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May 4, 1998

Mr. Charles C. Hill, Director
Division of Water and Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 980483-WU, Lake Utility Services, Inc.
Allowance for Funds Prudently Invested (AFPI)
May 12 Agenda Conference, Item 24

Dear Mr. Hill:

The Staff Recommendation for Item 24 of the Agenda Conference scheduled for May 12 has been received and reviewed by the utility.

After the utility's lengthy correspondence on two occasions responding to Staff inquiries, Staff now agrees that the utility properly collected AFPI from the additional service area. It also acknowledges in the Staff Recommendation that the revised tariffs do reference AFPI for Crescent Bay and the additional territory, but that it "was an oversight during the staff approving process" for the AFPI to be made applicable to the additional territory. The only remaining Staff concern appears to be whether the utility properly or improperly collected AFPI for more than 106 ERCs.

It is still the utility's opinion that Staff is incorrectly interpreting the tariff and the Commission's practice. When a new territory is added to an existing certificated service area, it has been Commission practice to make all of the existing rates and charges applicable to the new area. This has been the practice even though it is recognized that the addition of the new territory may well have an impact on the cost of service and the resulting rates and charges. The reasons for taking this approach have been to allow a utility to expeditiously serve the new area and to postpone any specific and factual analysis of rates and charges (and the cost associated with such analysis) until the next full rate case. To our knowledge, this is a long-standing practice, that, imperfect as it may be, has worked well, and has saved substantial dollars in rate case expense which otherwise would be passed on to the customers.

This Commission practice recognizes that the monthly rates and the AFPI charges go hand in hand. The monthly rates are designed to cover the costs associated with used and useful facilities, and

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the AFPI charges are designed to recover costs associated with non-used facilities. They are two sides of the same coin. However, the Staff's recommendation is for the Commission to address the two sides differently. It thwarts the Commission's purpose and practice aimed at postponing the expense of economic analysis and development of revised rates and charges until the next rate case. And in this case, Staff is recommending that the Commission do so retroactively.

Since the time the additional territory was approved and the tariff charges were approved and made applicable to that new territory, the utility has relied on the revenue from monthly charges to customers and the AFPI revenue from new hookups. If the utility is required to refund a portion of the AFPI charges, it does not have the option of retroactively applying for a change in rates to existing customers to make up for that shortfall. The utility does not have any objection to modifying its collection of AFPI on a going forward basis.

In fact, the utility has just completed a rate case for the entire service area and is awaiting a PAA order. Revised tariff sheets have been submitted to the Commission for approval of new AFPI charges. [See Docket No. 960444-WU, PAA Order No. PSC-97-0531-FOF-WU, and correspondence dated April 8, 1998, with proposed tariff sheets from Mr. Richard D. Melson to Mr. Charles H. Hill.]

After extensive analysis, the utility strongly believes that its interpretation of the tariffs is correct. In addition to the tariffs attached to the Staff Recommendation, correspondence and exhibits reflect the extensive research and the basis for the utility's position in this matter. It is the utility's hope that a full hearing can be avoided by focusing on this matter now.

Sincerely yours,



Ben E. Girtman

cc: Commissioner Julia L. Johnson
Commissioner Joe A. Garcia
Commissioner J. Terry Deason
Commissioner Susan F. Clark
Commissioner E. Leon Jacobs
Ms. Shannon J. Austin
Mr. Mark Kramer
Mr. Frank Seidman