

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

September 19, 2006

Docket No. 050563-WU – Application for increase in water rates in Polk County by Park Water Company Inc.

**Issue 1:** Is the quality of service provided by Park Water Company, Inc. considered satisfactory?

**Recommendation:** Yes. The utility's overall quality of service is satisfactory.

**DEFERRED**

**Issue 2:** Should Park Water's requested increase, if any, be approved in two phases?

**Recommendation:** Yes. The increase, if any, should be approved in two phases.

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

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REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

08592 SEP 19 06

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**Issue 3:** Should the audit rate base adjustments to which the utility agrees be made?

**Recommendation:** Yes. Based on audit adjustments which the utility agrees with, plant should be increased by \$245,698 and accumulated depreciation should be increased by \$21,665. In addition, CIAC should be increased by \$261,565, and accumulated amortization of CIAC should be increased by \$40,708.

**Issue 4:** Should other adjustments be made in calculating Phase I rates?

**Recommendation:** Yes. For the calculation of Phase I rates, staff has removed the requested pro forma plant of \$2,496,382. Staff has also removed \$75,586 in pro forma depreciation expense and \$72,500 in pro forma property tax expense. The requested pro forma plant and expenses included in the calculation of Phase II rates will be addressed in Issue 18.

**Issue 5:** Should an adjustment be made for excessive unaccounted for water?

**Recommendation:** Yes. Park Water has 22.30% excessive unaccounted for water for Phase I. Therefore, purchased power and chemicals should be reduced by \$3,329. For Phase II, staff recommends zero excessive unaccounted for water data because of an anticipated zero excessive unaccounted for water.

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**Issue 6:** What are the used and useful percentages of the utility's water treatment plant and water distribution system?

**Recommendation:** The water treatment plant should be considered 39.80% used and useful (U&U), and the water distribution system should be considered 64.26% U&U for the Phase I period. For Phase I, rate base should be reduced by \$13,265 to reflect that 60.20% of sources of water treatment plant and 35.74% of transmission and distribution plant should be considered non-used and useful. The water treatment plant should be considered 45.85% U&U for the Phase II period which is for the pro forma improvements. For Phase II, rate base should be reduced by \$880,970 to reflect that 54.15% of water treatment plant and 35.74% of transmission and distribution plant should be considered non-used and useful. Corresponding adjustments should also be made to reduce Phase I depreciation expense and property tax expense by \$1,742 and \$2,203, respectively. Phase II depreciation expense and property tax expense adjustments will be addressed in Issue 18.

**Issue 7:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$22,368.

**Issue 8:** What is the appropriate Phase I rate base?

**Recommendation:** The appropriate average rate base for the test year ended December 31, 2004, is \$436,776.

**Issue 9:** Are any adjustments necessary to Park Water's Phase I capital structure?

**Recommendation:** Yes. The utility's common equity balance should be reduced by \$29,500 and set at zero (\$0), and short term debt should be increased by \$4,145. Additionally, long term debt of \$2,496,382 should be removed. Pro forma plant will be addressed in Issue 18.

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**Issue 10:** What is the appropriate return on common equity and weighted average cost of capital for the test year ended December 31, 2004?

**Recommendation:** The appropriate return on common equity is 11.55%, with an allowed range of plus or minus 100 basis points. Staff also recommends that the appropriate Phase I weighted average cost of capital be set at 5.99%.

**Issue 11:** What adjustments, if any, should be made to the utility's test year revenue?

**Recommendation:** Staff recommends that annual revenues be increased by \$6,909 to cover the costs for non-utility billing services, and reduced for pro forma reductions of \$38,972 reflecting lost revenues from two customers. Overall, this results in a net reduction of revenues of \$32,063.

**Issue 12:** Should audit NOI adjustments be made?

**Recommendation:** Yes. O&M expense should be increased by \$3,293, depreciation expense should be increased by \$3,612, amortization expense should be increased by \$2,868, and taxes other than income should be reduced by \$6,707.

**Issue 13:** Should adjustments be made to employee salaries or pension benefits?

**Recommendation:** Yes. Employee salaries and pension benefits should be reduced by \$28,313.

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

**Recommendation:** The appropriate amount of rate case expense for this docket is \$18,175. This expense should be recovered over four years for an annual expense of \$4,544.

**Issue 15:** Should water expenses be adjusted due to repression?

**Recommendation:** Yes. It is Commission practice to reduce chemicals and purchased power for repression of water gallons. Thus, chemicals and purchased power should be reduced by \$409.

**Issue 16:** What is the test year water operating income before any revenue increase?

**Recommendation:** Based on the adjustments discussed in previous issues, the test year operating loss before any provision for increased revenues is \$8,203.

**Issue 17:** What is the appropriate Phase I revenue requirement?

**Recommendation:** The following Phase I revenue requirement should be approved:

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Phase I	\$238,504	\$35,965	\$274,469	15.08%

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**Issue 18:** Should the Commission approve pro forma plant additions and other related pro forma adjustments for the utility, and if so, what is the appropriate return on equity, overall rate of return, and revenue requirement?

**Recommendation:** Yes. Pro forma plant should be increased by \$15,955, resulting in total recommended pro forma plant additions of \$2,512,337. In addition, accumulated depreciation should be increased by \$62,402, and depreciation expense on pro forma plant should be decreased by \$13,184. Also, plant and accumulated depreciation should be reduced by \$147,229, depreciation expense on retired plant should be reduced by \$3,430, and loss on retired plant of \$21,552 should be amortized over eight years at \$2,694 yearly.

In addition, purchased power and chemicals should be reduced by \$1,133 for repression. Additionally, depreciation expense should be reduced by \$18,782 due to staff's U&U calculation, and property taxes related to the pro forma plant should be reduced by \$31,887.

The appropriate rate of return on equity for Phase II should be 11.55%, with a range of plus or minus 100 basis points. The appropriate weighted average cost of capital should be 3.36%. Staff recommends a Phase II revenue requirement of \$393,145.

Additionally, Park Water should be required to file with the Commission all progress reports it files with, or receives from, DEP concerning its construction project.

**Issue 19:** Should an Allowance for Funds Used During Construction (AFUDC) rate be established and, if so, what is the appropriate rate?

**Recommendation:** Yes. An annual AFUDC rate of 6.00% should be approved. The discounted monthly rate is 0.499863%. The approved rate shall be applicable for eligible construction projects beginning January 1, 2006.

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**Issue 20:** What are the appropriate rate structures for the utility's various customer classes for Phase I and Phase II?

**Recommendation:** In Phase I, the appropriate rate structure for the residential class is a continuation of the current four-tier inclining-block rate structure. The usage blocks should be changed to monthly usage of: a) 0 – 5 kgal; b) 5.001 – 10 kgal; c) 10.001 – 15 kgal; and d) usage in excess of 15 kgal. The current usage block rate factors should be changed to 1.0, 1.25, 1.5 and 2.0, respectively. The four-tier inclining-block rate structure currently applicable to both general service and multi-residential customers should be eliminated and replaced with the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The multi-residential BFC charges should be equal to those BFC charges assigned to general service customers of equivalent meter size. The Phase I and Phase II post-repression BFC cost recovery percentage should be set at 35%. There should be no rate structure changes between Phase I and Phase II.

**Issue 21:** Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for Phases I and II for this utility?

**Recommendation:** Yes. Repression adjustments are appropriate. For Phase I, residential consumption should be reduced by 3.5%, resulting in a consumption reduction of approximately 1,801.2 kgals. The resulting total water consumption for Phase I ratesetting is 75,351.8 kgals, which represents a 2.3% reduction in overall consumption. For Phase II, residential consumption should be reduced by 6.5%, resulting in a consumption reduction of approximately 3,184.6 kgals. The resulting total water consumption for Phase II ratesetting is 72,167.2 kgals, which represents a 4.2% reduction in overall consumption. In order to monitor the effects of both the changes in revenue and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates for each phase go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

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**Issue 22:** What are the appropriate monthly water rates for Phase I and Phase II for this utility?

**Recommendation:** The appropriate monthly water rates for Phase I and Phase II are shown on Schedule No. 4 and Schedule No. 8 in staff's September 7, 2006 memorandum, respectively.

**Issue 23:** What are the appropriate effective dates for Phase I and Phase II rates?

**Recommendation:** The utility should be allowed to implement Phase I rates after the utility has filed 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 25-40.475(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.

The utility should not be allowed to implement Phase II rates until the construction has been completed and approved by DEP, and the completed pro forma additions have been verified by staff. The utility should provide staff with the approval documentation no later than 15 days after the utility receives the final approval from DEP. At that time, the utility should also 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 25-40.475(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.



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**Issue 24:** Should Park Water's main extension charge be increased and, if so, what is the appropriate charge?

**Recommendation:** Yes. The Commission should increase the main extension charge per ERC from \$423 to \$2,370, and the effective date of the increase should apply to all connections after the implementation of Phase II rates. The utility should file the appropriate tariff sheets no later than 15 days after the utility receives notice of final approval from DEP. It should become effective for service rendered on or after staff's approval of the stamped tariff sheet pursuant to Rule 25-30.475(2) F.A.C., provided the customers have received notice and after staff has verified that the proposed customer notice is adequate. The utility should provide proof that the customers have received notice within 10 days after the date of the notice. The revised tariff sheet should be submitted with sufficient time for staff to verify that the tariff is consistent with the Commission's decision. Staff should be permitted to administratively approve the tariff sheet upon verification of the above.

**Issue 25:** 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 Schedule No. 4 of staff's September 7, 2006 memorandum to remove \$4,758 of 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.

**Issue 26:** Should the utility be required to provide proof, within 90 days of the date of the Consummating Order finalizing this docket, that it has adjusted its books for all of the applicable NARUC USOA primary accounts associated with the Commission-approved Phase I adjustments?

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

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**Issue 27:** Should this docket be closed?

**Recommendation:** No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open to allow staff to monitor completion of the pro forma items and the appropriate implementation of Phase II rates.