

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of RADNOR/PLANTATION CORPORATION d/b/a PLANTATION UTILITIES for increase in sewer rates in Martin County.	)	DOCKET NO. 880654-SU
	)	ORDER NO. 20822
	)	ISSUED: 2-28-89
	)	

The following Commissioners participated in the disposition of this matter:

MICHAEL Mck. WILSON, CHAIRMAN  
 THOMAS M. BEARD  
 BETTY EASLEY  
 GERALD L. GUNTER  
 JOHN T. HERNDON

ORDER SUSPENDING PROPOSED RATES, GRANTING INTERIM RATES  
 AND GRANTING INTERIM SERVICE AVAILABILITY CHARGES

BY THE COMMISSION:

APPLICATION

On December 30, 1988, Radnor/Plantation Corporation d/b/a Plantation Utilities (Radnor or the utility) filed an application for increased rates for its sewer system in Martin County. The application, as filed, met the minimum filing requirements and the official filing date was established as December 30, 1988.

We have approved the twelve month period ended December 31, 1988 as the test year for this docket. The utility has requested final revenues which produce an increase over 1988 test year revenues of \$147,968 or an increase of 93%. The utility requested an interim revenue increase of \$131,968 or an 83% increase.

This utility's rates were last considered in Docket No. 791033-WS, culminating in the issuance of Order No. 9507 on August 28, 1980. Radnor states that revenues derived from the rates established by Order No. 9507 are not adequate to pay the cost of providing sewer service to the public and provide returns to the utility which will attract capital or insure its credit worthiness. Also, the utility has recently expanded its sewer plant to a capacity of 300,000 gallons per day from 200,000 gallons per day and improved the quality of plant effluent pursuant to Department of Environmental Regulation requirements applicable to spray irrigation.

Radnor had its rates raised by application of a price index in Docket No. 880859-WS, Order No. 19702, effective August 22, 1988. The utility underwent a name change from Indian River Plantation Company to its present name in Docket No. 850054-WS, Order No. 14630, issued July 25, 1985.

SUSPENSION OF PROPOSED RATES

Section 367.081(6), Florida Statutes, provides that the rates proposed by a utility shall become effective within sixty

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days after filing unless this Commission issues an order withholding consent to the operation of the proposed rates. Further, the above-referenced statute permits the proposed rates to go into effect, under bond, eight months after filing unless final action has been taken by this Commission.

We have reviewed the filing which indicates that Radnor has made substantial additions to plant since our last audit. We have considered the proposed rates, the amount of the additional revenues sought thereunder and the supporting data which has been submitted. We find that it is reasonable and necessary to require further amplification, explanation and cross-examination of the data filed by the utility, as well as additional and/or corroborative data, and to schedule public hearings, if necessary, for these purposes. In consideration of the above, we hereby suspend the proposed rates.

#### INTERIM RATES

Section 367.082, Florida Statutes, provides that this Commission may grant a utility interim rates if it is demonstrated that the utility is earning outside the range of reasonableness on rate of return. Subsection 367.082(2)(a), Florida Statutes, states that this Commission shall authorize, within sixty (60) days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return calculated in accordance with subparagraph (5)(b)2, of Section 367.082, Florida Statutes.

Schedules are attached which illustrate our calculations of the utility's rate base, cost of capital and test year operating income. Also attached are detailed schedules outlining our adjustments. Our review of the information filed in the application indicates that it is appropriate to authorize Radnor to raise its sewer rates, on an interim basis, to generate an increase in annual sewer revenues of \$83,741. The following sections explain how we determine the appropriate interim revenues.

#### RATE BASE

Using a thirteen-month average, we find Radnor's average rate base for its sewer system to be \$792,240. A schedule showing our calculation of rate base is attached as Schedule No. 1. Our adjustments to rate base are itemized on Schedule No. 2.

The rate base filed by the utility was calculated using nine months of actual data and four months of projected data. Interim rates are set based on historical operating test year results. Therefore, Radnor's rate base has been adjusted to reflect actual test year results, requiring an increase in the thirteen-month average balance of plant-in-service of \$830. Also, plant-held-for-future-use has been increased by \$23.

The utility requested that the formula approach be used to calculate the working capital allowance. The utility stated that although it has its own division balance sheet, utility cash, receivables, and payables are reflected in the accounts of the parent for efficiency and cost savings. As a result,

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the current assets and liabilities shown on the utility's balance sheet do not properly reflect the working capital needed. The utility used the formula approach to calculate a working capital allowance of \$50,055. It is our policy to use the balance sheet method because it allows a more precise determination of the amount of capital a utility is actually employing in its day-to-day operations. We do not believe that the utility's inability to determine a specific working capital allowance for the utility division necessarily justifies using the one-eighth of operation and maintenance expenses (formula) approach, which will always produce a working capital allowance. A company needs funds to operate, but these funds may be provided by cost-free liabilities and the utility may not maintain an excess of current funds to justify a working capital allowance in rate base. Therefore, we find that, for interim purposes, rate base should be reduced by \$50,055 to remove the utility's calculation of working capital.

#### COST OF CAPITAL

The utility's capital structure for interim purposes is reflected on Schedule No. 3. Rates were last set for this system in Docket No. 791033-WS, when the utility was Indian River Plantation Company d/b/a Plantation Utilities. Indian River Plantation Company was transferred to the current owners, Radnor Plantation Corporation d/b/a Plantation Utilities, in Docket No. 850054-WS. In a proceeding for an interim increase, the term "last authorized rate of return on equity" means the minimum of the range of the last authorized rate of return on equity established in the most recent rate case of the utility. A rate of return of 17.5% on common equity was last authorized for this utility in Docket No. 791033-WS. Therefore, for purposes of setting interim rates in this case, the minimum of the range of return on equity would have been 16.5%. However, in requesting interim rates in this case, the utility used the current water and sewer leverage formula established in Docket No. 880006-WS to determine the interim return on common equity. The return on common equity requested by the utility was 14.07%, which is less than that which would be allowed under the interim statute. We find it appropriate to use the current leverage formula as requested by the utility to determine the return on equity for interim purposes.

The capital structure as filed by the utility consisted of 54.55% debt at a cost of 8.41%, 43.33% common equity at a cost of 14.07%, and .02% investment tax credits and 2.10% deferred income taxes at zero cost. Based on this capital structure, the utility calculated an overall rate of return of 10.69%.

Our review of the common equity account indicates that it consists of the retained earnings of the utility and intercompany advances, on which no interest is charged. A review of the balance sheet for the utility indicates that these intercompany advances are classified as current liabilities. Further, our review of the thirteen-month balance sheet indicates that the advances are being repaid. As such, we do not find it appropriate to classify the advances as a source of common equity. Therefore, we have adjusted common equity to remove the intercompany advances. Further, we have

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adjusted the capital structure prorata, to reconcile rate base and capital structure. As a result of these adjustments, we have determined that the capital structure consists of 79.89% debt at a cost of 8.41%, 17.00% common equity at a cost of 14.07%, and .03% investment tax credits and 3.08% deferred taxes at zero cost. Based on the utility's requested return on equity of 14.07%, and our adjustments to capital structure, the overall rate of return for interim purposes is 9.11%.

#### NET OPERATING INCOME

We have made several adjustments to the utility's operating statement. We have reduced operation and maintenance expenses by \$7,327 to reflect the difference in projected expenses and actual test year expenses. We have reduced payroll expense by \$5,141 and insurance expense by \$19,931 to remove the proforma adjustments made by the utility. We have increased property taxes by \$2,812 to reflect the difference between actual and projected expenses, and decreased payroll taxes by \$440 to remove the taxes associated with the proforma adjustment to payroll expense. Our calculation of operating income is attached as Schedule No. 5. These adjustments, as well as other adjustments to operating income which are mechanical in nature, are itemized on Schedule No. 6.

#### INTERIM REVENUE REQUIREMENT

We have calculated Radnor's interim revenue requirement to allow the utility the opportunity to recover test year operating expenses and a 9.11% return on rate base. Therefore, we find it appropriate to authorize the utility to increase, on an interim basis, its sewer revenues by \$83,741, representing an increase of 56.88% across the board.

The following interim rates shall be implemented on bills for meter readings 30 days on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon our verification that the tariffs are consistent with our decision, that the proposed customer notice is adequate, and that the required security has been provided.

The utility's current rates, its proposed rates and the Commission-approved rates are as follows:

#### RATE SCHEDULE - SEWER

##### Schedule of Current, Proposed, and Commission-Approved Interim Rates

	<u>Monthly Rates</u>		
	<u>Current</u>	<u>Utility Proposed</u>	<u>Commission- Approved</u>
All Customer Classes			
Base Facility Charge	N/A	N/A	N/A
Gallorage Charge per 1,000 gallons	\$3.98	\$7.21	\$6.18

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INTERIM SERVICE AVAILABILITY CHARGES

The utility has not in the past, requested service availability charges for any type of service and has not requested such in this proceeding. On page 2 of Order No. 14630, issued July 25, 1985, in which we approved the transfer of this utility, we stated:

Based on our review, the utility continues to have no contributions-in-aid-of-construction. We are informed of plans to construct several more condominium units in the service area in the next year or two. When these are built, the utility may need to be expanded. Until such time, the utility expects no new construction. The utility may file for service availability charges upon expansion.

The utility has recently increased the capacity of its wastewater system from 200,000 to 300,000 gallons per day (GPD). The expansion was completed in order to provide capacity for an additional 440 multi-family units. Since the expansion may begin before this proceeding is finalized, it is proper for interim service availability charges to be set so that the opportunity for the utility to collect contributions-in-aid-of-construction (CIAC) is not jeopardized in any way by the passage of time pending the final resolution of this proceeding.

In determining the appropriate interim service availability charge, we utilized the increase to plant of \$631,000 as the basis upon which to allocate the service availability charges among the 440 planned unit expansion scheduled for completion by the end of 1993. Accumulated depreciation, accumulated amortization of CIAC and the four year growth period were taken into account in determining these service availability charges.

Based on the above factors, we find the appropriate interim service availability charge to be \$1,000 per unit. The charges shall be collected subject to refund with interest in the event that the final approved charge is less than the interim charge.

CORPORATE UNDERTAKING OR EQUIVALENT REQUIRED

Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. We find that a corporate undertaking, with the parent, Radnor Corporation, acting as guarantor, in the amount of \$70,000 would be adequate protection for the customers in the event of a refund requirement. However, if the parent refuses to guarantee the corporate undertaking or is found to be unsuitable financially, then an equivalent bond, letter of credit or escrow account will be required, in lieu of the

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corporate undertaking. Pursuant to Rule 25.30.360(b), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total accumulated revenue collected subject to refund.

Based on the foregoing, it is therefore

ORDERED by the Florida Public Service Commission that the proposed rates filed by RADNOR/PLANTATION CORPORATION d/b/a PLANTATION UTILITIES be and the same are hereby suspended. It is further

ORDERED that the request of RADNOR/PLANTATION CORPORATION d/b/a PLANTATION UTILITIES for increased interim rates is hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that RADNOR PLANTATION CORPORATION d/b/a PLANTATION UTILITIES is hereby authorized to collect the interim service availability charge as set forth in the body of this Order. It is further

ORDERED that the increase over the last authorized rates and charges shall be collected subject to refund with interest pursuant to Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that the interim rates approved herein shall be effective for meter readings 30 days on or after the stamped approval date on the revised tariff sheets. It is further

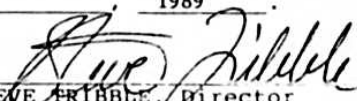
ORDERED that RADNOR/PLANTATION CORPORATION d/b/a PLANTATION UTILITIES shall file a corporate undertaking in the amount of \$70,000, or an equivalent bond, letter of credit or escrow agreement, as security for any potential refund of the interim increase amount. It is further

ORDERED that RADNOR/PLANTATION CORPORATION d/b/a PLANTATION UTILITIES shall file a report no later than the 20th day of each month that the interim increase is in effect, showing the amount of revenue collected as a result of the interim rates and the amount that would have been collected under the prior rates. It is further

ORDERED that RADNOR/PLANTATION CORPORATION d/b/a PLANTATION UTILITIES shall notify each customer of the increase in rates and charges authorized herein and provide an explanation for said increase. A letter of explanation shall be submitted to the Commission for approval. In addition, RADNOR/PLANTATION UTILITIES d/b/a PLANTATION UTILITIES shall send notification regarding the interim service availability charges to any person who has filed a written request for or who has received a written estimate for service within the past twelve months.

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By ORDER of the Florida Public Service Commission,  
this 28th day of February 1989.

  
STEVE FRIBBLE, Director  
Division of Records and Reporting

( S E A L )

SFS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or sewer utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

PLANTATION UTILITIES  
 SCHEDULE OF SEWER RATE BASE  
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 1  
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COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 992,264	\$ 0	\$ 992,264	\$ 830	\$ 993,094
2					
3 LAND	165,090	0	165,090	0	165,090
4					
5 NON-USED & USEFUL COMPONENTS	(273,035)	0	(273,035)	(23)	(273,058)
6					
7 C.W.I.P.	0	0	0	0	0
8					
9 C.I.A.C.	0	0	0	0	0
10					
11 ACCUMULATED DEPRECIATION	(84,209)	(8,677)	(92,886)	0	(92,886)
12					
13 AMORTIZATION OF C.I.A.C.	0	0	0	0	0
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
16					
17 WORKING CAPITAL ALLOWANCE	0	50,055	50,055	(50,055)	0
18					
19 RATE BASE	\$ 800,110	\$ 41,378	\$ 841,488	\$ (49,248)	\$ 792,240
20					

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PLANTATION UTILITIES  
 ADJUSTMENTS TO RATE BASE  
 FISCAL YEAR ENDED 12/31/88

SCHEDULE NO. 2  
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EXPLANATION	SEWER
-----	
1 UTILITY PLANT IN SERVICE	
2 A. To reflect the actual 13-month average	\$ 830
3 balance of plant in service.	-----
4	
5 NON-USED AND USEFUL PLANT	
6 A. To reflect the adjusted non-used and	
7 useful plant balance, based on the	
8 actual plant balance at 12/31/88.	\$ (23)
9	-----
10	
11 WORKING CAPITAL ALLOWANCE	
12 A. To remove the working capital allowance.	\$ (50,055)
13	-----

PLANTATION UTILITIES  
CAPITAL STRUCTURE  
TEST YEAR ENDED 12/31/88

SCHEDULE NO. 3  
DOCKET NO. 880654-SU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
LONG TERM DEBT	\$ 459,032	54.55%	8.41%	4.59%	\$ 173,888	\$ 632,920	79.89%	8.41%	6.72%
SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	364,617	43.33%	14.07%	6.10%	(229,936)	134,681	17.00%	14.07%	2.39%
INVESTMENT TAX CREDITS	168	0.02%	0.00%	0.00%	70	238	0.03%	0.00%	0.00%
DEFERRED INCOME TAXES	17,671	2.10%	0.00%	0.00%	6,730	24,401	3.08%	0.00%	0.00%
OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
TOTAL CAPITAL	\$ 841,488	100.00%		10.68%	\$ (49,248)	\$ 792,240	100.00%		9.11%

PLANTATION UTILITIES  
 ADJUSTMENTS TO CAPITAL STRUCTURE  
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 4  
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DESCRIPTION	ADJUST OUT PARENT ITEMS	ADJUST FOR ERROR	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	\$ 173,888	\$ 173,888
2				
3 SHORT TERM DEBT	0	0	0	0
4				
5 CUSTOMER DEPOSITS	0	0	0	0
6				
7 PREFERRED STOCK	0	0	0	0
8				
9 COMMON EQUITY	0	0	(229,936)	(229,936)
10				
11 INVESTMENT TAX CREDITS	0	0	70	70
12				
13 DEFERRED INCOME TAXES	0	0	6,730	6,730
14				
15 OTHER CAPITAL	0	0	0	0
16				
17 TOTAL CAPITAL	\$ 0	\$ 0	\$ (49,248)	\$ (49,248)
18				

PLANTATION UTILITIES  
STATEMENT OF SEWER OPERATIONS  
TEST YEAR ENDED 12/31/88

SCHEDULE NO. 5  
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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 152,722	\$ 138,366	\$ 291,088	\$ (143,856)	\$ 147,232	\$ 83,741	\$ 230,973
2							
3 OPERATING EXPENSES							
4							
5 OPERATION AND MAINTENANCE	\$ 115,746	\$ 19,495	\$ 135,241	\$ (32,399)	\$ 102,842	\$ 0	\$ 102,842
6							
7 DEPRECIATION	28,123	271	28,394	0	28,394	0	28,394
8							
9 AMORTIZATION	0	0	0	0	0	0	0
10							
11 TAXES OTHER THAN INCOME	26,055	(6,135)	19,920	(927)	18,993	2,093	21,086
12							
13 INCOME TAXES	(25,008)	42,586	17,578	(17,612)	(34)	6,512	6,478
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 144,916	\$ 56,217	\$ 201,133	\$ (50,938)	\$ 150,195	\$ 8,605	\$ 158,800
17							
18							
19 OPERATING INCOME	\$ 7,806	\$ 82,149	\$ 89,955	\$ (92,918)	\$ (2,963)	\$ 75,136	\$ 72,173
20							
21							
22 RATE BASE	\$ 800,110		\$ 841,488		\$ 792,240		\$ 792,240
23							
24							
25 RATE OF RETURN	0.98%		10.69%		-0.37%		9.11%
26							

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PLANTATION UTILITIES  
ADJUSTMENTS TO OPERATING STATEMENT  
TEST YEAR ENDED 12/31/88

SCHEDULE NO. 6  
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EXPLANATION	SEWER
-----	
1 1.) OPERATING REVENUES	
2 A. To remove utility's requested increase.	\$ (131,968)
3	
4 B. To reflect actual test year revenues.	(11,888)
5	-----
6 NET ADJUSTMENT	\$ (143,856)
7	=====
8	
9 2.) OPERATION AND MAINTENANCE EXPENSE	
10 A. To reflect actual test year operation	
11 and maintenance expenses.	\$ (7,327)
12	
13 B. To remove the utility's proforma adjustment	
14 to payroll expense.	(5,141)
15	
16 C. To remove the utility's proforma adjustment	
17 to insurance expense.	(19,931)
18	-----
19 NET ADJUSTMENT	\$ (32,399)
20	=====
21	
22 3.) TAXES OTHER THAN INCOME	
23 A. To reflect actual test year property taxes.	\$ 2,812
24	
25 B. To remove property taxes associated with	
26 adjustment 2-B.	(440)
27	
28 C. To remove gross receipts taxes associated	
29 with the utility's requested interim increase.	(3,299)
30	-----
31 NET ADJUSTMENT	\$ (927)
32	=====
33	
34 4.) INCOME TAXES	
35 A. To reflect test year income taxes per books.	\$ (17,612)
36	=====
37 5.) OPERATING REVENUES	
38 A. To reflect the interim revenues required.	\$ 83,741
39	=====
40	
41 6.) TAXES OTHER THAN INCOME	
42 A. To reflect gross receipts taxes on the	
43 interim revenue increase.	\$ 2,093
44	=====
45 7.) INCOME TAXES	
46 A. To reflect income taxes on the interim net	
47 operating income.	\$ 6,512
	=====