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Public Service Commission

September 23, 2004

Mr. Stephen C. Reilly
Associate Public Counsel
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400

Martin S. Friedman, Esquire
Rose, Sundstrom & Bentley, LLP
600 S. North Lake Blvd., Suite 160
Altamonte Springs, FL 32701

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COMMISSION
CLERK

Re: Docket No. 030444-WS – Application for Rate Increase in Bay County by Bayside Utility Services, Inc.

Dear Mr. Reilly and Mr. Friedman:

Staff has reviewed the protest of the Office of Public Counsel (OPC) and believes that the issues are as set out below:

QUALITY OF SERVICE

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?

CMP _____

COM _____

RATE BASE

CTR _____

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

ECR _____

Issue 3: Should any adjustments be made to the utility's Water Service Corporation allocations for both rate base and expenses?

GCL _____

Issue 4: What is the proper amount for utility plant-in-service?

OPC _____

Issue 5: What is the proper amount for accumulated depreciation?

MMS _____

RCA _____

SCR _____

SEC _____

OTH _____

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Issue 6: What is the proper amount for contributions in aid of construction?

Issue 7: Is a negative acquisition adjustment appropriate?

Issue 8: What is the appropriate working capital allowance? (Fall Out)

Issue 9: What is the appropriate rate base? (Fall Out)

COST OF CAPITAL

Issue 10: 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?

NET OPERATING INCOME

Issue 11: What are the appropriate amounts for test year revenues?

Issue 12: Should any adjustments be made to employee salaries, and employee pension and benefit costs?

Issue 13: Should any adjustments be made to health care and insurance costs?

Issue 14: Should an adjustment be made for unaccounted for water?

Issue 15: Should an adjustment be made to materials and supplies expense?

Issue 16: Should an adjustment be made to bad debt expense?

Issue 17: What is the appropriate amount of rate case expense?

Issue 18: What is the test year water and wastewater operating income before any revenue increase? (Fall Out)

REVENUE REQUIREMENT

Issue 19: What is the appropriate revenue requirement? (Fall Out)

RATES AND RATE STRUCTURE

Issue 20: What are the appropriate repression adjustments for the water and wastewater systems? (Fall Out)

Issue 21: What are the appropriate water and wastewater rates? (Fall Out)

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Issue 22: 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? (Fall Out)

Issue 23: 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.? (Fall Out)

Issue 24: Should this docket be closed?

For Issues 4, 5, 6, 10, and 11 above, staff is unsure exactly what OPC is protesting and requests that OPC clarify, if possible, what is in dispute.

Pursuant to Section 120.80(13), Florida Statutes, "issues in the proposed agency action which are not in dispute are deemed stipulated." A review of OPC's protest shows that it did not appear to dispute Issue 3 (audit adjustments), Issue 5 (used and useful calculation), Issue 17 (rate structures), and Issue 22 (adjusting of books). Therefore, it appears that these items are not in dispute and should be deemed stipulated as set out below:

Stipulation No. 1 (Issue 3 of original recommendation): 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;

Stipulation No. 2 (Issue 5 of original recommendation): The water distribution and wastewater collection systems should be considered 100% used and useful;

Stipulation No. 3 (Issue 17 of original 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 appropriate. 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; and

Stipulation No. 4 (Issue 22 of original recommendation): To ensure that the utility adjusts its books in accordance with the Commission's decision, Bayside should provide proof, within 90 days of the order finalizing this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made.

Also, from OPC's protest, staff was unable to tell if OPC was protesting the Commission's calculation of health care costs set out in Issue 10. Issue 10 combined health care and insurance costs

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for a combined reduction of \$714 and \$679 for water and wastewater, respectively. The Commission noted that the utility made a pro forma adjustment to increase health care costs by 25.86% when the actual increase appeared to be only 9.83%. The Commission used what appeared to be the actual increase of 9.83% for health care (and what appeared to be the actual insurance increase of 42.93%) to calculate the combined reductions as noted.

In order to give the utility and OPC a fair opportunity to file direct testimony on the appropriate issues, we must set the actual issues in dispute as soon as possible. Generally, we schedule an issue identification meeting, but if all parties are in agreement on the issues and stipulations listed above, then such a meeting would not appear to be necessary. Please review the above as quickly as possible and advise me by Monday, September 27, 2004, if an issue identification meeting will be required. Also, if OPC agrees with the Commission's calculation of health care costs, then we could have a partial stipulation of what was the original Issue 10.

Your attention in this matter is greatly appreciated, and if you have suggested modifications to the above-noted issues and stipulations, please call me at 850-413-6234.

Sincerely,



Ralph R. Jaeger
Senior Attorney

RRJ:jb

cc: Division of Economic Regulation (Willis, Merchant, Fletcher, Redemann, Daniel, Bruce, Lingo, Stallcup)
Division of the Commission Clerk and Administrative Services (Docket file)