



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

OK  
MAB  
8/15/02

**DATE:** August 15, 2002  
**TO:** Dr. Mary A. Bane, Executive Director  
**FROM:** Stephen Bart Fletcher, Regulatory Analyst III, Division of Economic Regulation  
 Mary Anne Helton, Attorney Supervisor, Office of the General Counsel  
**RE:** Dockets Nos. 011682-SU and 011683-SU, a service availability application and an AFUDC rate establishment petition by Forest Utilities, Inc. - Item 17 of the August 20, 2002 Agenda Conference

BBB-102

MAB

A combined recommendation addressing the above dockets has been filed for consideration by the Commissioners at the August 20, 2002 Agenda Conference. Docket No. 011682-SU (the service availability case) has an 8-month statutory time frame, which requires this recommendation to be on the August 20, 2002 Agenda Conference. With your permission, staff would like to make a few minor modifications to the recommendation related to the service availability docket.

First, Schedule Nos. 2-4 of this recommendation reflect the correct staff recommended service availability charges. However, staff inadvertently failed to update our recommended plant capacity and maintenance extension charges in the recommendation paragraph and staff analysis section of Issue 3. Specifically, the plant capacity charge per ERC should be increased by \$1 (from \$932 to \$933), and the per gallon plant capacity charge should be increased to \$5.488 (from \$5.482). Further, the main extension charge per ERC should be increased by \$1 (from \$1,042 to \$1,043), and the per gallon main extension charge should be increased to \$6.135 (from \$6.129).

Second, staff inadvertently failed to include provisions to recommend that, in the event of a timely protest, the docket remain open and the utility's proposed tariff should go into effect, subject to refund, pending resolution of the protest. Since an escrow agreement is the only security that can guarantee, with certainty, the amount of service availability charges collected subject to refund, staff would also recommend that the utility file an escrow agreement to guarantee the difference of the utility's existing and proposed system capacity charge collected subject refund, until the protest is resolved. Further, staff would recommend the utility be required to provide periodic refund reports, pursuant to Rule 25-30.360(6), Florida Administrative Code. These modifications would be to Issue 4, which is the close the docket issue for the service availability case (Docket No.011682-SU).

Staff has attached revised recommendation pages in the type and strike format that reflect the changes discussed above.

Attachment

cc: Division of Economic Regulation (Devlin, Jenkins, Willis, Merchant, Edwards)  
 Office of the General Counsel (McLean, Holley)  
 Division of the Commission Clerk and Administrative Services (Bayo)  
 Commissioners' Aides

DOCUMENT NUMBER-DATE  
 08642 AUG 15 2002

**ISSUE 3:** Should the utility's tariff filing to modify its system capacity charge be approved as filed?

**RECOMMENDATION:** No. Tariff Sheets Nos. 24.0 and 27.0 filed on December 31, 2001 should be denied. The Commission should discontinue the utility's existing system capacity charge and approve a plant capacity charge of \$933 ~~\$932~~ per residential ERC and a plant capacity charge of \$5.488 ~~\$5.482~~ per gallon for all others. Also, the Commission should approve a main extension charge of \$1,043 ~~\$1,042~~ per residential ERC and a main extension charge of \$6.135 ~~\$6.129~~ per gallon for all others. Further, the Commission should issue the order as Proposed Agency Action (PAA). If there is no timely protest to the Commission's PAA by a substantially affected person, the utility should file the appropriate revised tariff sheets and a proposed notice within twenty days of the effective date of the PAA Order. The revised tariff sheets should be approved administratively upon staff's verification that the tariffs are consistent with the Commission's decision and the utility's proposed notice is adequate. If the revised tariff sheets are approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(2), Florida Administrative Code, providing the appropriate notice has been made. The notice shall be mailed or hand delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided a written estimate for service within the past 12 calendar months. The utility shall provide proof of the date the notice was given within 10 days after the date of the notice. (FLETCHER, G. EDWARDS)

**STAFF ANALYSIS:** On December 31, 2001, the utility filed an application to increase its system capacity charge from \$625 to \$1,998 per residential ERC. By Order No. PSC-02-0314-PCO-SU, issued March 11, 2002, the Commission suspended Forest's proposed system capacity charge.

During the years 2002 through 2010, Forest plans to complete the several improvements to its collection system and its treatment plant and disposal facilities. For its collection system, the utility has planned the following improvements: 1) inflow-infiltration evaluation and system rehabilitation, 2) lift station improvements, and 3) emergency lift station pump and portable generator. For its treatment plant and disposal facilities, Forest

has planned the following improvements: 1) treatment plant emergency generator with enclosure, 2) sludge drying bed expansion and holding bin, 3) automatic backwash effluent filter, 4) chlorine contact chamber and chlorine storage enclosure, 5) flow equalization tank addition, and 6) grit removal and automatic screening facilities. Forest states that these improvements are necessary to maintain compliance with the Florida Department of Environmental Protection rules and to accommodate customer growth through buildout of the service area.

Staff has reviewed the above projected plant additions. These projections were developed by Source, Inc. (Source), an engineering firm retained by the utility. Source's engineering report comprised of an itemized listing of all plant additions, the estimated cost of each addition, and the performance dates of each addition. Based on our review, the costs, functions, and performance dates of each additional plant component are reasonable. Further, Source projected the utility's growth through buildout to 2010. Source indicated that it determined the projected growth by utilizing the planned construction activity of developers in Forest's service area for existing and new development projects. Staff believes Source's method to project the growth of the utility's service area is reasonable because it takes into consideration all currently existing and planned development projects.

A system capacity charge is designed to defray a portion of the cost of the plant, as well as a portion of the cost of lines. A plant capacity charge represents the reimbursement by a developer or a customer to offset the cost of the treatment plant facilities. A main extension charge represents the reimbursement by a developer or a customer to offset the cost of the lines. The Commission has previously approved separate service availability charges for the cost of plant and the cost of lines, instead of one system capacity charge. See Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket 991437-WU and Order No. PSC-99-1173-PAA-WU, issued June 7, 1999, in Docket No. 981243-WU. Therefore, staff recommends the cancellation of Forest's existing system capacity charge and the implementation of a plant capacity charge and a main extension charge.

Based on our review of the utility's application, staff believes four adjustments are necessary. First, the utility utilized its requested 10.26% rate to calculate the AFUDC for its

projected plant investment in this service availability case. As discussed in Issue 3, staff has recommended that the appropriate annual AFUDC rate should be 10.73%. As such, staff has utilized this rate of 10.73% to capitalize AFUDC on the utility's projected plant.

Second, Forest used an incorrect depreciation rate for Tools, Shop & Garage Equipment. Pursuant to Rule 25-30.140, Florida Administrative Code, the appropriate depreciation rate for that account is 6.25%. Staff has corrected this to calculate the projected accumulated depreciation.

Third, the utility projected 42 equivalent residential connections (ERCs) to be connected in 2002. Since the change in the service availability charges will be effective in September 2002, staff has assumed that three-fourths of the 42 ERCs for 2002 will be connected to the utility's wastewater system at Forest's \$625 existing system capacity charge.

Lastly, Forest's calculation of its projected accumulated amortization of CIAC contained an error. As a result, the utility's projected December 31, 2010, accumulated amortization of CIAC balance was overstated, which in turn understated the CIAC ratio at buildout. In our analysis, staff has appropriately matched CIAC additions from capacity charges for each year from 2002 to 2010 to calculate the projected accumulated amortization of CIAC.

Pursuant to 25-30.580(1), Florida Administrative Code, the maximum amount of CIAC, 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 design capacity. The purpose of this cut-off point is to encourage utilities to retain a 25% investment and maintain an interest in its facilities. Rule 25-30.580(2), Florida Administrative Code, also states that the minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the sewage collection system.

In determining what the appropriate plant capacity charge should be, staff took the total treatment plant in service of \$2,741,982 at buildout and divided it by the total plant capacity in ERCs of 2,941. This resulted in a plant capacity charge of \$933 ~~\$932~~ per residential ERC and a plant capacity charge of \$5.488

~~\$5.482~~ per gallon for all others. This calculation is shown in Schedule No. 2. Using the \$933 ~~\$932~~ plant capacity charge, staff kept adjusting the main extension charge until the projected CIAC ratio at buildout equaled 75%. As a result, staff's analysis indicated that the main extension charge should be \$1,043 ~~\$1,042~~ per residential ERC and \$6.135 ~~\$6.129~~ per gallon for all others. Schedule No. 4 reflects that staff's recommended charges are within the guidelines set forth in Rule 25-30.580(1) and (2), Florida Administrative Code.

Therefore, staff recommends that the Commission approve a plant capacity charge of \$933 ~~\$932~~ and a main extension charge of \$1,043 ~~\$1,042~~ and that the Commission should issue the order as PAA. These recommended service availability charges are shown on Schedule No. 3. If there is no timely protest to the Commission's PAA by a substantially affected person, the utility should file the appropriate revised tariff sheets and a proposed notice within twenty days of the effective date of the PAA Order. The revised tariff sheets should be approved administratively upon staff's verification that the tariffs are consistent with the Commission's decision and the utility's proposed notice is adequate. If the revised tariff sheets are approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(2), Florida Administrative Code, providing the appropriate notice has been made.

The notice shall be mailed or hand delivered to all persons in the service area who have filed a written request for service within the past 12 calendar months or who have been provided a written estimate for service within the past 12 calendar months. The utility shall provide proof of the date the notice was given within 10 days after the date of the notice.

**ISSUE 4:** Should Docket No. 011682-SU be closed?

**RECOMMENDATION:** ~~Docket No. 011682-SU should be closed upon staff's verification that Forest has filed revised tariff sheets consistent with the Commission's decision and that the appropriate notice has been made.~~ If the Commission approves staff's recommendation on the previous issues and no timely protest on those issues are received upon expiration of the protest period, the PAA Order on the service availability charges will become final upon the issuance of a Consummating Order. Once staff has verified that the utility's revised tariff sheets are consistent with the Commission's decision and that the appropriate notice has been made, Docket No. 011682-SU should be closed administratively. If a timely protest is filed, staff recommends the following: 1) the docket should remain open pending the resolution of the protest; 2) the utility's proposed tariff should go into effect, subject to refund, pending resolution of the protest; 3) the utility also should file an escrow agreement to guarantee the difference between the utility's existing and proposed system capacity charge collected subject to refund, until the protest is resolved; and 4) pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should be required to provide a report by the 20<sup>th</sup> day of each month indicating the monthly and total amount of service availability charges collected subject to refund as of the end of the preceding month. (FLETCHER, HOLLEY)

**STAFF ANALYSIS:** Docket No. 011682-SU should be closed upon staff's verification that Forest has filed revised tariff sheets consistent with the Commission's decision and that the appropriate notice has been made. If the Commission approves staff's recommendation on the previous issues and no timely protest on those issues are received upon expiration of the protest period, the PAA Order on the service availability charges will become final upon the issuance of a Consummating Order. Once staff has verified that the utility's revised tariff sheets are consistent with the Commission's decision and that the appropriate notice has been made, Docket No. 011682-SU should be closed administratively.

If a timely protest is filed, the docket should remain open and the utility's proposed tariff should go into effect, subject to refund, pending resolution of the protest. An escrow agreement is the only security that can guarantee, with certainty, the amount of service availability charges collected subject to refund. Thus, staff recommends that the utility should file an escrow agreement

to guarantee the difference between the utility's existing and proposed system capacity charge collected subject to refund, until the protest is resolved. Further, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should be required to provide a report by the 20<sup>th</sup> day of each month indicating the monthly and total amount of service availability charges collected subject to refund as of the end of the preceding month.

An escrow account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: that the account is established at the direction of this Commission for the purpose set forth above; that no withdrawals of funds shall occur without the prior approval of the Commission through the Director of the Division of the Commission Clerk and Administrative Services; that the account shall be interest bearing; that information concerning the escrow account shall be available from the institution to the Commission or its representative at all times; that the amount of service availability charges collected subject to refund shall be deposited in the escrow account within seven days of receipt; and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

The escrow agreement should also state the following: that if a refund to the builders/developers is required, all interest earned on the escrow account shall be distributed to the builders/developers; and if a refund to the builders/developers is not required, the interest earned on the escrow account shall revert to the utility. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

**ISSUE 5:** Should Docket No. 011683-SU be closed?

**RECOMMENDATION:** If no timely protest on the Commission approved AFUDC rate is received upon expiration of the protest period, the PAA Order on the AFUDC rate will become final upon the issuance of a Consummating Order, and Docket No. 011683-SU should be closed.  
(FLETCHER, HOLLEY)

**STAFF ANALYSIS:** If no timely protest on the Commission approved AFUDC rate is received upon expiration of the protest period, the PAA Order on the AFUDC rate will become final upon the issuance of a Consummating Order, and Docket No. 011683-SU should be closed.



| Forest Utilities, Inc.                   |                         |                           | Schedule No. 1                      |                              |                                     |                            |
|--|-------------------------|---------------------------|-------------------------------------|------------------------------|-------------------------------------|----------------------------|
| Staff Recommended AFUDC Rate             |                         |                           | Docket No. 011683-SU                |                              |                                     |                            |
| 12-Month Period Ended September 30, 2001 |                         |                           |                                     |                              |                                     |                            |
| <u>Class of Capital</u>                  | <u>12-Month Average</u> | <u>Percent of Capital</u> | <u>Utility Requested Cost Rates</u> | <u>Utility Weighted Cost</u> | <u>Staff Recommended Cost Rates</u> | <u>Staff Weighted Cost</u> |
| Common Equity                            | \$164,461               | 33.75%                    | 9.93%                               | 3.35%                        | 11.34%                              | 3.83%                      |
| Long-Term Debt                           | 312,322                 | 64.09%                    | 10.73%                              | 6.88%                        | 10.73%                              | 6.88%                      |
| Customer Deposits                        | 2,345                   | 0.48%                     | 6.00%                               | 0.03%                        | 6.00%                               | 0.03%                      |
| Deferred Income Taxes                    | <u>8,174</u>            | <u>1.68%</u>              | 0.00%                               | <u>0.00%</u>                 | 0.00%                               | <u>0.00%</u>               |
| Total                                    | <u>\$487,302</u>        | <u>100.00%</u>            |                                     | <u>10.26%</u>                |                                     | <u>10.73%</u>              |
| Discounted Monthly AFUDC Rate            |                         |                           |                                     | <u>0.854211%</u>             |                                     | <u>0.893828%</u>           |

| <b>Forest Utilities, Inc.</b>                      |                                  | <b>Schedule No. 2</b>                          |
|--|----------------------------------|--|
| <b>Docket No. 011682-SU</b>                        |                                  |  |
| <b><u>ANALYSIS OF PLANT CAPACITY CHARGE</u></b>    |                                  |  |
| <b><u>ACCT. NO.</u></b>                            | <b><u>ACCOUNT NAME</u></b>       | <b><u>PLANT IN SERVICE<br/>AT BUILDOUT</u></b> |
| 353  | Land and Land Rights             | \$26,690                                       |
| 354  | Structures and Improvements      | 386,532  |
| 355  | Power Generation Equipment       | 95,823   |
| 380  | Treatment and Disposal Equipment | <u>2,233,608</u>                               |
|  |                                  | <u><b>\$2,742,653</b></u>                      |
| Total Capacity in ERCs Plant is Capable of Serving |                                  | 2,941  |
| Total Treatment Plant in Service At Buildout       |                                  | <u>\$2,742,653</u>                             |
| Divided by: Total Capacity in ERC                  |                                  | 2,941  |
| <b>Plant Capacity Charge Per ERC</b>               |                                  | <u><b>\$933</b></u>                            |

Forest Utilities, Inc.  
Docket No. 011682-SU  
Service Availability Charges - Wastewater Only

Schedule No. 3

|                                       | <u>Present</u> | <u>Company<br/>Proposed</u> | <u>Staff<br/>Recommended</u> |
|---------------------------------------|----------------|-----------------------------|------------------------------|
| <b><u>System Capacity Charge:</u></b> | \$625          | \$1,998                     | No Charge                    |
| <b><u>Plant Capacity Charge:</u></b>  |                |                             |                              |
| Residential-per ERC (170 gpd)         | None           | None                        | \$933                        |
| All other-per gallon                  | None           | None                        | \$5.488                      |
| <b><u>Main Extension Charge:</u></b>  |                |                             |                              |
| Residential-per ERC (170 gpd)         | None           | None                        | \$1,043                      |
| All other-per gallon                  | None           | None                        | \$6.135                      |

| UTILITY CO.: Forest Utilities, Inc. |                    | SCHEDULE NO. 4     |                    |                    |                    |                    |                    |                    |                    |                    |         |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------|
| Docket No.: 011682-SU               |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |         |
| Wastewater Operation                |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |         |
| <b>Staff Recommended:</b>           |                    |                    |                    |                    |                    |                    |                    |                    |                    |                    |         |
| Plant Capacity Charge:              | \$933              |                    |                    |                    |                    |                    |                    |                    |                    |                    |         |
| Main Extension Charge:              | \$1,043            |                    |                    |                    |                    |                    |                    |                    |                    |                    |         |
|                                     | <u>2001</u>        | <u>2002</u>        | <u>2003</u>        | <u>2004</u>        | <u>2005</u>        | <u>2006</u>        | <u>2007</u>        | <u>2008</u>        | <u>2009</u>        | <u>2010</u>        |         |
| Capacity                            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000            | 500,000 |
| Demand                              | 362,950            | 370,090            | 386,750            | 405,450            | 432,650            | 454,155            | 471,240            | 482,545            | 493,000            | 499,970            |         |
| % Used                              | 72.59%             | 74.02%             | 77.35%             | 81.09%             | 86.53%             | 90.83%             | 94.25%             | 96.51%             | 98.60%             | 99.99%             |         |
| Growth (in ERCs)                    |                    | 42.0               | 98.0               | 110.0              | 160.0              | 126.5              | 100.5              | 66.5               | 61.5               | 41.0               |         |
| Utility Plant                       | \$3,302,461        | \$3,439,691        | \$3,913,663        | \$4,558,176        | \$4,818,936        | \$5,209,147        | \$5,951,891        | \$5,993,591        | \$6,350,498        | \$6,392,198        |         |
| Accumulated Depreciation            | <u>(1,555,235)</u> | <u>(1,661,823)</u> | <u>(1,779,022)</u> | <u>(1,914,430)</u> | <u>(2,065,131)</u> | <u>(2,227,704)</u> | <u>(2,410,947)</u> | <u>(2,608,292)</u> | <u>(2,812,856)</u> | <u>(3,024,640)</u> |         |
| Net Plant                           | <u>\$1,747,226</u> | <u>\$1,777,868</u> | <u>\$2,134,641</u> | <u>\$2,643,746</u> | <u>\$2,753,805</u> | <u>\$2,981,443</u> | <u>\$3,540,944</u> | <u>\$3,385,299</u> | <u>\$3,537,642</u> | <u>\$3,367,558</u> |         |
| CIAC                                | \$2,596,054        | \$2,668,852        | \$3,214,440        | \$3,772,676        | \$4,158,095        | \$4,407,940        | \$4,675,844        | \$4,807,185        | \$4,928,651        | \$5,009,628        |         |
| Accumulated Amortization            | <u>(1,313,631)</u> | <u>(1,396,392)</u> | <u>(1,489,469)</u> | <u>(1,600,568)</u> | <u>(1,727,255)</u> | <u>(1,864,887)</u> | <u>(2,011,432)</u> | <u>(2,164,837)</u> | <u>(2,322,616)</u> | <u>(2,483,898)</u> |         |
| Net CIAC                            | <u>\$1,282,423</u> | <u>\$1,272,460</u> | <u>\$1,724,971</u> | <u>\$2,172,108</u> | <u>\$2,430,840</u> | <u>\$2,543,053</u> | <u>\$2,664,412</u> | <u>\$2,642,348</u> | <u>\$2,606,035</u> | <u>\$2,525,731</u> |         |
| Net Investment                      | <u>\$464,803</u>   | <u>\$505,408</u>   | <u>\$409,670</u>   | <u>\$471,638</u>   | <u>\$322,965</u>   | <u>\$438,390</u>   | <u>\$876,532</u>   | <u>\$742,951</u>   | <u>\$931,607</u>   | <u>\$841,827</u>   |         |
| CIAC Ratio:                         | 73.40%             | 71.57%             | 80.81%             | 82.16%             | 88.27%             | 85.30%             | 75.25%             | 78.05%             | 73.67%             | 75.00%             |         |