

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

AUGUST 3, 2004

RE: Docket No. 030444-WS - Application for rate increase in Bay County by Bayside Utility Services, Inc.

Issue 1: Is the quality of service provided by Bayside Utility Services, Inc. considered satisfactory, and, if not, what action, including pro forma plant improvements, is needed to improve the quality of service?

Recommendation: No. The quality of service provided by Bayside Utility Services, Inc. should be considered marginal at this time. Staff believes that the utility is taking appropriate action to improve the quality of service. The utility has requested pro forma plant improvements to improve the quality of service, which is discussed in more detail in Issue 2. Further, due to the numerous problems with the original construction of the collection system, the utility should file a plan of improvement for the wastewater collection system within 120 days of the consummating order finalizing the initial PAA order for this docket.

**MODIFIED**

Show Cause proceedings will be initiated if the company does not meet the required deadline.

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

*[Handwritten signatures of majority commissioners]*

*[Handwritten signature of J. Terry Deason]*

REMARKS/DISSENTING COMMENTS:

Commissioner Deason dissented.

DOCUMENT NUMBER-DATE

08416 AUG-3 04

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Issue 2: What are the appropriate pro forma plant projects for this docket and when should they be completed?

Recommendation: The Commission should allow \$25,000 in pro forma plant for wastewater lift station improvements in this recommendation. Pro forma plant should be reduced by \$80,000 for water and \$25,000 for wastewater. Corresponding adjustments should be made to reduce both accumulated depreciation and depreciation expense by \$4,248 for water and \$556 for wastewater. Also, corresponding adjustments should be made to reduce property taxes by \$34 for water and \$6 for wastewater. The lift station improvements should be completed within 90 days of the consummating order finalizing the initial PAA order for this docket. The utility should be required to complete the water main and wastewater gravity main improvements projects within 180 days of the consummating order finalizing the initial PAA order for this docket. Upon the completion of these projects, the utility should submit supporting documentation reflecting the actual costs and prudence associated with these projects. Staff will review this information and file another recommendation addressing whether a Phase II rate increase should be considered.

**APPROVED**

Issue 3: Are there any rate base adjustments that should be made as a result of staff's audit?

Recommendation: Yes. Based on uncontested audit adjustments, plant should be decreased by \$52,982 for water and \$6,050 for wastewater, and accumulated depreciation should be increased by \$3,888 for water and \$63,053 for wastewater. In addition, accumulated amortization of CIAC should be increased by \$4,317 for water. Further, corresponding adjustments should be made to decrease depreciation expense by \$1,494 for water and to increase depreciation expense by \$6,045 for wastewater.

**APPROVED**

Issue 4: Should any adjustments be made to the utility's Water Service Corporation allocations?

Recommendation: To appropriately allocate rate base and other costs, plant for both water and wastewater should be decreased by \$533, and depreciation expense for both water and wastewater should be decreased by \$57. In addition, operation and maintenance (O&M) expenses should be reduced by \$1,426 for both water and wastewater. Further, Utilities, Inc. (UI), the utility's parent, should revise its allocation methodology beginning January 1, 2004, to a weighted average of each calendar year in order to properly spread costs to customers.

**APPROVED**

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Issue 5: What are the used and useful percentages for the utility's water distribution and wastewater collection systems?

Recommendation: The water distribution and wastewater collection systems should be considered 100% used and useful.

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$10,019 for water and \$10,787 for wastewater based on the formula method.

**APPROVED**

Issue 7: What is the appropriate rate base?

Recommendation: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2002 is \$66,672 for water and \$194,663 for wastewater.

**APPROVED**

Issue 8: Are any adjustments necessary to Bayside's capital structure and what is the appropriate weighted cost of capital including the proper components, amounts and cost rates associated with the capital structure for the test year ending December 31, 2002?

Recommendation: Deferred taxes should be increased by \$21,718 to reflect the correct balance and the special tax depreciation allowance claim by the utility. The appropriate cost of equity should be 11.21%, with a range of 10.21% to 12.21%, and the overall cost of capital should be 8.28%, with a range of 7.90% to 8.67%.

**APPROVED**

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Issue 9: Should an adjustment be made to employee salaries?

Recommendation: Yes. To reflect current staffing levels, employee salaries should be reduced by \$9,589 for both water and wastewater. Corresponding adjustments should also be made to reduce pensions and benefits by \$3,652 for both water and wastewater. Further, corresponding adjustments should be made to reduce payroll taxes by \$734 for both water and wastewater.

**APPROVED**

Issue 10: Are there any operating expense adjustments that should be made as a result of staff's audit?

Recommendation: Yes. Based on uncontested audit adjustments, O&M expenses should be reduced by \$714 for water and \$679 for wastewater.

**APPROVED**

Issue 11: Should an adjustment be made for unaccounted for water?

Recommendation: Yes. A reduction of 4.54%, or \$2,184, should be made to purchased water. The utility should investigate the source of water loss and provide a report identifying the cause of the unaccounted for water within 90 days of the consummating order finalizing the initial PAA order for this docket.

**APPROVED**

Issue 12: Should an adjustment be made to materials and supplies expense?

Recommendation: Yes. To normalize the test year expense level, material and supplies expense should be reduced by \$1,020 for water and \$10,257 for wastewater.

**APPROVED**

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Issue 13: Should an adjustment be made to bad debt expense?

Recommendation: Yes. To normalize the test year expense level, bad debt expense should be reduced by \$435 for water and \$592 for wastewater.

**APPROVED**

Issue 14: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense for this docket is \$59,369. This expense is to be recovered over four years for an annual expense of \$14,842. To remove duplicate and unsupported costs, the test year amortization should be decreased by \$5,656 for both water and wastewater.

**APPROVED**

Issue 15: What is the test year water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the operating income before any provision for increased revenues is (\$13,251) for water and (\$7,472) for wastewater.

**APPROVED**

Issue 16: What is the appropriate revenue requirement?

Recommendation: The following revenue requirements should be approved.

	<u>TY Revenues</u>	<u>\$ Increase</u>	<u>Rev Requirement</u>	<u>% Increase</u>
Water	\$65,894	\$31,517	\$97,411	47.83%
Wastewater	\$92,613	\$39,609	\$132,222	42.77%

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Issue 17: What are the appropriate water and wastewater rate structures?

Recommendation: The appropriate water rate structure is a continuation of the current base facility (BFC) and uniform gallonage charge rate structure. The water rates should be designed such that 40% of the revenue requirement from rates (pre repression) is recovered in the BFC. No conservation adjustment is recommended. Further, the appropriate wastewater rate structure is a continuation of the current BFC and gallonage charge rate structure with a 6,000-gallon cap for residential customers and a differential in the gallonage charge between residential and general service.

**APPROVED**

Issue 18: Are adjustments to reflect repression of consumption appropriate due to the price changes in this case, and, if so, what are the appropriate repression adjustments for the water and wastewater systems?

Recommendation: Yes. A repression adjustment of 563 kgal is appropriate for the water system, with a corresponding adjustment of 453 kgal for the wastewater system. In order to monitor the effects of the recommended revenue changes, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by type of service, customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the rate changes go into effect.

**APPROVED**

Issue 19: What are the appropriate water and wastewater rates?

Recommendation: The appropriate water and wastewater monthly rates are shown on Schedules Nos. 4-A and 4-B of staff's July 22, 2004 memorandum, respectively. Excluding miscellaneous service revenues, the recommended water and wastewater rates are designed to produce revenues of \$96,456 and \$130,880, respectively. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice.

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Issue 20: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund 15.37% of water and 14.81% of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

**APPROVED**

Issue 21: 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, F.S.?

Recommendation: The rates should be reduced as shown on Schedules Nos. 4-A and 4-B of staff's memorandum to remove \$7,771 separately for both water and wastewater rate case expense, grossed up for regulatory assessment fees, which is being 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, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.

**APPROVED**

Issue 22: Should the utility be required to provide proof that it has adjusted its books for all Commission-approved adjustments?

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

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Issue 23: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by this initial PAA decision files a protest within 21 days of the issuance of the order, a consummating order will be issued. Staff should be given administrative authority to verify that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the refund has been completed and verified by staff. Once these actions are complete, the corporate undertaking should be released. This docket should remain open for staff to verify that the additional recommended plant improvements, discussed in Issue 2, have been completed and to file another PAA recommendation to address a Phase II rate increase for those plant projects.

**APPROVED**