**FLORIDA PUBLIC SERVICE COMMISSION**

**Fletcher Building**

**101 East Gaines Street**

**Tallahassee, Florida 32399-0850**

**M E M O R A N D U M**

**September 24, 1992**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF WATER AND WASTEWATER (PRICE, MCCASKILL)**

**DIVISION OF LEGAL SERVICES (JABER)**

**RE : UTILITY: UTILITIES, INC. OF FLORIDA (PPW)**

**DOCKET NO.: 920834-WS**

**COUNTY: PASCO**

**CASE: PETITION FOR LIMITED PROCEEDING TO INCREASE RATES TO RECOVER THE COST OF PURCHASED ASSETS DISALLOWED IN DOCKET NO. 910020-WS BY UTILITIES, INC. OF FLORIDA.**

**AGENDA : OCTOBER 6, 1992 - CONTROVERSIAL AGENDA - PARTIES MAY NOT PARTICIPATE**

**CRITICAL DATES: LAST DAY TO SUSPEND OCTOBER 18, 1992**

**SPECIAL INSTRUCTIONS: NONE**

**RECOMMENDATION FILE NAME: 920834.REC**

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**CASE BACKGROUND**

Utilities, Inc. of Florida (UIF or utility) is a Class B utility providing water and wastewater service for 27 systems in six counties in Central Florida. UIF is a wholly owned subsidiary of Utilities, Inc. Order No. 24259, issued March 20, 1991, granted the transfer of PPW's water and wastewater system to Utilities, Inc. of Florida. PPW's water and wastewater system is located in Pasco County. The water system serves 745 customers and the wastewater systems serves 718 customers.

PPW's rates were last established in a file and suspend rate case, Docket No. 910020-WS, by Order No. 25128, issued February 27, 1992. The utility was authorized a 10.65 percent rate of return with a range of reasonableness of 10.21 percent to 11.09 percent. In the rate case, the Commission assigned a zero value to all assets acquired through the purchase of the PPW system. The Commission determined that the original costs of the assets acquired at the time of the transfer were not supported by the record. Consequently, rate base only contained plant investments made by UIF after the acquisition of PPW.

On August 19, 1992, UIF filed a petition for a limited proceeding to increase water and wastewater rates to recover the cost of purchased assets disallowed in the prior proceeding. In the original petition, the utility requested increased interim rates (or, in the alternative, emergency temporary rates in the nature of interim rates) and permanent rates for water and wastewater service. However, on September 18, 1992, UIF filed a notice of withdrawal of its request for wastewater rate increases. Therefore, this recommendation will only address the utility's requests regarding water service.

The utility developed an original cost study for the purchased assets and submitted it along with other supporting documentation to the Commission as part of the application. The study assigns a value to the purchased assets so that the plant can be included in rate base. The utility requested interim water rates designed to generate annual revenues of $161,659, an increase of 38.20 percent.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the utility's proposed rates be suspended?

**RECOMMENDATION:** Yes. The utility's proposed rate schedules as contained in the application for a limited proceeding rate increase should be suspended pending further investigation by the staff. (PRICE)

**STAFF ANALYSIS:** Staff has reviewed the filing and the utility's requested adjustments. The utility has adjusted rate base to reflect the original cost for the PPW water and wastewater system which was disallowed in the previous rate case in Docket No. 910020-WS. In addition, the utility has proposed several adjustments to the operating statement. We have considered the proposed rates, the amount of additional revenues sought thereunder, and the supporting data which has been submitted. We recommend that it is reasonable and necessary to require further amplification, explanation and cross-examination of the data filed by the utility, as well as additional and/or corroborative data. In consideration of the above, we recommend the suspension of the proposed rate schedules.

**ISSUE 2:** Should an interim revenue increase be approved?

**RECOMMENDATION:** No. UIF is not entitled to interim or emergency, temporary rates in this proceeding. (Jaber, Price)

**STAFF ANALYSIS:**  In the prior rate case, Docket No. 910020-WS, by Order No. 25128, issued February 27, 1992, the costs of purchased assets for the PPW system were not permitted in the rate base calculation. In this limited proceeding, the utility is seeking rate base recognition and recovery of the net book value of the assets acquired by the utility when it purchased the systems. The utility performed an original cost study to establish the original cost of the purchased assets. Also, in support of its requested water increase, the utility filed rate base, cost of capital and net operating statements.

This proceeding was filed under the provisions of the limited proceeding statute, Section 367.0822, Florida Statutes, although the utility did file its request citing the interim statute. The interim statute applies to full rate proceedings filed under Section 367.081, Florida Statutes, not limited proceedings. Even if the provisions of the interim statute were applied to the utility's filing for interim rates, staff believes that interim rates would be inappropriate because the utility's basis for its request is an adjustment that is inconsistent with the adjustments made in its last rate case. Pursuant to Section 367.082(5)(b)(l):

The achieved rate of return shall be calculated by applying appropriate adjustments consistent with those which were used in the most recent rate case of the utility. . . and annualizing any rate changes occurring in such period.

In the utility's last rate case, by Order No. 25128, the Commission assigned a zero value to all assets acquired through the purchase of the PPW system. Therefore, to permit recovery of interim rates on these assets would be to allow an adjustment inconsistent with those made in the utility's last rate case.

In addition, Section 367.082(5)(a), Florida Statutes, states that:

In setting interim rates or setting revenues subject to refund, the Commission shall determine the revenue deficiency or excess by calculating the difference between the achieved rate of return of a utility or regulated company and its required rate of return applied to an average investment rate base or an end-of-period investment rate base.

The difference between the utility's achieved rate of return and its required rate of return, when applied to its rate base is zero. Therefore, the utility has not made a prima facie showing entitling it to interim rates pursuant to the terms of the interim statute.

However, if a utility filing pursuant to the limited proceeding statute makes a showing of a need for emergency, temporary rates, in the nature of interim rates, staff believes the Commission may authorize such rates. However, in this instance, UIF has not provided any basis for such emergency rates to be granted. Therefore, Staff recommends that UIF's request for interim rates, or in the alternative, emergency, temporary rates be denied.