

State of 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-

RECEIVED PSC
MAR - 1 AM 11:19
RECORDS AND REPORTING

DATE: MARCH 1, 2001

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

FROM: *Paul* DIVISION OF ECONOMIC REGULATION (KYLE, WETHERINGTON, *JK* *mw* *TS*
MERCHANT, CROUCH) *MC*
DIVISION OF LEGAL SERVICES (FUDGE) *RF* *RS*

RE: DOCKET NO. 000610-WS - APPLICATION FOR UNIFORM SERVICE
AVAILABILITY CHARGES IN DUVAL, NASSAU, AND ST. JOHNS
COUNTIES BY UNITED WATER FLORIDA INC.
COUNTIES: DUVAL, NASSAU, ST. JOHNS

AGENDA: 03/13/2001 - REGULAR AGENDA - TARIFF FILING FOR ISSUE 1,
AND PROPOSED AGENCY ACTION FOR ISSUE 2 - INTERESTED
PERSONS MAY PARTICIPATE

CRITICAL DATES: MAY 1, 2001 - STATUTORY DEADLINE BY WHICH
APPLICATION MUST BE RULED UPON

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000610.RCM

CASE BACKGROUND

United Water Florida Inc. (UWF or utility), is a Class A utility providing service to approximately 31,000 water customers and 24,000 wastewater customers in Duval, Nassau, and St. Johns Counties.

By Order No. PSC-97-0618-FOF-WS, issued May 30, 1997, in Docket No. 960451-WS, (May Order), the Commission approved a rate increase and ordered UWF to file a service availability application (Application) within three years of the issuance of that Order. On June 16, 1997, UWF filed a Motion for Reconsideration of the May Order with respect to the level of rate increase approved. On September 30, 1997, the Commission issued Order No. PSC-97-1146-FOF-WS, (September Order), Granting in Part and Denying in Part

DOCUMENT NUMBER-DATE

02747 MAR-15

ESCC-RECORDS/REPORTING

DOCKET NO. 000610-WS
DATE: MARCH 1, 2001

Motion for Reconsideration and Amending Order No. PSC-97-0618-FOF-WS.

On May 19, 2000, UWF filed a Motion for Clarification of Time or in the alternative, Motion for Extension of Time in which to file its application. By Order No. PSC-00-1242-PCO-WS, issued July 10, 2000, the Commission denied UWF's Motion for Clarification and approved the utility's Motion for Extension of Time to July 30, 2000.

On July 25, 2000, UWF filed its Application Regarding Service Availability Charges and Policies for Duval, Nassau and St. Johns Counties, Florida, and Petition for Approval of Regulatory Accounting Treatment. On August 8, 2000, staff notified the utility that the filing was deficient. On September 1, 2000, the utility responded to staff's notice of deficiency. Staff has reviewed the additional material filed by the utility, and has determined that the filing meets the requirements of Rule 25-30.565, Florida Administrative Code, and that September 1, 2000 should be considered the official filing date.

By Order No. PSC-00-1986-PCO-WS, issued October 26, 2000, the Commission suspended the utility's requested service availability charges pursuant to Section 367.091(6), Florida Statutes. This recommendation addresses UWF's application for uniform service availability charges, and its petition for approval of regulatory accounting treatment. The Commission has jurisdiction pursuant to Sections 367.091, 367.101 and 367.121, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should UWF's application for service availability charges be approved?

RECOMMENDATION: Yes. UWF should be authorized to implement uniform plant capacity charges of \$391 per Equivalent Residential Connection (ERC) for water and \$1,316 per ERC for wastewater, for connections made on or after the stamped approval date on the tariff sheets, provided customers have received notice, pursuant to Rule 25-30.475(2), Florida Administrative Code. (KYLE, WETHERINGTON, FUDGE)

STAFF ANALYSIS: In paragraph 6 of its application, UWF states that it is requesting uniform service availability charges and policies

for its single system. The utility is requesting a water plant capacity charge of \$391 per ERC, and a wastewater plant capacity charge of \$1,316 per ERC. The utility also states in this paragraph that it is not seeking to establish separate capacity charges for its water transmission and distribution facilities or its wastewater collection facilities. UWF's currently approved plant capacity charges vary by service area; these charges range from \$100 to \$410 for water, and from \$210 to \$510 for wastewater. UWF supported its request by providing schedules containing the information required by Rule 25-30.565(4), Florida Administrative Code. The utility supplemented this information with clarifications, as requested by staff.

The utility published the required public notice, pursuant to Rule 25-30.4345, Florida Administrative Code. By letter dated August 3, 2000, Mr. Gregory E. Matovina commented on UWF's petition. Mr. Matovina is the president of Matovina & Company, a developer of residential communities in UWF's service area. In his letter, Mr. Matovina states his opinion that the proposed service availability charges would result in an increase in the cost of new homes in the service area sufficient to prevent first time home buyers from purchasing homes in the area. Mr. Matovina suggested a phase-in of the increase. As discussed later in this recommendation, UWF's CIAC percentage is currently substantially below the guideline contained in Rule 25-30.580(2), Florida Administrative Code. Staff believes that any increase should be implemented as soon as possible in order to allow the utility to move toward full compliance with this rule.

Mr. Matovina also suggested that any increase not apply to developments with utility agreements in place as of the date of approval. However, the Commission has consistently held that the applicable service availability charges are those in effect at the time of actual connections, because the actual cost of maintaining sufficient capacity cannot be ascertained until that date. See H. Miller & Sons, Inc. v. Hawkins, 373 So. 2d 913, 916 (Fla. 1979); see also Order No. PSC-95-0241-FOF-WS, issued February 21, 1995, in Docket No. 940056-WS. Although the developer has paid the contractual amount, the Commission can modify private contracts between the developer and the utility. Increasing service availability charges prevents current customers from subsidizing costs associated with future plant capacity. See 373 So. 2d at 915.

The utility submitted schedules and exhibits supporting the calculation of its requested service availability charges. These included actual data based on UWF's 1999 Annual Report, projections

based on construction in progress or under contract, and projections of planned construction and customer growth through the year 2004. The requested service availability charges were computed by dividing the projected utility plant in service, net of accumulated depreciation, by the projected capacity of that plant in ERCs. The utility provided detailed descriptions of its projection methodologies. Staff has reviewed the methodologies and the resulting projections and believes them to be reasonable and consistent.

Staff has also analyzed the proposed service availability charges for compliance with the requirements of Rule 25-30.580, Florida Administrative Code, which states:

A utility's service availability policy shall be designed in accordance with the following guidelines:

(1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and

(2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems. (emphasis added)

Staff believes that the utility's requested service availability policy is in compliance with Rule 25-30.580, Florida Administrative Code.

The schedules and exhibits provided by UWF indicate that, as of December 31, 1999, net water transmission and distribution plant and net wastewater collection plant represented 55.94% of total net plant, while net contributions-in-aid-of-construction (CIAC) represented only 32.10% of total net plant (see Schedule 1-A). Staff analyzed the utility's projections of plant additions and retirements and of CIAC expected to be generated by the plant capacity charges which are the subject of this proceeding, as well as from developer contributions. As shown in Schedule 1-B, based on these projections, as of December 31, 2004, net water transmission and distribution plant and net wastewater collection plant would represent 54.71% of total net plant, while net CIAC would represent 44.39% of total net plant. In both cases, the CIAC

percentage is well below the 75% maximum guideline contained in Rule 25-30.580(1), Florida Administrative Code.

The projected CIAC percentage at plant capacity is less than the guideline contained in Rule 25-30.580(2), Florida Administrative Code. However, staff notes that the guidelines established by Rule 25-30.580, Florida Administrative Code, are discretionary, and merely represent what should be followed when designing service availability policy. Staff also notes that implementation of the proposed service availability charges would narrow the gap significantly as compared with the ratios as of December 31, 1999. Further, as shown in Schedule 1-C, staff has calculated that the plant capacity charges which could raise the utility's CIAC level to the minimum guideline would be \$1,184 and \$2,695 per ERC for water and wastewater, respectively. Staff believes that these amounts are excessive, and they are far above the amounts charged by other utilities operating in the same areas. Staff further notes that, while UWF's existing CIAC levels are low, this is partially due to the utility's acquisition of smaller systems which were under-contributed. The utility now requires developers to contribute all on-site and off-site lines. Accordingly, staff believes that UWF's requested charges will result in a service availability policy which complies with the intent of the rule.

In summary, staff believes that the utility's requested plant capacity charges of \$391 per ERC for water and \$1,316 per ERC for wastewater, and the policies included in its proposed tariffs, are reasonable and in compliance with applicable Commission rules, and should be approved. UWF should be authorized to implement these charges for connections made on or after the stamped approval date on the tariff sheets, provided customers have received notice, pursuant to Rule 25-30.475(2), Florida Administrative Code.

ISSUE 2: Should UWF's request for approval of regulatory accounting treatment be approved?

RECOMMENDATION: No. Staff recommends that the utility's request to defer the costs until its next rate case and begin amortization at that time be denied. (KYLE)

STAFF ANALYSIS: In its application, UWF included a request that the Commission approve its accounting treatment of the costs incurred in connection with this application. The utility further stated that it intends to defer the costs associated with this application, to create a regulatory asset, and to have such costs considered in its next rate case before the Commission. UWF proposes that amortization of such costs would not commence until after the Commission's action in the next rate case.

In support of its request, the utility stated:

The Commission found it appropriate to order United Water Florida to file this service availability application, and, therefore, the Commission must have determined that it was beneficial for United Water Florida to file such an application and incur the associated costs. Among the many benefits of this Application will be the establishment of uniform service availability charges and policies, which in turn will provide consistency and reduce confusion.

The utility did not provide an estimate of the costs expected to be incurred, nor did it provide any data to indicate that the incurrence of these costs would cause it to earn below the range of its last authorized rate of return on equity. Rates were last set for UWF in Order No. PSC-99-1070-FOF-WS, issued May 25, 1999, in Docket No. 980214-WS. UWF's Annual Report for 1999 does not include a full year of earnings at the new rates, and the Annual Report for 2000 has not yet been filed.

Staff agrees with the utility that, in view of the Commission's order to file this application, UWF's incurrence of reasonable costs in connection with the application is prudent. However, staff does not believe that it is appropriate to permit an indefinite deferral of recognition of the costs until the next full rate case. Such treatment would not meet the criteria for establishing a regulatory asset pursuant to Financial Accounting Standard (FAS) 71, which states in relevant part:

9. Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An enterprise shall capitalize all or part of an incurred cost which would otherwise be charged to expense if both of the following criteria are met:

a. It is probable that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in allowable costs for rate-making purposes.

b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

Staff does not believe that the "reasonable assurance" criterion required by FAS 71 is met in this instance. There is no way for the Commission to know when UWF will next file a rate case. Also, the absence of any quantification of the costs in this petition increases the uncertainty of the Commission's future action. Accordingly, staff recommends that the utility's request to defer the costs until its next rate case and begin amortization at that time be denied.

Staff also considered the alternative of authorizing UWF to capitalize the costs, but to begin amortization immediately upon the effective date of the Consummating Order (or Final Order, if protested) in this docket. Staff does not recommend this alternative because the lack of information on the specific costs included make it impossible to determine their prudence, and because there is no information available as to whether inclusion of the costs in the year(s) incurred would cause the utility to earn below the range of its authorized rate of return on equity.

DOCKET NO. 000610-WS
DATE: MARCH 1, 2001

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes, if no timely protest is received upon the expiration of the protest period, the Order should become final and effective upon the issuance of a Consummating Order and this docket should be closed. (FUDGE)

STAFF ANALYSIS: If no timely protest is received upon the expiration of the protest period, the Order should become final and effective upon the issuance of a Consummating Order and this docket should be closed.

Actual - 12/31/1999		Schedule 1-A	
<u>Water:</u>			
Transmission & Distribution Plant (T & D)			
Utility Plant	\$51,010,402		
Accumulated Depreciation	<u>(8,751,470)</u>		
Net	<u>42,258,932</u>		
Total Water Plant			
Utility Plant	\$73,700,244	CIAC	\$27,722,401
Accumulated Depreciation	<u>(13,453,234)</u>	Accum. Amortization	<u>(6,632,022)</u>
Net	<u>60,247,010</u>	Net	<u>\$21,090,379</u>
T & D as % of Total Water Plant	<u>70.14%</u>	CIAC Pct.	<u>35.01%</u>
<u>Wastewater (WW):</u>			
Collection Plant			
Utility Plant	\$57,530,461		
Accumulated Depreciation	<u>(14,215,628)</u>		
Net	<u>\$43,314,833</u>		
Total Wastewater Plant			
Utility Plant	\$121,737,660	CIAC	\$41,485,799
Accumulated Depreciation	<u>(29,015,606)</u>	Accum. Amortization	<u>(13,479,998)</u>
Net	<u>\$92,722,054</u>	Net	<u>\$28,005,801</u>
Collection as % of Total WW Plant	<u>46.71%</u>	CIAC Pct.	<u>30.20%</u>
<u>Combined Water and Wastewater:</u>			
Transmission, Distribution and Collection (T, D, & C)			
Utility Plant	\$108,540,863		
Accumulated Depreciation	<u>(22,967,098)</u>		
Net	<u>\$85,573,765</u>		
Total Plant			
Utility Plant	\$195,437,904	CIAC	\$69,208,200
Accumulated Depreciation	<u>(42,468,840)</u>	Accum. Amortization	<u>(20,112,020)</u>
Net	<u>\$152,969,064</u>	Net	<u>\$49,096,180</u>
T, D & C as % of Total Plant	<u>55.94%</u>	CIAC Pct.	<u>32.10%</u>

Projected - At Plant Capacity		Schedule 1-B	
Water:			
Transmission & Distribution Plant (T & D)			
Utility Plant	\$64,587,402		
Accumulated Depreciation	<u>(\$15,646,942)</u>		
Net	<u>\$48,940,460</u>		
Total Water Plant			
Utility Plant	\$94,979,744	CIAC	\$39,240,143
Accumulated Depreciation	<u>(\$22,858,970)</u>	Accum. Amortization	<u>(\$7,386,731)</u>
Net	<u>\$72,120,774</u>	Net	<u>\$31,853,412</u>
T & D as % of Total Water Plant	<u>67.86%</u>	CIAC Pct.	<u>44.17%</u>
Wastewater (WW):			
Collection Plant			
Utility Plant	\$72,845,461		
Accumulated Depreciation	<u>(\$22,235,105)</u>		
Net	<u>\$50,610,356</u>		
Total Wastewater Plant			
Utility Plant	\$160,892,460	CIAC	\$64,093,959
Accumulated Depreciation	<u>(\$51,064,823)</u>	Accum. Amortization	<u>(\$15,178,396)</u>
Net	<u>\$109,827,637</u>	Net	<u>\$48,915,564</u>
Collection as % of Total WW Plant	<u>46.08%</u>	CIAC Pct.	<u>44.54%</u>
Combined Water and Wastewater:			
Transmission, Distribution and Collection (T, D & C)			
Utility Plant	\$137,432,863		
Accumulated Depreciation	<u>(\$37,882,047)</u>		
Net	<u>\$99,550,816</u>		
Total Plant			
Utility Plant	\$255,872,204	CIAC	\$103,334,102
Accumulated Depreciation	<u>(\$73,923,793)</u>	Accum. Amortization	<u>(\$22,565,127)</u>
Net	<u>\$181,948,411</u>	Net	<u>\$80,768,975</u>
T, D & C as percentage of Total Plant	<u>54.71%</u>	CIAC Pct.	<u>44.39%</u>

	Schedule 1-C	
	<u>Water</u>	<u>Wastewater</u>
Calculation of Plant Capacity Charge Needed to Meet Minimum Requirement at Plant Capacity		
Net Transmission & Distribution/Collection Plant	\$48,940,460	\$50,610,356
Net CIAC	<u>\$31,853,412</u>	<u>\$48,915,564</u>
Increase Needed to Net CIAC	<u>\$7,407,123</u>	<u>\$11,374,718</u>
Gross-up Percentage for Estimated Accum. Amort.	94.82%	93.62%
Gross Increase Needed	\$7,811,698	\$12,149,827
Remaining ERCs	\$9,855	\$8,810
Increase Needed in Plant Capacity Charge (CC)	\$793	\$1,379
Plant Capacity Charge Proposed by Utility & Recommended by Staff	<u>\$391</u>	<u>\$1,316</u>
Total PCC Needed to Meet Minimum at Plant Capacity	<u>\$1,184</u>	<u>\$2,695</u>
Current UWF Plant Capacity Charges	\$100 - \$410	\$210 - \$510