

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

February 20, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (AUSTIN) *WSC*
DIVISION OF LEGAL SERVICES (CAPELESS) *mc*

RE: DOCKET NO. 970083-WS - SOUTHERN STATES UTILITIES, INC.
(LEHIGH UTILITIES, INC.) - APPLICATION OF SECTION
367.0816, F.S., RECOVERY OF RATE CASE EXPENSE
COUNTY: LEE COUNTY

AGENDA: 03/04/97 - REGULAR AGENDA - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: 03/31/97 - RATE REDUCTION EFFECTIVE DATE

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\970083WS.RCM

CASE BACKGROUND

Florida Water Services Corporation, formerly known as Southern States Utilities, Inc. (SSU), (hereinafter referred to as Florida Water or utility) is a Class A utility which provides water and wastewater service to 152 service areas in 25 counties. In 1995, the utility recorded total company operating revenues of \$23,919,123 and \$18,104,985 for water and wastewater, respectively. The resulting total company net operating income, for 1995, was \$2,026,192 for water and \$1,760,078 for wastewater. In 1995, Florida Water reported that it had 85,559 total company water customers and 43,527 total company wastewater customers.

On June 28, 1995, Florida Water (then SSU) filed an application for approval of uniform interim and final water and wastewater rate increases for 141 service areas in 22 counties, pursuant to Sections 367.081 and 367.082, Florida Statutes (Docket No. 950495). The utility also requested a uniform increase in service availability charges, approval of an allowance for funds used during construction (AFUDC) and an allowance for funds prudently invested (AFPI). On October 30, 1996, the Commission issued Order No. PSC-96-1320-FOF-WS (Final Order) in the rate proceeding. This order established a combination capped and banded (capband) rate structure for the utility.

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FPSC-RECORDS/REPORTING

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Lehigh is a facility of Florida Water. As a result of the capband rate structure, it is banded with Chuluota, Interlachen Lake Est./Park Manor, Tropical Park, River Grove, Samira Villas, and Windsong for water rates. For wastewater rates, Lehigh is banded with Buenaventura Lakes, Palm Terrace, Salt Springs, and Leilani Heights. Prior to the corporate reorganization (merger) of Lehigh Utilities, Inc. with Florida Water (then SSU) which was acknowledged by Order No. PSC-93-0500-FOF-WS issued April 5, 1993, in Docket No. 930086-WS, Lehigh was allowed the recovery of rate case expense in its last rate case as a single system, by Order No. PSC-93-0301-FOF-WS, issued February 25, 1993, in Docket No. 911188-WS. Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in rates. Schedules were provided, in Order No. PSC-93-0301-FOF-WS, indicating the amount by which the rates were to be reduced. On reconsideration of Order No. PSC-93-0301-FOF-WS, by Order No. PSC-93-1023-FOF-WS, issued July 12, 1993, the Commission adjusted Lehigh's rates, and made corresponding adjustments to the rate reduction schedules.

Because Lehigh's rates are now included in a capband with other facilities, a different methodology must be used to achieve the required rate reduction. This recommendation addresses the methodology that staff believes would appropriately remove the rate case expense from the rates.

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DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate methodology to be used to remove rate case expense, pursuant to Section 367.0816, Florida Statutes, that a facility (Lehigh) was allowed to recover prior to the implementation of the capband rate structure?

RECOMMENDATION: The rate case expense should be removed from the water and wastewater rates for Lehigh and all other facilities which are included in a capband with Lehigh. Thus, the capband that includes Lehigh, Chuluota, Interlachen Lake Est./Park Manor, Tropical Park, River Grove, Samira Villas, and Windsong should have its water rates reduced as shown in Schedule 1-A. The capband that includes Lehigh, Buenaventura Lakes, Palm Terrace, Salt Springs, and Leilani Heights should have its wastewater rates reduced as shown in Schedule 1-B. Since the effective date of the rate reduction is March 31, 1997, the utility should be required to file tariff sheets no later than 15 days from the Commission's decision at the Agenda Conference on March 4, 1997. In addition, the utility should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Commission approves the methodology that staff recommends here, staff should be authorized to administratively process the rate case expense reduction in the same manner for Docket No. 920199-WS and for the facilities which were included in the capband with Marco Island for Docket No. 920655-WS. (AUSTIN)

STAFF ANALYSIS: As indicated in the case background, by Section 367.0816, Florida Statutes, Florida Water is required to remove the rate case expense from rates that Lehigh was allowed to recover over a period of four years pursuant to Order No. PSC-93-1023-FOF-WS, issued July 12, 1993, in Docket No. 911188-WS. The amount that should be reduced from each meter size and gallonage rate was indicated in Order No. PSC-93-1023-FOF-WS. Ordinarily, at the expiration of the four year recovery period, the rates are reduced by the amounts provided in the order. Simply, this would mean that Lehigh's rates should be reduced by the amounts indicated in Order No. PSC-93-1023-FOF-WS. However, due to the nature and concept of the capband rate structure, staff recommends that the Lehigh rates should not be individually reduced. The rate structure groups (bands) service areas of similar costs, thereby minimizing cross-subsidization. The bands are set at natural breaks designed to group homogenous facilities and thus mitigate the subsidies in the customers' bills to the greatest extent (Order No. PSC-96-1320-FOF-WS at 225-26). Therefore, all of the facilities which are included in the capbands with Lehigh are sharing the cost of Lehigh's rate

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case expense and should equivalently share in the reduction resulting from the removal of that expense.

The capband rate structure was approved because it simplifies the rate structure by moving the utility closer to a uniform rate and minimizes the relative amount of subsidy paid by the customer. The capband rates were calculated by combining the revenue requirements of all of the facilities within a particular band. The combination of the billing determinants for the facilities in a band were used to determine rates. The concept of the capband rate structure is that once facilities have been combined for ratemaking purposes, they should not be differentiated. See Order No. PSC-96-1320-FOF-WS at 241 (finding that for service areas that are part of a rate band, pass-throughs must be shared by all facilities within the band; that those service areas have been identified as having similar costs, at least in terms of their stand alone rates; and that the rates should not be differentiated once they have been combined for ratemaking purposes).

The amount of annual amortization of prior rate case expense included in Lehigh's revenue requirement was \$37,209 for water and \$28,567 wastewater pursuant to Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS. Since the revenue requirements were combined for the facilities within a capband, the amount of annual amortization is shared by all of the facilities which are included in a capband with Lehigh. In order to remove the rate case expense, the total amount of annual rate case expense amortization for water, grossed-up for regulatory assessment fees, should be divided by the total amount of the revenue requirements for the facilities in the capband with Lehigh. This would yield a percentage by which the rates in a capband should be reduced. The same methodology should be used to determine the percentage reduction for wastewater. The calculation for the percentage reduction is shown in Schedule 1-A and 1-B for water and wastewater, respectively.

Because all of the facilities which are included in a capband with Lehigh are sharing Lehigh's rate case expense, staff is recommending that annual amortization of prior rate case expense should be removed from all of the facilities included in a capband with Lehigh. Thus, the capband that includes Lehigh, Chuluota, Interlachen Lake Est./Park Manor, Tropical Park, River Grove, Samira Villas, and Windsong should have its water rates reduced as shown in Schedule 1-A. The capband that includes Lehigh, Buenaventura Lakes, Palm Terrace, Salt Springs, and Leilani Heights should have its wastewater rates reduced as shown in Schedule 1-B. Since the effective date of the rate reduction is

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March 31, 1997, the utility should be required to file tariff sheets no later than 15 days from the Commission's decision at the Agenda Conference on March 4, 1997. In addition, the utility should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

There are two other Florida Water orders that concern annual amortization of prior rate case expense, issued in Dockets Nos. 920199-WS and 920655-WS. Those reductions are effective in September, 1997. If the Commission approves the methodology that staff recommends here, staff should be authorized to administratively process the rate reductions for Dockets Nos. 920199-WS and 920655-WS. Staff recognizes that Docket No. 920655-WS concerns the Marco Island facilities, which are located in Collier County. Because Collier County is now a non-jurisdictional County, and because that docket is closed, pursuant to Section 367.171(5), Florida Statutes, the Commission does not retain jurisdiction to implement the rate reductions for Marco Island. Pursuant to Section 367.171(8), Florida Statutes, the County shall regulate Marco Island's rates as though it were the Commission. However, the other facilities that were placed in a capband with Marco Island are sharing Marco Island's rate case expense. Therefore, the rate reduction percentage should be calculated in the same manner and removed from the other facilities in the capband with Marco Island. As stated previously, the Commission does not retain jurisdiction to implement the rate reduction for Marco Island. Staff will send a copy of the order to Collier County, so that in its exercise of regulation, the county may act accordingly.

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ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes, this docket should be closed upon staff's approval of the revised tariff sheets and the proposed customer notice. (CAPELESS, AUSTIN)

STAFF ANALYSIS: Because no further action is necessary, this docket should be closed at the conclusion of the protest period, if no protest is filed, and upon staff's approval of the revised tariff sheets and the proposed customer notice.

FLORIDA WATER SERVICES CORPORATION
DOCKET NO. 970083-WS
SCHEDULE OF FOUR YEAR RATE REDUCTION FOR WATER

SCHEDULE 1-A

| | Revenue Requirement |
|---------------------------------|----------------------------|
| Lehigh | \$2,507,821 |
| Chuluota | 314,082 |
| Interlachen Lake Est/Park Manor | 75,096 |
| Tropical Park | 190,176 |
| River Grove | 43,037 |
| Samira Villas | 5,129 |
| Windsong | 44,921 |
| Marco Island | 9,548,035 |
| | <u>\$12,728,297</u> |

| Annual Rate Case Expense for Water | |
|---|-----------------|
| | \$37,209 |
| | 0.955 Gross-up |
| | <u>\$38,962</u> |

| Percentage Reduction | |
|-----------------------------|-----------------------|
| | \$38,962/\$12,728,297 |
| | 0.31% |

| Residential & General Service | Current Rates | Staff Recommended Rate Reduction | Staff Recommended Rates After Reduction |
|---|----------------------|---|--|
| Base Facility Charge: | | | |
| Meter Size: | | | |
| 5/8" x 3/4" | \$16.34 | \$0.05 | \$16.29 |
| 3/4" | \$24.51 | \$0.08 | \$24.43 |
| 1" | \$40.85 | \$0.13 | \$40.72 |
| 1-1/2" | \$81.70 | \$0.25 | \$81.45 |
| 2" | \$130.72 | \$0.40 | \$130.32 |
| 3" | \$261.44 | \$0.80 | \$260.64 |
| 4" | \$408.50 | \$1.25 | \$407.25 |
| 6" | \$817.00 | \$2.50 | \$814.50 |
| 8" | \$1,307.20 | \$4.00 | \$1,303.20 |
| 10" | \$1,879.10 | \$5.75 | \$1,873.35 |
| Gallonge Charge per 1,000 | \$2.85 | \$0.01 | \$2.84 |
| Private Fire Protection | | | |
| (for Lehigh and Marco Island Only) | | | |
| 5/8" x 3/4" | --- | --- | --- |
| 3/4" | --- | --- | --- |
| 1" | --- | --- | --- |
| 1-1/2" | --- | --- | --- |
| 2" | \$10.89 | \$0.03 | \$10.86 |
| 3" | \$21.79 | \$0.07 | \$21.72 |
| 4" | \$34.04 | \$0.10 | \$33.94 |
| 6" | \$68.08 | \$0.21 | \$67.87 |
| 8" | \$108.93 | \$0.33 | \$108.60 |
| 10" | \$156.56 | \$0.48 | \$156.08 |
| Bulk Raw Water | | | |
| (for Marco Island Only) | | | |
| Gallonge Charge per 1,000 | \$1.53 | \$0.00 | \$1.53 |

| | |
|--|---------------------|
| FLORIDA WATER SERVICES CORPORATION DOCKET NO. 970083-WS SCHEDULE OF FOUR YEAR RATE REDUCTION FOR WASTEWATER | SCHEDULE 1-B |
|--|---------------------|

| | | |
|---------------------|----------------------------|--|
| | Revenue Requirement | |
| Lehigh | \$2,779,612 | Annual Rate Case Expense for Wastewater \$28,567 0.955 Gross-up <hr style="width: 50%; margin: 0;"/> \$29,913 Percentage Reduction \$29,913/\$6,475,838 0.46% |
| Buena Ventura Lakes | 3,063,311 | |
| Palm Terrace | 348,970 | |
| Salt Springs | 89,482 | |
| Leilani Heights | 194,463 | |
| | \$6,475,838 | |

| | Current Rates | Staff Recommended Rate Reduction | Staff Recommended Rates After Reduction |
|---|---------------|----------------------------------|---|
| Residential | | | |
| Base Facility Charge | | | |
| All meter sizes | \$13.18 | \$0.06 | \$13.12 |
| Gallonage Charge per 1,000 | \$5.23 | \$0.02 | \$5.21 |
| Gallonage Capped at 6M | | | |
| Wastewater Only (for Buena Ventura Lakes Only) | | | |
| Flat Rate | \$39.34 | \$0.18 | \$39.16 |
| Wastewater Only (for Leilani Heights Only) | | | |
| Flat Rate | \$40.93 | \$0.19 | \$40.74 |
| General Service | | | |
| Base Facility Charge: | | | |
| Meter Size: | | | |
| 5/8" x 3/4" | \$13.18 | \$0.06 | \$13.12 |
| 3/4" | \$19.77 | \$0.09 | \$19.68 |
| 1" | \$32.95 | \$0.15 | \$32.80 |
| 1-1/2" | \$65.90 | \$0.30 | \$65.60 |
| 2" | \$105.44 | \$0.49 | \$104.95 |
| 3" | \$210.88 | \$0.97 | \$209.91 |
| 4" | \$329.50 | \$1.52 | \$327.98 |
| 6" | \$659.00 | \$3.04 | \$655.96 |
| 8" | \$1,054.40 | \$4.87 | \$1,049.53 |
| 10" | \$1,515.70 | \$7.00 | \$1,508.70 |
| Gallonage Charge per 1,000 | \$6.28 | \$0.03 | \$6.25 |
| (per 100 cubic ft) | \$3.46 | \$0.02 | \$3.44 |
| Effluent - EFF (for Lehigh Only) | | | |
| Gallonage Charge per 1,000 | \$0.18 | \$0.00 | \$0.18 |