

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for a limited) DOCKET NO. 911168-WS
proceeding for emergency interim) ORDER NO. PSC-92-0633-FOF-WS
rates and for permanent) ISSUED: 07/08/92
adjustment in rates in Duval)
County by ORTEGA UTILITY COMPANY)

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION

ORDER GRANTING 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 adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

On November 27, 1991, Ortega Utility Company (Ortega or utility) filed an application for a limited proceeding for emergency interim and permanent rate adjustments, pursuant to Sections 367.082 and 367.0822, Florida Statutes. As a part of the original filing, the utility requested an interim decrease for water of 2.09 percent and an interim increase of 34.8 percent for wastewater, on an emergency basis.

The utility's minimum authorized rate of return was established in its previous rate case processed in Docket No. 871262-WS. In its petition, the utility requests emergency rate relief in order to attain its minimum authorized rate of return which was established by Order No. 21137, issued April 27, 1989, the utility's last rate order.

DOCUMENT NUMBER-DATE

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Although the utility filed for interim relief, as this is a limited proceeding, rates pursuant to the interim statute are not available. However, a utility may request emergency temporary rates in the nature of interim rates. Therefore, we have treated the utility's request for interim rates as a request for emergency temporary rates. Along with the application for emergency interim rates, the utility filed on or about December 15, 1991, all supporting documentation to finalize its request for permanent rates.

On December 11, 1991, the utility was notified by letter that the original filing exceeded the scope of a limited proceeding. Additional data necessary to process the application as a limited proceeding was detailed. Subsequently on December 12, 1991, the utility filed a supplement to its petition. The supplement did not contain all of the data requested in the December 11, 1991, letter. The supplemental filing revised information and narrowed the scope of the original filing. The supplemental filing addressed only the mandated projects. The interim decrease in water was revised to an increase of 3.40 percent and the interim increase for wastewater was reduced to 23.54 percent.

On December 26, 1991, the utility filed its final documentation to support its permanent rate request. In this filing, the utility sought a permanent rate increase of 7.57 percent for water and 27.53 percent for wastewater. On December 27, 1991, the utility filed a replacement letter which corrected several typographical errors contained in the document filed on December 26, 1991.

By Order No. 25685, issued February 4, 1992, we suspended the utility's proposed rates, granted a temporary emergency increase of 11.21 percent for wastewater, to be collected subject to refund, and placed 1.71 percent of annual water revenue subject to refund.

On February 21, 1992, the utility filed a copy of the agreement dated February 14, 1992, between Ortega and Lamplighter Associates, Ltd. for connection of Ortega's Herlong system to Lamplighter's sewage force main. The agreement requires Ortega to purchase 55,000 gallons per day (GPD) capacity instead of the originally requested 45,000 GPD. This resulted in an increased cost of \$6,000 over the amounts contained in the final filing, and the utility requested consideration of this increased cost in the limited proceeding.

An engineering review has been made of the utility's petition. An audit was performed of the utility's books and records. The audit report was received on April 16, 1992.

A customer meeting was held on April 30, 1992. One customer attended the meeting. The customer stated he did not have a problem with the quality of water service. However, the customer testified that a utility representative would not visit his mobile home park to check for leaks which possibly would account for high

water usage. He testified that no one from the utility investigated the leak. No other complaints or comments have been received from customers.

Ortega is a Class B water and wastewater utility providing service to the public in Duval County. As of December 30, 1991, the utility served 1,150 water and 1,088 wastewater customers. For the 12 months ended December 30, 1991, the utility had gross operating revenues of \$426,871 for the water system and \$492,340 for the wastewater system. For the same period, the utility reported a net operating income of \$127,415 for the water system and a loss of \$64,415 for the wastewater system.

Based upon the 1991 annual report, the utility is earning a 13.36 percent rate of return for water and a negative 6.12 percent for wastewater. The total calculated overall rate of return for 1991 was 3.14 percent. This combined rate does not appear compensatory in view of the 11.52 percent overall rate of return authorized in the utility's last rate case in Docket No. 871262-WS. The achieved return on equity was 18.60 percent for the water system and a negative 65.29 percent for wastewater. While it appears the water system is overearning, the wastewater system is underearning to a greater extent, in comparison to the last authorized return on equity authorized in Docket No. 871262-WS, which was 14.35 percent.

Our calculations of the appropriate water and wastewater annual revenue increases for this utility, based on our review of the utility's filing and our adjustments, are attached to this Order as Schedule No. 1. The major components of this determination, including rate base, cost of capital and net operating income, and our major adjustments thereto, are discussed below.

RATE BASE

Adjustment for Capitalized Interest (AFUDC)

In its filing, the utility included an adjustment to rate base for \$13,387.19 for water and \$142,828.01 for wastewater to reflect capitalized interest on the financing cost of mandated capital expenditures, net of amortization. We find it appropriate to deny the proposed capitalized interest adjustments for several reasons. First, it has been this Commission's policy to remove any Allowance for Funds Used During Construction (AFUDC) charged during the test year or after if construction-work-in-progress (CWIP) is included

in rate base. See Florida Cities Water Company, Docket No. 800323-W, Order No. 10033, issued May 28, 1981. During the last rate case, this utility was allowed CWIP. Therefore, we find it appropriate to disallow any AFUDC charged during the test year or after.

Second, Ortega did not have an approved AFUDC rate for the period of construction. Rule 25-30.116(5), Florida Administrative Code, provides that no utility may charge an AFUDC rate or change its AFUDC rate without prior Commission approval. Additionally, the Rule states that the new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission. It has been this Commission's policy to remove capitalized AFUDC when the utility did not have prior Commission approval. See St. Augustine Shores Utilities, Docket No. 870980-WS, Order No. 20017, issued September 16, 1988.

The utility requested consideration of several items which are currently under construction and would be considered CWIP. In consideration of the foregoing, we find it appropriate to exclude these items from the revenue requirement. Furthermore, the utility has not applied for nor has the Commission approved an AFUDC rate. Additionally, even though the Rule does provide for retroactive application, generally AFUDC is disallowed unless the utility demonstrates that extraordinary circumstances justify retroactive application. This capitalized interest relates to construction since December 31, 1987. The AFUDC Rule was adopted in 1986 and amended in 1987. At no time during this four year period of construction did the utility request AFUDC and recovery of capitalized interest.

Based upon the facts as stated above, we find it appropriate to deny the utility's proposed capitalized interest adjustments.

Pro Forma Construction

Herlong Wastewater System Interconnection - The City of Jacksonville (City) and the United States Environmental Protection Agency set March 10, 1992, as the deadline for completion of the water system interconnection and cessation of operation of the wastewater treatment plant. The utility estimated the total cost of interconnection with the City to be \$104,810. In its filing, the utility included as a portion of that total cost, several pro forma items totalling \$69,760, remaining to be completed for the interconnection of the Herlong wastewater system. However, at our

Agenda Conference on June 16, 1992, the utility reported that it had, in fact, completed its construction of the Herlong wastewater system interconnection. The utility produced invoices, canceled checks, and other supporting documentation which reflect the completed cost of the construction as \$104,810. Based on the foregoing, we find it appropriate to allow these costs as prudent and reasonable.

Water Tank at the Herlong Treatment Plant - We have made an adjustment to remove \$5,664 from water plant and \$458 from water accumulated depreciation, which represents the cost of work performed on the water tank currently at the Herlong water plant. The work was performed in 1989 at the shop located at the Blanding plant site, and represents insulation and metal work on the tank, to prepare it for use at the Herlong system. The utility did not include this cost in the cost of the Herlong plant retirement. The utility has indicated that the tank will be moved to one of the other treatment plant sites for use. This cost shall be placed in plant held for future use until such time as the tank is moved and is on-line at the new site. At that time, the cost of removal and relocation will be added to the cost of the tank and the aggregated cost would be recorded in plant-in-service.

Based on the foregoing, we find it appropriate to exclude from rate base a total of \$5,664 from water plant and \$458 from accumulated depreciation for water.

High Service Pumps - During 1988 and 1989 the utility included in water plant costs, the cost of two high service pumps for the Airport and Blanding systems. These two high service pumps are still in storage and have not been installed. These items are not currently in use and do not provide service to customers. Therefore, these items will be removed from rate base and placed in plant held for future use, until such time as the pumps are on-line. The cost is \$2,488.03 for the Blanding system pump and \$2,307.03 for the Airport system pump. This adjustment removes \$4,795.06 from plant and \$871 from accumulated depreciation for water.

Plant-in-Service

Symons Forms (Wastewater) - Symons forms are used in construction of concrete walls for the wastewater treatment plants. The forms are adjustable panels which conform to the desired radius of the concrete wall under construction. We have made an adjustment to reclassify the balance for the symons forms from Account 397.5 - Miscellaneous Equipment as classified by the

utility, to Account 393.5 - Tools, Shop and Garage Equipment. This is because NARUC Account 393 includes "the cost of tools, implements, and equipment used in construction, repair work, general shops and garages and not specifically provided for or includable in other accounts." We believe the cost is more appropriately classified in Account 393. This adjustment does not affect total plant numbers; it is simply a reclassification.

Accumulated Depreciation

Symons Forms (Wastewater) - Account 393 has a depreciation rate of 6.25 percent while Account 397 has a depreciation rate of 6.67 percent. Based upon our decision above to reclassify this cost, we must also reduce wastewater accumulated depreciation added since the last rate case by \$662.

Pro forma plant items completed - The filing includes pro forma additions of \$76,835.59 for water and \$39,730 for wastewater which have been completed. The utility did not include depreciation for these additions. We have included a $\frac{1}{2}$ years depreciation on the cost of these assets. This results in additional depreciation of \$895 for water and \$662 for wastewater.

Extraordinary Write-off of Herlong Retirement

For its wastewater system, the utility requested amortization of an extraordinary loss of \$53 on the write-off for the Herlong wastewater plant retirement, over a five year period. We believe that no allowance for the loss should be made. The utility has provided the cost of the retired wastewater plant at Herlong as \$17,582. The utility also provided the amount of contributions-in-aid-of-construction (CIAC) collected which relates to the Herlong wastewater treatment plant as \$20,388. The utility has collected \$2,806 in CIAC in excess of its investment in the Herlong wastewater treatment plant. Under this circumstance, the utility has recovered all of its investment through CIAC and there is no loss on retirement. The full plant cost of \$17,582 shall be retired from plant and accumulated depreciation, in accordance with the NARUC 1984 Uniform System of Accounts for Class B Wastewater Utilities, Accounting Instruction 22(B)(2). Therefore, we find it appropriate to provide no allowance in the revenue requirement for wastewater for the retirement of the Herlong wastewater treatment plant.

For its water system, the utility has calculated the amortization based upon a 5 year amortization period. It has been Commission policy to calculate the amortization period by dividing

the net loss by the sum of the annual depreciation expense plus the dollar rate of return that would have been allowed. In accordance with our policy, we have calculated an amortization period of 5½ years. This results in annual extraordinary write-off amortization of \$3,842 for water. The utility's calculated annual amortization expense was \$4,226. This results in a reduction to utility calculated expenses of \$384.

COST OF CAPITAL

Return on Equity and Overall Rate of Return

The utility's return on equity and overall rate of return were last established in Docket No. 871262-WS by Order No. 21137, issued April 27, 1989. This Commission authorized an equity return of 14.35 percent, with a range of reasonableness from 13.35 percent to 15.35 percent. The overall rate of return was established as 11.52 percent, with a range of reasonableness from 11.28 percent to 11.76 percent. As a part of this filing, the utility requested an updated rate of return of 12.23 percent based upon current debt costs; however, the utility proposes using the last authorized return on equity of 14.35 percent.

We believe it is appropriate to use the last authorized return on equity and the last authorized overall rate of return in determining the revenue requirement in this case for several reasons. First, in a limited proceeding, a full rate base/capital structure reconciliation is not performed. Additionally, if an updated rate of return was used in determining the limited proceeding rates, the limited proceeding portion of the utility's rates would be designed to generate a slightly higher overall rate of return, while the other unadjusted rates were established to generate the lower return established in the last rate case. In future rate filings, the utility could be harmed if all earnings were evaluated at the lower rate of return established in the last rate case, thereby reducing the level of revenue it could be allowed to generate. The customers could be harmed if earnings were evaluated using the higher equity rate, established in the limited proceeding, thereby allowing the utility to generate higher revenue levels. It is more appropriate to update the rate of return completely in a full rate case proceeding.

Second, we do not believe the components of the capital structure have significantly changed. The debt costs have increased by approximately 1.12 percent, while the equity rates currently allowed have decreased from the previously authorized

level by 1.24 percent. The net change in the capital structure cost rates is a decrease of .12 percent. Additionally, the composition of debt and equity has not significantly changed. In the prior rate case, the capital structure consisted of 74.35 percent debt and 23.90 percent equity. Currently, the capital structure consists of 75.37 percent debt and 23.22 percent equity.

Chapter 367, Florida Statutes, requires that the Commission set rates for investor-owned public utilities which allow the utilities an opportunity to earn a reasonable rate of return on funds prudently invested in the public service. There is no statutory guarantee that utilities will actually earn a reasonable rate of return. It is the responsibility of the utility to control expenses and monitor revenues. It is also the utility's responsibility to petition the Commission for timely rate relief if the actual expenses and/or revenues vary significantly from the data the utility has provided the Commission for use in rate setting. While it is true that Ortega has filed for three index and/or pass-through rate adjustments since its last rate case, index and pass-through rate adjustments do not provide for additional return on investment. Indexes are designed to keep up with inflationary increases while pass-through adjustments are designed to allow a utility to recover a known change in certain operating expenses.

The utility asserts that the erosion of retained earnings should not be considered. The utility proposes that equity capital should be based upon strict capital stock balances. The common equity account represents the sum of the company's common stock, paid-in-capital, and retained earnings. This account reflects the common stockholder's total investment in the company. The first two items, common stock and paid-in-capital, represent the par value of the common stock outstanding and the funds received in excess of par value when the company sold its stock. The last item, retained earnings, represents the total amount of earnings the company has not paid out as dividends throughout its history.

Retained earnings are the portion of the company's earnings that are reinvested in the company rather than paid out to the stockholders as dividends. At the end of each fiscal year, all net earnings after dividends have been paid are added to the retained earnings balance. However, when a company experiences a net loss, this amount is properly deducted from retained earnings. For a going concern, the retained earnings balance increases or decreases each year based on how much money the company earns or loses from its operations. While most companies must earn a profit over the long-term to continue in business and, therefore, generally

maintain a positive retained earnings balance, it is possible for a company to have a negative retained earnings balance if the company has been experiencing losses over an extended period of time.

For ratemaking purposes, the Commission applies the allowed rate of return on common equity to the appropriate balance of total common equity. As stated before, the total common equity account is the sum of common stock, paid-in-capital, and retained earnings. In the event retained earnings has a negative balance, this amount will reduce the total common equity account. This practice is in accordance with generally accepted financial theory. Ortega's request that we ignore the cumulative impact of operating losses and impute an amount for unrealized profits is in violation of both generally accepted financial theory and generally accepted accounting principles (GAAP). Therefore, we find that Ortega's total common equity balance used for ratemaking purposes shall reflect its negative retained earnings and not recognize any imputed, unrealized profits.

Based upon the foregoing, we find that the appropriate return on equity is 14.35 percent, with an overall rate of return of 11.52 percent, as established by this Commission in Order No. 21137.

NET OPERATING INCOME

Operating Expenses

Additional Depreciation Expense of Plant Additions - In the utility's calculation of future annual depreciation expense, the utility included depreciation on those assets added since the last rate case, which were retired with the Herlong system. However, the unrecovered water depreciation is being recovered through the extraordinary property loss write-off, and as previously discussed, there is no loss on the Herlong wastewater retirement. By calculating future depreciation expense on those assets retired and also, allowing recovery through the write-off, the utility is receiving double recovery of this depreciation. Therefore, for calculation of future depreciation expense on the assets added, we have excluded the Herlong retirement costs from the plant account balance. This results in a reduction to depreciation expense of \$761 for water and \$104 for wastewater.

High Service Pumps (Airport and Blanding) - Earlier in this Order, we have removed the cost of two high service pumps which are not on-line and in service. We have made an adjustment to remove

the \$240 annual depreciation expense on these items, until such time as they are on-line and providing service.

Symons Forms - Earlier in this Order, we reclassified the cost of the symons forms to Account 393.5. This account has a lower depreciation rate than the account proposed by the utility. The reclassification results in a reduction to future depreciation expense of \$240.

Chemicals - The utility did not propose any adjustment to chemical expense. By interconnection of the water system with the City, the utility will discontinue operation of its water treatment plant. We have estimated the reduction in water chemical expense to be \$359. This is an approximate 6 percent reduction to the utility's total water chemical purchases. We have estimated the reduction in wastewater chemical expense to be \$821, an approximate 6 percent reduction to the utility's total wastewater chemical purchases.

Purchased Power - The utility did not propose any adjustment to purchased power expense. By interconnection of the water system with the City, the utility will discontinue operation of its water treatment plant. We have estimated the reduction in water power expense to be \$3,772. This represents approximately 45 percent of the estimated 75 percent reduction in Herlong's existing power costs. We have estimated the reduction in wastewater power expense to be \$2,515.

Purchased Water/Purchased Sewage Treatment - The utility did not request recovery of purchased water expense; however, the data necessary to calculate the adjustment was provided in the audit. By its interconnection of the water system to the City, the utility will incur purchased water costs. Based upon 1991 water sales of 13,124 gallons, and the rate charged by the City, we have estimated purchased water costs to be \$5,420. We have made an adjustment to include this amount in water expenses. We have estimated the purchased sewage treatment expense to be incurred as \$25,596.

Other Expenses/Rate Case Expense - The utility did not request recovery of rate case expense in its original filing, although the utility did request rate case expense at our Agenda Conference on June 16, 1992. The total amount of rate case expense requested by the utility is \$17,664. We find it appropriate to allow one half of this amount (\$8,832) for water, amortized over four years (\$2,208). However, because we do not find it appropriate to grant the utility a revenue increase larger than the amount it originally

requested, we do not find it appropriate to grant the utility rate case expense for wastewater.

Salary Expense - The utility did not propose any adjustment to salary expense. Due to the small size of the Herlong treatment facilities, operating and maintenance staffing requirements are considered minimal. Basically one visit per day for a short period of time is necessary for these plants which are located at the same site. When both facilities are interconnected and off-line, daily visits will still be necessary in order to maintain the wastewater lift station that will still be functioning. The only difference in salaries will be the reduction in the time required for maintenance at Herlong. The utility has indicated that any time saved at this site will be absorbed at the utility's other systems. At this time, it appears that no adjustment in staffing requirements for the utility is appropriate.

REVENUE REQUIREMENT

According to the audit and the 1991 annual report filed by the utility, the utility earned a rate of return of 13.36 percent. This results in an achieved return on equity of 18.60 percent for water. The high end of the range of reasonableness for the return on equity for this utility, as established in Order No. 21137, was 15.35 percent. Based upon current capital costs, we have calculated the required rate of return to be 12.60 percent. Based upon the 1991 earnings provided by the staff audit report, the utility overearned by .76 percent or \$3,113 annually. The utility's annual reports for 1989 through 1991 have reported earnings for the water system in excess of the last authorized rate of return on equity. The earnings of the wastewater system at this point are not relevant, because the rate bases, the revenue requirements and the rates are determined separately on the two systems. There should be no cross subsidization.

The utility's investment in plant, as well as depreciation expense on these water assets, has been reported in the utility's annual reports. Even with inclusion of these costs in rate base and operating expenses, the utility has reported excess earnings for each year 1989 through 1991. If an adjustment is not made to remove the excess earnings, the water system will be in a position of even greater overearnings. We do not believe it is appropriate to reduce rates by the overearnings and then increase rates for the total increase required as a result of this filing. Therefore, we find it appropriate to offset the annual overearnings of \$3,113

against the additional revenue required as a result of this proceeding. This results in a net increase.

Based upon Ortega's application and our adjustments herein, we find the appropriate increase in the annual revenue requirement for water to be \$25,825 and for wastewater to be \$137,313. This represents an annual increase for water of 6.30 percent and for wastewater of 27.53 percent. This will allow the utility the opportunity to recover its expenses and earn an 11.52 percent return on its investment in these rate base additions.

RATES AND RATE STRUCTURE

Final Rates

Based on all of our foregoing decisions, we hereby authorize Ortega to collect the rates set forth below, which are designed to allow it the opportunity to generate additional annual water operating revenues of \$25,825 and annual wastewater operating revenues of \$137,313. This results in an increase of 6.30 percent for water and 27.53 percent for wastewater, when applied as an across the board increase to total water and wastewater revenue, excluding miscellaneous revenues. We find these rates to be fair, just, and reasonable.

WATER RATES
 GENERAL SERVICE
 MONTHLY RATES

<u>Meter Size</u>	<u>Original & Amount</u>		<u>Utility Requested</u>	<u>Commission Approved</u>
	<u>Temporary Rates</u>	<u>Subject to Refund</u>		
<u>Base Facility Charge:</u>				
5/8" x 3/4"	\$ 5.61	\$.10	\$ 6.03	\$ 5.93
1"	14.02	.24	15.08	14.82
1 - 1/2"	28.06	.48	30.18	29.67
2"	44.89	.77	48.29	47.47
3"	89.76	1.53	96.55	94.91
4"	140.27	2.40	150.89	148.32
6"	280.53	4.80	301.77	296.63
<u>Gallage Charge:</u>				
Per 1,000 Gallons	.96	.02	1.03	1.02

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Residential Service
Bi-monthly Rates

<u>Meter Size</u>	<u>Original & Temporary Rates</u>	<u>Amount Subject to Refund</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
<u>Base Facility Charge:</u>				
5/8" x 3/4"	\$ 1.23	\$.20	\$ 12.08	\$11.87
1"	28.06	.48	30.18	29.67
1 - 1/2"	56.12	.96	60.37	59.34
2"	89.77	1.54	96.57	94.92
<u>Gallonage Charge:</u>				
Per 1,000 Gallons	.96	.02	1.03	1.02

Duplexes of Herlong System
Monthly Rate

	<u>Original & Temporary Rates</u>	<u>Amount Subject to Refund</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
Flat Rate	\$ 21.06	\$.36	\$ 22.65	\$22.27

WASTEWATER RATES
GENERAL SERVICE
MONTHLY RATES

<u>Meter Size</u>	<u>Original Rates</u>	<u>Temporary Rates</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
<u>Base Facility Charge:</u>				
5/8" x 3/4"	\$ 6.42	\$ 7.14	\$ 8.19	\$ 7.75
1"	16.04	17.84	20.46	19.36
1 - 1/2"	32.06	35.65	40.89	38.69
2"	51.30	57.05	65.42	61.90
3"	102.60	114.10	130.85	123.81
4"	160.30	178.27	204.43	193.43
6"	320.62	356.56	408.89	386.89
<u>Gallage Charge:</u>				
Per 1,000 Gallons	1.31	1.46	1.67	1.58

Residential Service
Bi-monthly Rates

<u>Meter Size</u>	<u>Original Rates</u>	<u>Temporary Rates</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
<u>Base Facility Charge:</u>				
All Sizes	\$ 12.84	\$ 14.28	\$ 16.37	\$15.49
<u>Gallage Charge:</u>				
Per 1,000 Gallons	1.09	1.21	1.39	1.32

Duplexes of Herlong System
Monthly Rate

	<u>Original Rates</u>	<u>Temporary Rates</u>	<u>Utility Requested</u>	<u>Commission Approved</u>
Flat Rate	\$ 23.92	\$ 26.60	\$ 30.51	\$ 28.86

The rates shall be effective for meter readings 30 days on or after the stamped approval date of the tariff sheets. The revised tariff sheets will be approved upon staff's verification that the utility has filed tariffs that are consistent with the Commission's vote, that the proposed customer notice is adequate, and that the protest period has expired.

The utility's tariff provides for bi-monthly billings for the water and wastewater residential customers. If the effective date of this increase falls within the regularly scheduled bi-monthly billing cycle, the utility is authorized to pro rate the residential bills.

A refund of the temporary rates is not necessary because the final revenue requirement and resulting rates are higher than the temporary rates granted by Order No. 25685, issued February 4, 1992.

Amortization of Rate Case Expense

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989.

Therefore, after four years, the water rates shall be reduced by \$2,312 as shown in Schedule No. 2. The revenue reductions reflect the annual rate case amount amortized plus the gross-up for regulatory assessment fees.

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 letter" 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.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the request for a limited proceeding rate increase in its water and

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wastewater rates by Ortega Utility Company is hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the body of this Order and in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the provisions of this Order 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 of the Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Ortega Utility Company is authorized to charge the new rates set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty days after the stamped approval date on the revised tariff pages. It is further

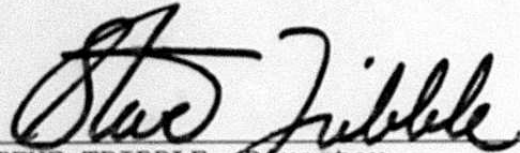
ORDERED that prior to its implementation of the rates approved herein, Ortega Utility Company shall submit and have approved revised tariff pages and a proposed customer notice. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein, that the proposed customer notice is appropriate, and that the protest period has expired. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period. The utility shall file revised tariff pages no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person.

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By ORDER of the Florida Public Service Commission, this 8th
day of July, 1992.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

LAJ/SFS

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 July 29, 1992.

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

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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 adversely 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.

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CALCULATION OF INCREASE - WATER

DESCRIPTION	AMOUNT	RATE BASE EFFECT	REVENUE REQUIREMENT EFFECT
1 PLANT ADDITIONS:			
2			
3 Plant additions completed since rate case.	\$ 152,234	\$ 17,537	\$ 18,364
4			
5 Accumulated depreciation on plant additions since rate case.	(3,655)	(421)	(441)
6			
7 Additional depreciation expense on plant additions not retired.	3,212		3,363
8			
9 Additional property taxes on plant additions not retired.	2,598		2,720
10			
11			
12 HELD FOR FUTURE USE PLANT:			
13			
14 Remove work on Herlong tank, planned to be relocated (not included			
15 in Herlong water plant retirement costs).	(5,664)	(652)	(683)
16			
17 Remove depreciation on Herlong tank.	458		480
18			
19			
20 Reflect 1/2 rate case expense amortized over 4 years.	2,208		2,312
21			
22			
23 HERLONG RETIREMENT:			
24			
25 Reflect net reduction to rate base for Herlong retirement.	(21,130)	(2,434)	(2,549)
26			
27 Reflect amortization of property loss write-off.	3,842		4,023
28			
29 Reflect reduction to purchased power expense.	(3,772)		(3,950)
30			
31 Reflect reduction to chemical expense.	(359)		(376)
32			
33 Add purchased water expense to be incurred.	5,420		5,675
34			
35			
36 Additional Revenue Required.			\$ 28,938
37			
38 Less excess earnings generated at existing rates.			(3,113)
39			
40 Net Additional Revenue Required.			\$ 25,825
41			
42 Divide by Annual Revenue.			409,660
43			
44			
45 Percentage Increase to Existing Rates.			6.30%

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CALCULATION OF INCREASE - WASTEWATER

DESCRIPTION	AMOUNT	RATE BASE EFFECT	REVENUE REQUIREMENT EFFECT
1			
2 PLANT ADDITIONS:			
3			
4 Plant additions completed since rate case.	\$ 623,944	\$ 71,878	\$ 75,265
5			
6 Accumulated depreciation on plant additions since rate case.	(57,105)	(6,578)	(6,888)
7			
8 Additional depreciation expense on plant additions not retired.	30,717		32,164
9			
10 Additional property taxes on plant additions not retired.	12,858		13,464
11			
12			
13 HERLONG RETIREMENT:			
14			
15 Reflect reduction to purchased power expense.	(2,515)		(2,634)
16			
17 Reflect reduction to chemical expense.	(821)		(860)
18			
19 Add purchased sewage treatment expense to be incurred.	25,596		26,802
20			
21			
22 Additional Revenue Required.			\$ 137,313
23			
24 Divide by Annual Revenue.			492,390
25			
26			
27 Percentage Increase Required			27.89%
28			*****
29 Percentage Increase Capped at Utility Request			27.53%
30			*****
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41			
42			
43			
44			
45			

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CALCULATION ON NON-USED AND USEFUL PLANT

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WATER PLANT			ADDITIONS				
ACCOUNT NUMBER	ACCOUNT NAME	YEAR END BALANCES PER MFRs	STAFF ADJUST.	ADJUSTED BALANCES	INCL IN HERLONG RETIREMENT	PLANT WITH FUTURE DEPRECIATION	
INTANGIBLE PLANT	301.1 ORGANIZATION	0	0	0		0	
	302.1 FRANCHISES	0	0	0		0	
	339.1 OTHER PLANT AND MISC. EQUIP.	0	0	0		0	
SOURCE OF SUPPLY/PUMP	303.2 LAND AND LAND RIGHTS	0	0	0		0	
	304.2 STRUCTURES AND IMPROVEMENTS	13,235	0	13,235	(13,235)	(0)	
	305.2 COLLECT/IMPOUND RESERVOIRS	0	0	0		0	
	306.2 LAKE, RIVER AND OTHER INTAKES	0	0	0		0	
	307.2 WELLS AND SPRINGS	0	0	0		0	
	308.2 INFILTRATION GALLERY	0	0	0		0	
	309.2 SUPPLY MAINS	0	0	0		0	
	310.2 POWER GENERATION EQUIPMENT	0	0	0		0	
	311.2 PUMPING EQUIPMENT	4,795	(4,795)	(0)		(0)	
	339.2 OTHER PLANT AND MISC. EQUIP.	0	0	0		0	
WATER TREATMENT PLANT	303.3 LAND AND LAND RIGHTS	0	0	0		0	
	304.3 STRUCTURES AND IMPROVEMENTS	0	0	0		0	
	320.3 WATER TREATMENT EQUIPMENT	0	0	0		0	
	339.3 OTHER PLANT AND MISC. EQUIP.	0	0	0		0	
TRANS/DISTRIBUTION	303.4 LAND AND LAND RIGHTS	0	0	0		0	
	304.4 STRUCTURES AND IMPROVEMENTS	0	0	0		0	
	330.4 DISTR RESERVOIRS AND STANDPIPES	13,330	0	13,330	(13,330)	0	
	331.4 TRANSMISSION/DISTRIBUTION MAINS	102,442	0	102,442		102,442	
	333.4 SERVICES	15,670	0	15,670		15,670	
	334.4 METERS AND INSTALLATIONS	4,254	0	4,254		4,254	
	335.4 HYDRANTS	0	0	0		0	
	339.4 OTHER PLANT AND MISC. EQUIP.	0	0	0		0	
GENERAL PLANT	303.5 LAND AND LAND RIGHTS	0	0	0		0	
	304.5 STRUCTURES AND IMPROVEMENTS	0	0	0		0	
	340.5 OFFICE FURNITURE AND EQUIPMENT	0	0	0		0	
	341.5 TRANSPORTATION EQUIPMENT	0	0	0		0	
	342.5 STORES EQUIPMENT	0	0	0		0	
	343.5 TOOLS, SHOP AND GARAGE EQUIPMENT	0	0	0		0	
	344.5 LABORATORY EQUIPMENT	3,302	0	3,302		3,302	
	345.5 POWER OPERATED EQUIPMENT	0	0	0		0	
	346.5 COMMUNICATION EQUIPMENT	0	0	0		0	
	347.5 MISCELLANEOUS EQUIPMENT	0	0	0		0	
	348.5 OTHER TANGIBLE PLANT	0	0	0		0	
TOTALS		157,029	(4,795)	152,234	(26,565)	125,669	

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CALCULATION ON NON-USED AND USEFUL DEPRECIATION EXPENSE - WATER

ACCOUNT NUMBER	ACCOUNT NAME	PLANT WITH FUTURE DEPR	DEPR. RATE	ANNUAL DEPR. EXPENSE	1988 DEPR	1989 DEPR	1990 DEPR	1991 DEPR	TOTAL TO 10/31/91
301.1	ORGANIZATION	0	2.50%	0					
302.1	FRANCHISES	0	2.50%	0					
339.1	OTHER PLANT AND MISC. EQUIP.	0	2.50%	0					
303.2	LAND AND LAND RIGHTS	0							
304.2	STRUCTURES AND IMPROVEMENTS	(0)	3.03%	0		1,071			1,071
305.2	COLLECT/IMPOUND RESERVOIRS	0	2.00%	0					
306.2	LAKE, RIVER AND OTHER INTAKES	0	2.50%	0					
307.2	WELLS AND SPRINGS	0	3.33%	0					
308.2	INFILTRATION GALLERY	0	2.50%	0					
309.2	SUPPLY MAINS	0	2.86%	0					
310.2	POWER GENERATION EQUIPMENT	0	5.00%	0					
311.2	PUMPING EQUIPMENT	(0)	5.00%	0					
339.2	OTHER PLANT AND MISC. EQUIP.	0	4.00%	0					
303.3	LAND AND LAND RIGHTS	0							
304.3	STRUCTURES AND IMPROVEMENTS	0	3.03%	0					
320.3	WATER TREATMENT EQUIPMENT	0	4.55%	0					
339.3	OTHER PLANT AND MISC. EQUIP.	0	4.00%	0					
303.4	LAND AND LAND RIGHTS	0							
304.4	STRUCTURES AND IMPROVEMENTS	0	3.03%	0					
330.4	DISTR RESERVOIRS AND STANDPIPES	0	2.70%	0			601		601
331.4	TRANSMISSION/DISTRIBUTION MAINS	102,442	2.33%	2,387				1,295	1,295
333.4	SERVICES	15,670	2.50%	392				262	262
334.4	METERS AND INSTALLATIONS	4,254	5.00%	213				143	143
335.4	HYDRANTS	0	2.22%	0			226	57	283
339.4	OTHER PLANT AND MISC. EQUIP.	0	4.00%	0					
303.5	LAND AND LAND RIGHTS	0							
304.5	STRUCTURES AND IMPROVEMENTS	0	2.50%	0					
340.5	OFFICE FURNITURE AND EQUIPMENT	0	6.67%	0					
341.5	TRANSPORTATION EQUIPMENT	0	16.67%	0					
342.5	STORES EQUIPMENT	0	5.56%	0					
343.5	TOOLS, SHOP AND GARAGE EQUIPMENT	0	6.25%	0					
344.5	LABORATORY EQUIPMENT	3,302	6.67%	220					
345.5	POWER OPERATED EQUIPMENT	0	8.33%	0					
346.5	COMMUNICATION EQUIPMENT	0	10.00%	0					
347.5	MISCELLANEOUS EQUIPMENT	0	6.67%	0					
348.5	OTHER TANGIBLE PLANT	0	10.00%	0					
TOTALS		125,669		3,212	0	1,071	827	1,757	3,655

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CALCULATION ON NON-USED AND USEFUL PLANT

WASTEWATER PLANT			ADDITIONS			
ACCOUNT NUMBER	ACCOUNT NAME	YEAR END BALANCES PER MFRS	STAFF ADJUST.	ADJUSTED BALANCES	INCL IN HERLONG RETIREMENT	PLANT WITH FUTURE DEPRECIATION
INTANGIBLE PLANT	351.1 ORGANIZATION	0	0	0		0
	352.1 FRANCHISES	0	0	0		0
	389.1 OTHER PLANT AND MISC. EQUIP.	0	0	0		0
COLLECTION PLANT	353.2 LAND AND LAND RIGHTS	0	0	0		0
	354.2 STRUCTURES AND IMPROVEMENTS	14,400	0	14,400		14,400
	360.2 COLLECTION SEWERS - FORCE	187,696	0	187,696		187,696
	361.2 COLLECTION SEWERS - GRAVITY	3,517	0	3,517		3,517
	362.2 SPECIAL COLLECTION STRUCTURES	0	0	0		0
	363.2 SERVICES TO CUSTOMERS	840	0	840		840
	364.2 FLOW MEASURING DEVICES	2,877	0	2,877		2,877
	365.2 FLOW MEASURING INSTALLATIONS	4,822	0	4,822		4,822
	389.2 OTHER PLANT AND MISC. EQUIP.	0	0	0		0
SYSTEM PUMPING PLANT	353.3 LAND AND LAND RIGHTS	0	0	0		0
	354.3 STRUCTURES AND IMPROVEMENTS	0	0	0		0
	370.3 RECEIVING WELLS	0	0	0		0
	371.3 PUMPING EQUIPMENT	23,193	0	23,193		23,193
	389.3 OTHER PLANT AND MISC. EQUIP.	0	0	0		0
TREAT AND DISPOSAL	353.4 LAND AND LAND RIGHTS	0	0	0		0
	354.4 STRUCTURES AND IMPROVEMENTS	0	0	0		0
	380.4 TREATMENT AND DISPOSAL EQUIPMENT	317,136	0	317,136	(1,865)	315,271
	381.4 PLANT SEWERS	0	0	0		0
	382.4 OUTFALL SEWER LINES	0	0	0		0
	389.4 OTHER PLANT AND MISC. EQUIP.	0	0	0		0
GENERAL PLANT	353.5 LAND AND LAND RIGHTS	0	0	0		0
	354.5 STRUCTURES AND IMPROVEMENTS	0	0	0		0
	390.5 OFFICE FURNITURE AND EQUIPMENT	0	0	0		0
	391.5 TRANSPORTATION EQUIPMENT	0	0	0		0
	392.5 STORES EQUIPMENT	0	0	0		0
	393.5 TOOLS, SHOP AND GARAGE EQUIPMENT	56,730	0	56,730		56,730
	394.5 LABORATORY EQUIPMENT	12,734	0	12,734		12,734
	395.5 POWER OPERATED EQUIPMENT	0	0	0		0
	396.5 COMMUNICATION EQUIPMENT	0	0	0		0
	397.5 MISCELLANEOUS EQUIPMENT	0	0	0		0
	398.5 OTHER TANGIBLE PLANT	0	0	0		0
TOTALS		623,944	0	623,944	(1,865)	622,079

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CALCULATION ON NON-USED AND USEFUL DEPRECIATION EXPENSE - WASTEWATER

ACCOUNT NUMBER	ACCOUNT NAME	PLANT WITH FUTURE DEPR. DEPR	ANNUAL DEPR. RATE	ANNUAL DEPR. EXPENSE	1988 DEPR	1989 DEPR	1990 DEPR	1991 DEPR	TOTAL TO 10/31/91
351.1	ORGANIZATION	0	2.50%	0					
352.1	FRANCHISES	0	2.50%	0					
389.1	OTHER PLANT AND MISC. EQUIP.	0	2.50%	0					
353.2	LAND AND LAND RIGHTS	0							
354.2	STRUCTURES AND IMPROVEMENTS	14,400	3.13%	451			753		753
360.2	COLLECTION SEWERS - FORCE	187,696	3.33%	6,250				3,568	3,568
361.2	COLLECTION SEWERS - GRAVITY	3,517	2.22%	78				52	52
362.2	SPECIAL COLLECTION STRUCTURES	0	2.50%	0					
363.2	SERVICES TO CUSTOMERS	840	2.63%	22			59		59
364.2	FLOW MEASURING DEVICES	2,877	20.00%	575	1,948			30	1,978
365.2	FLOW MEASURING INSTALLATIONS	4,822	2.63%	127				85	85
389.2	OTHER PLANT AND MISC. EQUIP.	0	5.56%	0					
353.3	LAND AND LAND RIGHTS	0							
354.3	STRUCTURES AND IMPROVEMENTS	0	3.13%	0					
370.3	RECEIVING WELLS	0	3.33%	0					
371.3	PUMPING EQUIPMENT	23,193	5.56%	1,290	12	2,065	856		2,934
389.3	OTHER PLANT AND MISC. EQUIP.	0	5.56%	0					
353.4	LAND AND LAND RIGHTS	0							
354.4	STRUCTURES AND IMPROVEMENTS	0	3.12%	0					
380.4	TREATMENT AND DISPOSAL EQUIPMENT	315,271	5.56%	17,529		22,526	13,329	814	36,668
381.4	PLANT SEWERS	0	2.86%	0					
382.4	OUTFALL SEWER LINES	0	3.33%	0					
389.4	OTHER PLANT AND MISC. EQUIP.	0	5.56%	0					
353.5	LAND AND LAND RIGHTS	0							
354.5	STRUCTURES AND IMPROVEMENTS	0	2.50%	0					
390.5	OFFICE FURNITURE AND EQUIPMENT	0	6.67%	0					
391.5	TRANSPORTATION EQUIPMENT	0	16.67%	0					
392.5	STORES EQUIPMENT	0	5.56%	0					
393.5	TOOLS, SHOP AND GARAGE EQUIPMENT	56,730	6.25%	3,546	7,236		2,628		9,865
394.5	LABORATORY EQUIPMENT	12,734	6.67%	849			958	185	1,143
395.5	POWER OPERATED EQUIPMENT	0	8.33%	0					
396.5	COMMUNICATION EQUIPMENT	0	10.00%	0					
397.5	MISCELLANEOUS EQUIPMENT	0	6.67%	0					
398.5	OTHER TANGIBLE PLANT	0	10.00%	0					
		622,079		30,717	9,197	24,650	18,524	4,734	57,105

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SCHEDULE NO. 2

CALCULATION OF NEW WATER RATES
 AFTER FOUR YEAR AMORTIZATION EXPIRED

METER SIZE	COMMISSION BASE	APPROVED GALLONAGE	APPROVED BASE	DECREASE GALLONAGE
RESIDENTIAL - BI MONTHLY				
5/8"x3/4" \$	11.94	\$ 1.02	\$ (0.07)	\$ (0.01)
1"	29.83	1.02	(0.17)	(0.01)
1 1/2"	59.66	1.02	(0.33)	(0.01)
2"	95.43	1.02	(0.53)	(0.01)

METER SIZE	COMMISSION BASE	APPROVED GALLONAGE	APPROVED BASE	DECREASE GALLONAGE
GENERAL SERVICE - MONTHLY				
5/8"x3/4" \$	5.96	\$ 1.02	\$ (0.03)	\$ (0.01)
1"	14.90	1.02	(0.08)	(0.01)
1 1/2"	29.83	1.02	(0.17)	(0.01)
2"	47.72	1.02	(0.27)	(0.01)
3"	95.41	1.02	(0.53)	(0.01)
4"	149.11	1.02	(0.84)	(0.01)
6"	298.20	1.02	(1.67)	(0.01)

METER SIZE	COMMISSION BASE	APPROVED GALLONAGE	APPROVED BASE	DECREASE GALLONAGE
DUPLEXES AT HERLONG				
FLAT RATE \$	22.39		\$ (0.13)	