

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request of MILES GRANT WATER)	DOCKET NO. 890978-SU
AND SEWER COMPANY for a limited)	ORDER NO. 22079
proceeding to increase sewer rates in)	ISSUED: 10-23-89
Martin County.)	
)	

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER SETTING FINAL RATES

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

Miles Grant Water and Sewer Company (Miles Grant or utility) is a Class C water utility in Pasco County which serves approximately 1,100 customers. The utility is owned by Utilities, Inc. Its rates were last set in Order No. 20066, issued September 26, 1988.

The Department of Environmental Regulation (DER) has required Miles Grant to construct a 900,000 gallon effluent holding tank for the sewage treatment plant, reported to cost \$410,000. The utility, on July 24, 1989, requested a test year approval for a general rate increase in an effort to earn a return on this investment. A test year was approved by the Chairman and Docket No. 890468-WS was established to process the case. However, as the utility had completed a general rate case within a year of the request, and since no other major costs had changed dramatically, Miles Grant subsequently filed a request for a limited proceeding for a rate increase on July 26, 1989 and withdrew its request for a general rate increase. Order No. 21934, issued September 22, 1989, closed Docket No.

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890468-WS. The utility also filed a 1989 price index in Docket No. 891017-WS, to be implemented after the conclusion of the limited proceeding.

QUALITY OF SERVICE

A customer meeting was held on September 7, 1989, in the utility's service area. Approximately 25 customers attended the meeting. No complaints were made as to the quality of sewer service provided by the utility, although some minor problems were noted as to water service. In addition to the customer meeting, we contacted DER. According to DER, the utility is operating in compliance with DER's regulations and standards. Based on the foregoing, we find that the quality of sewer service is satisfactory.

RATE BASE

Original Cost of Project

As stated above, Miles Grant reported the cost of the effluent holding tank to be \$410,000. The utility submitted financial statements and invoices relating to the construction of the project. Upon review of this data, we find that \$5,691 was not related to the project, and thus we reduce the cost to \$404,309.

Used and Useful

In the utility's last rate case, the water and sewer systems were considered 100% used and useful, after an adjustment was made to revenues and contributions-in-aid-of-construction (CIAC). Revenues and CIAC were imputed to recognize that the utility will be at its limiting capacity after 121 additional units are on-line in Hansen's Landing, a condominium complex. For this reason, we do not find it appropriate to make a used and useful adjustment to the cost of the effluent holding tank.

RATE OF RETURN

In its filing, Miles Grant determined the revenue effect of the effluent holding tank by using the capital structure contained in Order No. 21581, issued July 18, 1989, which approved its current Allowance For Funds Used During

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Construction (AFUDC) rate. The capital structure, as set forth in that Order, is comprised of 38.73% common equity, 47.33% long-term debt, 2.94% customer deposits, 5.51% investment tax credits, and 5.49% deferred tax credits. A 10.43% weighted cost of capital was calculated in Order No. 21581, consisting of a 9.96% cost of long-term debt, an 8.00% cost of customer deposits, a zero cost for tax credits and deferred income taxes, and a 13.95% cost of common equity.

However, Miles Grant, by letter dated September 12, 1989, stipulated to the use of the current leverage graph set forth in Order No. 21775, issued August 23, 1989. Applying the leverage graph to the utility's 38.73% equity component results in a 13.95% return on equity, for an overall rate of return of 10.35%. We hereby find it appropriate to approve a 10.35% overall rate of return on Miles Grant's investment in the effluent holding tank. Schedule No. 1, attached to this Order and by reference incorporated herein, presents the calculation of the utility's overall rate of return.

NET OPERATING INCOME

Expenses

Miles Grant's requested revenue increase includes pro forma expenses associated with construction of the project. These expenses include depreciation at 3.00% per year and interest expense based on its 4.71% weighted cost of debt. State and federal income taxes were included based on a combined tax rate of 37.63%. We find the foregoing expenses to be reasonable, and hereby approve such expenses. The utility's calculation of the revenue requirement did not include regulatory assessment fees. Therefore, we find it appropriate to gross-up the revenue requirement to include regulatory assessment fees.

REVENUE REQUIREMENT

Based upon the foregoing costs associated with the effluent holding tank, we calculated a revenue increase for the utility of \$67,874 on an annual basis, for a total of \$263,612. However, the utility only requested an increase of \$67,756. Therefore, we find it appropriate to approve an annual revenue increase of \$67,756. Schedule No. 2, attached to this Order and by reference incorporated herein, presents the calculation of the revenue effect of the project.

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RATES

Miles Grant currently has a base facility charge (BFC) rate structure for sewer service. Billing is bi-monthly and the residential sewer cap is set at 20,000 gallons. The utility proposes to place the entire revenue increase in the BFC. The effect would be that the BFC for a residential connection would rise from \$15.04 to \$26.40 per bi-monthly period, approximately a 76% increase.

Our standard allocation of the cost of service would result in a relatively large increase in the gallonage charge. Such standard allocation calls for inclusion of the income taxes and net operating income in gallonage charges and the depreciation in the BFC. Applied to the situation at hand, the gallonage charge would rise by approximately \$.90 to \$3.60, a 33% increase, and the BFC would rise from \$15.04 to \$19.82, a 32% increase.

In order to avert a disproportionately large increase in either the gallonage charge or the BFC, and to minimize the impact on residential customers, we find it appropriate to distribute revenue so that the gallonage charge rises slightly over 10% to \$3.00 per 1,000 gallons and the BFC rises approximately 40% for residential connections to \$21.16 per bi-monthly period. The average residential bill would rise by approximately 26.10%, as opposed to an estimated 40% increase under the utility's proposal.

The utility's current rates, approved in Order No. 20066, were set on the assumption that Hansen's Landing would continue to be billed at the master metered 4-inch meter rate. Some time after September 26, 1988, the date of such Order, the utility individually metered the condominium units. Billing on an individual basis will spread the costs among the units, reducing the base facility charge for residential customers, and will preclude the possibility of residential customers subsidizing the condominium residents.

We hereby approve the rates presented in Schedule No. 3, attached to this Order and by reference incorporated herein, which we find to be just, reasonable, and compensatory. These rates are designed to allow Miles Grant the opportunity to earn a 10.35% return on its investment in the effluent holding tank and reflect the allocation of cost of service discussed above.

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Effective Date

The sewer rates approved in this Order shall be effective for service rendered on or after the effective date of this Order, subject to the utility's filing and Staff's approval of the appropriate tariff sheet revisions and a proposed customer notice.

In consideration of the above, it is, therefore,

ORDERED by the Florida Public Service Commission that this Order is issued as proposed agency action, and as such, shall become final unless an appropriate petition in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that the request of Miles Grant Water and Sewer Company to increase sewer rates in Martin County is approved as set forth in the body of this Order. It is further

ORDERED that Miles Grant Water and Sewer Company is authorized to charge the new rates as set forth in this Order. It is further

ORDERED that the sewer rates approved in this Order shall be effective for service rendered on or after the effective date of this Order, subject to the utility's filing and Staff's approval of the appropriate tariff sheet revisions and a proposed customer notice. It is further

ORDERED that, in the event this Order becomes final, the utility shall notify each affected customer of the increased sewer rates, and shall explain the reasons for such increase. The form of this notice shall be submitted to this Commission for prior approval. It is further

ORDERED that in the event no protest is timely received, this docket shall be closed.

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By ORDER of the Florida Public Service Commission
this 23rd day of OCTOBER, 1989.


STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

DCS

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on November 13, 1989.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

MILES GRANT WATER AND SEWER COMPANY
CAPITAL STRUCTURE

Schedule No. 1
Docket No. 890978-SU

Class of Capital	Capitalization Per Utility	Utility Adjustments	Adjusted Capital Structure	Percent of Capital	Cost Rates	Weighted Cost
Common Equity	262,328	0	262,328	38.73%	13.95%	5.40%
Long Term Debt	320,623	0	320,623	47.33%	9.96%	4.71%
Short-Term Debt	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	19,883	0	19,883	2.94%	8.00%	0.23%
Tax Credits - Zero Cost	37,364	0	37,364	5.52%	0.00%	0.00%
Tax Credits - Weighted Cost	0	0	0	0.00%	0.00%	0.00%
Deferred Income Taxes	37,157	0	37,157	5.49%	0.00%	0.00%
Total	677,355	0	677,355	100.00%		10.35%

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MILES GRANT WATER AND SEWER COMPANY
REVENUE REQUIREMENT CALCULATION

SCHEDULE NO. 2
DOCKET NO. 890978-SU

Total Cost of the Upset Holding Tank		\$ 404,309
		=====
Depreciation Expense (1)		12,129
Interest Expense (2)		19,042
Equity (3)	\$ 21,833	
Tax Effect	13,173	35,006
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Revenue Requirement		\$ 66,177
Regulatory Assessment Fees		1,697

Total Revenue Increase		\$ 67,874
		=====
Utility Request		67,756
Commission Approved Increase in Revenues		\$ 67,756
		=====

- Notes: (1) Calculated Using Guideline Rate of 3%
(2) Calculated Using the Weighted Cost of Debt (Schedule No. 2)
(3) Calculated Using the Weighted Cost of Equity (Schedule No. 2)

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SCHEDULE 3

SEWER RATESBI-MONTHLYRESIDENTIAL

	<u>Current</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
Base Facility Charge			
<u>Meter Size</u>			
All Meter Sizes	\$ 15.04	\$ 26.40	\$ 21.16
Gallonage Charge per 1,000 gallons (Maximum 20,000 gallons)	\$ 2.72	\$ 2.72	\$ 3.00

GENERAL SERVICE

Base Facility Charge			
<u>Meter Size</u>			
5/8" x 3/4"	\$ 15.04	\$ 26.40	\$ 21.16
1"	37.48	65.88	52.90
1-1/2"	74.88	131.68	105.80
2"	119.76	210.64	169.28
3"	239.44	421.20	338.56
4"	374.08	658.08	529.00
6"	748.04	1,316.08	1,058.00
Gallonage Charge per 1,000 gallons	\$ 2.72	\$ 2.72	\$ 3.00