

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-
assisted rate case in Columbia
County by Kirby D. Morgan, Inc.

DOCKET NO. 961332-SU
ORDER NO. PSC-97-0775-FOF-SU
ISSUED: July 1, 1997

The following Commissioners participated in the disposition of
this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST
AND
NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING INCREASED WASTEWATER RATES
AND
REQUIRING CONFORMITY WITH NARUC SYSTEM OF ACCOUNTS

BY THE COMMISSION:

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

BACKGROUND

Kirby D. Morgan, Inc. (KDMI or utility) is a Class C wastewater utility located in Columbia County. The utility currently serves approximately 140 single family residences. There are 182 single family homes in the retirement community of which 36 of the homes purchase wastewater service from the Lake City Utility Department and 6 homes have septic tanks. The community's water service is provided by Lenvil H. Dicks Water Systems (LDWS).

DOCUMENT NUMBER DATE

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FLORIDA PUBLIC SERVICE COMMISSION

The utility was originally owned by Greene-Horne Corporation (GHC). KDMI purchased the system in June, 1995. At the time of the purchase, GHC informed Mr. Kirby D. Morgan that it was in the process of applying for a certificate, but had not done so. Upon purchasing the utility, Mr. Morgan attempted to convince the homeowners association to run the wastewater plant, but the homeowners could not reach an agreement.

On October 26, 1995, KDMI filed an application with this Commission for a certificate to provide wastewater service in Columbia County. The utility consists of a wastewater treatment plant and a wastewater collection system. The utility has a maximum capacity at build out of 225 customers. By Order No. PSC-96-0564-FOF-SU, issued April 30, 1996, in Docket No. 951272-SU, Kirby D. Morgan, Inc. was granted Certificate No. 501-S.

On November 7, 1996, KDMI filed an application for a staff-assisted rate case and has paid the appropriate filing fees. We selected a historical test year ending December 31, 1996. In preparation for this report, we audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. Our staff engineer also conducted a field investigation of the utility's wastewater plants and the service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant and operating costs. A customer meeting was held on April 15, 1997 in Lake City, the utility's service area, to receive quality of service comments.

QUALITY OF SERVICE

A review of the Department of Environmental Protection's (DEP) records has revealed that the wastewater treatment and collection system is in compliance with the appropriate environmental regulations. Our staff engineer also checked with our Division of Consumer Affairs for any registered complaints and found that no complaints have been received.

In addition, only one customer that attended the customer meeting expressed a concern about the quality of service. The customer's concern was in regards to an occasional sewer odor. At the time of the engineering investigation, our staff did not smell any abnormal odors discharged by the plant. The wastewater treatment plant and collection system appeared to be operating

properly. Accordingly, we find that the quality of service provided by KDMI is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

The utility's monthly operation reports for the test year were utilized to calculate the used and useful percentages. These calculations appeared to be low (50 gallons per day (gpd) in comparison to using the standard 280 gpd per equivalent residential connection (ERC) factor). A documented statement by the plant's operator, which was in the monthly operation reports, indicated that the inflow meter was not functioning properly and in need of repair. The Florida Rural Water Association has recently investigated the problem concerning the malfunction of the inflow meter, and the problem is being corrected. The patrons of this utility are retired persons, and a significant percentage of the customer base consists of one person households. In addition, because a portion of the customer base is away part of the year, we concluded that the low flow readings were reasonable. Therefore, the monthly operation reports' low flow readings were utilized to calculate the used and useful percentages.

The service area is 73% built out, and all of the service lines have been installed. This includes the remaining 68 available lots. Accordingly, we find that the wastewater treatment plant is 56% used and useful and the wastewater collection system is 65% used and useful.

Wastewater Treatment Plant

The utility's wastewater treatment facility has a designed flow capacity of 25,000 gpd. The design components consist of a concrete structure, an extended aeration plant, a chlorinator, and two percolation ponds. Chlorination is provided by liquid chlorine injected (15 gpd Chem-Tech chlorine feeder) into the weir chamber

of the final settling tank. The wastewater influent is transported from three lift stations by gravity where the raw waste is then pumped to the plant site by a force main from each lift station. The chlorinated effluent is measured by a flow meter and deposited into two percolation ponds. Both ponds are adjacent to the wastewater treatment plant. The housekeeping at the plant site and the maintenance of the percolation ponds are satisfactory. At the time of the engineering field investigation, this facility appeared to be operating properly.

Wastewater Collection Systems

The wastewater collection system is comprised of 11,500 feet of 8-inch PVC pipe, approximately 200 feet of 4-inch PVC pipe, 3,800 feet of 3-inch PVC pipe, 34 manholes and 3 lift stations. At the time of the engineering investigation, the collection system appeared to be operating properly.

Test Year Rate Base

The appropriate components of the utility's rate base include depreciable plant in service, land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC and working capital. We have selected a historical test year ending December 31, 1996, for this rate case. All rate base components have been updated through December 31, 1996, to include additions and reclassifications. A discussion of each component of rate base follows.

Utility Plant in Service (UPIS)

The utility recorded UPIS of \$36,184 at the end of the test year. The 1984 NARUC Uniform System of Accounts requires that all utility plant be recorded on the books at its original cost. Therefore, UPIS has been increased by \$199,442 to bring the utility's balance to the appropriate amount based on our original cost study. Averaging adjustments reducing wastewater UPIS by \$17,174 were also made. The total adjustment increases UPIS by \$182,268. Therefore, we find that the total utility plant in service is \$218,452.

Land

The utility had not recorded any values on its books at the end of the test period. Based on the information provided by the utility, the original cost of the land was \$2,291 (April 1988).

Therefore, we made an adjustment of \$2,291 to reflect land value at cost.

Non-Used & Useful Plant

We have determined the used and useful percentage of each plant account. Applying the non-used and useful percentages, we made an adjustment to reflect average non-used and useful plant of \$84,422. An adjustment was made to reflect average non-used and useful accumulated depreciation of \$10,871. The average non-used and useful CIAC is \$45,487. We made an adjustment to reflect average non-used and useful amortization of CIAC for \$4,522. Therefore, we find that the total non-used and useful plant balance is \$32,586 for the wastewater system.

CIAC

The utility recorded no CIAC during the test period. Rule 25-30.570(1), Florida Administrative Code, provides:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

In conformity with the above-referenced rule, we imputed \$147,136 of CIAC for the value of the collection system. CIAC has been decreased by \$17,174 to reflect averaging adjustments. Accordingly, we find that the appropriate average CIAC balance is \$129,962.

Accumulated Depreciation

The utility's books reflected an accumulated depreciation balance of \$738. Consistent with our standard practice, we have calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Accumulated depreciation has been increased by \$29,958 to reflect depreciation at December 31, 1996. Averaging adjustments of \$3,347 were also made. Accordingly, we find that the appropriate average accumulated depreciation balance is \$27,349.

Amortization of CIAC

Amortization of CIAC has been calculated consistent with our calculation of accumulated depreciation. The utility recorded no amortization of CIAC during the test period. We made an adjustment of \$14,590 to increase the balance to the appropriate amount. We reduced amortization of CIAC by \$1,671 to reflect averaging adjustments. We find that the resulting balance of accumulated amortization of CIAC for the system is \$12,919.

Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, we used the one-eighth of operation and maintenance expense formula approach for calculating working capital allowance. Applying that formula, and based on operation and maintenance expenses of \$27,852, we find that the working capital allowance is \$3,482.

Rate Base Summary

Based on the foregoing, we find that the appropriate balance for test year rate base is \$47,247.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Return on Equity

The utility's capital structure reflected an equity balance of \$35,446, which is 100% of the total capital structure. The utility's return on equity, when based on the leverage graph formula in Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, is 11.21%, with a range of 10.21% to 12.21%, and the overall rate of return is 10.18% with a range of 9.18% to 11.18%.

Our audit of the utility's invoices on plant improvements provided amounts not included as equity. The utility understated its equity balance. Additionally, the utility's tax returns reflect that total depreciable plant assets were understated. Based on these findings, we have made pro rata adjustments to reconcile the equity balance upward to match the approved rate base.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedules Nos. 3-A and 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Operating Revenues

The utility recorded test year wastewater system revenue of \$20,592. The utility charged \$13 per month for wastewater service pursuant to Order No. PSC-96-0564-FOF-SU, issued April 30, 1996, in Docket No. 951272-SU. The utility's billing records reflected that the utility billed an average of 132 customers for the test year. We did not make any adjustments to the test year revenue.

Test Year Operating Expenses

The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense, amortization of CIAC, and taxes other than income taxes.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and reflect our approved allowances for plant operations.

Operation and Maintenance Expenses (O&M)

The utility charged \$15,230 to wastewater O&M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

Salaries and Wages

All expenditures for personnel are accounted for in contractual services.

Sludge Removal Expense

The utility recorded \$1,245 for test year sludge removal expense. No adjustments were deemed necessary.

Purchased Power

The utility recorded \$3,220 for purchased power expense during the test year. We increased the expense by \$352 to reflect the appropriate test year purchased power amount.

Chemicals

The utility recorded \$557 for test year chemical expense. No adjustment was deemed necessary.

Materials and Supplies

The utility did not record materials and supplies expense during the test year. We increased this expense by \$120 to record test year materials and supplies.

Contractual Services

The utility recorded \$9,938 for the system during the test period. Numerous adjustments were made to reflect reclassifications, allowances and disallowances. We increased the amount recorded in contractual service by \$4,160 to record a part-time manager position at a rate of five hours per week at \$16 per hour on utility duties. We increased the contractual service amount by \$5,184 (48 hours per month at \$9.00 per hour) to record annual salary for the office manager. Additionally, increases to reflect annual office expense of \$300 for electric bill, \$396 for telephone bill and \$60 for water bill were also made. The resulting annual appropriate balance for contractual service is \$20,038 for the system.

Rents

The utility did not record a rent expense for the test year, but the new owners have requested an allowance of \$3,360. The utility is utilizing rental space of 15' x 12' for office space. We find that the appropriate annual rent expense is \$1,800 for the test year, based on the going rate of \$150 per month for rental property in Columbia County.

Regulatory Commission Expense

This expense has been increased by \$250 to reflect the rate case filing fee amortized over four years.

Miscellaneous Expense

The utility recorded \$270 for test year miscellaneous expense. We did not make any adjustments to this amount.

O&M Summary

We have made total O&M adjustments of \$12,622. After making the appropriate adjustments, we find that test year O&M expenses are \$27,852.

Depreciation Expense

The utility books reflected depreciation expense net of CIAC of \$375 for the test year. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances results in depreciation expense net of CIAC amortization of \$3,354 for the test year for the system.

Taxes Other Than Income

The utility recorded taxes other than income of \$626. We reduced this amount by \$626 to remove payroll taxes recorded on contractual salary expense for the test year.

Operating Revenues

Revenues have been adjusted by \$16,151 to reflect the increase in revenue required to cover expenses and allow the appropriate rate of return on investment.

Taxes Other Than Income Taxes

This expense has been increased by \$727 to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary

The application of our adjustments to the utility's test year operating expenses results in approved operating expenses of \$31,933.

REVENUE REQUIREMENT

Based on our review of the utility's books and records and based upon the adjustments discussed above, we find it appropriate to allow the utility an annual increase in revenue of \$16,151

(78.43%) for the wastewater system. This will allow the utility the opportunity to recover its operating expenses and earn a 10.18% return on its investment. The revenue requirement and resulting annual increase are shown on Schedule No. 3.

RATES AND CHARGES

Rates and Rate Structure

During the test year, the utility provided wastewater service to 140 customers. The utility employs a flat rate structure. Accordingly, we have calculated rates based on the test year number of customers.

The preferred rate structure is the base facility and gallonage charge rate structure, because it is designed to provide for the equitable sharing by the rate payers of both fixed and variable cost of providing service. The utility's customers are individually metered and are provided water service by LDWS. We investigated how much it would cost the utility to obtain the monthly water consumption data from LDWS. However, the information could not be provided because of the way LDWS keeps its records. It would be time consuming and cumbersome to obtain the information. Additionally, at the customer meeting on April 15, 1997, the customers were unanimous in their desire to remain on the flat rate system which the utility currently employs. Based on the above reasons, we employed the flat rate structure in calculating the rates for this rate case.

The utility currently provides service to approximately 140 residential customers. Schedules of the utility's existing rates and rate structure and the new rates and rate structure are as follows:

MONTHLY WASTEWATER RATES
Residential and Multi-Residential Service

<u>Monthly Flat Rates :</u>	<u>Current Rates</u>
Residential:	\$ 13.00

<u>Monthly Flat Rates:</u>	<u>Approved Rates</u>
Residential:	\$ 22.42

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$262 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

TEMPORARY RATES IN THE EVENT OF PROTEST

This Order proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein as temporary rates. The rates approved herein shall be collected by the utility subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon Commission staff's approval of security of both the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of \$11,170. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or

- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is 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 the 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 Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

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. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase 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 shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

BOOKS AND RECORDS

Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states that "[w]ater and Sewer Utilities shall, effective January 1, 1986, maintain its [sic] accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners."

During the test year, the utility's books were not maintained in conformity with the USOA. However, we find that the utility has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, the utility shall maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts.

CLOSING OF DOCKET

Upon expiration of the protest period, if no timely protest is received from a substantially affected person, this docket shall be closed.

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ORDERED that prior to its implementation of the rates approved herein, Kirby D. Morgan, Inc. shall submit and have approved a bond or letter of credit in the amount of \$11,170 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

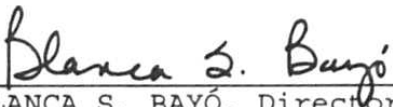
ORDERED that Kirby D. Morgan, Inc. shall submit monthly reports no later than 20 days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that the provisions of this Order regarding our granting increased rates are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 Kirby D. Morgan, Inc. shall maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. It is further

ORDERED that if no timely protest is received from a substantially affected person within twenty-one days of the issuance of this Order, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 1st day of July, 1997.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein regarding granting increased rates 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 22, 1997.

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.

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.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater 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 of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

KIRBY D. MORGAN, INC
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 1
 DOCKET NO. 961332-SU

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	\$ 36,184	\$ 182,268 A	\$ 218,452
LAND/NON-DEPRECIABLE ASSETS	0	2,291 B	2,291
NON-USED & USEFUL PLANT	0	(32,586) C	(32,586)
CIAC	0	(129,962) D	(129,962)
ACCUMULATED DEPRECIATION	(738)	(26,611) E	(27,349)
ACCUMULATED AMORTIZATION OF CIAC	0	12,919 F	12,919
WORKING CAPITAL ALLOWANCE	<u>1,951</u>	<u>1,531 G</u>	<u>3,482</u>
WASTEWATER RATE BASE	\$ 37,397	\$ 9,850	\$ 47,247