

VOTE SHEET

DATE: July 16, 1996

RE: DOCKET NO. 950387-SU - Application for a rate increase for North Ft. Myers Division in Lee County by Florida Cities Water Company - Lee County Division.

Issue 1: Did FCWC misrepresent with less than truthful statements in three public documents?

Recommendation: There appears to have been no intentional misrepresentation.

DEFERRED

Issue 2: Should the Commission seriously consider customers' testimony on service when rendering its decision on quality of service?

Recommendation: Yes.

COMMISSIONERS ASSIGNED: JN KS GR

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

REMARKS/DISSENTING COMMENTS:

PSC/RAR33 (5/90)

*To the August 13
Commission Conference*

DOCUMENT NUMBER-DATE

07553 JUL 18 96

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Issue 3: Is the quality of service satisfactory?

Recommendation: Yes. The quality of service meets DEP standards, although considerable customer dissatisfaction exists.

Issue 4: What capacity of the wastewater plant and what flows should be used to calculate used and useful?

Recommendation: The capacity of the wastewater plant is 1.5 mgd, limited by disposal to 1.3 mgd. The flows that should be recognized for used and useful calculations are 0.942 mgd, average annual daily flow, plus a margin reserve of 0.0458 mgd, or total daily flow of 0.9878 mgd.

Alternate Recommendation: The capacity of the wastewater plant is 1.25 mgd, which matches the total disposal of 1.25 mgd (1.0 mgd to the river, 0.25 to the golf course). The flows that should be recognized for used and useful calculations are 0.942 mgd, average annual daily flow, plus a margin reserve of 0.0458 mgd, or total daily flow of 0.9878 mgd.

Issue 5: Does the wastewater collection system have excessive infiltration and inflow that should be removed when calculating used and useful?

Recommendation: No.

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Issue 6: What is the appropriate amount of used and useful plant?

Recommendation: The wastewater treatment plant is 65.9% used and useful, the effluent disposal system is 76.0% used and useful, and the collection system 100% is used and useful.

Alternate Recommendation: The wastewater plant is 79% used and useful, the effluent disposal system is 79% used and useful, and the collection system is 100% used and useful.

Issue 7: Should a margin reserve be allowed?

Recommendation: Yes in the amount of 0.0458 mgd, representing a three-year period.

Issue 8: Should the Commission approve a year-end rate base value in this proceeding?

Recommendation: Yes. The Commission should approve a year-end rate base determination.

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Issue 9: If the Commission does allow a margin reserve, should it impute CIAC associated with the margin reserve?

Recommendation: Yes. CIAC should be imputed to exactly offset the corresponding allowance for margin reserve. The recommended provision for imputed CIAC is \$219,105 and the consequent reduction to depreciation expense is \$14,113.

Issue 10: Should working capital be adjusted?

Recommendation: Yes. A \$35,712 reduction is recommended to reflect the average test year balance. Also, as stipulated, a \$10,217 reduction is recommended for deferred pension costs and metered sales. The recommended working capital amount is \$78,845.

Issue 11: What rate base amount should be approved?

Recommendation: The appropriate rate base balance is \$5,525,915.

Cost of Capital

Issue 12: What is the appropriate rate of return on equity?

Recommendation: Using the current leverage formula, the rate of return on equity is 11.88%, with a range of 10.88% to 12.88%.

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Issue 13: Should any adjustments be made to the equity component of the Company's capital structure?

Recommendation: Yes, a \$2,000,000 addition to equity capital is appropriate to recognize an additional equity investment made by FCWC's parent company in December of 1995.

Issue 14: Should any adjustments be made to the debt component of the Company's capital structure?

Recommendation: The debt component of FCWC's capital structure should be adjusted to reflect the December 1995 issuance of \$18 million in senior notes at 7.27%. Further, debt capital should be adjusted to reflect repayment of a \$2 million intercompany loan. These adjustments reduce the embedded cost of debt to 8.3% and reduce the debt ratio to 45.78%.

Issue 15: Should any adjustments be made to the cost of investment tax credits?

Recommendation: Yes, the customer deposit component should be removed from the calculation. The recommended cost of deferred ITCs is 9.62%.

Issue 16: What is the appropriate overall cost of capital?

Recommendation: The appropriate overall cost of capital is 8.72%, with a range of 8.42% to 9.02%.

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Issue 17: Should chemical and purchased power expense adjustments be made to recognize inflow and infiltration?
Recommendation: No.

Net Operating Income

Issue 18: Are the proposed adjustments to water and wastewater expenses to reflect customer growth and the PSC index appropriate?
Recommendation: Yes. Since the utility filed a projected test year, FCWC acted reasonably in utilizing the growth and index factors to project its operation and maintenance expenses.

Issue 19: Is the Company's adjustment to increase expense for postage and envelope billing costs appropriate?
Recommendation: Yes. The requested \$2,800 increase should be approved.

Issue 20: Should any adjustment be made to affiliate expenses charged to the Company?
Recommendation: No. Absent any evidence in the record that a specific charge is unreasonable, it would be inappropriate to make an arbitrary reduction to expenses.

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Issue 21: What is the appropriate provision for rate case expense?

Recommendation: The appropriate provision for rate case expense is \$90,863. Amortized over four years, the resulting test year charge is \$22,716.

Issue 22: What personal property tax expense is appropriate?

Recommendation: A \$79,118 provision for property taxes is recommended. This amount is based upon the projected \$104,349 annual expense reduced by a \$25,231 used and useful adjustment.

Issue 23: What regulatory assessment fee expense is appropriate?

Recommendation: A \$90,385 provision for regulatory assessment fees is recommended. This amount is derived using a mechanical formula whereby operating revenues are multiplied by 4.5%.

Issue 24: What income tax expense is appropriate?

Recommendation: A \$106,035 provision for income taxes is appropriate. This amount is derived using a mechanical formula whereby operating income, after appropriate reductions, is multiplied by state and federal income tax rates of 5.5% and 34%, respectively.

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Issue 25: What is the test year operating income before any revenue increase?

Recommendation: The test year operating income is \$546,173.

Revenue Requirement

Issue 26: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	<u>Total</u>	<u>\$ Decrease</u>	<u>% Decrease</u>
Wastewater	\$2,003,347	(\$108,368)	(5.13%)

Issue 27: What reuse rate should be approved?

Recommendation: A reuse rate of 21¢/1,000 gallons should be approved.

Issue 28: Was Lochmoor Golf Course a prudent choice for the reuse site?

Recommendation: Yes.

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Issue 29: What are the appropriate wastewater rates for Florida Cities Water Company - North Fort Myers Wastewater Division?

Primary Recommendation: Consistent with staff's primary recommendation in Issue 26 and staff's recommendation in Issue 27, the recommended rates should be designed to allow the utility the opportunity to generate annual operating revenues in the amount of \$1,959,347, which excludes miscellaneous revenues, guaranteed revenues, and reuse revenues. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Section 25-30.475(1), F.A.C., provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice.

Alternative Recommendation: Consistent with staff's alternative recommendation in Issue 26 and staff's recommendation in Issue 27, the recommended rates should be designed to allow the utility the opportunity to generate annual operating revenues in the amount of \$2,134,007, which excludes miscellaneous revenues, guaranteed revenues, and reuse revenues. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Section 25-30.475(1), F.A.C., provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice.

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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 wastewater rates should be reduced, as shown on Schedule No. 5 of staff's memorandum dated July 2, 1996, to remove \$23,786 of rate case expense grossed up for regulatory assessment fees which are being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction.

Issue 31: Should the utility be required to refund a portion of the revenues implemented pursuant to Order No. PSC-95-1360-FOF-SU, issued November 2, 1995?

Primary Recommendation: Yes. The utility should be required to refund 17.29% of the revenues collected through the implementation of rates established pursuant to Order No. PSC-95-1360-FOF-SU, issued November 2, 1995. These refunds should be made with interest, as required by Rule 25-30.360(4), F.A.C. The utility should be required to submit the proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The utility should treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), F.A.C.

Alternative Recommendation: Yes. The utility should be required to refund 14.22% of the revenues collected through the implementation of rates established pursuant to Order No. PSC-95-1360-FOF-SU, issued November 2, 1995. These refunds should be made with interest, as required by Rule 25-30.360(4), F.A.C. The utility should be required to submit the proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The utility should treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), F.A.C.

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Issue 32: Does the Order Establishing Procedure facilitate the participation of lay customers in the hearing process?

Recommendation: Yes.

Issue 33: Does the Commission waive, to the extent legally possible, its charges for documents provided to intervening customers?

Recommendation: While Commission staff attempts to work with the customers, the Commission has no authority to waive a statute, and, for public document requests, must comply with Section 119.07, F.S.

Issue 34: Should the rate decrease required by Order No. PSC-92-0594-FOF-SU to reflect rate case expense amortization from Docket No. 910756-SU be implemented as scheduled on June 30, 1996?

Recommendation: This issue was stipulated, as discussed in the staff recommendation dated July 2, 1996.

Issue 35: Should the docket be closed?

Recommendation: Yes. This docket should be closed after the time for filing an appeal has run, upon staff's verification that the utility has completed the required refunds with interest and the proper revised tariff sheets and customer notice have been filed by the utility and approved by staff. Further, the utility's corporate undertaking can be released upon staff's verification that the refund has been completed.