

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of rates of)
 SUNSHINE UTILITIES, INC., in Marion)
 County for possible overearnings.)
)

DOCKET NO. 881030-WU
 ORDER NO.: 22482
 ISSUED: 1-31-90

Pursuant to Notice, a Prehearing Conference was held on Friday, January 26, 1990, in Tallahassee, before Commissioner Betty Easley, Prehearing Officer.

APPEARANCES: MARTIN S. FRIEDMAN, Esquire, Rose, Sundstrom & Bentley, 2548 Blairstone Pines Drive, Tallahassee, Florida 32301
On behalf of Sunshine Utilities

SUZANNE F. SUMMERLIN, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff

PRENTICE P. PRUITT, Esquire, Florida Public Service Commission, 101 East Gaines Street, Tallahassee, Florida 32399-0850
Counsel to the Commissioners

PREHEARING ORDERBACKGROUND

Sunshine Utilities, a Class B Utility, provides water service to approximately 2000 customers in Marion County. The 1988 Annual Report reflected annual revenues in the amount of \$407,722 and a net operating income of \$60,128. The current rates in effect for the utility were established in its last rate case, Docket No. 810386-WU, culminating in the issuance of Order No. 13014 on February 20, 1984. We approved a 1988 price index for the utility by Order No. 19416, issued June 20, 1988, in Docket No. 880638-WU.

On August 30, 1988, we initiated this investigation of Sunshine Utilities for possible overearnings for the twelve months period ended December 31, 1987. Subsequently, by Order

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No. 20038, issued on September 20, 1988, we required the utility to file a corporate undertaking in the amount of \$27,208 with this Commission to guarantee that funds would be available in the event a refund is required. In addition, we authorized the utility to continue to collect its existing rates. The utility, subsequently, on October 3, 1988, filed a corporate undertaking in the amount of \$30,000 to guarantee the refund liability.

On our own motion, this matter has been set for an administrative hearing at 10:00 AM, Thursday, February 15, 1990, with an evening session at 7:00 PM that same evening. The hearing will be held at the Holiday Inn West, I-75 and State Road 40, Banquet Room, Ocala, Florida (904) 629-0381.

The scope of this proceeding shall be based upon the issues raised by the parties and Commission Staff during the Prehearing Conference, unless modified by the Commission. The hearing will be conducted according to the provisions of Chapter 120, Florida Statutes, and the rules and regulations of this Commission.

PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by the parties has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After opportunity for opposing parties to object and cross-examine, the document may be moved into the record. All other exhibits will be similarly identified and entered at the appropriate time during hearing.

Witnesses are reminded that on cross-examination responses to questions calling for a yes or no answer shall be answered yes or no first, after which the witness may explain the answer.

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ORDER OF WITNESSES

<u>Witness</u>	<u>Appearing For</u>	<u>Issues</u>
Gary P. Miller	Staff	Issue 1
James Hodges	Sunshine	Issues 1,2
Robert C. Nixon, CPA	Sunshine	Issues 2-18
Patricia C. Wood, CPA	Staff	Issues 2-18

Direct and rebuttal testimony will be taken at the same time.

BASIC POSITIONS

SUNSHINE: It is Sunshine Utilities' basic position that its current rates do not result in overearnings.

STAFF: Staff's basic position is that it appears that Sunshine Utilities may be overearning based upon the year ended December 31, 1987, and, therefore, a refund may be appropriate.

ISSUES AND POSITIONS

1. ISSUE: Is the quality of service provided by Sunshine Utilities satisfactory?

POSITIONS

SUNSHINE: Yes.

STAFF: No position at this time, pending customer testimony at the hearing.

2. ISSUE: Should the utility be required to provide documentation that it owns the land where the water treatment facilities are located?

POSITIONS

SUNSHINE: No position at this time.

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STAFF: Yes. The utility has submitted information concerning all of its land except for the following subdivisions:

Eleven Oaks, Oakhurst, Oakhaven, Hilltop At Lake Weir, Sunlight Acres and Suttons.

3. ISSUE: Should CIAC be increased to reflect the incorrect booking of a negative acquisition adjustment?

POSITIONS

SUNSHINE: No.

STAFF: Yes, CIAC should be increased by \$280,753 and accumulated amortization of CIAC should be increased by 35,095. Test year amortization of CIAC should be increased by \$7,019.

4. ISSUE: Should the loss on the Turnberry plant be included in the calculation of the refund, if any?

POSITIONS

SUNSHINE: Yes. It should be amortized over a 7 year period.

STAFF: No. Operation and maintenance expenses should be reduced by \$20,871 to remove the loss from the utility's test year expenses.

5. ISSUE: What is test year rate base?

POSITIONS

SUNSHINE: This is a fall-out number.

STAFF: Test year rate base should be established as \$377,770. (This is a fall-out number.)

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6. ISSUE: What is the test year net operating income?

POSITIONS

SUNSHINE: This is a fall-out number.

STAFF: Test year net operating income is \$58,361. (This is a fall-out number.)

7. ISSUE: What is the revenue requirement necessary to determine the amount of refund required?

POSITIONS

SUNSHINE: This is a fall-out number.

STAFF: The amount of revenues necessary for the utility to earn 15.45% on its investment in rate base is \$319,757. This represents a difference of (\$34,716) or a reduction of 9.79% over the test year.

8. ISSUE: What amount should be refunded to the customers?

POSITIONS

SUNSHINE: Zero.

STAFF: According to Order No. 21958, for service rendered on or after August 30, 1988, through September 18, 1989, the utility should refund 7.68% of its revenues plus interest. For service rendered on or after September 19, 1989, until this proceeding is finalized, the utility should refund 9.79% of its revenues plus interest.

9. ISSUE: Is the utility entitled to rate case expense and, if so, in what amount?

POSITIONS

SUNSHINE: Yes, \$29,185 amortized over 4 years.

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STAFF: Some rate case expense may be appropriate, but Staff has not determined what, if any, rate case expense should be included at this time.

STIPULATIONS

The parties and staff have reached the following proposed stipulations:

1. No adjustment is necessary to reflect the original cost of plant additions booked from 1983 to 1987. Based upon the information submitted by the utility, the amount of plant additions booked during that time appear reasonable.
2. An adjustment should be made to remove amortization of contributed land. Accumulated amortization of CIAC should be reduced by \$4,550 and test year amortization of CIAC should be reduced by \$1,108.
3. An adjustment should be made to working capital to correct the test year balance of accrued taxes. Working capital should be reduced by \$8,626 and taxes other than income should be increased by \$4,022.
4. An adjustment should be made to working capital to properly reflect miscellaneous assets. Working capital should be reduced by \$1,455 and owner's equity should be increased by \$1,455.
5. An adjustment should be made to working capital to include the average deferred balance of amortized expenses related to a territorial dispute. Working capital should be increased by \$9,851. A corresponding adjustment should also be made to remove \$15,759 in test year operation and maintenance expenses to amortize the expenses associated with the territorial dispute over a five year period.

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6. The appropriate return on equity to use for refund purposes is 15.65%. Consistent with the refund provisions as stated in Section 367.082, Florida Statutes, the high-end of the last authorized return on equity should be used.
7. The appropriate overall cost of capital for refund purposes is 15.45%.
8. The utility's regulatory assessment fees should be reduced by \$25 to correctly reflect test year expenses.
9. The utility's rates should not be reduced on a going-forward basis, at this time. Pending receipt of the 1989 Annual Report, staff will review that information and request another audit of the utility's books and records to determine that the utility is in compliance with the Uniform System of Accounts and the Commission's rules and orders. If, based upon that audit, the utility's rates are generating revenues which reflect that the utility is earning above its last authorized rate of return, then rates should be reduced at that time.
10. Two adjustments are necessary to remove from rate base the effect of the unrecovered loss on the Turnberry plant. The 13-month average of plant should be reduced by \$38,859 and the 13-month average of advances for construction should be decreased by \$11,723.

EXHIBITS

<u>Witness</u>	<u>Proffered By</u>	<u>Exhibit No.</u>	<u>Description</u>
James Hodges	Sunshine	JH-1	Customer evaluation forms
James Hodges	Sunshine	JH-2	Late-filed exhibit to respond to customer testimony

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Robert C. Nixon	Sunshine	RCN-1	Summary of construction costs
Robert C. Nixon	Sunshine	RCN-2	Comparison of third party bids
Robert C. Nixon	Sunshine	RCN-3	Comparison of Purchase Price
Robert C. Nixon	Sunshine	RCN-4	Schedule of rate case expense
Robert C. Nixon	Sunshine	RCN-5	Schedule of additional operating expenses
Robert C. Nixon	Sunshine	RCN-6	Schedules of rate base and statements of operation (composite)
Robert C. Nixon	Sunshine	RCN-7	PSC Audit report dated February 11, 1982
Robert C. Nixon	Sunshine	RCN-8	PSC Audit Report as of December 31, 1983
Patricia C. Wood	Staff	PCW-1	Schedules of rate base, capital structure, and net operating income.

All parties and staff reserve the right to introduce exhibits for the purpose of cross-examination, including all exhibits identified and introduced by all other parties.

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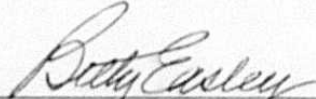
RULINGS

There are no rulings at this time.

Based upon the foregoing, it is

ORDERED by Commissioner Betty Easley, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth below unless modified by the Commission.

By ORDER of Commissioner Betty Easley as Prehearing Officer, this 31st day of JANUARY, 1990.



BETTY EASLEY, Commissioner
and Prehearing Officer

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