

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

FEBRUARY 6, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO) *SR*

FROM: DIVISION OF WATER & WASTEWATER (CASEY, RIEGER) *MC*
DIVISION OF LEGAL SERVICES (CAPELESS) *MC*

RE: DOCKET NO. 960984-SU - INVESTIGATION OF POSSIBLE
OVEREARNINGS BY NORTH PENINSULA UTILITIES CORPORATION

COUNTY: VOLUSIA

AGENDA: 2/18/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

North Peninsula Utilities Corporation (North Peninsula or utility) is a Class C wastewater only utility providing wastewater service to approximately 480 customers in Volusia County. For the year ending December 31, 1995, the utility reported wastewater operating revenues of \$143,189 and a net operating income of \$22,459.

The utility's 1995 annual report, filed April 23, 1996, indicated that North Peninsula's wastewater system was earning an overall rate of return of 17.26%. On July 26, 1996, staff received a 1996 index and pass-through application for North Peninsula. This index and pass-through rate adjustment, which was effective September 28, 1996, increased customer rates by 1.74% or \$2,538. On September 4, 1996, prior to the effective date of the 1996 price index and pass-through, staff filed a recommendation to hold possible overearnings subject to refund and to initiate an overearnings investigation. By Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission ordered an investigation of possible overearnings to be initiated, and required annual wastewater revenues of \$12,311 to be held subject to refund, which amount included the 1996 index and pass-through increases. The utility complied by placing \$6,381 of security in an escrow account with Barnett Bank. The \$6,381 represents \$6,156 of security and \$225 of interest, calculated in accordance with Rule 25-30.360, Florida Administrative Code, and assumes a six-month timeframe for the investigation.

The last staff assisted rate case for this utility was completed by Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, when the utility was known as Shore Utility Corporation. A transfer docket was opened in 1989 to transfer Shore Utility Corporation to North Peninsula. The Commission approved the transfer by Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU. Rate base was established during this transfer proceeding for book value of the property being transferred and did not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

North Peninsula has not applied for a staff assisted rate case since the transfer, but has received price index rate increases in 1991, 1992, 1993, 1994, 1995, and 1996. The utility has also received pass-through rate increases in 1993, 1994, 1995, and 1996.

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The utility's 1995 annual report review was the first staff review which showed possible utility overearnings. The annual report reviews for the previous six years showed the following earnings for North Peninsula:

<u>Year</u>	<u>Net Income</u>	<u>Rate of Return</u>
1994	(\$ 6,191)	(4.31%)
1993	(\$19,899)	(11.51%)
1992	(\$22,469)	(8.55%)
1991	\$ 4,941	3.95%
1990	(\$24,908)	(21.39%)
1989	\$ 4,016	3.10%

In preparation for this recommendation, staff has audited the utility's records for compliance with Commission rules and orders and has determined all components necessary for rate setting. Staff has selected a historical test year ending June 30, 1996. The staff engineer has also conducted a field investigation of the utility's wastewater treatment plant, wastewater collection system, and service area. A review of the utility's operation expenses, maps, and files was also performed to obtain information on the systems and operating costs.

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DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by North Peninsula satisfactory?

RECOMMENDATION: Yes. The quality of service provided by North Peninsula should be considered satisfactory. (RIEGER)

STAFF ANALYSIS: A review of Department of Environmental Protection (DEP) records has shown that the utility is generally in compliance with DEP standards. In addition, there are no customer complaints presently on file with the Commission. For these reasons, staff recommends that the quality of service provided by North Peninsula should be considered satisfactory.

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RATE BASE

ISSUE 2: What portions of water and wastewater plants-in-service are used and useful?

RECOMMENDATION: The wastewater treatment plant should be considered 65% used and useful and the wastewater collection system should be considered 100% used and useful. (RIEGER)

STAFF ANALYSIS: Wastewater Treatment Plant - The wastewater treatment plant has a treatment capacity of 210,000 gallons per day. The average daily flow of the peak usage month during the test year is 128,000 gallons per day. With 8,817 gallons per day considered for margin reserve, it is recommended that the wastewater treatment plant be considered 65% used and useful (Attachment "A").

Wastewater Collection System - The wastewater collection system has a capacity of 485 ERCs. The number of test year connections is 422 ERCs. With 19.4 ERCs added for margin reserve considerations, it is recommended that the wastewater collection system be considered 100% used and useful (Attachment "B").

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ISSUE 3: What is the appropriate average amount of test year rate base for North Peninsula?

RECOMMENDATION: The appropriate average amount of test year rate base for North Peninsula should be \$130,294. (CASEY, RIEGER)

STAFF ANALYSIS: The appropriate components of North Peninsula's rate base include depreciable plant-in-service, land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. A discussion of each component follows.

Depreciable Plant-in-Service: The wastewater treatment facility has a combined treatment capacity of 210,000 gallons per day. This facility is composed of three package plants: One concrete plant at 60,000 gpd, one steel plant at 90,000 gpd, and one steel plant at 60,000 gpd. Disinfection is achieved through gas chlorination, with the treated effluent flowing to two percolation/evaporation basins.

The wastewater collection system is composed of PVC pipe. The system has two lift stations. One is a master station located at the plant site, and the other is located in the service area.

The utility's books showed a utility plant-in-service balance of \$781,227 for wastewater. Staff made an adjustment of \$2,471 to bring the utility amount to staff's recommended utility plant-in-service, along with an adjustment of \$6,296 to include pro forma plant consisting of two backup blowers required by DEP. Also, an adjustment of (\$1,235) was made to reflect an averaging adjustment.

Total recommended utility plant-in-service is \$788,759.

Land: Land value of \$46,800 was established by Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU, and included on the utility's books. Staff recommends no changes to the land account.

Non-Used and Useful Plant: According to the approved formulas, the staff engineer calculated the wastewater treatment plant to be 65% used and useful and the wastewater collection system to be 100% used and useful. Average non-used and useful plant has been calculated based on the non-used and useful percentages times average plant and average accumulated depreciation.

Adjustments were made to the wastewater system to reflect: non-used and useful plant of (\$146,803); average non-used and useful accumulated depreciation associated with non-used and useful

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plant of \$53,252; average non-used and useful CIAC of \$94,086; and average accumulated amortization of non-used and useful CIAC of (\$35,594). Staff recommends non-used and useful plant of (\$35,059).

Contributions in Aid of Construction (CIAC): The utility books reflected a CIAC balance of (\$630,494) at the end of the test year. By Order No. 16184, issued June 4, 1986, the Commission ordered the utility, then known as Shore Utility, to cease charging service availability charges to avoid exceeding the 75% maximum level established by Rule 25-30.580, Florida Administrative Code. North Peninsula did not request a change in rates or charges at the time of transfer, therefore, by Order No. 22345, issued December 27, 1989, North Peninsula was directed to continue charging the rates and charges approved for Shore utility. The utility's current contribution level is 68.93%. Since, currently, there are no approved service availability charges for North Peninsula, staff did not calculate CIAC for margin reserve. Staff did, however, make an averaging adjustment of \$1,150 which resulted in staff's recommended CIAC balance of (\$629,344).

Accumulated Depreciation: The utility books reflected an accumulated depreciation balance of (\$352,175) at the end of the test year. Staff calculated accumulated depreciation in accordance with Rule 25-30.140, Florida Administrative Code, and started with balances established by Order 22345, issued December 27, 1989. Staff made adjustments of (\$3,832) to bring the utility's figures to staff's calculated amount, and \$18,105 to reflect an averaging adjustment.

Staff recommends an accumulated depreciation balance of (\$337,902).

Accumulated Amortization: The utility books reflected an accumulated amortization balance of \$267,798 at the end of the test year. Staff calculated amortization of CIAC by calculating a yearly composite rate. An adjustment of \$33,055 was made to accumulated amortization to bring the utility balance to staff's calculated amount. An averaging adjustment of (\$14,565) was also made. Staff recommends test year accumulated amortization of \$286,288.

Working Capital Allowance: Consistent with Rule 25-30.443, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$10,752 (based on operation & maintenance expenses (O&M) of \$86,014).

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Rate Base Summary: Based on the foregoing, the appropriate balance of North Peninsula's test year rate base is \$130,294. Staff's recommended rate base is shown on Schedule No. 1 and adjustments are shown on Schedule No. 1A.

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COST OF CAPITAL

ISSUE 4: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity should be 11.88% with a range of 10.88% - 12.88% and the appropriate overall rate of return should be 9.75%. (CASEY)

STAFF ANALYSIS: The utility's capital structure consists of \$295,000 of long-term debt at a cost of 1 1/2% over prime along with negative retained earnings of (\$172,438). Since including a negative retained earnings would penalize the utility's capital structure by understating the overall rate of return, staff has adjusted the negative retained earnings to zero. The current prime rate is 8.25% resulting in a cost of long-term debt of 9.75%. Using the current leverage formula approved by Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, the utility's rate of return on equity for future proceedings would be 11.88% with a range of 10.88% - 12.88%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.75%. The capital structure has been adjusted down on a pro rata basis to match the total rate base.

The recommended return on equity and overall rate of return for North Peninsula are shown on Schedule No. 2.

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NET OPERATING INCOME

ISSUE 5: What is the appropriate test year operating revenue?

RECOMMENDATION: The appropriate test year operating revenue should be \$143,689. (CASEY)

STAFF ANALYSIS: The utility recorded revenues of \$143,811 during the test period. Staff made an adjustment of (\$122) to remove non-utility interest income. Staff recommends test year operating revenue of \$143,689.

Operating revenues are shown on Schedule No. 3.

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ISSUE 6: What is the appropriate amount of test year operating expense?

RECOMMENDATION: The appropriate amount of test year operating expense should be \$106,415. (CASEY, RIEGER)

STAFF ANALYSIS: The utility recorded operating expenses of \$163,423 during the test year. The components of these expenses include operation and maintenance expenses, net depreciation expense, and taxes other than income taxes.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and to reflect recommended allowances for plant operations.

Operation and Maintenance Expenses (O & M): The utility charged \$143,318 to O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

1) **Sludge Removal Expense** - The utility included no sludge removal expense in this account during the test year. Staff made an adjustment of \$5,075 to reclassify sludge removal expense from the contractual services account. Staff recommends sludge removal expense of \$5,075.

2) **Purchased Power Expense** - The utility recorded test year purchased power of \$13,257. Staff made adjustments of (\$2,871) to reclassify utility-used water expense to the contractual services account, (\$744) to remove out of period purchased power expense, and \$869 to include June 1996 purchased power expense. Staff recommends purchased power expense of \$10,511.

3) **Chemical Expense** - The utility recorded no chemical expense in this account for the test year. Staff made an adjustment of \$624 to reclassify a chemical expense from the contractual services account. Staff recommends chemical expense of \$624.

4) **Contractual Services** - The utility recorded \$72,153 in the contractual services account during the test year. Staff made adjustments to contractual services to: a) reclassify a \$2,871 water expense from account no. 715, b) reclassify a \$5,075 sludge removal expense to account no. 711, c) reclassify \$624 of chemical expense to account no. 718, d) reclassify a \$385 fence repair from account no. 775, and e) amortize \$19,890 of legal expenses over 4 years.

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Total adjustments are (\$17,361) for contractual services. Staff recommends contractual services of \$54,792, which includes \$5,670 for an operators contract, \$7,970 for accounting, legal and engineering fees, \$21,152 for repairs and maintenance and DEP testing, and \$20,000 for a management contract.

5) Transportation Expenses - The utility recorded transportation expenses \$4,073 during the test year. Staff made an adjustment of \$934 to reclassify a transportation expense from account no. 775, along with an adjustment of (\$2,394) to remove staff estimated non-utility transportation expenses. Staff recommends test year transportation expense of \$2,613.

6) Miscellaneous Expense - The utility recorded \$48,288 of miscellaneous expenses during the test year. Staff made adjustments to miscellaneous expenses to: reclassify \$33,892 of interest expense to account no. 427, reclassify \$934 of transportation expense to account no. 750, disallow a \$150 charitable contribution, disallow \$4,637 of non-verifiable entertainment expense, reclassify \$385 of fence repair expense to contractual services, include \$712 for a DEP permit fee amortized over the five year life of the permit, and remove \$2,150 of staff estimated non-utility telephone expense.

Staff recommends test year miscellaneous expenses of \$6,852.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are (\$57,304) for the test year. Staff recommends operation and maintenance expenses of \$86,014. Operation and maintenance expenses are shown on Schedule No. 3B.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded \$1,239 of net depreciation expense during the test year. Staff calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made a \$3,427 adjustment to net depreciation expense to bring the utility balances to staff's recommended balances. Staff also made an adjustment of \$420 to include one year of depreciation expense on pro forma plant. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances, and then offsetting that by applying the composite depreciation rates to the appropriate CIAC account balances yields the appropriate depreciation expenses net of CIAC amortization of \$5,086 during the test year.

Taxes Other Than Income Taxes: The utility recorded \$18,866 of taxes other than income in this account during the test year.

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Staff made an adjustment of (\$2,445) to reflect the non-used and useful amount of property taxes.

Staff recommends taxes other than income of \$16,421 for the test year.

Operating Revenues: Revenues have been decreased by \$24,570 to reflect the decrease in revenue required to cover expenses and allow the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been decreased by \$1,106 to reflect the regulatory assessment fee of 4.5% on staff's recommended decrease in revenue.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$106,415.

Operating expenses are shown on Schedule No. 3. Adjustments are shown on Schedule No. 3A.

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REVENUE REQUIREMENT

ISSUE 7: What is the appropriate test year revenue requirement for North Peninsula?

RECOMMENDATION: The appropriate test year revenue requirement should be \$119,119. (CASEY)

STAFF ANALYSIS: The appropriate revenue requirement would result in a decrease in annual revenue of \$24,570 (17.10%). This would allow the utility the opportunity to recover its expenses and earn a 9.75% return on its investment. The calculations are as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$130,294
Rate of Return	<u>x .0975</u>
Return on Investment	\$ 12,704
Adjusted Operation Expenses	86,014
Depreciation Expense (Net)	5,086
Taxes Other Than Income Taxes	<u>15,315</u>
Revenue Requirement	<u>\$119,119</u>
Annual Revenue Change	\$(24,570)
Percentage Increase/(Decrease)	<u>(17.10%)</u>

The revenue requirement and resulting annual decrease are shown on Schedule No. 3.

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RATES AND RATE STRUCTURE

ISSUE 8: Should the utility be ordered to refund price index and pass-through rate adjustments that were implemented in 1994, 1995 and 1996?

RECOMMENDATION: Yes. The index and pass-through rate adjustments should be refunded with interest. The combined refund for 1995 and 1996 is approximately \$21,257 before assessment of interest. These refunds should be made with interest as required by Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of the order. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360 (7), Florida Administrative Code. The refund should be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. (CASEY)

STAFF ANALYSIS: North Peninsula implemented price index and pass-through rate adjustments July 30, 1994, August 11, 1995 and September 28, 1996 to represent anticipated increases in operating expenses and to offset allowable pass-through cost increases for the forthcoming years. Those rate adjustments were designed to increase revenues by \$6,559, \$2,024 and \$2,538, respectively, on an annual basis.

Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and/or pass-through rate adjustment if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity after an index and/or pass-through rate adjustment was implemented within the year for which the annual report was filed or was implemented in the preceding year. The utility's 1995 annual report was filed on April 23, 1996. Therefore, July 23, 1997, would be the fifteen-month expiration date of the Commission's allotted term for ordering refunds of index and/or pass-through adjustments. A staff annual report review indicated that the utility achieved a 17.26% return on its 1995 rate base amount. North Peninsula's authorized rate of return has never been set by the Commission. However, a staff audit confirms the utility's capital structure is 100% debt at a cost of 1 1/2% over prime, with the latest prime rate being 8.25%. Therefore, the utility's overall rate of return should be 9.75%.

An audit investigation was conducted to determine if actual overearnings occurred in 1995. Staff chose a test year ending June

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30, 1996. Based on the staff audit with applicable adjustments for calendar years, staff estimated the utility December 31, 1995 rate base as \$128,814, revenue as \$143,189, and operating expenses as \$107,087. Staff also estimated the utility's December 31, 1996 rate base as \$126,102, revenue as \$147,765, and operating expenses as \$110,099. Based on these figures, staff concluded that the utility earned a 28.03% return on rate base for 1995 and estimated a 29.87% return on rate base for 1996. Allowing a 9.75% overall rate of return, staff estimates the utility overearned by approximately \$24,652 (17.22%) in 1995 and \$26,567 (17.98%) in 1996.

Based on these results, staff recommends that the price index and pass-through rate increases initiated in 1994 (for 1995 and 1996 income levels), 1995 and 1996 should be refunded with interest based upon staff-calculated income levels in those years. Our review indicates that the 1994 and 1995 index and pass-through adjustments collected in 1995 total approximately \$9,503. This refund is less than the overall decrease (17.22% or \$24,652) that could occur for 1995 and still preserve a 9.75% overall return on rate base. Therefore, the full amount of the 1994 and 1995 index and pass-through rate adjustments are subject to refund for 1995.

Employing average test year conditions for 1996, and annualizing actual operating costs to show expected calendar year amounts, our review indicated that North Peninsula would earn an approximate 29.87% return on rate base. Using a 9.75% overall rate of return, our analysis indicates that the 1994, 1995, and 1996 index and pass-through adjustments collected throughout 1996, or about \$11,752, should be refunded. This refund is also less than the overall decrease (17.98% or \$26,567) that could occur for 1996 and still preserve a 9.75% overall rate of return. Therefore, the full amounts of the 1994, 1995, and 1996 index and pass-through rate adjustments are subject to refund for the year of 1996. In addition, by Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission required annual wastewater revenues of \$12,311, which included the 1996 index and pass-through increases, to be held subject to refund. The following is a yearly breakdown of staff recommended refunds:

<u>Year</u>	<u>Net Income</u>	<u>Rate of Return</u>	<u>Allowable Net Income</u>	<u>Revenue from Index & Pass-Throughs</u>	<u>Refund</u>
1995	\$36,102	28.03%	\$ 12,559	\$ 9,503	\$ 9,503
1996	\$37,666	29.87%	\$ 12,295	\$11,752	\$ 11,752*
1997	\$20,712	15.60%	\$ 12,947	-0-	5.48%**

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* The 1996 refund amount will also include 6.71% of revenues from October 7, 1996 through December 31, 1996 for funds held subject to refund by Order PSC-96-1243-FOF-SU, issued October 7, 1996.

** The 1997 refund amount will be 5.48% of monthly revenues from January 1, 1997 until such time the Commission Order regarding overearnings is final and effective (See Issue No. 9).

Our review clearly shows that the 1994, 1995 and 1996 price index and pass-through rate increases were implemented during a period of utility overearnings. Therefore, staff recommends that the index and pass-through rate increases should be refunded with interest as required by Rule 25-30.360(4), Florida Administrative Code. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360 (7), Florida Administrative Code, within 90 days of the effective date of the Order. The refund should be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

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ISSUE 9: Should North Peninsula be ordered to refund revenues collected during the interim collection period?

RECOMMENDATION: Yes. Our review indicates that excess earnings were collected during the interim collection period. These amounts should be refunded as provided by Order No. PSC-96-1243-FOF-SU. The refund should be 6.71% of the sales revenues collected from October 7, 1996 through December 31, 1996 and 5.48% of sales revenues from January 1, 1997 until rates are reduced as approved by the Commission. These refunds should be made with interest as required by Section 25-30.360(4), Florida Administrative Code, within 90 days of the effective date of the Order. The refund should be made to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. (CASEY)

STAFF ANALYSIS: Pursuant to Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission initiated an investigation of the rates and charges for North Peninsula. The Commission also declared that \$12,311 of annual utility income would be subject to refund pending the Commission's final determination. The utility provided security through an escrow agreement which holds 8.45% of monthly revenues subject to refund. Our review discloses that excess earnings were present throughout the interim collection period. The amount held subject to refund included the index and pass-through rate increase implemented in 1996. Subtracting that element, which is discussed in Issue No. 8, the recommended refund is 6.71% (recognizing that the other 1.74% of the 8.45% escrow amount is already being taken into account by the requirement that all of the revenues for the 1996 price index and pass-through adjustment be refunded) of the revenues collected from October 7, 1996 through December 31, 1996, and 5.48% of sales revenues from January 1, 1997 until rates are reduced as outlined in Issue No. 10. These refunds should be made with interest as required by Rule 25-30.360 (4), Florida Administrative Code, within 90 days of the effective date of the Order.

Based upon average conditions for 1996, the overall rate of return would be 9.75%. Our review estimates that North Peninsula would earn a 29.87% return on rate base in 1996 which would result in an approximate 17.98% overearnings situation. Therefore, the refund discussed in Order No. PSC-96-1243-FOF-SU should be invoked. For October 7, 1996 through December 31, 1996, the expected refund amount is \$2,321. That amount was derived by multiplying the October 7, 1996 through December 31, 1996 estimated operating

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revenues (\$34,595) by 6.71% (8.45% less the 1.74% 1996 index and pass-through amount in Issue No. 8).

Based on the staff audit with applicable adjustments on a 1997 projected year basis, staff estimates utility rate base of \$132,786, revenue of \$148,398, and operating expenses of \$127,320. These figures result in a projected 5.48% overearnings situation for the utility. Until the rates are reduced as outlined in Issue No. 10, 5.48% of the revenues collected in 1997 should be refunded with interest under the same conditions as set out for the price index and pass-through. This would allow the utility the opportunity to earn a 9.75% rate of return on a going-forward basis.

In addition to the refunds being made with interest as required by Rule 25-30.360(4), Florida Administrative Code, staff is recommending that the refund should be made, within 90 days of the effective date of the Order, to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code and that the utility be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. Also, the utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

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ISSUE 10: What are the appropriate rates for North Peninsula?

RECOMMENDATION: The utility should reduce wastewater flat rates by \$1.42 to reflect the new recommended flat monthly rate of \$24.56. The utility should file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.
(CASEY)

STAFF ANALYSIS: Wastewater rates should be reduced by \$8,131 (5.48%), on a going-forward annual basis. This revenue reduction would provide the utility the opportunity to earn a 9.75% rate of return on rate base. Staff calculated this decrease using a projected test year, adjusting revenues and costs, including a new management contract which was effective January 1, 1997.

In addition to adjusting its wastewater rates, the utility should file revised tariff sheets along with a proposed customer notice reflecting the appropriate rates and the reason for the reduction.

The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event should the rates be effective for service rendered prior to the stamped approval date.

DOCKET NO. 960984-SU
DATE: FEBRUARY 6, 1997

ISSUE 11: Should the utility be required to continue to escrow funds as security?

RECOMMENDATION: The utility should escrow 5.48% of its monthly revenues on a going-forward basis, until such time as the Commission's Order regarding overearnings is final and effective.

STAFF ANALYSIS: By Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, the Commission ordered an investigation of possible overearnings to be initiated, and required annual wastewater revenues of \$12,311, which included the 1996 index and pass-through increase, to be held subject to refund pending the Commission's final determination. The utility complied by placing \$6,381 of security in an escrow account with Barnett Bank. The \$6,381 represents \$6,156 of security and \$225 of interest, calculated in accordance with Rule 25-30.360, Florida Administrative Code, and assumed a six-month timeframe for the investigation.

Pursuant to Section 367.082, Florida Statutes, when revenues are held subject to refund, the utility is authorized to continue collecting the previously authorized rates. Under the terms of the escrow agreement, which the utility and Barnett Bank signed on October 28, 1996, and in accordance with Order No. PSC-96-1243-FOF-SU, the utility escrowed \$6,381. The utility should maintain in escrow 8.45% of its monthly revenues from October 7, 1996 through December 31, 1996 and 5.48% of its revenues from January 1, 1997 until such time as the Commission Order regarding overearnings is final. The utility should start depositing additional funds once the amount calculated, using the above formula, exceeds the \$6,381 already in the escrow account.

In no instance should the maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Also, by no later than the twentieth (20) day of each month, the utility should continue to file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund.

DOCKET NO. 960984-SU
DATE: FEBRUARY 6, 1997

ISSUE 12: Should this docket be closed?

RECOMMENDATION: This docket should be closed if no person, whose interests are substantially affected by the proposed action, files a protest within the 21 day protest period, upon staff's verification that the utility has completed the required refunds and upon the utility's filing of and staff's approval of the proposed customer notice and the revised tariff sheets. (CAPELESS, CASEY)

STAFF ANALYSIS: If a protest is not received within 21 days of issuance of the Proposed Agency Action order, the order will become final. The docket may be closed upon staff's verification that the utility has completed the required refunds and upon the utility's filing of and staff's approval of the proposed customer notice and the revised tariff sheets.

**NORTH PENINSULA UTILITIES CORPORATION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 1
 DOCKET NO. 960984-SU**

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 781,227	\$ 7,532 A	\$ 788,759
LAND/NON-DEPRECIABLE ASSETS	46,800	0	46,800
NON-USED AND USEFUL PLANT	0	(35,059) B	(35,059)
CIAC	(630,494)	1,150 C	(629,344)
ACCUMULATED DEPRECIATION	(352,175)	14,273 D	(337,902)
AMORTIZATION OF CIAC	267,798	18,490 E	286,288
WORKING CAPITAL ALLOWANCE	0	10,752 F	10,752
WASTEWATER RATE BASE	\$ 113,156	\$ 17,138	\$ 130,294

**NORTH PENINSULA UTILITIES CORPORATION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 1A
DOCKET NO. 960984-SU**

	WASTEWATER
A. UTILITY PLANT IN SERVICE	
1. To reflect staff calculated utility plant.	\$ 2,471
2. To reflect averaging adjustment.	(1,235)
3. To include pro forma plant required by DEP.	6,296
	<u>\$ 7,532</u>
B. NON-USED AND USEFUL PLANT	
1. To reflect non-used and useful plant.	\$ (146,803)
2. To reflect non-used and useful accumulated depreciation.	53,252
3. To reflect average non-used and useful CIAC.	94,086
4. To reflect average non-used and useful accumulated amortization.	(35,594)
	<u>\$ (35,059)</u>
C. CONTRIBUTIONS IN AID OF CONSTRUCTION	
1. To reflect an averaging adjustment.	\$ 1,150
D. ACCUMULATED DEPRECIATION	
1. To reflect staff calculated accumulated depreciation.	\$ (3,832)
2. To reflect averaging adjustment.	18,105
	<u>\$ 14,273</u>
E. AMORTIZATION OF CIAC	
1. To reflect staff calculated accumulated amortization.	\$ 33,055
2. To reflect averaging adjustment.	(14,565)
	<u>\$ 18,490</u>
F. WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of operation and maintenance expenses.	\$ 10,752

**NORTH PENINSULA UTILITIES CORPORATION
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 2
 DOCKET NO. 960984-SU**

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
LONG-TERM DEBT	\$ 295,000	(164,706)	130,294	100.00%	9.75%	9.75%
COMMON EQUITY	(172,438)	172,438	0	0.00%	11.88%	0.00%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 122,562	7,732	130,294	100.00%		9.75%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	9.75%	9.75%

**NORTH PENINSULA UTILITIES CORPORATION
 SCHEDULE OF WASTEWATER OPERATING INCOME
 TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 3
 DOCKET NO. 960984-SU**

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ 143,811	\$ (122) A	\$ 143,689	\$ (24,570) E	\$ 119,119
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	143,318	(57,304) B	86,014	0	86,014
DEPRECIATION (NET)	1,239	3,847 C	5,086	0	5,086
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	18,866	(2,445) D	16,421	(1,106) F	15,315
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 163,423	\$ (55,902)	\$ 107,521	\$ (1,106)	\$ 106,415
OPERATING INCOME/(LOSS)	\$ (19,612)		\$ 36,168		\$ 12,704
WASTEWATER RATE BASE	\$ 113,156		\$ 130,294		\$ 130,294
RATE OF RETURN	<u>-17.33%</u>		<u>27.76%</u>		<u>9.75%</u>

**NORTH PENINSULA UTILITIES CORPORATION
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 3A
DOCKET NO. 960984-SU**

A. OPERATING REVENUES		WASTEWATER
1. To remove non-utility interest income.		\$ <u>(122)</u>
B. OPERATION AND MAINTENANCE EXPENSES		
1. (711) Sludge Removal Expense		
a. To reclassify sludge removal cost from acct # 730.		\$ <u>5,075</u>
2. (715) Purchased Power		
a. To reclassify utility used water cost to acct # 730.		(2,871)
b. To remove out of period purchased power expense.		(744)
c. To include June 1996 purchased power expense.		869
		\$ <u>(2,746)</u>
3. (718) Chemicals		
a. To reclassify chemical expense from acct # 730.		\$ <u>624</u>
4. (730) Contractual Services		
a. To reclassify utility used water expense from acct # 715.		\$ 2,871
b. To reclassify sludge removal expense to acct # 711.		(5,075)
c. To reclassify chemical expense to acct # 718.		(624)
d. To reclassify fence repair from acct # 775.		385
e. To amortize \$19,890 of legal expenses over 4 years.		(14,918)
		\$ <u>(17,361)</u>
5. (750) Transportation Expenses		
a. To reclassify transportation expense from acct. No. 775.		\$ 934
b. To remove non-utility portion of transportation expenses.		(2,394)
		\$ <u>(1,460)</u>
6. (775) Miscellaneous Expenses		
a. To reclassify interest expense to acct # 427.		\$ (33,892)
b. To reclassify transportation expense to acct. No. 750.		(934)
c. To disallow \$150 charitable contribution.		(150)
d. To disallow non-verifiable entertainment expense.		(4,637)
e. To reclassify fence repair cost to acct # 730.		(385)
f. To include permit fee amortized over 5 year life.		712
g. To remove non-utility portion of telephone expense.		(2,150)
		\$ <u>(41,436)</u>
	O & M TOTAL	\$ <u>(57,304)</u>
C. DEPRECIATION NET OF CIAC		
1. To reflect test year U & U test year depreciation net of CIAC U & U test year amortization.		\$ 3,427
2. To include 1 year of depreciation expense on pro forma plant.		420
		\$ <u>3,847</u>
D. TAXES OTHER THAN INCOME		
1. To reflect used and useful % on property taxes.		\$ <u>(2,445)</u>
E. OPERATING REVENUES		
1. To reflect staff's recommended revenue increase		\$ <u>(24,570)</u>
F. TAXES OTHER THAN INCOME		
1. To reflect the additional regulatory assessment fee associated with staff's recommended revenue requirement		\$ <u>(1,106)</u>

**NORTH PENINSULA UTILITIES CORPORATION
ANALYSIS OF WASTEWATER OPERATION AND
MAINTENANCE EXPENSE
TEST YEAR ENDING JUNE 30, 1996**

**SCHEDULE NO. 3B
DOCKET NO. 960984-SU**

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	5,075 [1]	5,075
(715) PURCHASED POWER	13,257	(2,746)[2]	10,511
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	624 [3]	624
(720) MATERIALS AND SUPPLIES	1,286	0	1,286
(730) CONTRACTUAL SERVICES	72,153	(17,361)[4]	54,792
(740) RENTS	2,504	0	2,504
(750) TRANSPORTATION EXPENSE	4,073	(1,460)[5]	2,613
(755) INSURANCE EXPENSE	1,757	0	1,757
(765) REGULATORY COMMISSION EXPENSE	0	0	0
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	48,288	(41,436)[6]	6,852
	\$ 143,318	\$ (57,304)	\$ 86,014

WASTEWATER TREATMENT PLANTUSED AND USEFUL DATA

- Docket No. 960984-SU Utility North Peninsula Date Nov. 96
- 1) Capacity of Plant 210,000 gallons per day
- 2) Maximum Day Flow 153,000 gallons per day
- 3) Average Daily Flow 128,000 gallons per day
- 4) Fire Flow Requirements NOT APPLICABLE gallons per day
- 5) Margin Reserve 8,817 gallons per day
 *Not to exceed 20% of present customers
- a) Test Year Customers in ERC's - Begin 414 End 430 Av. 422
- b) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 19.4 ERC's
- c) Construction Time for Additional Capacity 1.5 Years
- (b) x (c) x $\left| (a) \frac{3}{1} \right|$ = 8,817 gallons per day
- 6) Excessive Infiltration none found gallons per day
- a) Total Amount _____ gallons per day _____ % of Av. Daily Flow
- b) Reasonable Amount _____ gallons per day _____ % of Av. Daily Flow
- c) Excessive Amount _____ gallons per day _____ % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\frac{|(3) + (5)|}{1} - 6 = \underline{65} \% \text{ Used and Useful}$$

Stanley D. Rieger Engineer

Attachment "B"

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 960984-SU Utility North Peninsula Date Nov. 96

- 1) Capacity 485 ERC's (Number of potential customers without expansion)
- 2) Number of TEST YEAR Connections 422 ERC's
 - a) Begin Test Year 414 ERC's
 - b) End Test Year 430 ERC's
 - c) Average Test Year 422 ERC's
- 3) Margin Reserve (Not to exceed 19.4 ERC's
20% of present customers)
 - a) Customer Growth Using Regression Analysis in ERC's for Most Recent
5 Years Including Test Year 19.4 ERC's
 - c) Construction Time for Additional Capacity 1.0 Years

(a) x (b) = 19.4 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{91} \text{ use } 100 \text{ \% Used and Useful}$$

Stanley D. Rieger Engineer