

FLORIDA PUBLIC SERVICE COMMISSION

FLETCHER BUILDING  
101 EAST GAINES STREET  
TALLAHASSEE, FLORIDA 32399-0850

M E M O R A N D U M

August 26, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND WASTEWATER (GALLOWAY, DEWBERRY, FERGUSON) *JH*  
 DIVISION OF LEGAL SERVICES (JABER) *JAT*

RE : UTILITY: COUNTYWIDE UTILITY COMPANY, INC.  
 DOCKETS NOS.: 930084-WU & 930440-WU  
 COUNTY: MARION  
 CASE: INVESTIGATION INTO POTENTIAL  
 OVEREARNINGS OF COUNTY-WIDE UTILITY  
 COMPANY IN MARION COUNTY AND  
 APPLICATION OF STAFF-ASSISTED RATE  
 CASE

*AD*  
*[Handwritten initials and signatures]*

AGENDA : SEPTEMBER 7, 1993 - PROPOSED AGENCY ACTION FOR ISSUE 2

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: THIS DECISION SHOULD BE HEARD BY THE FULL COMMISSION

RECOMMENDATION FILE NAME: I:\PSC\WAW\WP\930084.RCM

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DOCKET NO. 930084-WU  
DOCKET NO. 930440-WU  
AUGUST 26, 1993

CASE BACKGROUND

Countywide Utility Company, (Countywide or the utility) is a Class C utility located in Marion County, Florida. Countywide's provision of water service is authorized by this Commission pursuant to Certificate No. 390-W issued on January 18, 1984. The utility served 308 water customers during the 1991 calendar year.

Based on the desk audit of Countywide's 1991 annual report, it appeared that the utility was earning an overall rate of return of 43.13%. This rate of return exceeded the authorized rate of return of 11.56% as approved by the Commission in Order No. 12899, issued January 18, 1984. By Order No. PSC-93-0282-FOF-WU, issued February 23, 1993, the Commission initiated an investigation of possible overearnings.

By letter dated March 1, 1993, Dirk Leeward, President of Countywide Utility Company, asked the Commission to reconsider Order No. PSC-93-0282-FOF-WU. The utility's petition for reconsideration was denied by Order No. PSC-93-0647-FOF-WU, issued April 27, 1993 and the investigation of possible overearnings docket remained open.

On April 28, 1993, Countywide applied for a staff-assisted rate case under Docket No. 930440-WU. The utility's books have been audited for compliance with Commission rules and orders and components have been determined for ratesetting. The staff engineer has also conducted a field investigation of the utility's plant and service area and has reviewed operation records to obtain information about the physical plant and operations. Staff has selected a historical test year ended December 31, 1992 for this case.

Based on the staff audit, the utility recorded test year revenue of \$49,873. Its expenses were \$56,977, resulting in a net operating loss of \$7,104.

Water use in the utility's service area is under the jurisdiction of the St. John's River Water Management District. This utility is not located in a critical use area. However, the Commission has a memorandum of understanding with the Florida Water Management Districts, in which the Commission has recognized that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Staff's recommended conservation rate structure is addressed in Issue 2.

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### DISCUSSION OF ISSUES

**ISSUE 1:** Is Countywide Utility Company (utility) overearning and, if so, are customers due a refund?

**RECOMMENDATION:** No, the utility is not overearning and customers are not due a refund. (GALLOWAY, DEWBERRY, FERGUSON)

**STAFF ANALYSIS:** Order No. PSC-93-0282-FOF-WU, issued February 23, 1993 initiated an investigation of possible overearnings for this utility. By letter received March 1, 1993, the utility requested reconsideration of the above-referenced order. The utility's request for reconsideration was denied by Order No. PSC-93-0647-FOF-WU, issued April 27, 1993 and the investigation continued.

Staff has audited the utility's books and records to determine the utility's rate base, capital structure and operating expenses for the test year ended December 31, 1992. The staff engineer has also conducted a field investigation of the utility plant site and service area and reviewed test year operating expenses to determine reasonableness of all expenses incurred.

This investigation has been processed following the procedures and guidelines required for completing a staff-assisted rate case. A summary of the utility's rate base, cost of capital, net operating income and revenue requirement is as follows:

**Rate Base:** The utility's audited average rate base components consist of Depreciable Plant in Service of \$67,592, Plant Held for Future Use of (\$2,265), Contributions In Aid of Construction of (\$41,230), Accumulated Depreciation (\$32,473), Accumulated Amortization of CIAC of \$6,110 and Working Capital Allowance of \$5,909. Therefore, the utility's average rate base is \$3,643. Rate base is shown on Schedule No. 1 and adjustments are shown on Schedule No. 1-A.

**Cost of Capital:** The utility's capital structure includes negative equity of \$70,382. Following Commission practice the negative equity has been adjusted to zero.

The utility's capital structure also includes long term debt of \$50,156 and short term debt of \$1,500. The cost of the long term and short term debt is 7%. Since the utility's capital structure is 100% debt, the overall rate of return is 7%. Capital structure is shown on Schedule No. 2.

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Net Operating Income: The utility recorded revenue of \$49,873 for the test year ended December 31, 1992. The utility has since been granted a 1992 price index rate adjustment effective May 25, 1993 and a 1993 price index rate adjustment effective June 14, 1993. Staff has annualized test year revenue based on the existing rates which resulted in test year revenue of \$52,567.

The utility recorded operation and maintenance expense of \$52,473 for the test year. Staff has reviewed and tested all expenses for reasonableness. Adjustments have been made to remove expenses associated with duplicated services, to include pro forma expenses associated with DER testing, to reflect salary allowances for an officer and secretary, and to include other expenses required for day-to-day operation of a typical Class C utility.

The utility recorded depreciation expense of \$813 for the test year. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances results in depreciation expense of \$2,885. This expense has been adjusted by \$2,072 to reflect Staff's calculated depreciation expense.

The utility recorded \$917 for amortization of CIAC in the test year. The appropriate amortization of CIAC expense is (\$1,665). This expense has been adjusted by (\$2,582) to reflect Staff's calculated amortization of CIAC.

The utility recorded taxes other than income of \$2,774. This expense has been adjusted by \$1,040 to reflect the appropriate regulatory assessment fees and payroll taxes. This adjustment results in a total of \$3,814.

Revenue Requirement: Staff's calculation of the revenue requirement based on the above operating expenses and rate base is as follows:

Adjusted Rate Base	\$	<u>3,643</u>
Rate of Return		<u>x .07</u>
Return on Investment	\$	255
Adjusted Operation Expenses		47,276
Net Depreciation Expense		1,220
Taxes Other Than Income		<u>3,813</u>
Revenue Requirement	\$	<u>52,564</u>

A comparison of Staff's calculated revenue requirement and

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test year annualized revenue shows that the utility is not overearning. Therefore, customers are not due a refund.

Net operating components and the revenue requirement are shown on Schedule No. 3, and adjustments are shown on Schedule No. 3-A.

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**ISSUE 2:** What are the appropriate rates and rate structure for the utility?

**RECOMMENDATION:** The utility should employ the base facility/gallorage charge rate structure. The appropriate rates should be those that are recommended in the staff analysis and should be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff sheets. The existing standby service charge of \$3.00 per month should be discontinued. All customers, standby or otherwise, should be billed at a minimum the monthly base facility charge. (GALLOWAY, DEWBERRY)

**STAFF ANALYSIS:** The utility currently employs a two step flat charge with specified ranges for gallorage consumption, plus a declining block gallorage charge for consumption which falls within the specified range. Staff believes that this rate structure discourages conservation and is inconsistent with the Commission's agreement with the water management districts to implement an effective, statewide water conservation policy. Billing customers for each gallon of usage encourages conservation and allows customers more control over their bill.

The preferred rate structure is the base facility and gallorage charge rate structure because it is designed to provide for the equitable sharing by the ratepayers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that rate payers pay their share of the variable costs of providing service (through the consumption or gallorage charge) and also pay their share of the fixed costs of providing service (through the base facility charge).

As mentioned above, the base facility charge rate structure is an appropriate rate structure for this utility for conservation purposes. Staff believes excessive consumption will be discouraged through the use of the base facility and gallorage charge rate structure. Therefore, staff recommends that the utility employ a base facility/gallorage charge rate structure.

The utility's existing rates also include a standby charge of \$3.00 per month for suspended service. If Staff's recommended base facility/gallorage charge rate structure is approved by the Commission, the utility will be authorized to charge each customer the appropriate base facility charge each month even if service has been temporarily discontinued. Therefore, a standby service charge is not necessary and Staff recommends that the existing standby

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charge of \$3.00 per month be discontinued.

Rates have been calculated based on the revenue requirement of \$52,564 as addressed in Issue 1 along with test year consumption and customers. Schedules of the utility's existing rates and rate structure and staff's recommended rates and rate structure are as follows:

Existing Rates

Residential and General Service

Flat Charge (0 - 22,500 gallons)	\$ 10.55
Flat Charge (over 22,500 gallons)	38.65
<u>Gallonge Charge</u>	
3,751 - 22,500 gallons	\$ 1.50
(per 1,000 gallons)	
Over 22,500 gallons	.81
(per 1,000 gallons)	
<u>Standby Service</u>	
(per month for suspended service)	\$ 3.00

Staff's Recommended Rates

Residential and General Service

<u>Meter size</u>	<u>Base Facility Charge</u>
5/8 x 3/4"	\$ 8.25
3/4"	12.37
1"	20.61
1 1/2"	41.23
2"	65.97
3"	131.93
4"	206.15
6"	412.29
<u>Gallonge Charge (per 1,000 gallons)</u>	\$ 1.10

If the Commission approves Staff's recommendation, these rates shall be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff sheets. The utility shall file with the Commission a proposed customer notice for Staff's approval. The revised tariff sheets will be approved upon Staff's verification that the tariffs are consistent with the Commission's decision and that the proposed customer notice is adequate.

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**ISSUE 3:** Should the staff-assisted rate case docket (930440-WU) be closed?

**RECOMMENDATION:** Yes. (GALLOWAY, DEWBERRY)

**STAFF ANALYSIS:** Staff has completed its overearnings investigation and has determined that the utility is not overearning and customers are, therefore, not due a refund. Neither is the utility underearning. The utility's existing rates will provide the appropriate revenue to cover its expenses and allow a 7% return on its investment. Therefore, staff recommends that the utility's staff-assisted rate case docket (930440-WU) be closed.



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**ISSUE 4:** Should the overearnings investigation docket (930084-WU) be closed?

**RECOMMENDATION:** Yes, after Staff has approved the revised tariff sheets and proposed customer notice, and if no protests are received to the proposed agency action in Issue 2, this docket should be closed. (GALLOWAY, DEWBERRY)

**STAFF ANALYSIS:** Staff has completed its overearnings investigation and has determined that the utility is not overearning and customers are not due a refund. After Staff has approved the revised tariff sheets and proposed customer notice, and if no protests are received to the proposed agency action in Issue 2, this docket should be closed.

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COUNTYWIDE UTILITY, CO.  
 DOCKET NOS. 930084-WU & 930440-WU  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1  
 RATE BASE

Account Title *****	Balance per Utility *****	Staff Adjustments to Utility Balance *****		Balance per Staff *****
Depreciable Plant in Service	67,235	357	A	67,592
Land/Nondepreciable Assets	0	0		0
Plant Held for Future Use	0	(2,265)	B	(2,265)
Contributions in Aid of Construction	(40,860)	(370)	C	(41,230)
Accum Amort of Amortizable Assets	0	0		0
Accumulated Depreciation	(33,583)	1,110	D	(32,473)
Accumulated Amortization of CIAC	5,988	122	E	6,110
Working Capital Allowance	0	5,909	F	5,909
 RATE BASE	 ----- (\$1,220) -----	 ----- \$4,863 -----		 ----- \$3,643 -----

COUNTYWIDE UTILITY COMPANY  
DOCKET NOS. 930084-WU & 930440-WU  
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1A  
ADJUSTMENTS TO  
RATE BASE  
PAGE 1 OF 2

A. DEPRECIABLE PLANT IN SERVICE:  
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1. To reflect depreciable plant balance at December 31, 1992 per audit	\$2,394
2. Test year averaging adjustment	(2,037)
	-----
Subtotal	357

B. PLANT HELD FOR FUTURE USE (PHFU):  
-----

1. Average test year balance of PHFU	(4,527)
2. Accumulated depreciation associated with test year PHFU	2,262
	-----
Subtotal	(2,265)

C. CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC):  
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1. Test year averaging adjustment	4,180
2. Allowance for margin reserve	(4,550)
	-----
Subtotal	(370)

D. ACCUMULATED DEPRECIATION:  
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1. To reflect accumulated depreciation at December 31, 1992	(427)
2. Test year averaging adjustment	1,537
	-----
Subtotal	1,110

COUNTYWIDE UTILITY COMPANY  
DOCKET NOS. 930084-WU & 930440-WU  
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1A  
ADJUSTMENTS TO  
RATE BASE  
PAGE 2 OF 2

E. ACCUMULATED AMORTIZATION OF CIAC:  
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1. Remove test year amortization recorded by the utility	(918)
2. Test year amortization	1,665
3. Test year averaging adjustment	(833)
4. Amortization of margin reserve	207
	-----
Subtotal	122

F. WORKING CAPITAL ALLOWANCE:  
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1. Working capital allowance based on one-eighth of O&M expenses	5,909
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TOTAL RATE BASE ADJUSTMENTS: 4,863  
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COUNTYWIDE UTILITY, CO.  
 DOCKET NOS. 930084-WU & 930440-WU  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 2  
 COST OF CAPITAL

Component	Average Balance Per Utility	Staff Adjustments to Utility Balance	Adjusted Balance	Pro Rata Adjustments	Balance per Staff	Percent of Total	Weighted Cost	Weighted Cost
Equity	(\$70,382)	\$70,382	\$0	\$0	\$0	0.00%	12.44%	0.00%
Long Term Debt	\$50,156	0	50,156	(46,619)	3,537	97.10%	7.00%	6.80%
Short Term Debt	1,500	0	1,500	(1,394)	106	2.90%	7.00%	0.20%
TOTAL	(\$18,726)	\$70,382	\$51,656	(\$48,013)	\$3,643	100.00%		7.00%

Zones of Reasonableness:

	Low	High
Equity	11.44%	13.44%
Rate of Return	7.00%	7.00%

COUNTYWIDE UTILITY, CO.  
 DOCKET NO. 930084-WU & 930440-WU  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 3  
 OPERATING INCOME

	Balance Per Utility -----	Staff Adjustments to Utility Balance -----		Test Year Balance per Staff -----	Staff Adjustments for Increase -----		Balance per Staff -----
Operating Revenues	\$49,813	\$2,694	A	\$52,567	(\$3)	F	\$52,564
Operating Expenses:							
-----							
Operation and Maintenance	\$52,473	(5,197)	B	\$47,276	\$0		\$47,276
Depreciation	813	2,072	C	2,885	0		2,885
Amortization	917	(2,582)	D	(1,665)	0		(1,665)
Taxes Other Than Income	2,774	1,040	E	3,814	(1)	G	3,813
Income Taxes	0	0		0	0		0
-----							
Total Operating Expenses	\$56,977	(\$4,667)		\$52,310	(\$1)		\$52,309
-----							
Operating Income (Loss)	(\$7,104)	\$7,361		\$257	(\$2)		\$255
Rate Base	(\$1,220)			\$3,643			\$3,643
Rate of Return	582.27%			7.05%			7.00%
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COUNTYWIDE UTILITY COMPANY  
DOCKET NOS. 930084-WU & 930440-WU  
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 3A  
ADJUSTMENTS TO  
OPERATING INCOME  
PAGE 1 OF 1

A. OPERATING REVENUES:

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1. To reflect the appropriate level of  
test year revenues based on existing rates \$2,694  
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B. OPERATION AND MAINTENANCE EXPENSES:

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1. To reflect the appropriate level of O&M  
expenses associated with a typical Class C  
utility of this size (5,197)  
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C. DEPRECIATION EXPENSE:

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1. To reflect test year used and useful  
depreciation expense as prescribed by rule 2,072  
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D. AMORTIZATION (CIAC):

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1. Test year amortization expense (2,582)  
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E. TAXES OTHER THAN FEDERAL INCOME TAXES:

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1. To reflect the appropriate taxes associated  
with regulatory assessment fees and payroll  
taxes 1,040  
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F. OPERATING REVENUES:

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1. To reflect Staff's calculated revenue  
requirement (3)  
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G. TAXES OTHER THAN INCOME TAXES:

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1. To reflect regulatory assessment fees  
associated with Staff's calculated revenue  
requirement (1)  
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