

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for an)	DOCKET NO. 910477-SU
increase in wastewater rates)	
for South Ft. Myers system in)	ORDER NO. 25182
Lee County by FLORIDA CITIES)	
WATER COMPANY)	ISSUED: 10/09/91
_____)	

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 SUSAN F. CLARK
 J. TERRY DEASON
 MICHAEL McK. WILSON

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

BY THE COMMISSION:

Florida Cities Water Company (utility) is a Class A utility providing wastewater services to two distinct service areas in Ft. Myers, Florida. The South Ft. Myers wastewater system, is the subject of this rate application. On August 14, 1991, the utility filed its application for interim and final rate increases pursuant to Sections 367.081 and .082, Florida Statutes. The utility's last rate case was in Docket No. 840419-SU.

The utility's application for increased final rates is based on the projected twelve-month test year ending December 31, 1991. According to the utility, the primary reasons for requesting increased rates are: an increased used and useful status for its treatment plant facilities; a \$1.4 million net addition to utility plant in 1991; and increased expenses due to projected customer growth of 4.16 percent.

The utility's requested interim revenue requirement is \$2,749,870, on an annual basis, and is based on the historical test year ended December 31, 1990. This amount exceeds annualized test year revenues by \$536,003 (24.2 percent). The final annual revenue requirement sought by the utility is \$2,895,803, or an increase of \$759,644 (25.72 percent).

DOCUMENT NUMBER-DATE
 10002 OCT -9 1991
 FPSC-RECORDS/REPORTING

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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 sixty days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, the above-referenced statute permits the proposed rates to go into effect, under bond, eight months after filing unless final action has been taken by the Commission.

We have reviewed the filing and find that it is reasonable and necessary to require further amplification and explanation of the data filed, as well as to gather additional data. In consideration of the above, we find it appropriate to suspend the proposed rate schedules.

INTERIM WASTEWATER REVENUE INCREASE

The utility filed rate base, cost of capital, and operating statements to support its requested interim rate increase. As previously stated, the utility requested an interim increase of \$536,003 (24.2 percent). Schedule No. 1-A, attached to this Order, shows the calculation of rate base. Schedules Nos. 2-A and 2-B reflect the capital structure and our adjustments thereto, respectively. Schedules Nos. 3-A and 3-B reflect the operating statement and our adjustments thereto, respectively. Based upon our review of the information filed, we find it appropriate, on an interim basis, to increase annual wastewater revenues by \$412,165, or 18.4 percent.

Rate Base

In the utility's last rate case, the working capital allowance was established using the balance sheet approach. The utility's requested working capital for interim purposes is based on the formula approach, or one-eighth of test year operating and maintenance expenses.

In accordance with Section 367.082, Florida Statutes, the balance sheet approach should be used to compute the working capital provision for interim rate setting purposes. Our review of the application reveals that the information necessary to make a precise calculation for the South Ft. Myers wastewater system is not readily available for interim purposes.

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First, the utility's balance sheet, which does disclose a substantial positive working capital position, is for the entire Florida Cities Water Company and not for the single system in this docket. Second, a reasonable basis for allocation of the balance sheet provision is not apparent based on the information included in the minimum filing requirements (MFRs). Next, the balance sheet does not reveal which accounts are interest bearing or those that may be inappropriate for other reasons.

Since the balance sheet approach indicates on a prima facie basis that a working capital provision would be allowed on a total company basis, we believe it is reasonable to utilize the formula approach to reasonably approximate the utility's working capital investment in the South Ft. Myers system. Accordingly, we find that the utility's requested working capital allowance is reasonable for interim purposes.

Based on our review, we find that the appropriate rate base for interim purposes is \$7,354,364.

Cost of Capital

We will make two adjustments to the utility's cost of capital calculation. The first adjustment concerns restoring the utility's proposed reduction to deferred income taxes pending further review of this measure. The second adjustment relates to the utility's use of the leverage formula to establish the interim return on equity and, consequently, its proposed 10.65 percent overall cost of capital.

The utility's calculation of its cost of capital includes an adjustment to remove deferred income taxes relating to some unspecified carrying charges. We believe this adjustment requires further review and, therefore, will restore this account to the actual balance recorded. This results in an increase of \$4,428,885 to the deferred income tax balance as reported in the MFRs.

The utility's proposed 12.47 percent interim return on equity is based on the current leverage formula, which is not consistent with Section 367.082(5)(b)3., Florida Statutes. This subsection requires the use of the bottom of the range of the last authorized return on equity to establish an interim rate increase. Commission Order No. 16818, issued in Docket No. 840419-SU, established a return on equity of 14.19 percent for the South Ft. Myers system.

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Accordingly, an equity return of 13.19 percent should be utilized for interim purposes.

Based on the above adjustments, we find the overall cost of capital to be 10.20 percent.

Net Operating Income

We have made several adjustments to the utility's operating income for interim purposes. The first adjustment is to adjust the test year level of revenues to that amount reflected on the billing analysis. This results in an increase of \$26,683 to test year wastewater revenues.

The utility's proposed operating statement includes a pro forma adjustment to reflect a greater expense due to payment of the current 4.5 percent rate for regulatory assessment fees, which became effective July 1, 1990. Since the interim rate determination must, by statute, be made upon a historical basis, this known change cannot be allowed in this interim proceeding. The interim test year is the twelve-month period ended December 31, 1990. Thus, the increased regulatory assessment fee was in effect for one-half of the year. Accordingly, the interim revenue requirement should include a blended 3.5 percent provision for the regulatory assessment fee. This results in a decrease of \$22,405 to test year taxes other than income.

Our other adjustments relate specifically to previously discussed items and are essentially fall-out adjustments.

Revenue Requirement

Based upon recovery of actual operating expenses for the year ended December 31, 1990, and the allowance of a 10.20 percent return on rate base, we find it appropriate to approve an interim revenue increase of \$412,165 (18.4 percent) for the South Ft. Myers wastewater system. The resulting annual revenue requirement is \$2,652,715.

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, proposed interim rates,

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and the Commission-approved interim rates are set forth below for comparison.

WASTEWATER

RESIDENTIAL

	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Commission Approved Interim Rates</u>
<u>Meter Size:</u>			
All Sizes	\$ 12.61	\$ 15.56	\$ 15.00
Gallonge Charge	\$ 2.12	\$ 2.62	\$ 2.52
Maximum Gallons	6,000	6,000	6,000

GENERAL SERVICE

(Includes Commercial, Multi-family and Public Authority)

	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Commission Approved Interim Rates</u>
<u>Meter Size:</u>			
5/8" x 3/4"	\$ 12.61	\$ 15.56	\$ 15.00
1"	30.60	37.76	36.40
1 1/2"	60.59	74.76	72.07
2"	96.57	119.16	114.86
3"	192.54	237.58	229.01
4"	300.49	370.77	357.40
6"	600.37	740.80	714.08
Gallonge Charge (No Maximum)	\$ 2.55	\$ 3.15	\$ 3.03

The interim rates will 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 they are consistent with the Commission's decision, that the appropriate security has been filed to secure a possible refund, and that the proposed customer notice is adequate.

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The security which we find appropriate is a corporate undertaking from the utility in the amount of \$350,000. This amount will serve to guarantee any potential refund of interim wastewater revenues should the final rates be determined to be lower than the interim rates at the conclusion of this proceeding. Pursuant to Rule 25-30.360(5), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenues collected subject to refund.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the proposed final rate schedules filed by Florida Cities Water Company for its South Ft. Myers system are hereby suspended. It is further

ORDERED that the request of Florida Cities Water Company for an interim increase in wastewater rates is hereby approved to the extent set forth in the body of this Order. It is further

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

ORDERED that Florida Cities Water Company shall submit a corporate undertaking in the amount of \$350,000 to secure any potential refund. It is further

ORDERED that Florida Cities Water Company 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 Florida Cities Water Company shall file revised tariff sheets in accordance with the provisions of this Order, as well as a proposed notice to customers, detailing the increased wastewater rates and the reasons therefore. The notice shall be submitted to the Commission for prior approval. It is further

ORDERED that the interim 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

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consistent with the Commission's decision, the appropriate security has been filed to guarantee any potential refund and the proposed customer notice is adequate.

By ORDER of the Florida Public Service Commission, this 9th day of OCTOBER, 1991.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

NSD

Commissioner Deason dissents as follows:

I dissent only from that portion of the Commission's decision granting a working capital allowance based on a method not used in the last rate case. The company's request for working capital allowance was based on a one-eighth of operation and maintenance expense method. In the utility's last case a balance sheet method was utilized. Section 367.082(5)(b)1., Florida Statutes, limits the Commission to "adjustments consistent with those which were used in the most recent rate case..." We have always interpreted this to require use of the same methodology in calculating working capital. Because I believe that the utility has the burden of justifying its working capital allowance under the strict statutory guidelines of the interim statute (and failed to do so), I would not grant a working capital allowance for interim purposes only. [I note that the balance sheet information provided by the utility was total utility and not useful to the staff in developing a meaningful working capital allowance for this utility division.]

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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.

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FCWC-SOUTH FT. MYERS DIVISION(W5076)
SCHEDULE OF WASTEWATER RATE BASE
HISTORICAL TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 1-A
DOCKET NO. 910477-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 22,985,357	\$ 208,107	\$ 23,193,464	\$ 0	\$ 23,193,464
2 LAND	6,327	0	6,327	0	6,327
3 CONSTRUCTION WORK IN PROGRESS	317,440	(317,440)	0	0	0
4 NON-USED & USEFUL COMPONENTS	0	(6,266,981)	(6,266,981)	0	(6,266,981)
5 ACCUMULATED DEPRECIATION	(4,556,347)	2,120,691	(2,435,656)	0	(2,435,656)
6 ACQUISITION ADJUSTMENT -NET	2,805	0	2,805	0	2,805
7 CIAC	(9,123,585)	0	(9,123,585)	0	(9,123,585)
8 AMORTIZATION OF CIAC	1,857,197	0	1,857,197	0	1,857,197
9 ADVANCES FOR CONSTRUCTION	(33,984)	0	(33,984)	0	(33,984)
10 DEBIT DEFERRED INCOME TAXES	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	154,777	0	154,777	0	154,777
RATE BASE	\$ 11,609,987	\$ (4,255,623)	\$ 7,354,364	\$ 0	\$ 7,354,364

FCWC-SOUTH FT. MYERS DIVISION(WS076)
 CAPITAL STRUCTURE
 HISTORICAL TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 2-A
 DOCKET NO. 910477-SU

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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	\$ 24,990,875	41.85%	10.51%	4.40%	\$ (22,125,563)	\$ 2,865,312	38.96%	10.51%	4.09%
2 SHORT TERM DEBT	1,600,000	2.68%	10.00%	0.27%	(1,416,553)	183,447	2.49%	10.00%	0.25%
3 ADVANCES FROM PARENT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 CUSTOMER DEPOSITS	0	0.00%	7.27%	0.00%	0	0	0.00%	7.27%	0.00%
5 COMMON EQUITY	26,769,067	44.83%	12.47%	5.59%	(23,699,877)	3,069,190	41.73%	13.19%	5.50%
6 INVESTMENT TAX CREDITS	2,188,181	3.66%	10.65%	0.39%	(1,937,297)	250,884	3.41%	10.20%	0.35%
7 DEFERRED TAXES	4,166,782	6.98%	0.00%	0.00%	(3,181,251)	985,531	13.40%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 59,714,905	100.00%		10.65%	\$ (52,360,541)	\$ 7,354,364	100.00%		10.20%

RANGE OF REASONABLENESS

LOW HIGH

RETURN ON EQUITY

13.19% 15.19%

OVERALL RATE OF RETURN

10.20% 11.03%

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FCWC-SOUTH FT. MYERS DIVISION(WS076)
 ADJUSTMENTS TO CAPITAL STRUCTURE
 HISTORICAL TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 2-B
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DESCRIPTION	SPECIFIC ADJUSTMENT (EXPLAIN)	SPECIFIC ADJUSTMENT (EXPLAIN)	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	\$ (22,125,563)	\$ (22,125,563)
2 SHORT TERM DEBT	0	0	(1,416,553)	(1,416,553)
3 PREFERRED STOCK	0	0	0	0
4 CUSTOMER DEPOSITS	0	0	0	0
5 COMMON EQUITY	0	0	(23,699,877)	(23,699,877)
6 INVESTMENT TAX CREDITS	0	0	(1,937,297)	(1,937,297)
7 DEFERRED INCOME TAXES	4,428,885	0	(7,610,136)	(3,181,251)
8 TOTAL CAPITAL	\$ 4,428,885	\$ 0	\$ (56,789,426)	\$ (52,360,541)

FCWC-SOUTH FT. MYERS DIVISION(W5076)
 STATEMENT OF WASTEWATER OPERATIONS
 HISTORICAL TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-A
 DOCKET NO. 910477-SU

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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	\$ 2,136,159	\$ 613,711	2,749,870	\$ (509,320)	\$ 2,240,550	\$ 412,165	\$ 2,652,715
						18.40%	
2 OPERATING EXPENSES							
3 OPERATION AND MAINTENANCE	\$ 1,238,216	\$ 0	\$ 1,238,216	\$ 0	\$ 1,238,216	\$ 0	\$ 1,238,216
4 DEPRECIATION	621,341	(371,307)	250,034	0	250,034	0	250,034
5 AMORTIZATION	1,167	0	1,167	0	1,167	0	1,167
6 TAXES OTHER THAN INCOME	239,672	46,920	286,592	(45,325)	241,267	14,426	255,693
7 INCOME TAXES	327,110	(136,488)	190,622	(182,581)	8,041	149,669	157,710
8 TOTAL OPERATING EXPENSES	\$ 2,427,506	\$ (460,875)	\$ 1,966,631	\$ (227,906)	\$ 1,738,725	\$ 164,095	\$ 1,902,820
9 OPERATING INCOME	\$ (291,347)	\$ 1,074,586	\$ 783,239	\$ (281,414)	\$ 501,825	\$ 248,070	\$ 749,895
9 RATE BASE	\$ 13,397,987		\$ 7,354,364		\$ 7,354,364		\$ 7,354,364
RATE OF RETURN	-2.17%		10.65%		6.82%		10.20%

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FCVC-SOUTH FT. MYERS DIVISION(W5076)
ADJUSTMENTS TO OPERATING STATEMENTS
HISTORICAL TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-B
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EXPLANATION	SEWER
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OPERATING REVENUES	

1. Adjustment to remove utility's requested interim increase	(536,003)
2. Adjustment to reflect annualized revenues.	26,683

	\$ (509,320)
	=====
TAXES OTHER THAN INCOME TAXES	

1. Adjustment to RAF for #1 above @ 4.5%	(24,120)
2. Adjustment to RAF for #2 above @ 4.5%	1,200
3. Adjustment to reflect application of blended rate of 3.5% RAF to actual revenues	(22,405)

	\$ (45,325)
	=====
 INCOME TAXES	

Adjustment income to taxes	\$ (182,581)
	=====
 OPERATING REVENUES	

Additional revenues to achieve revenue requirement	\$ 412,165
	=====
TAXES OTHER THAN INCOME TAXES	

Adjustment to reflect application of blended rate of 3.5% RAF to increased revenues	\$ 14,426
	=====
 INCOME TAXES	

Adjustment income to taxes	\$ 149,669
	=====