

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

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CLERK

**DATE:** December 22, 2009

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Regulatory Analysis (Casey)  
Division of Economic Regulation (Lingo, Walden, Thompson)  
Office of the General Counsel (Sayler)

**RE:** Docket No. 080695-WU – Application for general rate increase by Peoples Water Service Company of Florida, Inc.

*Handwritten signatures and initials:*  
 PK, PA, CA, MS, TS, JB, 198, [initials]

**AGENDA:** 01/05/10 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 15 and 17 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Edgar

**CRITICAL DATES:** 01/05/10 (5-Month Effective Date Waived until 01/05/10)

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\RCP\WP\080695.RCM.DOC

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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### **Case Background**

Peoples Water Service Company of Florida, Inc. (Peoples or Utility) is a Class A water utility providing service to approximately 8,277 customers in Escambia County. Peoples is a Florida corporation incorporated on May 1, 1995. Peoples has not had a general rate increase application processed before the Florida Public Service Commission (Commission). The Utility's last general rate increase request was approved by the Escambia County Board of County Commissioners in June of 1991. The Commission received jurisdiction over Peoples in December 1991.<sup>1</sup> The Utility has implemented pass-through and annual indexing adjustments pursuant to the provisions of Section 367.081(4)(a) and (b), Florida Statutes (F.S.), and Rules 25-30.420 and 25-30.425, Florida Administrative Code (F.A.C.). In its 2008 annual report, the Utility reported operating revenues of \$3,048,381 and a net income of \$104,327.

On May 20, 2009, Peoples filed its application for approval of interim and final rate increases in this instant docket. The Utility had a few deficiencies in the minimum filing requirements (MFRs). The deficiencies were corrected, and July 2, 2009, was established as the official filing date. Peoples requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2008.

Peoples requested interim rates were designed to generate annual water revenues of \$3,417,161, an increase of \$351,033 or 11.45 percent. The Utility requested final rates designed to generate annual water revenues of \$3,483,246, an increase of \$417,118 or 13.6 percent.

By Order No. PSC-09-0537-PCO-WU, issued August 4, 2009, the Commission approved interim rates designed to generate annual water revenues of \$3,350,156, an increase of \$284,028 or 9.26 percent. This recommendation addresses the revenue requirement and rates to be charged on a prospective basis. The Commission has jurisdiction pursuant to Section 367.081, F.S.

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<sup>1</sup> Order No. 25593, issued January 13, 1992, in Docket No. 911196-WS, In re: Resolution of the Board of County Commissioners of Escambia County declaring Escambia County subject to the provisions of Chapter 367, Florida Statutes.

### **Discussion of Issues**

**Issue 1:** Is the quality of service provided by Peoples Water Service Company, Inc. satisfactory?

**Recommendation:** Yes. The overall quality of service is satisfactory. (Walden)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), F.A.C., the Commission shall determine the overall quality of service the Utility provides by evaluating the quality of the Utility's product, the operational conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The Utility's compliance with the Florida Department of Environmental Protection's (DEP) regulations and customer comments or complaints received by the Commission are also reviewed. Staff conducted a field inspection of the Utility's facilities on October 5, 2009.

#### **Quality of the Product**

Escambia County falls under review by DEP's Northwest District. A sanitary survey in 2006 listed one deficiency that has since been addressed by the Utility. That deficiency was a tank inspection and cleaning that has now been accomplished, although the report submitted to the DEP was not signed and sealed by a Professional Engineer licensed in Florida. A more recent sanitary survey was completed in August 2009, and states that documentation needs to be completed for the tank inspection and cleaning. The survey also notes that due to a rule change related to operator staffing, additional operator time is required on site at two of the Utility's plants. The Utility is working with the DEP to see if its electronic control system can be used in lieu of additional operator staff time and still comply with the rule. In reviewing the data available, it appears that the quality of the water that Peoples provides to its customers is satisfactory.

#### **Operational Conditions at the Plant**

Water from the Utility's five wells is treated with a lime slurry solution for pH adjustment and chlorine gas for disinfection. Wells 3 and 5 have granulated activated carbon filtration. Staff conducted an on-site inspection at several of the plants during the field inspection October 5, 2009, and found the plants to be operating as designed, except for Well 5 at the Corry Plant, where the well is temporarily out of service for repairs. Operational conditions at the water plants appear to be satisfactory.

#### **Customer Satisfaction**

Two customer meetings were held in Pensacola to allow the customers an opportunity to provide comments concerning the quality of service. The first meeting was held on August 24, 2009. Two customers attended and made comments about the Utility's proposed rate structure. A second meeting was held on October 5, 2009, when it was discovered that the first customer notice did not correctly articulate the Utility's proposed change in rate structure to eliminate the minimum gallonage allowance. At this second meeting, two more customers attended, offering comments about the proposed change in rate structure. The Commission also received several letters from customers, most addressing the change in rate structure as contained in the notice to

customers. The Utility's proposed and Staff's recommended rate structure will be addressed in Issue 12.

Another customer commented that the water must be boiled before drinking and that he purchases bottled water. According to the Utility manager, there is a small amount of hydrogen sulfide in the water, most notably in the westernmost wells. Staff has contacted the customer about the water quality via e-mail in an effort to help and the customer has not responded.

A review of the Commission's Consumer Activity Tracking System shows several complaints filed regarding billing issues and delinquent notices, and specifically the timing of those notices received by customers. The Utility responded to Commission inquiries regarding billing and notices to customers, and those inquiries have been resolved and are closed. Therefore, staff recommends that the Utility's attempts to address customer concerns are satisfactory.

### Summary

Based upon a review of the data available, the quality of the product and the condition of the Utility's water facilities are in compliance with regulatory standards. In addition, the Utility appears to address customer concerns on a timely basis. Therefore, staff recommends that the overall quality of service provided to the customers is satisfactory.

**Issue 2:** What are the used and useful percentages of the Utility's water plant and distribution system?

**Recommendation:** The water plant and distribution system are 100 percent used and useful. (Walden)

**Staff Analysis:** The Utility's plants produce water from five wells constructed between 1951 and 1991. Four storage tanks are in use in the service area, while a fifth tank, the old Gulf Beach elevated tank, was removed from the system in 2004. After touring the service area, staff believes that the service area is essentially built out, although there are some vacant lots scattered where homes could be built. A review of the Utility's annual reports for the last five years shows some growth in larger sized meters, but about the same number of residential 5/8" X 3/4" meters each year. Overall, the meter equivalents have climbed from 12,022 to 12,466 in the last five years with 426 equivalents being added in 2008.

Schedule F-1 of the Utility's MFR filing shows that unaccounted for water is less than 10 percent. This percentage is within Commission guidelines. Schedule F-5 of the MFRs shows that maximum day demand exceeds the firm reliable capacity of the plants. Schedule F-7 of the MFRs states that the distribution system is entirely contributed. Schedule F-9 of the MFRs shows overall growth since 2004 at 0.2 percent. Staff recommends that, pursuant to Rule 25-30.4325, F.A.C., the Utility's service area is essentially built out; thus, the water plant and distribution system be considered 100 percent used and useful.

**Issue 3:** Should any adjustments be made to Peoples' plant-in-service and accumulated depreciation for the test year ending December 31, 2008?

**Recommendation:** Yes. Plant-in-service should be reduced by \$155,539 to remove plant with no supporting documentation, and an adjustment of \$776 should be made to reflect the appropriate 13-month average plant. Accumulated depreciation should be reduced by \$4,262, and an adjustment of (\$11,916) should be made to reflect the appropriate 13-month average accumulated depreciation. (Casey)

**Staff Analysis:** As mentioned in the case background, Peoples has not had a rate case before the Commission, and the Commission has not established rate base for the Utility. Peoples recorded 13-month average plant-in-service of \$12,720,410 as of December 31, 2008. Staff audited the Utility's books and determined that the Utility included \$155,539 of plant-in-service that did not have supporting documentation (Audit Finding No. 1). Staff made an adjustment of (\$155,539) to remove the undocumented plant.

Peoples included a 13-month averaging adjustment to plant-in-service of (\$266,042) in its filing. Staff's 13-month averaging adjustment to plant-in-service is (\$265,266) after removing the undocumented plant. Staff made an adjustment of \$776 to plant-in-service to reflect the appropriate 13-month averaging adjustment. Staff's adjustments reflect a Utility plant-in-service balance of \$12,461,592 as of December 31, 2008.

The Utility included pro forma costs of \$213,444 in plant-in-service. These costs are for meters and meter installations to convert customers' existing meters to radio-read technology. This is a multi-year project started in 2006 with a scheduled completion date of August 31, 2010. The \$213,444 cost represents installations of meters for the calendar year 2009. Staff believes these costs are justified and reasonable.

Since Peoples has not had rate base set by the Commission, it used depreciation rates approved by Escambia County up to the beginning of the test year. An undocketed audit of Peoples was completed November 7, 1995, for the twelve months ending December 31, 1994. At the completion of the audit, a disclosure was made noting that Peoples was using asset lives different from Commission-estimated asset lives. In answer to this disclosure, Peoples stated:

[Peoples] has utilized in the past and continues to use depreciation rates as approved by its previous regulatory body. The rates appropriately reflect the actual useful lives of the assets in our opinion and historical experience, based on many years of experience in the industry. The PSC rule does not require the implementation of the service lives outlined in Rule 25-30.140, F.A.C. in a proceeding such as this. [Peoples] is willing to discuss with staff changing the rates on a forward looking basis to comply with the PSC guideline asset service life.<sup>2</sup>

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<sup>2</sup> Comments by Peoples Water Service Company of Florida, Inc. regarding Florida Public Service Commission Audit Control Number 95-181-1-1, Audit Disclosure 9 - Depreciation.

For this proceeding, staff calculated depreciation using Commission depreciation rates and determined that accumulated depreciation would have decreased by \$789,752 if Commission depreciation rates were used since 1991 in lieu of Escambia County's approved rates. Peoples filed its petition changing its depreciation rates to rates established by the Commission starting at the beginning of the test year. The result of using rates as filed by Peoples produces a savings to customers of over \$69,000 per year, based on the Utility's recommended overall rate of return.

Peoples recorded 13-month average accumulated depreciation of (\$6,468,529) as of December 31, 2008. Peoples made an adjustment of \$39,507 to test year accumulated depreciation to reflect accumulated depreciation adjusted to Commission guideline rates and include depreciation on pro forma meters. Peoples' test year total accumulated depreciation is (\$6,429,022).

Staff made an adjustment of \$4,262 to accumulated depreciation to reflect staff's calculation of accumulated depreciation using the Commission's guideline rates. Peoples included a 13-month averaging adjustment to accumulated depreciation of \$63,921 in its filing. Staff calculated a 13-month averaging adjustment of \$52,005 to accumulated depreciation. Staff made an adjustment of (\$11,916) to accumulated depreciation to reflect the appropriate 13-month averaging adjustment. Staff's total adjustments reflect a 13-month average accumulated depreciation balance of \$6,436,676 as of December 31, 2008.

The Utility's filing reflects test year depreciation of \$461,047, which includes \$19,417 of depreciation on pro forma meters. Staff made an adjustment of (\$4,262) to reflect test year depreciation using the Commission's guideline rates. Staff calculated test year depreciation of \$456,785.

Based on the above, staff recommends that plant should be reduced by \$155,539 to remove plant with no supporting documentation, and an adjustment of \$776 should be made to reflect the appropriate 13-month average plant. Accumulated depreciation should be reduced by \$4,262 to reflect accumulated depreciation using the Commission's guideline rates during the test year, and an adjustment of (\$11,916) should be made to reflect the appropriate 13-month average accumulated depreciation. An adjustment of (\$4,262) should also be made to reflect the appropriate amount of test year depreciation expense.



**Issue 4:** What is the appropriate working capital allowance ?

**Recommendation:** In accordance with Rule 25-30.433(2), F.A.C., the appropriate amount of working capital should be \$108,829. (Casey)

**Staff Analysis:** Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Rule 25-30.433(2), F.A.C., requires that working capital for Class A utilities shall be calculated using the balance sheet approach. According to its filing, Peoples utilized the balance sheet approach and calculated a working capital allowance of \$101,023 for water.

Schedule A-3 of the Utility's MFRs shows that Peoples included \$74,750 of simple average rate case expense in working capital. Based on prior Commission practice,<sup>3</sup> the average unamortized balance of the total allowed rate case expense is included in working capital. In Issue 9 of this recommendation, staff recommends rate case expense of \$165,113. The simple average balance of rate case expense would be \$82,556. Thus, staff recommends that working capital be increased by \$7,806 to reflect staff's average recommended rate case expense. Staff recommends that in accordance with Rule 25-30.433(2), F.A.C., the appropriate amount of working capital should be \$108,829.

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<sup>3</sup> See Order No. PSC 00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System).

**Issue 5:** What is the appropriate rate base for the December 31, 2008 test year?

**Recommendation:** The appropriate rate base for the test year ending December 31, 2008, should be \$3,749,809. (Casey)

**Staff Analysis:** Based on staff's recommended adjustments, and use of the appropriate 13-month average rate base for the test year ending December 31, 2008, rate base for Peoples should be \$3,749,809. The rate base schedule is attached as Schedule 1-A. The schedule of adjustments to rate base is attached as Schedule 1-B.

**Issue 6:** What is the appropriate return on equity?

**Recommendation:** The appropriate return on equity (ROE) should be 9.67 percent, based on staff's recommended 2009 leverage formula and an equity ratio of 100 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Casey)

**Staff Analysis:** Based on the Commission's 2009 leverage formula<sup>4</sup> and an equity ratio of 100 percent, staff calculated an ROE of 9.67 percent. Staff also recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. The ROE is shown on Schedule No. 2.

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<sup>4</sup> See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081 (4)(f), F.S.

**Issue 7:** What is the weighted average cost of capital including the proper components, amounts, and cost rates associated with the appropriate capital structure?

**Recommendation:** The recommended weighted average cost of capital is 8.80 percent for the test year ended December 31, 2008. (Casey)

**Staff Analysis:** Pursuant to Rule 25-30.433(4), F.A.C., the averaging method used by the Commission to calculate cost of capital is a 13-month average for Class A utilities. The test year book amounts were taken directly from Peoples' filing Schedule D-2. A check of the components showed that the Utility used a simple average when including its average customer deposit amount of \$115,984. Peoples' balance sheet (Schedule A-19) correctly reflected the 13-month average customer deposit balance of \$114,873. Staff made an adjustment of (\$1,111) to reflect the appropriate 13-month average amount of customer deposits. The Utility recorded common equity of \$3,187,570 for the test year. Staff made an adjustment of (\$10,272) to reflect reclassification of operation and maintenance expenses to equity (Audit Finding No. 4).

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 8.80 percent. Schedule No. 2 details staff's recommendation.

**Issue 8:** Should adjustments be made to test year operation & maintenance (O&M) expenses?

**Recommendation:** Yes. Test year O&M expenses should be decreased by \$26,183 to reflect staff's recommended test year O&M expenses. (Casey)

**Staff Analysis:** In its filing, Peoples reflected \$2,223,816 in test year O&M expenses. Staff made adjustments to the following accounts:

**Salaries and Wages – Employees** – Peoples recorded \$543,357 of salaries and wages for the test year. Staff reclassified \$6,904 to the materials and supplies account and \$16,525 to the contractual services account. Staff also reclassified \$143,958 in salaries recorded in the materials and supplies account to salaries and wages – employees.

**Employees Pensions and Benefits** – The Utility recorded \$167,931 of employee pensions and benefits during the test year. Staff reclassified \$159 to fuel for power production, \$435 to materials and supplies, and \$1,164 to retained earnings. An adjustment was also made to this account to reclassify \$304 from miscellaneous expenses to employee pensions and benefits.

**Purchased Power** - Peoples recorded test year purchased power expense of \$157,822. An adjustment was made to reclassify \$8,782 from purchased power to fuel for power production. Staff also reclassified \$419 of purchased power expense from fuel for power production to purchased power.

**Fuel for Power Production** - The Utility included \$419 of purchased power expense in this account in the test year. Staff reclassified \$8,782 from purchased power and \$159 from employee pensions and benefits to fuel for power production. Staff also reclassified \$419 of purchased power expense from this account to the purchased power account.

**Materials and Supplies** – Peoples recorded \$308,774 of materials and supplies expense during the test year. Staff reclassified \$143,959 to salaries and wages - employees, \$37,385 to contractual services - other, and \$64 to retained earnings. Adjustments were also made to reclassify \$435 from employee pensions and benefits, \$6,904 from salaries and wages – employees, and \$336 from miscellaneous expenses to this account.

**Contractual Service – Legal** – The Utility recorded \$16,657 of contractual services – legal during the test year. Staff made adjustments to remove \$15,911 of rate case expense and reclassify \$105 to retained earnings. Rate case expense is addressed in Issue 9 of this recommendation.

**Contractual Services – Other** – Peoples recorded \$28,006 of contractual services – other for the test year. Staff made adjustments to reclassify \$4,494 from miscellaneous expenses, \$16,526 from salaries and wages – employees, and \$37,385 from materials and supplies to this account.

**Transportation Expenses** – The Utility recorded \$48,885 of transportation expense for the test year. Staff reclassified \$1,213 of transportation expenses from miscellaneous expenses to this account.

Miscellaneous Expenses – Peoples recorded \$59,504 of miscellaneous expenses during the test year. Staff made adjustments to reclassify \$304 to employee pensions and benefits, \$336 to materials and supplies, \$4,494 to contractual services – other, \$1,213 to transportation expense, and \$8,939 to retained earnings.

Conclusion – Staff removed \$15,911 of rate case expenses, \$9,978 of non-utility expenses, and \$294 of expenses outside the test year from the Utility’s test year O&M expenses. A number of reclassifications were completed to place expenses in their proper account. A summary of staff’s adjustments is shown below. Staff recommends that test year O&M expenses should be decreased by \$26,183 to reflect staff’s recommended test year O&M expenses before rate case expense.

<b>PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC. Docket No. 080695-WU</b>				
<b>O&amp;M EXPENSES-WATER</b>				
<b>Test Year Ended 12/31/08</b>				
<u>ACCT NO.</u>	<u>ACCOUNT TITLE</u>	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJUSTMENTS</u>	<u>STAFF ADJUSTED TEST YEAR</u>
601	SALARIES AND WAGES - EMPLOYEES	\$543,357	\$120,529	\$663,886
603	SALARIES: OFFICERS, DIRECTORS, ETC.	0	\$0	\$0
604	EMPLOYEE PENSIONS AND BENEFITS	167,931	(\$1,454)	\$166,477
610	PURCHASED WATER	0	\$0	\$0
615	PURCHASED POWER	157,822	(\$8,363)	\$149,459
616	FUEL FOR POWER PRODUCTION	419	\$8,522	\$8,941
618	CHEMICALS	42,026	\$0	\$42,026
620	MATERIALS AND SUPPLIES	308,774	(\$173,733)	\$135,041
631	CONTRACTUAL SERVICES - ENGR.	1,846	\$0	\$1,846
632	CONTRACTUAL SERVICES - ACCT.	500	\$0	\$500
633	CONTRACTUAL SERVICES - LEGAL	16,657	(\$16,016)	\$641
634	CONTRACTUAL SERVICES - MGMT. FEES	541,449	\$0	\$541,449
635	CONTRACTUAL SERVICES - OTHER	28,006	\$58,405	\$86,411
636	CONTRACTUAL SERVICES - TESTING	178,367	\$0	\$178,367
641	RENTAL OF BUILDING/REAL PROPERTY	0	\$0	\$0
642	RENTAL OF EQUIPMENT	0	\$0	\$0
650	TRANSPORTATION EXPENSES	48,885	\$1,213	\$50,098
656	INSURANCE-VEHICLE	25,276	\$0	\$25,276
657	INSURANCE-GENERAL LIABILITY	38,179	\$0	\$38,179
658	INSURANCE-WORKMAN'S COMP.	21,839	\$0	\$21,839
659	INSURANCE-OTHER	22,782	\$0	\$22,782
660	ADVERTISING EXPENSE	0	\$0	\$0
666	AMORT. OF RATE CASE EXPENSE	0	\$0	\$0
667	REGULATORY COMM. EXPENSES - OTHER	0	\$0	\$0
670	BAD DEBT EXPENSE	20,197	\$0	\$20,197
675	MISCELLANEOUS EXPENSES	<u>59,504</u>	<u>(\$15,286)</u>	<u>\$44,218</u>
	TOTAL OPERATION AND MAINTENANCE	<u>\$2,223,816</u>	<u>(\$26,183)</u>	<u>\$2,197,633</u>

**Issue 9:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate amount of rate case expense for this docket should be \$165,113. This expense should be recovered over four years for an annual expense of \$41,278. (Casey)

**Staff Analysis:** Peoples initially submitted in its MFRs \$149,500 in rate case expense, with an annual amortization expense of \$37,375. The Utility subsequently updated its estimated rate case expenses to \$172,114. The breakdown of fees is shown below as reflected in the Utility's MFRs.

	<b>MFR</b>	<b>Utility Revised</b>
	<b><u>Estimated</u></b>	<b><u>Actual</u></b>
Cronin, Jackson, Nixon, and Wilson CPAs	\$60,000	\$77,968
Legal- Rose, Sundstrom & Bentley, LLP	60,000	82,646
In house - Notices, customer meeting, etc.	<u>25,000</u>	<u>11,500</u>
Total	<u>\$149,500</u>	<u>\$172,114</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes some adjustments are necessary to the revised rate case expense estimate.

The first adjustment is in regards to the hours billed by Rose Sundstrom & Bentley (RS&B) for services involving a possible acquisition of another utility and charged to rate case expense. Peoples was billed \$406 on September 18, 2008, \$29 on December 2, 2008, and \$1,254 on September 12, 2009, for research into the acquisition of another utility. Accordingly, staff recommends that \$1,689 (\$406 + \$29 + \$1,254) be removed as non-rate case expense.

The second adjustment involves costs incurred to correct deficiencies in the MFR filing. Based on information obtained from RS&B, Peoples was billed \$2,048 on July 9, 2009, and \$1,056 on August 10, 2009, for correcting the MFR deficiencies and revising the Utility's filing. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>5</sup> Accordingly, staff recommends that \$3,104 (\$2,048 + \$1,056) be removed as duplicative and unreasonable rate case expense.

The third adjustment relates to costs incurred related to the Utility's modification of the test year. On December 2, 2008, RS&B submitted a letter to the Chairman requesting a test year ending August 31, 2008. The Chairman approved the August 31, 2008 test year by letter dated January 29, 2009. A subsequent letter by RS&B dated February 4, 2009, requested the test year be modified to a test year ending December 31, 2008. By letter dated February 20, 2009, the

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<sup>5</sup> See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In Re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Chairman approved the modified test year ending December 31, 2008. Legal costs incurred in the change of the test year totaled \$1,344. Staff believes customers should not have to bear the costs of a utility decision to change the test year. Therefore, staff recommends \$1,344 related to the modified test year be removed from rate case expense.

Lastly, on July 9, 2009, RS&B billed the utility \$864 for charges related to service cutoff of a mobile home park. These charges were mistakenly included in rate case expense. Staff recommends that rate case expense be reduced by an additional \$864 for charges related to the cutoff of service to the mobile home park. Staff also reviewed the hourly rates of the consultants and determined they were similar or the same as hourly rates approved in previous rate cases.

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. 529 So. 2d 694 (Fla. 1988).

In summary, staff recommends that Peoples' rate case expense be decreased by \$7,001 for MFR deficiencies, modification of the test year, and non-rate case expenses. The appropriate total rate case expense should be \$165,113. A breakdown of rate case expense is as follows:

<u>Description</u>	<u>MFR</u>	<u>Utility</u>	<u>Staff</u>	<u>Total</u>
	<u>Estimated</u>	<u>Revised Actual</u>	<u>Adjustments</u>	
		<u>&amp; Estimated</u>		
Cronin, Jackson, Nixon, and Wilson CPAs	\$60,000	\$77,968	0	\$77,968
Legal – RS&B	60,000	82,646	(7,001)	75,645
In house - Notices, customer meeting, etc.	25,000	11,500	0	11,500
<b>Total Rate Case Expense</b>	<u>\$149,500</u>	<u>\$172,114</u>	<u>(\$7,001)</u>	<u>\$165,113</u>
<b>Annual Amortization</b>	<u>\$37,375</u>	<u>\$43,029</u>	<u>(\$1,750)</u>	<u>\$41,278</u>

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Peoples and the recommended adjustments discussed above, staff recommends annual rate case amortization of \$41,278.



**Issue 10:** What is the test year operating income or loss before any revenue increase?

**Recommendation:** Based on the operating expense and adjustments discussed in previous issues, the test year operating income should be \$112,671. (Casey)

**Staff Analysis:** Based on the operating expense and adjustments discussed in previous issues, Peoples experienced a net income of \$112,671 for the test year ending December 31, 2008. The schedule for water operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule 3-B.

**Issue 11:** What is the appropriate revenue requirement?

**Recommendation:** Staff recommends that the following revenue requirement should be approved: (Casey)

	Test		Revenue	
	<u>Year Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Water	\$3,063,047	\$364,620	\$3,427,667	11.90%

**Staff Analysis:** The revenue requirement is a summary computation that is dependent upon the previous issues related to rate base, cost of capital, and operating expenses. Peoples requested final rates designed to generate annual revenues of \$3,483,246. These revenues exceed test year revenues by \$417,118 (or 13.6 percent).

Based on staff's proposed recommendations concerning the underlying rate base, cost of capital, and operating income issues, Peoples' revenue requirement should be \$3,427,667. These revenues exceed Peoples' recommended test year revenues by \$364,620 (or 11.90 percent) as shown on attached Schedule 3-A.

**Issue 12:** What are the appropriate water system rate structures to apply to the Utility’s various customer classes, what is the appropriate method of calculating equivalent residential connections (ERCs), and what is the appropriate BFC cost recovery allocation percentage?

**Recommendation:** The appropriate rate structure for the Utility’s residential customers is a three-tiered inclining-block rate structure. The appropriate usage blocks are for monthly consumption: 1) of 0-6,000 gallons (6 kgal); 2) 6.001-12 kgal; and 3) in excess of 12 kgal. The usage block rate factors should be set at 1.0, 1.5 and 2.0, respectively. **The multiple minimum billing (MMB)/uniform gallonage charge rate structure should be applied to the multi-residential customer class.** The base facility charge (BFC)/uniform gallonage charge rate structure should be applied to all other customer classes. The appropriate method of calculating ERCs for customer classes other than the multi-residential class should be based on the American Water Works Association (AWWA) meter equivalency factors. **The appropriate calculation of ERCs for the multi-residential class should be based on the number of housing units served.** The BFC cost recovery allocation should be set at 30 percent. (Lingo, Thompson)

**Staff Analysis:** The current rate structure for all customers of the Utility is the BFC/declining-block rate structure with gallonage minimums (allotments), based on meter size, included in the BFC. The Utility’s current rates include a monthly BFC for a 5/8” x 3/4” meter of \$10.05, plus a 3 kgal minimum included in the BFC at no charge. Customers are also charged \$3.91 per month for the next 7 kgal above the minimum, \$3.47 for the next 10 kgal, and \$3.35 per kgal for all remaining usage during the month.

During a time in which inclining-block rate structures are the rate structure of choice, it is unusual to see three-tiered declining block rate structure with kgal minimums included in the BFC. Although the Utility’s rate structure is considered usage-sensitive, because customers are charged for all gallons consumed, it is also considered nonconservation-oriented, because the usage (consumption) rate decreases as consumption increases. The residential customer base is nonseasonal, with an average consumption per customer of 5.3 kgal per month. The current rates for each customer class are shown in Table 12-1 below.

TABLE 12-1

<b>PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC. SCHEDULE OF CURRENT RATES – BILLED MONTHLY</b>	
<b>Base Facility Charges and Associated Kgal Allotments (Minimums) – All Classes</b>	<b>BFC</b>
5/8” or 3/4” meter (includes 3 kgal)	\$10.05
1” meter (includes 6.3 kgals)	\$22.97
1 ¼” meter (includes 8.8 kgals)	\$32.76
1 ½” meter (includes 10.9 kgals)	\$40.60
2” meter (includes 30.5 kgals)	\$107.41
3” meter (includes 64.6 kgals)	\$221.87
4” meter (includes 132.8 kgals)	\$450.81
6” meter (includes 269.1 kgals)	\$908.32
<b>Gallonage Charges in Excess of Minimums – All Classes</b>	
First 7 kgal in excess of minimum	\$3.91
Next 10 kgal in excess of minimum	\$3.47
Remaining kgals in excess of minimum	\$3.35
Source: Peoples Water Service Company of Florida, Inc., Minimum Filing Requirements, Schedule E-1.	

As discussed both later in this issue and in Attachment A, the Utility has requested -- and staff is recommending -- significant changes in rate structure, including eliminating the kgal minimums (allotments) that are included in the BFC. All other things equal, eliminating kgal in the BFC results in the greatest price changes (in terms of percentage increase in price over the current bill) going to those customers using at or below the 3 kgal minimum. This is also the consumption range for customers' nondiscretionary usage, making it less likely that customers whose usage is in that range will be able to reduce their consumption to mitigate the overall increase in their bill. **Therefore, ways to reduce the BFC become an important consideration in the rate design process in this instance.**

**The Utility has requested that, as a method of reducing the BFC in this case, the appropriate calculation of ERCs for the multi-residential class should be based on the number of housing units served, rather than on AWWA meter equivalency factors. In most circumstances, the Commission-approved BFC for meter sizes larger than 5/8" x 3/4" is based on the AWWA meter equivalency factors. However, the Commission has approved alternative fixed cost recovery methodologies. One example is Mid-County Services, Inc. (Mid-County). In Mid-County's 1997 rate case, which was a full evidentiary proceeding, parties stipulated that, for rate structure purposes, the appropriate meter equivalency factors to be used for determining rates were the hydraulic factors in the Clow pipe economy usage scale.<sup>6</sup> In a subsequent 2003 proposed agency action (PAA) case, the Commission approved an allocation of the base facility charge (BFC) for Mid-County that was consistent with the Clow pipe methodology approved in Mid-County's 1997 case.<sup>7</sup> Finally, the Commission made a similar decision in Mid-County's 2008 PAA rate case.<sup>8</sup>**

**Although hydraulic flows, rather than number of units served behind the meter, formed the basis for selecting the Clow pipe methodology in each of the above-referenced cases, the end result of both the Clow pipe and MMB approaches is the same: each methodology resulted in a greater number of ERCs to be used in the calculation of the BFC than would have been calculated using the AWWA meter equivalency factors alone. Using the MMB approach to calculate ERCs results in 24,141 (or 18.4%) more ERCs available for the BFC calculation. This reduces the BFC for a 5/8" x 3/4" meter from \$7.82 to \$6.60. For the reasons discussed above, staff believes the MMB approach is appropriate in this case. However, because our recommendation is based on the rate structure circumstances in this case, this case, if the MMB is approved, should not be considered precedential in nature.**

Staff takes several things into consideration when designing rates, including the current rate structure, characteristics of the Utility's customer base, various conditions of the Utility's Consumptive Use Permit, and current and anticipated climatic conditions in the Utility's service area. Staff's recommended rate structure for the water system, plus two alternative rate

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<sup>6</sup> Order no. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket no. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

<sup>7</sup> Order no. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket no. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

<sup>8</sup> Order no. PSC-09-0373-PAA-SU, issued May 27, 2009, in Docket no. 080250-SU, In re: Application for increase in wastewater rates in Pinellas County by Mid-County Services, Inc.

structures, is shown on Table 12-2 on the following page. Each particular rate structure on Table 12-2 takes into account the repression adjustment staff believes would be appropriate as a result of the price changes that would result from that particular rate structure. The repression adjustment is addressed in Issue 13.

When compared to the current rate structure, all of the alternatives in Table 12-2 results in price decreases in the BFC. Staff's recommended rate structure and Alternative 1 also result in a price decrease at 1 kgal of consumption. Alternative 2 results in price increases of approximately \$1 or less (many of those are \$.50 or less) for consumption levels of 7 to 15 kgal. Another factor to consider in selecting the appropriate rate structure is how well the price increase is mitigated for those customers at 3 kgal, because these customers will be most affected by the elimination of the 3 kgal allotment in their rates. At 3 kgal of consumption, staff's recommended rate structure has the least price increase, while Alternative 2 has the greatest. A complete discussion of staff's rate structure methodology, including the Utility's multiple minimum billing proposal, is contained in Attachment A.

Therefore, staff believes that its recommended rate structure would be more effective than the alternatives presented both in terms of mitigating the increase at 3 kgal and in encouraging water conservation. Based on the foregoing, the information contained on Table 12-2 and the discussion contained in Attachment A, staff recommends that the appropriate rate structure for the Utility's residential customers is a three-tiered inclining-block rate structure. The appropriate usage blocks are for monthly consumption: 1) of 0-6,000 gallons (6 kgal); 2) 6,001-12 kgal; and 3) in excess of 12 kgal. The usage block rate factors should be set at 1.0, 1.5 and 2.0, respectively. **The multiple minimum billing (MMB)/uniform gallonage charge rate structure should be applied to the multi-residential customer class.** The base facility charge (BFC)/uniform gallonage charge rate structure should be applied to all other Utility customers. The appropriate method of calculating ERCs for customer classes other than the multi-residential class should be based on the American Water Works Association (AWWA) meter equivalency factors. **The appropriate calculation of ERCs for the multi-residential class should be based on the number of housing units served.** The BFC cost recovery allocation should be set at 30 percent.

TABLE 12-2

<b>PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC. STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS POST-REPRESSION ANALYSIS</b>			
<b>Current Rate Structure and Rates</b>		<b>Recommended Rate Structure and Rates</b>	
BFC/three-tiered declining block rate structure, with kgals included in the BFC (greater meter sizes have greater kgal allotments included), billed monthly		Three-tiered inclining-blocks – consumption of 0-6 kgals, 6.001-12 kgals, 12+ kgals; rate factors at 1.0, 1.5 and 2.0; BFC = 30 percent; billed monthly	
BFC (incl 3 kgal allotment / minimum)	\$10.05	BFC	\$6.60
First 7 kgal in excess of allotment	\$3.91	0-6 kgals	\$2.96
Next 10 kgal in excess of allotment	\$3.47	6.001-12 kgals	\$4.44
All remaining kgals	\$3.35	In excess of 12 kgals	\$5.91
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgal)</b>		<b>Cons (kgal)</b>	
0	\$10.05	0	\$6.60
3	\$10.05	3	\$15.47
5	\$17.87	5	\$21.39
10	\$37.42	10	\$42.08
15	\$54.77	15	\$68.70
20	\$72.12	20	\$98.27
25	\$88.87	25	\$127.84
30	\$105.62	30	\$157.41
<b>Alternative 1</b>		<b>Alternative 2</b>	
Two-tiered inclining-blocks – consumption of 0-10 kgals, 10+ kgals; rate factors of 1.0 and 2.0; BFC = 25 percent; billed monthly		Four-tiered inclining-blocks – consumption of 0-7 kgals, 7.001 – 15 kgals, 15.001 – 20 kgals, 20+ kgals; rate factors of 1.0, 1.5, 2.0, 3.0; BFC = 40 percent; billed monthly	
BFC	\$5.49	BFC	\$8.80
0-10 kgals	\$3.36	0-7 kgals	\$2.47
In Excess of 10 kgals	\$6.72	7.001-15 kgals	\$3.71
		15.001-20 kgals	\$4.95
		In Excess of 20 kgals	\$7.42
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgal)</b>		<b>Cons (kgal)</b>	
0	\$5.49	0	\$8.80
3	\$15.58	3	\$16.22
5	\$22.30	5	\$21.17
10	\$39.11	10	\$37.25
15	\$72.72	15	\$55.81
20	\$106.34	20	\$80.55
25	\$139.96	25	\$117.66
30	\$173.57	30	\$154.78

**Issue 13:** Is a repression adjustment to the Utility's water system appropriate in this case, and, if so, what is the appropriate adjustment to make for this Utility?

**Recommendation:** Yes, a repression adjustment is appropriate. Residential water consumption should be reduced by 12.3 percent, resulting in a consumption reduction of approximately 64,992 kgals. Total residential water consumption for ratesetting is 462,073 kgals. Total water consumption for ratesetting is 687,541 kgals, which represents an 8.6 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$12,908 in purchased power expense, \$3,630 in chemicals expense and \$780 in RAFs. The post-repression revenue requirement for the water system is \$3,410,350.

In order to monitor the effects of both the changes in revenues and rate structure, the Utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared by customer class and meter size. **The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect.** To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

**Staff Analysis:** Using our database of utilities that have previously had repression adjustments made, staff calculated repression adjustments for this Utility based upon the recommended revenue requirement increase, while using a price elasticity of demand of -0.4 applied to consumption. The methodology for calculating repression adjustments is same methodology that the Commission has approved in prior cases.<sup>9</sup>

Based on staff's analysis, repression adjustments to the Utility's water system is appropriate. Residential water consumption should be reduced by 12.3 percent, resulting in a consumption reduction of approximately 64,992 kgals. Total residential water consumption for ratesetting is 462,073 kgals. Total water consumption for ratesetting is 687,541 kgals, which represents an 8.6 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$12,908 in purchased power expense, \$3,630 in chemicals expense and \$780 in RAFs. The post-repression revenue requirement for the water system is \$3,410,350.

In order to monitor the effects of both the changes in revenues and rate structure, the Utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared, for both the water and wastewater systems, by customer class and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. The filing requirements for these repression reports have traditionally been on a quarterly basis. In the recent Labrador Utilities'

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<sup>9</sup> See Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; and Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

case in Docket No. 080249-WS, the Commission approved requiring the reports on a semi-annual, rather than a quarterly, basis.<sup>10</sup> For the purposes of consistency and equal treatment among utilities, staff recommends that, on a going-forward basis, the reporting period be on a semi-annual basis. However, staff does not believe reporting periods should be longer than a semi-annual basis. As staff designs more aggressive conservation-oriented rate structures, we believe it is important to obtain information regarding consumption changes on a frequent basis. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to prepare and file a revised monthly report for that month within 30 days of any revision.

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<sup>10</sup> See Order no. PSC-09-0462-PAA-WS, issued June 22, 2009, in Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.



**Issue 14:** What are the appropriate rates for this Utility?

**Recommendation:** The appropriate monthly water rates are shown on Schedule 4. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$3,410,350. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Casey, Thompson)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended water rates shown on Schedule No. 4 are designed to produce revenues of \$3,410,350. Approximately 30 percent (or \$1,023,105) of the water monthly service revenues is recovered through the base facility charges, while approximately 70 percent (or \$2,387,245) represents revenue recovery through the consumption charges. The Utility's private fire protection rates are based on 1/12 of the recommended base facility charge for the Utility's meter sizes, consistent with Rule 25-30.465, F.A.C.

The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

**Issue 15:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

**Recommendation:** The rates should be reduced as shown on Schedule No. 4 to remove the rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Peoples should provide proof of the date notice was given no less than 10 days after the date of the notice. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. (Casey)

**Staff Analysis:** Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on unamortized rate case expense included in working capital, and the gross-up for RAFs, which is \$50,830. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Peoples should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

**Issue 16:** 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 refund, if any?

**Recommendation:** The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Using these principals, staff recommends that no interim refund is required. (Casey)

**Staff Analysis:** By Order No. PSC-09-0537-PCO-WU, issued August 4, 2009, the Commission approved an interim revenue requirement of \$3,350,156 which represents an increase of \$284,028 or 9.26 percent. Pursuant to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 13-month average test year ending December 31, 2008. Peoples' approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

To establish whether a refund is appropriate, staff calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because the item is prospective in nature and did not occur during the interim collection period. The revenue requirement of \$3,427,667 is greater than the interim revenues of \$3,350,156 granted in Order No. PSC-09-0537-PCO-WU, and, as such, no interim refund should be made.

**Issue 17:** Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Peoples should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Casey)

**Staff Analysis:** To ensure that the Utility adjusts its books in accordance with the Commission's decision, Peoples should provide proof, within 90 days of the final order in this docket that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

**Issue 18:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively, and the letter of credit should be released. (Sayler, Casey)

**Staff Analysis:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively, and the letter of credit should be released.

Peoples Water Service Company of Florida, Inc. Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 080695-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$12,402,911	\$213,444	\$12,616,355	(\$154,763)	\$12,461,592
2 Land and Land Rights	\$104,055	\$0	104,055	0	104,055
3 Non-used and Useful Components	\$0	\$0	0	0	0
4 Accumulated Depreciation	(\$6,468,529)	\$39,507	(6,429,022)	(7,654)	(6,436,676)
5 CIAC	(\$4,019,958)	\$0	(4,019,958)	0	(4,019,958)
6 Amortization of CIAC	\$1,511,332	\$20,635	1,531,967	0	1,531,967
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Advances for Construction	\$0	\$0	0	0	0
9 Working Capital Allowance	\$0	\$101,023	101,023	7,806	108,829
10 Other	0	0	0	0	0
<b>11 Rate Base</b>	<b>\$3,529,811</b>	<b>\$374,609</b>	<b>\$3,904,420</b>	<b>(\$154,611)</b>	<b>\$3,749,809</b>

Peoples Water Service Company of Florida, Inc. Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-B Docket No. 080695-WU
Explanation	Water	
<u>Plant In Service</u>		
To remove plant with no supporting documentation (Audit Finding No. 1).		(\$155,539)
To adjust company averaging adjustment to reflect staff-calculated 13 month average plant		\$776
		<u>(\$154,763)</u>
<u>Accumulated Depreciation</u>		
To remove test year unsupported plant accumulated depreciation.		\$4,262
To reflect staff-calculated 13 month average accumulated depreciation.		<u>(\$11,916)</u>
		<u>(\$7,654)</u>
<u>Working Capital</u>		
To reflect staff-calculated simple average rate case expense.		<u>\$7,806</u>

Peoples Water Service Company of Florida, Inc. Capital Structure-13-Month Average Test Year Ended 12/31/08						Schedule No. 2 Docket No. 080695-WU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2 Short-term Debt	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	3,187,570	0	\$3,187,570	(23,366)	\$3,164,204	88.98%	9.74%	8.67%	
5 Customer Deposits	115,984	0	\$115,984	0	\$115,984	3.26%	6.00%	0.20%	
6 Deferred Income Taxes	<u>277,917</u>	<u>0</u>	<u>\$277,917</u>	<u>(2,021)</u>	<u>\$275,896</u>	<u>7.76%</u>	0.00%	<u>0.00%</u>	
10 <b>Total Capital</b>	<b><u>\$3,581,471</u></b>	<b><u>\$0</u></b>	<b><u>\$3,581,471</u></b>	<b><u>(\$25,387)</u></b>	<b><u>\$3,556,084</u></b>	<b><u>100.00%</u></b>		<b><u>8.86%</u></b>	
<b>Per Staff</b>									
11 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.10%	0.00%	
12 Short-term Debt	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
13 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
14 Common Equity	3,187,570	(10,272)	\$3,177,298	\$159,949	3,337,247	89.00%	9.67%	8.60%	
15 Customer Deposits	115,984	(1,111)	\$114,873	\$5,783	120,656	3.22%	6.00%	0.19%	
16 Deferred Income Taxes	<u>277,917</u>	<u>0</u>	<u>\$277,917</u>	<u>\$13,991</u>	<u>291,908</u>	<u>7.78%</u>	0.00%	<u>0.00%</u>	
20 <b>Total Capital</b>	<b><u>\$3,581,471</u></b>	<b><u>(\$11,383)</u></b>	<b><u>\$3,570,088</u></b>	<b><u>\$179,722</u></b>	<b><u>\$3,749,810</u></b>	<b><u>100.00%</u></b>		<b><u>8.80%</u></b>	
						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
					RETURN ON EQUITY	<u>9.67%</u>	<u>11.67%</u>		
					OVERALL RATE OF RETURN	<u>8.80%</u>	<u>10.58%</u>		



Peoples Water Service Company of Florida, Inc. Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 080695-WU	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$3,048,381</u>	<u>\$434,865</u>	<u>\$3,483,246</u>	<u>(\$420,199)</u>	<u>\$3,063,047</u>	<u>\$364,620</u> 11.90%	<u>\$3,427,667</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	2,223,816	\$0	2,223,816	15,095	2,238,911		2,238,911
3 Depreciation	466,949	(5,902)	461,047	(4,262)	456,785		456,785
4 Amortization	(95,500)	(20,635)	(116,135)	0	(116,135)		(116,135)
5 Taxes Other Than Income	303,861	22,252	326,113	(18,909)	307,204	16,408	323,612
6 Income Taxes	<u>74,622</u>	<u>111,393</u>	<u>186,015</u>	<u>(122,404)</u>	<u>63,611</u>	<u>131,032</u>	<u>194,643</u>
7 <b>Total Operating Expense</b>	<u>2,973,748</u>	<u>107,108</u>	<u>3,080,856</u>	<u>(130,480)</u>	<u>2,950,376</u>	<u>147,440</u>	<u>3,097,816</u>
8 <b>Operating Income</b>	<u>\$74,633</u>	<u>\$327,757</u>	<u>\$402,390</u>	<u>(\$289,719)</u>	<u>\$112,671</u>	<u>\$217,180</u>	<u>\$329,851</u>
9 <b>Rate Base</b>	<u>\$3,529,811</u>		<u>\$3,904,420</u>		<u>\$3,749,809</u>		<u>\$3,749,809</u>
10 <b>Rate of Return</b>	<u>2.11%</u>		<u>10.31%</u>		<u>3.00%</u>		<u>8.80%</u>

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC. Adjustment to Operating Income Test Year Ended 12/31/08		Schedule 3-B Docket No. 080695-WU
Explanation		Water
<u>Operating Revenues</u>		
Remove requested final revenue increase.		(\$434,865)
Adjust test year revenues for MMB multi-residential billing.		\$14,188
Include interest earned on \$10,440 of cash account (Audit finding No. 2).		\$478
		<u>(\$420,199)</u>
<u>Operation &amp; Maintenance Expenses</u>		
To remove rate case expense included in contractual services-legal.		(\$15,911)
To remove non-utility expenses.		(\$9,978)
To remove out-of-test year expenses.		(\$294)
To reflect the appropriate amount of rate case expense		\$41,278
		<u>\$15,095</u>
<u>Depreciation Expense</u>		
To reduce test year depreciation expense for unsupported plant.		(\$4,262)
<u>Taxes Other Than Income</u>		
RAF's on revenue adjustments above.		(\$18,909)

PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC.  
 Water Monthly Service Rates  
 Test Year Ended 12/31/08

Schedule No. 4  
 Docket No. 080695-WU

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
<b>Residential Meter Sizes</b>					
<b>(Minimum Charges* - Base Facility Charges per Month)</b>					
5/8" x 3/4" (3,000 gallon minimum included in base charge)	\$ 10.05	\$ 11.02	\$ 11.31	\$ 6.60	\$0.10
1" (6,300 gallon minimum included in base charge)	22.97	25.19	28.28	16.50	\$0.24
1 1/4" (8,800 gallon minimum included in base charge)	32.76	35.92	39.59	26.40	\$0.39
1 1/2" (10,900 gallon minimum included in base charge)	40.60	44.52	56.55	33.00	\$0.49
2" (30,500 gallon minimum included in base charge)	107.41	117.78	90.48	52.80	\$0.78
3" (64,600 gallon minimum included in base charge)	221.87	243.28	169.65	105.60	\$1.57
4" (132,800 gallon minimum included in base charge)	450.81	494.31	282.75	165.00	\$2.45
6" (269,100 gallon minimum included in base charge)	908.32	995.97	565.50	330.00	\$4.89
<b>Gallonage Charges per 1,000 Gallons per Month</b>					
First 3,000 gallons (included in minimum / base charge)		N/A	N/A		
Next 7,000 gallons in excess of minimum	\$ 3.91	\$ 4.29			
Next 10,000 gallons in excess of minimum	3.47	3.80			
Over 20,000 gallons per month	3.35	3.67			
First 7,000 gallons (no gallons included in base charge)			\$ 2.25		
7,001 - 15,000 gallons			3.38		
15,001 - 20,000 gallons			4.50		
Over 20,000 gallons			6.75		
First 6,000 gallons (no gallons included in base charge)				\$ 2.96	\$0.04
6,001 - 12,000 gallons				4.44	\$0.07
Over 12,000 gallons				5.91	\$0.09
<b>General Service, Multi-Family, Public Authority, Hydrant, Meters &amp; Irrigation (Minimum Charges* - Base Facility Charges per Month)</b>					
5/8" x 3/4" (3,000 gallon minimum included in base charge)	\$ 10.05	\$ 11.02	\$ 11.31	\$ 6.60	\$0.10
1" (6,300 gallon minimum included in base charge)	22.97	25.19	28.28	16.50	\$0.24
1 1/4" (8,800 gallon minimum included in base charge)	32.76	35.92	39.59	26.40	\$0.39
1 1/2" (10,900 gallon minimum included in base charge)	40.60	44.52	56.55	33.00	\$0.49
2" (30,500 gallon minimum included in base charge)	107.41	117.78	90.48	52.80	\$0.78
3" (64,600 gallon minimum included in base charge)	221.87	243.28	169.65	105.60	\$1.57
4" (132,800 gallon minimum included in base charge)	450.81	494.31	282.75	165.00	\$2.45
6" (269,100 gallon minimum included in base charge)	908.32	995.97	565.50	330.00	\$4.89
8"			1,017.90	594.00	\$8.81
10"			1,639.95	957.00	\$14.19
<b>Gallonage Charges per 1,000 Gallons per Month</b>					
First 3,000 gallons (included in minimum / base charge)		N/A	N/A		
Next 7,000 gallons in excess of minimum	\$ 3.91	\$ 4.29			
Next 10,000 gallons in excess of minimum	3.47	3.80			
Over 20,000 gallons per month	3.35	3.67			
Gallonage charge per 1,000 gallons			\$ 2.75	\$ 3.47	\$0.05
<b>Fire Protection (Sprinklers and Private Fire Hydrants) - Base Facility Charges per Month</b>					
2"	\$ 12.78	\$ 14.01	\$ 7.54	\$ 4.40	\$0.07
3"	15.36	16.84	14.14	8.80	\$0.13
4"	19.59	21.48	23.56	13.75	\$0.20
6"	30.68	33.64	47.13	27.50	\$0.41
8"	51.17	56.11	84.83	49.50	\$0.73
10"	76.70	84.10	136.66	79.75	\$1.18
<b>Typical Monthly Bills for 5/8" x 3/4" Residential Customers</b>					
3,000 gallons	\$ 10.05	\$ 11.02	\$ 18.06	\$ 15.48	
5,000 gallons	17.87	19.60	22.56	21.40	
10,000 gallons	37.42	41.05	37.20	42.12	
20,000 gallons	72.12	79.05	76.60	98.28	
30,000 gallons	105.62	115.75	144.10	157.38	

\* Present minimum / base facility charges include monthly minimum usage. Neither the utility's proposed nor staff's recommended final base facility charges have monthly gallonage minimums (allotments) included in the base facility charge.

## DETERMINATION OF APPROPRIATE RATE STRUCTURES

- HISTORY OF CURRENT RATES**
- (1) The Utility's BFC/gallonge charge rates were last set in 1991 by the Board of County Commissioners of Escambia County.<sup>11</sup> The rates were subsequently adopted by the Commission under grandfather rights.<sup>12</sup> The approved monthly rates at that time included a monthly BFC for a 5/8" x 3/4" meter of \$8.52, with a minimum (allotment) of 3 kgal included in the BFC. The approved declining-block gallonge charges were \$3.33 per kgal for the first 7 kgal in excess of the minimum, \$2.95 for the next 10 kgal in excess of the minimum, and \$2.85 per kgal for the remaining consumption billed in each month.<sup>13</sup>
- (2) The Utility has received price index rate adjustments as a method of increasing its rates.<sup>14</sup> The instant case represents the Utility's first full rate relief proceeding before the Commission. The current BFC for a 5/8" x 3/4" meter, including a 3 kgal minimum (allotment), is \$10.05. The usage rates are \$3.91 per kgal for the first 7 kgal in excess of the minimum, \$ 3.47 for the next 10 kgal in excess of the minimum, and \$3.35 per kgal for the remaining consumption billed in each month.<sup>15</sup>
- UTILITY'S PROPOSED RATE DESIGN**
- (3) In the instant proceeding, the Utility has proposed elimination of its current declining-block rate structure. For the residential class, the Utility proposes a four-tiered inclining-block rate structure, with usage blocks set at monthly consumption: 1) of 0 – 7 kgal; 2) 7.001 – 15 kgal; 3) 15.001 – 20 kgal; and 4) in excess of 20 kgal, with usage block rate factors of 1.0, 1.5, 2.0, and 3.0, respectively.<sup>16</sup> In addition, the Utility also proposes that the ERCs associated with the multi-residential class be calculated based on the total number of units served behind its meters, and that the BFC cost recovery allocation be set at 50 percent.<sup>17</sup> Finally, the Utility proposes to apply the traditional BFC / uniform gallonge charge rate structure to classes other than the residential class.<sup>18</sup>
- PRACTICES WITH THE WATER MANAGEMENT DISTRICTS**
- (4) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40 percent of the revenues to be generated from monthly service.<sup>19</sup> The Commission follows the WMD guideline whenever possible.<sup>20</sup>

<sup>11</sup> Peoples Water Service Company of Florida, Inc., response to Staff's First Data Request, item no. 40, dated November 5, 2009.

<sup>12</sup> See Order No. PSC-92-0866-FOF-WU, issued August 25, 1992, in Docket no. 920289-WU, In re: Application for The Peoples Water Service Company to provide water service in Escambia County under grandfather rights.

<sup>13</sup> Ibid.

<sup>14</sup> Florida Public Service Commission, cancelled tariffs for Peoples Water Service Company of Florida, Inc.

<sup>15</sup> Peoples Water Service Company of Florida, Inc., current tariffs.

<sup>16</sup> Peoples Water Service Company of Florida, Inc., Minimum Filing Requirements, Schedule E-1.

<sup>17</sup> Peoples Water Service Company, letter to staff member Casey, dated October 16, 2009.

<sup>18</sup> Ibid; Peoples Water Service Company of Florida, Inc., Minimum Filing Requirements, Schedule E-2.

<sup>19</sup> See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; and Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.)

<sup>20</sup> See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; and Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; and Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

**DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)**

- PRACTICES WITH THE WATER MANAGEMENT DISTRICTS (cont.)**
- (5) The Utility is located in the Northwest Florida Water Management District,<sup>21</sup> and is not located within an area of special concern.<sup>22</sup>
- (6) The Utility is in compliance with its CUP issued by the NFWFMD.<sup>23</sup> However, by January 31, 2010, Peoples shall submit to the District the conservation-oriented rate structure being considered, a copy of the most current rate proposal and a schedule for rate proceedings with the Florida Public Service Commission.<sup>24</sup>
- WATER CONSERVATION INITIATIVE**
- (7) In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the base facility charge portion of the bill usually should not represent more than 40 percent of the Utility's total revenues.<sup>25</sup>
- (8) Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC) and its associated Work Plan.<sup>26</sup>
- FLORIDA STATUTES re: WATER CONSERVATION**
- (9) Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources."
- CLIMATIC CONDITIONS**
- (10) Staff evaluates available drought information to better design rates that achieve conservation. Based on information from the National Drought Mitigation Center's U.S. Drought Monitor, the Utility is not currently located in an abnormally dry area of Florida.<sup>27</sup>
- (11) Based on seasonal outlook information from the National Weather Service's Climate Prediction Center, the Utility's service area will experience greater than average temperatures and normal precipitation through September 2009.<sup>28</sup>
- WATER SYSTEM USAGE PATTERNS:**
- (12) The Utility has a nonseasonal residential customer base. The average monthly consumption per residential customer is approximately 5.3 kgal.

<sup>21</sup> Northwest Florida Water Management District, Individual Water Use Permit, July 27, 2006.

<sup>22</sup> [http://nwfwmd.state.fl.us/rmd/water\\_supply\\_planning/regional\\_water\\_supply\\_planning.html](http://nwfwmd.state.fl.us/rmd/water_supply_planning/regional_water_supply_planning.html).

<sup>23</sup> Northwest Florida Water Management District, email from Lauren Connell, December 21, 2009.

<sup>24</sup> Northwest Florida Water Management District, Individual Water Use Permit, July 27, 2006.

<sup>25</sup> Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

<sup>26</sup> Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

<sup>27</sup> National Drought Mitigation Center, U.S. Drought Monitor, December 8, 2009.

<sup>28</sup> National Weather Service Climate Prediction Center, Seasonal Outlooks, November 19, 2009.

**DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)**

**RESIDENTIAL  
CONSUMPTION  
ANALYSIS AND  
BFC COST  
RECOVERY:**

- (13) Staff performed detailed analyses of Peoples' billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the Utility to recover its revenue requirements; and 2) equitably distribute cost recovery among the Utility's customers. Based on a detailed billing analysis of the residential class, 67 percent of the residential bills and 65 percent of the corresponding consumption have been accounted for at monthly consumption of 5 kgal or less, while 91 percent of the residential bills and 85 percent of corresponding consumption have been accounted for at 10 kgal or less.
- (14) As discussed in Issue 11, staff's preliminary recommended revenue requirement increase is 11.9 percent. In order to comply with the WMD and WCI guidelines regarding the percentage of BFC cost recovery, staff evaluated BFC cost recovery percentages at 40 percent, 30 percent and 25 percent.
- (15) The results of the analysis in Table 12-2 indicate that staff's recommended rate structure results in price decreases at consumption levels of 1 kgal or less. Alternative 2, which represents a four-tiered inclining-block rate structure similar to the Utility's requested rate structure, also results in a price decrease at 10 kgal.

Additional analysis indicates that Alternative 2 results in price increases of approximately \$1 or less for consumption levels of 7 to 15 kgal.

- (16) Another factor to consider in selecting the appropriate rate structure is how well the price increase is mitigated for those customers at 3 kgal, because these customers will be most affected by the elimination of the 3 kgal allotment in their rates. At 3 kgal of consumption, staff's recommended rate structure has the least price increase, while Alternative 2 has the greatest.
- (17) Another consideration in staff's rate structure selection is a comparison of the pattern of the percentage changes for each rate structure. For example, staff's recommended rate structure results in decreasing levels of price increases from 4 kgal to 6 kgal, where the bills exhibit increasingly greater price increases as consumption increases. Alternative 2 has the poorest price change pattern.

**ANALYSIS OF MMB  
PROPOSAL:**

- (18) **Although hydraulic flows, rather than the number of units served behind the meter, formed the basis for selecting the Clow pipe methodology in each of the referenced cases, the end result of both the Clow pipe and MMB approaches is the same: each methodology results in a greater number of ERCs to be used in the calculation of the BFC than would have been calculated using the AWWA meter equivalency factors alone. The MMB approach to calculate ERCs results in 24,141 (or 18.4%) more ERCs available for the BFC calculation.**

**STAFF'S  
RECOMMENDATION FOR  
THE WATER SYSTEM:**

The appropriate rate structure for the Utility's residential customers is a three-tiered inclining-block rate structure. The appropriate usage blocks are for monthly consumption: 1) of 0-6,000 gallons (6 kgal); 2) 6,001-12 kgal; and 3) in excess of 12 kgal. The usage block rate factors should be set at 1.0, 1.5 and 2.0, respectively.

**The multiple minimum billing (MMB)/uniform gallonage charge rate structure should be applied to the multi-residential customer class.** The base facility charge (BFC)/uniform gallonage charge rate structure should be applied to all remaining customer classes.

The appropriate method of calculating ERCs for customer classes other than the multi-residential class should be based on the American Water Works Association (AWWA) meter equivalency factors. **The appropriate calculation of ERCs for the multi-residential class should be based on the sum of the number of housing units served in the class. Each housing unit will be assigned 1.0 ERC.** The BFC cost recovery allocation should be set at 30 percent.