

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for a rate increase) DOCKET NO. 900816-WS
in Martin County by SAILFISH POINT) ORDER NO. 24202
UTILITY CORPORATION) ISSUED: 3-5-91
)

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
BETTY EASLEY
GERALD L. GUNTER
J. TERRY DEASON
MICHAEL McK. WILSON

ORDER SUSPENDING PROPOSED RATES AND
GRANTING INTERIM RATES

BY THE COMMISSION:

BACKGROUND

Sailfish Point Utility Corporation, (Sailfish Point or utility) is a Class C utility located in Stuart, Florida. The utility is a wholly-owned subsidiary of Sailfish Point, Inc., which is wholly owned by Mobil Land Development Corporation (Mobil). As of December 31, 1989, the utility had 171 water customers and 157 wastewater customers. Water treatment is provided by reverse osmosis. The water system had actual operating revenues of \$161,581 and a net operating loss of \$91,111 for the twelve months ended June 30, 1990. The wastewater system had actual operating revenues of \$92,996 and a net operating loss of \$73,378 for the same period.

On December 28, 1990, the utility filed its application and Minimum Filing Requirements (MFRs) for a rate increase and that date was established as the official date of filing. The test year for final rate determination is the projected twelve-month period ended June 30, 1992. The interim test period is the twelve months ended June 30, 1990. The utility has requested that this case be scheduled for a formal hearing and not processed pursuant to the proposed agency action process as provided for in Section 367.081(8), Florida Statutes. The case has been set for hearing in Stuart, Florida, on June 26 and 27, 1991.

Sailfish Point has requested interim water rates designed to generate \$258,387 in annual revenues. These revenues exceed test year revenues by \$96,807, for an increase of

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59.91%. The utility has requested interim wastewater revenues designed to generate annual revenues of \$170,674. These requested revenues exceed test year revenues by \$77,678, for an 83.53% increase. The utility states that the increases in water and wastewater revenues would be sufficient only for recovering operating deductions without providing any return on rate base.

Sailfish Point has requested final water rates designed to generate annual revenues of \$572,814, which exceed test year revenues by \$371,755 for a 184.9% increase. The utility has requested final wastewater rates designed to generate annual revenues of \$477,580, which exceed test year revenues by \$361,910 for a 312.88% increase. The utility states that the final rates requested would be sufficient to recover a 9.87% rate of return on rate base.

SUSPENSION

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty (60) days after filing unless the Commission votes to withhold consent to the implementation of the rates requested. Further, the above-referenced statute permits the proposed rates to go into effect, under bond, eight (8) months after filing unless final action has been taken by the Commission.

We have reviewed the filing and found that the utility has made substantial plant additions since receiving its certificate. Further, since the utility has not completed a full rate case, its rate base has not been established by us. In addition, the utility has proposed numerous 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 and we find that it is reasonable and necessary to require further amplification, explanation and cross-examination of 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 utility's proposed rate schedules.

INTERIM RATES

Upon review of the information filed in the application, we find that, pursuant to Section 367.0822, Florida Statutes, it is appropriate, on an interim basis, to increase annual water revenues by \$96,807 and to increase annual wastewater revenues by \$77,678, subject to refund.

RATE BASE: In its application, the utility put debit deferred taxes related to CIAC in its rate base and credit deferred taxes in its capital structure. It is Commission practice to first net the debit and credit deferred tax balances. If a net debit balance results, then that balance should be included in rate base. If a net credit balance results, then the net amount should be reflected in the capital structure at zero cost. Based on the MFR's, the utility has a net credit balance of deferred income taxes. We have, therefore, removed the amounts reflected in rate base and adjusted the average capital structure accordingly. Based on the above, we have determined that the average rate base for the water system is \$1,134,271 and for the wastewater system is \$609,772. The calculation of these figures are shown on Schedules Nos. 1-A and 1-B attached to this Order. The adjustments to these schedules are itemized on Schedule No. 1-C.

CAPITAL STRUCTURE: Sailfish Point used the consolidated capital structure of Mobil, reconciled to the subsidiary capital structure of Sailfish Point, to calculate its overall rate of return. The only adjustment to the capital structure relates to the adjustment discussed above in the rate base section. We find that this capital structure is reasonable to use for interim purposes. Since we have not previously established a return on equity, the utility calculated the cost of equity for interim purposes using the midpoint of the leverage formula. Since the interim statute requires the use of the minimum of the range on equity, we have reduced the return on equity from 12.14% to 11.14%. Based on these adjustments, we find the overall rate of return for interim purposes should be 10.00%.

While the utility states that its fair rate of return should be 9.87%, it has asked only for breakeven rates, or a 0.0% of return, for interim purposes. Where the revenues requested will produce less than a fair rate of return, it is

Commission practice to limit the increase in revenues to the dollar amount requested by the utility, rather than the rate of return requested. The utility used the leverage formula to determine the last authorized rate of return, however it used the midpoint and not the minimum in determining interim rates as previously discussed. We have adjusted rate of return to reflect the minimum. Based on our adjustments, the revenue requested will allow the utility to recover test year operating expenses, with a 0.29% return on rate base for water and a 1.00% return on rate base for wastewater.

Our calculation of capital structure, is shown on Schedules Nos. 2-A and 2-B.

NET OPERATING INCOME: The utility's filing requested recovery of the 4.5% regulatory assessment fee factor which went into effect on July 1, 1990. Since the interim rate determination must, by statute, be made on a historical basis, this known change cannot be allowed. Therefore we have reduced taxes other than income to reflect the 2.5% regulatory assessment fee. The utility also made an additional adjustment to include income tax expense associated with CIAC. As discussed previously, the utility does not pay income tax due to net operating losses. Therefore, we have removed this adjustment.

REVENUE REQUIREMENT: Using the adjustments discussed above, we have calculated the water and wastewater revenue requirements so that the utility recovers test year operating expenses and .29% and 1.00% returns on rate bases, respectively. We further find that it is appropriate on an interim basis to increase water revenues by \$96,807 and wastewater revenues by \$77,678. Schedules showing the calculation of those figures are attached to this order as Schedules Nos. 3-A and 3-B. The adjustments to these schedules are itemized on Schedule No. 3-C.

RATES: The interim wastewater rates are designed to allow the utility the opportunity to generate additional revenues of \$98,807 for the water system and \$77,678 for the wastewater system. This is an increase of 59.91% for water and 23.53% for wastewater over existing rates. We find these rates to be fair, just and reasonable. The existing rates and the approved interim rates are set forth below for comparison.

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Water
Monthly Rates

	<u>Existing</u> <u>Rates</u>	<u>Approved</u> <u>Interim</u> <u>Rates</u>
<u>Residential and</u>		
<u>General Service</u>		
<u>Meter Size</u>		
5/8" x 3/4"	\$ 12.46	\$ 20.37
1"	31.21	51.01
1-1/2"	62.34	101.89
2"	99.75	163.04
3"	199.50	326.07
4"	311.71	509.47
6"	623.43	1,018.96
Gallorage Charge per 1,000 gallons	\$ 2.22	\$ 3.63

Wastewater
Monthly Rates

Residential

All meter sizes	\$ 15.24	\$ 27.97
Gallorage Charge per 1,000 gallons (10,000 gallon max.)	\$ 1.65	\$ 3.03

General Service

<u>Meter Size</u>		
5/8" x 3/4"	\$ 15.24	\$ 27.97
1"	38.10	69.92
1-1/2"	76.21	139.87
2"	121.92	223.76
3"	243.84	447.51
4"	381.03	699.30
6"	762.07	1,398.61
Gallorage Charge per 1,000 gallons	\$ 1.65	\$ 3.03

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The interim rates should be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's vote, the appropriate security has been filed with the Commission and the proposed customer notice is adequate.

SECURITY FOR REFUND: Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. Therefore, we hereby require the utility to provide a corporate undertaking in the amount of \$128,000 as guarantee of any potential refund of water and wastewater revenues collected under interim conditions. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund.

Based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that the proposed final rate schedules filed by Sailfish Point Utility Corporation are hereby suspended. It is further

ORDERED that the request of Sailfish Point Utility Corporation 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 Sailfish Point Utility Corporation 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

ORDERED that Sailfish Point Utility Corporation shall file revised tariff pages in accordance with the provisions of this Order, as well as a proposed notice to customers,

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detailing the increased wastewater rates and the reasons therefor. 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
5th day of March, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

CB

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.

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.

SAILFISH POINT UTILITY CORPORATION
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 1-A
 DOCKET NO. 900816-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 2,159,783	\$ 23,114	\$ 2,182,897	0	\$ 2,182,897
2 LAND	19,500	0	19,500	0	19,500
3 NON-USED & USEFUL COMPONENTS	(166,431)	0	(166,431)	0	(166,431)
4 CONSTRUCTION WORK IN PROGRESS	405,136	(405,136)	0	0	0
4 ACCUMULATED DEPRECIATION	(443,584)	(4,586)	(448,170)	0	(448,170)
5 ACQUISITION ADJUSTMENT -NET	0	0	0	0	0
6 CIAC	(528,493)	(17,093)	(545,586)	0	(545,586)
7 AMORTIZATION OF CIAC	63,850	4,274	68,124	0	68,124
8 CIAC DEFERRED TAX DEBIT	0	106,987	106,987	(106,987)	0
9 WORKING CAPITAL ALLOWANCE	24,736	(799)	23,937	0	23,937
RATE BASE	\$ 1,534,497	\$ (293,239)	\$ 1,241,258	\$ (106,987)	\$ 1,134,271

SAILFISH POINT UTILITY CORPORATION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 1-B
 DOCKET NO. 900816-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,518,886	\$ 8,362	\$ 1,527,248	\$ 0	\$ 1,527,248
2 LAND	19,500	0	19,500	0	19,500
3 NON-USED & USEFUL COMPONENTS	(319,411)	0	(319,411)	0	(319,411)
4 NON-USED & USEFUL COMPONENTS	559,474	(559,474)	0	0	0
5 ACCUMULATED DEPRECIATION	(282,301)	(473)	(282,774)	0	(282,774)
6 ACQUISITION ADJUSTMENT -NET	0	0	0	0	0
7 CIAC	(399,250)	0	(399,250)	0	(399,250)
8 AMORTIZATION OF CIAC	48,228	0	48,228	0	48,228
9 CIAC DEFERRED TAX DEBIT	0	64,333	64,333	(64,333)	0
10 WORKING CAPITAL ALLOWANCE	19,266	(3,035)	16,231	0	16,231
RATE BASE	\$ 1,164,392	\$ (490,287)	\$ 674,105	\$ (64,333)	\$ 609,772

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SAILFISH POINT UTILITY CORPORATION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 1-C
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EXPLANATION	WATER	WASTEWATER
(1) CIAC DEFERRED TAX DEBIT		
----- To remove the utility's adjustment	(106,987)	(64,333)
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SAILFISH POINT UTILITY CORPORATION
 CAPITAL STRUCTURE
 TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 2-A
 DOCKET NO. 900816-WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION
1 LONG TERM DEBT	\$ 465,564	24.31%	11.07%	2.69%	\$ (6,805)	\$ 458,759	26.30%	11.07%	2.91%
2 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	53,498	2.79%	7.72%	0.22%	(905)	52,593	3.02%	7.72%	0.23%
4 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
5 COMMON EQUITY	1,088,276	56.82%	12.14%	6.90%	(15,514)	1,072,762	61.51%	11.14%	6.85%
6 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
7 DEFERRED TAXES	308,026	16.08%	0.00%	0.00%	(148,097)	159,929	9.17%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 1,915,364	100.00%		9.80%	\$ (171,321)	\$ 1,744,043	100.00%		10.00%

RANGE OF REASONABLENESS

LOW HIGH

RETURN ON EQUITY

11.14% 13.14%

OVERALL RATE OF RETURN

10.00% 11.23%

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SAILFISH POINT UTILITY CORPORATION
ADJUSTMENTS TO CAPITAL STRUCTURE
TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 2-B
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EXPLANATION

(1) LONG TERM DEBT

To reconcile capital structure based on
adjustment to rate base (6,805)

(2) PREFERRED STOCK

To reconcile capital structure based on
adjustment to rate base (905)

(3) COMMON EQUITY

To reconcile capital structure based on
adjustment to rate base (15,514)

(4) DEFERRED TAXES

To reflect average net credit balance (148,097)

SAILFISH POINT UTILITY CORPORATION
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 3-A
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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 139,201	\$ 119,186	\$ 258,387	\$ (96,807)	\$ 161,580	\$ 96,807	\$ 258,387
OPERATING EXPENSES						59.91%	
2 OPERATION AND MAINTENANCE	197,888	(6,390)	191,498	0	191,498		191,498
3 DEPRECIATION	24,548	2,128	26,676	0	26,676		26,676
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	34,352	4,521	38,873	(4,356)	34,517	2,420	36,937
INCOME TAXES	(67,500)	68,841	1,341	(1,341)	0	0	0
6							
7 TOTAL OPERATING EXPENSES	\$ 189,288	\$ 69,100	\$ 258,388	\$ (5,697)	\$ 252,691	\$ 2,420	\$ 255,111
8 OPERATING INCOME	\$ (50,087)	\$ 50,086	(1)	\$ (91,110)	\$ (91,111)	\$ 94,387	\$ 3,276
9 RATE BASE	\$ 1,534,497		\$ 1,241,258		\$ 1,134,271		\$ 1,134,271
RATE OF RETURN	-3.26%		0.00%		-8.03%		0.29%

SAILFISH POINT UTILITY CORPORATION
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 3-B
 DOCKET NO. 900816-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 84,175	\$ 86,499	\$ 170,674	\$ (77,678)	\$ 92,996	\$ 77,678	\$ 170,674
OPERATING EXPENSES	83.53%						
2 OPERATION AND MAINTENANCE	\$ 154,130	\$(24,278)	\$ 129,852	\$ 0	\$ 129,852	\$	\$ 129,852
3 DEPRECIATION	13,695	864	14,559	0	14,559		14,559
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	34,352	(12,610)	21,742	(3,696)	18,246	1,942	20,188
INCOME TAXES	(67,500)	68,304	804	(804)	0	0	0
6	-----						
7 TOTAL OPERATING EXPENSES	\$ 134,677	\$ 32,280	\$ 166,957	\$(4,300)	\$ 162,657	\$ 1,942	\$ 164,599
8	-----						
OPERATING INCOME	\$ (50,502)	\$ 54,219	\$ 3,717	\$(73,378)	\$(69,661)	\$ 75,736	\$ 6,075
9	-----						
RATE BASE	\$ 1,164,392		\$ 674,105		\$ 609,772		\$ 609,772

RATE OF RETURN	-4.34%		0.55%		-11.42%		1.00%

SAILFISH POINT UTILITY CORPORATION
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 3-C
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EXPLANATION	WATER	WASTEWATER
<hr/>		
(1) OPERATING REVENUES		
<hr/>		
To remove the utility's test year revenue request.	\$ (96,807)	\$ (77,678)
	*****	*****
(2) TAXES OTHER THAN INCOME		
<hr/>		
To remove the 4.5% RAF related to the increase in revenues.	\$ (4,356)	\$ (3,496)
	*****	*****
(3) PROVISION FOR INCOME TAXES		
<hr/>		
To remove income tax expense.	\$ (1,341)	\$ (804)
	*****	*****
(4) OPERATING REVENUES		
<hr/>		
To reflect recommended increase in revenues	\$ 96,807	\$ 77,678
	*****	*****
(5) TAXES OTHER THAN INCOME		
<hr/>		
To reflect regulatory assessment fees related to adjustment to revenues.	\$ 2,420	\$ 1,942
	*****	*****

MEMORANDUM

March 4, 1991

TO : DIVISION OF RECORDS AND REPORTING
FROM : DIVISION OF LEGAL SERVICES (BEDELL) *CB*
RE : DOCKET NO. 900816-WS - PETITION FOR A RATE INCREASE
IN MARTIN COUNTY BY SAILFISH POINT UTILITY
CORPORATION.

24202

Attached is an Order Suspending Proposed Rates and Granting Interim Rates in the above-referenced docket, consisting of -16- pages, which is ready to be issued.

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CB/lp
cc: Division of Water and Sewer

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