

# FLORIDA PUBLIC SERVICE COMMISSION

## COMMISSION CONFERENCE AGENDA

**CONFERENCE DATE AND TIME:** Tuesday, October 9, 2007, 9:30 a.m.

**LOCATION:** Betty Easley Conference Center, Joseph P. Cresse Hearing Room 148

**DATE ISSUED:** September 28, 2008

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### NOTICE

Persons affected by Commission action on certain items on this agenda may be allowed to address the Commission, either informally or by oral argument, when those items are taken up for discussion at this conference. These items are designated by double asterisks (\*\*) next to the agenda item number.

To participate informally, affected persons need only appear at the agenda conference and request the opportunity to address the Commission on an item listed on agenda. Informal participation is not permitted: (1) on dispositive motions and motions for reconsideration; (2) when a recommended order is taken up by the Commission; (3) in a rulemaking proceeding after the record has been closed; or (4) when the Commission considers a post-hearing recommendation on the merits of a case after the close of the record. The Commission allows informal participation at its discretion in certain types of cases (such as declaratory statements and interim rate orders) in which an order is issued based on a given set of facts without hearing.

See Rule 25-22.0021, F.A.C., concerning Agenda Conference participation and Rule 25-22.0022, F.A.C., concerning oral argument.

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**ITEM NO.** **CASE**

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1 **Approval of Minutes**  
September 11, 2007, Regular Commission Conference

2\*\* **Consent Agenda**

PAA A) Request for cancellation of a competitive local exchange telecommunications certificate.

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>EFFECTIVE DATE</u>
070625-TX	Florida Municipal Power Agency	9/25/2007

B) Docket No. 070596-GU – Application by Florida Public Utilities Company (Company) for authority to issue and sell and/or exchange any combination of long-term debt, short-term notes and equity securities and/or to assume liabilities or obligations as guarantor, endorser or surety in an incremental amount not to exceed \$45 million, excluding retained earnings during calendar year 2008. Included in this \$45 million amount is the Company’s request for authority to issue up to \$25 million in short-term notes during calendar year 2008. The Company states that its regulated share of this financing will not exceed 90%, or \$40.5 million.

For monitoring purposes, this docket should remain open until April 28, 2009, to allow the Company time to file the required Consummation Report.

C) Docket No. 070589-EI – Tampa Electric Company (“Company”) seeks the authority to issue, sell and/or exchange equity securities and issue, sell, exchange and/or assume long-term or short-term debt securities and/or to assume liabilities or obligations as guarantor, endorser or surety during calendar year 2008. The Company also seeks authority to enter into interest rate swaps or other derivative instruments related to debt securities during calendar year 2008.

The amount of all equity and long-term debt securities issued, sold, exchanged or assumed and liabilities and obligations assumed or guaranteed as guarantor, endorser or surety will not exceed in the aggregate \$900 million during calendar year 2008, including any amounts issued to retire existing long-term debt securities. The maximum amount of short-term debt outstanding at any one time including bank borrowings will be \$900 million during calendar year 2008.

In connection with this application, Tampa Electric confirms that the capital raised pursuant to this application will be used in connection with the activities of the Company’s electric and gas divisions and not the unregulated activities of its affiliates.

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**CASE**

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2\*\*

**Consent Agenda**

(Continued from previous page)

For monitoring purposes, this docket should remain open until April 28, 2009, to allow the Company time to file the required Consummation Report.

**Recommendation:** The Commission should approve the action requested in the dockets referenced above and close these dockets.

**ITEM NO.**

**CASE**

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3\*\*PAA

**Docket No. 070399-GU** – Joint petition for approval of territorial agreement in Pasco County, master territorial agreement, and gas transportation agreement, by Peoples Gas System and Florida Division of Chesapeake Utilities Corporation.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** McMurrin

**Staff:** GCL: Brubaker

ECR: Redemann, Rieger

**Issue 1:** Should the Commission approve the Joint Petition for approval of the Territorial Agreement, the Master Territorial Agreement, and the Gas Transportation Agreement by the Peoples Gas System (Peoples) and the Florida Division of Chesapeake Utilities Corporation (Chesapeake)?

**Recommendation:** Yes. The Territorial Agreement, the Master Territorial Agreement, and the Gas Transportation Agreement by Peoples and Chesapeake (Exhibits 1-4 of staff's September 27, 2007, memorandum) are in the public interest and should be approved. The Agreements should become effective upon the expiration of the appeal period following the issuance of the Consummating Order in this docket. Peoples and Chesapeake should be required to file revised tariff sheets within 30 days following the Consummating Order which reflect the change in their service territories.

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes. If no protest is filed, this docket should be closed upon the issuance of a Consummating Order. If a protest is filed by a person whose substantial interests are affected within 21 days of the Order approving this amendment, the docket should remain open.

**ITEM NO.**

**CASE**

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4\*\*

**Docket No. 060582-TP** – Petition of Alltel Communications, Inc. for designation as eligible telecommunications carrier (ETC) in certain rural telephone company study areas located entirely in Alltel's licensed area.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Argenziano

**Staff:** CMP: Casey

GCL: Teitzman

**Issue 1:** Should the Commission set this docket for hearing?

**Recommendation:** Yes. Staff recommends this docket be set for hearing.

**Issue 2:** Should this docket be closed?

**Recommendation:** No. This docket should remain open pending disposition of the Alltel petition.

**ITEM NO.**

**CASE**

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5

**Docket No. 070052-EI** – Petition by Progress Energy Florida, Inc. to recover costs of Crystal River Unit 3 uprate through fuel clause.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Carter

**Staff:** ECR: Lester, Ballinger, Draper, Kyle, Maurey, McNulty, Slemkewicz, Springer  
GCL: Bennett, Young

**(Posthearing decision - Participation is limited to Commissioners and staff.)**

**Issue 1A:** Should the Commission authorize clause recovery of the prudent and reasonable costs of the following: Phase 1 of PEF's CR3 Uprate Project?

**Recommendation:** The Commission should allow the costs of Phase 1 – the MUR costs – to be recovered through the fuel clause.

**Alternative Recommendation:** The Commission should not allow Phase 1 costs for clause recovery.

**Issue 1B:** Should the Commission authorize clause recovery of the prudent and reasonable costs of the following: Phase 2 of PEF's CR3 Uprate Project

**Recommendation:** The Commission should not allow clause recovery for Phase 2 costs. Because of the magnitude of the investment and because of the time the plant expansion is expected to go into commercial service, this request is more appropriately considered in a base rate proceeding.

**Issue 1C1:** Should the Commission authorize clause recovery of the prudent and reasonable costs of the following: Phase 3 of PEF's CR3 Uprate Project, including: Nuclear Core Modifications, Secondary Systems, and Other Project-related Plant Additions/Modifications ?

**Recommendation:** The Commission should not allow Phase 3 costs for clause recovery. Because of the magnitude of the investment and because of the time the plant expansion is expected to go into commercial service, this request is more appropriately considered in a base rate proceeding.

**Issue 1C2:** Should the Commission authorize clause recovery of the prudent and reasonable costs of the following: The "point of discharge" cooling solution?

**Recommendation:** The Commission should not allow PEF to recover the point of discharge costs through a recovery clause. Because of the magnitude of the investment and because of the time the plant expansion is expected to go into commercial service, this request is more appropriately considered in a base rate proceeding.

**ITEM NO.**

**CASE**

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5

**Docket No. 070052-EI** – Petition by Progress Energy Florida, Inc. to recover costs of Crystal River Unit 3 uprate through fuel clause.

(Continued from previous page)

**Issue 1C3:** Should the Commission authorize clause recovery of the prudent and reasonable costs of the following: Transmission upgrades associated with the CR3 Uprate Project?

**Recommendation:** The Commission should not allow PEF to recover the transmission upgrades costs through a recovery clause. Because of the magnitude of the investment and because of the time the plant expansion is expected to go into commercial service, this request is more appropriately considered in a base rate proceeding.

**Issue 1C4:** Should the Commission authorize clause recovery of the prudent and reasonable costs of the following: Other costs associated with Phase 3 of the CR3 Uprate Project?

**Recommendation:** The Commission should not allow PEF to recover other costs associated with Phase 3 of the CR3 Uprate Project through a recovery clause. Because of the magnitude of the investment and because of the time the plant expansion is expected to go into commercial service, this request is more appropriately considered in a base rate proceeding.

**Issue 2:** If the Commission authorizes clause recovery of the CR3 Uprate Project, which cost recovery clause, fuel or capacity, is appropriate for capitalized costs attributable to the uprate?

**Recommendation:** If the Commission finds that clause recovery is appropriate for a portion or all the CR3 Uprate Project, then the costs should be recovered through the fuel clause since the uprate is projected to generate fuel savings. If the Commission denies PEF's petition, then this issue is moot.

**Issue 3:** If the Commission authorizes clause recovery of the CR3 Uprate Project, what capital recovery periods should the Commission prescribe for the assets?

**Recommendation:** If the Commission finds that clause recovery is appropriate for Phase 1 of the CR3 Uprate Project, the capital recovery period should be one year. If the Commission finds that clause recovery is appropriate for the remaining phases of the CR3 Uprate Project, the capital recovery period should be equal to the tax depreciation lives of the assets. If the Commission denies PEF's petition, then this issue is moot.

**Issue 4:** Based on the recovery periods prescribed for the CR3 Uprate Project assets, what ratemaking adjustments, if any, are necessary?

**Recommendation:** If the recovery periods recommended in Issue 3 are approved, no ratemaking adjustments are necessary. If the Commission denies PEF's petition, then this issue is moot.



**ITEM NO.**

**CASE**

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5

**Docket No. 070052-EI** – Petition by Progress Energy Florida, Inc. to recover costs of Crystal River Unit 3 uprate through fuel clause.

(Continued from previous page)

**Issue 5:** If the Commission authorizes PEF clause recovery of the CR3 Uprate Project, what return on investment should the Commission authorize PEF to include?

**Recommendation:** PEF should be allowed to earn a return on average investment at its current weighted average cost of capital. If the Commission denies PEF's petition, then this issue is moot.

**Issue 6:** If the Commission authorizes clause recovery of the CR3 Uprate Project, how should the costs associated with the project be allocated between wholesale and retail jurisdictions for rate recovery purposes?

**Recommendation:** To the extent any wholesale customers share in the costs of the upgrade, PEF should reduce the costs allocated to the retail jurisdiction accordingly. If the Commission denies PEF's petition, then this issue is moot.

**Issue 7:** If the Commission authorizes clause recovery of the CR3 Uprate Project, what reports, if any, should PEF be required to file with the Commission?

**Recommendation:** If the Commission authorizes clause recovery of the cost of the CR3 Uprate Project, the Commission should require PEF to provide an exhibit to its testimony for the annual fuel clause hearing that will show the calculation of fuel savings, the costs of the project, and the allocation between retail and wholesale. This reporting should occur regardless of which clause, fuel or capacity, the Commission might authorize for cost recovery. (See Issue 2.) If the Commission denies PEF's petition, then this issue is moot.

**Issue 8:** Should this docket be closed?

**Recommendation:** The docket should be closed after the time for filing an appeal has run.

**ITEM NO.**

**CASE**

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6\*\*PAA

**Docket No. 070290-EI** – Petition to increase base rates to recover full revenue requirements of Hines Unit 2 and Unit 4 power plants pursuant to Order PSC-05-0945-S-EI, by Progress Energy Florida, Inc.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Argenziano

**Staff:** ECR: Slemkewicz, Bulecza-Banks, Draper, Springer, Kyle, Lester, Maurey, Sickel

GCL: Brown

**Issue 1:** What is the appropriate jurisdictional revenue requirement to be included in base rates for Hines Unit 2?

**Recommendation:** The appropriate jurisdictional base rate revenue requirement for Hines Unit 2 is \$36,339,546.

**Issue 2:** Should the Commission approve PEF's proposal not to revise its 2007 fuel cost recovery factors after the Hines Unit 2 revenue requirements have been transferred to base rates?

**Recommendation:** Yes. The Commission should approve PEF's proposal not to revise its 2007 fuel cost recovery factors after the Hines Unit 2 revenue requirements have been transferred to base rates. Any fuel revenue over or under recovery due to the continued recovery of Hines Unit 2 revenue in the fuel clause for December 2007 will be reflected in the prior period true up as part of the calculation of 2008 fuel cost recovery factors.

**Issue 3:** Should PEF be allowed to recover the costs in excess of the need determination for Hines Unit 4 and the related transmission facilities?

**Recommendation:** Yes. PEF should be allowed to recover the \$41 million of costs in excess of the need determination for Hines Unit 4 and the related transmission facilities.

**Issue 4:** What is the appropriate jurisdictional revenue requirement to be included in base rates for Hines Unit 4 and the related transmission facilities?

**Recommendation:** The appropriate jurisdictional base rate revenue requirement is \$52,354,000 for Hines Unit 4 and the related transmission facilities.

**Issue 5:** What are the appropriate revised base rates?

**Recommendation:** The appropriate base rates are shown on Attachment C of staff's September 27, 2007, memorandum. PEF should file, for administrative approval, revised tariff sheets to reflect the Commission vote.

**ITEM NO.**

**CASE**

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6\*\*PAA

**Docket No. 070290-EI** – Petition to increase base rates to recover full revenue requirements of Hines Unit 2 and Unit 4 power plants pursuant to Order PSC-05-0945-S-EI, by Progress Energy Florida, Inc.

(Continued from previous page)

**Issue 6:** What is the appropriate effective date for the revised base rates?

**Recommendation:** The revised base rates shall apply to electric usage occurring on and after December 1, 2007. Starting with meter reading dates on or after December 1, 2007, PEF shall prorate customers' bills so that the current base rates apply to November 2007 usage and that the revised base rates apply to December 2007 usage. In addition, starting with the first billing cycle in November, PEF shall include bill inserts to notify its customers of the proposed base rate increase.

**Issue 7:** Should this docket be closed?

**Recommendation:** Yes. If the Commission approves PEF's petition and no protest is filed within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. If a protest is timely filed, the revised rates should remain in effect, with revenues held subject to refund pending resolution of the protest.

**ITEM NO.**

**CASE**

7\*\*PAA

**Docket No. 070626-EI** – Review of Florida Power & Light Company's Sunshine Energy Program.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Administrative

**Staff:** ECR: Harlow, Devlin, Futrell, Trapp

GCL: Fleming

**(Proposed agency action for Issues 1-4 and tariff filing for Issue 5.)**

**Issue 1:** Should FPL modify its Sunshine Energy Program to exclude the use of Tradable Renewable Energy Credits from out-of-state renewable facilities?

**Recommendation:** Yes. The use of Tradable Renewable Energy Credits (TREC)s should be limited to in-state renewable generation.

**Alternate Staff Recommendation:** No. However, FPL should be required to demonstrate that all “affordable” Florida TREC)s have been exhausted before any out-of-state TREC)s are purchased.

**Issue 2:** In addition to solar photovoltaic projects, should FPL evaluate additional types of renewable facilities for development under the Sunshine Energy Program?

**Recommendation:** Yes. FPL should evaluate additional types of renewable facilities under the Sunshine Energy Program.

**Issue 3:** Should FPL modify its Sunshine Energy Program to exclude development of renewable projects placed on individual homes?

**Recommendation:** Yes. Prospectively, solar projects (or other renewables) developed under the program should either be sited at publicly owned facilities or owned by FPL.

**Issue 4:** Should Florida Power & Light Company be required to file detailed semi-annual progress reports for the Sunshine Energy Program?

**Recommendation:** Yes. Detailed semi-annual reports with the information listed in the analysis portion of staff’s memorandum dated September 27, 2007, will facilitate staff’s oversight of the program’s revenues and expenditures, and FPL’s achievements toward its commitments under the program.

**Issue 5:** Should FPL be required to file a revised tariff for the Sunshine Energy Program?

**Recommendation:** If the Commission’s vote on Issues 1 through 3 requires a revision to the existing tariff, FPL should file a revised tariff for the Sunshine Energy Program to reflect the Commission’s changes to the program. Staff should administratively approve FPL’s revised tariff if the tariff appropriately reflects the Commission’s vote.

**Issue 6:** Should this docket be closed?

**Recommendation:** If no substantially affected person files a protest to Issues 1 through 4, those issues will become final upon the issuance of a consummating order and the docket may be closed if no tariff revisions are required. If tariff revisions are required, this docket should remain open until staff administratively approves FPL’s revised tariff.

**ITEM NO.**

**CASE**

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8\*\*

**Docket No. 070231-EI** – Petition for approval of 2007 revisions to underground residential and commercial distribution tariff, by Florida Power & Light Company.

**Critical Date(s):** 12/04/07 (8-month effective date)

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Administrative

**Staff:** ECR: Baxter, Colson

GCL: Jaeger

**Issue 1:** Should the Commission approve FPL's revised Underground Residential Distribution tariffs and their associated charges?

**Recommendation:** Yes. The resulting differentials will be \$562.80 per lot for the low-density subdivision, \$86.70 per lot for the high-density subdivision, and \$0.00 per lot for the grouped meter subdivision.

**Issue 2:** Should the Commission approve FPL's revised tariff sheets and charges associated with the installation of underground commercial/industrial distribution (UCD) facilities?

**Recommendation:** Yes.

**Issue 3:** Should this docket be closed?

**Recommendation:** Yes. If Issues 1 and 2 are approved, the tariffs should become effective on October 9, 2007. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

**ITEM NO.**

**CASE**

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9\*\*

**Docket No. 070242-EI** – Request for revisions to underground residential differential, by Gulf Power Company.

**Critical Date(s):** 12/02/07 (8-month effective date)

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Administrative

**Staff:** ECR: Draper, Colson

GCL: Jaeger

**Issue 1:** Should the Commission approve Gulf’s revised Underground Residential Distribution (URD) tariffs and their associated charges?

**Recommendation:** Yes. The proposed URD differential for the low-density subdivision is \$507 per lot and for the high-density subdivision \$397 per lot. Gulf does not install underground service to subdivisions where service is provided using grouped meter pedestals.

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes. If Issue 1 is approved, this tariff should become effective on October 9, 2007. If a protest is filed within 21 days of the issuance of the order, this tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

**ITEM NO.**

**CASE**

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10\*\*

**Docket No. 041294-WS** – Transfer of water and wastewater service areas from Lake Suzy Utilities, Inc. d/b/a Aqua Utilities Florida, Inc. to DeSoto County, and cancellation of Certificate Nos. 599-W and 514-S in Charlotte and DeSoto Counties.

**Critical Date(s):** None

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Edgar

**Staff:** ECR: Johnson

GCL: Brubaker

**Issue 1:** Should Lake Suzy's request to unwind the transfer of the water facilities authorized in Order No PSC-05-0313-FOF-WS be approved?

**Recommendation:** Yes. The Commission should approve Lake Suzy's request. Order No. PSC-05-0313-FOF-WS should be vacated, and Certificates Nos. 599-W and 514-S should remain active. In addition, the parties should be put on notice that if they should enter into a new agreement for the transfer of the utility, they are required to file an application with the Commission to seek approval of the transfer.

**Issue 2:** Should this docket be closed?

**Recommendation:** Yes, because no further action is necessary, this docket should be closed.

**ITEM NO.**

**CASE**

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11\*\*PAA

**Docket No. 060285-SU** – Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

**Critical Date(s):** 10/09/07 (5-month effective date)

**Commissioners Assigned:** All Commissioners

**Prehearing Officer:** Carter

**Staff:** ECR: Rendell, Bulecza-Banks, Fletcher, Massoudi

GCL: Brown

**(All issues proposed agency action except Issues 30 and 33.)**

**Issue 1:** Is the quality of service provided by Utilities, Inc. of Sandalhaven satisfactory?

**Recommendation:** Yes. The quality of service provided by Utilities Inc., of Sandalhaven should be considered satisfactory.

**Issue 2:** Should audit adjustments to rate base, net operating income, and capital structure which the utility agrees with be made?

**Recommendation:** Yes. Based on audit adjustments agreed to by the utility and staff, the following adjustments should be made for both phase-one and phase-two: (1) plant should be decreased by \$12,941; (2) accumulated depreciation should be decreased by \$310; (3) long-term debt should be increased by \$55,955,797; (4) short-term debt should be decreased by \$11,347,000; (5) common equity should be decreased by \$17,464,864; (6) customer deposits should be increased by \$263; (7) long-term debt cost rate of 6.81% should be decreased by 0.21%; and (8) taxes other than income taxes (TOTI) should be decreased by \$1,715. Net depreciation expense should be increased by \$34,921 for phase-one. Revenues for phase one and phase-two should be increased by \$10,663 and \$5,801, respectively.

**Issue 3:** Should any adjustment be made to the utility's Franchises account?

**Recommendation:** Yes. Plant and accumulated depreciation should be reduced by \$9,826 and \$1,116, respectively, for phase-one and phase-two. In addition, phase-one and phase-two operation and maintenance (O&M) expenses should increased by \$1,983.



**ITEM NO.**

**CASE**

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11\*\*PAA

**Docket No. 060285-SU** – Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

(Continued from previous page)

**Issue 4:** What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Sandalhaven?

**Recommendation:** The appropriate WSC net rate base allocation for Sandalhaven is \$7,561, which represents an increase of \$103. WSC depreciation expense should also be increased by \$4 for both phase-one and phase-two. Further, the appropriate UIF rate base allocation for Sandalhaven is \$9,921. This represents plant and accumulated depreciation decreases of \$813 and \$224, respectively. In addition, depreciation expense should be decreased by \$417 for both phase-one and phase-two. Moreover, in its revised phase-two rate proposal, the utility combined its UIF net plant with WSC net plant as a separate line in rate base totaling \$19,522. For phase-two, the appropriate combined WSC and UIF rate base is \$17,482, which is \$2,040 less than the utility's requested amount of \$19,522. Accordingly, staff recommends that phase-two WSC and UIF rate base should be reduced by \$2,040.

**ITEM NO.**

**CASE**

11\*\*PAA

**Docket No. 060285-SU** – Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

(Continued from previous page)

**Issue 5:** Should any adjustments be made to the utility's projected plant additions?

**Recommendation:** Yes. A summary of phase-one and phase-two plant and other adjustments is reflected in the following table.

	<b><u>Phase-One</u></b>	<b><u>Phase-Two</u></b>
<b><u>Plant Adjustments</u></b>		
Averaging Adjustments	(\$1,348,788)	\$0
Support Documentation Adjustments	(564,159)	(724,353)
Retirement of Wastewater Treatment Plant	<u>579,631</u>	<u>(579,631)</u>
Total Projected Plant Additions	<u>(\$1,333,316)</u>	<u>(\$1,303,984)</u>
<b><u>Non-Used &amp; Useful Impact Fees</u></b>		
Rate Base	<u>(\$1,800,560)</u>	<u>0</u>
Depreciation Expense	<u>(\$58,083)</u>	<u>0</u>
Property Taxes	<u>(\$23,303)</u>	<u>0</u>
<b><u>Non-Used &amp; Useful Interconnection Costs</u></b>		
Rate Base	<u>(\$1,092,319)</u>	<u>0</u>
Depreciation Expense	<u>(\$36,662)</u>	<u>0</u>
Property Taxes	<u>(\$27,535)</u>	<u>0</u>
<b><u>CIAC Adjustments</u></b>		
Retirement of Wastewater Treatment Plant	<u>(\$467,867)</u>	<u>\$584,578</u>
<b><u>Amortization of Preliminary, Survey, and Investigation Costs</u></b>		
Miscellaneous Expenses	<u>\$21,796</u>	<u>\$21,796</u>

**Issue 6:** Should an adjustment be made to land?

**Recommendation:** Yes. Land should be reduced by \$73,089 for both phase-one and phase-two.

**Issue 7:** What are the used and useful percentages of the utility's wastewater treatment plant, and its collection and reuse systems?

**Recommendation:** The utility's wastewater treatment plant should be considered 77.06% used and useful (U&U) and the wastewater collection system and reclaimed water system should be considered 100% used and useful. However, since the net plant subject to used and useful consideration is 100% contributed, staff recommends that it would be inappropriate to make any non-used and useful adjustment to the wastewater treatment plant in this case.

**ITEM NO.**

**CASE**

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11\*\*PAA

**Docket No. 060285-SU** – Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

(Continued from previous page)

**Issue 8:** What is the appropriate balance of accumulated depreciation?

**Recommendation:** Based on recommended plant adjustments in preceding issues and depreciation rates in accordance with Rule 25-30.140, F.A.C., the appropriate average accumulated depreciation balance for phase-one is \$966,065 for the test year ending December 31, 2007, and the appropriate accumulated depreciation for phase-two at 80% buildout is \$839,459. Accordingly, accumulated depreciation should be increased by \$182,083 for phase-one and decreased by \$273,528 for phase-two.

**Issue 9:** What are the appropriate balances of contribution-in-aid-of construction (CIAC) and accumulated amortization of CIAC?

**Recommendation:** To correct the utility's errors for the 2007 average balances, CIAC and accumulated amortization of CIAC should be increased by \$577,844 and \$29,975, respectively. Based on the corrections to average balances, staff's recommended plant capacity charges, and depreciation rates in accordance with Rule 25-30.140, F.A.C., the appropriate CIAC and accumulated amortization of CIAC balances for phase-one are \$2,867,354 and \$926,450, respectively, for the average test year ending December 31, 2007. Accordingly, for phase-one, CIAC should be decreased by \$2,294,101 and accumulated amortization of CIAC increased by \$283,179. Based on the wastewater treatment plant retirement, staff's recommended plant capacity charges, and the correct depreciation rates, the appropriate CIAC and accumulated amortization of CIAC balances for phase-two at 80% buildout are \$3,442,559 and \$700,504, respectively. Accordingly, for phase-two, CIAC and accumulated amortization of CIAC should be decreased by \$759,017 and \$47,818, respectively.

**Issue 10:** What is the appropriate working capital allowance?

**Recommendation:** In accordance with Rule 25-30.433(2), F.A.C., the appropriate phase-one and phase-two working capital allowances are \$63,948 and \$80,796, respectively. Accordingly, working capital for phase-one and phase-two should be increased by \$4,817 and \$6,482 respectively.

**Issue 11:** What is the appropriate rate base?

**Recommendation:** The appropriate phase-one rate base for the test year ending December 31, 2007, is \$58,659, and the appropriate phase-two rate base is \$2,333,909.

**Issue 12:** What is the appropriate return on common equity?

**Recommendation:** The appropriate phase-one and phase-two return on common equity is 12.00% based on the Commission leverage formula currently in effect. An allowed range of plus or minus 100 basis points should be recognized for ratemaking purposes.

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**Issue 13:** What is the appropriate balance of accumulated deferred income taxes?

**Recommendation:** As discussed in the analysis portion in staff's memorandum dated September 27, 2007, the appropriate 2007 average net used and useful credit accumulated deferred income taxes (ADITs) balance is \$176,511 for phase-one, which represents an increase of \$30,633 from the utility's MFR balance of \$145,878. Because the capital structure is reconciled to rate base, it is appropriate to set phase-two net credit ADITs balance equal to the average phase-one balance less the non-used and useful adjustment for the credit associated with the impact fees paid to the EWD and the force main and master lift station. Accordingly, the appropriate net credit ADITs balance for phase-two is \$178,894. This represents an increase of \$178,894, because the utility reflected a net debit balance in rate base of \$88,867 in its revised phase-two proposal. As such, phase-two rate base should be reduced by \$88,867.

**Issue 14:** What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure?

**Recommendation:** The appropriate weighted average cost of capital for phase-one and phase-two are 1.71% and 7.95%, respectively.

**Issue 15:** Should adjustments be made to the utility's projected revenues?

**Recommendation:** Yes. Using the incremental difference between the audited 2006 billing determinants and the projected 2007 billing determinants, a 2007 annualized revenue adjustment of \$91,942 should be made for phase-one. For reasons set forth in the analysis portion of staff's memorandum dated September 27, 2007, reuse revenues of \$3,798 should be removed from phase-two because no reuse service will be provided once the wastewater treatment plant is retired. Moreover, using the incremental difference between the audited 2006 billing determinants and the projected 80% buildout billing determinants, an annualized revenue adjustment of \$170,698 should be made for phase-two.

**Issue 16:** Should a miscellaneous service revenues adjustment be made?

**Recommendation:** Yes. Using the difference between the 167 initial connections and normal reconnections in 2006 and the projected 387 connections in 2007, staff recommends that miscellaneous service revenues of \$3,298 should be imputed for phase-one and phase-two.

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**Issue 17:** What is the appropriate amount of allocated WSC and UIF expenses for Sandalhaven?

**Recommendation:** Based on the audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Sandalhaven are \$25,229 and \$958, respectively, for phase-one and phase-two. As such, O&M expenses and taxes other than income should be decreased by \$5,410 and \$332, respectively. Further, the appropriate UIF O&M expenses for Sandalhaven are \$1,869 for phase-one and phase-two, which results in an O&M expense reduction of \$842.

**Issue 18:** What is the appropriate amortization amount for deferred hurricane costs?

**Recommendation:** The appropriate amortization amounts for deferred hurricane costs are \$5,373 and \$1,100 for phase-one and phase two, respectively. Accordingly, phase-one and phase-two O&M expenses should be increased by \$5,373 and \$1,100, respectively. Moreover, depreciation expense should be reduced by \$4,273.

**Issue 19:** Should any further O&M expense adjustments be made?

**Recommendation:** Yes. Because the wastewater treatment plant will not be retired for approximately two years, O&M expenses should be reduced by \$20,014 for phase-one. By applying the current bulk wastewater rate by the EWD, phase-two O&M expenses should be reduced by \$2,421.

**Issue 20:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate total rate case expense for the current docket is \$141,019. This expense should be recovered over four years for an annual expense of \$35,255. Rate case expense should be reduced by \$13,765.

**Issue 21:** What is the appropriate net depreciation expense?

**Recommendation:** Based on staff's recommended plant adjustments in preceding issues, application of depreciation rates pursuant to Rule 25-30.140, F.A.C., and recommended plant capacity charges, the appropriate net depreciation expense for phase-one is \$72,874. This represents a decrease of \$21,769. However, with the non-used and useful adjustments recommended in Issue 5, a negative net depreciation expense of \$21,871 results for phase-one. As in cases where negative rate base is adjusted to zero, the Commission has previously adjusted test year depreciation expense to zero. Accordingly, phase-one net depreciation expense should be increased by \$21,871 to adjust to zero. Moreover, based on recommended plant adjustments in preceding issues, depreciation rates in accordance with Rule 25-30.140, F.A.C., and staff's recommended plant capacity charges, the appropriate net depreciation expense for phase-two is \$40,514. This represents a decrease of \$193.

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**Issue 22:** Is there a resulting loss on the early retirement of the utility’s wastewater treatment plant, and, if so, should the utility be allowed to recover the loss and what is the appropriate amortization amount of the loss?

**Recommendation:** No. Because the wastewater treatment plant was fully contributed, there is no resulting loss on the early retirement of its wastewater treatment plant. Accordingly, the utility’s phase-two requested annual amortization loss expense of \$50,871 should be removed.

**Issue 23:** Should any adjustment be made to property taxes?

**Recommendation:** Yes. The appropriate phase-one and phase-two projected property taxes are \$79,915 and \$66,677, respectively. Accordingly, phase-one and phase-two property taxes should be reduced by \$82,052 and \$28,718, respectively.

**Issue 24:** What is the operating income or loss before any revenue increase?

**Recommendation:** Based on the adjustments discussed in previous issues, the 2007 test year operating loss before any provision for increased phase-one revenues is \$116,629. The phase-two test year operating loss before any provision for increased phase-two revenues is \$168,508.

**Issue 25:** What is the appropriate revenue requirement?

**Recommendation:** The following phase-one and phase-two revenue requirements should be approved:

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Phase-One	\$377,603	\$197,496	\$ 575,099	52.30%
Phase-Two	\$452,561	\$594,361	\$1,046,922	131.33%

**Issue 26:** What is the appropriate rate structure for Multi-Residential Service customers?

**Recommendation:** The Multi-Residential Service (MRS) customers should be charged the rate structure applicable to the General Service (GS) class of customers. The base facility charge should be based on the meter size and meter equivalency determined by the American Water Works Association (AWWA). The gallonage charge should be equal to the general service gallonage charge with no cap on usage.

**Issue 27:** What are the appropriate monthly wastewater rates?

**Recommendation:** The appropriate wastewater monthly rates are shown on Schedule No. 4 of staff’s September 27, 2007, memorandum. Excluding miscellaneous service charges and reuse revenues, the recommended rates produce revenues of \$564,412 for phase-one and \$1,040,035 for phase-two.

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**Issue 28:** What are the appropriate effective dates for phase-one and phase-two rates?

**Recommendation:** The utility should be allowed to implement phase-one 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 ten days after the date of the notice.

The utility should not be allowed to implement phase-two rates until the construction of a sub-master lift station to direct the flows to the utility's master lift station has been completed and approved by DEP. 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 ten days after the date of the notice.

**Issue 29:** Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected in the analysis portion of staff's memorandum dated September 27, 2007. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof that customers have received notice within 10 days after the date that the notice was sent.

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**Issue 30:** 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 phase-two wastewater rates should be reduced as shown on Schedule No. 4 of staff's September 27, 2007 memorandum, to remove \$36,916 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 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(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 ten days after the date of the notice.

**Issue 31:** What are the appropriate service availability charges for Sandalhaven?

**Recommendation:** The appropriate plant capacity charge for the utility is \$2,628. This represents a increase of \$0.25 from its approved temporary system capacity charge of \$2,627.75. The appropriate main extension charge should be at actual cost. The utility should provide written notice to all persons who have submitted a written request for service within 12 months preceding the date of the Consummating Order. The plant capacity charge should become effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(2), F.A.C., provided that customers have received notice and the notice has been approved by Commission staff. Within 10 days after the notice is given, the utility should provide proof that all such persons have received notice. Within 30 days from the issuance of the Consummating Order, the utility should file a revised tariff reflecting its approved plant capacity charge. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision.



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**Issue 32:** Should the utility be authorized to charge Allowance for Funds Prudently Invested (AFPI) charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. Sandalhaven should be authorized to collect wastewater AFPI charges that are recommended in the table set forth in the analysis portion of staff's recommendation dated September 27, 2007. The beginning date of the AFPI charges should be January 1, 2008. After December 31, 2010, the utility should be allowed to collect the constant charge until all projected 872 wastewater ERCs in the calculation have been added, at which time the charge should be discontinued. The utility should file revised tariff sheets which are consistent with the Commission's vote within 30 days of the issuance of the Consummating Order. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision and provided future customers have been noticed, pursuant to Rule 25-30.475(2), F.A.C. In no event should the rates be effective for services rendered prior to the stamped approval date.

**Issue 33:** Should the utility be required to provide proof, within 90 days of a Consummating Order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

**Recommendation:** Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Sandalhaven should provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

**Issue 34:** 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 the appropriate implementation of phase-two rates.