

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited) DOCKET NO. 920598-SU
proceeding increase of sewer) ORDER NO. PSC-92-0868-FOF-SU
rates in Broward County by) ISSUED: 08/25/92
PARKLAND UTILITIES, INC.)
_____)

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING LIMITED PROCEEDING INCREASE IN SEWER RATES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature, and as such, will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Parkland Utilities, Inc. (Parkland or Utility) is a class C utility that provides water and wastewater service to Parkland Lakes, a planned unit development in Broward County. According to the 1991 Annual Report, the utility provides service to 461 water customers and 460 wastewater customers with operating revenues of \$111,226 for water and \$179,769 for wastewater. The utility's net operating losses for water and wastewater were \$56,011 and \$68,601, respectively. The net operating losses generate negative rates of return of 16.16 percent for water and 7.44 percent for wastewater.

Parkland's rates were last established in its staff-assisted rate case in Docket No. 900598-WS, Order No. 24417, issued April 23, 1991. The utility was authorized an overall rate of return of 9.21 percent, with a return on equity of 13.51 percent. Also in that docket, the quality of the utility's service was determined to be satisfactory and there was no indication of any problems.

Parkland is considered to be a large user of bulk wastewater by the Broward County Public Works Department. As a large user, the utility transmits all of its sewage to Broward County for

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treatment and disposal. However, due to the restructuring of debt service by Broward County, it determined a rate increase was necessary. Thus, an increased impact fee was imposed on the large users of bulk service. Parkland was notified on February 12, 1992, of the \$235,300 charge for its existing reserve capacity with the County. As a result, on June 12, 1992, Parkland filed this limited proceeding to increase its wastewater rates. The utility requested a revenue requirement of \$53,260.50, which translates to an increase of 25.034 percent.

LIMITED PROCEEDING - SEWER RATE INCREASE

We have considered the proposed rates, the amount of the additional revenues sought thereunder, and the supporting data that was submitted. We find that several adjustments are necessary, which will be discussed in detail below. In consideration of the above, we hereby deny the proposed tariff sheets, order that new tariff sheets be filed in accordance with this Order, and find that the increase in the revenue requirement should be \$42,995.92 (20.21%).

Rate of Return

Section 367.0822, Florida Statutes, provides the Commission authority to conduct limited proceeding. Section 367.0822(1) states:

The commission shall determine the issues to be considered during such a proceeding and may grant or deny any request to expand the scope of the proceeding to include other related matters. However, unless the issue of rate of return is specifically addressed in the limited proceeding, the commission shall not adjust rates if the effect of the adjustment would be to change the last authorized rate of return.

Unlike a rate case, a limited proceeding considers only the effect of those changes in rate base and/or operating costs which can be separately identified and quantified, and do not require a full rate review or require a change in the utility's last authorized rate of return. It is not a make-whole proceeding in which the utility's rates are adjusted to recover all operating expenses incurred as well as a fair return on the utility's investment in property used and useful in the public service. Nor is a full rate

base/capital structure reconciliation performed. Rather, an across-the-board adjustment is made to the utility's rates to reflect the revenue effect of the changes in rate base and/or operating costs so the utility will be provided the opportunity to continue to earn its last authorized rate of return.

If a utility were allowed to use an updated rate of return in a limited proceeding, the utility's rates would generate two different rates of return. The limited proceeding portion of the utility's rates would be designed to generate a higher overall rate of return while the remainder of the rates would be producing the lower return established in the utility's rate case. This could prove to be detrimental to the utility should the lower rate of return be used to evaluate earnings because the limited proceeding rates would have produced a higher revenue requirement, thus providing the appearance of overearnings for the utility. Likewise, the customers could be at a disadvantage if earnings were evaluated using a higher overall rate of return because the utility would be allowed to earn a greater amount of revenues.

In its application, the utility has requested a return on equity of 13.11 percent. This return was based on the leverage formula in Order No. 24246, issued March 13, 1992. The utility's last authorized rate of return was established as 9.21 percent, with a return on equity of 13.51 percent. The adjustment requested by the utility represents a change from its last authorized rate of return and, therefore, we find it inappropriate. We find it is appropriate to use the last authorized rate of return in determining the revenue requirement in this limited proceeding.

As the utility received substantial financial support from its parent, Narco Realty (Narco), we find it appropriate to use the capital structure of Narco in our determination of the appropriate overall rate of return and the return on equity.

We do not agree with the utility's statement that "the investment in this additional charge has been made totally through an infusion of equity into Parkland Utilities, Inc." The source of funds can be found in the capital structure, but the use of these funds cannot be traced to any specific expense. Funds are fungible. There may be a particular reason a company receives debt or equity, but the total mix of capital pays for overall plant operations and investment.

In addition, if the utility receives a permanent equity investment that will not require interest payments and is not expected to be repaid, then equity holders should earn an appropriate return on that investment. However, the return that should be applied to the \$235,300, a rate base item, is the overall weighted cost of capital. Receiving an equity infusion may increase the overall return required because equity is a higher cost of capital component.

In consideration of all of the above, we find that it is appropriate to use the utility's last authorized rate of return of 9.21 percent to determine the return on investment in this proceeding. This is consistent with our recent decision in Docket No. 911168-WS involving Ortega Utility Company.

Accumulated Amortization

The utility omitted a provision for accumulated amortization in its calculation. Therefore, we have made an adjustment to include a 1/2-year amortization on the cost of the investment, which is consistent with our policy and generally accepted accounting theory. The rate base effect of this adjustment is \$601.98.

Amortization Expense

In its application, the utility employed an 18-year composite rate for the service life of the asset. We agree that the 18-year composite life would be appropriate for the life of this asset. The utility does not actually have physical account balances for sewage treatment facilities because the treatment is purchased from Broward County. In accordance with Rule 25-30.140(2)(b), Florida Administrative Code, the company is utilizing the composite rate suggested when company balances are not available for developing composite rates using account lives. Based on an 18-year composite life, the amortization expense is \$13,072.22.

Rate Case Expense

In its initial filing, the utility estimated rate case expense of \$6,000, amortized over four years (\$1,500). Subsequent to the initial filing, the utility provided invoices and other supporting documents to justify a total rate case expense of \$7,034.

Therefore, we find that the appropriate annual rate case expense is \$1,759 (\$7,034 amortized over four years).

Income Tax

We have adjusted the utility's requested provision for income tax to include state income tax. The appropriate amount of state income tax, calculated at 5.5 percent, is \$1,483.86. The total tax adjustment reflects both federal income tax of \$3,718.09, as well as the state income tax referred to above, for a total of \$5,160.73.

RATES

The rates authorized herein will allow the utility the opportunity to generate additional annual wastewater operating revenues of \$42,995.92, which results in a wastewater increase of 20.21 percent. This increase is applied across-the-board to the utility's existing rates, excluding rates for miscellaneous service charges. The present rates, proposed rates, and approved rates are set forth on Schedule No. 2 attached hereto.

AMORTIZATION OF RATE CASE EXPENSE

Section 367.0816, Florida Statutes, requires that rate case expense be amortized for recovery over a period of four years. The statute further requires that, at the conclusion of the recovery period, 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, the wastewater rates shall be reduced by \$1,842 (.7202%) at the expiration of the four-year period, as shown in Schedule No. 3. The revenue reductions reflect the annual rate case amounts amortized (expensed) plus the gross-up for regulatory assessment fees.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also is required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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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.

The newly approved rates are effective for meter readings 30 days on or after the stamped approval date of the revised tariff sheets to be filed by the utility. The revised tariff sheets will be approved upon our staff's verification that the tariff sheets are consistent with our decision in this Order, the protest period has expired, and that the proposed customer notice is adequate.

Based on the foregoing, it is, therefore,

ORDERED that the petition for a limited proceeding sewer rate increase by Parkland Utilities, Inc. is granted to the extent set forth in the body of this Order. It is further

ORDERED that prior to its implementation of the rate increase approved herein, Parkland Utilities, Inc. shall submit and have approved revised tariff sheets and a proposed notice to its customers of the increased rates and the reasons therefor. The revised tariff sheets and the notice will be approved upon the expiration of the protest period and Staff's verification that they are consistent with our decision herein. It is further

ORDERED that the limited proceeding sewer rate increase approved herein shall be effective for meter readings taken on or after 30 days from the stamped approval date on the revised tariff sheets. It is further

ORDERED that the provisions of this Order are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director, Division of Records and Reporting, at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that in the event no timely protest to this Order is received, this docket shall be closed.

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By ORDER of the Florida Public Service Commission this 25th
day of August, 1992.

(S E A L)

KAC

STEVE TRIBBLE, Director
Division of Records and Reporting

by: Key Lynn

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 15, 1992.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 of the effective date of this order, 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.

SCHEDULE NO. 1

CALCULATION OF REVENUE REQUIREMENT

<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>RATE BASE</u>	<u>OPERATING INCOME</u>	<u>REVENUE REQUIREMENT</u>
Investment	\$ 235,300.00	\$ 21,671.13	\$	\$ 21,671.13
1/2 Year Amortization	<6,536.11>	<601.98>		<601.98>
Amortization Expense	13,072.22		13,072.22	13,072.22
Rate Case Expense Amortization	7,034.00		1,759.00	1,759.00
Income Taxes	5,160.73		5,160.73	5,160.73
TOTAL		\$ 21,069.15	\$ 19,991.95	\$41,061.10
Regulatory Assessment Fees				<u>0.955</u>
TOTAL REVENUE REQUIREMENT				\$42,995.92
Divide by Annualized Revenue				<u>212,755.00</u>
Percentage Increase				<u>20.21%</u>

SCHEDULE NO. 2

WASTEWATER

General and Residential Service

<u>General Service</u>	<u>Utility</u>		<u>Commission</u>
<u>Meter Size:</u>	<u>Present</u>	<u>Proposed</u>	<u>Approved</u>
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
5/8" x 3/4"	\$ 9.20	\$ 11.50	\$ 11.06
Full 3/4"	13.80	17.25	16.59
1"	23.00	28.76	27.65
1 1/2"	46.01	57.53	55.31
2"	73.61	92.04	88.49
3"	147.22	184.07	176.97
4"	230.03	287.62	276.52
6"	460.07	575.24	553.05
8"	736.10	920.38	884.87
Gallage Charge per 1,000 gallons	\$ 4.15	\$ 5.19	\$ 4.99
<u>Residential</u>			
<u>All Meter Sizes:</u>	\$ 9.20	\$ 11.50	\$ 11.06
Gallage Charge per 1,000 gallons	\$ 4.15	\$ 5.19	\$ 4.99

Calculation of New Wastewater Rates
After Four Year Amortization Period

General Service Meter Size:	Commission Approved Rates	Proposed Decrease
5/8" x 3/4"	\$ 11.06	\$ 0.08
Full 3/4"	16.59	0.12
1"	27.65	0.20
1 1/2"	55.31	0.40
2"	88.49	0.64
3"	176.97	1.27
4"	276.52	1.99
6"	553.05	3.98
8"	884.87	6.37
Gallage Charge per 1,000 gallons	\$ 4.99	\$ 0.04
Residential <u>All Meter Sizes:</u>	\$ 11.06	\$ 0.08
Gallage Charge per 1,000 gallons	\$ 4.99	\$ 0.04