

Ann Cole

From: Tim Devlin
Sent: Friday, February 26, 2010 1:52 PM
To: Curt Mouring; Ann Cole
Cc: Marshall Willis; Cheryl Bulecza-Banks; Bart Fletcher; Stan Rieger; Patti Daniel; Anna Williams; Jennifer Brubaker; Tonya Linn; Commissioners Advisors; Mary Anne Helton; Chuck Hill
Subject: RE: Request of Oral Modification to Item 15, March 2, 2010 Agenda, Docket 090182-SU - Ni Florida, LLC

Approved.

From: Curt Mouring
Sent: Friday, February 26, 2010 10:53 AM
To: Tim Devlin
Cc: Marshall Willis; Cheryl Bulecza-Banks; Bart Fletcher; Stan Rieger; Patti Daniel; Anna Williams; Jennifer Brubaker; Tonya Linn
Subject: Request of Oral Modification to Item 15, March 2, 2010 Agenda, Docket 090182-SU - Ni Florida, LLC
Importance: High

Staff requests approval to make an oral modification to Item 15 to correct a formula reference error in staff's depreciation expense calculation. This correction effects several fall-out issues (Issues 11, 12, 13, and 15, as well as Schedules No. 3-A and 4). These requested changes have no other effects on staff's recommendation. Staff will provide each Commissioner a hardcopy of the revised Schedules No. 3-A and 4. The specific issue modifications are in type and strike format as follows:

Issue 11: What is the test year operating income before any revenue increase?

Recommendation:

Based on the adjustments discussed in previous issues, the Utility experienced an operating loss of ~~\$26,717~~ ~~\$15,863~~.
(Mouring)

Staff Analysis:

This is primarily a "fall-out" issue subject to resolution of other issues related to revenues and operating expenses and rate base. As shown on Schedule No. 3-A, after applying staff's adjustments, the Utility's net operating loss is ~~\$26,717~~ ~~\$15,863~~. Staff's adjustments to operating income are shown on Schedule No. 3-B.

Issue 12:

What is the appropriate revenue requirement?

Recommendation:

The following revenue requirement should be approved

	Test Year Revenues	\$ Increase	Revenue Requirement	% Increase
Wastewater	\$1,470,837	\$285,394	\$1,756,231	19.40%
		\$274,028	\$1,744,865	18.63%

(Mouring)

DOCUMENT NUMBER-DATE

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Staff Analysis:

The issue is a summary computation that is subject to the resolution of other issues related to rate base and cost of capital, and is primarily a "fall-out" number. The computation of the revenue requirement is shown on Schedule No. 3-A. This results in a revenue requirement of ~~\$1,756,231~~ ~~\$1,744,865~~, which represents an increase of ~~\$285,394~~ ~~\$274,028~~ or ~~19.40~~ ~~18.63~~ percent.

Issue 13:

What are the appropriate rates for this utility?

Recommendation:

The appropriate monthly rates are shown on Schedule No. 4. Excluding miscellaneous service revenues, the recommended rates are designed to produce revenues of ~~\$1,756,231~~ ~~\$1,744,865~~. 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. (Mouring)

Staff Analysis:

Excluding miscellaneous service revenues, the recommended rates shown on Schedule No. 4 are designed to produce revenues of ~~\$1,756,231~~ ~~\$1,744,865~~. Staff's recommended revenue increase should be applied as an across-the-board increase to the Utility's service rates in effect as of December 31, 2008.

Ni Florida's current wastewater rate structure is a base facility charge and gallonage charge with a 10,000 gallon cap on residential customers. The Utility's current rate structure contains a differential in the gallonage charge between residential and general service. This rate differential is designed to recognize that approximately 80 percent of a residential customer's water usage will not return to the wastewater system, whereas approximately 96 percent of multi-family and general service water usage is returned. This wastewater gallonage rate differential is employed by the Commission in setting wastewater rates and is widely recognized as an industry standard. Based on the above, staff believes that the gallonage rate differential should continue to be used in this case, consistent with the differential approved in the last case.

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. 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.

A comparison of the Utility's original and requested rates, the Commission-approved interim rates, and staff's recommended PAA rates are shown on Schedule No. 4.

Issue 15:

In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, 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. Based on staff's calculation, the Utility should be required to refund ~~5.33~~ ~~5.63~~ percent of revenues granted under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow should be released upon staff's verification that the required refunds have been made. (Mouring)

Staff Analysis:

By Order No. PSC-09-0751-PCO-SU, issued November 16, 2009, the Commission approved an interim revenue requirement of \$1,815,940. This represented an increase of \$345,103 or 23.46 percent.

According to Section 367.082(4), 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. Ni Florida's 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.

Using the principles discussed above, staff calculated a revised interim revenue requirement of \$1,719,163 ~~\$1,713,792~~ utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. The revenue of \$1,719,163 ~~\$1,713,792~~ is less (a 5.33 ~~5.63~~ percent or \$96,777 ~~\$102,148~~ difference) than the interim order revenue requirement of \$1,815,940. This results in a 5.33 ~~5.63~~ percent refund of interim rates, after miscellaneous revenues have been removed. The Utility should be required to refund 5.33 ~~5.63~~ percent of water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow should be released upon staff's verification that the required refunds have been made.

Curt Mouring

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