

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase)
in Pasco County by UTILITIES, INC.)
OF FLORIDA)

DOCKET NO. 910020-WS
ORDER NO. 25821
ISSUED: 02/27/92

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON
BETTY EASLEY

APPEARANCES:

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On behalf of Utilities, Inc. of Florida

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FINAL ORDER SETTING RATES AND CHARGES AND
REQUIRING REFUND

BY THE COMMISSION:

BACKGROUND

Utilities, Inc. of Florida (UIF or utility) is a Class B utility providing water and wastewater service for 27 systems in 6 counties in Central Florida. UIF is a wholly owned subsidiary of Utilities, Inc. The Paradise Point West (PPW) water and wastewater system in Pasco County is located in a predominantly residential area serving 715 residential customers. The minimum filing

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requirements (MFRs) indicate that in 1990, revenues of \$64,311 and \$54,996 were recorded for the respective water and wastewater systems. The corresponding net income amounts were (\$32,649) and (\$5,935).

On April 19, 1991, UIF filed an application for increased water and wastewater rates for the PPW systems. The application was rejected because the MFRs were deficient. UIF submitted a new application on June 6, 1991. The information in this application satisfied the MFRs and the official filing date was established as June 6, 1991. The application for increased rates is based on the projected twelve month test year ended April 30, 1991.

By Order No. 24259, issued March 20, 1991, the Florida Public Service Commission (PSC or Commission) approved the transfer of the PPW water and wastewater systems from PPW Water and Sewer, Inc., to UIF. UIF has operated the PPW water and wastewater systems since October, 1990. The Commission ordered that rate base and the appropriateness of an acquisition adjustment would be determined in this rate case.

In its application, UIF requested final rates which would generate annual revenues of \$185,258 for water service and \$454,384 for wastewater service. Those requested revenues exceed the test year revenues by \$120,947 (188 percent) and \$399,414 (726 percent) for water and wastewater, respectively. The utility also requested interim rates. By Order No. 24962, issued August 22, 1991, this Commission suspended UIF's proposed rates and granted an 135 percent interim water rate increase, subject to refund. By Order No. 24277, issued March 25, 1991, this Commission granted a 355 percent interim wastewater rate increase, subject to refund.

The Commission acknowledged the intervention of the Office of Public Counsel (OPC) by Order No. 24864, issued July 29, 1991.

On August 26, 1991, UIF filed a Request for Reduction of the Revenue Requirement. OPC filed a Motion to Dismiss the case based on the filing of the request for a reduction in the revenue requirement. The request was subsequently withdrawn. On September 13, 1991, OPC filed a Motion to Dismiss, Taking into Account Utility's Notice of Withdrawal. OPC also requested oral argument on the motions and leave to file a reply to the utility's response to the motion to dismiss. A hearing on OPC's Motion to Dismiss was

held on October 9, 1991, in Tallahassee, Florida. OPC's motion was denied by Order No. 25604, issued January 6, 1992.

A prehearing conference was held on October 16, 1991, in Tallahassee, Florida. A formal hearing was held at the PPW recreation center in New Port Richey, Florida on October 31 and November 1, 1991.

On December 6, 1991, Utilities, Inc. of Florida (utility) filed its Emergency Motion To Reopen Discovery And Record To Allow For Production Of Testimony And Exhibits Addressing Issues Raised For The First Time At Hearing asserting that at the hearing, two issues were raised for the first time and that these issues should be considered waived, and if not waived the utility should be able to reopen the record to address these issues. One of the new issues raised was the sufficiency of documentation in support of the rate base figures. After hearing on January 13, 1992, the Commission denied the utility's motion.

A motion hearing on the Utility's Emergency Motion to Reopen Discovery and Record was held on January 13, 1992, in Tallahassee, Florida. In a panel decision, the utility's motion was denied.

FINDINGS OF FACT, LAW AND POLICY

Having heard the evidence presented at the formal hearing and having reviewed the recommendation of staff, as well as the briefs of parties, we now enter our findings and conclusions.

STIPULATIONS

Prior to the hearing, the parties and staff agreed upon a number of stipulations. At the hearing, we accepted the following stipulations:

1. The appropriate rate of return on equity should be determined based on the leverage formula that is in effect at the time of the agenda conference.
2. The appropriate equity balance prior to reconciliation to rate base is \$1,184,042.

3. The billing analyses should be adjusted to reflect the actual classes of customers.
4. The utility's proposed miscellaneous service charges should be approved.
5. The approved 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 the tariffs are consistent with the Commission's decision and that the proposed customer notice is adequate.

QUALITY OF SERVICE

Our analysis of the overall quality of service provided by the utility is based upon evidence received regarding the utility's compliance with the rules of the Department of Environmental Regulation (DER) and other regulatory agencies, the quality of the utility's production of water and wastewater, the operational conditions of the utility's plants and customer satisfaction. The customers were given two opportunities to present evidence regarding quality of service and their concerns are addressed below.

The water system has three wells which are presently operational. The water from the three wells is chlorinated and sent to a hydropneumatic tank for temporary storage and pressurization before being released to the distribution system. Pursuant to a DER Consent Order, the wastewater treatment plant was abandoned on April 26, 1991, for the following violations: (1) no valid operating permit; (2) no approved groundwater monitoring plan; (3) no flow meter; (4) inadequate equipment to provide for uninterrupted plant operation; and (5) unauthorized discharge from the percolation ponds. In addition to abandonment, the DER Consent Order required that wastewater be sent to Pasco County for treatment and disposal.

Mr. Gerald Foster, a witness from DER, testified that the drinking water satisfies all state and federal requirements for primary and secondary water quality standards and the utility

maintains the required minimum chlorine residual throughout the distribution system. Mr. Foster further testified that DER issued a warning notice on October 1, 1990, for failure to maintain an adequate chlorine residual, which was withdrawn when DER determined that the utility was providing adequate disinfection of the water. Mr. Foster also testified that the water treatment facilities and distribution system are adequately sized, that the required minimum pressure is maintained, that auxiliary power is provided, that the wells are located a safe distance from pollution sources, that the water plants are adequately staffed with certified operators, and that the water plants are satisfactorily maintained. OPC witness DeMeza also testified that the plants are well maintained and operated. Witness Foster testified that the only reported deficiency in the water system was the failure of the utility to file a cross-connection control program with DER.

Mr. Peter Burghardt, an additional DER witness, testified that the wastewater collection system is adequately sized and that the lift stations satisfy DER requirements for location, reliability, and safety.

According to the utility's records, UIF received 23 service complaints since assuming operation of the system in October, 1990. Of these complaints, twelve concerned smelly and discolored water, three concerned low water pressure, and two concerned a blockage in the wastewater lines. According to their records, the utility promptly responded to each of these complaints.

Of the customers attending the hearing, approximately 35 testified. Three of the customers complained about smelly and discolored water. Six of the customers complained about having to pay for the high level of infiltration in the wastewater collection system. Five of the customers questioned whether the utility is providing adequate fire protection. One of the customers complained about a misread meter.

Mr. Donald Rasmussen, a witness for the utility, testified that the utility has tried to improve the water's smell and appearance by installing new chlorine equipment and regularly flushing the lines. Mr. Rasmussen further testified that the utility was aware of the inadequacy of the system's fire fighting capacity and has taken steps to correct this problem by placing Well No. 17 into service and by planning to have an operational water interconnection with Pasco County. Utility witness Patricia

M. Cuddie testified that the utility has initiated a study to try to reduce the amount of infiltration in the collection system.

Upon consideration of the evidence, we find that the quality of service provided by UIF in treating and distributing water is satisfactory, and that the quality of service provided in operating and maintaining the wastewater collection system is satisfactory. However, we find there are several areas of concern expressed by the customers which UIF should continue to address. These are fire protection, water odor and appearance, and infiltration. UIF should aggressively pursue efforts to reach an agreement with Pasco County to provide water for emergency fire protection. Accordingly, we find it appropriate to require UIF to aggressively pursue reaching an agreement with Pasco County within six months of the date of this Order.

RATE BASE

Our calculation of the appropriate water and wastewater rate bases are attached to this Order as Schedules Nos. 1-A for water and 1-B for wastewater, with our adjustments attached as Schedule No. 1-C. Those adjustments which are self-explanatory or essentially mechanical in nature are set forth on those schedules without any further discussion in the body of this Order. The major adjustments are set forth below.

Rate base for these systems has not been previously established. To establish rate base, we consider the rate base value when the utility assets were acquired by UIF. Utility witness Cuddie testified that the original costs, the transfer balance, shown in the MFRs were based on an audit and an original cost study prepared by the Commission. Those reports are the only supporting documents for the utility's original cost figures. According to Ms. Cuddie's testimony, the utility obtained, but chose not to rely upon, the previous owner's records because the utility believed those records to be unreliable. Utility witness Wenz also testified that the utility does not typically rely on records of acquired companies. He further testified that the utility believed it would be preferable to rely on a Commission Order or Commission generated document for original cost information.

At the hearing, it was determined that there was no supporting or corroborative evidence to support the audit and the cost study.

For that reason, the audit and cost study were ruled inadmissible. Absent this documentation of original costs, we find that the record is inadequate for a determination of original costs at the time of transfer. Accordingly, we find rate base at the time of transfer to be zero. Specifically, we find the value of the following rate base components to be zero: abandoned wastewater treatment plant; Wells Nos. 2, 15, and 17; water plant and water treatment plant; wastewater collection plant; and the connecting water main. Therefore, the rate base set forth below is based on plant investments made by UIF after acquisition of the systems.

Year-end Rate Base

The test year approval letter, dated February 7, 1991, identified the issue of whether year-end or average test year should be utilized in this rate case proceeding. The policy of this Commission in employing an average rate base, rather than a year-end rate base, based in part upon the decision of the Florida Supreme Court in Citizens of Florida v. Hawkins, 356 So.2d 254 (Fla. 1978), as well as several other cases.

The year-end rate base was first utilized by the Commission in Florida in 1953. Re: Florida Power Corp., 99 P.U.R. 129 (1953). In that case the Commission found that:

" . . . where a utility is in the throes of unusual growth and confronted at the same time with constantly increasing investment and operating costs, conventional notions of rate making must be adjusted to the circumstances and this is especially true where net earnings fail to keep pace with heavy additions made and to be made in plant investment." 99 P.U.R. at 134.

Subsequently, the Florida Supreme Court approved the use of year-end rate base in City of Miami v. Florida Public Service Commission, 208 So.2d 249 (Fla. 1968). In that opinion, the Court carefully stressed, however, that the year-end rate base should be regarded as a deviation from the norm, and that its use was proper only when:

"utilities [were] endeavoring to cope with extraordinary needs for their services due to abnormal population and

economic growth conditions within their service areas."
208 So.2d at 258.

The Court further suggested that use of the average test year should not be departed from except in the most unusual and extraordinary situations where not to do so would result in rates so low as to be confiscatory to the utility.

In Citizens, the Court analyzed the respective arguments of the parties:

It is apparent, however, that the average rate base approach can produce a distorted picture of future conditions when the company is experiencing extraordinary growth due to rapidly increasing demands for its services, as in periods of great population influx, or when other factors are forcing investment costs upward without a concomitant increment in revenues. This latter phenomenon, commonly referred to as "attrition," is principally the by-product of inflation....Our review of the record indicates that the Commission's concern for the erosive effect of attrition on the company's ability to earn its fair rate of return is indeed well-founded. We do not, however, conclude from that fact alone, as the Commission did, that a year-end rate base "is the most practical way by which to alleviate the problem." Rather, we hold that a separate attrition allowance is the appropriate tool. For one thing, attrition is more easily quantifiable than growth....[I]n future rate cases, and on remand here, these uncertainties will be eliminated by having the Commission predicate its decision regarding the use of a year-end rate base solely on considerations of extraordinary growth, and by requiring all adjustments for attrition to be encompassed within a separate allowance. Citizens, 356 So.2d at 256, 258.

Subsequent Commission policy has been shaped accordingly. Regarding the utility's request for year-end rate base, utility witness Wenz testified that the utility's most substantial capital investment came on the last day of the test year. He testified that this investment was for the DER mandated wastewater system interconnection. Mr. Wenz also testified that use of an average

test year would allow recognition of only half of the inter-connection cost in rate base, therefore, allowing a return on only half of the utility's investment. Mr. Wenz further testified that if the utility used an average rate base, it would have to immediately file another rate case following this proceeding. In addition, Mr. Wenz opined that year-end rate base was selected because it was the most prudent and efficient option for the utility.

Utility witness Cuddie similarly testified that use of an average rate base in determining rates would not fairly reflect the cost of providing service, nor provide a fair rate of return on actual invested capital, and that it would force the utility to immediately file for another rate increase.

Based on the record before us, we find it necessary to include year-end investments and expenses in order to insure that the rates set in this proceeding will be compensatory. We distinguish the instant rate case from Citizens because the utility's circumstances are not the by-product of inflation, but are the result of the utility's endeavoring to cope with extraordinary needs due to DER requirements which the statute requires us to consider. Accordingly, we approve the utility's request to use year-end rate base.

Plant-in-Service

The utility capitalized expenses totalling \$2,152 for water and \$2,005 for wastewater as organizational costs. These costs were described as purchase costs by utility witness Cuddie. The National Association of Regulatory Utility Commissioners (NARUC) Instruction 16 requires purchase costs of utility systems to be charged as acquisition adjustments, not as organizational costs. Accordingly, we find it appropriate to reduce the organizational cost account, and increase the acquisition adjustment account by the amounts described above. Corresponding adjustments to accumulated depreciation and depreciation expense are also required. Accordingly, accumulated depreciation is reduced by \$46 and \$44 and depreciation expense is hereby reduced by \$80 and \$76 for the respective water and wastewater systems.

Pro Forma Plant

The utility's pro forma adjustments to general plant represent allocations of common plant from an affiliated company, Water Services Corporation. These adjustments are allocated provisions for computer mainframes, vehicles, and other common assets. These facilities serve the utility's customers. Upon consideration, we find that the pro forma adjustments to general plant are reasonable and properly included in rate base.

Excessive Unaccounted-For-Water

Unaccounted-for-water is determined by deducting the amount of water sold to customers and the amount of water lost due to line flushing and line breaks from the amount of metered water leaving the water plant. According to the utility's MFRs, the utility had 26.47 percent unaccounted-for-water during the test year.

Utility witness Seidman testified that 14.98 percent of water pumped is a reasonable amount of unaccounted-for-water since the system has a low average residential consumption. OPC witness DeMeza testified that 10 percent of water sold is an acceptable level of unaccounted-for-water.

The utility has a flushing program but does not keep records of this water use. Therefore, we have not considered flushing in the unaccounted-for-water calculation. In the future, UIF shall keep records of the estimated water used for flushing. These records will allow the water used for flushing to be considered in the unaccounted-for-water calculation.

We agree with witness DeMeza that 10 percent of water pumped is a reasonable level of unaccounted-for-water for this system. Therefore, we find it appropriate that the 16.5 percent of additional expenses resulting from the 26.5 percent unaccounted-for-water be removed. Accordingly, expenses for purchased power and chemicals have been reduced by \$1,489 and \$306, respectively.

Margin Reserve

In its application the utility did not request any margin reserve based on its determination that both the water and wastewater systems were 100 percent used and useful. OPC witness DeMeza testified that no margin reserve should be included since

current customers would have to pay for future expansion of facilities. Both utility witnesses Rasmussen and Cuddie testified that the area served by the utility has not experienced any growth and that UIF has no plans for future development at PPW. Upon consideration, we find it appropriate to make no allowance for margin reserve.

Used and Useful Percentage of Wastewater Interconnection

UIF completed installation of the new master wastewater lift station and interconnected with Pasco County on April 26, 1991. The lift station is a six-foot diameter wet well with two 600 gallons per minute (gpm) pumps that receive and then pump wastewater to Pasco County.

OPC witness DeMeza calculated that the lift station is 37 percent used and useful based on the water plant capacity and the wastewater flows. Utility witness Seidman testified that the used and useful calculation for the lift station should be based on the lift station design parameters and not the water plant capacity. He further testified that the master lift station is sized to maintain the minimum flow velocity for the three miles of force main connecting the lift station with Pasco County's receiving station. Mr. Seidman testified that although the lift station can accommodate future growth which may occur, it cannot be downsized to serve the existing flows without jeopardizing its ability to maintain the required minimum wastewater velocity with the frictional losses which occur in the force main. Witness Seidman also testified that the six-foot wet well is the minimum size which could be constructed even if only existing flows were considered.

We agree with witness Seidman's testimony. Accordingly, we find the lift station to be 100 percent used and useful.

Calculation of Equivalent Residential Connections

In his testimony, OPC witness DeMeza calculated that the water distribution system can serve 5,319 equivalent residential connections (ERCs) by dividing the water plant capacity of 500,000 gallons per day (gpd) by 94 gpd. Mr. DeMeza also testified that the wastewater collection system can serve 1,952 ERCs using the 500,000 gpd water plant capacity.

Utility witness Seidman testified that the water plant capacity has no relationship with the number of ERCs that either the water distribution system or the wastewater collection system can serve. Mr. Seidman testified that the present water distribution system configuration serves 715 residential customers and 30 commercial customers in the Arborwood and PPW subdivisions for a total of 1,585 ERCs. Mr. Seidman testified that the ERC capacity of the wastewater collection lines should be based on the 715 lots which are being served in Arborwood and PPW.

We agree with Mr. Seidman's calculations. Accordingly, we find the appropriate ERC capacity for the Arborwood and PPW areas to be 1,585 for the water distribution system and 715 for the wastewater collection system.

Even though the Horizon Club subdivision has water and wastewater lines, it has no customers and no reliable information is available about how many ERCs Horizon Club can serve. The ERC capacity is usually required to make used and useful adjustments for water mains and wastewater lines. However, as discussed elsewhere in this Order, rate base at the time of transfer is being set at zero. Therefore, since the Horizon Club lines were included in the property transferred to UIF, we find no used and useful adjustment necessary. Accordingly, we make no determination of the ERC capacity for the Horizon Club subdivision.

Excessive Infiltration

Infiltration is calculated by determining the difference between the amount of wastewater returned by the customers to the collection system and the amount of wastewater pumped to Pasco County. Although infiltration exists in all wastewater systems, the utility admits that this system has an infiltration problem which is due, at least in part, to the previous utility owner's failure to properly maintain the system.

Because the abandoned wastewater plant did not have any flow measuring equipment, it was impossible to quantify the amount of infiltration until the new master lift station was finished on April 26, 1991. Since no historical flow information is available, both OPC and UIF estimated the flows by using a percentage of the residential water sales plus an allowance for a reasonable amount of infiltration. The expenses for purchased wastewater treatment and power can be determined from the flow estimates.

OPC witness DeMeza testified that 19,057 gpd of infiltration is reasonable for this system. We agree. Utility witness Seidman and OPC witness DeMeza disagreed on the percentage of water sales returning to the wastewater collection system. Mr. DeMeza opined that 80 percent is returned to the system. Mr. Seidman opined that 96 percent of the water sales would be returned to the collection system since the development has a central irrigation system. We agree with Mr. Seidman's calculation because it takes into consideration the central irrigation system.

Therefore, we find the appropriate percentage of water sales to be used in the calculation of the amount of wastewater returned to the system to be 96 percent. Accordingly, we have reduced purchased wastewater treatment expense by \$140,018 and purchased power by \$5,268 for excessive infiltration.

Acquisition Adjustment

An acquisition adjustment is the difference between the purchase price and the previous owner's original cost amount. Pursuant to Commission policy, rate base inclusion of an acquisition adjustment is allowed only when extraordinary circumstances justify such treatment. In its application, the utility requested rate base inclusion of positive acquisition adjustments of \$52,000 for its water system and \$21,000 for its wastewater system.

Establishing the amount of an acquisition adjustment, requires a determination of the rate base of the acquired company. This value is usually derived from the previous owner's books and records. Absent such information an original cost study may be employed. As discussed in an earlier portion of this Order, we have determined for the purposes of this proceeding that rate base at the time of transfer was zero.

According to testimony by utility witnesses Cuddie and Wenz, the final purchase price for the PPW systems consisted of two parts: an initial purchase amount of \$208,000 for the water system and \$20,000 for the wastewater system, and a final purchase payment amount based on the Commission's determination of rate base in this proceeding. Utility witness Wenz stated that the utility is contractually obligated to pay acquisition adjustment amounts of \$52,000 and \$21,000 for the respective water and wastewater systems, regardless of this Commission's determination of rate

base. Thus, according to Mr. Wenz, if the Commission were to approve a \$208,000 original cost balance for the acquired water system, the purchase price would be \$208,000 plus an additional \$52,000. Similarly, if the Commission approved a zero rate base for the water system, the net purchase price would be \$52,000. Since we have established the amount of rate base at the time of transfer at zero, based on the testimony in this record, the purchase price will be equal to the \$52,000 and \$ 21,000 acquisition adjustments requested by the utility.

OPC's position is that an acquisition adjustment should not be granted because the utility failed to demonstrate that an acquisition adjustment existed, or that extraordinary circumstances exist to justify the inclusion of any additional costs in rate base.

The utility must demonstrate that extraordinary circumstances exist for a positive acquisition adjustment to be included in rate base. Utility witness Wenz stated that the customers would derive the following benefits attributable to the acquisition:

1. Improved quality of service.
2. Efficient installation of DER required improvements.
3. UIF's ability to finance capital projects at a reasonable cost.
4. The county interconnection providing for potential future service to contiguous undeveloped land.
5. UIF's access to a national organization of water and wastewater utility professionals.

Utility witness Wenz further stated that if Pasco County had acquired the systems, the County would have collected a plant impact fee of \$1,579 for wastewater and \$600 for water from every home, or a total assessment of \$1,200,000.

Based on the discussion above and the record in this proceeding, we find that the record does not clearly demonstrate that extraordinary circumstances exist to support a finding that a positive acquisition adjustment should be made. Accordingly, the utility's request for an acquisition adjustment has been excluded from our rate base calculation.

Use of Formula Method for Calculation of Working Capital

In its application, the utility used the formula approach, or one-eighth of operation and maintenance expenses, to calculate working capital. This treatment complies with our Rule 25-30.437, Florida Administrative Code, which prescribes use of Minimum Filing Requirement Form PSC/WAS 17 for Class A and B Utilities. This form instructs the applicant to employ the formula approach. The formula is easy to apply and use of the formula reduces rate case expense. When another method of calculating the working capital is used, associated rate case charges are disallowed.

OPC witness Effron testified that use of the formula method does not recognize the pattern of the utility's revenue receipts and expense disbursement and that in this case, the true working capital could be zero or a negative amount. Both utility witness Wenz and OPC witness Effron testified that, based on UIF's handling of the bills from Pasco County for purchased treatment, some benefits are accruing to UIF's subsidiary, Water Services Corporation (WSC).

If treatment expenses were excluded from the formula method, working capital would be reduced by \$14,686 for the wastewater system. However, we find that it is not appropriate to isolate this one expense item in establishing working capital. As discussed below, we have also determined that separate provisions for other components of working capital will not be considered.

Upon consideration, we find that the record supports using the formula method of calculating working capital over the balance sheet method.

Working Capital

In its calculation of working capital allowance, the utility included a provision for deferred charges of \$25,000 for the water system and \$77,000 for the wastewater system. The deferred charges include unamortized rate case costs, the wastewater infiltration study, and the projected cost for retirement of the wastewater treatment plant. These deferred charges are expenditures that will be amortized over several years. Utility witness Cudde acknowledged that the MFR instructions specify that use of the formula approach to estimate working capital will result in a corresponding exclusion of deferred charges unless they relate to

income taxes on contributions-in-aid-of-construction (CIAC). Commission policy as noted in the MFR instructions does not permit this separate provision. Since the utility chose to use the formula approach to compute working capital, we find that a separate provision for deferred debits is not appropriate. Accordingly, the utility's working capital allowance is reduced by \$25,000 for the water system and \$77,000 for the wastewater system to reflect the removal of the deferred charges.

Based on our decisions and adjustments discussed above, we find the appropriate working capital amounts to be \$11,511 for the water system and \$25,865 for the wastewater system.

Rate Base

Based on our decisions and adjustments discussed above, we find that the appropriate year-end rate base for the water system is \$48,808 and for the wastewater system is \$202,772.

COST OF CAPITAL

Investment Tax Credits

In its MFR filing, UIF made an adjustment to remove all investment tax credits (ITCs) and deferred taxes from the parent capital structure prior to allocating the capital structure down to PPW. UIF stated that the investment tax credits and accumulated deferred income taxes should not be allocated to PPW because it was not acquired before the tax credits and deferred taxes were incurred.

However, at the hearing, utility witness Wenz stated that those ITCs and deferred taxes that can be specifically identified to the system or systems should be included in the capital structure. We agree. Mr. Wenz also testified that no ITCs survived the transfer of PPW assets to UIF and that the deferred taxes created by the partial year ownership of PPW assets by UIF total \$7,576.

Accordingly, we find the appropriate balance of ITCs and deferred taxes to be included in the capital structure is zero and \$7,576, respectively.

Accounts Payable to Associated Company

At the prehearing conference, the parties and Staff stipulated that the accounts payable to associated companies should be included in the capital structure at a cost rate of 9.86 percent. At the conclusion of the hearing, this stipulation was not accepted because of a concern that there are certain savings associated with the delay in payment to Pasco County for wastewater treatment which in essence constituted a cost-free source of funds that needed to be accounted for in the ratemaking process. The parties were directed to address whether this benefit should be used to reduce the cost rate of the intercompany payable or whether it should be included in the working capital calculation.

UIF contends that the intercompany account should be considered equity. Also, it is UIF's position that considering the lag in one payable ignores countervailing intercompany receivables for which comparable or greater lags may exist. OPC argues that the lag should be considered in the working capital calculation.

Regarding the lag in payments to Pasco County, utility witnesses Cuddie and Wenz testified that when the company receives an invoice for the payment to Pasco County for wastewater treatment, it is included on UIF's books as an expense and the intercompany payable is credited, and at the same time, WSC will debit an intercompany receivable and credit a payable to Pasco County. Further, according to their testimony, when the invoice is due, WSC will pay by crediting its cash account and debiting the payable to Pasco County. After the transaction, UIF will still have the intercompany payable recorded and WSC will have the intercompany receivable. Therefore, the amount of the intercompany payable reflected in the capital structure is directly affected by both the receivables and payables.

Although the benefit of the lag in the Pasco County payment may not have been considered, we find the lag could be offset by lags in receivables that are also on WSC's books. Recognition of one transaction without consideration of others would not be a fair practice. In addition, we find there is a need to accurately reflect all costs of service. However, because the cost rate for the accounts payable to associated company is a proxy derived by witness Maurey, an adjustment to the rate will not necessarily make it any more precise. Further, we find that it is not possible to quantify the impact of the lag in payables or receivables from the

record. Therefore, any adjustment to the cost rate would be arbitrary. Accordingly, we find that it is not appropriate to include the benefit from the lag in payment for wastewater treatment services in the accounts payable to associated company.

The accounts payable to associated company is an intercompany account that books transactions from the parent, Utilities, Inc., to the subsidiary, UIF. Commission Staff witness Maurey testified that this account closely resembles a permanent line of credit with UIF drawing down funds as needed and paying back funds as it generates cash. Because of the nature of this account, and because without funding from this account, UIF would have to receive capital from an alternate source, we find it appropriate to include the accounts payable to associated company in the capital structure.

Having determined it appropriate to include the accounts payable to associated company in the capital structure, we must also determine the appropriate cost rate. The rate proposed by Commission Staff witness Maurey, and previously agreed to by the parties, is 9.86 percent. This rate is the cost of debt for the parent company and is used by Utilities, Inc. to determine the amount of interest expense to be paid by each subsidiary to the parent. Although the interest expense is not directly related to the intercompany payable, the 9.86 percent is used as a surrogate for the cost of the intercompany account. We find this rate to be reasonable. Accordingly, we find the appropriate cost rate associated with the payable to be 9.86 percent.

Overall Cost of Capital

Based on the adjustments discussed above and application of Commission policy, we find that the appropriate overall cost of capital is 10.65 percent. The range for cost of capital is 10.21 percent to 11.09 percent. Schedule No. 2-A shows the components, amounts, cost rates, and weighted average cost of capital. The adjustments to the capital structure are shown on Schedule No. 2-B.

NET OPERATING INCOME (NOI)

Our calculations of the appropriate levels of NOI for this proceeding are attached as Schedules Nos. 3-A for water and 3-B for wastewater, with our adjustments on Schedule No. 3-C. Those adjustments which are self-explanatory, or which are essentially

mechanical in nature, are depicted on those schedules without any further discussion in the body of this Order. The remaining adjustments are discussed below.

Escalation Rate

The utility requested a general 7 percent escalation factor for some of its operating expenses. Utility witness Cuddie stated that this factor was employed where a fixed and measurable change could not be calculated. She reported that the escalation factor was designed to account for the total impact of inflation between the test year and February, 1992. She testified that inflation for the year ended February, 1991 was 5.3 percent. She further testified that allowance for this 7 percent escalation factor would obviate the utility's need to seek a price index adjustment in 1992. Utility witness Cuddie also testified that if the 7 percent escalation were allowed, the utility would not file for an Annual Price Index in 1992 and the expense of filing for a price index would be avoided.

OPC witness Effron testified that based on his review of these escalation charges, the charges are "catch-all" allowances which are not known and measurable, which should not be authorized for recovery.

We find that, as an estimate of past and projected inflation, the 7 percent escalation rate is reasonable. Further, we recognize that approval of the 7 percent escalation rate will obviate the need for the utility to seek a 1992 price index adjustment. Accordingly, we also find that the utility will not be allowed to file for a 1992 price index adjustment.

Purchased Water Expense

In its application, the utility requested a \$3,000 purchased water expense based on a \$250 per month Pasco County base facility charge for water. However, utility witness Cuddie testified that there is no water service currently being provided to the utility by Pasco County. The parties agree that this cost should be excluded. Accordingly, we find it appropriate to reduce purchased water expense by \$3,000.

Materials and Supplies

The utility requested a \$2,000 provision for wastewater rodding as a maintenance expense. Utility witness Cuddie testified that she had invoices totalling \$1,250 to support this proposed expense. Accordingly, we find it appropriate to reduce the pro forma adjustment for maintenance by \$750 to reflect the actual level of wastewater roddings.

Rate Case Expense

In its MFRs the utility included total estimated rate case expense of \$91,836. The reported components were \$27,256 for accounting services provided by an affiliated company, \$4,688 for travel expenses, \$55,000 for legal fees, \$2,592 for expected Florida Public Service Commission audit expenses, \$1,800 for filing fees and \$500 for postage. At hearing, the utility introduced an updated rate case expense exhibit indicating total rate case expense of \$155,029.

Accounting Consultant - The utility's final request for accounting charges was \$70,197, an increase of \$42,941 from its original request. These accounting charges are the capitalized time of the utility's witnesses Cuddie and Wenz. Utility witness Cuddie testified that their time is not a part of the operating and maintenance expense. She further testified that their time is a direct charge based on their salary expense and 25 percent of the administrative costs.

In its rate case expense exhibit an unspecified portion of time was allocated to a transfer docket. Utility witness Cuddie was unable to specify the amount of time devoted to the transfer proceeding. Utility witness Wenz estimated that about 50 percent of his time in January and February, and about 25 percent of his time in March, was devoted to the transfer proceeding and the limited proceeding docket.

In its rate case expense exhibit, the utility indicated that Ms. Cuddie spent 2,080 hours on this rate case. Utility witness Cuddie testified that beginning in January of 1991, she spent from 160 to 200 hours per month on this case. Ms. Cuddie testified that this proceeding was her first rate case and that she had no regulatory experience prior to 1990. On cross-examination, Ms. Cuddie admitted that this case was a learning experience.

We find that, based on the number of hours Ms. Cuddie devoted to this case, a substantial amount of Ms. Cuddie's time was for training. Accordingly, we have reduced rate case expense to eliminate the expense associated with errors in the utility's filing. Further, we find that the utility failed to employ prudent measures to avoid rate case expenses. We also find that the utility has failed to demonstrate that the additional \$42,941 over the original request is reasonable or justified. Based on the record, we are unable to quantify the cost related to training, errors in the filing, and time devoted to non-rate case activities. Further, the utility witnesses did not accurately identify such costs. Accordingly, we find that the appropriate amount for accounting services to be \$27,256, the amount originally requested.

Legal Services - In its final request for rate case expense, the utility included an expense of \$62,880 for legal services. We have reviewed the supporting documentation for this expense item and have determined that the utility's documentation was inadequate to support a finding that all of the legal expenses were prudent and necessary. For example, motions to revise revenue requirements and counter-proposals to dismiss the application contributed to the overall legal costs. However, we find the exact hours relating to those measures cannot be readily identified. Also, numerous hours were reportedly devoted to unspecified research projects. Further, the apparent inexperience of utility personnel with rate case filings may have contributed to added legal charges. We also find that legal expenses of \$1,052 were incurred because of deficiencies in the original filing. Based on the foregoing, we find the appropriate amount of legal services expenses to be \$55,000, the amount initially requested.

Engineering - The utility has requested \$6,240 for engineering expenses. Mr. Seidman, the utility's engineering consultant, prepared rebuttal testimony, performed research, and testified during the hearing. Utility witness Cuddie testified that the utility does not have the in-house resources to provide professional engineering services. Based upon our review of the supporting documentation, we find the \$6,240 provision for engineering costs to be reasonable. Accordingly, no adjustment is appropriate.

Audit Expense - The utility's books and records are maintained outside Florida. The utility reported that \$3,306 was incurred to reimburse Commission auditors for the out-of-state audit. Pursuant

to Rule 25-30.110 (1)(b), Florida Administrative Code, unless otherwise authorized by the Commission, the utility is required to maintain its books and records in Florida. On cross-examination, utility witness Wenz acknowledged that he is aware of the Commission practice of excluding the cost of out-of-state audits from rate case expense. He testified that, in his opinion, that practice was unfair. We find it appropriate to require the audit expense to be borne by the utility. Accordingly, rate case expense is reduced by \$3,306 for audit expense.

Miscellaneous - The utility has requested \$12,406 for miscellaneous expenses. We find that \$1,296 of expense for computer programming and temporary employees was unsupported. In addition, we find that \$7,010 of travel expenses was not sufficiently documented to support the full amount requested. Accordingly, we have reduced miscellaneous expenses by \$3,505.

Summary - Based on our findings above, we find the appropriate amount of rate case expense for this proceeding to be \$96,101.

Amortization of Deferred Charges

Wastewater Treatment Plant Abandonment - In its application, the utility requested recovery of \$50,000 for the DER mandated wastewater treatment plant abandonment. The treatment facility abandonment consisted of dismantling and removing the wastewater treatment plant, cleaning the ponds, removing sludge, filling in the ponds, and leveling the berms. On cross-examination, utility witness Cuddie acknowledged that UIF knew the wastewater plant needed to be abandoned when it purchased the system. However, Ms. Cuddie also testified if the cost of abandonment were not recovered, there would be no incentive for utilities to purchase a dilapidated system and bring it into compliance with DER and Commission requirements.

Although we acknowledge that the previous owners were responsible for the plant's dilapidated condition, we find that UIF did incur this cost and that it is reasonable. Accordingly, we find it appropriate to allow recovery of the \$50,000 cost of the wastewater treatment plant abandonment.

Infiltration Study - UIF has also requested recovery for the \$15,000 infiltration study cost. The infiltration study's purpose is to find and repair leaks in the wastewater collection system.

UIF proposes that the infiltration study cost be capitalized and amortized over the life of the collection system. In an earlier portion of this Order, we determine that the utility has excessive infiltration and will not be allowed to recover the cost of treatment for approximately 34,531 gpd of excessive infiltration. Based on the level of infiltration, we find that the infiltration study is necessary. Further, we find that the \$15,000 cost of the study is reasonable. Accordingly, we find it appropriate to allow recovery of the \$15,000 infiltration study cost.

Depreciation Expense

Based on the rate base adjustments discussed in an earlier part of this Order, we find the appropriate amount of test year depreciation expense is \$4,427 for water and \$8,615 for wastewater.

Income Tax Expense

Based on the level of revenues and expenses determined in earlier parts of this Order, we find the appropriate amount of income tax expense is \$1,169 and \$11,689 for the water and wastewater systems, respectively.

Parent Debt Adjustment

Rule 25-14.004, Florida Administrative Code, requires that a parent debt adjustment be made for each parent level above the entity whose capital structure is used in setting rates. In an earlier portion of this Order, we determined that the capital structure of PPW's immediate parent, UIF, is appropriate to use in setting PPW's rates. Therefore, a one-tier parent debt adjustment is required to recognize UIF's parent, Utilities, Inc.

At prehearing, OPC stated that, although a parent debt adjustment is appropriate, the final dollar amount is subject to the resolution of other issues.

At the hearing, utility witness Wenz testified that the parent debt adjustment would represent a "double dip" for the same interest expense. Mr. Wenz's conclusion is based on our including intercompany payables in the capital structure of PPW. However, our findings regarding intercompany payables, discussed in an earlier part of this Order, recognize the true nature of the transactions taking place within the account. Debt of the parent

is not imputed to the utility. As stated by Staff witness Andrew Maurey, the cost rate to be assigned should not be either zero or the parent's cost of debt, it should be the cost PPW actually pays for use of the capital. We previously determined that rate to be 9.86 percent. This rate represents our determination of what PPW pays for use of UIF's capital and is related to the amount of interest expense PPW actually incurs. It is not an attempt to recognize the cost rate of the parent and does not imply that parent debt has been imputed to PPW.

Based on the foregoing, we find that a parent debt adjustment of \$338 is appropriate.

Test Year Operating Income

Based on the utility's finding and our decisions made herein, we find the appropriate test year operating income is negative \$26,148 for the water system and negative \$105,517 for the wastewater system.

REVENUE REQUIREMENT

Based on the utility's application and our adjustments and calculations discussed above, we find the appropriate annual revenue requirement to be \$116,976 for the water system and \$268,612 for the wastewater system. This represents a \$52,663 (81.89 percent) annual increase for the water system and a \$213,369 (386.24 percent) annual increase for the wastewater system, and will give the utility the opportunity to recover its expenses and to earn a 10.65 percent return on its investment.

STATUTORY ADJUSTMENT

Section 367.0815, Florida Statutes, provides in pertinent part:

[I]n the event that a rate increase is granted but in an amount less than requested, the rate case expenses, including costs and attorney's fees shall be apportioned in such a way that the public utility shall pay a proportion of the rate case expenses which is equal to the percentage difference between the rate increase requested and the rate increase approved. However, no such apportionment shall be allowed if it will cause the

utility's return on equity to drop below its authorized range.

Our calculations of this adjustment are depicted on Schedules Nos. 4-A and 4-B, which are attached to this Order. After calculating the total revenue effect of the adjustment, we had to determine whether the reduction in rate case expense would reduce the utility's return on equity below the range of reasonableness. The range of reasonableness for the overall rate of return is 10.21 percent to 11.09 percent. Based on our calculations, if we were to apportion rate case expense pursuant to the statute, this utility's return on equity would fall to 5.74 percent, which is below the range of reasonableness for this utility.

Accordingly, based on our calculations and the discussion above, we find that statutory reduction of rate case expense is not appropriate in this case and no adjustment has been made.

RATES AND RATE STRUCTURE

Base Facility Charge

In its application, the utility requested a modification to its existing rate structure. The proposed water rate structure included a base facility charge based on meter size with no minimum number of gallons, and a gallonage charge for each 1,000 gallons consumed. This structure would apply to residential and general service customers. For residential wastewater, the utility proposed one uniform base facility charge for all meter sizes and a gallonage charge for each 1,000 gallons consumed, capped at 10,000 gallons. For general service wastewater, the utility proposed a base facility charge based on meter size, and a gallonage charge for each 1,000 gallons consumed, with no cap.

This proposed rate structure conforms with current Commission practice on rate design. During the customer testimony, only one customer questioned why the flat monthly charge was billed to customers when they were away from home.

Utility witness Cuddie testified that the rate structure change was designed to promote conservation and to be more equitable for all customers. She further testified that the structure does not discriminate between the high or low end user

because only the actual usage is paid for through the gallonage charge. Witness Cuddie agreed that the base charge provides that each customer pay his pro rata share of the related cost necessary to provide service. She also testified that the plant must still be maintained, regardless of how many residents remain throughout the year.

It is Commission practice to use the base facility charge rate structure for setting rates because of its ability to track costs and to give the customers some control over their water and wastewater bills, thus allowing a more efficient use of water. The structure also requires each customer to pay his pro rata share of the related costs necessary to provide service through the base facility charge. Thus, this charge is required to be paid by customers regardless of whether they actually use any water or not.

We find that the utility's requested modification is reasonable and conforms to Commission practice. Accordingly, we find it appropriate to determine the utility's rates using the base facility charge and gallonage rate structure design.

Gallonage Cap

In its application, the utility requested a 10,000 gallon cap on residential wastewater rates. General Service wastewater customers would have no cap. Utility witness Cuddie testified that the 10,000 gallon level was selected because it was thought to be appropriate and based on Commission policy.

At the hearing, several customers testified that their average monthly usage was substantially below 10,000 gallons a month. The utility's own information also demonstrated this level of usage. Witness Cuddie agreed that the revised billing analysis showed that 96 percent of the customers use 6,000 gallons of water or less, and that it would be more reasonable to use a 6,000 gallon cap.

The Commission's goal in setting a wastewater cap is to recognize the general usage level of a utility's customers in their daily use. Water used beyond that level is water probably used for irrigation, and would not be returned to the wastewater system. Both customer testimony and company data indicate that a 6,000 gallon residential wastewater cap would encompass the average usage of nearly all the utility's customers. In addition, it would have the beneficial effect of lowering the maximum bill, which would be

an advantage for the large number of retired customers. Therefore, we find it appropriate to set the residential wastewater cap at 6,000 gallons.

Billing Cycle

In its application, the utility also requested a change in the existing monthly billing cycle to a bi-monthly cycle. At least seven customers testified as to the hardship a change to bi-monthly billing would create for them. According to some customers, the combination of the substantial proposed rate hike and other bi-monthly bills, such as Blue Cross, was the primary source of their concern. Other customers testified that they could not afford to pay bills on a bi-monthly basis at their current income level.

Utility witness Cuddie testified that, in addition to making the billing cycles uniform throughout the company, changing from monthly to bimonthly billing would generate an approximate annual savings of \$2,817. According to Ms. Cuddie, meter reading expenses would be reduced, as well as the mailing, supplies and personnel expenses. However, as a result of the substantial customer testimony opposing the change, witness Cuddie acknowledged that if the change presented a hardship to these customers, the utility would be willing to continue billing them monthly.

Based on the discussion above and on the strength of customer testimony opposing any change in billing, we find the appropriate billing cycle for this utility to be a monthly billing cycle.

Service Availability Policy and Charges

In its application, UIF requested approval of service availability charges and the application of its existing service availability policy to the PPW systems. Because PPW is in UIF's certificated territory, we find that UIF's service availability policy already applies to PPW.

However, the service availability charges requested for PPW are based on another system, and are not designed specifically for the PPW systems. Rules 25-30.565 and 25-30.580, Florida Administrative Code, provide for the development of service availability charges based on the projected growth in customers, plant, land and other factors for that specific system. Therefore,

charges that are found to be appropriate for one utility system may have little or no applicability to another utility system.

One method used to determine whether connection charges should be established or modified is the calculation of the net CIAC to net plant ratio, as prescribed by Rule 25-30. 580, Florida Administrative Code. The Commission's practice has been to review a utility's standing within the minimum 75 percent range and then carefully evaluate whether any change is appropriate. Utility witness Cuddie agreed that, based on the utility's filing, PPW is within the range for both water and wastewater operations. Also, as discussed previously, utility witnesses Rasmussen and Cuddie testified that PPW is completely built-out, that the systems are 100 percent used and useful and that the area is experiencing no growth.

Based on the foregoing discussion, we deny the utility's request for service availability charges. However, we do find it appropriate to apply the requested service availability policy of UIF to the PPW systems.

Refund Required

By Orders Nos. 24962, issued August 22, 1991, and 24277, issued March 25, 1991, we approved interim water and temporary wastewater rates, subject to refund. Based on the test year ending April 30, 1991, interim water rates will generate \$151,204. The final rates approved herein will generate \$116,976, which results in a difference of 22.6 percent. Accordingly, we find it appropriate to require the utility to refund 22.6 percent of the water revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. We find that no refund is required of temporary wastewater revenues because the final revenue requirement is larger than the temporary wastewater revenues.

Rates

The permanent rates requested by the utility are designed to produce annual revenues of \$185,258 and \$454,380 for water and wastewater, respectively. The requested revenues represent increases of \$120,947 (188.7 percent) for water and \$399,137 (722.5 percent) for wastewater based on the test year ending April 30, 1991.

We have established the appropriate revenue requirements to be \$116, 976 and \$268,612 for water and wastewater, respectively, on an annual basis. The rates, which we find to be fair, just and reasonable, are designed to achieve these revenue requirements, using the base facility charge rate structure, as discussed in an earlier part of this Order.

The approved 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 our staff's verification that the tariffs are consistent with this Commission's decision, and that the proposed customer notice is adequate.

The utility's present rates, interim/temporary rates, requested rates, and our final approved rates are set forth below for comparison.

WATER

Monthly Rates

<u>Meter Size:</u>	<u>Residential and General Service</u>			<u>Commission Approved Final Rates</u>
	<u>Utility Present Rates</u>	<u>Utility Interim Rates</u>	<u>Utility Proposed Final Rates</u>	
5/8"x3/4"	\$ 5.36(A)	\$ 12.60(A)	\$ 8.62	\$ 6.76
3/4"	5.36	12.60	N/A	10.14
1"	5.36	12.60	21.55	16.90
1 1/2"	5.36	12.60	N/A	33.80
2"	5.36	12.60	68.96	54.08
3"	5.36	12.60	N/A	108.16
4"	5.36	12.60	N/A	169.00
6"	5.36	12.60	N/A	338.00
 Gallage Charge	 \$ 0.53(B)	 \$ 1.25(B)	 \$ 1.93	 \$ 0.90

WASTEWATER

Monthly Residential

<u>Meter Size:</u>	<u>Utility Present Rates</u>	<u>Utility Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Commission Approved Final Rates</u>
All Sizes Flat Rate	\$ 6.41	\$ 29.20	\$ 19.54	\$ 9.89
Gallonage Charge (per 1,000 gallons)			\$ 12.79 (Max 10MG)	\$ 8.41 (Max 6MG)
Minimum Bill:	\$ 6.41	\$ 29.20	\$ 19.54	\$ 9.89
Maximum Bill:	6.41	29.20	147.44	60.35

General Service

<u>Meter Size:</u>	<u>Utility Present Rates</u>	<u>Utility Interim Rates</u>		<u>Utility Proposed Final Rates</u>	<u>Commission Approved Final Rates</u>
5/8"x3/4"	N/A	N/A	BFC	\$ 19.54	\$ 9.89
3/4"	N/A	N/A		29.31	14.84
1"	N/A	N/A		48.85	24.73
1 1/2"	N/A	N/A		97.70	49.45
2"	N/A	N/A		156.32	79.12
3"	N/A	N/A		293.10	158.24
4"	N/A	N/A		488.50	247.25
6"	N/A	N/A		977.00	494.50

Gallonage Charge (per 1,000 gallons, No Maximum)	N/A	N/A	\$ 12.79MG	\$ 8.75MG
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Rate Case Expense Apportionment

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously

included in the rates. This statute applies to all rate cases filed on or after October 1, 1989. Accordingly, we find that the water rates should be reduced by \$12,579 and the wastewater rates should be reduced by \$12,578 after four years. The revenue reductions reflect the amortized annual rate case amounts plus the gross-up for regulatory assessment fees.

The utility shall file tariff sheets no later than one month prior to the actual date of the required rate reduction. In addition the utility shall a proposed customer letter setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Allowance for Funds Used During Construction (AFUDC)

In its application, the utility requested an AFUDC rate of 10.62 percent. On cross-examination, utility witness Cuddie acknowledged that Rule 25-30.116, Florida Administrative Code, requires submission of historical information on an average basis to support a proposed AFUDC rate. The utility provided that information in the form of a late-filed exhibit.

Pursuant to Rule 25-30.116(2)(c), Florida Administrative Code, a utility that has not had its equity return set in a rate case shall calculate its equity return by applying the most recent equity leverage formula to calculate the return on common equity. In this proceeding, the utility stipulated that the appropriate return on equity would be determined based on the leverage formula in effect at the time of the agenda conference.

Utilizing the leverage formula in effect at the time of Agenda, set forth in Order No. 24246, we find the appropriate return on common equity is 12.83 percent. Based on this 12.83 percent return on equity, we find the appropriate AFUDC rate to be 10.43 percent and the discounted monthly rate to be .830191 percent.

BOOKS AND RECORDS

Utility witness Wenz testified that the utility is in full conformity with the Uniform System of Accounts, Accounting

Instruction 4, which requires that each utility shall keep its books on a monthly basis.

When utility witness Wenz was asked whether the accounts receivable and accounts payable journals are posted monthly, he testified that the accounts receivable balances are posted monthly. He reported that the accounts payable entries are posted on the books of the WSC, an affiliated service company. Mr. Wenz was asked whether review of the utility's books and records would show monthly expenses including allocations. In response, he testified that allocations are not recorded on a monthly basis because the entries are voluminous and cumbersome.

Based on information in the record, we find that the utility's books and records are in substantial compliance with the Commission's Rules and Regulations.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to determine the water and wastewater rates and charges of Utilities, Inc. of Florida, pursuant to Sections 367.081 and 367.101, Florida Statutes.
2. As the applicant in this case, Utilities, Inc of Florida has the burden of proof that its proposed rates and charges are justified.
3. The rates and charges approved herein are just, reasonable, compensatory, not unfairly discriminatory and in accordance with the requirements of Section 367.081(2), Florida Statutes, and other governing law.
4. Pursuant to Chapter 25-9.001(3), Florida Administrative Code, no rules and regulations, or schedules of rates and charges, or modifications or revisions of the same, shall be effective until filed with and approved by the Commission.

Based on the foregoing, it is,

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ORDERED by the Florida Public Service Commission that the application by Utilities, Inc. of Florida for increased rates and charges for water and wastewater service is hereby approved to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings contained in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained herein, whether in the form of discourse in the body of this Order or schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that Utilities, Inc. of Florida shall aggressively pursue reaching an agreement with Pasco County within six months for the provision of water for emergency fire protection. It is further

ORDERED that the increased rates approved herein shall be effective for meter readings taken 30 days on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that, prior to the implementation of the rates and charges approved herein, Utilities, Inc. of Florida shall submit a proposed customer notice explaining the increased rates and charges and the reasons therefor. It is further

ORDERED that, prior to the implementation of the rates and charges approved herein, Utilities, Inc. of Florida shall submit and have approved revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that they accurately reflect this Commission's decision and upon Staff's approval of the proposed customer notice. It is further

ORDERED that the miscellaneous service charges stipulated by the parties and approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that the refund and refund reports shall be completed in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period. The

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utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDERED that this docket may be closed upon the utility's filing of revised tariff sheets, Staff's approval of them, and Staff's verification of the required refund.

By ORDER of the Florida Public Service Commission, this 27th day of FEBRUARY, 1992.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

CB

by: Kay Flynn
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 the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) 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 wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order,

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pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

UTILITIES, INC. OF FLORIDA (PPW)
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 1-A
DOCKET NO. 910020-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
UTILITY PLANT IN SERVICE	\$ 724,224	\$ 0	\$ 724,224	\$(680,140)	44,084
LAND	5,500	0	5,500	(5,500)	0
NON-USED & USEFUL COMPONENTS	0	0	0	0	0
ACCUMULATED DEPRECIATION	(190,701)	0	(190,701)	183,914	(6,787)
CIAC	(374,778)	0	(374,778)	374,778	0
AMORTIZATION OF CIAC	72,831	0	72,831	(72,831)	0
ACQUISITION ADJUSTMENTS	52,000	0	52,000	(52,000)	0
ACCUM. AMORT. OF ACQ. ADJUST.	0	0	0	0	0
WORKING CAPITAL ALLOWANCE	36,995	0	36,995	(25,484)	11,511
RATE BASE	\$ 326,071	\$ 0	\$ 326,071	\$(277,263)	48,808

UTILITIES, INC. OF FLORIDA (PPW)
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 1-B
 DOCKET NO. 910020-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
UTILITY PLANT IN SERVICE	\$ 655,235	\$ 0	\$ 655,235	\$(469,546)	185,689
LAND	10,097	0	10,097	(10,000)	97
NON-USED & USEFUL COMPONENTS	0	0	0	0	0
ACCUMULATED DEPRECIATION	(164,779)	0	(164,779)	155,900	(8,879)
C.I.A.C.	(355,044)	0	(355,044)	355,044	0
AMORTIZATION OF C.I.A.C.	80,376	0	80,376	(80,376)	0
ACQUISITION ADJUSTMENTS	21,000	0	21,000	(21,000)	0
ACCUM. AMORT. OF ACQ. ADJUST.	0	0	0	0	0
WORKING CAPITAL ALLOWANCE	121,079	0	121,079	(95,214)	25,865
RATE BASE	\$ 367,964	\$ 0	\$ 367,964	\$(165,192)	202,772

UTILITIES, INC. OF FLORIDA (PPW)
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 1-C
 PAGE 1 OF 1
 DOCKET NO. 910020-WS

EXPLANATION	ADJUSTMENT WATER	ADJUSTMENT WASTEWATER
1 PLANT		
A. Remove costs related to purchase of utility	(2,152)	(2,055)
B. Adjustment to remove unsupported beginning balance	(677,988)	(467,491)
	\$ (680,140)	\$ (469,546)
2 LAND		
A. Adjustment to remove unsupported beginning balance	\$ (5,500)	\$ (10,000)
3 ACCUMULATED DEPRECIATION		
A. Adjustment to reclassify organization costs	46	44
B. Adjustment to remove unsupported beginning balance	183,868	155,856
	\$ 183,914	\$ 155,900
4 CIAC		
A. Adjustment to remove unsupported beginning balance	\$ 374,778	\$ 355,044
5 ACCUMULATED AMORTIZATION OF CIAC		
A. Adjustment to remove previous owners balance	\$ (72,831)	\$ (80,376)
6 ACQUISITION ADJUSTMENTS		
A. Adjustment to reflect added acquisition costs	2,152	2,055
B. Remove the premium price paid by the utility	(54,152)	(23,055)
	\$ (52,000)	\$ (21,000)
7 WORKING CAPITAL ALLOWANCE		
A. To remove deferred charges for infiltration study		(12,000)
B. To remove deferred charges for extraordinary prop. loss		(40,000)
C. To remove deferred charges for rate case expense	(25,000)	(25,000)
D. Adjustment due to reduced O&M expenses	(484)	(18,214)
	\$ (25,484)	\$ (95,214)

UTILITIES, INC. OF FLORIDA (PPW)
 COST OF CAPITAL
 TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 2-A
 DOCKET NO. 910020-WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COMMISSION	STAFF RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER STAFF	WEIGHT	COST	WEIGHTED COST
1 LONG TERM DEBT	\$ 373,833	23.01%	6.35%	1.46%	\$(339,023)\$	34,810	13.84%	6.35%	0.88%
2									
3 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4									
5 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
6									
7 COMMON EQUITY	1,251,163	76.99%	11.90%	9.16%	(1,140,910)	110,253	43.82%	12.83%	5.62%
8									
9 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
10									
11 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
12									
13 DEFERRED INCOME TAXES	0	0.00%	0.00%	0.00%	705	705	0.28%	0.00%	0.00%
14									
15 ADVANCES FROM PARENT	0	0.00%	0.00%	0.00%	105,812	105,812	42.06%	9.86%	4.15%
16									
17 TOTAL CAPITAL	\$ 1,624,996	100.00%		10.62%	\$(1,373,416)\$	251,580	100.00%		10.65%
18									

RANGE OF REASONABLENESS

LOW HIGH

EQUITY

11.83% 13.83%

OVERALL RATE OF RETURN

10.21% 11.09%

19
20
21
22
23
24
25

UTILITIES, INC. OF FLORIDA (PPW)
ADJUSTMENTS TO CAPITAL STRUCTURE
TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 2-B
DOCKET NO. 910020-WS

DESCRIPTION	UTILITY ADJUSTED TEST YEAR	SPECIFIC ADJUSTMENTS	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 373,833	\$ 0	\$ (339,023)	\$ (339,023)
2				
3 SHORT TERM DEBT	0		0	0
4				
5 PREFERRED STOCK	0		0	0
6				
7 COMMON EQUITY	1,251,163	(67,121)	(1,073,789)	(1,140,910)
8				
9 CUSTOMER DEPOSITS	0	0	0	0
10				
11 INVESTMENT TAX CREDITS	0	0	0	0
12				
13 DEFERRED INCOME TAXES	0	7,576	(6,871)	705
14				
15 ADVANCES FROM PARENT	0	1,136,348	(1,030,536)	105,812
16				
17 TOTAL CAPITAL	\$ 1,624,996	\$ 1,076,803	\$ (2,450,219)	\$ (1,373,416)
18	*****	*****	*****	*****

UTILITIES, INC. OF FLORIDA (PPW)
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 3-A
 DOCKET NO. 910020-WS

ORDER NO. 25821
 DOCKET NO. 910020-WS
 PAGE 41

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 70,504	\$ 114,754	\$ 185,258	\$ (120,945)	\$ 64,313	\$ 52,663	\$ 116,976
2							
3 OPERATING EXPENSES						81.89%	
4							
5 OPERATION AND MAINTENANCE	\$ 91,897	\$ 4,063	\$ 95,960	\$ (3,873)	\$ 92,087	\$ 0	\$ 92,087
6							
7 DEPRECIATION	16,953	2,155	19,108	(14,681)	4,427	0	4,427
8							
9 AMORTIZATION	0	0	0	0	0	0	0
10							
11 TAXES OTHER THAN INCOME	11,726	5,800	17,526	(5,800)	11,726	2,370	14,096
12							
13 INCOME TAXES	(18,642)	36,867	18,025	(35,804)	(17,779)	18,948	1,169
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 101,734	\$ 48,885	\$ 150,619	\$ (60,158)	\$ 90,461	\$ 21,318	\$ 111,779
17							
18							
19 OPERATING INCOME	\$ (31,230)	\$ 65,869	\$ 34,639	\$ (60,787)	\$ (26,148)	\$ 31,345	\$ 5,197
20							
21							
22 RATE BASE	\$ 326,071	\$	\$ 326,071	\$	\$ 48,808	\$	\$ 48,808
23							
24							
25 RATE OF RETURN	-9.58%		10.62%		-53.57%		10.65%
26							

UTILITIES, INC. OF FLORIDA (PPW)
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 3-B
DOCKET NO. 910020-W5

ORDER NO. 25821
DOCKET NO. 910020-W5
PAGE 42

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 55,243	\$ 399,137	\$ 454,380	\$ (399,137)	\$ 55,243	\$ 213,369	\$ 268,612
2							
3 OPERATING EXPENSES						386.24%	
4							
5 OPERATION AND MAINTENANCE	\$ 58,250	\$ 281,378	\$ 339,628	\$ (145,709)	\$ 193,919	\$ 0	\$ 193,919
6							
7 DEPRECIATION	15,692	(3,003)	12,689	(4,074)	8,615	0	8,615
8							
9 AMORTIZATION	0	13,000	13,000	0	13,000	0	13,000
10							
11 TAXES OTHER THAN INCOME	10,191	19,443	29,634	(19,443)	10,191	9,602	19,793
12							
13 INCOME TAXES	(10,871)	31,211	20,340	(85,305)	(64,965)	76,655	11,689
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 73,262	\$ 342,029	\$ 415,291	\$ (254,531)	\$ 160,760	\$ 86,260	\$ 247,016
17							
18							
19 OPERATING INCOME	\$ (18,019)	\$ 57,108	\$ 39,089	\$ (144,606)	\$ (105,517)	\$ 127,109	\$ 21,596
20							
21							
22 RATE BASE	\$ 367,964		\$ 367,964		\$ 202,772		\$ 202,772
23							
24							
25 RATE OF RETURN	-4.90%		10.62%		-52.04%		10.65%
26							
27							
28							
29							

UTILITIES, INC. OF FLORIDA (PPW)
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDING APRIL 30, 1991

SCHEDULE NO. 3-C
PAGE 1 OF 1
DOCKET NO. 910020-WS

EXPLANATION	ADJUSTMENT WATER	ADJUSTMENT WASTEWATER
<hr/>		
1 OPERATING REVENUES		
A. To remove utility's requested rate increase	\$ (120,945)	\$ (399,137)
	-----	-----
2 OPERATION AND MAINTENANCE EXPENSE		
A. Adjustment to reduce purchased power	(1,489)	(5,862)
B. Adjustment to reduce chemical expense	(306)	
C. Adjustment to reduce purchased sewage treatment		(140,018)
D. Remove purchased water expense	(3,000)	
E. Reduce material and supplies for sewer rodding expenses		(750)
F. Reduce rate case expense	(487)	(487)
G. Increase cost due to monthly billing cycle	1409	1408
	-----	-----
	\$ (3,873)	\$ (145,709)
	-----	-----
3 DEPRECIATION EXPENSE		
A. Adjust. to reclassify organization cost	(80)	(76)
B. Adjustment to remove previous owners balance	(14,601)	(3,998)
	-----	-----
	\$ (14,681)	\$ (4,074)
	-----	-----
4 TAXES OTHER THAN INCOME		
A. Reg. assess. fees on revenue increase	\$ (5,800)	\$ (19,443)
	-----	-----
5 INCOME TAXES		
A. Adjustment to reduce income taxes	\$ (35,804)	\$ (85,305)
	-----	-----
6 REVENUE REQUIREMENT		
A. To reflect the increase in the revenues required	\$ \$52,663	\$ \$213,369
	-----	-----
7 TAXES OTHER THAN INCOME		
A. RAF on revenue increase recomm.	\$ 2,370	\$ 9,602
	-----	-----
8 INCOME TAXES		
A. Income taxes relating to revenue requirement.	\$ 18,948	\$ 76,655
	-----	-----

WATER

Schedule of Commission Approved
Rates and Rate Decrease in Four Years

Monthly Rates

Residential and General Service

	<u>Commission Approved Rates</u>	<u>Rate Decrease</u>
Base Facility Charge		
<u>Meter Size:</u>		
5/8"x3/4"	\$ 6.76	\$ 0.73
3/4"	10.14	1.09
1"	16.90	1.82
1 1/2"	33.80	3.63
2"	54.08	5.81
3"	108.16	11.63
4"	169.00	18.17
6"	338.00	36.34
Gallage Charge per 1,000 gallons	\$ 0.90	\$ 0.10

WASTEWATER

Schedule of Commission Approved
Rates and Rate Decrease in Four Years

Monthly Rates

Residential

	<u>Commission Approved Rates</u>	<u>Rate Decrease</u>
Base Facility Charge		
<u>Meter Size:</u>		
All Meter Sizes	\$ 9.89	\$ 0.46
Gallonge Charge		
per 1,000 gallons		
(Maximum 6,000 gallons)	\$ 8.41	\$ 0.39

General Service

Base Facility Charge		
<u>Meter Size:</u>		
5/8"x3/4"	\$ 9.89	\$ 0.46
3/4"	14.84	0.69
1"	24.73	1.16
1 1/2"	49.45	2.31
2"	79.12	3.70
3"	158.24	7.41
4"	247.25	11.57
6"	494.50	23.14
Gallonge Charge per 1,000 G.		
(No Maximum)	\$ 8.75	\$ 0.41