

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: October 30, 2008

TO: Office of Commission Clerk (Cole)

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

RE: Docket No. 080197-WU – Application for approval of a new bulk raw water classification of service and approval of revised service availability policy and charges in Baker and Union Counties by B & C Water Resources, L.L.C.

AGENDA: 11/13/08 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 11/28/08 (8-Month Effective Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080197.RCM.DOC

Case Background

B & C Water Resources L.L.C. (B & C or Utility) is a Class C utility which provides water service to eight residential customers in Baker and Union Counties. The Utility was granted its original certificate in 2004.¹ B & C's 2007 annual report shows an annual operating revenue of \$1,623 and a net operating loss of \$14,930. The service area is located in both the St. Johns River Water Management District and the Suwannee River Water Management District. None of the service area is in a water use caution area.

¹ See Order No. PSC-04-1256-PAA-WU, issued December 20, 2004, in Docket No. 040140-WU, In re: Application for certificate to operate water utility in Baker and Union Counties by B & C Water Resources, L.L.C.

On April 2, 2008, the Utility filed an application for a new bulk raw water classification of service and a revised service availability policy and charges to reflect the new service classification. B & C anticipates industrial development within its service area. Consequently, the Utility is requesting approval of a new classification of service to enable it to provide industrial customers with bulk raw water service. B & C also requested a revised service availability policy and charges for the requested bulk raw water class of service. By Order No. PSC-08-0376-PCO-WU, issued June 4, 2008, the Commission suspended the tariff filing pending further investigation.

This recommendation addresses the requested bulk raw water service and revised service availability policy to reflect the new service classification. The Commission has jurisdiction pursuant to Sections 367.091 and 367.101, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should B & C's proposed tariff sheets to establish bulk raw water rate be approved as filed?

Recommendation: Yes. The First Revised Sheet No. 14.0, filed on April 2, 2008, to establish a bulk raw water rate should be approved as filed. B & C should file a proposed notice to reflect the Commission's decision for staff's approval. The approved tariffs should be effective for services rendered on or after the stamped approval date provided the Utility has issued notices to all persons who have filed a written request for bulk raw water service or who have been provided a written estimate for bulk raw water service within the 12 calendar months prior to the month B & C filed its petition. The Utility should provide proof that those persons have received notice within 10 days after the date that the notice was sent. (Hudson, Mouring)

Staff Analysis: As discussed in the case background, the Utility anticipates industrial development within its service area. The industrial customers will be in need of bulk raw water. Pursuant to Sections 367.091 and 367.101 F.S., and Rule 25-30.565, Florida Administrative Code (F.A.C.), B & C filed for approval of a new bulk raw water classification of service, a revised service availability policy (See Issue 2), and charges to reflect the new service classification.

Rate Base

The raw water facilities consist of three 10-inch wells which will produce raw water and well pumps that will pressurize the raw water. The pressurized raw water will be sent through 8-inch and 10-inch PVC pipes to the customer. A mobile power generation unit will be used in case of a power outage. B & C's projected bulk raw water rate is based on the rate base calculation shown on Schedule No. 1. The projected rate base for bulk raw water services is \$394,723. Staff recommends that the Utility's projected rate base is reasonable and should be approved. Projected rate base is established only as a tool to aid the Commission in setting initial rates and is not intended to formally establish rate base.

Cost of Capital

B & C's projected capital structure, shown on Schedule No. 2, consists of 60 percent debt and 40 percent equity. The return on equity is 12.01 percent pursuant to the current leverage graph formula.² The cost of long term debt will be 6.80 percent, which staff believes is reasonable. Therefore, staff recommends that the Utility's proposed rate should reflect an overall cost of capital of 8.88 percent based on 40 percent equity at 12.01 percent and 60 percent debt at 6.80 percent.

Return on Investment

The projected return on investment is shown on Schedule No. 3 as net operating income. Based on the projected rate base for the bulk raw water and the projected overall cost of capital

² See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

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of 8.88 percent, staff recommends that B & C's calculated return on investment for bulk water is \$35,051.

Revenue Requirement

The projected revenue requirement, operating and maintenance expenses, depreciation and amortization, and taxes other than income are shown on Schedule 3. The Utility's proposed operating and maintenance expenses, including purchased power, contractual services, and rental royalties for use of land, appear reasonable. As a limited liability company, B & C has no income tax expense. Therefore, staff recommends that the revenue requirement for bulk raw water services of \$324,565 is reasonable and should be approved.

Rates

The calculation of the bulk raw water rate is consistent with past Commission approvals. The proposed bulk raw water rate is a monthly base facility charge of \$2,529.42 and a gallonage charge per 1,000 gallons of usage of \$0.8061. In 1992, the Commission approved a monthly bulk raw water rate of \$2,137.25 with a gallonage charge of \$0.1712 for East Central Florida Services, Inc., and in 2004, approved a bulk raw water rate of \$54,473.40 per 500,000 gallons with a gallonage charge of \$0.3043 for Farnton Water Resources, L.L.C. (Farnton).³ The Utility's proposed rate is shown on Schedule No. 4.

Staff recommends that the Utility's proposed rate is reasonable and should be approved. Therefore, staff recommends that First Revised Sheet No. 14.0, filed on April 2, 2008, to establish bulk raw water charges should be approved as filed. B & C should file a proposed notice to reflect the Commission's decision for staff's approval. The approved tariffs should be effective for services rendered on or after the stamped approval date provided the Utility has issued notices to all persons who have filed a written request for bulk raw water service or who have been provided a written estimate for bulk raw water service within the 12 calendar months prior to the month B & C filed its petition. The Utility should provide proof that those persons have received notice within 10 days after the date that the notice was sent.

³ See Order Nos. PSC-92-0104-FOF-WU, issued March 27, 1992, in Docket No. 910114-WU, In re: Application of East Central Florida Services, Inc., for an original certificate in Brevard, Orange and Osceola Counties and PSC-04-0980-FOF-WU, issued October 4, 2004, in Docket No. 021256, In re: Application for certificate to provide water service in Volusia and Brevard Counties by Farnton Water Resources LLC.

Issue 2: Should B & C's proposed tariff sheets to establish a service availability charge for bulk raw water service and update its service availability policy be approved as filed?

Recommendation: Yes. First Revised Sheet No. 18.0 and First Revised Sheet No. 25.0 filed on April 2, 2008, to establish a service availability charge for bulk raw water service and update its service availability policy should be approved as filed. B & C should file a proposed notice to reflect the Commission's decision for staff's approval. The approved tariffs should be effective for services rendered on or after the stamped approval date provided the Utility has issued notices to all persons who have filed a written request for bulk raw water service or who have been provided a written estimate for bulk raw water service within the 12 calendar months prior to the month B & C filed its petition. The Utility should provide proof that those persons have received notice within 10 days after the date that the notice was sent. (Hudson, Mouring)

Staff Analysis: Pursuant to Rule 25-30.580(1), F.A.C., the maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75 percent of the total original cost, net of depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity.

According to its proposed service availability policy, the Utility will be responsible for providing the raw water service to the closest hydraulically capable point to the customer's raw water transmission system. B & C will provide any future customer the raw water transmission to the Utility's proposed service area boundary line. At which point, the raw water meter will be located. It will be the responsibility of the customer to deliver the water to its desired destination beyond the raw water meter. B & C's proposed plant capacity charge for bulk raw water service of \$311.14 per ERC is based on the estimated capital costs for the construction of the raw water facilities. The plant capacity charge provides for a contribution level of 70 percent, which is within the guidelines of Rule 25-30.580(1), F.A.C. In 1992, the Commission approved a service availability charge of \$75.00 per ERC for East Central Florida Services Inc., and in 2004, approved a service availability charge of \$421.51 per ERC for Farmton. Staff believes the Utility's proposed service availability charge is reasonable and should be approved. The proposed service availability charge is shown on Schedule No. 4.

B & C would like to revise the narrative provisions of its service availability policy to make the provisions consistent with the policies approved by the Commission for the Utility's affiliate, D & E Water Resources, Inc.⁴ The proposed service availability policy provides the terms and conditions for donated lines from developers and a refundable advance for on-site or off-site lines that are oversized in anticipation of future development. Staff believes this is reasonable and should be approved.

Based on the above, staff recommends that First Revised Sheet No. 18.0 and First Revised Sheet No. 25.0 filed on April 2, 2008, to establish a service availability charge for bulk raw water service and update its service availability policy should be approved as filed. B & C should file a proposed notice to reflect the Commission's decision for staff's approval. The approved tariffs should be effective for services rendered on or after the stamped approval date

⁴ See Order No. PSC-07-0274-PAA-WS, issued April 2, 2007, in Docket No. 060694-WS, In re: Application of D & E Water Resources, L.L.C. to operate a water and wastewater utility in Flagler and Volusia Counties, Florida.

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provided the Utility has issued notices to all persons who have filed a written request for bulk raw water service or who have been provided a written estimate for bulk raw water service within the 12 calendar months prior to the month B & C filed its petition. The Utility should provide proof that those persons have received notice within 10 days after the date that the notice was sent.

Issue 3:

Should this docket be closed?

Recommendation: If no protest is filed by a person whose interest are substantially affected within 21 days of the issuance of the Order, the Tariff Order will become final upon the issuance of a Consummating Order and the docket should be closed. If a protest is filed within 21 days of the issuance of the Order, the tariff should remain in effect pending the resolution of the protest, and the docket should remain open. (Young, Hudson)

Staff Analysis: If no protest is filed by a person whose interest are substantially affected within 21 days of the issuance of the Order, the Tariff Order will become final upon the issuance of a Consummating Order and the docket should be closed. If a protest is filed within 21 days of the issuance of the Order, the tariff should remain in effect pending the resolution of the protest, and the docket should remain open.

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BULK RAW WATER	
B & C WATER RESOURCES, L.L.C.	SCHEDULE NO. 1
SCHEDULE OF WATER RATE BASE	DOCKET NO. 080197-WU
DESCRIPTION	TOTAL
1. UTILITY PLANT IN SERVICE	\$1,269,965
2. LAND & LAND RIGHTS	0
3. NON-USED AND USEFUL COMPONENTS	0
4. CIAC	(888,971)
5. ACCUMULATED DEPRECIATION	(63,488)
6. AMORTIZATION OF CIAC	44,441
7. WORKING CAPITAL ALLOWANCE	<u>32,776</u>
8. WATER RATE BASE	<u>\$394,723</u>

BULK RAW WATER				
B & C WATER RESOURCES, L.L.C.			SCHEDULE NO. 2	
SCHEDULE OF CAPITAL STRUCTURE			DOCKET NO. 080197-WU	
CAPITAL COMPONENT	AMOUNT	WEIGHT	COST	WEIGHTED COST
1. COMMON EQUITY	\$157,889	40.00%	12.01%	4.80%
2. LONG TERM DEBT	236,834	60.00%	6.80%	4.08%
3. CUSTOMER DEPOSITS	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
TOTAL	<u>\$394,723</u>	<u>100.00%</u>		<u>8.88%</u>
RETURN ON COMMON EQUITY		<u>LOW</u>	<u>HIGH</u>	
		<u>11.01%</u>	<u>13.01%</u>	

BULK RAW WATER		SCHEDULE NO. 3
B & C WATER RESOURCES, L.L.C.		DOCKET NO. 080197-WU
SCHEDULE OF WATER OPERATING INCOME		
		REVENUE REQUIREMENT
1. OPERATING REVENUES		<u>\$324,565</u>
OPERATING EXPENSES:		
2. OPERATION & MAINTENANCE		\$259,840
3. DEPRECIATION (NET)		42,325
4. AMORTIZATION		(29,627)
5. TAXES OTHER THAN INCOME		16,975
6. INCOME TAXES		<u>0</u>
7. TOTAL OPERATING EXPENSES		<u>\$289,513</u>
8. OPERATING INCOME/(LOSS)		<u>\$35,051</u>
9. WATER RATE BASE		<u>\$394,723</u>
10. RATE OF RETURN		<u>8.88%</u>

BULK RAW WATER	
B & C WATER RESOURCES, L.L.C.	
MONTHLY WATER RATES	DOCKET NO. 080197-WU
RATES	
Bulk Raw Water	
Base Facility Charge:	\$2,529.42
<u>Gallonage Charge</u>	
All gallons per 1,000	\$.08061

BULK RAW WATER	
B & C WATER RESOURCES, L.L.C.	
SERVICE AVAILABILITY CHARGE	DOCKET NO. 080197-WU
RATES	
Plant Capacity Charge per ERC (350 GPD)	\$311.14