

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

MARCH 16, 2004

RE: Docket No. 030423-WU - Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County.

Issue 1: Is the quality of service provided by RWS considered satisfactory?

Recommendation: Yes. The quality of service provided by RWS should be considered satisfactory.

APPROVED

Issue 2: Does the utility have excessive unaccounted for water and, if so, what adjustments should be made?

Recommendation: Yes. RWS had approximately 11.71% excessive unaccounted for water in the year 2002. Therefore, allowable expenses for purchased electricity and chemicals should be reduced by 11.71% in 2002.

APPROVED

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Mark D. ...
Maurice ...
...
Rudy Bradley

REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER - DATE

03549 MAR 16 04

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Issue 3: What portions of RWS are used and useful?

Recommendation: The water treatment plant and water distribution systems for years 2002, 2003, and 2004 should be considered 100% used and useful.

APPROVED

Issue 4: Did RWS earn above the range of its authorized rate of return for the average test year ended December 31, 2002?

Recommendation: Yes. The utility's revenues exceeded the range of its authorized rate of return of 5.09% by \$71,299 (35.98%) for the test year ended December 31, 2002.

MODIFIED

*Per agreement between
staff and company.*

Issue 5: Did RWS earn above the range of its authorized return for the interim collection period ended December 31, 2003?

Recommendation: Yes. RWS earnings for the interim collection period ended December 31, 2003, exceeded its authorized rate of return of 7.46% by \$58,435, or 27.44%.

MODIFIED

*Per agreement between
staff and company.*

Issue 6: Should the Commission update the utility's authorized return on equity (ROE), and if so, what is the appropriate return on equity for the projected test year ended December 31, 2004?

Recommendation: Yes. The utility's authorized ROE should be updated to establish the return based on the current leverage formula for the projected test year ended December 31, 2004, and on a going-forward basis. Based on the current leverage formula, the utility's ROE is 11.46%, with a range from 10.46% to 12.46%.

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Issue 7: What is the appropriate methodology for projecting customers and consumption for the projected test year ending December 31, 2004, and what are the appropriate ERCs and gallons (billing determinants) to be used for ratesetting for the 2004 projected test year?

Recommendation: The appropriate methodology for projecting customers is simple linear regression, and the appropriate methodology for projecting consumption is based on historical average consumption per bill per customer class and meter size. The appropriate billing determinants to be used for ratesetting for the 2004 projected test year are 10,680 ERCs and 88,614,432 gallons.

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Issue 8: What is the appropriate revenue requirement for RWS for the projected test year ended December 31, 2004?

Recommendation: The appropriate revenue requirement for RWS for the projected test year ended December 31, 2004 is \$169,828, which represents a decrease of \$64,203 (-27.43%).

MODIFIED

This is a fallout issue.

Issue 9: Should RWS be required to complete its pro forma projects by December 31, 2004, and should the revenue related to the pro forma plant be held subject to refund?

Recommendation: Yes. RWS should be required to complete its pro forma projects by December 31, 2004, and should be ordered to hold 4.18% of 2004 revenues subject to refund.

MODIFIED

CCA note: Additional modification language added following review of audiotape.

*Hy
4/9/04*

There is no requirement to hold the monies subject to refund. Further, the completion date deadline was changed to 12/31/05.

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Issue 10: Should RWS be ordered to refund the price index that was implemented May 31, 2002?

Recommendation: Yes. RWS should be required to refund 1.76% of revenues collected from June 1, 2002, through the effective date of the new rates. This refund should be made with interest as required by Rule 25-30.360(4), F.A.C., within 90 days of the date of the Consummating Order. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The refund should be made to customers of record as of the date of the Consummating Order pursuant to Rule 25-30.360(3), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

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Issue 11: Should RWS be ordered to refund its price index rate adjustment that was implemented June 6, 2003 plus revenues held subject to refund that were collected during the interim collection period?

Recommendation: Yes. The utility should be required to refund 1.04% of revenues collected June 6, 2003 through the effective date of the new rates plus 9.09% of revenues collected June 13, 2003, through December 14, 2003, plus 27.44% of revenues collected from December 15, 2003, through the effective date of the new rates. This refund should be made with interest as required by Rule 25-30.360(4), F.A.C., within 90 days of the date of the Consummating Order. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The refund should be made to customers of record as of the date of the Consummating Order pursuant to Rule 25-30.360(3), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

ICA note:

specific modification language added following review of

APPROVED

with the modification that RWS was directed to refund the price index, but to use the remainder of the amount found for the refund to make plant improvements, and to record this as CIAC.

Issue 12: What is the appropriate rate structure for this utility?

Recommendation: The appropriate rate structure for this utility is a two-tier inclining-block rate structure for the residential class. The first usage block should be for monthly consumption of 0-10,000 gallons, and the second usage block for consumption over 10,000 gallons. The inclining-block structure should have rate factors for the first and second blocks of 1.0 and 1.25, respectively, and have a base facility charge (BFC) cost recovery percentage of 40%. The BFC / uniform gallonage charge rate structure should be continued for the general service class.

This is a fallout issue.

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Issue 13: Is an adjustment to reflect repression of consumption appropriate?

Recommendation: No. The recommended revenue requirement reduction and recommended rate structure results in price decreases to all customers; therefore, a repression adjustment is not appropriate. However, in order to monitor the effects of staff's recommended revenue requirement and rate structure changes, the utility should be ordered to prepare monthly reports, filed on a quarterly basis, detailing the number of bills, the gallons billed and the revenues billed. The reports should be prepared by customer class, meter size and usage block, for a period of two years, after the first month that the rates go into effect.

This is a fallout issue.

Issue 14: What are the appropriate monthly rates for service?

Recommendation: The appropriate monthly rates should be designed to produce revenues of \$163,144, excluding Other Revenues. The utility should adjust water service rates downward as set forth in the analysis portion of staff's March 4, 2004 memorandum. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates within 30 days of the Consummating Order. 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(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

This is a fallout issue.

Issue 15: 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 as required by Section 367.0816, Florida Statutes?

Recommendation: The water rates should be reduced as shown on Schedule 4 of staff's March 4, 2004 memorandum, 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 the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for

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the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

APPROVED

Issue 16: Should the utility's service availability policy be changed to discontinue service availability charges?

Recommendation: Yes. The utility's service availability policy should be changed to discontinue its service availability charges. However, the meter installation charges as reflected in the utility's water tariff should be continued. The utility should file revised tariff sheets and proposed notice which are consistent with the Commission's vote. The discontinued service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided that customers have been noticed.

WITHDRAWN

Issue 17: Should the utility be required to provide proof, within 90 days of the consummating order, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission-approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, RWS should provide proof, within 90 days of the consummating order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

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Issue 18: Should the docket be closed?

Recommendation: No. If no timely protest is received from a substantially affected person within 21 days of the date of the Proposed Agency Action (PAA) Order, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional ten months after the Consummating Order to allow staff time to verify the utility has completed the pro forma distribution project and to verify that the refund has been made to RWS customers. Upon verification of the above by staff, the docket should be administratively closed.

APPROVED