

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 22, 2004

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

FROM: Division of Economic Regulation (Kyle, Merchant, Willis)
Office of the General Counsel (Vining)

RE: Docket No. 000694-WU – Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County.
County: Franklin

AGENDA: 08/03/04 – Regular Agenda – Interested Persons May Participate

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: Exhibit A Not Included in Electronic Version

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000694.RCM.DOC

Case Background

Water Management Services, Inc. (WMSI or utility) is a Class B water utility providing service to approximately 1,730 water customers in Franklin County. For the year ended December 31, 2003, the utility reported in its annual report operating revenues of \$1,057,043 and utility operating income of \$145,403. The utility's water rates were last established in a rate case by Order No. PSC-94-1383-FOF-WU, issued November 14, 1994, in Docket No. 940109-WU.

On June 6, 2000, WMSI filed an application, pursuant to Section 367.0822, Florida Statutes, for a limited proceeding to increase its water rates to cover the cost of building a new water transmission main to connect its wells on the mainland to its service territory on St. George Island. In its petition, the utility stated that it was notified by the Florida Department of Transportation (DOT) that the existing bridge to St. George Island, to which WMSI's water main is attached, was to be demolished and replaced by a new bridge with an expected in-service date of March 2003. Upon completion of the new bridge, WMSI would have to make alternative arrangements to provide service to its certificated service area. The utility's petition set forth its plan to construct a new main to be attached to the new bridge, along with ancillary modifications

to its system, and requested an increase in its rates to provide funding for the proposed construction.

A customer meeting was held at the Franklin County Courthouse in Apalachicola on September 12, 2000, in order to allow the utility's customers the opportunity to comment on WMSI's petition. More than 100 customers attended, and 13 customers made statements. In general, the speakers believed that the projected cost of the project was excessive and that the utility should have planned for this contingency in such a way as to avoid such a large rate increase. There was also great concern over the utility's ability to provide fire protection.

WMSI originally requested that the Commission approve two tiers of temporary increases, to be approved concurrently, described as Phase 1 and Phase 2, in its initial consideration of this matter. Phase 1 would cover preliminary costs and Phase 2 would cover estimated total costs of the project. The utility then proposed a true-up, described as Phase 3, which would set final rates after the project was complete and all costs were verified.

By Order No. PSC-00-2227-PAA-WU, issued November 21, 2000 (consummated by Order No. PSC-00-2405-CO-WU, issued December 14, 2000), the Commission found that construction of the new water transmission main was justified, and that the prudent costs to be incurred by WMSI in this project should be recovered through a three phase mechanism. Further, the Commission found that replacement of the existing 8-inch main with a 12-inch water main was prudent, and that the used and useful percentage for the new main should be 100 percent. The Commission also approved the prudence of constructing a new line from Well No. 1 to Well No. 4 in connection with the replacement project. In addition, the Commission approved a Phase 1 increase and deferred consideration of a temporary Phase 2 increase until the utility filed more complete and detailed cost information. The approved Phase 1 increase was 11.3 percent, or an annual revenue increase of \$82,707.

On May 14, 2003, WMSI filed a Supplemental Petition for Limited Proceeding (supplemental petition), requesting revised rates for the Phase 2 rate increase. In its supplemental petition, the utility stated that numerous changes have occurred since the filing of the original petition. First, the projected bridge in-service date was changed from March 2003 to October 2003. Second, the estimated capital cost of the new transmission main and the other approved work on the mainland has decreased. Third, WMSI has obtained financial support from the State Revolving Fund (SRF) loan program administered by the Department of Environmental Protection (DEP). Finally, WMSI's eminent domain case was unsuccessful.

Since the net effect of the above mentioned changes substantially reduced the total project cost, WMSI requested the inclusion of fire flow protection improvement measures in its supplemental petition for limited proceeding. The utility stated that fire flow protection is an issue of great importance to the utility's customers, as communicated at the customer meeting. The overall rate increase requested in the supplemental petition was designed to generate annual Phase 2 revenue of \$568,657 above the expected revenue from the previously approved Phase 1 rates, or an additional increase of 50.2 percent.

By Order No. PSC-03-1005-PAA-WU (PAA order), issued September 8, 2003, the Commission approved a Phase 2 revenue requirement of \$490,959, or an increase of 42.1 percent

in base facility and gallonage charges. The Commission also approved the utility's request to include the cost of improved fireflow protection in this proceeding, and established a depreciable life of 35 years for the portion of WMSI's transmission main which will be attached to the new bridge.

On September 29, 2003, the Office of Public Counsel (OPC) timely filed a Petition on Proposed Agency Action. OPC objected to that portion of the utility's plan which called for removing the existing 150,000 gallon elevated water storage tank and replacing it with a new 200,000 gallon tank. OPC stated that the existing tank is in good working order, and that removing it is not prudent or justified, and is not in the public interest. The rationale stated by OPC is that WMSI's service area is subject to extreme peak demands which are most economically met by storage capacity. OPC also alleged that the ultimate cost of replacing the loss of the existing 150,000 gallon storage capacity will be many times greater than the net salvage value of the existing tank.

On September 29, 2003, the utility timely filed a Petition on Proposed Agency Action. WMSI stated that its petition was in response to its understanding that OPC was also filing a protest. WMSI's petition addressed the rate case expense that would be incurred as a result of a formal hearing.

On May 28, 2004, WMSI and OPC filed a Joint Motion Requesting Commission Approval of Settlement Agreement to address both parties' protests. The purpose of this recommendation is to seek the Commission's approval of the settlement agreement. The Commission has jurisdiction pursuant to Sections 367.081 and 367.121, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve WMSI and OPC's Settlement Agreement?

Recommendation: Yes. The Agreement should be approved as filed. (KYLE, VINING)

Staff Analysis: As discussed in the Case Background, WMSI and OPC protested PAA Order No. PSC-03-1005-PAA-WU. This matter was never set for hearing at the request of WMSI and OPC, who engaged in settlement negotiations immediately upon the filing of the protests. On May 28, 2004, WMSI and OPC filed a Joint Motion Requesting Commission Approval of Settlement Agreement with the settlement agreement attached. The settlement agreement filed by the parties is attached as Exhibit A and is incorporated by reference.

In support of the joint motion, WMSI and OPC assert that they have entered into a settlement agreement that avoids the time, expense, and uncertainty associated with adversarial litigation. The parties further assert that the settlement agreement is in keeping with the Commission's long-standing policy and practice of encouraging parties in contested proceedings to settle issues whenever possible. The parties state that the settlement agreement serves the public interest, and accordingly request that the Commission expeditiously accept and approve the settlement agreement as filed without modification.

In the settlement agreement, WMSI and OPC agree to the following, in pertinent part:

- 1) The utility's 150,000 gallon elevated storage tank shall not be dismantled but shall remain in place to provide emergency storage for the water system.
- 2) As authorized by the PAA Order, the utility has been expending funds to improve the water distribution system by looping water mains, using its own service personnel and equipment. OPC and WMSI agree that this is the most prudent and cost effective way to install the new mains. Further, with respect to the approximately 6.2 million dollars of capital projects undertaken by the company since the Fall of 2000, the Commission shall verify specifically what work was done, who did the work, what was paid to each and every contractor, subcontractor, vendor and supplier, and the reasonableness and prudence of each expenditure prior to approving Phase 3 – Final Rates and Charges in this docket.
- 3) WMSI shall expend the approximately \$400,000 that would have been spent replacing the utility's elevated storage tank to complete the looping of the water mains that serve the service territory from Bob Sikes Cut to the State Park. This authorization to spend money to complete the looping of the water mains is limited to the funds that are the subject of this protest.
- 4) Upon completion of the above improvements to the distribution system, WMSI shall furnish two complete copies of the as-built drawings of the utility's water distribution system to OPC. One copy shall be retained at OPC's office and the second shall be retained by the customers at the main Fire Station on St. George Island, Florida.

- 5) Upon completion of the above improvements to the distribution system, WMSI will conduct actual field measurements recording over time the actual water pressure produced throughout the length of the system. The results of these measurements will be furnished to OPC, which will share them with the customers.
- 6) The submission of this settlement agreement is in the nature of an offer to settle. Consequently, if this settlement agreement is not accepted and approved without modification by Commission order, this settlement agreement is rejected and shall be considered null and void and neither party may use the attempted agreement in this or any other proceeding.
- 7) This settlement agreement will become effective on the date the Commission enters a final order approving the agreement in total. Upon the Commission's issuing a final order approving the settlement agreement, both Petitions shall be deemed to be resolved, with both parties bearing their own expenses associated with this proceeding (OPC on behalf of the customers and the shareholders of the company on behalf of WMSI).

Staff notes that WMSI and OPC are the only parties of record in this docket. All interested persons were given a point of entry in this matter by the PAA Order. They could have protested the PAA order, as did WMSI and OPC, and no others have done so. Thus, staff believes that, should the Commission approve the settlement agreement, the order would be appropriately issued as final agency action, resolving the protests of WMSI and OPC as well as finalizing the unprotested issues in the PAA Order.

Staff has reviewed the settlement agreement filed by the parties in this matter and believes that it is a reasonable resolution to this protest. Further, staff believes that it is in the public interest for the Commission to approve the settlement agreement in its entirety.

Based on the foregoing, staff recommends that the Commission should approve the settlement agreement in its entirety.

Docket No. 000694-WU

Date: July 22, 2004

Issue 2: Should this docket be closed?

Recommendation: No. The docket should remain open pending Commission action on the utility's request for permanent rates to be addressed in Phase 3. (VINING)

Staff Analysis: The docket should remain open pending Commission action on the utility's request for permanent rates to be addressed in Phase 3.