

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Potential overearnings ) DOCKET NO. 920449-WS  
investigation of BETMAR ) ORDER NO. PSC-92-0595-FOF-WS  
UTILITIES, INC. in Pasco County) ISSUED: 07/01/92  
\_\_\_\_\_)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK  
J. TERRY DEASON  
BETTY EASLEY  
LUIS J. LAUREDO

ORDER INITIATING INVESTIGATION INTO RATES AND  
CHARGES AND MAKING REVENUES SUBJECT TO REFUND

BY THE COMMISSION:

Betmar Utilities, Inc. (Betmar or utility), is a Class C water and wastewater utility operating in Pasco County, Florida. The utility's 1991 Annual Report indicates that it was serving 1,548 water customers and 945 wastewater customers as of December 31, 1991. Further, this report states that gross water revenues are \$153,559 while operating expenses are \$140,492, resulting in net water operating income of \$13,067. Gross wastewater revenues are reported as \$191,338 and operating expenses as \$146,712, resulting in net wastewater operating income of \$44,626. However, the investigation of potential overearnings applies only to Betmar's wastewater revenues.

In 1989, the Department of Environmental Regulation (DER) ordered Betmar to eliminate unpermitted discharge of wastewater effluent either by directing all flow from the plant to a permitted wastewater treatment facility, thereby retiring its treatment and disposal facilities, or by expanding its existing effluent disposal system. The "Notice of Violation and Orders for Corrective Action" was issued August 4, 1989, and the Final Order was issued October 27, 1990. Based on the utility's analysis of the two options, Betmar chose to interconnect with Pasco County's treatment and disposal facilities. The physical interconnection was made on September 24, 1990, and on October 23, 1990, DER permitted the utility to pump the flows to Pasco County. Betmar began pumping its effluent to Pasco County's facilities for treatment on December 1, 1990.

DOCUMENT NUMBER-DATE

07043 JUL -1 1992

FPSC-RECORDS/REPORTING

On August 10, 1990, Betmar filed an application with this Commission for a staff assisted rate case. The application was accepted, and October 9, 1990, was established as the official date of filing. The test year in that proceeding was the projected test year ended December 31, 1991. The current rates in effect for the utility were established by this Commission in Order No. 24225, issued on March 12, 1991, in Docket No. 900688-WS.

INITIATION OF OVEREARNINGS INVESTIGATION  
AND PLACING REVENUES SUBJECT TO REFUND

Section 367.082, Florida Statutes, authorizes this Commission to initiate an investigation of a utility's earnings upon a preliminary demonstration that the utility is earning a rate of return which is outside the range of reasonableness. To the extent that the achieved rate of return exceeds the required rate of return applied to an average investment rate base or an end of period investment rate base, this Commission may require revenues to be collected subject to refund during the investigation. We hereby initiate an investigation of this utility's earnings for wastewater service. The test year for the investigation shall be the test year ended December 31, 1991.

Based on our adjusted desk audit of Betmar's 1991 Annual Report and partial audit information, which indicate that the utility is earning an overall rate of return of 42.29 percent, it appears that Betmar is achieving a rate of return in excess of the return approved in the last rate case as authorized by this Commission in Order No. 24225.

At our May 19, 1992, Agenda Conference, and by Order No. PSC-92-0480-FOF-WU, this Commission granted Betmar a \$23,486, 14.97 percent, water rate increase in Docket No. 910963-WU. We decided that the water increase granted by Order No. PSC-92-0480-FOF-WU should not become effective until the potential overearnings in the wastewater division were made subject to refund.

On May 15, 1992, the utility applied for a 1992 price index rate adjustment (WS-92-0120) for water and wastewater. The anticipated effective date will be for service rendered on or after July 14, 1992. Due to the potential overearnings for the wastewater system, the utility withdrew the wastewater portion of its request.

As noted earlier, the utility's 1991 Annual Report indicates that the utility is earning a 42.49 percent return on rate base. Based on the utility's current cost of capital and the high end of the utility's last authorized return on equity, 13.18 percent, the utility's required rate of return is 12.65 percent. Based upon our review of the Annual Report, we have found several adjustments appropriate, including updating the reported balances to include pro forma plant allowances that had been granted in the last rate case.

We have discovered several costs that were incurred, but were omitted from the utility's 1991 Annual Report. The utility submitted invoices in support of these costs, which include \$12,500 to construct a garage/workshop/storage shed and \$21,002 for the cost of rehabilitating manholes and tightening the collection system. The related depreciation on these amounts was also omitted from the annual report. Further, the utility failed to record \$14,686 for amortization of the loss on the retirement of the wastewater treatment plant which was allowed in the previous rate case. When these adjustments are made, including adjustments to annualize test year revenues and the recalculation of the income tax expense, the test year achieved rate of return is calculated to be 14.01 percent, which results in test year overearnings of \$2,557 or 1.33 percent of test year revenues of \$193,933.

According to our preliminary calculations, we find that the appropriate rate base, for the purpose of this proceeding, is \$143,732. Our calculation of rate base is depicted on Schedule No. 1. Our adjustments to rate base are reflected on Schedule No. 1-A.

We determined that the appropriate overall weighted cost of capital is 12.65 percent by using the test year levels of the capital structure components and applying a weighted average interest rate of 12 percent on outstanding debt, 8 percent on customer deposits, and 0 percent for deferred taxes, along with an equity return of 13.18 percent. Based on our findings in the last rate case and further investigation, we have reclassified the notes payable balance into the long term debt account in order to reflect the correct reporting method, and we have adjusted the accumulated deferred taxes in order to reflect the loss on retired wastewater treatment assets. Our calculation of the appropriate cost of capital is depicted on Schedule No. 2. Our adjustments to the capital structure are reflected on Schedule No. 2-B.

The utility recorded operating revenues of \$188,992 for the test year. For the purpose of this proceeding, however, we have annualized the 1991 revenues to reflect the rate increase granted in the last rate case.

Except for adjusting salaries and wages, transportation, pensions and benefits, and insurance expenses to reflect the levels that were determined in the last rate case, we have accepted the test year operation and maintenance (O & M) expenses as stated by the utility. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on Schedules Nos. 4-A and 4-B. The most significant adjustment is discussed below.

The utility reported purchased sewage treatment costs of \$60,436 in its annual report. We have adjusted this balance to reflect two months of accrued service that was omitted from the reported amount. The service was rendered in 1991, but the invoices were paid in 1992. This account indicates the largest margin of difference from the level determined in the last rate case. The adjusted total is \$77,827 which is based on 19,793,000 gallons of sewage treated by Pasco County at a charge of \$4.13 per thousand gallons. In the last rate case, we estimated that 24,461,000 gallons would be treated based upon estimated connections during 1991 and two months of wastewater flow data compared to the water meter readings. Using the estimated gallons and the county's charge, the utility was granted a total wastewater treatment allowance of \$101,024. The revenue requirement granted in that docket, \$223,816, was based on the higher consumption amount. Therefore, since actual consumption was less than the projected consumption, on an annual basis the rates granted in the rate case would have generated only \$193,933, or \$29,883 less revenues than projected in the rate case.

Based upon the reported amounts and the allowances and adjustments discussed above, we find that the appropriate total wastewater O & M expenses are \$138,314, which is a \$6,819 increase over the 1991 reported amounts.

Taxes other than income taxes have been decreased by \$115 to reflect the appropriate amount of regulatory assessment fees associated with the proposed wastewater revenue decrease. Income tax expense has been reduced in order to reflect the appropriate

amount of tax expense associated with a 12.65 percent return on test year rate base.

The utility's revenue requirement for interim purposes has been determined to be \$191,376. Our calculation of the revenue requirement and the appropriate decrease is reflected on Schedule No. 4.

Based on the foregoing, we find it appropriate to require Betmar, until the overearnings investigation is completed, to place \$2,557 annually of its revenues for wastewater service subject to refund with interest calculated pursuant to Rule 25-30.360, Florida Administrative Code.

This \$2,557 amount of revenues is equivalent to 1.33 percent of revenues on a monthly basis. Since we have placed the appropriate wastewater revenues subject to refund herein, we also find it appropriate to permit Betmar to charge the rates that this Commission approved as Proposed Agency Action (PAA) by Order No. PSC-92-0480-FOF-WU, if and when that Order becomes final and effective. If no protest is received to Order No. PSC-92-0480-FOF-WU, the rates approved will become final and effective for meter readings 30 days on or after the stamped approval date of the tariff sheets. The protest period for Order No. PSC-92-0480-FOF-WU will expire on June 29, 1992.

#### SECURITY

Betmar must submit for our Staff's approval both the security for a potential refund and a copy of the proposed customer notice within 30 days of the date of this Order. The utility shall establish an escrow account with an independent financial institution and shall deposit 1.33 percent of its monthly wastewater revenues into such account until the resolution of this overearnings investigation.

Since security shall be provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.

- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Consentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. An account of all monies received in excess of the revenue requirement shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

This docket shall remain open until our investigation of the potential overearnings of the wastewater system of Betmar Utilities, Inc. is completed and a final Order is issued.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that an investigation of the wastewater rates and charges of Betmar Utilities, Inc. shall be initiated. It is further

ORDERED that Betmar Utilities, Inc. shall place \$2,557 annually of its revenues for wastewater service, subject to refund

ORDER NO. PSC-92-0595-FOF-WS  
DOCKET NO. 920449-WS  
PAGE 7

with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, to the extent set forth in the body of this Order. It is further

ORDERED that Betmar Utilities, Inc. shall be permitted to charge the rates approved by Order No. PSC-92-0480-FOF-WU, if and when that Order becomes final and effective. The approved rates will become effective for meter readings thirty days on or after the stamped approval date of the tariff sheets. It is further

ORDERED that Betmar Utilities, Inc. shall establish an escrow account with an independent financial institution to secure the refund of potential overearnings. Betmar shall deposit 1.33 percent of its monthly wastewater revenues into said account until the resolution of this overearnings investigation. The escrow agreement shall be filed with this Commission within thirty days of the date of this Order. It is further

ORDERED that no later than twenty days after each billing, Betmar Utilities, Inc. shall file reports with the Commission's Division of Records and Reporting detailing the revenue for wastewater service during the previous month as set forth in the body of this Order. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 1st day of July, 1992.

  
\_\_\_\_\_  
STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

LK

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 the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) 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 by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.



DOCKET NO. 920449-WS  
 ORDER NO. PSC-92-0595-FOF-WS  
 PAGE 9

BETMAR UTILITIES, INC.  
 SCHEDULE OF SEWER RATE BASE  
 TEST YEAR ENDED DECEMBER 31, 1991

SCHEDULE NO. 1  
 DOCKET NO. 920449-WS

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	COMM. BALANCE
	-----	-----	-----
DEPRECIABLE PLANT IN SERVICE	\$ 432,671	\$ 12,500 A	\$ 445,171
LAND	3,110	350 B	3,460
ACCUMULATED DEPRECIATION AND AMORTIZATION OF PLANT IN SERVICE	(143,461)	8,221 C	(135,240)
C.I.A.C.	(347,199)	0	(347,199)
ACCUMULATED AMORTIZATION OF C.I.A.C.	147,031	(7,295)D	139,736
WORKING CAPITAL ALLOWANCE	16,437	852 E	17,289
	-----	-----	-----
SEWER RATE BASE	\$ 108,589	\$ 14,628	\$ 123,217
	-----	-----	-----

DOCKET NO. 920449-WS  
ORDER NO. PSC-92-0595-FOF-WS  
PAGE 10

BETMAR UTILITIES, INC.  
DOCKET NO. 920449-WS  
TEST YEAR ENDED DECEMBER 31, 1991  
ADJUSTMENTS TO RATE BASE  
SCHEDULE NO. 1A

---

A. To reflect 1/2 of storage shed/office (\$12,500) and rehabilitation of facilities (\$21,002) that was allowed in the last rate case.	\$33,502
B. Land updated to reflect the allowance established in the last rate case.	\$350
C. Averaging adjustment	\$7,734
D. Averaging adjustment	(\$7,295)
E. Averaging adjustment	\$852

BETMAR UTILITIES, INC.  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDED DECEMBER 31, 1991  
 SCHEDULE NO.2  
 DOCKET NO.920449-WS

	BALANCE PER UTILITY	COMM. ADJUST. UTIL. BAL.	COMM. BALANCE	RATIO	COST	WEIGHTED COST
	-----	-----	-----	-----	-----	-----
COMMON EQUITY	\$ (5,000)	\$ 0	\$ (5,000)	1.04%	13.18%	0.14%
OTHER PAID IN CAPITAL	(275,000)	0	(275,000)	57.08%	13.18%	7.52%
RETAINED EARNINGS	(57,418)	20,116 A	(37,302)	7.74%	13.18%	1.02%
LONG-TERM DEBT	(153,312)	0	(153,312)	31.82%	12.00%	3.82%
DEFERRED TAXES	(2,152)	(7,431)B	(9,583)	1.99%	0.00%	0.00%
CUSTOMER DEPOSITS	(1,850)	250 C	(1,600)	0.33%	8.00%	0.03%
	-----	-----	-----	-----	-----	-----
TOTAL	\$ (494,732)	\$ 12,935	\$ (481,797)	1		12.53%
	-----	-----	-----	-----	-----	-----

RANGE OF REASONABLENESS	LOW	HIGH
-----	-----	-----
RETURN ON EQUITY	0.00%	0.00%
OVERALL RATE OF RETURN	12.53%	12.53%

DOCKET NO. 920449-WS  
ORDER NO. PSC-92-0595-FOF-WS  
PAGE 12

BETMAR UTILITIES, INC.  
DOCKET NO. 920449-WS  
TEST YEAR ENDED DECEMBER 31, 1991  
ADJUSTMENTS TO CAPITAL STRUCTURE  
SCHEDULE NO. 2A

---

A. Averaging adjustment	\$20,116
B. To reflect accumulated deferred taxes associated with the loss on the retirement of wastewater treatment plant and gain on land (amount included last rate case.	(\$7,431)
C. Averaging adjustment	\$250

DOCKET NO. 920449-WS  
 ORDER NO. PSC-92-0595-FOF-WS  
 PAGE 13

BETMAR UTILITIES, INC.  
 SCHEDULE OF SEWER OPERATING INCOME  
 TEST YEAR ENDED DECEMBER 31, 1991

SCHEDULE NO. 4  
 DOCKET NO. 920449-WS

	TEST YEAR PER UTILITY	COMM. ADJUST TO UTIL. BAL.	COMM. ADJUST. TEST YEAR	COMM. ADJUST. FOR INCREASE	COMM. BALANCE
OPERATING REVENUES	\$ 188,992	4,941 A \$	193,933	(2,444)G \$	191,489
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	131,495	6,819 B	138,314	0	138,314
DEPRECIATION AND AMORTIZATION EXPENSE	16,442	450 C	16,892	0	16,892
AMORTIZATION-CIAC	(14,589)	0	(14,589)	0	(14,589)
TAXES OTHER THAN INCOME	16,655	222 D	16,877	(110)H	16,767
GAIN ON DISPOSITION OF UTIL. PROPERTY	(2,346)	0	(2,346)	0	(2,346)
LOSS ON DISPOSITION OF UTIL. PROPERTY	0	14,686 E	14,686	0	14,686
INCOME TAXES	(4,804)	11,441 F	6,637	(311)I	6,326
TOTAL OPERATING EXPENSES	\$ 142,853	\$ 33,618	\$ 176,471	\$ (421)	\$ 176,050
OPERATING INCOME/(LOSS)	\$ 46,139	\$ (28,677)	\$ 17,462	\$ (2,023)	\$ 15,439
SEWER RATE BASE	\$ 108,589		\$ 123,217		\$ 123,217
RATE OF RETURN	42.49%		14.17%		12.53%

DOCKET NO. 920449-WS  
ORDER NO. PSC-92-0595-FOF-WS

BETMAR PACE INC.

DOCKET NO. 920449-WS

TEST YEAR ENDED DECEMBER 31, 1991

ADJUSTMENTS TO NOI-WASTEWATER

SCHEDULE NO. 4A

---

A. Operating Revenues increased to reflect rate increase granted in rate case.	\$4,941
B. Operating and Maintenance Expenses	
1. Reduce salaries and wages-employees to the level determined reasonable in the last rate case	(\$3,268)
2. Reduce salaries and wages-officers, to the level determined reasonable in last case	(\$4,350)
3. Reflects the health insurance benefits allowed in the last rate case.	\$1,259
4. Amount was omitted from the annual report in error.	\$17,391
5. Reduced to reflect the level that was determined reasonable in the last rate case.	(\$932)
6. Reduced to reflect the level determined appropriate in the last rate case.	(\$3,281)
	-----
	\$6,819
C. To reflect depreciation associated with 1/2 of storage shed/office (\$12,500 * .036). rehabilitation of manholes etc. which was allowed in the last rate case(\$21,002*.025*.50).	
	\$450
	\$525
	-----
	\$975

DOCKET NO. 920449-WS  
ORDER NO. PSC-92-0595-FOF-WS  
PAGE 15

BETMAR UTILITIES, INC.  
DOCKET NO. 920449-WS  
TEST YEAR ENDED DECEMBER 31, 1991  
ADJUSTMENTS TO NOI-WASTEWATER  
SCHEDULE NO. 4B

D. Annualized revenue adjustment for RAF	\$222
E. Adjustment allowed in last rate case to reflect 1/5 of loss associated with retirement of wastewater plant.	\$14,686
F. Adjustment to reflect income taxes to staff's adjustment to net operating increase.	\$8,234
G. Revenue reduction required to allow calculated rate of return.	(\$2,557)
H. RAF associated with the revenue reduction.	(\$115)
I. Reduced to reflect lower revenue requirement.	(\$480)