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COMMISSION CLERK

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

DATE: May 12, 2005
TO: Division of the Commission Clerk and Administrative Services
FROM: Adrienne E. Vining, Senior Attorney, Office of the General Counsel *AEV*
RE: Re: Docket No. 000694-WU - Petition by Water Management Services, Inc., for Limited Proceeding to Increase Water Rates in Franklin County

Please place the attached documents in the above-referenced docket file.

Thanks.

AEV/jb

cc: Division of Economic Regulation (Kyle, Edwards, Lingo, Maurey, Slemkewicz, Willis)

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- MMS _____
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- SCR _____
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DOCUMENT NUMBER-DATE
04639 MAY 12 05
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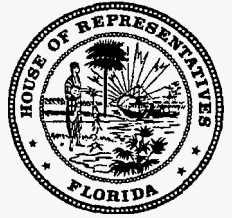


Harold McLean
Public Counsel

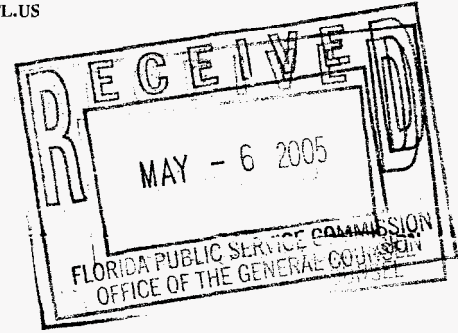
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May 4, 2005



Adrienne Vining, Esquire
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

In Re: Docket No. 000694-WU, Petition of Water Management Services, Inc. for a Limited Proceeding to Increase Water Rates in Franklin County

Dear Ms. Vining:

The Commission's Proposed Agency Action procedure was designed to avoid the unnecessary expenditure of public and private resources which arises from litigation that could otherwise be avoided. It is in this spirit that OPC offers the following comments respecting the above referenced case. It is our belief that if each concern is given fair consideration in the staff recommendation, a protest of the eventual PAA order, the resulting hearing, and attending expenditure of resources may be avoided.

OPC's concerns are as follows:

1. WMSI has included in its final petition the costs associated with improvements to its office building on the island which have been booked at \$287,231. These improvements were placed in service in June 2003. OPC believes that these capital expenditures are outside of the scope of this limited proceeding and have not been mentioned by the Commission in any previous orders in this docket. Further, it does not appear that these costs have been verified and reviewed for prudence in the most recent PSC staff audit.
2. It does not appear that the utility made any adjustments to remove depreciation expense for the retirement of the old water supply main in its calculations.
3. The utility changed the Commission approved depreciation rate for the water main now called a supply main from 35 to 30 years. OPC believes that this constitutes an untimely motion

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04639 MAY 12 05

FPSC-COMMISSION CLERK

Adrienne Vining, Esquire

May 4, 2005

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for reconsideration of a final PSC order. Further, the Commission fully considered the issues addressing life of the main and OPC believes that a 35 year life is reasonable and should be used.

4. In its final petition the utility requested the inclusion of Amortization of Undepreciated Prudently Retired Supply Main. This is an incremental cost that was not included in the Phase II rate increase. OPC has concerns with the calculation of this amortization, the source for the figures shown on Schedule 2, (page 2 of 3), and the depreciation lives used and whether those lives match the lives per rule and correspond with the plant retirement adjustments.

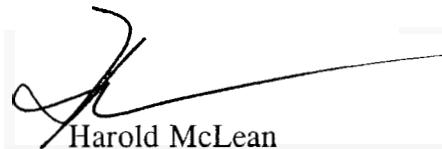
5. Has the utility provided support to Staff demonstrating the incremental property insurance estimate? Also, has the utility explained why the listed plant basis for the insurance estimate was \$113,000 for the old main when the retirement reflected \$314,709 for plant, as detailed on Schedule 2, page 2 of 3?

6. The utility provides its refund/surcharge true-up calculation on Schedule 4 of the petition. On this schedule, the utility included its cash expenditure required to fund its reserve as a cost incurred, similar to the other capital and expense items included in the revenue requirement calculation. This cost has not been included in the Phase I or II limited proceeding revenue requirements and OPC does not believe that this financing cost should be included in determining whether a refund or surcharge is appropriate.

7. Has Staff engineering considered the used and usefulness of additional island water distribution mains added to WMSI's system, since the Commission's last order in this limited proceeding?

I believe it is in WMSI's and the customers best interests to try to resolve these issues prior to a PAA order being issued rather than to litigate them after an order has been issued.

Sincerely,



Harold McLean
Public Counsel

HMCL/dsb

cc: Richard D. Melson
Dr. Mary A. Bane
Kenneth A. Hoffman

Adrienne Vining

From: REILLY.STEVE [REILLY.STEVE@leg.state.fl.us]
Sent: Thursday, May 05, 2005 9:52 AM
To: Adrienne Vining; Rick Melson; Mary Bane; Ken Hoffman
Subject: FW: Clarification of Paragraph 7 in May 4, 2005 letter

TO: Adrienne Vining
Richard D. Melson
Dr. Mary A. Bane
Kenneth A. Hoffman

RE: Clarify paragraph No. 7, in May 4, 2005 letter

DATE: May 5, 2005

OPC believes that a used and useful analysis should be performed on all water distribution pipes installed on the Island since the "first" Commission Order was issued in this Limited Proceeding, not the "last" Commission Order issued in this proceeding. This analysis should be performed on all of the additions to the WMSI's island transmission and distribution mains since the inception of this limited proceeding.



RUTLEDGE, ECENIA, PURNELL & HOFFMAN

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May 9, 2005

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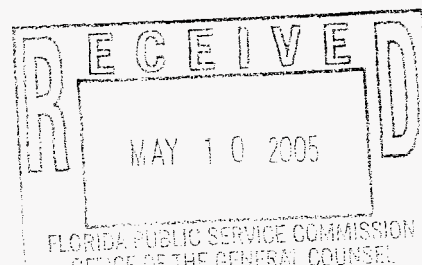
Re: Docket No. 000694-WU

Dear Ms. Vining:

On May 5, 2005, I received a letter dated May 4, 2005 from Harold McLean, Public Counsel, raising certain issues concerning Water Management Services, Inc.'s ("WMSI") pending Petition for Approval of Phase III Rates. That Petition was filed on October 14, 2004 and the Staff Audit Report was issued on March 23, 2005. WMSI vigorously opposes any postponement of the Commission's consideration of the Phase III Petition which is scheduled for the May 31, 2005 Agenda Conference. OPC has had knowledge of the issues raised in Mr. McLean's May 4 letter for an extended period of time. OPC asked that the Staff consider these issues in their Recommendation. The issues that OPC has waited until May 4, 2005 to raise are straight forward and can be addressed without a postponement of the current schedule.

To assist Staff in addressing OPC's issues and maintaining compliance with the current case schedule, WMSI provides the following responses to each OPC issue or contention as framed by OPC in Mr. McLean's May 4 letter:

1. WMSI has included in its final petition the costs associated with improvements to its office building on the island which have been booked at \$287,231. These improvements were placed in service in June 2003. OPC believes that these capital expenditures are outside of the scope of this limited proceeding and have not been mentioned by the Commission in any previous orders in this docket. Further, it does not appear that these costs have been verified and reviewed for prudence in the most recent PSC staff audit.



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WMSI Response: In its Supplemental Petition, dated May 14, 2003, at Par. 7, WMSI generally described the fire protection improvements it planned to make with the low cost funds that became available because of the savings negotiated in the supply main contracts. Included in that description were "other plant improvements". On Schedule 3, page 1, attached to the Supplemental Petition, there is a line item labeled "Account 304, Plant improvements to accommodate increased pumping and electrical". The estimated amount shown was \$306,665 excluding engineering and overheads. This is the item finally booked at \$287,231.

The reason this item is described as improvements to the office building is because all of the high service pumps, the electrical equipment and the generator are located in the office building structure. The building required substantial renovation to provide a new generator room, a new chlorine room, and a new separate electrical room to isolate all of the new electrical controls from the pump room, which is always wet, constituting a fire hazard. In addition, the building was inadequate for WMSI's operations staff. Prior to the renovation, there was only one small work area for five employees, and the lights and computers worked intermittently because of the deteriorated electrical condition of the facility. Moreover, the wiring and poor ventilation constituted a health hazard for the employees.

WMSI had the contractor include refacing the building and other work to increase the life of the building and make it a more presentable building in the community. The estimated cost of all of these improvements are reflected in the Phase III Petition.

The Commission, in Order No. PSC-03-1005-PAA-WU, issued September 8, 2003, at page 4 and 5, addressed the fire flow improvements, including "other plant miscellaneous improvements", and found them to be prudent.

2. It does not appear that the utility made any adjustments to remove depreciation expense for the retirement of the old water supply main in its calculations.

WMSI Response: The requested depreciation expense shown on Schedule 2, page 1 of 3, attached to the Petition for Approval of Phase III Final Rates, addresses only the depreciation expense associated with the plant components that were added under this limited proceeding. It is correct that it does not address the depreciation expense associated with the supply main being retired.

3. The utility changed the Commission approved depreciation rate for the water main now called a supply main from 35 to 50 years. OPC believes that this constitutes an untimely motion for reconsideration of a final PSC Order. Further, the Commission fully considered the issues addressing life of the main and OPC believes that a 35 year life is reasonable and should be used.

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WMSI Response: WMSI disagrees with OPC that it is requesting reconsideration of a final order. WMSI, in its Petition, has pointed out an error made by both WMSI and the Commission in identifying the supply main as Account 331 Transmission Mains rather than Account 309 Supply Mains. The Commission guideline depreciation rate for iron transmission mains is 40 years, whereas it is 35 years for supply mains. WMSI is only asking the Commission to recognize this error and to apply its adjustment for adverse environmental conditions to the correct depreciation category. See Sunshine Utilities v. Public Service Commission, 577 So.2d 663, (Fla. 1st DCA 1991) (Court upheld a Commission order which properly corrected a rate base computation in a prior Commission order issued five years earlier which required the utility to make refunds, holding that the Commission “has the authority to determine whether there are mistakes of this character in its prior orders and has a duty to correct such errors.”).

4. In its final petition the utility requested the inclusion of Amortization of Undepreciated Prudently Retired Supply Main. This is an incremental cost that was not included in the Phase II rate increase. OPC has concerns with the calculation of this amortization, the source for the figures shown on Schedule 2, (page 2 of 3), and the depreciation lives used and whether those lives match the lives per rule and correspond with the plant retirement adjustments.

WMSI Response: As pointed out in the Petition, the amortization rate was calculated in accordance with PSC Rule 25-30.443(9). The source of the figures is the books of the company which were provided to the Commission for audit. This cost was not included in the Phase II increase because the retirement date was not known at that time.

5. Has the utility provided support to Staff demonstrating the incremental property insurance estimate? Also, has the utility explained why the listed plant basis for the insurance estimate was \$113,000 for the old main when the retirement reflected \$314,709 for plant, as detailed on Schedule 2, page 2 of 3?

WMSI Response: The basis for the insurance rates reflected in the Petition were taken from a summary of the present and subsequent premiums provided by WMSI’s insurance agent. This information was available to the Staff Auditor and was not the subject of any comment in the Staff Audit Report. WMSI maintains that the increase in the premium should be included as part of this limited proceeding and reflected in the Phase III final rates.

6. The utility provides its refund/surcharge true-up calculation on Schedule 4 of the petition. On this schedule, the utility included its cash expenditure required to fund its reserve as a cost incurred, similar to the other capital and expense items included in the revenue requirement calculation. This cost has not been included in the Phase I or II limited proceeding revenue requirements and OPC does not believe that this

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May 9, 2005

financing cost should be included in determining whether a refund or surcharge is appropriate.

WMSI Response: In its Supplemental Petition and its Petition for Phase I II Final Rates, WMSI has provided a true up of revenues collected and revenue requirements related to the limited proceeding. The expenditure to fund the reserve was first addressed in the Supplemental Petition. In Schedule 4, page 4 of 4, attached to the Supplemental Petition, WMSI provided a comparison of revenues collected to interest expense. Depreciation expenses and rate case expenses were not yet being incurred. However, in the body of the Supplemental Petition, at Par. 14, WMSI supplemented Schedule 4 with a cash flow analysis, pointing out that WMSI must make a \$209,785 cash deposit into a reserve account and a semiannual principal and interest payment of \$209,823, leaving a revenue shortfall of \$143,000. This was an appropriate consideration for true up because it was a cash expense incurred during the period in question.

Consistent with its Supplemental Petition, the Petition for Phase III Final Rates also included the \$209,785 cash deposit to the reserve in its true up in Schedule 4. The purpose of the true up is to determine whether the cumulative revenues collected through the incremental rate increases during the period in question are in excess of or less than the cumulative revenue requirements during the same period. The payment into the reserve certainly qualifies for consideration, *i.e.*, if the projected interest to be earned on the required cash reserve over twenty years is being included as part of WMSI's operating revenue, then it is only fair and appropriate to include the interest cost to WMSI for the cash required to fund this reserve for the twenty year period.

7. Has Staff engineering considered the used and usefulness of additional island water distribution mains added to WMSI's system, since the Commission's last order in this limited proceeding?

WMSI Response: The Commission in its first order (PSC-00-2227-PAA-WU issued November 21, 2000) addressed the prudence and usefulness of the new water main construction, installation of the 12" pipeline, installation of pipeline from Well No. 1 to Well No. 4, and installation of the new aerators, high service pumps and controls. It found them all to be prudent and 100% of the prudently incurred costs to be recovered. In its second order (PSC-03-1005-PAA-WU issued September 8, 2003), the Commission addressed the prudence of the fire flow protection improvements including 17,700 feet of 6" and 8" mains, a new 200,000 gallon elevated storage tank, high speed service pumping, an emergency generator and other plant miscellaneous improvements. It found them all prudent. Subsequent to the Commission's order, OPC filed an objection and took issue with the need for a new elevated tank. As a result of negotiations between OPC and WMSI, an alternate plan for providing fire protection was agreed on and accepted by the parties. The commission accepted the Settlement Agreement (Order No. PSC-04-0791-AS-WU issued August 12, 2004). The agreement called for the money that would have spent for the elevated tank to be used

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to complete the looping of the water mains. The final footages of distribution mains added reflect that negotiated alternate plan. The Commission's acceptance of the Settlement Agreement constitutes its approval of the prudence of the alternative plan.

It must be emphasized that all of the new lines described above were added to enhance WMSI's fire protection capabilities at the continued insistence of customers and agreement of OPC. The lines were **not** installed for the sole purpose of providing potable water to individual lots as potable water was already being provided by existing lines. Clearly, these new, expanded water lines, roughly half of which have been designed and installed at the request and agreement of OPC, are used and useful in the provision of the enhanced fire protection service and capacity.

Thank you for your consideration of the above responses.

Sincerely,



Kenneth A. Hoffman

KAH/rl

cc: Harold McLean, Public Counsel
Richard D. Melson, General Counsel
Dr. Mary A. Bane

wmsi\vining509.ltr

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Date: May 10, 2005 From: Kenneth A. Hoffman

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May 10, 2005

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VIA TELECOPIER

Re: Docket No. 000694-WU

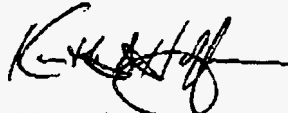
Dear Ms. Vining:

In an abundance of caution, and to ensure no misunderstanding, please be advised that my expedited response to you dated May 9, 2005 provides WMSI's responses to the questions and issues raised in OPC's letter dated May 4, 2005, as revised by Mr. Reilly's email dated May 5, 2005. In that regard, please note that my letter had two clerical errors in the OPC questions (not in the WMSI responses):

Under OPC Issue 3, in the second line, the "50" should be "30" as stated in OPC's May 4 letter.

Under OPC Issue 7, in the second line, the word "last" should be "first" as revised per Mr. Reilly's May 5 email.

Sincerely,



Kenneth A. Hoffman

KAH/rl

cc: Harold McLean, Public Counsel
Richard D. Melson, General Counsel
Dr. Mary A. Bane

wmsivining510.ltr