

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 17, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Bulecza-Banks)
Office of the General Counsel (Fleming)

RE: Docket No. 060246-WS – Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.

AGENDA: 07/29/08 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060246.RCM.DOC

Case Background

Gold Coast Utility Corp. (Gold Coast or Utility) is a Class B utility providing water and wastewater service to approximately 131 residential and 32 general service water and wastewater customers in Polk County.

By Order No. PSC-07-0609-PAA-WS, issued July 30, 2007, the Commission approved a revenue increase of \$104,066 (or 74.13 percent) for water and \$178,316 (or 83.04 percent) for wastewater.¹ As memorialized in that order, the Office of Public Counsel (OPC) and the Utility agreed to accept the water treatment plant used and useful established at that time on the

¹ That order was consummated by Order No. PSC-07-0694-CO-WS, issued August 24, 2007.

Docket No. 060246-WS

Date: July 17, 2008

condition that the Commission would revisit this matter if the methodology for determining water treatment plant used and useful was changed by the rule promulgated in Docket No. 070183-WS. OPC and the Utility also agreed that any resulting change to water rates would be applied prospectively.

The rule proposed in Docket No. 070183-WS has been promulgated. Rule 25-30.4325, Florida Administrative Code (F.A.C.), entitled “Water Treatment and Storage Used and Useful Calculations,” became effective June 8, 2008. As discussed later, staff’s revised used and useful calculation pursuant to the above rule reduces the revenue requirement previously approved in Order No. PSC-07-0609-PAA-WS. This recommendation addresses the reduction of the water revenue requirement and rates.

The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes.

Discussion of Issues

Issue 1: What is the appropriate used and useful percentage for the Utility's water treatment plant and storage?

Recommendation: Pursuant to Rule 25-30.4325, F.A.C., Gold Coast's water treatment plant should be considered 49.14 percent used and useful, and the storage should be considered 100 percent used and useful. (Fletcher)

Staff Analysis: As required by Order No. PSC-07-0609-PAA-WS, staff performed a used and useful analysis of the Utility's water treatment plant and storage facility in accordance with Rule 25-30.4325, F.A.C. The water treatment system has two wells, which are rated at 1,100 and 750 gallons per minute (gpm) each. Pursuant to Rule 25-30.4325(6)(b), F.A.C., the firm reliable capacity of the water treatment plant is 720,000 gallons per day (gpd) based on 750 gpm for 16 hours. In the prior order, the firm reliable capacity was determined to be 540,000 gpd based on 12 hours of pumping. In addition, consistent with Rule 25-30.4325(7)(b)(1), F.A.C., the peak demand is 229,000 gpd based on the single maximum day in the test year with no unusual occurrence, as opposed to the average of the five highest days within a 30 day period of 219,000 gpd used in the initial used and useful calculation reflected in Order No. PSC-07-0609-PAA-WS. No adjustments to excessive unaccounted for water, the growth allowance, or the fire flow provision are needed. Therefore, based on Rule 25-30.4325, F.A.C., the water treatment plant should be considered 49.14 percent used and useful,² instead of 63.67 percent as determined in Order No. PSC-0609-PAA-WS. Further, pursuant to Rule 25-30.4325(8), F.A.C., because the peak demand (229,000 gpd) exceeds the storage capacity (100,000 gpd), the storage facility should be considered 100 percent used and useful,³ which is consistent with the Commission's finding in Order No. PSC-07-0609-PAA-WS.

² (Max Day – EUW + FF + Growth)/FRC = (229,000–899+5,729+120,000)/720,000 = (353,830/720,000) = 49.14%

³ (Max Day – EUW + FF + Growth)/FRC = (229,000–899+5,729+120,000)/100,000 = (353,830/100,000) = >100%

Issue 2: What is the effect on the water revenue requirement approved in Order No. PSC-07-0609-PAA-WS, resulting from the revised used and useful calculation pursuant to Rule 25-30.4325, F.A.C.?

Recommendation: Based on the used and useful percentage of 49.14 percent in accordance with Rule 25-30.4325, F.A.C., the water revenue requirement approved in Order No. PSC-07-0609-PAA-WS should be reduced by \$5,694. (Fletcher)

Staff Analysis: By Order No. PSC-07-0609-PAA-WS, p. 15, the Commission approved a used and useful percentage of 63.67 percent for Gold Coast's water treatment plant. As discussed in Issue 1, staff recommends that the used and useful percentage is 49.14 percent pursuant to Rule 25-30.4325, F.A.C. The following table illustrates the incremental difference between the original approved water revenue requirement and the resulting revenue requirement from staff's recommended 49.14 percent used and useful in accordance with Rule 25-30.4325, F.A.C.

| Description | Per Order Non-U&U | Revised Non-U&U | Incremental Difference |
|--|----------------------|--------------------|---------------------------|
| Non-Used and Useful Test Year Adjustment | \$77,464 | \$108,439 | \$30,975 |
| Non-Used and Useful Pro Forma Adjustment | <u>42,202</u> | <u>59,076</u> | <u>16,874</u> |
| Total Non-Used and Useful Component | \$119,666 | \$167,516 | \$47,849 |
| Multiplied by Approved Overall Cost of Capital | <u>7.48%</u> | <u>7.48%</u> | <u>7.48%</u> |
| Reduction to Return on Investment | <u>\$8,951</u> | <u>\$12,530</u> | <u>\$3,579</u> |
| Non-Used and Useful Net Depr. Expense | \$3,650 | \$5,109 | \$1,459 |
| Non-Used and Useful Property Taxes | <u>998</u> | <u>1,398</u> | <u>400</u> |
| Total Operating Expense Reductions | <u>\$4,648</u> | <u>\$6,507</u> | <u>\$1,859</u> |
| Return and Exp. Reductions Before RAFs | \$13,599 | \$18,945 | \$5,438 |
| RAF's Gross-up Factor | <u>.955</u> | <u>.955</u> | <u>.955</u> |
| Total Non-Used and Useful Rev. Req. Reduction | <u>\$14,240</u> | <u>\$18,092</u> | <u>\$5,694</u> |

Based on the used and useful percentage of 49.14 percent in accordance with Rule 25-30.4325, F.A.C., staff recommends that the water revenue requirement approved in Order No. PSC-07-0609-PAA-WS should be reduced by \$5,694.

Issue 3: What are the appropriate water rates?

Recommendation: The Utility's present rates should be reduced by 2.33 percent. The appropriate monthly water rates are shown on Schedule 1. 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 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. (Fletcher)

Staff Analysis: As discussed in Issue 2, staff recommends that the water revenue requirement approved in Order No. PSC-07-0609-PAA-WS should be reduced by \$5,694. In order to determine the appropriate rate reduction, the \$5,694 should be divided by the previously approved revenue requirement of \$244,451. This equates to a rate reduction of 2.33 percent. The appropriate monthly water rates are shown on Schedule 1.

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 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.

Issue 4: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively. (Fleming, Fletcher)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively.

| Gold Coast Utility Corp. Water Monthly Service Rates | Schedule No. 1 Docket No. 060246-WS | |
|---|--|--|
| | Utility Present Rates | Staff Recommended Rates |
| <u>Residential</u> | | |
| <u>Base Facility Charge By Meter Size:</u> | | |
| 5/8" x 3/4" | \$13.78 | \$13.46 |
| 5/8" x 3/4" at Granada | \$11.02 | \$10.76 |
| 3/4" | \$20.67 | \$20.19 |
| 1" | \$34.45 | \$33.65 |
| 1 1/2" | \$68.90 | \$67.30 |
| 2" | \$110.24 | \$107.67 |
| Gallonage Charge, per 1,000 Gallons | \$2.81 | \$2.74 |
| <u>Multi-Residential and General Service</u> | | |
| <u>Base Facility Charge By Meter Size:</u> | | |
| 5/8" x 3/4" | \$13.78 | \$13.46 |
| 3/4" | \$20.67 | \$20.19 |
| 1" | \$34.45 | \$33.65 |
| 1 1/2" | \$68.90 | \$67.30 |
| 2" | \$110.24 | \$107.67 |
| 2" at Village Green | \$446.67 | \$436.27 |
| 3" | \$220.48 | \$215.34 |
| 4" | \$344.50 | \$336.48 |
| 6" | \$689.00 | \$672.95 |
| 8" | \$1,102.40 | \$1,076.72 |
| 8" at Nalcrest, Lakeshore | \$4,134.00 | \$4,037.71 |
| Gallonage Charge, per 1,000 Gallons | \$2.81 | \$2.74 |
| <u>Typical Residential Bills 5/8" x 3/4" Meter</u> | | |
| 3,000 Gallons | \$22.21 | \$21.68 |
| 5,000 Gallons | \$27.83 | \$27.16 |
| 10,000 Gallons | \$41.88 | \$40.86 |