

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application by Beauclerc Utilit-) DOCKET NO. 880446-WU
 ies Company for increased water rates in) ORDER NO. 20640
 Duval County) ISSUED: 1-20-89

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, CHAIRMAN
 THOMAS M. BEARD
 GERALD L. GUNTER
 JOHN T. HERNDON

ORDER SUSPENDING PROPOSED RATES AND
 GRANTING INTERIM RATES SUBJECT TO REFUND

BY THE COMMISSION:

CASE BACKGROUND

On November 1, 1988, Beauclerc Utilities Company (Beauclerc or the utility) filed an application for increased water rates in Duval County. However, the information did not satisfy the minimum filing requirements for a general rate increase and the utility was advised of the application's deficiencies. On November 21, 1988, the utility completed the minimum filing requirements for a rate increase and that date was set as the official date of filing.

The test year used for interim rate purposes is the historical year ended December 31, 1987. The utility has requested interim rates that will increase annual revenues by \$48,135 (57.29%). The test year for final rate determination is the projected year ending December 31, 1989. The utility has requested final rates that are designed to generate annual revenues of \$295,948. This represents an increase of \$180,410 (156.15%) over adjusted test year revenues.

Beauclerc's last rate case before this Commission was in Docket No. 750310-WS. The case culminated in the issuance of Order No. 7105, on February 3, 1976, based on the test year ending December 31, 1974.

For the historical test year ended December 31, 1987, Beauclerc earned a negative 20% return on its investment and, therefore, has requested interim rates which will generate 9.5% on rate base.

SUSPENSION OF PROPOSED RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty (60) days after filing unless this Commission issues an order withholding consent to the operation of the rates requested. Further, the above-referenced statute permits the proposed rates to go into effect, under bond, eight (8) months after filing unless final action has been taken by the Commission.

We have reviewed the utility's filing and find that the utility has made substantial additions to plant since our last audit. In addition, the utility has requested a projected test year ended December 31, 1989. A detailed investigation will be

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FPSC-RECORDS/REPORTING

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necessary to fully analyze the assumptions and bases used in this projection. Considering the proposed rates, the amount of the additional revenues sought thereunder and the supporting data which has been submitted, we find that further explanation and corroboration of the utility's filing may be required. In addition, we believe that a formal hearing on this matter, in the utility's service area, may be indicated. We, therefore, find it appropriate to suspend the utility's proposed rate schedules.

INTERIM RATES

Section 367.082, Florida Statutes, provides that the 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 the Commission shall authorize, within 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 Beauclerc to raise its water rates, on an interim basis, to generate an increase in annual water revenues of \$45,097.

RATE BASE

We have made several adjustments to rate base for interim purposes. Our first adjustment reduces rate base to a 13-month average balance instead of a year-end balance. This is consistent with our policy of requiring the use of an average test year absent extraordinary growth. Our second adjustment reflects a used and useful adjustment to plant and accumulated depreciation. This adjustment was calculated by the utility for the same year ended December 31, 1987, but was not included in the utility's interim rate base. We have not made a used and useful adjustment to contributions-in-aid-of-construction (CIAC) pending further analysis of the utility's service availability policy. We have also adjusted the working capital allowance to limit it to one-eighth of operation and maintenance expenses, pending further investigation and review for final rate determination. Utilizing a 13-month average and considering our adjustments, we find that the utility's rate base, for interim purposes, is \$20,742 for the water system.

Based on a cursory review of the utility's 1987 Annual Report, we do not find that Beauclerc's sewer system is overearning. However, as has been our practice, we will analyze the sewer system in greater detail to ascertain that the utility is not, in fact, overearning on its investment. A schedule showing our calculation of water rate base is attached as Schedule No. 1-A. Our adjustments to rate base are itemized on Schedule No. 1-B.

COST OF CAPITAL

The utility's last authorized rate of return was

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established in Docket No. 750031-WS, with the issuance of Order No. 7105 on February 3, 1976. In that Order, we allowed an overall rate of return of 9.5% for the water system and 9.3% for the sewer system, with no stated range of reasonableness. We have calculated the utility's overall rates of return using a 26% and 22% return on equity for the water and sewer systems, respectively. Although the utility had no equity during that test year, due to a negative balance in retained earnings, equity dollars were included in the revenue requirement. At that time, it was not uncommon to allow a return on the common stock and additional paid-in capital balances even though the total equity balance was negative.

In this current case, the utility has requested interim revenues that generate a 9.50% overall rate of return, which is based on the last authorized overall rate of return. Under the interim statute, the lower end of the range of the last authorized return on equity would be applied to the test year capital structure. During the interim test year, equity dollars represented 87% of the total capital structure. Since there was no range of reasonableness established in the last return, the only appropriate cost rate to use for equity would be the 26%, which is well above the current costs allowed for equity.

In summary, the interim statute would calculate an overall rate of return of 23%, using the 26% return on equity as authorized in the last rate case. Since the company has requested interim revenues which would generate a much lower return on equity (10.56%), we believe the request is reasonable. By using the last authorized overall return of 9.5%, the cost of equity generated is 10.56%, which is less than the 12.35% return that the leverage graph would generate. For final rate purposes, a reasonable return on equity will be established for both the water and the sewer systems. Our calculation of the utility's cost of capital is attached as Schedule No. 2.

NET OPERATING INCOME

We have adjusted the utility's operating statement for interim purposes. Test year operating revenues were adjusted to reflect the proper amount of annualized revenues, based on the billing analysis submitted. Regulatory assessment fees were also adjusted to reflect our adjustment to revenues.

We have calculated the revenue requirement so that the utility recovers test year operating expenses and a 9.50% return on rate base. Based on our review of the information filed by the utility, we find it appropriate to increase water revenues by \$45,097, on an interim basis. Our calculation of the interim net operating income is attached as Schedule No. 3-A. Our adjustments to net operating are itemized on Schedule No. 3-B.

The interim revenue requirement results in an increase of 42.76% in existing water rates, when applied as an across the board increase to total revenues. We hereby approve the rates set forth below for use as interim rates. The following rates

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will give Beauleris Utilities Company the opportunity to earn the revenue requirement as determined above:

WATER
Residential
(Quarterly Billing)

<u>Meter Size</u>	<u>Minimum Gallonage Allowance</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>BFC Utility Proposed Final Rates</u>	<u>Commission Approved Interim Rates</u>
5/8" x 3/4"	9,000	\$ 6.93	\$ 10.90	-	\$ 9.89
5/8" x 3/4	-	-	-	\$ 22.33	-
Gallonage Charge (excess)		\$.38	\$.60	-	\$.54
Gallonage Charge (BFC)		-	-	\$.64	-

General Service
(Quarterly Billing)

<u>Meter Size</u>	<u>Minimum Gallonage Allowance</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>BFC Utility Proposed Final Rates</u>	<u>Commission Approved Interim Rates</u>
5/8" x 3/4"	9,000	\$ 6.93	\$ 10.90	-	\$ 9.89
1"	15,000	14.48	22.78	-	20.67
1-1/2"	30,000	28.96	45.55	-	41.34
2"	48,000	46.34	72.89	-	66.16
3"	90,000	86.87	136.64	-	124.02
4"	150,000	144.77	-	-	206.67
6"	300,000	289.55	-	-	413.36
5/8" x 3/4"	-	-	-	\$ 22.33	-
1"	-	-	-	55.83	-
1-1/2"	-	-	-	111.65	-
2"	-	-	-	178.64	-
3"	-	-	-	357.28	-
4"	-	-	-	558.25	-
6"	-	-	-	1,116.50	-
Gallonage Charge (excess)					
5/8" x 3/4" Meters		\$.38	\$.60	-	\$.54
1" and over		\$.47	\$.74	-	\$.67
Gallonage Charge (BFC)		-	-	\$.64	-

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Multi-Family Service
(Quarterly Billing)

<u>Meter Size</u>	<u>Minimum Gallonage Allowance</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>BFC Utility Proposed Final Rates</u>	<u>Commission Approved Interim Rates</u>
Per Unit	9,000 *	\$4.62	\$7.27	-	\$6.60
3"	-	-	-	\$ 357.28	-
4"	-	-	-	558.25	-
6"	-	-	-	1,116.50	-
Gallonage Charge (excess)		\$.38	\$.60	-	\$.54
Gallonage Charge (BFC)		-	-	\$.64	-

* Minimum gallonage allowance is determined by multiplying the number of units served by the master meter times 9,000 gallons.

SEWER

Commercial Service
Quarterly Billing

The commercial sewer service rate for this utility is based on a percentage of the water bill. The percent rate is 415% of the water bill, or \$55.53 per quarter, whichever is greater.

With the water interim rate increase, it will be necessary to adjust the percentage factor to 291% of the water bill, or \$55.53 per quarter, whichever is greater. By correcting the percentage factor, the utility will receive the same sewer revenues after the increase as it did before the increase.

The above rates are approved subject to refund with interest in accordance with Rule 25-30.360, Florida Administrative Code. The interim rates shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. Since the utility renders bills quarterly, the bills may be prorated to implement the interim increase, but in no event shall the interim rates be effective for service rendered prior to the stamped approval date. 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.

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. Therefore, we require the utility to provide a

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corporate undertaking in the amount of \$35,000 or an equivalent bond, letter of credit or escrow agreement as guarantee of any potential refund of water revenues collected under interim conditions. Also, pursuant to Rule 25-30.360(5), Florida Administrative Code, the utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected, subject to refund.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the final rate schedules proposed by Beauclerc Utilities Company are hereby suspended pursuant to Section 367.081(6), Florida Statutes. It is further

ORDERED that the request of Beauclerc Utilities Company for increased interim rates is hereby granted as set forth in the body of this Order. It is further

ORDERED that the increase over the last authorized rates 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 service rendered on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that Beauclerc Utilities Company shall file a corporate undertaking in the amount of \$35,000, 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 Beauclerc Utilities Company 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 Beauclerc Utilities Company shall notify each customer of the increase in rates authorized herein and provide an explanation for said increase. A letter of explanation shall be submitted to the Commission for approval.

By ORDER of the Florida Public Service Commission,
this 20th day of January, 1989.



STEVE TRIBBLE, 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 120.59(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.

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BEAUCLERC UTILITIES COMPANY
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 1-A
DOCKET NO. 880446-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,030,142	\$ 0	\$ 1,030,142	\$ (23,328)	\$ 1,006,814
2 LAND	3,104	0	3,104	(387)	2,717
3 NON-USED & USEFUL COMPONENTS	0	0	0	(118,464)	(118,464)
4 C.W.I.P.	0	0	0	0	0
5 C.I.A.C.	(944,676)	0	(944,676)	13,032	(931,644)
6 ACCUMULATED DEPRECIATION	(252,462)	0	(252,462)	120,963	(131,499)
7 AMORTIZATION OF C.I.A.C.	186,891	0	186,891	(10,851)	176,040
8 WORKING CAPITAL ALLOWANCE	7,308	0	7,308	9,470	16,778
9 RATE BASE	\$ 30,307	\$ 0	\$ 30,307	\$ (9,565)	\$ 20,742

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BEAULIERC UTILITIES COMPANY
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 1-8
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EXPLANATION -----	WATER -----
(1) PLANT IN SERVICE -----	
To reflect 13-month average.	\$ (23,326) -----
(2) LAND ----	
To reflect 13-month average.	\$ (387) -----
(3) NON-USED AND USEFUL COMPONENTS -----	
To reflect average calculation made by utility, excluding CIAC.	\$ (118,464) -----
(4) CONTRIBUTIONS IN AID OF CONSTRUCTION -----	
To reflect 13-month average.	\$ 13,032 -----
(5) ACCUMULATED DEPRECIATION -----	
To reflect 13-month average.	\$ 120,963 -----
(6) AMORTIZATION OF CIAC -----	
To reflect 13-month average.	\$ (1,851) -----
(7) WORKING CAPITAL ALLOWANCE -----	
To limit average calculation to 1/8 of O & M expenses, pending further review.	\$ 9,470 -----

BEAULIERC UTILITIES COMPANY
 CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 2
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DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	COMMISSION WEIGHTED COST
1 LONG TERM DEBT	\$ 0	0.00%	0.00%	0.00%	\$ 0	0	0.00%	10.88%	0.00%
2 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	12.07%	0.00%
3 ADVANCES FROM PARENT	0	0.00%	0.00%	0.00%	0	0	0.00%	9.13%	0.00%
4 CUSTOMER DEPOSITS	19,530	3.27%	8.00%	0.26%	(18,851)	679	3.27%	8.00%	0.26%
5 COMMON EQUITY	521,931	87.46%	10.56%	9.24%	(503,790)	18,141	87.46%	10.56%	9.24%
6 INVESTMENT TAX CREDITS	55,294	9.27%	0.00%	0.00%	(53,372)	1,922	9.27%	0.00%	0.00%
7 DEFERRED TAXES	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 596,755	100.00%		9.50%	\$ (576,013)	20,742	100.00%		9.50%

RANGE OF REASONABLENESS	LOW	HIGH
EQUITY	NA	NA
OVERALL RATE OF RETURN	NA	NA

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BEAULIERC UTILITIES COMPANY
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 3-A
DOCKET NO. 880446-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 97,661	\$ 55,951	\$ 153,612	\$ (48,135)	\$ 105,477	\$ 45,097	\$ 150,574
OPERATING EXPENSES						42.76%	
2 OPERATION AND MAINTENANCE	\$ 134,223	\$ 0	\$ 134,223	\$ 0	\$ 134,223	\$	\$ 134,223
3 DEPRECIATION	4,040	(446)	3,594	0	3,594		3,594
4 TAXES OTHER THAN INCOME	9,817	1,088	10,905	(1,244)	9,661	1,127	10,788
5 INCOME TAXES	0	0	0	0	0	0	0
6 TOTAL OPERATING EXPENSES	\$ 148,080	\$ 642	\$ 148,722	\$ (1,244)	\$ 147,478	\$ 1,127	\$ 148,605
7 OPERATING INCOME	\$ (50,419)	\$ 55,309	\$ 4,890	\$ (46,891)	\$ (42,001)	\$ 43,970	\$ 1,969
8 RATE BASE	\$ 30,307		\$ 30,307		\$ 20,742		\$ 20,742
9 RATE OF RETURN	-166.36%		16.13%		-202.49%		9.50%

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BEAULIERC UTILITIES COMPANY
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 3-8
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EXPLANATION	WATER
-----	-----
(1) OPERATING REVENUES	

A) To adjust revenues to amounts per the billing analysis.	\$ 7,816
B) To remove utility's requested increase.	(55,951)
Total	\$ (48,135)
	=====
(2) TAXES OTHER THAN INCOME	

A) To correct test year accrual of regulatory assessment fees (RAFs).	\$ (41)
B) To reflect RAfs on test year revenue adjustments.	195
C) To remove the RAfs on the requested increase.	(1,399)
Total	\$ (1,244)
	=====
(5) OPERATING REVENUES	

To reflect the revenue requirement recommended.	\$ 45,097
	=====
(6) TAXES OTHER THAN INCOME	

To reflect RAfs on the recommended revenue increase.	\$ 1,127
	=====