

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

RECEIVED-FPSC  
10 JAN 20 PM 3:37  
COMMISSION  
CLERK

**DATE:** January 13, 2010

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

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

Handwritten signatures and initials in black ink, including what appears to be "Casey", "Stallcup", "Lingo", "Thompson", and "Sayler".

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

**AGENDA:** 01/26/10 – 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:** 01/26/10 (5-Month Effective Date Waived through 01/26/10 (PAA Rate Case)

**SPECIAL INSTRUCTIONS:** This recommendation addresses only issues 12, 13, 14, 15, 16, 17, and 18, which were deferred from the January 5, 2010 Agenda Conference

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

DOCUMENT NUMBER-DATE

00486 JAN 20 2

FPSC-COMMISSION CLERK

**Table of Contents**

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	- 3 -
12	Rate Structure (Stallcup, Lingo, Thompson).....	- 4 -
13	Repression (Stallcup, Lingo).....	- 13 -
14	Appropriate Rates (Lingo, Casey).....	- 15 -
15	Four-Year Rate Reduction (Casey).....	- 16 -
16	Interim Refund (Casey).....	- 17 -
17	Proof of Adjustments (Casey).....	- 18 -
18	Close Docket (Sayler, Casey).....	- 19 -

<u>Schedule</u>	<u>Description</u>	<u>Page</u>
4	Water Rates and Four Year Rate Reduction.....	- 20 -

### **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 test year established for interim and final rates is the historical twelve-month period ended December 31, 2008.

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. The Utility requested final rates designed to generate annual water revenues of \$3,483,246, an increase of \$417,118 or 13.6 percent. At the January 5, 2010 Agenda Conference, the Commission voted to approve a revenue requirement of \$3,427,667 representing an 11.9 percent increase (Issues 1-11), and directed staff to bring back alternatives for rate structure and repression to the next Agenda Conference. This recommendation addresses the remaining issues to be voted upon in this case. The Commission has jurisdiction pursuant to Section 367.081, F.S.

---

<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 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:** Based upon the Commission's discussions at the January 5, 2010 Agenda Conference, staff is presenting several alternative rate structures to its originally recommended rate structure that allow the utility to recover the approved revenue requirement. These alternative rate structures include staff's originally recommended rate structure as well as four additional rate structures designed to minimize the change in customer bills at low levels of consumption.

For those rate structures that incorporate an inclining block rate structure for the residential class, the recommended usage blocks are based upon staff's originally recommended rate blocks for monthly consumption. These usage blocks are: (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.** (Stallcup, 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 Commission's 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 non-conservation oriented, because the usage (consumption) rate decreases as consumption increases. The residential customer base is non-seasonal, 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 1/4" meter (includes 8.8 kgals)	\$32.76
1 1/2" 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>Gallonge 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
<b>Source: Peoples Water Service Company of Florida, Inc., Minimum Filing Requirements, Schedule E-1.</b>	

As discussed later in this issue, 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 kgals 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 bill at nondiscretionary consumption levels 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>2</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

<sup>2</sup> See 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.

was consistent with the Clow pipe methodology approved in Mid-County's 1997 case.<sup>3</sup> Finally, the Commission made a similar decision in Mid-County's 2008 PAA rate case.<sup>4</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, if the MMB is approved in this case, the Commission's decision regarding MMB should not be considered precedential in nature.

Staff's recommended rate structure for the water system, plus four alternative rate structures discussed at the January 5, 2010 Agenda Conference, are shown on Table 12-2 on a subsequent 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.

**Staff's Original Rate Structure -- BFC with kgal allotments removed; inclining blocks for residential class:** Staff's originally recommended rate structure consisted of a three-tiered inclining block rate structure with usage blocks of 0-6,000 gallons, 6,001-12,000 gallons, and all gallons in excess of 12,000 gallons. The usage block rate factors were set at 1.0, 1.5 and 2.0, respectively. The base facility charge allocation was set at 30 percent and did not include a gallonage allotment in the BFC.

This rate structure was selected because it replaced a non-conservation oriented rate structure with a more conservation oriented rate structure. There were two characteristics of staff's recommended rate structure that made it more conservation oriented. First, it eliminated the gallonage allotment in the BFC. A gallonage allotment in the BFC is considered non-conservation oriented because the marginal cost of these gallons is zero. That means there are no price signals sent to consumers for any level of usage less than the allotment. The second characteristic of staff's originally recommended rate structure was that it replaced a declining block rate structure with an inclining block rate structure. An inclining block rate structure is considered to be a more conservation oriented rate structure because the price per thousand gallons increases as consumption rises. This sends a stronger price signal to consumers as their consumption rises and thereby promotes conservation. However, this rate structure also provides the additional benefit of enhancing affordability at lower levels of consumption. This benefit is achieved because in order to offset the higher revenues generated at higher levels of

---

<sup>3</sup> See 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>4</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.

consumption, the rates for the lower levels of consumption must necessarily be lower in order for the total amount of revenues to equal the utility's revenue requirement.

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, mutual agreements between the PSC and the state's five Water Management Districts (WMDs), and current and anticipated climatic conditions in the Utility's service area. A specific conditions of Peoples' Water Use Permit is that it "shall pursue the implementation of a rate structure that promotes water use efficiency and conservation . . . ."<sup>5</sup>

The Commission signed a Memorandum of Understanding (MOU) with the state's five Water Management Districts in June 1991. This MOU recognizes that the Water Management Districts have expertise in managing the state's water resources and that the Commission has expertise in the economic regulation of the utilities under its jurisdiction. In rate proceedings like the instant case, the MOU calls for the Water Management District to identify and recommend preferred solutions to encourage necessary water conservation efforts. The Commission, based on the recommendations of the WMD, then implements, to the extent practicable, water conserving rate structures and other measures designed to implement the recommendations of the WMD.<sup>6</sup> A guideline of the five Districts is to set the BFC such that they recover no more than 40 percent of the revenues to be generated from monthly service.<sup>7</sup> The Commission follows the WMD guidelines whenever possible.<sup>8</sup>

In response to growing water demand and water supply problems, 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>9</sup>

---

<sup>5</sup> Northwest Florida Water Management District, Individual Water Use Permit No. 19830018.

<sup>6</sup> Memorandum of Understanding: Florida Water Management Districts and Florida Public Service Commission, June 27, 1991.

<sup>7</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>8</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.

<sup>9</sup> Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

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>10</sup>

Section 373.227(1), F.S., 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.”

Finally, the rates calculated using staff’s original rate structure included the effects of repression. Repression occurs when consumers reduce their consumption in reaction to an increase in price. This, in turn, necessitates that the price per gallon must increase in order keep the rates compensatory. Based on the “before and after” consumption data of utilities who have had rate cases since 2000, staff has measured the average rate at which consumers react to changes in price. Based on this data, for a ten percent increase in price, consumers will reduce their discretionary consumption by four percent. Staff used this relationship between changes in price and changes in consumption to calculate their recommended rates.

In summary, staff’s originally recommended rate structure was designed to accomplish two goals. The first goal was to design rates that are compensatory and allow the utility to recover its revenue requirement, consistent with Section 367.081(2)(a)1, F.S. The second goal was to design rates that encourage water conservation, consistent with the MOU between the state’s five WMDs and the Commission, and the water conservation statutes previously referenced. In satisfying this second goal through the implementation of an inclining block rate structure, staff’s originally recommended rate structure attempted to keep rates as low as possible at low levels of consumption.

At the January 5, 2010, Agenda Conference, the Commission’s discussions regarding other possible rate structures to consider in this case focused on the following alternatives: (1) keeping the 3 kgal allotment in the BFC; (2) examining rates based solely on consumption; and (3) keeping the price for 0-3 kgal of consumption as close as possible to the current price. Staff has examined four alternative rate structures, presented below, to attempt to satisfy the two goals discussed in the preceding paragraph, but in a manner more consistent with the Commission’s discussions at the January 5, 2010, Agenda Conference. In particular, Alternatives 3 and 4 appear to staff to provide the best mechanisms to satisfy the requirements of the Florida Statutes, the MOU, and the Commission’s discussions at the January 5, 2010 Agenda Conference.

---

<sup>10</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.

**Alternative 1 – BFC with inclining blocks for residential class, keep allotment of 3 kgal in the BFC:**

This alternative is the same as staff's originally recommended rate structure except that the 3 kgal allotment is maintained in the BFC. By keeping the 3 kgal allotment, customers are losing their conservation oriented price signals. On the other hand, this is also the consumption range for customers' nondiscretionary usage as the Utility's discretionary usage threshold is 3.375 kgals.

This alternative keeps price for nondiscretionary consumption unchanged, keeping the price for nondiscretionary consumption low. However, this alternative would violate a specific condition of Peoples' Water Use Permit. Furthermore, it is contrary to the MOU because the WMDs and the PSC have agreed to foster conservation and employment of conservation promoting rate structures, and it is contrary to the overall water conservation goal of the state to prevent and reduce wasteful use of water resources. Alternative 1 is not considered a water-conserving rate structure because there is no price signal associated with consumption from 0-3 kgals.

**Alternative 2 – No BFC or allotments, rates based solely on consumption:**

This alternative is the same as staff's originally recommended rate structure except that it eliminates the BFC entirely and bases a customer's bill solely on consumption.

The BFC is designed to recognize that the utility: 1) has fixed costs that must be met; and 2) the utility is required to provide each customer with service on demand.<sup>11</sup> The BFC is a set charge on every bill that does not fluctuate with the amount of consumption. This charge is essential in ensuring the company has a fixed revenue stream.

By removing the BFC altogether, the fixed revenue stream is eliminated. The bills would then be strictly consumption based. Using this method, the customers' would still have a rate structure that provides proper price signals regarding the true cost of water that promotes water conservation.<sup>12</sup> While there are price signals for every kgal used, there may be months when it does not provide the company with the revenues, or the fixed revenue stream, it needs.

The revenue requirement approved at the January 5, 2010 Agenda Conference is \$3,427,667, or \$285,639 on an average monthly basis. However, staff has calculated the company would receive less than \$100,000 during the lowest consumption month. Based on staff's analysis, we believe a rate structure based solely on consumption would be imprudent.

This rate structure is consistent with the MOU; however, this alternative may not provide sufficient fixed revenue stream during all months.

---

<sup>11</sup> See Order No. PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, In re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.

<sup>12</sup> See Order No. PSC-97-0280-FOF-WS, issued March 12, 1997, in Docket No. 960545-WS, In re: Investigation of utility rates of Aloha Utilities, Inc. in Pasco County.

**Alternative 3 – BFC with no allotments, inclining blocks for residential class, 0-3 kgals (nondiscretionary consumption) is priced at 1/3 the rate for 3.001-6 kgals:**

This alternative is the same as staff's originally recommended rate structure except that it adds an additional rate block for the 0 to 3 kgal consumption level that is priced low enough to reduce prices at 3 kgal or less.

This alternative reduces the rates for nondiscretionary consumption; however, in order to keep rates compensatory, rates for consumption greater than 3 kgal must be made greater than they would otherwise be.

**Alternative 4 – BFC with inclining blocks for residential class; 0-3 kgals is both priced at 1/3 the rate for 3.001-6 kgals and is priced at pre-repression levels, with resulting revenue shortfall spread to remaining kgals:**

This alternative is the same as Alternative 3 except that the price per gallon for the non-discretionary 0-3 kgal block does not include the price increase associated with the repression adjustment. The resulting under-recovery from the first block is spread across the remaining consumption levels. By holding prices at pre-repression levels for consumption from 0-3 kgal, customers in this first block are shielded from the repression adjustment to rates.

This alternative reduces the rates for nondiscretionary consumption. However, in order to keep rates compensatory, the revenue shortfall that is created by not spreading the effects of repression on nondiscretionary consumption must then be spread to rates for consumption greater than 3 kgal. Therefore, rates for consumption greater than 3 kgal are made greater than they would otherwise be.

**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</b>												
<u>Consumption in Kgals</u>	<u>Current Bill</u>	<u>Staff's Original Recommendation</u>		<u>Alternative 1</u>		<u>Alternative 2</u>		<u>Alternative 3</u>		<u>Alternative 4</u>		
		<u>Bill</u>	<u>% Change</u>	<u>Bill</u>	<u>% Change</u>	<u>Bill</u>	<u>% Change</u>	<u>Bill</u>	<u>% Change</u>	<u>Bill</u>	<u>% Change</u>	
0	\$10.05	\$6.60	-34.3%	\$10.05	0.0%	\$0.00	-100.0%	\$5.52	-45.1%	\$5.52	-45.1%	
1	\$10.05	\$9.56	-4.9%	\$10.05	0.0%	\$4.09	-59.3%	\$6.92	-31.2%	\$6.80	-32.4%	
2	\$10.05	\$12.52	24.6%	\$10.05	0.0%	\$8.18	-18.6%	\$8.32	-17.3%	\$8.08	-19.6%	
3	\$10.05	\$15.47	53.9%	\$10.05	0.0%	\$12.27	22.0%	\$9.72	-3.3%	\$9.36	-6.9%	
4	\$13.96	\$18.44	32.1%	\$13.69	-1.9%	\$16.35	17.1%	\$13.91	-0.3%	\$13.56	-2.9%	
5	\$17.87	\$21.39	19.7%	\$17.33	-3.0%	\$20.44	14.4%	\$18.11	1.4%	\$17.75	-0.7%	
10	\$37.42	\$42.08	12.5%	\$42.84	14.5%	\$49.06	31.1%	\$47.50	26.9%	\$47.14	26.0%	
15	\$54.77	\$68.70	25.4%	\$75.62	38.1%	\$85.86	56.8%	\$85.29	55.7%	\$84.93	55.1%	
20	\$72.12	\$98.27	36.3%	\$112.05	55.4%	\$126.74	75.7%	\$127.27	76.5%	\$126.91	76.0%	
25	\$88.87	\$127.84	43.9%	\$148.49	67.1%	\$167.63	88.6%	\$169.25	90.4%	\$168.89	90.0%	
30	\$105.62	\$157.41	49.0%	\$184.92	75.1%	\$208.51	97.4%	\$211.24	100.0%	\$210.88	99.7%	

**Staff's Original Rate Structure Recommendation:** BFC with allotments removed; inclining blocks for residential class.

**Alternative 1:** BFC with inclining blocks for residential class; keep 3 kgal allotment in the BFC.

**Alternative 2:** No BFC and no allotments – rates based solely on consumption; inclining blocks for residential class.

**Alternative 3:** BFC with no allotments; inclining blocks for residential class; 0-3 kgals (nondiscretionary consumption) priced at 1/3 the rate for 3.001-6 kgals.

**Alternative 4:** BFC with no allotments; inclining blocks for residential class, 0-3 kgals is priced at 1/3 the rate for 3.001-6 kgals and at pre-repression levels.

**TABLE 12-3**

<b>PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC.</b>					
<b>STAFF'S RECOMMENDED AND ALTERNATIVE RATES FOR</b>					
<b>TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS</b>					
<b>Rate</b>	<b><u>Staff's Original Recom</u></b>	<b><u>Alternative 1</u></b>	<b><u>Alternative 2</u></b>	<b><u>Alternative 3</u></b>	<b><u>Alternative 4</u></b>
BFC	\$6.60	\$10.05	\$0.00	\$5.52	\$5.52
0-3	\$2.96	\$0.00	\$4.09	\$1.40	\$1.28
3-6	\$2.96	\$3.64	\$4.09	\$4.20	\$4.31
6-12	\$4.44	\$5.46	\$6.13	\$6.30	\$6.41
12+	\$5.91	\$7.29	\$8.18	\$8.40	\$8.51

**Staff's Original Rate Structure Recommendation:** BFC with allotments removed; inclining blocks for residential class.

**Alternative 1:** BFC with inclining blocks for residential class; keep 3 kgal allotment in the BFC.

**Alternative 2:** No BFC and no allotments – rates based solely on consumption; inclining blocks for residential class.

**Alternative 3:** BFC with no allotments; inclining blocks for residential class; 0-3 kgals (nondiscretionary consumption) priced at 1/3 the rate for 3.001-6 kgals.

**Alternative 4:** BFC with no allotments; inclining blocks for residential class, 0-3 kgals is priced at 1/3 the rate for 3.001-6 kgals and at pre-repression levels.

**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. The appropriate repression adjustment will be dependent upon the Commission's decision in Issue 12 regarding the appropriate rate structure for this Utility. The appropriate number of kgals repressed and the resulting post-repression revenue requirement for each alternative discussed in Issue 12 is contained in Table 13-1 in the Staff Analysis below.

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 such 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 each alternative revenue requirement increase. As discussed in Issue 12, based on the "before and after" consumption data of utilities who have had rate cases since 2000, staff has measured the average rate at which consumers react to changes in price. Based on this data, for a ten percent increase in price, consumers will reduce their discretionary consumption by four percent. Staff used this relationship between changes in price and changes in consumption to calculate their recommended rates.

The appropriate repression adjustment will be dependent upon the Commission's decision in Issue 12 regarding the appropriate rate structure for this Utility. The appropriate number of kgals repressed and the resulting post-repression revenue requirement for each alternative discussed in Issue 12 is contained in Table 13-1 on the following page.

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. The filing requirements for these repression reports have traditionally been on a quarterly basis. In the recent Labrador Utilities case in Docket No. 080249-WS, the Commission approved requiring the reports on a semi-annual, rather than a quarterly, basis.<sup>13</sup> 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 such revision.

---

<sup>13</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.

TABLE 13-1

<b>PEOPLES WATER SERVICE COMPANY OF FLORIDA, INC.  REPRESSION EFFECTS RESULTING FROM  STAFF'S ORIGINALLY RECOMMENDED RATE STRUCTURE  PLUS FOUR ALTERNATIVE RATE STRUCTURES</b>		
<b>Descriptions of Staff's  Recommended Rate Structure  plus Rate Structure  Alternatives Presented</b>	<b>Number of  Kgals Repressed</b>	<b>Post-Repression  Revenue Requirement</b>
<b>Staff's original rate structure:</b> BFC with allotments removed; inclining blocks for residential class	(34,104)	\$3,418,580
<b>Alternative 1:</b> BFC with inclining blocks for residential class; keep allotment of 3 kgal	(17,274)	\$3,423,064
<b>Alternative 2:</b> No BFC and no allotments – rates based solely on consumption	(37,879)	\$3,417,574
<b>Alternative 3:</b> BFC with no allotments with inclining blocks for residential class; 0-3 kgals (nondiscretionary consumption) is priced at 1/3 the rate for 3.001-6 kgals	(26,231)	\$3,420,678
<b>Alternative 4:</b> BFC with inclining blocks for residential class; 0-3 kgals (nondiscretionary consumption) is both priced at 1/3 the rate for 3.001-6 kgals and is priced at pre-repression levels, with resulting revenue shortfall spread to remaining rates	(26,231)	\$3,420,678

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

**Recommendation:** The appropriate monthly water rates are shown on Schedule 4 (see attached). 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 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 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.

Docket No. 080695-WU

Date: January 13, 2010

**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.

Docket No. 080695-WU

Date: January 13, 2010

**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 No. 4			
Water Monthly Service Rates		Docket No. 080695-WU			
Test Year Ended 12/31/08					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
<b>Residential Meter Sizes</b>					
<b><u>(Minimum Charges* - Base Facility Charges per Month)</u></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><u>Gallonge Charges per 1,000 Gallons per Month</u></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,</b>					
<b><u>Meters &amp; Irrigation (Minimum Charges* - Base Facility Charges per Month)</u></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><u>Gallonge Charges per 1,000 Gallons per Month</u></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			
Gallonge 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><u>Typical Monthly Bills for 5/8" x 3/4" Residential Customers</u></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 gallonge minimums (allotments) included in the base facility charge.					