

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

March 6, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (MERCHANT, MONIZ, WEBB, STARLING, RENDELL)
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (C. ROMIG)
DIVISION OF LEGAL SERVICES (REYES)

RE: DOCKET NO. 951056-WS - PALM COAST UTILITY CORPORATION - APPLICATION FOR RATE INCREASE
COUNTY: FLAGLER

AGENDA: MARCH 18, 1997 - REGULAR AGENDA - POST HEARING DECISION - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: 8-MONTH EXPIRATION DATE: OCTOBER 12, 1996
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TABLE OF CONTENTS

<u>ISSUE NO.</u>	<u>DESCRIPTION</u>	<u>PAGE NO.</u>
	CASE BACKGROUND	4
ISSUE 1:	Should PCUC'S Requests for Oral Argument be granted?	6
ISSUE 2:	Should PCUC'S Motion for Reconsideration concerning computational errors of the approved water rates be granted?	8
ISSUE 3:	Should PCUC'S Motion for Reconsideration concerning computational errors of the used and useful calculations be granted?	10
ISSUE 4:	Should PCUC'S Motion for Reconsideration concerning computational errors of water and wastewater rate base calculations be granted?	18
ISSUE 5:	Should PCUC'S Motion for Reconsideration concerning evidentiary deficiency for non-reconciliation of investment tax credits be granted?	21
ISSUE 6:	Should PCUC'S First and Second Ammended Motions for Reconsideration be granted?	25
ISSUE 7:	Should the Commission, on its own motion, correct computational errors in the calculation of rate base?	28
ISSUE 8:	What is the appropriate rate base amounts, weighted average cost of capital, and revenue requirements?	29
ISSUE 9:	What is the appropriate bulk water rate for PCUC?	30
ISSUE 10:	What are the appropriate water and wastewater service rates for PCUC?	31
ISSUE 11:	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 as required by Section 367.0816, Florida Statutes?	32

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 12: 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? 33

ISSUE 13: Should the docket be closed? 34

<u>SCHEDULE NO.</u>	<u>DESCRIPTION</u>	<u>PAGE NO.</u>
	<u>Accounting, Rate and Engineering Schedules</u>	
1-A	Water Rate Base	35
1-B	Wastewater Rate Base	36
1-C	Adjustments to Rate Base	37
2	Capital Structure	38
3-A	Statement of Water Operations	39
3-B	Statement of Wastewater Operations	40
3-C	Adjustments to Operating Statement	41
4-A	Water Rates	42
4-B	Wastewater Rates	43
5-A	Reduction for Rate Case Expense - Water	44
5-B	Reduction for Rate Case Expense - Wastewater	45

DOCKET NO. 951056-WS
March 6, 1997

CASE BACKGROUND

Palm Coast Utility Corporation (PCUC) is a utility, which provides water and wastewater service to the public in Flagler County. Palm Coast is located in a critical use area as designated by the St. Johns River Water Management District (SJRWMD). During the twelve months ending December 31, 1994 (the historical test year), the utility recorded operating revenues of \$5,007,702 for water service and \$2,951,217 for wastewater service. During the same period, Palm Coast reported a net operating loss of \$2,247 for water and net operating income of \$281,533 for wastewater.

On December 27, 1995, the utility filed an application for increased rates pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the Minimum Filing Requirements (MFRs) on February 12, 1996 for a rate increase, and that date was designated as the official filing date pursuant to Section 367.083, Florida Statutes.

By Order No. PSC-96-0493-FOF-WS, issued April 9, 1996, the Commission approved interim rates for PCUC based upon a historic test year, designed to generate \$5,491,319 in annual water revenues and \$3,432,636 in annual wastewater revenues, subject to refund with interest. This represents a \$483,617 (9.66%) increase over water test year revenues, and a \$481,419 (16.31%) increase over wastewater test year revenues.

A prehearing was held in Tallahassee on June 20, 1996. The hearing was held at the Knights of Columbus building in Palm Coast on July 1 and 2, 1996 and continued and concluded in Tallahassee on July 19, 1996. The Office of Public Counsel (OPC), Dunes Community Development District, and Flagler County have intervened in this docket prior to the commencement of the technical hearing.

On November 7, 1995, the Commission issued Order No. PSC-96-1338-FOF-WS, (Final Order) on the rate proceeding. On November 22, 1995, PCUC filed a Motion for Reconsideration (Motion) and a Request for Oral Argument. In its motion for reconsideration, PCUC divided its arguments into four areas of discussion: 1) First Set of Computational Errors: The approved water rates cannot generate the approved water revenue requirement; 2) Second Set of Computational Errors: The used and useful calculation for water and wastewater lines understates the number of occupied lots; 3) Third Set of Computational Errors: Four errors result in understated water and/or wastewater rate base; 4) Evidentiary Deficiency: There is no record support for the Commission's non-reconciliation of investment tax credits (ITCs) to rate base.

DOCKET NO. 951056-WS
March 6, 1997

On December 2, 1995, OPC filed its response to PCUC's motion and request. On January 24, 1997, PCUC filed an additional Request for Oral Argument and an Amended Motion for Reconsideration or, Alternatively, Motion to Correct Computational Errors (Amended Motion). On January 31, 1997, OPC filed its response to PCUC's Amended Motion. On February 26, 1997, PCUC filed its Second Amended Motion for Reconsideration or, Alternatively, Amended Motion to Correct Computational Errors. OPC filed its response to this Second Amended Motion on March 3, 1997. This recommendation will address PCUC's motions and requests, as well as OPC's responses.

DOCKET NO. 951056-WS
March 6, 1997

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission grant PCUC's Requests for Oral Argument on its Motions for Reconsideration?

RECOMMENDATION: No. PCUC's requests for oral argument on all three motions should be denied. (REYES)

STAFF ANALYSIS: As stated in the case background, on November 22, 1996, PCUC filed a Motion for Reconsideration of Order No. PSC-96-1338-FOF-WS, issued November 7, 1996, and a request for oral argument on its motion. On January 24, 1997, PCUC filed an Amended Motion for Reconsideration or, Alternatively, Motion to Correct Computational Errors, along with a request for oral argument on this motion. On February 26, 1997, PCUC also filed a Second Amended Motion for Reconsideration or, Alternatively, Motion to Correct Computational Errors, along with a request for oral argument on this motion as well.

Rule 25-22.058, Florida Administrative Code, permits the Commission to grant oral argument, provided, among other things, that the request state "with particularity why oral argument would aid the Commission in comprehending and evaluating the issues before it." In its requests, PCUC states that oral argument would assist the Commission in evaluating the complex issues addressed in its motions, with counsel available to answer any questions the Commission may have. Staff believes that PCUC's first motion for reconsideration contains sufficient argument for the Commission to render a fair and complete evaluation of the merits without oral argument. Therefore, staff recommends that the Commission deny PCUC's request for oral argument on its first motion for reconsideration.

As to PCUC's requests for oral argument on its first and second amended motions for reconsideration, as will be discussed further in Issue 6, staff believes that the motions are untimely and improper because they were not filed within fifteen days of the issuance of Order No. PSC-96-1338-FOF-WS as required by Rule 25-22.060, Florida Administrative Code. Therefore, oral argument on these motions would be inappropriate. Furthermore, even if the motions were timely and proper, staff believes that the motions contain sufficient argument for the Commission to render a fair and complete evaluation of the merits without oral argument. Based on the foregoing, staff recommends that the Commission deny PCUC's

DOCKET NO. 951056-WS
March 6, 1997

requests for oral argument on its first and second amended motions
for reconsideration as well.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 2: Should PCUC'S Motion for Reconsideration concerning computational errors of the approved water rates be granted?

RECOMMENDATION: Yes. Due to a computational error in the calculation of water rates, the water rates approved in the Final Order do not generate the revenue requirement approved by the Commission. Therefore, the appropriate water rates should be adjusted to reflect this error in calculation. The appropriate water rates will be addressed in a subsequent issue. (RENDELL, REYES)

STAFF ANALYSIS: As stated in the case background, on November 22, 1996, PCUC timely filed a motion for reconsideration of Order No. PSC-1338-FOF-WS. In its motion for reconsideration, PCUC divided its arguments into four areas of discussion: 1) First Set of Computational Errors: The approved water rates cannot generate the approved water revenue requirement; 2) Second Set of Computational Errors: The used and useful calculation for water and wastewater lines understates the number of occupied lots; 3) Third Set of Computational Errors: Four errors result in understated water and/or wastewater rate base; 4) Evidentiary Deficiency: There is no record support for the Commission's non-reconciliation of investment tax credits (ITCs) to rate base. OPC filed a response to PCUC's motion on December 2, 1996.

Rule 25-22.060(1)(a), Florida Administrative Code, permits a party who is adversely affected by an order of the Commission to file a motion for reconsideration of that order. The purpose of a motion for reconsideration is to point out some matter of law or fact which the Commission failed to consider or overlooked in its prior decision. Diamond Cab Co. of Miami v. King, 146 So.2d 889 (Fla. 1962); Pingtree v. Quaintance, 394 So.2d 161 (1st DCA 1981). A motion for reconsideration is not an appropriate vehicle for mere reargument or to introduce evidence or arguments which were not previously considered. In Stewart Bonded Warehouse, Inc. v. Bevis, 294 So.2d 315, 317 (Fla. 1974), the Court found that the granting of a petition for reconsideration should be based upon specific factual matters set forth in the record and susceptible to review.

Staff has applied the foregoing principles in its analysis, and PCUC's grounds for reconsideration are set forth below, along with discussion of OPC's response.

In its Motion filed November 22, 1996, PCUC indicates that the water revenue requirement approved for water was \$5,094,035 (Final Order at p. 80). Also, the water rates approved were intended to

DOCKET NO. 951056-WS
March 6, 1997

produce annual operating revenues of \$5,000,204 (pgs 93 - 94). This amount properly excluded any miscellaneous revenues and reuse revenues. These amounts were removed in order to determine the appropriate water service rates. PCUC further indicates that a review of Commission Staff's workpapers reveals that the approved water rates actually produce only \$4,726,281, excluding miscellaneous service, reuse, and bulk revenues. OPC, in its response, indicated that it would rely upon the Commission's Staff to design rates to provide the utility with an opportunity to collect the revenue requirement authorized by the Final Order.

Staff has reviewed PCUC's motion regarding this computational error in the calculation of water rates and has determined that PCUC is correct. Staff first calculated the bulk water rate for the Hammock Dunes bulk contract water rate, then determined the appropriate water rates for the remaining customers. However, in doing so, Staff removed the associated bulk revenues, but did not properly remove the associated factored ERCs and gallons for Hammock Dunes. In doing so, the remaining revenue requirement was allocated over a larger number of ERCs and gallons than actually exists. This causes the base facility and gallonage charges to be too low and does not produce the approved revenue requirement.

Therefore, the Motion for Reconsideration should be granted on this issue and the appropriate water rates should be adjusted to reflect this error in calculation. The appropriate water rates will be addressed in Issue 9.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 3: Should PCUC's Motion for Reconsideration concerning computational errors of the used and useful calculations be granted?

RECOMMENDATION: Staff recommends that the Commission grant PCUC's reconsideration request in part and include general service and multi-family connections in the numerator of the used and useful calculations for water transmission mains and water services. Staff further recommends that the Commission deny PCUC's request to include general service and multi-family connections in the numerator of the used and useful calculations for water distribution and wastewater gravity lines. Staff also recommends that the Commission, on its own motion, change the number of residential connections which were used in the calculation of used and useful for water distribution mains, water transmission mains, water services, and wastewater gravity mains. If these recommended changes are approved, then the used and useful percentage for water distribution mains decreases from 23.91% to 23.36% (a \$100,615 decrease to rate base), the used and useful percentage for water transmission mains increases from 32.27% to 35.14% (a \$223,733 increase to rate base), the used and useful percentage for water services increases from 73.70% to 74.47% (a \$7,984 increase to rate base), and the used and useful percentage for wastewater gravity mains increases from 34.29% to 35.95% (a \$377,274 increase to rate base). (STARLING)

STAFF ANALYSIS: PCUC states that the number of occupied lots which were included in the Commission's used and useful calculations for water transmission and distribution lines, water services, and wastewater gravity lines are understated since general service and multi-family connections were not included in the numerator of the calculation. The number of connected lots was provided by staff witness Amaya who based her lot count upon PCUC's system maps. (TR 604) These maps were filed in compliance with Rule 25-30.440, F.A.C. The maps identified and provided a count of the total number of connected residential lots as of October 1995. The maps also identified and provided a count of the total number of platted residential lots. General service and multi-family customers were identified on these maps but were not included in the count of either the total number of connections or the total number of lots available for connection.

OPC responds that it would be improper to include the multi-family, general service and beachside connected lots in the numerator of the used and useful calculations since there is no

DOCKET NO. 951056-WS

March 6, 1997

evidence in the record that the denominator of the used and useful calculation includes anything other than residential lots.

Water Distribution Mains

As illustrated in Attachment 1, the Commission determined that the distribution mains were 23.91% used and useful by adding the number of connected lots (10,415) to a margin reserve of 767 connections and then dividing this sum by the total number of lots on lines, 46,764.

PCUC argues that the Commission erred by not including 377 general service and multi-family connections (see MFR Schedule E-3) in the used and useful calculation. PCUC contends that including these 377 connections in the used and useful calculation increases the distribution main used and useful percentage to 24.16% (a \$45,276 increase to rate base). PCUC's proposed calculation is also included in Attachment 1.

Staff agrees that the total number of connected lots (10,415) which the Commission used only includes residential connections. PCUC, however, did not provide any rebuttal testimony which questioned the numbers used by Ms. Amaya. Utility witness Guastella only testified that the Commission should continue to use the ratio of ERCs to connected lots in the used and useful calculation instead of the ratio of lots connected to total lots available. PCUC also failed to cross-examine Ms. Amaya about general service or multi-family connections not being included in her used and useful calculations.

Staff does not recommend that general service and multi-family customers should be added to the numerator for the water distribution system. Staff has reviewed the maps and believes that the count for the total number of lots on lines (46,764) also includes only the platted residential lots on lines and does not include general-service or multi-family connections. Therefore, the Commission calculated the distribution main used and useful percentage by taking the ratio of connected residential lots to total platted residential lots on lines. Since the denominator of the distribution main used and useful calculation does not include general service or multi-family connections, staff does not believe it would be appropriate to include general service and multi-family connections in the numerator unless the total number of general service and multi-family lots on lines is also added to the denominator. There is no evidence in the record which indicates

DOCKET NO. 951056-WS
March 6, 1997

how many vacant general service or multi-family lots on lines are located within Palm Coast. Therefore, staff recommends that the Commission calculate the used and useful percentage for distribution mains by taking the ratio of connected residential lots to platted residential lots on lines.

Staff recommends that an adjustment to the total number of connected residential lots is appropriate. The number of residential connections used by the Commission was based upon maps (dated October 1995) which were provided by PCUC. (EX 7) Even though PCUC's reconsideration motion did not explicitly question the number of residential connections which were used by the Commission (10,415) in the distribution system used and useful calculation, PCUC's proposed recalculation does include this change. MFR Schedule E-3 indicates that the average number of residential connections during the test year was 11,031. Removing the 877 beachside connections reduces the test year average number of connected residential lots to 10,155 (this adjustment is needed since the beachside distribution lines are contributed and were considered 100% used and useful). Staff recommends that since the Commission is using an average test year, the test year average number of connected residential lots should also be used. Staff believes that the average number of residential connections from MFR Schedule E-3 provides a more accurate customer count of average 1995 customer connections than the maps (which only provide the customer count as of October 1995). Using the number of connected residential customers from MFR Schedule E-3 (10,155 instead of 10,415) reduces the water distribution system used and useful percentage to 23.36% (a \$100,615 reduction to rate base).

Water Transmission Mains

As was the case for the water distribution lines, the numerator of the used and useful calculation for water transmission mains was computed by adding the total number of residential connections (10,415) and a margin reserve of 767 (once again excluding the 377 general service and multi-family connections). This sum was then divided by the total equivalent lots served by the transmission mains, 34,651. The 34,651 total for lots served by transmission mains was calculated by taking a weighted ratio of existing transmission mains and build-out transmission mains. (EX 15, p. 23) The 34,651 total for equivalent lots served by transmission mains is not related to the 46,764 platted residential lots on lines which was used to calculate the distribution main used and useful percentage.

DOCKET NO. 951056-WS
March 6, 1997

PCUC argues that the Commission erred by not including the 377 general service and multi-family customers and the 877 beachside customers in the numerator of the transmission main used and useful calculation. Since the denominator of the transmission main used and useful calculation includes transmission lines which are needed to serve current general service, multi-family, and beachside connections, staff agrees that this adjustment is appropriate for the transmission mains. While it may appear inconsistent to include general service and multi-family connections for the transmission main used and useful calculation but not for the distribution main used and useful calculation, staff believes that this treatment is appropriate. The denominator of the used and useful calculation for distribution mains is based upon total platted residential lots on lines. The denominator of the transmission main used and useful calculation is instead based upon the ratio of linear feet of transmission mains currently installed to the total linear feet transmission mains which will be installed at build-out.

Including the general service, multi-family, and beachside connections in the numerator of the transmission main used and useful calculation increases the used and useful percentage to 35.14% (a \$223,733 increase to rate base). As was the case for distribution lines, staff has used the average number of connected residential customers from MFR Schedule E-3 (10,155) instead of customer count from the maps (10,415). These calculations are provided in Attachment 1.

Water Services

As was the case for both the transmission and distribution mains, the numerator of the used and useful calculation for water services was calculated by adding the number of residential connections, 10,415, and a margin reserve of 767. This total was then divided by the total number of services installed, 15,172. The total number of installed services was provided by utility witness Guastella. (EX 15, p. 24)

PCUC argues that the Commission also erred by not including the 377 general service and multi-family connections and the 877 beachside connections in the numerator of the used and useful calculation. Including these connections would increase the used and useful percentage to 80.25% (a \$67,826 increase to rate base).

DOCKET NO. 951056-WS
March 6, 1997

Staff recommends that the 377 general service and multi-family connections should be included in the used and useful calculation since these service connections appear to have been included in Mr. Guastella's 15,172 total. (EXH 15) Staff does not recommend, however, that the 877 beachside connections should be included. Mr. Guastella specifically excluded the 877 beachside services from his used and useful calculation for water services and staff does not believe it would be appropriate to now include these beachside services in the calculation. (EXH 15)

Including the 377 general service and multi-family connections increases the water service used and useful percentage to 74.47% (a \$7,984 increase to rate base). As was the case for both the distribution and transmission mains, staff has used the test year average number of residential connections (10,155) instead of the customer count from the maps (10,415). These calculations are also provided in Attachment 1.

Wastewater Gravity Mains

The Commission determined that the wastewater gravity mains were 34.29% used and useful by adding the total number of connected lots (8,175) to a margin reserve of 418 and then dividing this sum by the total number of lots connected to the gravity system, 25,062.

PCUC argues that the Commission erred by not including the 334 general service and multi-family wastewater connections in its gravity main used and useful calculation. Including the 334 general service and multi-family connections (as well as using the average test year connections) increases the used and useful percentage to 37.28% (a \$679,548 increase to rate base).

As was the case for the water distribution system, staff's review of the system maps indicates that the 25,062 total for number of lots on lines does not include general service and multi-family lots. (EXH 7) Therefore, no adjustment for general service and multi-family connections is appropriate for the numerator unless the denominator is also adjusted. Adjusting the denominator is impractical since the maps do not count how many vacant general service and multi-family lots are connected to the system.

Staff does recommend, however, that the average number of connected lots (8,175) which the Commission used should be changed. MFR Schedule E-3 indicates that the test year average number of

DOCKET NO. 951056 -WS
March 6, 1997

residential customers was 9,872. Of these 9,872 residential connections, 1,281 were connected to the PEP system and not the gravity lines. Therefore, the gravity system had 8,591 average test year residential connections instead of the 8,175 which the Commission used in the gravity main used and useful calculation. Using the count of residential connections from MFR Schedule E-3 increases the used and useful percentage to 35.95% (a \$377,274 increase to rate base).

1. Water Distribution Mains

Investment in Distribution Mains: \$18,096,693

	<u>Commission Approved</u>	<u>PCUC Reconsideration</u>	<u>Staff Recommended</u>
Number of Connections (Residential)	10,415	10,155	10,155
Number of Connections (General Service and Multi-family)	0	377	0
Number of Connections (Beachside)	0	0	0
Margin Reserve	767	767	767
Total	11,182	11,299	10,922
Used and Useful Percentage (Divide total by 46,764)	23.91%	24.16%	23.36%
Used and Useful Investment	\$4,327,201	\$4,372,477	\$4,226,586
Difference			(\$100,615)

2. Water Transmission Mains

Investment in Transmission Mains: \$7,799,367

	<u>Commission Approved</u>	<u>PCUC Reconsideration</u>	<u>Staff Recommended</u>
Number of Connections (Residential)	10,415	10,155	10,155
Number of Connections (General Service and Multi-family)	0	377	377
Number of Connections (Beachside)	0	877	877
Margin Reserve	767	767	767
Total	11,182	12,176	12,176
Used and Useful Percentage (Divide total by 34,651)	32.27%	35.14%	35.14%
Used and Useful Investment	\$2,516,883	\$2,740,616	\$2,740,616
Difference			\$223,733

3. Water Services

Investment in Water Services: \$1,035,265

	<u>Commission Approved</u>	<u>PCUC Reconsideration</u>	<u>Staff Recommended</u>
Number of Connections (Residential)	10,415	10,155	10,155
Number of Connections (General Service and Multi-family)	0	377	377
Number of Connections (Beachside)	0	877	0
Margin Reserve	767	767	767
Total	11,182	12,176	11,299
Used and Useful Percentage (Divide total by 15,172)	73.70%	80.25%	74.47%
Used and Useful Investment	\$763,006	\$830,832	\$770,990
Difference			\$7,984

4. Wastewater Gravity Mains

Investment in Gravity Mains: \$22,727,333

	<u>Commission Approved</u>	<u>PCUC Reconsideration</u>	<u>Staff Recommended</u>
Number of Connections (Residential)	8,175	8,591	8,591
Number of Connections (General Service and Multi-family)	0	334	0
Number of Connections (Beachside)	0	0	0
Margin Reserve	418	418	418
Total	8,593	9,343	9,009
Used and Useful Percentage (Divide total by 25,062)	34.29%	37.28%	35.95%
Used and Useful Investment	\$7,793,202	\$8,472,750	\$8,170,476
Difference			\$377,274

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 4: Should PCUC'S Motion for Reconsideration concerning computational errors in calculating water and wastewater rate base be granted?

RECOMMENDATION: PCUC's motion for reconsideration concerning computational errors in calculating water and wastewater rate base should be granted in part and denied in part. Corrections should be made to increase wastewater plant in service by \$173,869. Non-used and useful, accumulated depreciation, and depreciation expense adjustments are also necessary as a result of this correction. Further, the correct amount of CIAC on the margin reserve should be \$688,310 for water and \$680,040 for wastewater. Accumulated Amortization of CIAC should be increased by \$10,968 and \$10,439 for water and wastewater, respectively. Also, test year amortization of CIAC should be increased by \$21,936 for water and \$20,877 for wastewater. (MONIZ, WEBB)

STAFF ANALYSIS: In its Motion filed November 22, 1996, PCUC requested that the Commission reconsider its decision on wastewater rate base. PCUC claims that the Commission made four errors in its calculation of water and wastewater rate base. OPC, in its response, indicated that they would rely upon the Commission staff to evaluate the merits of the questions raised by PCUC. Staff will discuss each claim separately.

First, the utility maintains that in converting from year-end to average, the average balance of wastewater account 106, undistributed plant was excluded in its entirety. The year-end balance of this account was zero, but the 13-month average balance was \$173,869. In staff's review of the order, we discovered that in the conversion from a year-end to 13-month average rate base, we failed to include \$173,869 in undistributed plant. Therefore, wastewater rate base should be increased by \$173,869 to reflect this calculation error.

Second, the utility claims that the 13-month average balance of Account 354.4, Treatment and Disposal Structures and Improvements was understated in the final order. According to the utility, during the month of September, 1995, it transferred \$179,081 for an oxidation basin train to Account 103.0, plant held for future use. When the Commission adjusted the utility plant accounts from year-end to 13-month average, PCUC argues that this adjustment was made on a year-end basis not the 13-month average basis. Since the utility removed this plant in September, 1995, PCUC argues that the 13-month average adjustment should have been a decrease of only \$55,102 ($4/13 \times \$179,081$). Accordingly, PCUC believes the account was understated in the final order by \$155,699.

DOCKET NO. 951056-WS
March 6, 1997

Staff agrees that the cost of the oxidation basin was removed from plant in service. However, pursuant to Section 367.081, Florida Statutes, only the cost related to used and useful plant should be included in rate base. Therefore, since it was considered non-used and useful on a year-end basis, staff believes it should also be considered non-used and useful for a 13-month average test year. Based on this, staff does not believe a computational error was made. Therefore, no adjustment is necessary.

Third, the utility asserts that staff failed to include a \$55,102 adjustment to transfer the oxidation basin from Account 354.4 to Account 103.0, plant held for future use. This adjustment has no impact on rate base since it is related to non-used and useful plant. Further, it is a fall-out of the second item discussed above and once the determination is made that no adjustment is necessary to increase plant in service for the cost of the oxidation basin, no adjustment should be made for this item.

Fourth, PCUC states that the imputation of any CIAC constitutes an error by the Commission. The Motion further addresses the fact that the system capacity charges proposed by the utility in Docket No. 951593-WS, the utility's application for a change in service availability charges, were utilized by the Commission to impute CIAC in the instant case. The recommendation for Docket No. 951593-WS had not yet gone to Commission Agenda at the time of the Commission's decision on imputation of CIAC in the instant case. The prior system capacity charges found on MFR Schedules E-10, in the instant case, are \$766 and \$1,466 for water and wastewater, respectively. The system capacity charges requested by the utility in Docket No. 951593-WS were \$1,500 per ERC for water and \$1,600 per ERC for wastewater.

In Order No. PSC-96-1430-FOF-WS, issued on November 21, 1996, the Commission approved an increase in water plant capacity charges and denied an increase in wastewater capacity charges. The final approved charges are \$1,500 and \$1,390 for water and wastewater, respectively. In its Motion, the utility suggests that an adjustment be made in the instant case to the Commission's final numbers for imputation of CIAC, based on the latest approved system capacity charges.

The Final Order in the instant case addresses the Commission's decision to utilize the proposed system capacity charges rather than the then-current system capacity charges. The Commission agreed with OPC witness Dismukes' testimony which stated that because the margin reserve period is beyond the test year, it was appropriate to use the proposed charges. The Commission's decision was based on the evidence in the record. (Final Order at 19 & 20)

DOCKET NO. 951056-WS
March 6, 1997

The newly approved system capacity charges are outside the record in the instant case. Accordingly, no mistake of fact or law has been made in this regard. Therefore, staff recommends that the utility's Motion on this adjustment should be denied. However, staff did find two mathematical errors in its original calculation of imputing CIAC on the margin reserve in the Final Order. The first error was that the number of ERC's included in the wastewater treatment plant margin reserve was based on the three year period originally recommended by staff. This should have been changed to one and one half years consistent with the Commission vote at the final agenda. The second error relates to limiting the amount of CIAC imputed to that amount of net plant included in the margin reserve.

Accordingly, staff recommends the correct amount of CIAC on the margin reserve should be \$688,310 for water and \$680,040 for wastewater. Accumulated Amortization of CIAC should be increased by \$10,968 and \$10,439 for water and wastewater, respectively. Also, test year amortization of CIAC should be increased by \$21,936 for water and \$20,877 for wastewater.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 5: Should PCUC's Motion for Reconsideration concerning evidentiary deficiency for nonreconciliation of investment tax credits (ITCs) be granted?

PRIMARY RECOMMENDATION: Yes. Unamortized ITCs should be increased by \$129,534 to the 13-month average balance of \$2,445,760 at a cost rate of zero. Upon reconsideration, the ITCs should receive a pro rata reconciliation adjustment. (C. ROMIG, REYES)

ALTERNATE RECOMMENDATION: No. Unamortized ITCs should be increased by \$129,534 to the 13-month average balance of \$2,445,760 at a cost rate of zero. Upon clarification, the Commission should find that PCUC did not carry its burden of proof and, therefore, no pro rata reconciliation is appropriate. (CAUSSEAU, REYES)

PRIMARY STAFF ANALYSIS: In its Motion, PCUC requests that the Commission reconsider its decision of the nonreconciliation of ITCs. PCUC has not requested reconsideration of the Commission's decision of the nonreconciliation of the customer deposits or the specific adjustment to ITCs of \$129,534, an imputation consistent with an adjustment made by the Commission in PCUC's last rate case.

In summary, PCUC states that there is no record support for the Commission's decision to deviate from PCUC's MFR presentation, which reconciled all components of its capital to rate base on a pro rata basis. In support of its position, PCUC first states that the record includes OPC's calculation which shows pro rata reconciliation. Further, PCUC points out, under cross-examination, utility witness Seidman agreed that it was appropriate to specifically identify ITCs related to rate base, with the caveat, "if they can be [so] identified." (T. 223-224). PCUC also argues that there is no Commission rule requiring utilities to specifically identify ITCs as being related to specific plant. In addition, non-pro rata reconciliation of the ITCs is inconsistent with the Commission's decision in PCUC's last rate case. PCUC also states that Staff did not propose an amount of ITCs with which Mr. Seidman could agree or disagree, and no other witness either proposed not to reconcile ITCs or was cross-examined on the subject. Finally, PCUC argues, "[i]n actuality, all ITCs are not related to rate base. In actuality, all ITCs cannot be identified with rate base: they are related to plant, some of which is in rate base and some of which is not, depending on the used and useful adjustments to such plant balances. These actualities are not, however, reflected in the record."

OPC, in its Response to PCUC's Motion, states that it was the testimony of the utility's witness that was the basis for the Commission's decision and cites the same transcript reference cited

DOCKET NO. 951056-WS
March 6, 1997

by PCUC. (T. 223-224). Thus, OPC states failure to reveal OPC's method of rate base reconciliation should have no bearing on the Commission's decision on reconsideration. OPC further states that PCUC's contentions are a reargument of the issues and present no error of fact or law.

The record in this case clearly reflects that PCUC reconciled all capital components to rate base on a pro rata basis in its MFR presentation. (Exh. 7 (FS-1), Schedules D-1 and D-2; T. 182). The record also reflects that OPC's calculation included a pro rata reconciliation of ITCs as well. (Exh. 26 (KHD-1), Schedule 2; T. 569). In addition, Mr. Seidman testified that it was his understanding that the Commission uses a reconciled capital structure across the board except for customer deposits, which can be specifically identified with the utility customers. (T. 223-224). On page 17 of his prefiled rebuttal testimony, Mr. Seidman agreed to Ms. Dismukes' specific identification of customer deposits. (T. 547) Mr. Seidman also testified that it is appropriate to include in the capital structure ITCs specifically related to rate base, if they can be so identified. (T. 223-224). Furthermore, the record reflects that Witness Dismukes proposed a specific adjustment to ITCs consistent with the Commission's decision in the utility's last rate case. (T. 541-542). On rebuttal, Mr. Seidman agreed with Ms. Dismukes's adjustment to the ITCs. (T. 905). During cross-examination, Mr. Seidman agreed that the 13-month average balance of ITCs would be increased by \$129,534. (T. 1045-1046).

Primary Staff believes that PCUC's Motion for Reconsideration on this particular issue should be granted and that the ITCs should receive the reconciliation treatment afforded in PCUC's MFRs. Primary Staff believes that record support exists for the specific identification of customer deposits and \$129,534 of ITCs. However, Primary Staff believes that the only other record basis for reconciling rate base to capital structure is provided by PCUC's MFRs and Mr. Seidman's testimony, both of which are supported by the calculations of OPC and the order in PCUC's last rate case. The record does not contain any amount of ITCs specifically identified to the plant in rate base nor does it contain a method by which to determine that amount. Therefore, absent such evidence, the Commission should grant PCUC's motion for reconsideration and reconcile rate base and capital structure on a pro rata basis. The appropriate adjustments are reflected in Schedule No. 2.

ALTERNATE STAFF ANALYSIS: Alternate Staff agrees with Primary Staff's statement of the evidence in the record. Alternate Staff also notes that this evidence was discussed in Staff's original recommendation to the Commission with the exception of OPC's

DOCKET NO. 951056-WS
March 6, 1997

reconciliation method. Both the testimony of Ms. Dismukes and Mr. Seidman regarding the \$129,534 specific adjustment to ITCs was addressed in the recommendation. The recommendation also informed the Commission that the MFRs and Mr. Seidman's testimony reconciled rate base and capital structure on a pro rata basis. The recommendation also stated that it was Mr. Seidman's understanding that the Commission reconciled rate base and capital across the board except for customer deposits which can be specifically identified with utility customers. However, Mr. Seidman did not initially make that adjustment; nor did he initially make the ITC imputation made in the Company's last rate case. Staff's recommendation also included the fact that Mr. Seidman agreed that it is acceptable to include in the capital structure, customer deposits, ITCs, and deferred taxes when they can be specifically identified and reconcile the remainder on a pro rata basis. However, Alternate Staff does not believe that the order adequately reflected that the Commission rejected this evidence in reaching its decision that a pro rata investment tax credit reconciliation was not appropriate. To that extent, the Commission's decision should be clarified.

PCUC's motion contains several new arguments to support a pro rata reconciliation. This information is not in the record and should not be relied on by the Commission in clarifying its initial vote. "The purpose of reconsideration is merely to bring to the attention of the . . . administrative agency some point which it overlooked or failed to consider when it rendered its order in the first instance." Diamond Cab Co. of Miami v. King, 146 So.2d 889 (Fla. 1962). Therefore, it is not appropriate on reconsideration to consider new arguments which the utility failed to initially present.

Alternate Staff does not believe that PCUC provided any specific evidence in the record to support a pro rata reconciliation. Both PCUC and OPC made the calculation on that basis without comment as to why it was appropriate. Mr. Seidman's prefiled testimony merely said it was done in that manner without any further explanation. On cross examination, Mr. Seidman said it is his understanding that the Commission reconciles over all sources except customer deposits but did not provide any orders or other support for his belief.

Although Mr. Seidman said it is appropriate to specifically identify ITCs when it is possible to do so and spread the remaining difference pro rata over all sources, he did not say it is impossible in this case. He did not provide an amount of ITCs that are related to plant not in rate base. Nor did he provide a method of identifying an amount of ITCs that are related to plant not in rate base. Based on Mr. Seidman's statement that specific

DOCKET NO. 951056-WS
March 6, 1997

identification is appropriate when ITCs can be specifically identified, his failure to say they cannot be so identified, and his failure to provide an amount that should be excluded because it was related to the plant not in rate base, Alternate Staff believes the Commission could reasonably infer that all ITCs can be specifically identified to the plant in rate base and, thus, pro rata reconciliation was not appropriate.

The burden of proof in a Commission proceeding is always on the utility or other party seeking a change in rates. Florida Power Corp. v. Cresse, 413 So.2d 1187 (Fla. 1982). The utility failed to carry its burden of proof on this issue and should not be permitted to benefit from that failure. See Gulf Power Co. v. Florida Public Service Commission, 453 So.2d 799 (Fla. 1984). Therefore, Alternate Staff believes that the Commission did not err in its decision to not reconcile the ITCs on a pro rata basis. Further, Alternate Staff believes PCUC's arguments in its Motion are in fact reargument of the issue and present no error of fact or law. Accordingly, PCUC's motion should be denied.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 6: Should the Commission grant PCUC's First and Second Amended Motions for Reconsideration or, Alternatively, Motions to Correct Computational Errors?

RECOMMENDATION: No. PCUC's First and Second Amended Motions for Reconsideration or, Alternatively, Motions to Correct Computational Errors should be denied as untimely. (REYES)

STAFF ANALYSIS: As stated earlier, on January 24, 1997, PCUC filed an Amended Motion for Reconsideration or, Alternatively, Motion to Correct Computational Errors, along with a request for oral argument on this motion. On January 31, 1997, OPC filed its response to PCUC's amended pleading. On February 26, 1996, PCUC also filed a Second Amended Motion for Reconsideration, or, Alternatively, Motion to Correct Computational Errors, along with a request for oral argument. On March 3, 1996, OPC filed a response to PCUC's second amended motion.

In its motions, PCUC states that the amended motions are filed pursuant to Rule 25-22.035(3), Florida Administrative Code, and Rule 1.190, Fla.R.Civ.P. In its first amended motion, PCUC states that it has discovered an additional set of staff computational errors which have a significant impact on the financial integrity of the utility. PCUC also styled its motion in the alternative as a motion to correct computation errors and alleges that given the pendency of PCUC's original motion, the Order remains under the Commission's control. PCUC further states that the Commission has the inherent power to reconsider or amend final orders still under its control and that extraordinary circumstances warrant its corrections. In response, OPC states that Commission rules do not contemplate such an amended motion and that the motion as filed is untimely pursuant to Rule 25-22.060, Florida Administrative Code, and Rule 1.190, Fla.R.Civ.P.

In its second amended motion, PCUC states that after the utility's February 19, 1997 meeting with staff, OPC, and Flagler County, PCUC revisited the staff workpapers in order to understand errors which were explained to PCUC by staff during that meeting. During the course of that review, PCUC allegedly first became aware that the calculation of the imputed CIAC related to wastewater treatment plant was erroneously based on a margin reserve period of 36 months rather than the 18-month margin reserve period approved by the Commission in Order No. PSC-96-1338-FOF-WS. In response, OPC reiterates that Commission rules do not authorize amended motions for reconsideration and that the motion is untimely.

DOCKET NO. 951056-WS
March 6, 1997

PCUC relies on Rule 25-22.035(3), Florida Administrative Code, and Rule 1.190, Fla.R.Civ.P., as support for authority for filing its amended motions. Rule 25-22.035(3), Florida Administrative Code, provides that generally the Florida Rules of Civil Procedure shall govern in proceedings before the Commission, except that the provisions of the Commission's rules supersede the Florida Rules of Civil Procedure where a conflict arises between the two. Rule 1.190, Fla.R.Civ.P., authorizes a party to amend a pleading as a matter of course at any time before a responsive pleading is served, or if the pleading is one to which no responsive pleading is permitted and the action has not been placed on the trial calendar, may so amend it any time within 20 days after the original pleading has been served. Otherwise, a party may amend a pleading only by leave of court or by written consent of the adverse party.

Rule 25-22.060, Florida Administrative Code, which is the relevant rule addressing this matter, requires motions for reconsideration to be filed no later than fifteen days after issuance of a final order. Failure to timely file a motion for reconsideration constitutes a waiver of the right to seek reconsideration. Pursuant to City of Hollywood v. Public Employee Relations Commission, 432 So.2d 79 (Fla. 4th DCA 1983), the time permitted to file a motion for reconsideration is non-discretionary, and the Commission may not consider an untimely motion for reconsideration. See also, Citizens of the State of Florida v. North Fort Meyers Utility, Inc. and the Public Service Commission. (Fla. 1st DCA, Case No. 95-1439, November 16, 1995 order dismissing appeal).

Staff believes that both amended motions are additional motions for reconsideration and, therefore, are untimely and improper because the amended/alternative motions were not filed within fifteen days of the issuance of Order No. PSC-96-1338-FOF-WS. Pursuant to City of Hollywood, the Commission cannot consider an untimely motion for reconsideration. Furthermore, pursuant to Rule 25-22.035(3), Florida Administrative Code, because Rule 25-22.060, Florida Administrative Code, conflicts with Rule 1.190, Fla.R.Civ.P., Rule 25-22.060 supercedes. Even if there were no conflict between the rules, staff further believes that the motions are also untimely under Rule 1.190, Fla.R.Civ.P., because the amended pleadings were filed after OPC's initial responsive pleading. Based on the foregoing, staff recommends that the Commission not consider PCUC's first and second amended motions for

DOCKET NO. 951056-WS
March 6, 1997

reconsideration and alternative motions to correct computational errors and deny them as untimely.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 7: Should the Commission reconsider, on its own motion, a computational error in the calculation of rate base for the water system?

RECOMMENDATION: Yes. The Commission should correct a computational error made in calculating water rate base in the Final Order. Based on this, water rate base should be increased by \$2,491,147. (MONIZ)

STAFF ANALYSIS: Upon further review of our workpapers, staff discovered that we made an error in calculating the amount of non-used and useful plant in the water system. The formulas used to determine the water non-used and useful total for the General Plant accounts, added both the Other accounts and General Plant accounts, instead of just the General Plant accounts. The error resulted in non-used and useful water plant being overstated by \$2,580,944. In our review we also discovered that the same type of error occurred in non-used and useful accumulated depreciation, which was overstated by \$89,797. No adjustments are necessary to depreciation expense since it was calculated correctly.

Based on the above, staff recommends that an adjustment should be made to correct the computational error discovered in our workpapers. This adjustment results in a net decrease to non-used and useful water plant of \$2,491,147.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 8: What are the appropriate rate base amounts, weighted average cost of capital, and revenue requirements?

RECOMMENDATION: The appropriate rate base amounts should be \$13,372,875 for water and \$5,654,867 for wastewater. The weighted average cost of capital should be 8.75%. Additionally, the following revenue requirements should be approved. (WEBB)

	<u>Total</u>	<u>\$Incr.(Decr.)</u>	<u>%Change</u>
Water	\$5,483,087	\$82,723	1.53%
Wastewater	\$3,232,996	(\$54,209)	(1.65%)

STAFF ANALYSIS: Based upon a 13-month average rate base determination and staff's recommended adjustments on reconsideration, the appropriate rate base amounts should be \$13,372,875 for water and \$5,654,867 for wastewater. The water and wastewater rate base and adjustment schedules are attached as Schedules 1-A, 1-B, and 1-C.

As a result of the change recommended to the reconciliation of investment tax credits to rate base discussed in Issue 5, staff recommends a weighted average cost of capital of 8.75%.

The revenue requirement is a fall-out calculation based on staff's recommendations for rate base, cost of capital, and operating expenses. The utility requested final rates designed to generate annual revenues of \$6,971,647 and \$4,906,850 for water and wastewater, respectively. These requested revenues exceed staff adjusted test year revenues by \$1,571,283 (22.54%) for the water operations and \$1,619,645 (33.01%) for the wastewater operations. Based upon staff's proposed recommendations on reconsideration with regard to the underlying rate base, cost of capital, and operating income amounts, we recommend approval of rates that are designed to generate a revenue requirement of \$5,483,087 for water and \$3,232,996 for wastewater.

The Final Order revenue requirement amounts were \$5,094,035 and \$3,105,262 for water and wastewater, respectively. Staff's recommended adjustments on reconsideration represent increases of \$389,022 and \$127,734 for water and wastewater, respectively, over the Final Order revenue requirements.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 9: 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 \$198.81 and a gallonage charge of \$1.03. (RENDELL)

STAFF ANALYSIS: At page 93 of the Final Order, the Commission approved applying the same percentage increase to PCUC's current bulk rate as applied across-the-board in determining other water rates. This methodology is still applicable; however, in Issues 7 and 8, staff is recommending that the Commission reconsider, on its own motion, the calculation of water rate base and revenue requirement. Therefore, based upon this reconsideration, staff recommends that the appropriate bulk water rate for PCUC to charge Hammock Dunes should be a BFC of \$198.81 and a gallonage charge of \$1.03.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 10: What are the appropriate water and wastewater service rates for PCUC?

RECOMMENDATION: Consistent with Order No. PSC-96-1338-FOF-WS, adjusted for staff's recommendations concerning reconsideration, the recommended service rates should be designed to produce annual operating revenues of \$5,385,301 and \$3,148,420 for the water and wastewater divisions, respectively. These recommended revenues exclude any miscellaneous revenues, bulk water 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 Rule 25-30.475(1), Florida Administrative Code, 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), Florida Administrative Code. The utility should provide proof of the date notice was given within 10 days after the date of notice. (RENDELL)

STAFF ANALYSIS: The Utility's requested revenues represent increases of \$1,479,626 (26.94%) for water and \$1,575,817 (47.31%) for wastewater based on the projected test year ending December 31, 1995. Staff recommends that the final rates approved for the utility should be designed to produce annual operating revenues of \$5,385,301 for water and \$3,148,420 for wastewater using the base facility charge rate design. However, the recommended service revenues, which service rates are set exclude any miscellaneous revenues, bulk water revenues, and reuse revenues. Also, consistent with staff's recommendation in Issue 2, since bulk revenues are removed, the corresponding billing determinants should be removed prior to calculating the water service rates.

The utility should be required to file revised tariff sheets and proposed customer notice to reflect the appropriate rates pursuant to Rule 25-22.0407(10), Florida Administrative Code. 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), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of notice. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision and the proposed customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and staff's recommended rates is shown on Schedule Nos. 4-A and 4-B.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 11: 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 as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water and wastewater rates should be reduced as shown on Schedule Nos. 5-A and 5-B, to remove \$51,176 for water and \$51,176 for wastewater for rate case expense grossed-up for regulatory assessment fees which is 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, Florida Statutes. 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. (RENDELL)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of the rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989.

The water rates should be reduced by \$51,176 and the wastewater rates should be reduced by \$51,176 as shown in Schedules Nos. 5-A and 5-B. The revenue reductions reflect the annual rate case amounts amortized (expense) plus the gross-up for regulatory assessment fees.

The Utility should be required to file tariffs no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed "customer letter" setting forth the lower rates and the reason for the reduction.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 12: 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: Consistent with the methodology approved in the Final Order, the utility should be required to refund 1.09% of water revenues and 7.18% of wastewater revenues collected under interim rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. 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), Florida Administrative Code. (WEBB, RENDELL)

STAFF ANALYSIS: In Order No. PSC-96-0493-FOF-WS, issued on April 9, 1996, the utility's proposed rates were suspended and interim water and wastewater rates were approved subject to refund, pursuant to Sections 367.082, Florida Statutes. The approved interim revenues are shown below:

	<u>Revenues</u>	<u>Increase</u>	<u>Percentage</u>
Water	\$5,491,319	\$483,617	9.66%
Wastewater	\$3,432,636	\$481,419	16.31%

To establish the proper refund amount, we have calculated a revised interim revenue requirement with the same data used to establish final rates, as adjusted for the corrections recommended by staff on reconsideration. Rate case expense was again excluded because it was not an actual expense during the interim collection period.

Using the principles discussed in staff's final recommendation, we have calculated the revenue requirement for the interim collection period to be \$5,429,707 for water and \$3,170,298 for wastewater. The interim revenue requirements exceed these amounts. In order to determine the appropriate refund percent, miscellaneous revenues have been excluded. Therefore, staff recommends a refund percentage of 1.09% for water and 7.18% for wastewater for the interim period.

In addition to the refund being made with interest as required Section 25-30.360(4), Florida Administrative Code, staff is recommending that the utility be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Also, the utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

DOCKET NO. 951056-WS
March 6, 1997

ISSUE 13: 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 refunds have been completed. (REYES, RENDELL)

STAFF ANALYSIS: This docket should be closed 32 days after issuance of the order, to allow 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 refunds have been completed.

PALM COAST UTILITY CORPORATION-RECONSIDERATION
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-A
 DOCKET NO. 951056-WS

COMPONENT	TEST YEAR PER UTILITY YEAR-END	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJ. AVERAGE TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 63,505,519	(2,128,199)	\$ 61,377,320	(1,089,914)	60,287,406
2 LAND & LAND RIGHTS	504,632	0	504,632	0	504,632
3 NON-USED & USEFUL COMPONENTS	(8,602,553)	0	(8,602,553)	(7,896,742)	(16,499,295)
4 CWIP	3,992,210	(3,992,210)	0	0	0
5 ACCUMULATED DEPRECIATION	(20,996,438)	1,074,065	(19,922,373)	957,830	(18,964,543)
6 CIAC	(16,390,083)	0	(16,390,083)	683,201	(15,706,882)
7 AMORTIZATION OF CIAC	3,241,580	0	3,241,580	(241,452)	3,000,128
8 NET DEBIT DEFERRED TAXES (USED)	1,119,911	0	1,119,911	(368,482)	751,429
9	0	0	0	0	0
10 ADVANCES FOR CONSTRUCTION	(2,672,139)	2,672,139	0	0	0
11 WORKING CAPITAL ALLOWANCE	0	0	0	0	0
12 OTHER	0	0	0	0	0
RATE BASE	\$ 23,702,639	(2,374,205)	\$ 21,328,434	(7,955,559)	13,372,875

PALM COAST UTILITY CORPORATION-RECONSIDERATION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-B
 DOCKET NO. 951056-WS

COMPONENT	TEST YEAR PER UTILITY YEAR-END	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJ. AVERAGE TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 56,249,291	2,128,199	\$ 58,377,490	(3,718,488)	54,659,002
2 LAND & LAND RIGHTS	1,153,532	0	1,153,532	(525,555)	627,977
3 NON-USED & USEFUL COMPONENTS	18,345,687	426,872	18,772,559	(6,710,060)	12,062,499
4 CWIP	0	0	0	0	0
5 ACCUMULATED DEPRECIATION	(18,107,234)	(986,635)	(19,093,869)	892,137	(18,201,732)
6 CIAC	(61,045,743)	0	(61,045,743)	470,776	(60,574,967)
7 AMORTIZATION OF CIAC	16,511,375	0	16,511,375	(789,132)	15,722,243
8 DEBIT DEFERRED INCOME TAXES	1,940,403	0	1,940,403	79,784	2,020,187
9	0	0	0	0	0
10 ADVANCES FOR CONSTRUCTION	(990,073)	405,534	(584,539)	(75,803)	(660,342)
11 WORKING CAPITAL ALLOWANCE	0	0	0	0	0
12 OTHER	0	0	0	0	0
RATE BASE	\$ 14,057,238	1,973,970	\$ 16,031,208	(10,376,341)	5,654,867

PALM COAST UTILITY CORPORATION
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-C
 DOCKET NO. 951056-WS

EXPLANATION	WATER	WASTEWATER
PLANT IN SERVICE		
To reflect 13-month average test year	<u>(1,089,914)</u>	<u>(3,718,488)</u>
LAND		
1 Adjust cost from affiliate for sprayfield site	0	(207,233)
2 Adjust cost from affiliate for Rib site	0	(318,322)
Total	<u>0</u>	<u>(525,555)</u>
NON-USED AND USEFUL		
To reflect net non-used and useful adjustment	<u>(7,896,742)</u>	<u>(6,710,060)</u>
ACCUMULATED DEPRECIATION		
1 To reflect 13-month average test year	<u>957,830</u>	<u>892,137</u>
CIAC		
1 To reflect 13-month average test year	1,371,511	1,150,816
2 Imputation of CIAC-MR	(688,310)	(680,040)
Total	<u>683,201</u>	<u>470,776</u>
ACCUM. AMORT. OF CIAC		
1 To reflect 13-month average test year	(252,420)	(799,571)
2 Imputation of CIAC on margin reserve	10,968	10,439
Total	<u>(241,452)</u>	<u>(789,132)</u>
DEFERRED INCOME TAXES		
To reflect 13-month average test year	<u>(368,482)</u>	<u>79,784</u>
Total		
ADVANCES FOR CONSTRUCTION		
To reflect 13-month average test year	<u>0</u>	<u>(75,803)</u>

1900

PALM COAST UTILITY CORPORATION-RECONSIDERATION
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/95

SCHEDULE NO. 2
 DOCKET NO. 951056-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 1995 - YEAR-END							
1 LONG TERM DEBT	12,125,000	0	(643,582)\$	11,481,418	30.73%	7.24%	2.23%
2 SHORT-TERM DEBT	4,312,000	0	(228,876)	4,083,124	10.93%	7.73%	0.84%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	20,265,735	0	(1,075,683)	19,190,052	51.37%	11.10%	5.70%
5 CUSTOMER DEPOSITS	485,000	0	(25,743)	459,257	1.23%	6.00%	0.07%
6 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	2,266,072	0	(120,281)	2,145,791	5.74%	0.00%	0.00%
8 OTHER	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	<u>39,453,807</u>	<u>0</u>	<u>(2,094,165)\$</u>	<u>37,359,642</u>	<u>100.00%</u>		<u>8.85%</u>
PER STAFF 1995 - 13-MONTH AVERAGE							
10 LONG TERM DEBT	12,557,692	0	(6,519,103)\$	6,038,589	31.74%	7.24%	2.30%
11 SHORT-TERM DEBT	3,668,231	0	(1,904,297)	1,763,934	9.27%	7.73%	0.72%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	19,943,543	0	(10,353,337)	9,590,206	50.40%	11.10%	5.60%
14 CUSTOMER DEPOSITS	458,926	0	0	458,926	2.41%	6.00%	0.14%
15 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	2,316,226	129,534	(1,269,673)	1,176,087	6.18%	0.00%	0.00%
16 OTHER	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	<u>38,944,618</u>	<u>129,534</u>	<u>(20,046,411)\$</u>	<u>19,027,741</u>	<u>100.00%</u>		<u>8.75%</u>
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY					<u>10.10%</u>	<u>12.10%</u>	
OVERALL RATE OF RETURN					<u>8.25%</u>	<u>9.26%</u>	

PALM COAST UTILITY CORPORATION-RECONSIDERATION
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-A
 DOCKET NO. 951056-WS

DESCRIPTION	TEST YEAR PER UTILITY 1995	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 5,384,699	\$ 1,586,948	\$ 6,971,647	(1,571,283)	5,400,364	82,723	5,483,087
OPERATING EXPENSES:						1.53%	
2 OPERATION AND MAINTENANCE	\$ 3,026,338	\$(222,018)	\$ 2,804,320	(44,132)	2,760,188		2,760,188
3 DEPRECIATION	1,621,374	(437,104)	1,184,270	(366,960)	817,310		817,310
4 AMORTIZATION	(82,781)	(5,469)	(88,250)	5,469	(82,781)		(82,781)
5 TAXES OTHER THAN INCOME	874,220	(180,899)	693,321	(166,097)	527,224	3,723	530,946
6 INCOME TAXES	(289,553)	781,183	491,630	(234,609)	257,021	29,728	286,749
7 TOTAL OPERATING EXPENSES	\$ 5,149,598	\$(64,307)	\$ 5,085,291	(806,329)	4,278,962	33,450	4,312,413
8 OPERATING INCOME	\$ 235,101	\$ 1,651,255	\$ 1,886,356	(764,954)	1,121,402	49,273	1,170,674
9 RATE BASE	\$ 23,702,639		\$ 21,328,434		13,372,875		13,372,875
RATE OF RETURN	0.99%		8.84%		8.39%		8.75%

PALM COAST UTILITY CORPORATION-RECONSIDERATION
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-B
 DOCKET NO. 951056-W5

DESCRIPTION	TEST YEAR PER UTILITY 1995	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR/ UTILITY 1995	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 3,150,538	\$ 1,756,312	\$ 4,906,850	\$ (1,619,645)	3,287,205	(54,209)	3,232,996
OPERATING EXPENSES						-1.65%	
2 OPERATION AND MAINTENANCE	\$ 2,049,154	\$ (80,503)	\$ 1,968,651	\$ (54,030)	1,914,621		1,914,621
3 DEPRECIATION	35,244	728,836	764,080	(324,273)	439,807		439,807
4 AMORTIZATION	(57,525)	(1,309)	(58,834)	1,309	(57,525)		(57,525)
5 TAXES OTHER THAN INCOME	258,285	187,325	445,610	(123,366)	322,244	(2,439)	319,805
6 INCOME TAXES	131,947	237,542	369,489	(228,753)	140,736	(19,481)	121,255
7 TOTAL OPERATING EXPENSES	\$ 2,417,105	\$ 1,071,891	\$ 3,488,996	\$ (729,112)	2,759,884	(21,920)	2,737,963
8 OPERATING INCOME	\$ 733,433	\$ 684,421	\$ 1,417,854	\$ (890,533)	527,321	(32,289)	495,032
9 RATE BASE	\$ 14,057,238		\$ 16,031,208		5,654,867		5,654,867
RATE OF RETURN	5.22%		8.84%		9.33%		8.75%

**PALM COAST UTILITY CORPORATION-RECONSIDERATION
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED 12/31/95**

**SCHEDULE NO. 3-C
DOCKET NO. 951056-WS**

EXPLANATION	WATER	WASTEWATER
OPERATING REVENUES		
1 Remove requested final revenue increase	(1,479,626)	(1,575,817)
2 To include non-utility income	1,802	50,834
3 To remove year end adjustment	(93,459)	(94,662)
Total	<u>(1,571,283)</u>	<u>(1,619,645)</u>
OPERATION & MAINTENANCE EXPENSE		
1 Adjustment per stipulation No. 2 (Audit Exception No. 4)	(6,276)	896
2 Remove unsupported affiliate charges	(15,153)	(10,259)
3 Remove non-recurring personnel services expenses	(10,204)	(6,909)
4 Remove non-recurring legal fees	(4,457)	(3,017)
5 Reflect additional current rate case expense	11,185	11,185
6 To reduce chamber dues & rental expenses per Stipulation No. 3	(828)	(36,981)
7 To remove year end adjustment for power & chemicals	(18,399)	(8,945)
Total	<u>(44,132)</u>	<u>(54,030)</u>
DEPRECIATION EXPENSE-NET		
1 Imputation of CIAC-MR I-48	(21,936)	(20,877)
2 Net used and useful adjustment	(345,024)	(303,396)
Total	<u>(366,960)</u>	<u>(324,273)</u>
AMORTIZATION, CIAC TAX GROSS UP		
To remove year end adjustment	<u>5,469</u>	<u>1,309</u>
TAXES OTHER THAN INCOME		
1 Remove RAF's on revenue adjustment	(70,708)	(72,884)
2 Non-used and useful property taxes I-108	(95,390)	(50,482)
Total	<u>(166,097)</u>	<u>(123,366)</u>
INCOME TAXES		
To adjust to test year income tax expense	<u>(234,609)</u>	<u>(228,753)</u>
OPERATING REVENUES		
Adjustment to reflect revenue requirement	\$ <u>82,723</u>	\$ <u>(54,209)</u>
TAXES OTHER THAN INCOME TAXES		
Regulatory assessment taxes on additional revenues	\$ <u>3,723</u>	\$ <u>(2,439)</u>
INCOME TAXES		
Income taxes related to revenue requirement	\$ <u>29,728</u>	\$ <u>(19,481)</u>

**WATER
 RATE SCHEDULE**

Monthly Service Rates

	<u>Rates Prior to Filing</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Per Order 96-1338</u>	<u>Staff Recommended Final</u>
<u>Residential, General Service, and Multi-Family</u>					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	\$10.55	\$11.49	\$15.36	\$12.53	\$12.59
1"	\$26.34	\$28.71	\$38.39	\$31.32	\$31.47
1-1/2"	\$52.69	\$57.42	\$76.79	\$62.63	\$62.93
2"	\$84.29	\$91.87	\$122.86	\$100.21	\$100.69
3"	\$168.58	\$183.73	\$245.71	\$200.42	\$201.38
4"	\$263.41	\$287.09	\$383.93	\$313.15	\$314.65
6"	\$526.81	\$574.16	\$767.84	\$626.31	\$629.30
Gallage Charge, per 1,000 Gallons	\$3.60	\$3.92	\$4.52	\$2.87	\$3.60
<u>Bulk Service</u>					
6" - Hammock Dunes - BFC	\$195.79	\$213.39	\$285.64	\$184.59	\$198.81
Gallage Charge, per 1,000 Gallons	\$1.01	\$1.10	\$1.26	\$0.95	\$1.03
<u>Irrigation Service - All Classes</u>					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	\$5.27	\$5.75	\$7.68	\$6.26	\$6.29
1"	\$26.34	\$28.71	\$38.39	\$31.32	\$31.47
1-1/2"	\$52.69	\$57.42	\$76.79	\$62.63	\$62.93
2"	\$84.29	\$91.87	\$122.86	\$100.21	\$100.69
3"	\$168.58	\$183.73	\$245.71	\$200.42	\$201.38
4"	\$263.41	\$287.09	\$383.93	\$313.15	\$314.65
6"	\$526.81	\$574.16	\$767.84	\$626.31	\$629.30
Gallage Charge, per 1,000 Gallons	\$3.60	\$3.92	\$4.52	\$2.87	\$3.60
<u>Private Fire Protection</u>					
<u>Line Size</u>					
4"	\$87.89	\$95.68	\$31.97	\$26.10	\$26.22
6"	\$175.60	\$191.38	\$63.87	\$52.19	\$52.44
8"	\$280.95	\$306.20	\$102.18	\$83.51	\$83.91
10"	\$403.83	\$440.13	\$146.88	\$120.04	\$120.62
12"	\$754.94	\$822.80	\$274.58	\$224.43	\$225.50
<u>Public Fire Hydrants</u>					
Per Hydrant - Per Year	\$100.00	\$100.00	\$0.00	\$0.00	\$0.00
<u>Typical Residential Bills</u>					
<u>5/8" x 3/4" meter</u>					
3,000 Gallons	\$21.35	\$23.25	\$28.92	\$21.14	\$23.37
5,000 Gallons	\$28.55	\$31.09	\$37.96	\$26.89	\$30.57
10,000 Gallons	\$46.55	\$50.69	\$60.56	\$41.26	\$48.54

RATE SCHEDULE

WASTEWATER

Monthly Service Rates

	<u>Rates Prior to Filing</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Per Order 96-1338</u>	<u>Staff Recommended Final</u>
<u>Residential Service</u>					
Base Facility Charge: All meter sizes	\$11.10	\$12.75	\$13.46	\$10.42	\$10.56
Gallorage Charge Per 1,000 gallons (8,000 gallon cap)	\$3.61	\$3.36	\$4.66	\$2.81	\$3.00
<u>General Service</u>					
Base Facility Charge: Meter Size:					
5/8" x 3/4"	\$11.10	\$12.75	\$13.46	\$10.42	\$10.56
1"	\$27.72	\$31.85	\$33.65	\$26.06	\$26.40
1-1/2"	\$55.44	\$63.68	\$67.31	\$55.46	\$52.80
2"	\$88.69	\$101.88	\$107.69	\$88.73	\$84.47
3"	\$177.39	\$203.77	\$215.38	\$177.46	\$168.95
4"	\$277.18	\$318.40	\$336.53	\$277.29	\$263.98
6"	\$554.35	\$636.79	\$673.05	\$554.58	\$527.96
8"					
Gallorage Charge, per 1,000 Gallons	\$3.52	\$4.04	\$5.60	\$3.55	\$3.60

Reuse

	<u>Rates Prior to Filing</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Per Order 96-1338</u>	<u>Per Order 96-1338</u>
Per 1,000 gallons	\$0.00	\$0.00	\$0.67	\$0.07	\$0.07

Typical Residential Bill

<u>5/8" x 3/4" meter</u>					
3,000 Gallons	\$21.93	\$22.83	\$27.44	\$18.87	\$19.55
5,000 Gallons	\$29.15	\$29.55	\$36.76	\$24.49	\$25.55
10,000 Gallons (Sewer Cap - 8,000 Gallons)	\$32.76	\$32.91	\$41.42	\$27.31	\$28.55

WATER
RATE SCHEDULE

**Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense**

	Staff Recommended Final	Rate Decrease
<u>Residential, General Service, and Multi-Family</u>		
Base Facility Charge:		
Meter Size:		
5/8" x 3/4"	\$12.59	\$0.12
1"	\$31.47	\$0.30
1-1/2"	\$62.93	\$0.59
2"	\$100.69	\$0.95
3"	\$201.38	\$1.89
4"	\$314.65	\$2.96
6"	\$629.30	\$5.92
Gallonage Charge, per 1,000 Gallons	\$3.60	\$0.03
<u>Bulk Service</u>		
6" - Hammock Dunes - BFC	\$198.81	\$1.87
Gallonage Charge, per 1,000 Gallons	\$1.03	\$0.01
<u>Irrigation Service - All Classes</u>		
Base Facility Charge:		
Meter Size:		
5/8" x 3/4"	\$6.29	\$0.06
1"	\$31.47	\$0.30
1-1/2"	\$62.93	\$0.59
2"	\$100.69	\$0.95
3"	\$201.38	\$1.89
4"	\$314.65	\$2.96
6"	\$629.30	\$5.92
Gallonage Charge, per 1,000 Gallons	\$3.60	\$0.03
<u>Private Fire Protection</u>		
<u>Line Size</u>		
4"	\$26.22	\$0.25
6"	\$52.44	\$0.49
8"	\$83.91	\$0.79
10"	\$120.62	\$1.13
12"	\$225.50	\$2.12
<u>Public Fire Hydrants</u>		
Per Hydrant - Per Year	\$0.00	\$0.00

RATE SCHEDULE

Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense

Wastewater

Monthly Rates

	Staff Recommended <u>Final</u>	<u>Rate Decrease</u>
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Residential Service

Base Facility Charge: All meter sizes	\$10.56	\$0.17
Gallonage Charge Per 1,000 gallons (8,000 gallon cap)	\$3.00	\$0.05

General Service

Base Facility Charge: Meter Size:		
5/8" x 3/4"	\$10.56	\$0.17
1"	\$26.40	\$0.43
1-1/2"	\$52.80	\$0.86
2"	\$84.47	\$1.37
3"	\$168.95	\$2.75
4"	\$263.98	\$4.29
6"	\$527.96	\$8.58
8"		
Gallonage Charge, per 1,000 Gallons	\$3.60	\$0.06