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

DATE: April 20, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Merta, Rendell) *CP SM M 198*
Office of the General Counsel (Gervasi) *GG* *JBJ*

RE: Docket No. 050880-WU – Petition for limited alternative rate increase in Lake County by Brendenwood Water System, Inc.

AGENDA: 05/02/06 – Regular Agenda – Proposed Agency Action on Issues 1 and 2 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Arriaga

CRITICAL DATES: 05/22/06 – 90-day deadline pursuant to Rule 25-30.457(12), F.A.C.

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050880.RCM.DOC

Case Background

Brendenwood Water System, Inc. (Brendenwood or utility) is a Class C water only utility serving approximately 58 customers in Lake County. According to its 2005 Annual Report, the utility reported operating revenues of \$21,131 and operating expenses of \$22,618. This resulted in a net operating loss of \$1,487.

On November 17, 2005, Brendenwood filed an application for a limited alternative rate increase pursuant to Rule 25-30.457, Florida Administrative Code (F.A.C.). This is the first application filed by a utility under Rule 25-30.457, F.A.C. The rule was adopted on March 15, 2005.

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On November 21, 2005, staff notified Brendenwood of deficiencies in its application. The utility corrected its deficiencies by letter dated December 21, 2005. On January 20, 2006, staff notified Brendenwood it had met the minimum filing requirements set forth in Rule 25-30.457, F.A.C., the official date of filing was established as February 20, 2006, and the 90-day time frame began on that date. The \$200 filing fee was paid on February 6, 2006.

A customer meeting was held March 29, 2006, in the Eustis City Commission Room of City Hall, Eustis, Florida. None of Brendenwood's customers attended the customer meeting.

The Commission has jurisdiction pursuant to Sections 367.0814(9) and 367.121(1), Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Brendenwood Water System, Inc.'s application for a limited alternative rate increase?

Recommendation: Yes. The Commission should approve Brendenwood Water System, Inc.'s application for a limited alternative rate increase in the amount of 20 percent. Pursuant to Rule 25-30-457(13), F.A.C., the utility should be required to hold any revenue increase granted subject to refund with interest for a period of 15 months after the filing of its annual report for the year the adjustment in rates were implemented. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, should be disposed of for the benefit of the customers. (Merta, Gervasi)

Staff Analysis: Pursuant to Rule 25-30.457, F.A.C., as an alternative to a rate case, a Class C utility may petition the Commission for a rate increase of up to 20 percent of service revenues. This rule was designed to streamline the rate increase process for qualifying small water or wastewater companies, and establishes an abbreviated procedure for a limited rate increase that is less time consuming and thus less costly for utilities, their customers, and the Commission staff. This rule is similar to the rules governing price index and pass-through increases in that an engineering or financial audit of the utility's books and records is not required.

On November 17, 2005, Brendenwood notified the Commission of its intent to implement a limited alternative rate increase of 20 percent pursuant to Rule 25-30.457, F.A.C. The application, as amended, met the requirements of the rule and February 20, 2006, was established as the official filing date. The data presented in the application was based upon annualized revenues by customer class and meter size for the period ended November 30, 2005, the most recent 12-month period. Based on annualized revenues of \$20,696, a 20 percent increase results in an annual increase in revenues of \$4,139. This produces total annual service revenues of \$24,835. Although not required by the rule, Brendenwood also provided its expenses for the year ended November 30, 2005, so that staff could determine whether overearnings might occur as a result of the rate increase. Based on an analysis of earnings, staff does not believe Brendenwood will overearn in 2006. Therefore, staff recommends that Brendenwood's application for a limited alternative rate increase in the amount of 20 percent be approved.

Pursuant to Rule 25-30-457(13), F.A.C., the utility should be required to hold any revenue increase granted subject to refund with interest for a period of 15 months after the filing of its annual report for the year the adjustment in rates were implemented. To insure overearnings will not occur due to the implementation of this rate increase, the Commission will conduct an earnings review of the utility's annual report for the year the adjustment in rates were implemented. If overearnings occur, such overearnings, up to the amount held subject to refund, with interest, should be disposed of for the benefit of the customers.

Issue 2: What are the appropriate monthly service rates?

Recommendation: The water service rates for Brendenwood in effect as of November 30, 2005, should be increased by 20 percent to generate the recommended revenue increase. 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 on 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 notice was given no less than 10 days after the date of the notice. (Merta)

Staff Analysis: Staff calculated rates by applying the 20 percent increase across-the-board to the current base facility and gallonage charges. A schedule of the utility's current rates and staff's recommended rates are as follows:

<u>Monthly Rates</u>		
Residential and General Service Water Rates		
<u>Meter Sizes</u>	<u>Current Rates</u>	<u>Staff's Recommended Rates</u>
<u>Base Facility Charge</u>		
5/8" x 3/4"	\$10.42*	\$12.50*
3/4"	\$15.62	\$18.74
1"	\$26.04	\$31.25
1 1/2"	\$52.07	\$62.48
2"	\$83.32	\$99.98
3"	\$166.61	\$199.93
4"	\$260.35	\$312.42
6"	\$520.70	\$624.84
 <u>Gallonage Charge</u>		
Per 1,000 Gallons		
0-10,000 Gallons RS	\$1.48	\$1.78
Over 10,000 Gallons RS	\$2.11	\$2.53
Gallonage Charge GS	\$1.74	\$2.09

* Pursuant to Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In re: Application for staff-assisted rate case in Lake County by Brendenwood Water System, this rate should be charged to existing residential customers having a 1" meter until the 1" meter is replaced, after which time the appropriate rate should be charged based on meter size.

Based on staff's recommended rates, the following is the estimated average residential water monthly billings for the consumptions shown:

<u>Monthly Consumption (In Gallons)</u>	<u>Existing Monthly Billing</u>	<u>Using Staff's Recommended Rates</u>
3,000	\$14.86	\$17.84
5,000	\$17.82	\$21.40
8,000	\$22.26	\$26.74

The approved rates should be effective for service rendered on or after the stamped approval date on 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. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rates may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates. In no event should the rates be effective for service rendered prior to the stamped approval date.

Issue 3: Should the recommended rates be approved for the utility on a temporary basis in the event of a protest filed by a party other than the utility?

Recommendation: Yes. Pursuant to Rule 25-30.457(16), F.A.C., in the event of a protest of the Proposed Agency Action (PAA) Order by a substantially affected person other than the utility, the utility should be authorized to implement the rates established in the PAA order on a temporary basis upon the utility filing a staff-assisted rate case application within 21 days of the date the protest is filed. Pursuant to Rule 25-30.457(18), F.A.C., if the utility fails to file a staff-assisted rate case application within 21 days in the event there is a protest, the application for a limited alternative rate increase should be deemed withdrawn. (Merta, Gervasi)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Rule 25-30.457(16), F.A.C., in the event of a protest of the Proposed Agency Action (PAA) Order by a substantially affected person other than the utility, Brendenwood should be authorized to implement the rates established in the PAA order on a temporary basis upon filing a staff-assisted rate case application within 21 days of the date the protest is filed. Staff notes that Rule 25-30.457(17), F.A.C., provides that in the event of a protest, the limit on the maximum increase of up to 20 percent provided by Rule 25-30.457(1), F.A.C., shall no longer apply. Pursuant to Rule 25-30.457(18), F.A.C., if the utility fails to file a staff-assisted rate case application within 21 days in the event there is a protest, the application for a limited alternative rate increase should be deemed withdrawn.

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Issue 4: Should this docket be closed?

Recommendation: Yes, if no timely protest is filed by a substantially affected person within 21 days of the Order, a Consummating Order should be issued and the docket should be closed. If a protest is filed within 21 days of the issuance of the Order, the docket should remain open pending resolution of the protest. (Gervasi)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Order, a Consummating Order should be issued and the docket should be closed. If a protest is filed within 21 days of the issuance of the Order, the docket should remain open pending resolution of the protest.