

VOTE SHEET

FEBRUARY 2, 1999

RE: DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc. (Deferred from the December 15, 1998 conference; revised recommendation filed.)

Issue 1: Is the Quality of Service provided by United Water Florida, Inc., to its customers satisfactory?

Recommendation: Yes, the quality of service provided by UWF to its customers is satisfactory. However, the utility should be required to develop a program that requires a utility representative to return customers' telephone calls within a specified time period to be more responsive to customer complaint letters and telephone calls. This program should be developed within six months of the issuance date of the Commission order and a copy sent to the Commission.

DEFERRED

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

REMARKS/DISSENTING COMMENTS:

Deferred to 2/16/99.

DOCUMENT NUMBER-DATE

01523 FEB-58

FPSC-RECORDS/REPORTING

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Rate Base

Issue 2: Is the projected level of additions to plant in service appropriate for inclusion in this rate case?

Recommendation: Yes.

Issue 3: Should a margin reserve be granted for the water and wastewater systems?

Recommendation: No, for all except the Blacks Ford WWTP. The utility did not request a margin reserve. Further, if the Commission votes in Issue 5 to approve staff's recommendation for 100% used and useful for all systems except the new WWTP, known as St. Johns Regional WWTP (Blacks Ford), a margin reserve is not necessary. Regarding the Blacks Ford facility and land, a margin reserve equal to 175,840 GPD is recommended. The methodology for this margin reserve calculation is discussed in the used and useful Issues 5 & 6.

Issue 4: Is there excessive unaccounted for water, and, if so, what adjustments are necessary?

Recommendation: Yes. There is excessive unaccounted for water in several systems. Expenses for Accounts No. 610 (purchased water), 615 (purchased power) and 618 (chemicals), should be reduced by the following amounts:

| | |
|-----------------------------------|---------|
| Account no. 610 (purchased water) | \$9,058 |
| Account no. 615 (purchased power) | \$9,941 |
| Account no. 618 (chemicals) | \$3,533 |

Further, UWF should be ordered to study each system having more than 10% unaccounted for water, as reported in its MFRs, in this docket, Schedules F-1, to determine the problems causing unaccounted for water and what steps are necessary to reduce the amount to an acceptable level and the cost of doing so on a per system basis. Those systems include:

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

| <u>SYSTEM</u> | <u>% UFW</u> | <u>SYSTEM</u> | <u>% UFW</u> |
|-----------------|--------------|---------------|--------------|
| Arlington | 12.36% | Forest Brook | 18.88% |
| Holly Oaks | 15.60% | Ortega Hills | 15.25% |
| Ponce De Leon | 20.40% | San Jose | 10.10% |
| St. Johns North | 10.01% | Milmar | 47.33% |
| Ridgeland | 12.57% | Riverview | 33.27% |
| Town & Country | 16.50% | Westwood | 11.17% |

The utility should be ordered to report its findings in the study, to this Commission, within six months of the effective date of the final order in this docket. Further, the utility should be ordered to clarify to the Commission, in that report, why monthly reported unaccounted for water in various systems ranges from as low as minus 398% to a positive 225%.

Issue 5: What are the appropriate used and useful percentages for the water and wastewater systems?

Recommendation: All water treatment plants and distribution systems should be considered 100% used and useful. With the exception of the new St. Johns Regional WWTP(Blacks Ford), all wastewater treatment plants and collection systems including the St. Johns Regional WWTP collection system should be considered to be 100% used and useful. The Blacks Ford WWTP should be considered to be 49% used and useful. Accordingly, used and useful plant should be reduced by \$2,969,279 and used and useful accumulated depreciation should be reduced by \$587,950. Used and useful depreciation expense and property taxes should be reduced by \$165,092 and \$29,039, respectively, to show the expenses associated with the non-used and useful plant.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 6: What is the appropriate used and useful percentage for the land acquired for the new St. Johns Regional WWTP?

Recommendation: The land acquired for the St. Johns Regional WWTP should be considered to be 49% used and useful. Accordingly, non-used and useful land should be reduced by \$407,195.

Issue 7: Should the Commission include an imputation of Contributions-in-Aid-of-Construction (CIAC) on the margin reserve?

Recommendation: Yes. The Commission should include an imputation of CIAC as a matching provision to the margin reserve calculation. However, as an averaging method, only 50% of the imputed CIAC should be recognized since the imputed amount will be collected over the life of the margin reserve period rather than all at the beginning of the period. In addition, the imputation should be limited to the amount of net plant included in the margin reserve. Accordingly, wastewater CIAC should be increased by \$160,102. Corresponding adjustments should also be made to increase wastewater accumulated amortization of CIAC by \$2,690 and increase test year amortization of CIAC by \$5,379.

Issue 8: What is the appropriate allowance for working capital?

Recommendation: The appropriate amount for the allowance for working capital is \$676,214 for water and \$1,202,159 for wastewater. This requires a reduction of \$258,949 for water and \$460,352 for wastewater from the amounts proposed by the utility in its MFRs.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 9: By what amount should rate base be reduced for unfunded liability for Other Postretirement Employee Benefits (OPEBs)?

Recommendation: Rate base should be reduced by a total of \$1,509,677 (\$543,484 for water and \$966,193 for wastewater) to reflect the unfunded liability for OPEBs, pursuant to Rule 25-14.012(3), Florida Administrative Code. This requires an additional reduction of \$565,543 (\$214,280 for water and \$351,263 for wastewater) to the amount calculated by the utility in its MFRs.

Issue 10: What is the appropriate rate base?

Recommendation: The appropriate projected average rate base for the 1999 test year is \$37,514,874 for the water system and \$58,970,047 for the wastewater system.

Cost of Capital

Issue 11: What is the net amount of deferred income taxes that should be included in the capital structure, if any?

Recommendation: Net deferred income taxes in the amount of \$3,708,070 should be included in the capital structure at a cost rate of zero.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 12: What is the appropriate amount and cost rate for unamortized investment tax credits that should be included in the capital structure?
Recommendation: Unamortized investment tax credits (ITCs) in the amount of \$1,141,663 should be included in the capital structure at a cost rate of zero.

Issue 13: What are the appropriate capital structure and weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the projected test year ending December 31, 1999?

Recommendation: The appropriate capital structure for rate making purposes should be based on a combination of the relative percentages of investor capital maintained at the parent level and the actual balances of investment tax credits, deferred taxes and customer deposits maintained at the utility level. The appropriate weighted average cost of capital is 8.12%.

Net Operating Income

Issue 14: What is the appropriate method of forecasting customers and consumption for the projected test year ending December 31, 1999, and what are the resulting projected increases in the number of water and wastewater customers and the resulting projected number of bills and consumption for the 1999 projected test year before repression adjustments, if any, are made?

Recommendation: Linear regression is the appropriate method of forecasting customers and consumption. The resulting projected increases in water and wastewater customers during the 1998 and 1999 rate years are 1,746 customers for the water system and 1,210 customers for the wastewater system. The resulting projected number of water and wastewater system

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

bills for the 1999 projected test year are 146,076 bills and 113,358 bills, respectively. The resulting projected water and wastewater system consumption for the 1999 projected test year, before a regression adjustment, are 5,417,837,000 gallons and 3,961,678,000 gallons, respectively.

Issue 15: What adjustments, if any, are necessary to the 1999 projected test year revenues, expenses, and contributions to reflect the appropriate number of water and wastewater customers, bills, and consumption?

Recommendation: Based on staff's revised projections of the appropriate number of water and wastewater customers, bills, and consumption discussed in Issue 14, test year projected operating revenue at the current rates, chemical expense, power expense, sludge hauling expense, uncollectible accounts, CIAC, Accumulated Amortization of CIAC and CIAC amortization should be increased as outlined in the staff analysis.

Issue 16: Are any adjustments necessary to the projected test year expenses for purchased sewage treatment?

Recommendation: Yes. The utility's projected test year expenses for purchased sewage treatment are overstated by \$149,514. The correct amount of projected purchased sewage treatment expense to be included in the test year is \$338,719.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 17: 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 \$26,402 and \$46,938 for water and wastewater operations, respectively.

Issue 18: Should uncollectible accounts expenses be adjusted for undocumented costs?

Recommendation: Yes. Uncollectible accounts expense for water should be reduced by \$26,000.

Issue 19: Should lobbying costs be removed from operation and maintenance expenses?

Recommendation: Yes. Operation and Maintenance Expense should be reduced by \$11,269 and \$6,586 for water and wastewater, respectively.

Issue 20: Should the public services tax be removed from operation and maintenance expenses?

Recommendation: Yes. Expenses recorded in Utility Account No. 905000 in the amount of \$15,487 for water and \$48,480 for wastewater should be removed from Operations and Maintenance Expense.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 21: What is the appropriate provision for rate case expense?

Recommendation: The appropriate rate case expense for this docket is \$398,061. Consistent with Section 367.0816, Florida Statutes, this expense should be recovered over four years for an annual expense of \$35,825 for water and \$63,690 for wastewater. These amounts should be added to the existing rate case expense recovery from Docket No. 960451-WS which expires in September, 2001 of \$43,310 for water and \$76,996 for wastewater, for a total recovery of \$79,135 for water, and \$140,686 for wastewater.

Issue 22: What is the amount, if any, of the parent debt adjustment?

Recommendation: No parent debt adjustment should be made.

Issue 23: What adjustments, if any, are required to test year income tax expense as filed?

Recommendation: Income tax expense as filed should be reduced to reflect the tax effect of staff's adjustments to revenues, expenses, and capital structure and capital costs in other issues. This is a fallout issue.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 24: What is the test year operating income before any rate adjustment?

Recommendation: The test year operating income should be \$2,445,394 and \$4,882,767 for water and wastewater operations, respectively.

Revenue Requirement

Issue 25: What is the appropriate revenue requirement?

Recommendation: The following revenue requirements should be approved:

| | <u>TOTAL</u> | <u>\$ INCREASE</u> | <u>% INCREASE</u> |
|------------|--------------|--------------------|-------------------|
| Water | \$12,236,921 | \$1,016,461 | 9.06% |
| Wastewater | \$20,656,316 | (\$157,794) | -0.76% |

Rates

Issue 26: What is the appropriate conservation rate structure for this utility?

Recommendation: The appropriate conservation rate structure for this utility is a continuation of the current base facility and quantity charge rate structure.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 27: Is repression of consumption likely to occur, and, if so, what are the appropriate adjustments and the resulting consumption to be used to calculate consumption charges?

Recommendation: Repression of consumption is not likely to occur; therefore, adjustments to consumption are not appropriate. The consumption to be used to calculate consumption charges are the water and wastewater gallons approved in Issue 14.

Issue 28: How should the reuse costs be recovered?

Recommendation: The reuse costs should be recovered through the wastewater rates.

Issue 29: What are the appropriate reuse rates?

Recommendation: The utility should be authorized to provide reclaimed water service at a zero rate specifically to Ponte Vedra Inn & Club Golf Course. The utility should file a revised wastewater tariff sheet to correct the class of service from reused water to reclaimed water. The tariff should be effective for services rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475, Florida Administrative Code, provided the reuse customer has received notice.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 30: What is the appropriate billing period for residential rates?

Recommendation: The utility should convert those customers who are on a quarterly billing cycle to monthly billing. This billing change should be noticed to the customers along with the other rate changes discussed in Issue 31.

Issue 31: What are the appropriate water and wastewater rates?

Recommendation: Staff has recommended monthly rates using the base facility and quantity charge rate structure. The recommended water rates should be designed to produce annual operating revenues of \$12,071,230, which is the \$12,236,921 revenue requirement less \$165,691 in miscellaneous revenue. The recommended wastewater rates should be designed to produce annual operating revenues of \$20,592,723, which is the \$20,656,316 revenue requirement less \$63,593 in miscellaneous revenue. The residential wastewater quantity charge should be capped at 9,000 gallons or 1,200 cubic feet per month. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided customers have received notice. The revised tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision, that the protest period has expired, and the proposed customer notice is adequate. The utility should provide notice of the date notice was given within ten days after the date of the notice.

VOTE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 32: Should the utility's requested guaranteed revenue charges be approved?

Recommendation: No. UWF's proposed continuation of guaranteed revenue charges for Nassau County Area, Ponce de Leon Area, Sunray - St. Johns County Area, and Sunray - Nassau County Area should be denied because water and wastewater facilities in those areas have been found to be 100 percent used and useful. Guaranteed revenue charges, equal to the recommended base facility charges, should be established for the Blacks Ford WWTP customers only as shown on Schedule 6 attached to staff's Recommendation. The approved charges should be effective for connections on or after the stamped approval date of the tariff sheets. The tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision and that the protest period has expired. The tariffs will remain in effect until the St. Johns Regional WWTP (Blacks Ford) has reached capacity, estimated at an additional 1,827 ERC; at that time the charge will cease and the tariff will be canceled. All of UWF's prior tariff charges for guaranteed revenue should be canceled as of the date the new guaranteed revenue tariffs are effective.

Issue 33: 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: Staff has recommended that there is non-used and useful wastewater treatment plant and, therefore, recommends that AFPI charges be authorized for that plant. Revised Schedule 5, attached to staff's January 21, 1999 memorandum, provides the charges recommended by staff. The approved rates should be effective for connections served only by the St. Johns Regional WWTP (Blacks Ford) on or after the stamped approval date of the tariff sheets. The tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision and that the protest period has expired. The tariffs will remain in effect until the St. Johns Regional WWTP (Blacks Ford) has reached capacity, estimated at an additional 1,827 ERC; at that time the charge will cease and the tariff will be canceled. All of Sunray's prior tariff charges for AFPI should be canceled as of the date the new AFPI tariffs are effective.

VOPE SHEET

FEBRUARY 2, 1999

DOCKET NO. 980214-WS - Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

(Continued from previous page)

Issue 34: 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, Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Revised Schedules No. 6-A and 6-B of staff's memorandum January 21, 1999, to remove rate case expense grossed up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following 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.

Other Issues

Issue 35: Are the books and records in compliance with Commission rules?

Recommendation: Yes. The books and records are in substantial compliance with Commission rules. Since the utility installed a new computer program during 1997, this created more audit problems reconciling the MFRs to the books than anticipated. However, the utility should be placed on notice, if these reconciling problems recur, that a show cause proceeding will be initiated in the future.

Issue 36: Should this docket be closed?

Recommendation: Yes. This docket should be closed if no person whose interests are substantially affected by the proposed action files a protest within the 21-day protest period, and upon the utility's filing of and staff's approval of revised tariff sheets and customer notice.