

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: March 23, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Merta, Rendell) *SM*
Office of the General Counsel (Jaeger) *W* *JDJ* *198*

RE: Docket No. 030423-WU – Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County.

AGENDA: 04/04/06 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Deason

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030423.RCM.DOC

Case Background

Residential Water Systems, Inc. (RWS or utility) is a Class C water only utility serving approximately 707 customers in Marion County. According to its 2005 Annual Report, the utility reported operating revenues of \$198,843 and operating expenses of \$195,922. This resulted in net operating income of \$2,921.

On May 2, 2003, the Commission opened a docket to investigate the 2002 earnings of RWS. Pursuant to Order No. PSC-04-0356-PAA-WU, issued April 5, 2004, in Docket No. 030423-WU, In re: Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County, the Commission reduced rates by approximately 18.47 percent, required the utility to refund the 2002 and 2003 price indexes, required RWS to use the overearnings for the

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interim collection period to pay for costs of pro forma improvements, and to book those pro forma improvements as CIAC. In addition, the Commission required the utility to complete the pro forma improvements by December 31, 2005. The order also specified that this docket remain open pending staff's verification that the utility completed the pro forma improvements.

Staff contacted the utility by letter dated November 21, 2005, requesting documentation of the amount spent by the utility on the pro forma improvements. On December 8, 2005, RWS requested an amendment to the Order, for a two year extension of time to December 31, 2007, to complete the pro forma improvements. On February 21, 2006, RWS filed an Offer of Settlement (Attachment A) which is the subject of this recommendation. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes.

Discussion of Issues

Issue 1: Should the Commission approve Residential Water System Inc.'s proposed Offer of Settlement?

Recommendation: Yes, the Commission should approve Residential Water System Inc.'s proposed Offer of Settlement. (Merta)

Staff Analysis: As discussed in the case background, pursuant to Order No. PSC-04-0356-PAA-WU, the Commission required RWS to use overearnings to pay for costs of pro forma improvements, and to book those pro forma improvements as CIAC. The Commission also required the utility to complete the pro forma improvements by December 31, 2005. The pro forma improvements involved a distribution system project to replace old laterals and potable water lines, per county code, and replace all regular meters with automated meter reading type meters. A total of \$96,718 was earmarked for this project.

As stated previously, staff contacted the utility by letter dated November 21, 2005, requesting documentation on the amount spent by the utility on the pro forma improvements. In response to staff's request, on December 8, 2005, RWS stated that the replacement program was 60 percent complete as of November 30, 2005. Further, the utility stated the main reason for the delay in completing the pro forma project is that it has been extremely difficult finding manual labor. For this reason, the utility requested an amendment to the Order, for a two-year extension of time to December 31, 2007, to complete the pro forma improvements.

In an effort to work with the utility, staff contacted its attorney and discussed several options to resolve this matter. By letter dated February 21, 2006, RWS proposed an Offer of Settlement (Attachment A). The proposed settlement provides as follows:

1. The utility offers to forego filing for a 2006 price index rate increase in consideration of the Commission not reducing the utility's rates or requiring the utility to refund revenues in connection with the 2002, 2003 and 2004 test years.
2. This docket would be closed.

If RWS filed a 2006 price index, staff calculated the percent increase in rates would be 2.44 percent which equates to a revenue increase of \$4,545. Staff estimates that the utility is currently collecting \$5,543 in rates for pro forma costs not yet completed, as discussed above. The difference is \$997. Staff believes this difference is immaterial.

Based on the above staff believes the Offer of Settlement is fair, just, and reasonable and is in the public interest. Staff believes that the acceptance of the proposed Offer of Settlement will further the goal of administrative efficiency and will not be contrary to the public interest or the utility. Therefore, staff recommends that the Commission approve the proposed Offer of Settlement.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the docket closed. (Jaeger, Merta)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the docket closed.

ATTACHMENT A

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into
2002 Earnings of Residential Water Systems, Inc. of Marion County
Docket No.: 030423 WU

OFFER OF SETTLEMENT

Residential Water Systems, Inc (the Company), by and through undersigned counsel, offers to settle the above-referenced docket on the following basis:

1. The Company offers to forego filing for a 2006 price index rate increase in consideration of the Commission not reducing the Company's rates or requiring the Company to refund revenues in connection with the 2002, 2003 and 2004 test years.

2. If the Commission accepts this Offer of Settlement, this docket would therefore be closed.

3. If the Commission does not accept this Offer of Settlement, without change, it will not be admissible in any present or future judicial or administrative proceeding, and the Company shall not be deemed to have waived any legal, factual, policy or other position, or any rights and remedies otherwise available to it.

Respectfully submitted,



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