State of Florida

Public Service Commission

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COMMISSION CLERK

DATE: MARCH 6, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (FITCH, MERTA)
OFFICE OF THE GENERAL COUNSEL (JAEGER)

RE: DOCKET NO. 010087-WS - APPLICATION FOR APPROVAL OF REUSE PLAN IN LAKE COUNTY BY SUN COMMUNITIES FINANCE, LLC D/B/A WATER OAK UTILITY.

AGENDA: 03/18/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010087.RCM

CASE BACKGROUND

Sun Communities Finance, Limited Partnership (Sun Communities or utility) is a Class C water and wastewater utility located in Lake County. The utility provides water and wastewater service to approximately 816 residential customers and 24 general service customers. The utility was granted Water Certificate No. 454-W and Wastewater Certificate No. 388-S, pursuant to Order No. 16150, issued May 23, 1986, in Docket No. 850517-WS.

On March 2, 1999, Sun Communities applied for a limited proceeding to increase its water rates. The scope of the limited proceeding was broadened to include an investigation of possible overearnings. In Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, the Commission denied the request for a limited proceeding to increase water rates and found that the utility was overearning for both its water and wastewater systems.

In that Order, the Commission determined the appropriate disposition of the overearnings.

The utility was ordered to file a reuse project plan pursuant to Section 367.0817, Florida Statutes, within six months of the final order. The utility was also ordered to apply the overearnings associated with the water system to conservation related expenses and ordered to defer 23.07% of monthly wastewater billings and include the deferred revenues as a separate line item in its capital structure with a cost rate equal to the thirty-day commercial paper rate. Once the reuse project plan was approved, the utility was ordered to book the deferred earnings and accrued interest to CIAC.

Staff audited the utility's books and records for the test year ending January 31, 2001. An Audit Report containing staff's findings from the audit was submitted on October 1, 2002. Based on the findings in the audit, the utility has requested that the wastewater revenues deferred in 2001, pursuant to Order No. PSC-00-1165-PAA-WS, be released based on the utility's assertion that the utility's wastewater system was no longer overearning. The Commission has jurisdiction in this matter pursuant to Section 367.081, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission continue to require the utility to escrow 23.07% of wastewater revenues pursuant to Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS?

RECOMMENDATION: No. The utility should no longer be required to escrow 23.07% of wastewater revenues. (FITCH, MERTA)

STAFF ANALYSIS: Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, required the utility to escrow 23.07% of wastewater revenues for use in a future reuse project to offset current wastewater overearnings. Staff conducted an audit of the utility's books and records for the test year ending December 31, 2001. The purpose of this audit was to select a base year to be used in setting reuse rates in Docket No. 010087 (reuse docket). By letter dated December 27, 2002, the utility requested that the escrow requirement be discontinued based on the audited earnings of the utility.

Exhibit IV of the audit report contains the net operating income schedule of the utility. This exhibit shows a per audit loss of $52,005 for wastewater. The loss can be attributed to the utility's parent company allocating more cost to the operations of the water and wastewater company than were allocated in the Order No. PSC-00-1165-PAA-WS. Since that order, the utility has reevaluated its allocations and those allocations have been recorded by the utility for the 2001 test year. Although staff is considering several adjustments to the allocations and other items contained in the audit, staff does not believe the sum of those potential adjustments will change the utility's underearnings position.

Further, because staff is using this audited test year as a base year for projection in the reuse docket, staff believes that the underearnings will continue until the reuse docket is completed. Therefore, staff recommends that the utility should no longer be required to escrow 23.07% of wastewater revenues.

ISSUE 2: Should a portion of the wastewater revenues escrowed pursuant to Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, be released? And if so, how much?

RECOMMENDATION: Yes, all the monies escrowed to date should be released with the exception of $6,000 and associated interest which represents overearnings during the 2000 calendar year. (FITCH, MERTA)

STAFF ANALYSIS: As discussed in Issue No. 1, the utility was required to escrow 23.07% of its wastewater revenues that were deemed to constitute overearnings. These escrowed monies would then be used to offset future cost associated with a reuse project. By letter dated December 27, 2002, the utility requested, based on the audit findings, that the escrow monies collected to date be released with the exception of the revenues collected during the 2000 calendar year which represented actual overearnings.

As discussed in Issue No. 1, staff does not believe that the utility overearned during the calendar year 2001. The intent of Order No. PSC-00-1165-PAA-WS, was to defer overearnings to offset the cost of a future reuse project. Because staff is using the 2001 test year as a base year for the reuse project, staff believes that the underearnings will continue. Therefore, staff believes that the escrowed money for the periods January 1, 2001, to date should be released.

Staff does believe that the utility overearned in the calendar year 2000. The utility does not dispute this and has requested that only the overearnings portion of the escrowed monies remain in escrow. The utility contends that the actual overearnings realized in 2000 was significantly less than the amount required to be escrowed. Based on the information contained in the utility's 2000 annual report, the utility calculated $6,000 of overearnings for the whole of the year 2000. Staff has reviewed this calculation and believes it is reasonable considering that the order making revenues subject to refund was not issued until June 27, 2000.

Based on the above, staff believes that the utility's request to release all monies held in escrow with the exception of $6,000 of overearnings in 2000 is reasonable and should be approved.

ISSUE 3: Should this docket be closed?

RECOMMENDATION: No. This docket should not be closed. It should remain open pending the completion of the reuse docket. If a protest by a substantially affected person is filed within 21 days of the issuance of the Order, the escrowed monies should remain in escrow pending resolution of the protest, and the docket should remain open. (JAEGER, FITCH, MERTA)

STAFF ANALYSIS: This docket should not be closed. It should remain open pending the completion of the reuse docket. If a protest by a substantially affected person is filed within 21 days of the issuance of the Order, the escrowed monies should remain in escrow pending resolution of the protest, and the docket should remain open.