FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

DATE: October 9, 1996

RE: DOCKET NO. 951056-WS - Application for rate increase in Flagler County by Palm Coast Utility Corporation. (Deferred from the October 8, 1996 Commission Conference due to Tropical Storm Josephine.)

Issue A: Should the proposed stipulations be approved?
Recommendation: Yes. The proposed stipulations listed in the analysis portion of staff's September 26, 1996 memorandum should be approved.

APPROVED

Issue 1: Is the quality of service satisfactory?
Recommendation: Yes. The Commission should find that the quality of service provided by Palm Coast Utility Corporation (PCUC) is satisfactory.

APPROVED

COMMISSIONERS ASSIGNED: DS JN KS

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

REMARKS/DISSENTING COMMENTS: Commissioner Kiesling dissented on Issue 19. Commissioner Deason dissented on Issues 23, 39.

PSC/RAR33(5/90)

Issue 2: Should a year-end or 13-month average rate base and capital structure be recognized for ratemaking purposes?
Recommendation: A 13-month average should be used for both rate base and cost of capital. Also, adjustments should be made to remove the utility's year-end adjustments to annualize revenues, chemicals and purchased power expenses, and CIAC gross-up amortization.

APPROVED

Issue 3: Were the appraisals for the 1986 purchase of the sprayfield site and the 1991 purchase of the rapid infiltration basin (RIB) site prepared by an independent, qualified appraiser?
Recommendation: Yes.

APPROVED

Issue 4: When was the sprayfield site first dedicated to utility service, and by whom?
Recommendation: In 1979, by PCUC.

APPROVED

Issue 5: When was the RIB site first dedicated to utility service, and by whom?
Recommendation: In 1991, by PCUC.

APPROVED

Issue 6: How should the sprayfield and RIB sites be valued?
Recommendation: The sites should be valued based upon their fair market value as of the date they were first dedicated to public service. However, PCUC's appraisal falls far short of establishing fair market value and, under the circumstances, is not credible. The fair market value for the RIB should be based upon the May 1988 sale from Pellicer to Wright for $2,993 per acre, a 43.15% reduction from the appraised value. Since no other comparable sales were available for the sprayfield, the same percentage adjustment which is recommended for the RIB land (43.15%) should be applied to the sprayfield land, resulting in a fair market value of $1,888 per acre.

APPROVED

Issue 7: Should an adjustment be made to the cost of the rapid infiltration basin land and buffer sites purchased by the Company from its affiliate?
Recommendation: Yes. Land should be reduced by $318,322.

APPROVED

Issue 8: Should an adjustment be made to the cost of the spray field land site purchased by the Company from its affiliates?
Recommendation: Yes. Wastewater land should be reduced by $207,233.

APPROVED

Issue 9: Should plant in service be reduced for the misclassification of major rehabilitation projects? (Audit Exception No. 3)
Recommendation: No. Plant in service should not be reduced for the misclassification of major rehabilitation projects.

APPROVED

Issue 10: Dropped.

APPROVED

Issue 11: Should a margin reserve be included in the calculations of used and useful?
Recommendation: Yes. Consistent with Commission policy, a margin reserve should be included in the used and useful calculation.

APPROVED

Issue 12: If margin reserve is included in the calculation of used and useful, what is the appropriate margin reserve period?
Primary Recommendation: A 12-month margin reserve is appropriate for water transmission and distribution lines and wastewater collection lines and pumping systems. An 18-month margin reserve period is appropriate for the following plant: water treatment plant, water source of supply, and high service pumping. A three-year margin reserve is appropriate for the wastewater treatment plant and effluent disposal facilities.

DENIED

Alternate Recommendation: Instead of a three-year margin reserve for wastewater treatment plant and effluent disposal facilities, the alternate recommendation is to only allow eighteen months margin reserve consistent with past Commission decisions. The margin reserve periods for other facilities remain the same as the primary recommendation.

APPROVED

Issue 13: If a margin reserve is approved, should CIAC be imputed on the ERCs included in the margin reserve?
Recommendation: Yes. Consistent with Commission practice, CIAC should be imputed as a matching provision to the margin reserve calculation. However, it is appropriate to make the adjustment for 50% of the imputed amount as an averaging method to recognize that the imputed amount will be collected over the life of the margin reserve period, not all at the beginning of the period. Accordingly, CIAC should be increased by $344,432 and $849,939 for water and wastewater, respectively. Accumulated amortization of CIAC should be increased by $5,489 for water and $13,047 for wastewater. Additionally, test year amortization expense should be reduced by $10,977 and $26,093 for water and wastewater, respectively.

APPROVED

Issue 14: What is an acceptable level of unaccounted-for water?
Recommendation: A reasonable level of unaccounted-for water is 12.5%

APPROVED

Issue 15: Does PCUC have excessive unaccounted-for water and, if so, what adjustments are appropriate?
Recommendation: No. No adjustments are appropriate.

APPROVED

Issue 16: Is there excess flushing at PCUC's water system and, if so, what adjustments are appropriate?
Recommendation: No. No adjustments are appropriate since the water used for flushing at PCUC is needed to maintain a satisfactory water quality for its current customers. PCUC should attempt to negotiate an agreement with the City of Marineland for the purchase of water from PCUC.

APPROVED

Issue 17: What is an acceptable level of infiltration and inflow?
Recommendation: For existing systems, an acceptable level for infiltration and inflow is up to 40 gallons per day per capita (gpdc).

APPROVED

Issue 18: Does PCUC have excessive infiltration and/or inflow and, if so, what adjustments are necessary?
Recommendation: PCUC does not have excessive infiltration and/or inflow. The wastewater system, however, does have infiltration and inflow associated with a collection system which has a low customer density. No adjustments should be made to the customer demand applied in the utility's used and useful calculation or the wastewater expenses.

APPROVED

Issue 19: Should 20% of facility costs be automatically considered 100% used and useful because of economies of scale considerations?
Recommendation: The Commission should include an economies of scale factor for PCUC's water and wastewater treatment plants and effluent disposal system. For the water system, the economies of scale should be recognized by allowing the utility to recover 100% of its investment for the membrane softening plant (wtp #2) structures and improvements (account 354.3) as well as, the following equipment included in account 320.3: concentrate disposal equipment, generators and related engines, wellfield control system, instrumentation, telemetering and controls, and structural piping. For the wastewater treatment plant and effluent disposal facilities, the utility's requested economy of scale factor should be accepted. An economy of scale factor should not be applied to any plant associated with either the water transmission and distribution or wastewater collection systems.

MODIFIED Economies of scale on water side was approved. Commissioner Kiesling dissented.
Economies of scale on wastewater side was denied.

Issue 20: Is it appropriate to include a fire flow allowance in the calculation of the used and useful percentage for the water transmission and distribution system, supply wells, and water treatment plants?
Recommendation: The inclusion of a fire flow is appropriate for the water treatment plant. A fire flow allowance should not be included for the water transmission and distribution system and the source of supply.

APPROVED

Issue 21: Is the utility's method of calculating the maximum day flow appropriate for calculating used and useful percentages for water facilities?
Primary Recommendation: Yes.

APPROVED

Alternate Recommendation: No.

DENIED

Issue 22: Should the Commission use operating permit capacities instead of construction permit capacities for the used and useful calculations?
Recommendation: The Commission should use the most recent operating capacity permitted by DEP for wastewater treatment plant used and useful calculations. DEP issues only a construction permit for water treatment facilities.

APPROVED

Vote Sheet
Docket No. 951056-WS
October 9, 1996

Issue 23: What is the appropriate allowance for equalization and emergency storage in the used and useful calculation?
Recommendation: The appropriate allowance for equalization and emergency storage is 75% of the projected maximum daily demand.

APPROVED Commissioner Deason dissented.

Issue 24: Should 10% of the finished water storage be treated as retention storage?
Recommendation: Yes, for ground storage tanks only. An allowance for retention in elevated storage tanks is not appropriate.

APPROVED

Issue 25: What are the appropriate methods for calculating the water source of supply, treatment plant, high service pumping, and storage used and useful percentages?
Recommendation: Used and useful for the water source of supply should be calculated by dividing the projected maximum day flow by the source of supply's firm reliable capacity. No used and useful calculation is necessary for water treatment plant #1 since that plant is 100% used and useful. Used and useful for water treatment plant #2 (wtp #2) should be calculated by first adding the projected maximum day demand and fire flow and then subtracting the capacity of water treatment plant one from this sum. The resulting number should then be divided by wtp #2's capacity. Used and useful for high service pumping should be calculated by dividing the projected peak hour demand by the high service pumping's firm reliable capacity. Used and useful for storage should be calculated by dividing sum of the equalization, emergency, and fire flow requirements by the available storage capacity.

APPROVED

Issue 26: What is the appropriate method for calculating the wastewater treatment plant and effluent disposal used and useful percentages?
Recommendation: The wastewater treatment plant used and useful percentage should be calculated by dividing the projected annual average daily flow by the treatment capacity and that effluent disposal used and useful percentage should be calculated by dividing the projected annual average daily flow by the total effluent disposal capacity which PCUC has constructed.

MODIFIED Allow 300,000 gpd of effluent flow to the Dunes.

Issue 27: What is the appropriate method for calculating the water transmission and distribution system used and useful percentage?
Recommendation: The distribution system used and useful percentage should be calculated by dividing the number of projected lots by the number of lots on lines. For the transmission system, used and useful should be calculated by dividing the number of projected lots on lines by the equivalent lots served by the transmission mains. For services, used and useful should be calculated by dividing the total number of lots on lines by the number of services which have been installed. For fire hydrants, used and useful should be calculated by taking the ratio of active hydrants to total hydrants.

APPROVED

Issue 28: What is the appropriate method for calculating the wastewater collection system and pumping plant used and useful percentage?
Recommendation: Used and useful for the gravity collection system should be calculated by dividing the projected number of lots connected by the total number of lots served by gravity lines. Used and useful for the PEP mains should be calculated by dividing the projected number of lots connected by the total number of lots served by PEP mains. The PEP tanks are 100% used and useful. Used and useful for pumping plant (lift stations) should be calculated by dividing the estimated peak flows to the lift stations by the station capacity. Used and useful percentage for force mains should be calculated using the pumping station used and useful percentage with an adjustment for manifold force mains.

APPROVED

Issue 29: Should facility lands be considered 100% used and useful without detailed justification?
Recommendation: No. However, no used and useful adjustments to land are appropriate.

APPROVED

Issue 30: Should a facility be considered 100% used and useful again, if it was determined to be 100% used and useful in a previous proceeding?
Recommendation: Normally, yes. However, if Commission procedures for calculating used and useful have changed or if additional capacity has been installed since the previous determination that the facility was 100% used and useful, an adjustment may be appropriate.

APPROVED

Issue 31: Should non-used and useful adjustments be made to general plant?
Recommendation: Yes. The appropriate used and useful percentage for the general plant structures and improvements is 90.98%.

APPROVED

Issue 32: What are the appropriate used and useful percentages?
Recommendation: The appropriate used and useful percentages are those provided in Attachment 2 of staff's September 26, 1996 memorandum.

MODIFIED Approved with modifications made by Staff.

Issue 33: Should an adjustment be made to depreciation expense and accumulated depreciation of the cost of rapid infiltration basin to the appropriate accounts?
Recommendation: No.

APPROVED

Issue 34: Should non-used CIAC be included as a reduction to rate base?
Recommendation: This is a proposed stipulation discussed in Issue A.

APPROVED

Issue 35: Dropped.

APPROVED

Issue 36: What is the proper amount of CIAC to use as a deduction from rate base?
Recommendation: The proper amount is the amount that the Commission approves as being used and useful.

APPROVED

Issue 37: Should net debit deferred income taxes be included in rate base and, if so, should any adjustments be made to the amount proposed by the Company?
Recommendation: Yes, net debit deferred income taxes should be included in rate base. The amounts proposed by the Company should be decreased by $264,759 for water and increased by $332,444 for wastewater.

MODIFIED Approved as modified by staff.

Issue 38: Should any adjustments be made to plant in service related to percolation ponds that were taken out of service or general plant due to the Company providing operation and maintenance services to non-PCUC water and wastewater systems?
Recommendation: No.

APPROVED

Issue 39: What provision for working capital should be included in rate base?
Recommendation: A zero provision for working capital should be approved, which was calculated using the balance sheet approach in accordance with Rule 25-30.433(2), F.A.C.

APPROVED Commissioner Deason dissented.

Issue 40: What are the appropriate rate base amounts?
Recommendation: The appropriate rate base amounts are $11,227,302 for water and $6,590,653 for wastewater.

APPROVED - fallout issue

Issue 41: Dropped.

APPROVED

Issue 42: Should CIAC be included as a component in the cost of capital?
Recommendation: Since it is recommended in Issue 36 that used and useful CIAC be treated as a reduction to rate base, CIAC should not be included as a zero-cost component in the capital structure.

APPROVED

Issue 43: Should prepaid CIAC be included in the utility's capital structure?
Recommendation: Prepaid (non-used and useful) CIAC should not be included in PCUC's capital structure.

APPROVED

Issue 44: What is the appropriate cost of debt?
Recommendation: The appropriate cost of long-term debt is 7.24% and the appropriate cost of short-term debt is 7.73%.

APPROVED

Issue 45: What are the appropriate adjustments to investment tax credits (ITCs) and their cost rate, if any, and what is the resulting balance?
Recommendation: ITCs should be increased by $129,534 if an average rate base is used or by $125,569 if a year-end rate base is used. The result is a 13-month average balance of unamortized ITCs of $2,445,760 or a year-end balance of ITCs of $2,391,641. The ITCs should not receive a pro rata reconciliation adjustment. Their cost rate is zero.

APPROVED

Issue 46: What is the appropriate capital structure for ratemaking purposes?
Recommendation: The appropriate capital structure for ratemaking purposes is PCUC's stand-alone capital structure.

APPROVED

Issue 47: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year?
Recommendation: The appropriate weighted average cost of capital is 8.04%.

APPROVED - fallout issue

Issue 48: What are the appropriate projected number of water and wastewater bills and consumption to be used to calculate revenue for the projected test year and to calculate rates for water and wastewater service?
Recommendation: The appropriate projected number of water and wastewater bills to be used to calculate revenue and rates for the projected test year should be 184,812 and 126,252, respectively. The projected consumption should be 963,948 for water and 593,841 for wastewater.

APPROVED

Issue 49: Should an adjustment be made to the amount of miscellaneous revenue to be included in the 1995 projected test year?
Recommendation: No adjustment should be made to the amount of miscellaneous revenue to be included in the 1995 projected test year.

APPROVED

Issue 50: Should an adjustment be made to the amount of 1995 water revenue received from Hammock Dunes?
Recommendation: No adjustment should be made to the amount of 1995 water revenue received from Hammock Dunes.

APPROVED

Issue 51: Should adjustments be made for non-utility income and revenue recorded on the company's books?
Recommendation: Yes. Adjustments should be made to increase water and wastewater revenues by $1,802 and $50,834, respectively.

APPROVED

Issue 52: Should non-used and useful adjustments to O&M expenses be made?
Recommendation: Yes, but no additional adjustments are necessary.

APPROVED

Issue 55: Should an adjustment be made for affiliate charges?
Recommendation: Yes, an adjustment should be made to reduce affiliate charges by $15,153 for water and $10,259 for wastewater.

APPROVED

Issue 56: Should any adjustments be made to true-up the six months of budgeted test year expenses to actual?
Recommendation: No adjustments should be made.

APPROVED

Issue 57: Should an adjustment be made to personnel services expenses?
Recommendation: Yes. An adjustment to decrease personnel services expenses should be made in the amount of $10,204 and $6,909 for water and wastewater, respectively.

APPROVED

Issue 58: Should the miscellaneous expense adjustment for non-recurring legal fees reflected on Dismukes' Schedule 16 be made?
Recommendation: Yes. Legal expenses should be reduced by $4,457 for water and $3,017 for wastewater.

APPROVED

Issue 59: Should any adjustments be made to administrative and general expenses due to the company providing operation and maintenance services to non-PCUC water and wastewater systems, test year expenses to reflect actual expenses, test year expenses to remove expenses incurred that were associated with the divesture of PCUC, or test year legal expenses?
Recommendation: No additional adjustments are necessary.

APPROVED

Issue 60: What is the appropriate amount of rate case expense?
Recommendation: The appropriate provision for rate case expense is $390,981. This results in an increase of $89,481 to the MFR-requested amount. The four-year amortization results in additional test year rate case expense of $22,370, split equally between water and wastewater in the amount of $11,185, respectively.

APPROVED

Issue 60A: Dropped.

APPROVED

Issue 60B: Dropped.

APPROVED

Issue 61: Are adjustments necessary to property taxes for non-used and useful plant adjustments?
Recommendation: Yes. A decrease of $108,320 and $45,869 is necessary for water and wastewater, respectively.

APPROVED

Issue 62: What are the appropriate adjustments to the provision for income taxes, including the appropriate federal tax rate, the parent debt adjustment, the interest reconciliation adjustment, the ITC interest synchronization adjustment and adjustments for other NOI adjustments?
Primary Recommendation: The provision for income tax expense should be based on the consolidated federal tax rate of 35 percent and decreased by a net $166,755 for water and by a net $257,766 for wastewater. Of the foregoing amounts, the provisions are increased by $88,002 for water and by $79,142 for wastewater to adjust the parent debt adjustment. Second, the adjustment to the interest reconciliation adjustment increases the tax provision by $132,409 for water and by $120,302 for wastewater. Third, other adjustments to revenues and expenses decrease tax expense by $387,166 for water and by $457,210 for wastewater. Last, an ITC interest synchronization adjustment is not appropriate as PCUC is an Option 1 Company.

DENIED

Alternate Recommendation: The tax expense should be calculated using a 34% tax rate. The dollar effect of this change is a $21,679 total reduction to income tax expense or $13,367 and $8,312 for water and wastewater, respectively.

APPROVED

Issue 63: Dropped.

APPROVED

Issue 64: What are the test year operating income amounts before any revenue increase?
Recommendation: The test year operating income amounts $1,049,237 for water and $490,152 for wastewater.

APPROVED - fallout issue

Issue 65: What are the revenue requirements?
Recommendation: The following revenue requirement should be approved:

	Total	$Incr.(Decr.)	%Change
Water	$5,150,098	($250,266)	(4.63%)
Wastewater	$3,354,699	$ 67,494	2.05%

APPROVED - fallout issue

Issue 66: In light of Section 367.0817, F.S., should any revenue requirement associated with reuse be allocated to the water customers of PCUC?
Recommendation: No. No portion of the revenue requirement associated with reuse should be allocated to the water customers of PCUC.

APPROVED

Issue 67: Should a new class of effluent service be approved and, if so, what are the appropriate rates, if any, for effluent service?
Recommendation: Yes. A new class of service should be approved. The appropriate reuse rate is $.10/1,000 gallons, resulting in an annual reuse revenue of $36,500.

MODIFIED Approved as modified: Reuse rate is $.07/1,000 gallons with resulting revenue of $25,550

Issue 68: What is the appropriate bulk water rate for PCUC?
Recommendation: The appropriate bulk water rate for PCUC should be the rate achieved when the same percentage increase for other water rates is applied to PCUC's current bulk rate. Therefore, the appropriate bulk water rate for PCUC to charge Hammock Dunes should be a BFC of $186.65 and a gallonage charge of $.96.

APPROVED - fallout issue

Issue 69: What are the appropriate water and wastewater service rates for PCUC?
Recommendation: Consistent with staff's recommendation in Issue 67, the recommended service rates should be designed to produce annual operating revenues of $5,107,628 and $3,259,173 for the water and wastewater divisions, respectively. These recommended revenues exclude any miscellaneous revenues and reuse. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided the customers have received notice. The rates should not be implemented until required notice has been received by the customers pursuant to Rule 25-30.475(1), F.A.C. The utility should provide proof of the date notice was given within 10 days after the date of notice.

APPROVED - fallout issue

Issue 70: What are the appropriate amounts by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense required by Section 367.0816, F.S.?
Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 5-A and 5-B of staff's memorandum, to remove $51,176 for water and $51,176 for wastewater for rate case expense grossed up for regulatory assessment fees which are being amortized over a four-year period. The decreases 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 proposed customer notices setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of required rate reductions.

APPROVED - fallout issue

Issue 71: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund?
Recommendation: The Utility should be required to refund 7.21% of water and 3.83% of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with 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), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

APPROVED - fallout issue

Issue 72: What are the appropriate annual monthly discounted rates, and the effective date for AFUDC?
Recommendation: The annual AFUDC rate should be 8.04% and the discounted monthly rate should be 0.669571%, consistent with Rule 25-30.116, F.A.C. The AFUDC effective date should be January 1, 1996.

APPROVED - fallout issue

Issue 73: Should the docket be closed?
Recommendation: 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 may be released upon staff's verification that the refund has been completed.

APPROVED