

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Limited Investigation)	DOCKET NO. 880883-WS
into rate setting procedures and)	ORDER NO. 21627
alternatives for water and sewer)	ISSUED: 7-28-89
utilities.)	
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, CHAIRMAN
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

ORDER DENYING MOTION FOR RECONSIDERATION

BY THE COMMISSION:

Utilities, Inc. of Florida (UIF) filed a Motion for Reconsideration (the Motion), of Order No. 21202 entered on May 8, 1989. Order No. 21202, entitled "Order on Rate-Setting Procedures," culminated from a proceeding initiated on the Commission's own motion to explore possible alternatives to existing rate-setting procedures for water and sewer utilities. A primary goal of that proceeding was to find ways to limit the time and expense of rate-making procedures for this industry. UIF's Motion requested reconsideration of the Commission's decision to adopt a policy of utilizing a one-eighth of operation and maintenance expenses formula calculation of working capital for water and sewer facilities, but to not approve any allowance for deferred debits. UIF asserts that the Commission overlooked or misapprehended points of law or fact regarding these two matters. The Motion points out that every witness who testified on these issues supported the formula approach to the calculation of working capital and most also felt that deferred charges should be a separate rate base component. The combination of these two issues in the "compromise" set forth in Order No. 21202 was not discussed or contemplated by the parties, UIF states. This compromise produces an "inequitable" result, according to UIF, because "... deferred charges are no more a part of working capital than automobiles or other short-lived physical assets are part of working capital." UIF states that the inclusion of deferred charges in the calculation of working capital will lead to an "... understatement of the combined working capital and deferred charges component of rate base."

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UIF points to the Miles Grant Water and Sewer Company rate proceeding that resulted in Order No. 20066 as an example of a case in which the disallowance of deferred charges as a separate rate base component or as a component of working capital offset against the formula method calculation of working capital would have produced an undesirable result for that utility, which is an affiliate of UIF. In that case, the formula method calculation of working capital would have produced an allowance of \$26,005, whereas the pro forma rate case expense was \$60,000. Evidently, UIF believes that not allowing deferred charges as a separate component of rate base or as a separate component of working capital produces such a negative result that it wipes out any benefit to a utility that the formula method of calculating working capital might achieve.

In the final paragraph of its Motion, UIF states: "It is the position of UIF that the 1/8th formula method, coupled with separate treatment for deferred charges, is a reasonable approach to resolving these issues. Nowhere in its Motion does UIF state that the formula method is not an appropriate method for the calculation of working capital.

The Office of the Public Counsel (OPC) filed a Response to Motion for Reconsideration, although OPC never intervened, and therefore, was not a party to the proceeding. However, as indicated in the Order, this proceeding had informal aspects. In its Response, OPC stated that, although it believed that a full balance sheet analysis is the most accurate measure of a company's working capital allowance, if the Commission does adopt the formula method for those cases where the balance sheet approach is not "feasible," deferred charges should not be allowed as an additional component. The OPC stated that the balance sheet approach, which Order No. 21202's compromise would not deny any utility, provides full consideration of deferred charges.

Order No. 21202, on page 6, states as follows:

We believe it appropriate to strike a compromise between the established superiority of the balance sheet approach as the most accurate reflection of a utility's working capital, and the witnesses' persuasive arguments for the formula approach and an allowance for deferred debits, as a less expensive, yet fair

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approximation of a utility's working capital needs. We will, therefore, utilize a 1/8 of O&M formula calculation of working capital, but we will not approve any allowance for deferred debits. If this method is not applicable to a particular utility, it would be required to use the balance sheet method and pay for all related expenses incurred in supplying the information. This compromise will allow for working capital needs in all water and sewer utilities with reduced rate case expense. It will also simplify and improve the rate case process for water and sewer utilities in the same manner as the leverage formula and the depreciation rule have for the cost of equity and depreciation expense, respectively. This Commission has, in the past, recognized the difference between the water and sewer industry and the other larger industries in the areas of cost of equity and depreciation expense.

Therefore, we find that the 1/8th of Operation and Maintenance Expenses formula approach for working capital is appropriate for calculating working capital for water and sewer utilities, but that deferred charges will not be a separate charge or allowed as a portion of working capital. In addition, if the formula approach is not appropriate for a utility, that utility will bear the burden, and the cost of that burden, to prove the balance sheet approach. We hereby direct our staff to initiate rulemaking on this matter and include this issue in the ongoing rulemaking Docket No. 871140-WS, Amendment of Rules 25-30.430 to 25-30.442, MFRs.

As is clear from the above-quoted material, Order No. 21202 directs Staff to initiate rulemaking on this matter in an ongoing rulemaking docket. The intent of our decision is to relieve small water and sewer utilities from the rate case expense of establishing a balance sheet justification for their working capital needs, and allow them to simply and inexpensively calculate that component. Large and more sophisticated companies may utilize the balance sheet approach if they believe it is more appropriate, but the cost will not be borne by the ratepayers.

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It is clear that our decision set forth in Order No. 21202 was properly based on the evidence and testimony and no error in fact or law has been made and, therefore, UIF's Motion for Reconsideration must be denied. The record in the proceeding clearly indicates that the merits of the formula approach and the balance sheet approach, and the part deferred charges play therein, were fully addressed.

It is, therefore

ORDERED by the Florida Public Service Commission that Utilities, Inc. of Florida's Motion for Reconsideration is hereby denied. It is further

ORDERED that this docket is closed.

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

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MHZ

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF 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 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

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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 Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.