determining whether facilities are used and useful in the public interest?
Recommendation: Yes. Economies of scale should be considered on a case by case basis when supporting data is provided by the company.

APPROVED

Issue 10: Should the Commission recognize economies of scale in determining used and useful for the Corkscrew well field, Corkscrew water treatment plant, Skid #3 and Corkscrew reject water facilities?
Recommendation: No. The Commission should consider economies of scale only when proper data is provided by the utility.

APPROVED

Issue 11: Should all facility lands be considered 100% used and useful, and if not, what is the appropriate used and useful percentages?
Recommendation: Yes. All facility lands should be considered 100% used and useful.

APPROVED

Issue 12: What are the appropriate method and resulting used and useful percentages for the water system components?
Recommendation: The appropriate method for calculating used and useful for the water system components is the sum of the average of five maximum days plus fire flow plus margin reserve minus excessive unaccounted for water divided by plant capacity. The resulting used and useful percentage for the water system components is 76.15%.

APPROVED

Issue 13: What are the appropriate method and resulting used and useful percentages for water supply wells?

Recommendation: The appropriate method is to calculate capacity required versus capacity constructed as has been done historically by this Commission. The San Carlos well field should be 100% used and useful and the Corkscrew well field should be 62.5% used and useful.

APPROVED

Issue 14: What is the appropriate method and resulting used and useful percentage for water storage?

Recommendation: The water storage capacity for Gulf Utility Company is less than a one day production of the treatment plants. The storage facility should be considered 100% used and useful.

APPROVED

Issue 15: What is the appropriate method and resulting used and useful percentage for the wastewater treatment plants?

Recommendation: The appropriate method of calculation for the San Carlos WWTP is based on the annual average daily flow due to DEP permitting. The appropriate method of calculation for the Three Oaks WWTP is based on the average daily flow of the maximum month due to DEP permitting. The resulting used and useful percentages should be 100% for the San Carlos WWTP and ~~67.15%~~ for the Three Oaks WWTP.

72.11% **MODIFIED**

*Approved as modified
at conference, per decision
on margin of revenue*

Issue 16: What are the appropriate used and useful percentages for the water and wastewater facilities?

Recommendation: No decision on this issue is necessary because all used and useful percentages were discussed and covered in Issues 12 through 15. Staff recommendations can be found in each issue.

No decision necessary

Issue 17: Are adjustments necessary to increase CIAC and decrease equity for lines built for the Caloosa Group (Audit Disclosure 1)?

Recommendation: Yes. CIAC should be increased by \$68,114 for water and \$92,815 for wastewater. Equity should be decreased by \$160,929. Accumulated amortization of CIAC should be increased by \$10,855 for water and \$14,145 for wastewater. Test year amortization should be increased by \$2,106 and \$2,755 for water and wastewater, respectively. The utility should be required to adjust its books and records to correct the accounting treatment for this transaction.

APPROVED

Issue 18: Are adjustments necessary to reflect prepaid CIAC as used and useful in rate base? (Audit Disclosure 8)

Recommendation: Yes, to the extent that prepaid CIAC relates to plant constructed and included as used and useful in the margin reserve. Since this is covered in Issue 19, no additional adjustment is necessary.

APPROVED

Issue 19: If a margin reserve is approved, should CIAC be imputed on margin reserve, and if so, what amount?

Recommendation: Yes. Since the utility has prepaid CIAC, those amounts should be first recognized as used and useful to be included in rate base associated with the margin reserve. It is appropriate to reclassify \$193,700 of water prepaid CIAC to used and useful CIAC for the margin reserve. For the wastewater system, it is appropriate to reclassify prepaid CIAC of \$350,978 and impute \$243,022, for a total increase to CIAC of \$594,000.

This limits wastewater CIAC for the margin reserve to 50% as an averaging method to recognize that the imputed amount will be collected over the life of the margin reserve period, not all at the beginning. Adjustments should also be made to increase accumulated amortization of CIAC by \$2,737 and \$9,924 and test year amortization expense by \$5,475 and \$19,848 for water and wastewater, respectively.

MODIFIED

*Fallout of change in margin
of reserve*

Issue 20: What is the dollar amount of plant costs included in rate base, and what dollar amounts should be included in rate base as CIAC, related to funds received from the South Florida Water Management District's (SFWMD) Alternate Water Supply Grants Program?

Recommendation: The dollar amount of plant costs that should be included in rate base is \$66,667 and \$133,333 for water and wastewater, respectively. CIAC related to this plant should be increased in the amount of \$15,385 for water and \$30,769 for wastewater, which reflects the 13-month average balance of plant included in rate base. Additionally, test year amortization and accumulated amortization of CIAC (AACIAC) should be increased by \$142 and \$236 for water and wastewater, respectively. Staff also recommends that, as the project is completed, CIAC up to the \$300,000 received from the SFWMD should be included in rate base as an offset to plant investment.

APPROVED

Issue 21: Are adjustments necessary to Accumulated amortization of CIAC (AACIAC) to amortize cash contributions using yearly composite rates? (Audit Exception 2)

Recommendation: Yes, staff recommends that the Commission should reduce AACIAC for both the water and wastewater systems in the amount of \$115,371 and \$98,456, respectively. Additionally, we recommend that the Commission should increase test year amortization for water by \$12,967 and decrease test year amortization for wastewater by \$7,329.

APPROVED

Issue 22: Is the utility's method of projecting its test year working capital accounts reasonable, and what, if any, adjustments are necessary?

Recommendation: Some components of the working capital projection were reasonable and some were not reasonable. Accordingly, staff recommends that an adjustment be made to reduce the company's working capital allowance by \$106,758, to be prorated as a reduction to water of \$64,178 and a reduction to wastewater of \$42,580.

APPROVED

Issue 23: Should unamortized debt discount and issuance expense be included in the working capital calculation? (Audit Exception 5)
Recommendation: No, this account has been included in determining the cost of debt in the cost of capital.

APPROVED

Issue 24: Is an adjustment necessary to the projected balance of accrued interest for the Industrial Development Revenue Bonds (IDRBs) included in the working capital calculation? (Audit Exception 5)
Recommendation: Yes, the projected balance of accrued interest should be adjusted upward to \$269,790; however, this adjusted balance should not be included in the determination of working capital. This recommendation correlates to staff's recommendation in Issue 25, which also excludes interest receivable from the working capital allowance.

APPROVED

Issue 25: Should interest receivable be included in the working capital calculation? (Audit Exception 5)
Recommendation: No, since staff's recommendation in Issue 24 eliminates accrued interest from the working capital allowance, interest receivable should not be included in order to achieve proper matching.

APPROVED

Issue 26: What is the appropriate allowance for working capital?
Recommendation: Working capital in the amount of \$486,853 should be approved, which was calculated using the balance sheet approach in accordance with Rule 25-30.433(2), Florida Administrative Code. The working capital allowance should be prorated \$293,966 to water and \$192,887 to wastewater.

APPROVED

Issue 27: What are the appropriate rate base amounts?

Recommendation: Rate base should be established as \$3,449,029 for water and \$3,542,750 for wastewater.

APPROVED

(Possible fallout issue)

Cost of Capital

Issue 28: What is the amount of credit accumulated deferred income taxes that should be included in the capital structure?

Recommendation: The appropriate amount is \$1,517,923.

APPROVED

Issue 29: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the 1996 projected test year?

Recommendation: The appropriate overall cost of capital is 9.21%, with a range of 9.13% to 9.29%. Using the utility's adjusted equity ratio, the cost of equity should be 11.88%, with a range of 10.88% to 12.88%.

APPROVED

Net Operating Income

Issue 30: What are the appropriate water and wastewater gallonage projections for FGCU for the 1996 projected test year, and what adjustments, if any, are necessary to projected revenues?

Recommendation: The appropriate water and wastewater gallonage projections for FGCU for the 1996 projected test year are 15 million gallons and 10.6 million gallons, respectively. No adjustments to projected revenues are necessary.

APPROVED

Issue 31: What adjustments, if any, are necessary to the 1996 projected test year revenues to reflect the appropriate miscellaneous service revenues?

Recommendation: No adjustments to the 1996 projected test year revenues are necessary to reflect the appropriate miscellaneous service revenues.

APPROVED

Issue 32: If a reuse rate is approved, and the rate is greater than \$0, should test year revenue be adjusted?

Recommendation: No. Based upon staff's recommendation in Issue No. 55 that a zero reuse rate be approved for all reuse customers, no adjustment is necessary to test year revenues. However, should the Commission approve a rate greater than zero, it would be appropriate to adjust test year revenue by the level of revenue generated by that rate.

APPROVED

Issue 33: Should any adjustments be made to include in test year income, interest income recorded below the line?

Recommendation: No. Staff recommends that no adjustment should be made to move interest income above the line, since staff's recommendation in Issue 22 eliminates the associated cash balances from the working capital allowance.

APPROVED

Issue 34: Are any adjustments necessary to the projected test year salaries, benefits, and payroll taxes for employees that provide services to both Gulf and the Caloosa Group (Audit Disclosure 3)?

Recommendation: Yes, an adjustment is necessary to reduce Gulf's requested salaries expense by \$5,905 for water and \$3,042 for wastewater in order to properly allocate Caloosa-related payroll costs back to Caloosa.

APPROVED

Issue 35: Are any adjustments necessary to the vice president's salary and benefits (Audit Disclosure 13)?

Recommendation: Staff recommends that the Commission approve an adjustment to reduce Mr. Mann's salary to \$25,480 per year, on a part-time basis. This adjustment results in a \$22,954 reduction to test year expenses. Accordingly, staff recommends that the Commission reduce test year expenses by this amount and prorate the reduction \$15,150 to water and \$7,804 to wastewater. Additionally, on a going-forward basis, staff recommends that the utility be ordered to maintain records of Mr. Mann's daily, utility-related activities.

APPROVED

Issue 36: Should any adjustments be made to salary expense for excessive pay increases?

Recommendation: Yes. Salaries expense should be reduced by \$7,416; prorated \$4,895 to water and \$2,521 to wastewater.

APPROVED

Issue 37: Is the annual lease amount charged to Gulf by Caloosa Group (Caloosa) reasonable and if not, what adjustments are necessary (Audit Disclosure 4)?

Recommendation: Yes. The lease is reasonable and staff recommends that no adjustment be made to the annual lease amount charged to Gulf by Caloosa.

APPROVED

Issue 38: Are any adjustments necessary to the common maintenance expenses associated with the building lease (Audit Disclosure 4)?

Recommendation: Yes. Staff recommends an adjustment to reduce test year expenses by \$3,600, prorated \$2,376 to water and \$1,224 to wastewater.

APPROVED

Issue 39: Are adjustments necessary to allocate additional administrative and general expenses, including rent, office supplies, miscellaneous business and administrative expense, vehicle expense and computer depreciation to the Caloosa Group (Audit Disclosure 3)?

Recommendation: Yes, it is necessary to allocate employee benefits, rent, office supplies, miscellaneous business and administrative expenses, car expenses, and computer depreciation to Caloosa for shared services. Accordingly, staff recommends a composite adjustment to Gulf's requested expenses of \$9,236, which represents a decrease to water of \$6,096 and a decrease to wastewater of \$3,140.

APPROVED

Issue 40: Are any adjustments necessary to Gulf's requested level of directors fees (Audit Disclosure 2)?

Recommendation: No. Staff believes that to have a Board of Directors for Gulf is prudent and that the fees are reasonable.

APPROVED

Issue 41: Should any adjustments be made to remove expenses for lift station coating from the test year?

Recommendation: No. The expenses incurred are ongoing expenses and no adjustments should be made.

APPROVED

Issue 42: Are adjustments necessary to remove charitable contributions from operations and maintenance expenses? (Audit Exception 3)

Recommendation: No. Charitable contributions are not included in test year expenses; therefore, no adjustment is necessary. However, staff does recommend that the utility be required to reclassify charitable contributions to a below-the-line account in accordance with Rule 25-30.115(1), Florida Administrative Code.

APPROVED

Issue 43: Should any adjustments be made to remove from test year expenses golf outings and gift basket expenses?

Recommendation: Yes, however, no adjustment is necessary in this issue, as staff has considered the expenses for golf outings and gift baskets as part of our analysis in Issue 48.

APPROVED

Issue 44: Should the Commission include budgeted "unanticipated" expenses in the test year?

Recommendation: No. Staff recommends that the Commission disallow total unanticipated expenses of \$5,000, which should be prorated as a reduction to water and wastewater of \$3,300 and \$1,700, respectively.

APPROVED

Issue 45: Are adjustments necessary to remove amortization of the San Carlos water line project (Audit Disclosure 5)?

Recommendation: No. The utility has abandoned this project, so test year amortization is appropriate. However, according to the numbers in Audit Disclosure 5, the annual amortization should be \$5,920 instead of \$8,184. Therefore, staff recommends an adjustment to reduce test year amortization for the water system by \$2,264.

APPROVED

Issue 46: Is an annual customer satisfaction survey necessary, and what, if any, adjustments are appropriate to test year expenses (Audit Disclosure 10)?

Recommendation: No. Staff recommends that an annual survey is not necessary, but the evidence supports conducting one on a less frequent basis, because Gulf does not have quality of service problems. Therefore, we recommend that the Commission allow the costs associated with the survey, but that the costs should be amortized over five years. Thus, staff recommends that test year expenses be reduced by \$5,145 for water and \$2,650 for wastewater.

APPROVED

Issue 47: Are adjustments necessary to remove expensed costs related to preliminary survey charges for FGCU (Audit Disclosure 11)?

Recommendation: No. Staff witness Welch agrees with the utility that audit staff made an error; therefore, no adjustments are necessary.

APPROVED

Issue 48: Are adjustments necessary to remove local business and entertainment expenses for Gulf's president (Audit Disclosure 15)?

Recommendation: Yes. Staff recommends that the Commission should reduce test year expenses by \$1,625, prorated \$1,072 to water and \$553 to wastewater.

APPROVED

Issue 49: What is the appropriate provision for rate case expense?

Recommendation: The appropriate provision for rate case expense is \$220,000, resulting in an increase of \$97,521 over the amount requested in the MFRs. The four-year amortization results in additional test year rate case expense of \$24,380, prorated \$16,091 and \$8,289 to water and wastewater, respectively.

APPROVED

Issue 50: What adjustments are appropriate to test year depreciation expense? (Audit Exception 6)

Recommendation: Staff recommends that the Commission should approve an increase to depreciation expense for water and wastewater in the amount of \$78,338 and \$42,770, respectively. Also, staff recommends that a matching adjustment be made to increase the 13-month average accumulated depreciation on water and wastewater plant in the amount of \$44,416 and \$21,385, respectively.

APPROVED

Issue 51: What is the appropriate provision for income tax expense, before any rate increase for water and wastewater, respectively?

Recommendation: The appropriate income tax expense is \$107,436 for water and \$(49,542) for wastewater.

APPROVED

(This is a fallout issue)

Issue 52: What is the test year operating income before any revenue increase?

Recommendation: The appropriate amount of operating income before any revenue increase is \$462,950 for water and \$210,507 for wastewater.

APPROVED

(fallout)

Revenue Requirement

Issue 53: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirements are as follows:

	Revenue Requirement	\$ Increase/ Decrease	% Increase/ Decrease
Water	\$2,051,191	\$(244,191)	-10.64%
Wastewater	\$1,498,871	\$194,141	14.88%

APPROVED (fallout)

Rates and Charges

Issue 54: Should the public fire protection charge be continued, and if so, what is the appropriate charge?

Recommendation: The public fire protection charge should be continued with no change to the current charge.

APPROVED

Issue 55: Should the Commission determine a reuse rate in this proceeding, and if so, what is the appropriate rate?

Recommendation: Yes, the Commission should approve a reuse rate of zero for all existing reuse customers. Gulf should file a reuse tariff sheet listing reuse customers and reflecting the approved rate. Since this recommendation is based upon a combination of existing factors which are subject to change, Gulf should be placed on notice that this issue will be revisited in its next wastewater rate case. Also, any future reuse agreements should be filed with the Commission for approval of the rate contained therein along with justification for the proposed rate.

APPROVED

Issue 56: In light of Section 367.0817, Florida Statutes, should any of the revenue requirement associated with reuse be allocated to water customers and recovered through water rates?

Recommendation: No. No portion of the reuse revenue requirement should be allocated to water customers and recovered through water rates at this time.

APPROVED

Issue 57: What is the appropriate master meter influent service rate?

Recommendation: The appropriate master meter influent service rate is the base facility charge associated with the related meter size along with a gallonage charge of \$4.39/1,000 gallons.

APPROVED

Issue 58: What are the appropriate water and wastewater rates?

Recommendation: Consistent with staff's recommendations in Issues 53, 55, and 57, the recommended rates should be designed to allow the utility the opportunity to generate annual operating water revenues in the amount of \$2,016,390 and annual operating wastewater revenues in the amount of \$1,498,871, both of which exclude miscellaneous revenues. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Section 25-30.475(1), Florida Administrative Code, 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 to staff of the date notice was given within 10 days after the date of notice.

APPROVED

Issue 59: 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 as required by Section 367.0816, Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule No. 5-A and 5-B, to remove rate case expense in the amount of \$145,200 and \$71,548, respectively, grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction.

APPROVED

Issue 60: What are the appropriate amounts of refunds, if any, for water revenues held subject to refund and the interim wastewater increase?

Recommendation: The utility should be required to refund 12.30% of the water revenues held subject to refund from April 11, 1996, to November 1, 1996, the date of the interim rate reduction. From November 1, 1996, to the effective date of the final rate, Gulf should refund 4.70% of the water revenues held subject to refund for the period subsequent to the interim rate reduction. No refund is necessary for wastewater. The refund should be made with interest in accordance with Rule 25-30.360(4), FAC. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), FAC. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), FAC.

APPROVED

(fallout)

Issue 61: Should the utility's tariff filing to modify its service availability charges be approved as filed?

Recommendation: Yes. The utility should be allowed to implement plant capacity charges of \$550.00 per ERC for the water system and \$800.00 per ERC for the wastewater system, for connections made after the stamped approval date of the tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code.

APPROVED

Issue 62: What is the appropriate Allowance for Funds Used During Construction (AFUDC) rate?

Recommendation: The appropriate AFUDC rate should be 9.21%, or 0.766839% on a monthly discounted basis. The charge should be effective for plant construction recorded on or after January 1, 1997.

APPROVED

Issue 63: Should the special service availability agreement dated December 12, 1996 between Gulf and the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida (FGCU) be approved as filed?

Recommendation: Yes. The special service availability agreement dated December 12, 1996 between Gulf and the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida (FGCU) should be approved as filed.

APPROVED

Vote Sheet
Dockets Nos. 960329-WS, 960234-WS
June 10, 1997

Issue 64: Should the docket be closed?

Recommendation: Yes. This docket should be closed after the time for filing an appeal has run, upon staff's verification that the utility has completed the required refunds with interest and the proper revised tariff sheets and customer notice have been filed by the utility and approved by staff. Further, the utility's escrow account can be closed upon staff's verification that the refund has been completed.

APPROVED

FLORIDA PUBLIC SERVICE COMMISSION - RECORDS AND REPORTING

Form No. 10-1 (Rev. 12/2/91) - *Public Service Commission Meeting*

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