

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate increase)	DOCKET NO. 900521-WS
in Lee County by FFEC SIX, INC.)	ORDER NO. 24128
_____)	ISSUED: 2-18-91

The following Commissioners participated in the disposition of this matter:

- THOMAS M. BEARD, CHAIRMAN
- BETTY EASLEY
- FRANK S. MESSERSMITH
- MICHAEL MCK. WILSON

ORDER SUSPENDING PROPOSED
RATE SCHEDULES AND GRANTING
INTERIM RATES, SUBJECT TO REFUND

BY THE COMMISSION:

FFEC Six, Inc. (utility) is a Class B water and wastewater utility, serving approximately 1,297 water customers and 1,258 wastewater customers in Lee County. On December 3, 1990, the utility filed an application for increased water and wastewater rates. The information satisfied the minimum filing requirements (MFRs) and that date was established as the official date of filing. According to the MFRs, the utility's 1989 total gross revenues were \$207,183 for the water system and \$286,673 for the wastewater system.

The test year for final rates is the twelve-month period ended December 31, 1990. The utility has requested final rates designed to generate annual revenues of \$345,568 for the water system and \$413,541 for the wastewater system. These requested revenues exceed the projected test year revenues by \$102,851 (42.4%) for water and \$76,046 (22.5%) for wastewater.

The utility has also requested an interim increase in rates. The test year for interim purposes is the twelve-month period ended December 31, 1989. The requested interim water rates are designed to generate annual revenues of \$296,879 and exceed test year revenues by \$89,696 (43.2%). The requested interim wastewater rates are designed to generate annual revenues of \$359,860, which exceed test year revenues by \$73,187 (25.5%).

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SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within 60 days after filing unless the commission issues an order withholding consent to the operation of the proposed rates requested. Further, Section 367.081(8), Florida Statutes, requires that, in cases where the utility has requested that the case be processed using the proposed agency action (PAA) procedure, the Commission shall vote on the PAA within 5 months of the official date of filing, or the requested rates may be placed into effect.

We have reviewed the filing and found that the utility has made substantial plant additions since rate base was last established. In addition, the utility has proposed several adjustments to the rate base and operating statements. We have considered the proposed rates, the amount of the additional revenues sought thereunder and the supporting data which has been submitted. Upon consideration, we find 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 find it appropriate to suspend the proposed rate schedules.

INTERIM REVENUE INCREASE

As previously stated, the utility requested an interim water revenue increase of \$89,696 (43.3%) and an interim wastewater increase of \$73,187 (25.5%). Schedules Nos. 1-A and 1-B attached to this Order show the calculation of rate base. Schedules Nos. 2-A and 2-B show the capital structure and our adjustments thereto, respectively. Schedules Nos. 3-A and 3-B show the test year net operating statements for water and wastewater, respectively, with adjustments thereto shown on Schedule No. 3-C. Based upon our review of the information filed in the application, we find that it is appropriate, on an interim basis, to increase annual water revenues by \$84,802 and annual wastewater revenues by \$67,626 as discussed below.

Rate Base

The utility submitted an average rate base with a working capital allowance using the formula approach. Section 367.082(5)(b)(1), Florida Statutes, states that "the achieved rate

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of return shall be calculated by applying appropriate adjustments consistent with those which were used in the most recent rate case of the utility . . ." We interpret the statute as requiring the working capital allowance to be calculated using the same regulatory method as used in the prior case. In the prior case, we based the working capital analysis on the balance sheet method. Therefore, we have reviewed the balance sheet included in the MFRs to determine the working capital allowance for the interim test year. We included the cash, accounts receivable-trade, accounts receivable-water/sewer, accounts payable, accrued taxes and miscellaneous current/accrued liabilities. The utility also showed accounts named accounts receivable-associated companies and notes/accounts payable-associated companies. We considered these, but without sufficient information, we could not determine if these were interest-bearing accounts or working capital accounts. Therefore, we have eliminated these accounts from consideration. The accounts we have considered resulted in a working capital allowance of \$146,060. This is considerably higher than the working capital allowance included by the utility. Therefore, we will limit the working capital allowance to the amount requested by the utility derived by using the formula approach.

Based on the foregoing, and review of the data filed, we find that the average rate base filed by the utility is appropriate and is thus approved. This results in appropriate rate bases of \$1,065,852 and \$1,622,923 for the respective water and wastewater systems.

Capital Structure

The utility's rate of return calculation reflects 100% long-term debt at a cost rate of 10.40%. We reviewed the capital structure and found that the capital structure in the prior case included customer deposits and common equity. In addition, each of the utility's tariffs includes a provision for a \$25 customer deposit. The utility stated that the mobile home park is a small closely-held park and there were no problems with delinquent customers. Therefore, in approximately 1985, it refunded all its customer deposits and has not collected any since then.

Our review of the utility's balance sheet in the MFRs indicates a common equity balance for the beginning and end of the interim test year. We believe that the average balance of \$130,307 should be included in the capital structure for setting interim

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rates. The order from the last rate case is Order No. 14141, issued on March 4, 1985. This order set a return on equity of 15.90%, with a range of 14.90% through 16.90%. Section 367.082(5)(b)(3), Florida Statutes, defines the last authorized rate of return on equity as "the minimum of the range of the last authorized rate of return on equity established in the most recent rate case of the utility . . ." Therefore, 14.90%, the minimum of the last authorized range, must be used as the cost rate for the equity.

In addition, the long-term debt balance shown by the utility in its capital structure is the year-end balance for the test year. We will adjust the balance to reflect an average test year balance. This results in a reduction of \$4,667.

Accordingly, these adjustments result in a weighted cost of capital of 10.51%.

Net Operating Income

The utility adjusted the interim test year expenses to reflect the higher 4.5% regulatory assessment fee rate. Section 367.082(5)(a), Florida Statutes, states that in setting interim rates "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 . . ." The statute does not allow for any pro forma adjustments to the interim test period and refers only to the achieved or actual return earned by the utility during the interim test period. Also, since the higher regulatory assessment fee was not in effect during the interim test year, we must adjust the amount of regulatory assessment fee filed to remove the increased amount and reflect the 2.5% rate. This results in a reduction to expenses of \$7,672 for the water system and \$9,535 for the wastewater system. There appears to also be a minor error in the remaining balance of the regulatory assessment fee expense. We will therefore adjust the remaining expense to accurately reflect the regulatory assessment fees at 2.5%. This results in a reclassification of \$508 from water to wastewater expenses.

Upon consideration of the information filed by the applicant, we find it appropriate, on an interim basis, to increase water revenues by \$84,802 (40.9%) and wastewater revenues by \$67,626 (23.6%) on an annual basis.

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Rates

We find the following rates, which are designed to generate the annual revenues discussed above, to be fair, just and reasonable. The utility's present rates, utility proposed interim rates, and Commission approved interim rates are set forth below for comparison.

WATER
RESIDENTIAL AND GENERAL SERVICE
MONTHLY

<u>Meter Size</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Commission Approved Interim Rates</u>
5/8" x 3/4"	\$ 4.24	\$ 6.08	\$ 5.99
1"	10.60	15.19	14.98
1 1/2"	21.18	30.35	29.95
2"	33.89	48.56	47.92
3"	67.79	97.14	95.84
4"	105.92	151.77	149.75
6"	211.84	303.55	299.50
Gallonage Charge (per 1000 gallons)	\$ 2.43	\$ 3.48	\$ 3.42

WASTEWATER

MONTHLY

<u>Residential</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Commission Approved Interim Rates</u>
<u>Meter Size</u>			
<u>All Sizes</u>	\$ 5.46	\$ 6.85	\$ 6.75
Gallonage Charge (per 1000 gallons) (6,000 gal. max.)	\$ 4.66	\$ 5.85	\$ 5.76
Minimum Bill	\$ 5.46	\$ 6.85	\$ 6.75
Maximum Bill	\$ 33.42	\$ 41.95	\$ 41.31

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General Service

<u>Meter Size</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Commission Approved Interim Rates</u>
5/8" x 3/4"	\$ 5.46	\$ 6.85	\$ 6.75
1"	13.66	17.15	16.88
1 1/2"	27.31	34.28	33.76
2"	43.69	54.84	54.00
3"	87.39	109.70	108.01
4"	136.55	171.41	168.78
6"	273.09	342.81	337.54

Gallonge Charge
(per 1000 gallons) \$ 4.66 \$ 5.85 \$ 5.76

The interim rates, will become effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The tariff sheets will be approved, provided the utility has filed a letter of credit as security in the amount of \$84,000 and a proposed customer notice.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the proposed final rate schedules filed by FFEC Six, Inc. are hereby suspended. It is further

ORDERED that the request of FFEC Six, Inc. for an interim increase in water and wastewater rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that the increased water and wastewater rates approved herein are subject to refund with interest pending the outcome of this proceeding. It is further

ORDERED that FFEC Six, Inc. shall submit a letter of credit in the amount of \$84,000 to secure any potential refund. It is further

ORDERED that FFEC Six, Inc. shall submit, pursuant to Rule 25-30.360(6), Florida Administrative Code, a report by the 20th day of each month indicating the monthly and total revenues collected subject to refund. It is further

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ORDERED that FFEC Six, Inc. shall file revised tariff pages in accordance with the provisions of this Order, as well as a proposed notice to customers, detailing the increased water and wastewater rates and the reasons therefore. The notices shall be submitted to the Commission for prior approval. It is further

ORDERED that the interim water and wastewater rates shall be effective for meter readings on or after 30 days from the stamped approval date on the revised tariff sheets. It is further

ORDERED that the revised tariff sheets will be approved upon Commission Staff's verification that the tariff sheets are consistent with the Commission's decision, the appropriate security has been filed to guarantee any potential refund and the proposed customer notices are adequate.

By ORDER of the Florida Public Service Commission, this 18th
day of February, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

NSD

by: Kay Ferguson
Chief, Bureau of Records

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.

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Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or sewer utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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FFEC - SIX, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 1-A
 DOCKET NO. 900521-WS

	(A)	(B)	(C)	(D)	(E)
COMPONENT	AVERAGE TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS TO THE TEST YEAR	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS TO THE TEST YEAR	COMMISSION ADJUSTED TEST YEAR
1					
2					
3 UTILITY PLANT IN SERVICE	\$ 1,663,394	\$ 0	\$ 1,663,394	\$ 0	\$ 1,663,394
4 LAND	1,092	0	1,092	0	1,092
5 C.W.I.P.	0	0	0	0	0
6 NON-USED AND USEFUL COMPONENTS	(8,100)	0	(8,100)	0	(8,100)
7 C.I.A.C.	(346,581)	(72,900)	(419,481)	0	(419,481)
8 ACCUMULATED DEPRECIATION	(232,539)	0	(232,539)	0	(232,539)
9 AMORTIZATION OF C.I.A.C.	44,652	1,903	46,555	0	46,555
10 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	0	14,931	14,931	0	14,931
12					
13 RATE BASE	\$ 1,121,918	\$ (56,066)	\$ 1,065,852	\$ 0	\$ 1,065,852
14					
15					

FFEC - SIX, INC.
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 1-B
 DOCKET NO. 900521-WS

	(A)	(B)	(C)	(D)	(E)
COMPONENT	AVERAGE TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS TO THE TEST YEAR	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS TO THE TEST YEAR	COMMISSION ADJUSTED TEST YEAR
1					
2					
3 UTILITY PLANT IN SERVICE	\$ 2,627,534	\$ 0	\$ 2,627,534	\$ 0	\$ 2,627,534
4 LAND	49,935	0	49,935	0	49,935
5 C.W.I.P.	0	0	0	0	0
6 NON-USED AND USEFUL COMPONENTS	(13,477)	0	(13,477)	0	(13,477)
7 C.I.A.C.	(657,113)	(163,430)	(820,543)	0	(820,543)
8 ACCUMULATED DEPRECIATION	(324,962)	0	(324,962)	0	(324,962)
9 AMORTIZATION OF C.I.A.C.	87,110	5,034	92,144	0	92,144
10 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	0	12,292	12,292	0	12,292
12					
13 RATE BASE	\$ 1,769,027	\$ (146,104)	\$ 1,622,923	\$ 0	\$ 1,622,923
14					

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FFEC - SIX, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 2-A
 DOCKET NO. 900521-WS

COMPONENT	AVERAGE TEST YEAR PER UTILITY	ADJUSTMENTS TO THE TEST YEAR	ADJUSTED TEST YEAR	PRO RATA ADJUSTMENTS	ADJUSTED BALANCE	WEIGHT	COST	WEIGHTED COST
1								
2								
3 LONG-TERM DEBT	\$ 3,381,929	\$ (4,667)	\$ 3,377,262	\$ (788,376)	2,588,886	96.28%	10.34%	9.96%
4 SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	8.00%	0.00%
6 COMMON EQUITY	0	130,307	130,307	(30,418)	99,889	3.72%	14.90%	0.55%
7 ITC'S	0	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0	0.00%	0.00%	0.00%
9 OTHER CAPITAL	0	0	0	0	0	0.00%	8.54%	0.00%
10								
11								
12 TOTAL	\$ 3,381,929	\$ 125,640	\$ 3,507,569	\$ (818,794)	2,688,775	100.00%		10.51%
13	=====	=====	=====	=====	=====	=====		=====
14								
15								
16								
17								
18								
19								
20								

	RANGE OF REASONABLENESS:	HIGH	LOW
	EQUITY	16.90%	14.90%
	OVERALL RATE OF RETURN	10.58%	10.51%

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FFEC - SIX, INC.
 EXPLANATION OF THE ADJUSTMENTS TO
 THE CAPITAL STRUCTURE SCHEDULE 2-A

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 SCHEDULE 2-B

ADJUSTMENT -----	ADJUSTMENT -----
1 LONG-TERM DEBT	
2 -----	
3 1. To adjust the test year balance to an average.	\$ (4,667)
4	-----
5	
6 COMMON EQUITY	
7 -----	
8 1. To include the average test year balance.	\$ 130,307
9	-----
10	
11	
12	
13	
14	

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FFEC - SIX, INC.
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 3-A
 DOCKET NO. 900521-WS

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	UTILITY REQUESTED INCREASE	REQUESTED ANNUAL REVENUES	COMMISSION ADJUSTMENTS TO THE TEST YEAR	COMMISSION ADJUSTED TEST YEAR	CONSTRUCTED ADJUSTMENTS	CONSTRUCTED TEST YEAR
1							
2							
3 OPERATING REVENUES	\$ 207,183	\$ 89,696	\$ 296,879	\$ (89,696)	\$ 207,183	\$ 84,802	\$ 291,985
4 OPERATING EXPENSES:							
5 OPERATION & MAINTENANCE	\$ 119,451	\$	\$ 119,451	\$	\$ 119,451	\$	\$ 119,451
6 DEPRECIATION	46,635		46,635		46,635		46,635
7 AMORTIZATION	0		0		0		0
8 TAXES OTHER THAN INCOME	12,272	7,672	19,944	(8,180)	11,764	2,120	13,884
9 INCOME TAXES	0		0		0	0	0
10							
11 TOTAL OPERATING EXPENSES	\$ 178,358	\$ 7,672	\$ 186,030	\$ (8,180)	\$ 177,850	\$ 2,120	\$ 179,970
12							
13 OPERATING INCOME	\$ 28,825	\$ 82,024	\$ 110,849	\$ (81,516)	\$ 29,333	\$ 82,682	\$ 112,015
14							
15 RATE OF RETURN	2.70%		10.40%		2.75%		10.51%
16							

FFEC - SIX, INC.
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 3-B
 DOCKET NO. 900521-WS

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	UTILITY REQUESTED INCREASE	REQUESTED ANNUAL REVENUES	COMMISSION ADJUSTMENTS TO THE TEST YEAR	COMMISSION ADJUSTED TEST YEAR	CONSTRUCTED ADJUSTMENTS	CONSTRUCTED TEST YEAR
1							
2							
3 OPERATING REVENUES	\$ 286,673	\$ 73,187	\$ 359,860	\$ (73,187)	\$ 286,673	\$ 67,626	\$ 354,299
4 OPERATING EXPENSES:							
5 OPERATION & MAINTENANCE	\$ 98,338	\$	\$ 98,338	\$	\$ 98,338	\$	\$ 98,338
6 DEPRECIATION	68,665		68,665		68,665		68,665
7 AMORTIZATION	0		0		0		0
8 TAXES OTHER THAN INCOME	14,538	9,535	24,073	(9,027)	15,046	1,691	16,737
9 INCOME TAXES	0		0		0	0	0
10							
11 TOTAL OPERATING EXPENSES	\$ 181,541	\$ 9,535	\$ 191,076	\$ (9,027)	\$ 182,049	\$ 1,691	\$ 183,740
12							
13 OPERATING INCOME	\$ 105,132	\$ 63,652	\$ 168,784	\$ (64,160)	\$ 104,624	\$ 65,936	\$ 170,560
14							
15 RATE OF RETURN	6.48%		10.40%		6.45%		10.51%
16							

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FFEC - SIX, INC.
EXPLANATION OF THE ADJUSTMENTS TO
OPERATING STATEMENT NO. 3-A AND 3-B

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SCHEDULE 3-C
PAGE 1 OF 1

ADJUSTMENT -----	WATER -----	WASTEWATER -----
1 OPERATING REVENUES		
2 -----		
3 1. To remove utility's requested increase.	\$ (89,696)	\$ (73,187)
4	-----	-----
5		
6 TAXES OTHER THAN INCOME		
7 -----		
8 1. To remove utility's adjustment for		
9 regulatory assessment fees related to		
10 the requested increase.	(7,672)	(9,535)
11		
12 2. To adjust test year regulatory assessment		
13 fees to 2.5% of test year revenues.	(508)	508
14	-----	-----
15 TOTAL ADJUSTMENT TO TAXES OTHER THAN INCOME	\$ (8,180)	\$ (9,027)
16	-----	-----
17		
18 OPERATING REVENUES		
19 -----		
20 To reflect recommended increase (decrease)		
21 to allow a fair rate of return.	\$ 84,802	\$ 67,626
22	-----	-----
23		
24 TAXES OTHER THAN INCOME		
25 -----		
26 To reflect regulatory assessment		
27 fees on revenue change.	\$ 2,120	\$ 1,691
28	-----	-----
29		
30 INCOME TAXES		
31 -----		
32 To reflect income taxes on revenue		
33 change.	\$ 0	\$ 0
34	-----	-----