

**MINUTES OF JUNE 21, 2005
COMMISSION CONFERENCE**

COMMENCED: 9:35 a.m.
BROKE: 1:15 p.m.
RESUMED: 2:15 p.m.
ADJOURNED: 4:40 p.m.

COMMISSIONERS PARTICIPATING: Chairman Baez
Commissioner Deason
Commissioner Bradley
Commissioner Edgar

Parties were allowed to address the Commission on items designated by double asterisks (**).

1**Consent Agenda

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

<u>DOCKET NO.</u>	<u>COMPANY NAME</u>	<u>EFFECTIVE DATE</u>
050320-TX	Buy-Tel Communications, Inc.	5/10/2005

RECOMMENDATION: The Commission should approve the action requested in the docket referenced above and close this docket.

DECISION: The recommendation was approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

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ITEM NO.

CASE

2**Docket No. 050108-OT - Proposed revisions to rules in Chapter 25-22 and 25-40, F.A.C.
(Deferred from April 5, 2005 conference.)

Critical Date(s): None

Rule Status: Proposed

Commissioners Assigned: All Commissioners

Prehearing Officer: Edgar

Staff: GCL: Stern, Smith, Melson

ECR: Hewitt

Issue 1: Should the Commission propose the amendments to Chapters 25-22 and 25-40, Florida Administrative Code, shown on Attachments 1 and 2 to staff's March 24, 2005 recommendation?

Recommendation: Yes. The Commission should propose the amendments to the Chapters as shown on Attachments 1 and 2 to staff's recommendation.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no comments or requests for hearing are filed, the rule as proposed should be filed for adoption with the Secretary of State and the docket should be closed.

DECISION: The recommendations were approved with the modification to (5) in Rule 25-22.0022, F.A.C., as discussed at the conference.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

3**PAADocket No. 050220-EU - Joint petition for approval of amendment to territorial agreement in Orange County by Orlando Utilities Commission and Progress Energy Florida, Inc.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Bradley

Staff: GCL: Jaeger
ECR: Windham

Issue 1: Should the Commission approve the Joint Petition for approval of an Amendment to Territorial Agreement between Orlando Utilities Commission and Progress Energy Florida, Inc.?

Recommendation: Yes. The Amendment to Territorial Agreement between Orlando Utilities Commission and Progress Energy Florida, Inc. appears to be in the public interest, and the Amendment should be approved. The Amendment should become effective upon the issuance of a Consummating Order finalizing the Proposed Agency Action Order approving this Amendment.

Issue 2: Should this docket be closed?

Recommendation: Yes. If no timely protest to the proposed agency action is filed by a substantially affected person within 21 days, this docket should be closed upon the issuance of the Consummating Order. In the event there is a timely protest, this docket should remain open pending resolution of the protest.

DECISION: The recommendations were approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

4**Docket No. 040028-TP - Complaint and request for summary disposition to enforce contract audit provisions in interconnection agreement with NewSouth Communications Corp., by BellSouth Telecommunications, Inc.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Edgar

Staff: GCL: Susac
CMP: Wright

Issue 1: Should the Commission grant BellSouth Telecommunications, Inc.'s Motion For Summary Disposition?

Recommendation: Yes. Staff recommends granting BellSouth's Motion for Summary Disposition and allowing BellSouth, at its sole expense, and upon thirty (30) days notice to NewSouth, to audit NewSouth's records to verify the type of traffic being transmitted over loop and transport combinations, also known as Enhanced Extended Link (EELs). Staff recommends requiring BellSouth to serve NewSouth with notice of its intent to conduct the audit, thirty (30) days in advance of the audit.

Issue 2: Should this Docket be closed?

Recommendation: Yes. In the event BellSouth's Motion for Summary Disposition is granted, staff recommends closing the docket because no further action is needed by the Commission.

DECISION: Following a motion and a second to approve staff's recommendation, with additional direction that parties meet with staff to discuss the scope of the audit and acceptable organization to conduct the audit, a decision on the motion was deferred to the July 19, 2005 Conference.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

5**Docket No. 040527-TP - Complaint to enforce interconnection agreement with NuVox Communications, Inc. by BellSouth Telecommunications, Inc.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Edgar

Staff: GCL: Rojas, Susac

CMP: Wright

Issue 1: Should the Commission grant BellSouth Telecommunications, Inc.'s Motion For Summary Disposition?

Recommendation: Yes. Staff recommends granting BellSouth's Motion for Summary Disposition and allowing BellSouth, at its sole expense, and upon thirty (30) days notice to NuVox, to audit NuVox's records to verify the type of traffic being transmitted over loop and transport combinations, also known as Enhanced Extended Link (EELs).

Issue 2: Should this Docket be closed?

Recommendation: Yes. In the event BellSouth's Motion for Summary Disposition is granted, staff recommends closing the docket because no further action is needed by the Commission.

DECISION: Following a motion and a second to approve staff's recommendation, with additional direction that parties meet with staff to discuss the scope of the audit and acceptable organization to conduct the audit, a decision on the motion was deferred to the July 19, 2005 Conference.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

6**Docket No. 040732-TP - Complaint against BellSouth Telecommunications, Inc. seeking resolution of monetary dispute regarding alleged overbilling under interconnection agreement, and requesting stay to prohibit any discontinuance of service pending resolution of matter, by Saturn Telecommunications Services, Inc. d/b/a STS Telecom. (Deferred from May 31, 2005 conference.)

Critical Date(s): None

Commissioners Assigned: All Commissioners
Prehearing Officer: Edgar

Staff: GCL: Fordham
CMP: King

Issue 1: Should the Commission grant BellSouth's Motion to Strike STS's Response to BellSouth's Motion for Summary Final Order?

Recommendation: Yes. The Commission should grant BellSouth's Motion to Strike STS's Response to BellSouth's Motion for Summary Final Order. If the Commission approves staff's recommendation, staff believes this renders STS's Emergency Motion to File Supplemental Response moot.

Issue 2: Should the Commission grant BellSouth's Motion for Summary Final Order?

Recommendation: Yes. The Commission should grant BellSouth's Motion for Summary Final Order. If the Motion is granted, BellSouth should be allowed to disconnect STS for non-payment if STS fails to render the amount due within 30 days following issuance of the Commission's Order from this recommendation, unless some other payment plan is agreed upon by the parties. If the Commission grants BellSouth's Motion, staff recommends that STS's Motion for Summary Final Order on BellSouth's Counterclaim is rendered moot.

Issue 3: Should this docket be closed?

Recommendation: Yes. If the Commission approves staff's recommendations in Issues 1 and 2, this docket should be closed.

DECISION: The recommendation in Issue 1 was approved with the understanding STS would be allowed to address the Commission orally on Issue 2; the recommendations in Issues 2 and 3 were approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

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Docket No. 040732-TP - Complaint against BellSouth Telecommunications, Inc. seeking resolution of monetary dispute regarding alleged overbilling under interconnection agreement, and requesting stay to prohibit any discontinuance of service pending resolution of matter, by Saturn Telecommunications Services, Inc. d/b/a STS Telecom. (Deferred from May 31, 2005 conference.)

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ITEM NO.

CASE

7**Docket No. 010977-TL - State certification of rural telecommunications carriers pursuant to 47 C.F.R. 54.314.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Administrative

Staff: CMP: Brown, Bulecza-Banks, Casey

FLL: Fogleman

GCL: B. Keating

Issue 1: Should the Florida Public Service Commission (FPSC or Commission) certify to the FCC and to USAC that for the year 2006, ALLTEL Florida, Inc., Frontier Communications of the South, Inc., GTC, Inc., ITS Telecommunications Systems, Inc., Northeast Florida Telephone Company, Inc., d/b/a NEFCOM Communications, TDS Telecom, and Smart City Telecom will only use the federal high-cost support they receive for the provision, maintenance and upgrading of facilities and services for which the support is intended?

Recommendation: Yes.

Issue 2: Should the FPSC adopt the new high-cost annual certification and reporting requirements established in Order No. FCC 05-46 for all FPSC designated ETCs?

Recommendation: Yes. The FPSC should adopt the new high-cost annual certification and reporting requirements established in Order No. FCC 05-46 for all FPSC designated ETCs desiring high cost support.

Issue 3: Should this docket be closed?

Recommendation: No. This docket should remain open in order to address future certification of rural telephone companies.

DECISION: The item was deferred.

ITEM NO.

CASE

8**PAADocket No. 050059-TL - Petition to reform unbundled network element (UNE) cost of capital and depreciation inputs to comply with Federal Communications Commission's guidance in Triennial Review Order, by Verizon Florida Inc.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Deason

Staff: CMP: Mailhot, Salak, P. Lee

ECR: Maurey

GCL: Susac

Issue 1: Should the cost of capital inputs used to calculate Verizon's UNE rates be changed?

Recommendation: No. Verizon's cost of capital inputs should not be changed.

Issue 2: Should the depreciation inputs used to calculate Verizon's UNE rates be changed?

Recommendation: No. Verizon's depreciation inputs should not be changed.

Issue 3: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon issuance of a consummating order.

DECISION: The recommendations were denied. On the Commission's own motion, this docket will be set for hearing, with specific issues to be determined by the prehearing officer and parties.

Commissioners participating: Baez, Deason, Bradley, Edgar

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9**PAADocket No. 050326-TI - Request for waiver of carrier selection requirements of Rule 25-4.118, F.A.C., due to acquisition by IBFA Acquisition Company, LLC (IXC Registration No. TJ993) of subscriber base of American Farm Bureau, Inc. d/b/a The Bureau Connection (IXC Registration No. TJ383).

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Administrative

Staff: CMP: M. Watts

GCL: Scott

Issue 1: Should the Commission approve the waiver of the carrier selection requirements of Rule 25-4.118, Florida Administrative Code, in the transfer of customers from American Farm Bureau, Inc. to IBFA Acquisition Company, LLC?

Recommendation: Yes.

Issue 2: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

DECISION: The recommendations were approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

10**Docket No. 050078-EI - Petition for rate increase by Progress Energy Florida, Inc.

Critical Date(s): 6/29/05 (60-day suspension date)

Commissioners Assigned: All Commissioners

Prehearing Officer: Baez

Staff: ECR: Greene, Slemkewicz

GCL: Brubaker, Banks, Rodan, Stern

Issue 1: Should the Commission suspend the new rate schedules accompanying PEF's proposed base rate increase?

Recommendation: Yes. The new rate schedules should be suspended pending the Commission's final decision in this docket.

Issue 2: Should this docket be closed?

Recommendation: No. The docket should remain open to process the revenue increase request of the company.

DECISION: The recommendations were approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

11 Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Baez

Staff: ECR: Fletcher, Ballinger, Breman, Colson, Greene, Kaproth, Kummer, McNulty, Maurey, Rendell, Revell, Romig, Slemkewicz, Wheeler, Willis

GCL: Brubaker, Rodan

(Participation is limited to Commissioners and staff.)

Issue 1: WITHDRAWN.

Issue 2: Has PEF quantified the appropriate amount of non-management employee labor payroll expense that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. PEF's non-management employee labor expense, except for customer service employees which is discussed in Issue 8, should be adjusted to reflect only the incremental costs above its budgeted levels for the calendar year 2004. To prevent PEF from collecting twice for its employees' regular pay, the Commission should disallow \$5,140,639 of the amount PEF charged to the storm reserve.

Issue 3: Has PEF properly treated payroll expense associated with managerial employees when determining the costs that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. PEF's managerial employees' labor expense, except for customer service employees which is discussed in Issue 8, should be adjusted to reflect only the incremental costs above its budgeted levels for the calendar year 2004. To prevent PEF from collecting twice for its managerial employees' regular pay, the Commission should disallow \$6,197,565 of the amount PEF charged to the storm reserve.

Issue 4: At what point in time should PEF stop charging costs related to the 2004 storm season to the storm damage reserve?

Recommendation: PEF should stop charging costs related to the 2004 storm season, including "sweeps" work, no later than July 1, 2005.

Issue 5: Has PEF charged to the storm reserve appropriate amounts relating to employee training for storm restoration work? If not, what adjustments should be made?

Recommendation: Yes. PEF has not charged any pre-season hurricane storm restoration employee training costs to the storm reserve, and no adjustments are necessary.

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Issue 6: Has PEF properly quantified the costs of tree trimming that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. PEF should be allowed to charge only the incremental cost of tree trimming above its normal, budgeted levels for calendar year 2004. The Commission should disallow \$1.4 million of the amount PEF charged to the storm reserve.

Issue 7: Has PEF properly quantified the costs of company-owned fleet vehicles that should be charged to the storm reserve? If not, what adjustments should be made?

Recommendation: No. PEF should be allowed to charge only the incremental fuel costs associated with extra shifts. As a result, the Commission should disallow \$3,043,014 of the amount PEF charged to the storm reserve.

Issue 8: Has PEF properly determined the costs of call center activities that should be charged to the storm damage reserve? If not, what adjustments should be made?

Recommendation: No. The Commission should disallow \$625,852 of the amount PEF charged to the storm reserve which represents the regular pay for call center activities. Further, in the future, PEF should adjust call center activity expenses charged to the storm reserve by the incremental difference of call load experience during and immediately after hurricanes with the actual prior 3-year average call load during the same time period involved.

Issue 9: Has PEF appropriately charged to the storm reserve any amounts related to advertising expense or public relations expense for the storms? If not, what adjustments should be made?

Recommendation: No. The Commission should disallow \$1,496,270 of the amount PEF charged to the storm reserve. The amount represents the advertising expense and public relations expense that is estimated to be included in base rate O&M expense. Further, in the future, PEF should exclude budgeted advertising and public relations expense from its storm damage reserve.

Issue 10: Has uncollectible expense been appropriately charged to the storm damage reserve? If not, what adjustments should be made?

Recommendation: Yes. Uncollectible expense has been appropriately charged to the storm damage reserve. No adjustments should be made.

Issue 11: Should PEF be required to offset its storm damage recovery claim by revenues it has received from other utilities for providing assistance in their storm restoration activities? If so, what amount should be offset?

Recommendation: No. The assistance provided by PEF employees to other utilities has no direct relationship with storm damage expenses that the Company incurred as a result

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of the 2004 hurricanes. No adjustment should be made to the storm reserve for any revenues received for assisting other utilities in their restoration efforts.

Issue 12: Has PEF appropriately removed from the costs it seeks in its petition all costs that should be booked to the reserve for cost of removal expense as the cost of removing plant damaged during the storm? If not, what adjustments should be made?

Recommendation: No. PEF has removed an estimated \$47 million from the storm reserve and applied this amount to its plant-in-service accounts. Staff recommends that an additional \$8.4 million should be removed from the storm damage reserve based upon the ratio of cost of removal to cost of retirements. This amount should be booked to PEF's cost of removal reserve.

Issue 13: STIPULATION - CATEGORY ONE STIPULATION, NUMBER 2.

Issue 14: Taking into account any adjustments identified in the preceding issues, what is the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up?

Recommendation: Based on staff's preceding and subsequent recommendations, the appropriate amount of reasonable and prudently incurred storm-related costs to be charged against the storm damage reserve subject to true-up is \$271,479,765 (\$285,111,150 system).

Issue 15: Does the stipulation of the parties that the Commission approved in Order No. PSC-02-0655-AS-EI affect the amount or timing of storm-related costs that PEF can collect from customers? If so, what is the impact?

Recommendation: No. As a result of the extraordinary 2004 hurricane season, PEF incurred incremental costs which were not budgeted for and accounted for in base rates. Staff believes that the incremental costs associated with the 2004 hurricanes should not be considered as a base rate item as such term is used in the Settlement. As such, recovery of these costs is neither expressly permitted nor expressly prohibited by the Settlement; these types of costs simply are not contemplated by the Settlement at all. Therefore, the Settlement, as approved in Order No. PSC-02-0655-AS-EI, should not affect the amount or timing of recovery of incremental, prudently incurred storm-related costs. Even if the Settlement were to be read as addressing these costs, staff believes that, in light of the extraordinary circumstances of the 2004 hurricane season and the extent of storm damages incurred by PEF, the Commission should exercise its authority in the public interest to permit recovery of these costs as set forth in staff's recommendations on the other issues.

Issue 16: In the event that the Commission determines the stipulation approved in Order No. PSC-02-0655-AS-EI does not affect the amount of costs that PEF can recover from

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ratepayers, should the responsibility for those costs be apportioned between PEF and retail ratepayers? If so, how should the costs be apportioned?

Recommendation: No. Staff recommends that PEF be allowed to recover all reasonable and prudently incurred storm damage costs identified and approved by the Commission.

Issue 17: What is the appropriate amount of storm-related costs to be recovered from the customers?

Recommendation: Based on staff's preceding and subsequent recommendations and the most recent commercial paper rate, the appropriate amount of storm-related costs to be recovered from the customers is \$231,839,389.

Issue 18: If recovery is allowed, what is the appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery?

Recommendation: The appropriate accounting treatment for the unamortized balance of the storm-related costs subject to future recovery is to record the costs as a regulatory asset in a subaccount of Account 182.1, Extraordinary Property Losses.

Issue 19: What is the appropriate methodology to calculate the interest charged on the amount of storm-related costs permitted to be recovered from customers?

Recommendation: Staff recommends that PEF be allowed to charge interest at the applicable 30-day commercial paper rate on the unamortized balance of storm damage restoration costs permitted to be recovered from ratepayers. In addition, staff recommends that an adjustment be made in the calculation of interest to recognize the storm-related deferred taxes not included in the Company's upcoming rate case. This adjustment reduces the interest carrying charge on the unamortized balance of storm-related costs by approximately \$2 million.

Issue 20: What mechanism should be used to collect the amount of the storm-related costs authorized for recovery?

Recommendation: A temporary surcharge is the appropriate mechanism for recovery of approved costs. PEF should immediately file tariffs containing initial surcharge factors by rate class to be effective for cycle 1 meter readings for August 2005 and ending with the last cycle for December 2005. In conjunction with the adjustment clause filings for calendar year 2006, PEF should file revised factors to be in effect for the period January through December of 2006. In conjunction with the adjustment clause filings for calendar year 2007, PEF should file revised factors that will be in effect for the period January through July of 2007. The surcharge factors should be derived using updated kilowatt hour sales forecasts consistent with the three recovery periods, and should reflect the storm-related costs, including any interest, approved by the Commission for recovery. The two filings following the initial filing should incorporate a true-up of

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estimates of costs and sales to actual costs and sales. Any over- or under-recovery remaining at the end of the period should be refunded or recovered through the fuel adjustment clause. As is true in any case, the Commission maintains its authority to consider all matters relevant and germane to setting rates on a going-forward basis. If deemed appropriate, staff recommends that this could include a modification to the method for recovery of all or a portion of the storm restoration costs which may be approved in this docket, in a subsequent rate, securitization, or other appropriate proceeding.

Issue 21: STIPULATION - CATEGORY TWO STIPULATION, NUMBER 1.

Issue 22: What is the proper rate design to be used for PEF to recover storm-related costs?

Recommendation: Storm-related costs should be recovered from all rate classes on a per-kilowatt-hour basis. If the Commission decides that a per-kilowatt rate design is appropriate for those rate schedules that include a demand charge, then PEF should be required to submit demand charges that are differentiated based on metering voltage.

Issue 23: STIPULATION - CATEGORY ONE STIPULATION, NUMBER 4.

Issue 24: STIPULATION - CATEGORY ONE STIPULATION, NUMBER 5.

Issue 25: STIPULATION - CATEGORY ONE STIPULATION, NUMBER 6.

Issue 26: What are the effects, if any, of the study that PEF (then Florida Power) submitted to the Commission in Docket No. 930867-EI on February 28, 1994 and Order No. PSC-94-0852-FOF-EI, issued in Docket Nos. 940621-EI and 930867-EI on July 13, 1994 on the manner in which PEF may account for storm-related costs in this proceeding?

Recommendation: The methodology proposed in PEF's Study does not represent the standard by which the Commission must determine which costs are appropriately charged to PEF's storm damage reserve. In Order No. PSC-94-0852-FOF-EI, the Commission did not expressly approve the methodology proposed in PEF's Study, and made no finding that the methodology was "reasonable" or "appropriate" or otherwise should be used as the continuing standard for charging costs to the storm damage reserve. Staff recommends that the Commission determine which costs are appropriately charged to PEF's storm damage reserve consistent with staff's recommendations in the other issues.

Issue 27: Should the docket be closed?

Recommendation: No. This docket should remain open to address the true-up of the actual storm restoration costs. The docket should be closed administratively once staff has verified that the true-up is complete.

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Docket No. 041272-EI - Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

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DECISION: The recommendations were approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

12**PAADocket No. 041375-EI - Request to exclude April 11-12, 2004 and June 13, 24, and 26, 2004 outage events from annual distribution service reliability report by Tampa Electric Company.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Bradley

Staff: ECR: Breman, Lee

GCL: C. Keating

Issue 1: Should the Commission approve TECO's petition to exclude from its 2004 Annual Distribution Service Reliability Report 174 outage events that occurred due to a weather event on April 11-12, 2004?

Recommendation: No. TECO has not demonstrated that the outages on April 11-12, 2004, were not within its control and that it could not reasonably have prevented the outages because: (1) sustained wind speeds in TECO's service area did not exceed industry construction standards; (2) TECO maintains control over its tree-to-power line clearance practices and can adjust those practices if it believes wind related outages are excessive; (3) TECO maintains control over its lightning protection practices and can adjust those practices if it believes lightning related outages are excessive; and (4) TECO has not demonstrated that the high wind speeds that occurred in FPL's and PEFI's respective service areas also occurred in TECO's service area on April 11-12, 2004. However, if the Commission approves the petition, TECO should show the effects of including and excluding the wind and lightning caused outage events in a revised 2004 Annual Distribution Service Reliability Report for comparability purposes.

Issue 2: Should this docket be closed?

Recommendation: Yes. This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action.

DECISION: The recommendation for Issue 1 was denied; TECO's petition was approved. The recommendation for Issue 2 was approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

13**PAADocket No. 000694-WU - Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County.

Critical Date(s): None

Commissioners Assigned: All Commissioners

Prehearing Officer: Edgar

Staff: ECR: Kyle, Edwards, Lingo, Maurey, Slemkewicz, Willis

GCL: Vining

(All issues proposed agency action except Issue 7.)

Issue 1: What is the appropriate final revenue requirement for this limited proceeding?

Recommendation: The appropriate final revenue requirement for this limited proceeding is \$1,368,807.

Issue 2: What true-up mechanism, if any, should be approved to adjust for differences between revenues collected and recoverable expenses incurred from the inception of this limited proceeding through the test year?

Recommendation: WMSI's final rates should be decreased by 7.6 percent during the first twelve months that final rates approved in this proceeding are in effect in order to return to ratepayers revenues collected during Phase 1 and Phase 2 of this proceeding in excess of the actual incremental costs incurred by the utility.

Issue 3: What are the appropriate test year billing determinants before repression?

Recommendation: The appropriate test year billing determinants before repression are 24,465 equivalent residential connections (ERCs) and 178,637,000 gallons.

Issue 4: What is the appropriate rate structure for this utility?

Recommendation: The appropriate rate structure for this utility is a three-tier inclining-block rate structure. The appropriate usage blocks should be set for monthly usage of: 1) 0 - 8 kgals; 2) 8.001 - 15 kgals; and 3) for usage in excess of 15 kgals. The appropriate rate factors are 1.0, 1.25 and 1.5, while the appropriate base facility charge cost recovery percentage should be set at 40%.

Issue 5: Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this utility?

Recommendation: Yes, a repression adjustment is appropriate. Residential consumption should be reduced by 2.6%, resulting in a consumption reduction of approximately 3,913.6 kgals. The resulting total water consumption for ratesetting is 174,723.1 kgals, which represents a 2.2% reduction in overall consumption. In order to monitor the effects of both the changes in revenue and rate structure, the utility should continue filing the monthly reports that were ordered in Order No. PSC-00-2227-PAA-WS. These reports should be continued for a period of two years, beginning the first billing period after the approved rates go into effect.

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CASE

13**PAA

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

(Continued from previous page)

Issue 6: What are the appropriate rates for this utility?

Recommendation: The appropriate water monthly rates are shown on Schedule No. 1 of staff's June 9, 2005 memorandum. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$1,368,807. 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 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice.

Issue 7: What is the appropriate amount by which water rates should be reduced four years after the established effective date to reflect the removal of amortized rate case expense, as required by Section 367.0816, Florida Statutes?

Recommendation: The water rates should be reduced as shown on Schedule 1 of staff's memorandum to remove \$17,986 in rate case expense amortization, grossed up for regulatory assessment fees. 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, Florida Statutes. 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 8: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

DECISION: The item was deferred.

ITEM NO.

CASE

14**Docket No. 050028-WU - Application for amendment of Certificate No. 539-W to extend territory in Lake County by Raintree Utilities, Inc., and for modification of service availability policy.

Critical Date(s): 7/12/05 (60-day suspension date for tariff)

Commissioners Assigned: All Commissioners

Prehearing Officer: Deason

Staff: ECR: Redemann

GCL: Jaeger

Issue 1: Should the Commission approve Raintree Utilities, Inc.'s application to amend Certificate No. 539-W?

Recommendation: Yes. The Commission should approve Raintree Utilities, Inc.'s amendment application to add the Bentwood subdivision. The proposed territory is described in Attachment A of staff's June 9, 2005 memorandum. The utility should file an executed and recorded copy of the warranty deed for the land for the water facilities within 30 days of the issuance date of the Order granting the amendment. The utility should charge the customers in the territory added herein the monthly service rates contained in its current tariff until authorized to change by the Commission. The appropriate service availability policy and charges are discussed in Issue 2.

PAA

Issue 2: Should the tariff filing to modify the service availability policy by Raintree Utilities, Inc. be approved?

Recommendation: Yes. Staff recommends the utility's proposed \$800 plant capacity charge, meter installation charge of \$125, and revised service availability policy requiring donated on-site and off-site lines should be approved. The tariffs should become effective for connections made on or after the stamped approval date of the tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code. In the event a timely protest is filed by a substantially affected person, the tariff should remain in effect and any increased charges collected should be held subject to refund pending resolution of the protest.

Issue 3: Should this docket be closed?

Recommendation: Yes. This docket should be closed after issuance of a consummating order, if no timely protests are filed by a substantially affected person to the utility's revised service availability tariff. If a protest is filed, the docket should remain open pending resolution of the protest.

DECISION: The recommendations were approved.

Commissioners participating: Baez, Deason, Bradley, Edgar

ITEM NO.

CASE

15Docket No. 041393-EI - Petition for approval of two unit power sales agreements with Southern Company Services, Inc. for purposes of cost recovery through capacity and fuel cost recovery clauses, by Progress Energy Florida, Inc.

Critical Date(s): None

Commissioners Assigned: Baez, Deason, Bradley
Prehearing Officer: Bradley

Staff: ECR: Harlow, McRoy
GCL: Vining, Halloran

(Participation is limited to Commissioners and staff.)

Issue 1: Did PEF adequately consider alternatives to the proposed UPS agreements?

Recommendation: Yes. PEF did not issue a Request for Proposals (RFP). However, this is not required by Rule 25-22.082, Florida Administrative Code, and PEF adequately tested the market for alternatives through other means. PEF reviewed coal options, but determined that its 2010 need cannot be met by new or existing coal generation. PEF tested the pricing of the gas-fired Franklin capacity by comparing the pricing to gas-fired bids in PEF's recent RFPs. The pricing appears to be comparable.

Issue 2: Is PEF's cost-effectiveness analysis reasonable and supported by the evidence?

Recommendation: Yes. PEF used an accepted planning methodology to develop the expansion plans compared in its analysis, and its base-case mirrors its approved 2004 Ten-Year Site Plan. PEF's flawed initial analysis casts doubt on the specific short-term savings. However, significant savings will occur during the contract term because the contracts should defer combined cycle capacity. Given the more certain up-front benefits and additional non-price benefits, the agreements are worth the risk that an expansion plan that includes the agreements may have a negative \$5 to \$11 million net present value through 2055.

Issue 2A: Are the claimed savings associated with the agreements supported by the evidence?

Recommendation: Yes. PEF's error in its initial five-year NPV analysis casts doubt on the specific dollar savings from 2010 through 2015. However, it is reasonable to assume that the contracts will defer natural gas-fired combined cycle capacity, resulting in significant savings.

Issue 2B: Has PEF adequately identified and justified costs that will be borne by ratepayers?

Recommendation: Yes. PEF adequately identified and justified the potential costs of the agreements, including capacity, energy, O&M, and fuel transportation costs. It was reasonable for PEF to use Southern's tariff transmission rates in its analysis. As

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Docket No. 041393-EI - Petition for approval of two unit power sales agreements with Southern Company Services, Inc. for purposes of cost recovery through capacity and fuel cost recovery clauses, by Progress Energy Florida, Inc.

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discussed in Issue 5, recovery of any transmission costs in excess of Southern's tariff rates, which were not provided in the record, should not be approved at this time.

Issue 3: Are PEF's claimed "non-price" benefits of the UPS agreements supported by the evidence and reasonable?

Recommendation: Yes. The agreements provide several non-price benefits, including: 1) fuel diversity; 2) transmission access; 3) potential savings from economy energy purchases and sales; 4) increased reliability; and, 5) planning flexibility.

Issue 4: Who should bear the risk if PEF's claimed cost and "non-price" benefits are not realized, PEF's customers or its stockholders?

Recommendation: If the Commission approves Issue 7, recovery of capacity and energy costs associated with the agreements should be permitted subject to a finding of reasonableness and prudence of the actual expenses when recovery is requested. Transmission costs in excess of tariff rates and any extension of the Franklin agreement should be subject to further review.

Issue 5: Is there sufficient reliable transmission available to support the proposed agreements on the Southern system?

Recommendation: It is reasonable to assume that sufficient transmission will be available to accommodate the agreements. The agreements contain provisions which may mitigate any transmission costs in excess of Southern's tariff rates; however, total transmission costs will not be known until Southern completes its System Impact Study (SIS) and PEF reacts. Transmission costs above Southern's tariff rates should not be approved at this time because PEF did not provide evidence of these costs in the record. PEF should be required to file: 1) the results of the SIS study; 2) an estimate of costs in excess of Southern's tariff rate; and, 3) PEF's intended response, with the Commission.

Issue 6: Has PEF demonstrated that the UPS agreements would postpone the need for other generation?

Recommendation: Yes. PEF provided evidence that the capacity is needed to maintain PEF's 20 percent reserve margin. It is reasonable to assume that the contracts will defer natural gas-fired combined cycle capacity, similar to the Franklin capacity.

Issue 7: Should the Commission approve the UPS agreements for cost recovery purposes?

Recommendation: Yes. PEF has adequately demonstrated that entering into the proposed agreements is a reasonable and prudent action at this time, with significant economic and non-price benefits over the life of the agreements. Given the more certain up-front benefits, the agreements are worth the risk that an expansion plan that includes the agreements may have a negative \$5 to \$11 million NPV through 2055. Delaying

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Docket No. 041393-EI - Petition for approval of two unit power sales agreements with Southern Company Services, Inc. for purposes of cost recovery through capacity and fuel cost recovery clauses, by Progress Energy Florida, Inc.

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approval may place the agreements, in particular the transmission access and coal capacity, at risk. PEF should be required to file: 1) the results of the SIS; 2) an estimate of costs in excess of Southern's tariff rate; and, 3) PEF's intended response.

Issue 8: Should this docket be closed?

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

DECISION: The recommendations were approved.

Commissioners participating: Baez, Deason, Bradley