

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate) DOCKET NO. 921293-SU
Increase in Pinellas County by) ORDER NO. PSC-93-1174-FOF-SU
MID-COUNTY SERVICES, INC.) ISSUED: August 10, 1993

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
THOMAS M. BEARD
SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

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

BY THE COMMISSION:

BACKGROUND

Mid-County Services, Inc. (Mid-County or utility) is a Class A utility which provides wastewater service to customers in Dunedin, Florida. It is a wholly-owned subsidiary of Utilities, Inc. The utility's last rate case was finalized by Order No. 10776, issued May 6, 1982. The utility received a price index rate adjustment in 1988. The rate base for this utility was last established by Order No. 23643, issued October 22, 1990.

On April 1, 1993, Mid-County filed the instant request for interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase and the utility was informed of the deficiencies. Subsequently, on May 21, 1993, the utility completed its filing deficiencies, and this date was designated the official filing date. The utility has requested that the application be processed as a proposed agency action (PAA) pursuant to Section 367.081(8), Florida Statutes. The test year for the interim request is the twelve-month period ended December 31, 1992. The test year for the final rate determination is the projected twelve-month period ending March 31, 1994, based on the historical period ended June 30, 1992.

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In its filing, the utility states that its existing rates are insufficient to provide a fair rate of return on its investment. In addition, the utility is currently making capital improvements required by the Department of Environmental Protection (DEP) directives. The utility has upgraded personnel and invested approximately \$1,500,000 to improve its present service.

SUSPENSION OF PROPOSED RATES

Pursuant to Section 367.081(6), Florida Statutes, the utility may implement its proposed rates within sixty days of filing unless the Commission withholds consent to those rates. Further, Section 367.081, Florida Statutes, permits the proposed rates to go into effect, under bond, eight months after filing unless final action has been taken by the Commission.

From our initial review of the filing, we note that the utility has made substantial additions to plant since we last audited its records. We think that a detailed investigation will be necessary to fully analyze the plant additions and to review other test year investments and expenses. Upon consideration of the foregoing, we find it reasonable and necessary to require further amplification, explanation, and corroboration of the information in the utility's filing. Accordingly, we hereby withhold consent to the utility's implementation of its requested rates.

REQUEST TO USE YEAR-END RATE BASE

The utility requested that we establish interim rates using the end-of-year rate base and cost of capital measurements. The utility proposed this treatment to secure the full rate base inclusion of the \$856,824 in capital improvements required by the DEP directives.

Pursuant to Section 367.082(5)(a), Florida Statutes, the Commission shall determine the interim revenue deficiency, or excess, by comparing a utility's achieved return and its required rate of return using either an average investment rate base or an end-of-period investment rate base. Thus, the Commission has the authority and the discretion to decide when interim rates should be established under year-end conditions rather than under average test year conditions.

To measure the utility's achieved rate of return or actual income for the interim test period, the Commission must apply appropriate adjustments from the utility's most recent rate case. This replication of prior adjustments does not determine whether an average or a year-end test year shall be employed. The rate base timing issue is not a carryover adjustment from a prior case, since use of a year-end test year, where appropriate, must be justified in each docket. We believe that a year-end test year is appropriate when reliance upon average test year conditions would substantially understate the utility's revenue requirement during the interim period.

We believe that a material difference in the relative revenue requirements must be shown to justify use of a year-end basis for setting interim rates. Typically, a year-end basis for final rate purposes must be established by a showing of extraordinary growth in investment and/or expenses. In this case, the extraordinary growth concerns installation of an advance wastewater treatment facility and other plant improvements that were mandated by DEP. The utility's application discloses that by December 31, 1992, the advanced wastewater treatment facility and the other plant improvements totaled \$856,824. We agree that using an average test year would allow only half of the cost for these improvements and facilities in rate base, thereby allowing a return on only half of the utility's investment. Upon consideration, we find that the difference in revenue requirement is sufficient to justify use of the requested year-end rate base. Accordingly, we approve the utility's request to determine its revenue requirement using a year-end basis.

INTERIM RATE REQUEST

Mid-County has requested approval of interim rates for wastewater based upon recovery of operating expenses and receipt of a 10.03 percent return on its year-end rate base. The utility requested interim revenues of \$796,235, or an increase of \$304,591. Mid-County requested final wastewater rates designed to generate annual revenues of \$926,127. These revenues exceed test year revenues by \$434,897, representing an increase of 88.53 percent.

We find it appropriate to increase Mid-County's rates on an interim basis as is set forth below and in the schedules attached hereto, which are by reference incorporated herein.

RATE BASE

Our calculation of rate base for wastewater is depicted on Schedule No. 1-A. The adjustments appear on Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Construction Work In Progress

The utility included Construction Work In Progress (CWIP) in its requested rate base. However, in its filing, the utility did not include the amount of plant or equipment in this account. By Order No. 10776, the utility was allowed CWIP for the relocation of force mains. The Order stated that the construction was required by a governmental agency. At that time, Section 367.081, Florida Statutes, required the Commission to consider the cost of plant required by a governmental agency. Although the utility noted that DEP had required plant additions totalling \$856,824, it failed to indicate whether these expenditures were included in CWIP. Today, the above-referenced statute states that the Commission shall consider the cost of facilities to be constructed twenty-four months from the end of the historical period used to establish rates.

In accordance with the interim statute, a provision for CWIP would be appropriate only to the extent it is consistent with the treatment applied in the utility's last rate proceeding. In this proceeding, the utility has not proven that the requested CWIP was required by a governmental agency. Therefore, we find it appropriate to remove the CWIP from the interim rate base calculation, and we have made the appropriate adjustment.

Working Capital

The utility calculated working capital using the formula method, one-eighth of its operation and maintenance expenses. The utility's requested provision for working capital is \$61,310. In the utility's last rate case, the working capital allowance was derived using the balance sheet method. Section 367.082(5)(b)(1), Florida Statutes, requires that the achieved rate of return be calculated by applying appropriate adjustments consistent with those used in the most recent rate case of the utility. Therefore, in remaining consistent with the interim statute, we have

calculated the working capital allowance by using the balance sheet method.

The MFRs require the utility to submit a balance sheet for the beginning and end of the test year for final rates. The utility submitted the balance sheet information for the purpose of establishing final rates, but did not submit the information for purposes of establishing the interim rates. The utility's application included a balance sheet for March 31, 1994, March 31, 1993, and June 30, 1992. During our review and comparison of the balance sheets dated March 31, 1993, and June 30, 1992, it appeared that there were no changes in the account balances, except for the account that included deferred rate case expense. Based on this review, we believe that it is appropriate to use the June 30, 1992, balance sheet as a proxy for the December 31, 1992, balance sheet.

Using the December 31, 1992, balance sheet, we have calculated a working capital provision of \$24,764. Accordingly, we hereby approve a working capital provision of \$24,764 for Mid-County.

Interim Rate Base

In consideration of the foregoing, we find that the appropriate rate base by which to determine the appropriate interim increase is \$1,363,932 for the wastewater system.

COST OF CAPITAL

Our calculation of cost of capital for the wastewater system is depicted on Schedule No. 2-A. Our adjustments are depicted on Schedule No. 2-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

The utility's requested cost of capital for interim purposes is 10.03 percent. This weighted cost includes a return on equity of 10.83 percent. Although the utility may request an interim increase using the minimum of the last authorized return on equity, in this instance, 16 percent, the utility chose instead to use the minimum of the range of the overall cost of capital approved by Order No. 10776. Upon consideration, we find that the appropriate required rate of return for interim purposes is 10.03 percent, requested by the utility, for the wastewater system.

NET OPERATING INCOME

Our calculation of the wastewater net operating income is depicted on Schedule No. 3-A. Our adjustments are depicted on Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Revenues

The utility recorded book revenues of \$491,644 for the interim test year. The utility's billing analysis, however, indicates the utility collected \$495,586 in revenues. We believe it is appropriate to use the figures from the billing analysis and have therefore adjusted the test year revenue figures in the MFR schedules to agree with the billing analysis.

Revenue Requirement

In order to give the utility the opportunity to recover the expenses discussed above and to earn a 10.03 percent return on the wastewater system rate base, we shall allow the utility to collect interim rates designed to generate \$755,218 in annual revenues, an interim rate increase of \$259,632.

Interim Rates

The utility's current rates, proposed interim rates, proposed final rates, and our approved interim rates, set forth below for comparison, are designed to give the utility the opportunity to earn the interim revenue requirements determined above.

Wastewater

Bi-Monthly

Residential

<u>Meter Size</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Commission Approved Interim Rates</u>
All Sizes	\$ 13.54	\$ 17.30	\$ 19.40	\$ 21.20
Gallonage Charge (Per 1,000 gallons) (Max. 20,000 gals.)	\$ 1.19	\$ 2.20	\$ 2.54	\$ 1.86
<u>Typical Residential Bills</u>				
<u>All Meter Sizes</u>				
6M	\$ 20.68	\$ 30.50	\$ 34.64	\$ 32.36
10M	\$ 25.44	\$ 39.30	\$ 44.80	\$ 39.80
16M	\$ 32.58	\$ 52.50	\$ 60.04	\$ 50.96
20M	\$ 37.34	\$ 61.30	\$ 70.20	\$ 58.40

Wastewater
Bi-Monthly
General Service

<u>Meter Size</u>	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Commission Approved Interim Rates</u>
5/8" x 3/4"	\$ 13.54	\$ 17.30	\$ 19.40	\$ 21.20
1"	33.85	43.26	48.50	53.01
1-1/2"	67.72	86.50	97.00	106.04
2"	108.35	138.40	155.20	169.67
3"	216.71	276.80	291.00	339.35
4"	338.61	432.50	485.00	530.23
6"	677.21	865.00	970.00	1,060.44
Gallage Charge (per 1,000 gallons) (No Max.)	\$ 1.19	\$ 2.20	\$ 2.54	\$ 1.86

To implement the approved interim rates, the utility must submit revised tariff sheets consistent with our decision. Said tariff sheets shall be accompanied by a proposed customer notice which shows the approved interim increase and which explains the reasons and conditions therefor.

The approved interim rates cannot be implemented until the revised tariff sheets are stamped approved. The interim rates shall be effective for meters read 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 our decision herein, that the proposed customer notice to the customers of the approved interim increase is adequate, and that the security required below has been filed and accepted.

SECURITY FOR REFUND

Pursuant to Section 367.082, Florida Statutes, the amount of interim rates granted herein which exceeds the utility's previously authorized rates shall be collected under guarantee, subject to

refund with interest. Upon review, it appears that the utility cannot support a corporate undertaking. Therefore, we believe that a corporate undertaking from the parent, Utilities, Inc., in the amount of \$165,500 will be sufficient to protect any potential refund of revenues collected under interim conditions. The utility must provide the security prior to its implementation of the interim rates approved herein. Furthermore, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide us with a report by the 20th of each month indicating the monthly and total revenues collected subject to refund.

Based upon the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the rates and schedules proposed by Mid-County Services, Inc., are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the request for an interim increase in wastewater rates by Mid-County Services, Inc., is granted to the extent set forth in the body of this Order. It is further

ORDERED that the difference between the interim rates granted herein and Mid-County Services, Inc.'s previously authorized rates shall be collected subject to refund, with interest. It is further

ORDERED that Utilities, Inc., shall provide a corporate undertaking in the amount of \$165,500 as guarantee for any potential refund of Mid-County Services Inc.'s interim revenues. It is further


ORDERED that prior to the implementation of the interim rates approved herein, Mid-County Services, Inc., shall file and have approved tariff pages revised in accordance with the provisions of this Order, a proposed customer notice, and the approved security for the refund. It is further

ORDERED that the interim rates approved herein shall become effective for meters read on or after thirty days from the stamped approval date on the revised tariff sheets. The tariff sheets will be stamped approved upon verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the appropriate security has been provided. It is further

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ORDERED that during the time interim rates are in effect, Mid-County Services, Inc., shall pursuant to Rule 25-30.360(6), Florida Administrative Code, file a report by the twentieth day of each month indicating the monthly and total revenue collected subject to refund.

By ORDER of the Florida Public Service Commission this 10th day of August, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

LAJ

*Commissioner Luis J. Lauredo dissented without opinion on the issues regarding the approval of the interim rate increase.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

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

COMPANY: MID-COUNTY SERVICES, INC.
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1-A
DOCKET NO. 921293-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 3,130,269	\$ 0	\$ 3,130,269	\$ 0	3,130,269
2 LAND	18,403	0	18,403	0	18,403
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(641,473)	0	(641,473)	0	(641,473)
5 CIAC	(1,725,471)	0	(1,725,471)	0	(1,725,471)
6 AMORTIZATION OF CIAC	557,440	0	557,440	0	557,440
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0
8 CONSTRUCTION WORK IN PROGRESS	10,612	0	10,612	(10,612)	0
9 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	61,310	0	61,310	(36,546)	24,764
RATE BASE	\$ 1,411,090	\$ 0	\$ 1,411,090	(47,158)	\$ 1,363,932

COMPANY: MID-COUNTY SERVICES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1-B
DOCKET NO. 921293-SU

EXPLANATION	WASTEWATER
(1) CONSTRUCTION WORK IN PROGRESS -----	
To remove CWIP from ratebase	\$ (10,612) =====
(2) WORKING CAPITAL -----	
Adjustment to reflect balance sheet method	\$ (36,546) =====

COMPANY: MID-COUNTY SERVICES, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 2-A
 DOCKET NO. 921293-SU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION	
1 LONG TERM DEBT	\$ 38,428,979	57.53%	9.44%	5.43%	\$ (37,644,284)	\$ 784,695	57.53%	9.44%	5.43%	
2 SHORT-TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	28,367,094	42.47%	10.83%	4.60%	(27,787,857)	579,237	42.47%	10.83%	4.60%	
5 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
8 ADJUSTMENT FOR GAS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 66,796,073	100.00%		10.03%	\$ (65,432,141)	\$ 1,363,932	100.00%		10.03%	
RANGE OF REASONABLENESS							LOW	HIGH		
							-----	-----		
							RETURN ON EQUITY	10.83%	12.83%	
							-----	-----		
							OVERALL RATE OF RETURN	10.03%	10.88%	
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COMPANY: MID-COUNTY SERVICES, INC.
 ADJUSTMENTS TO CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1992

DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	(37,644,284)	\$ (37,644,284)
2 SHORT-TERM DEBT	0	0	0	0
3 PREFERRED STOCK	0	0	0	0
4 COMMON EQUITY	0	0	(27,787,857)	(27,787,857)
5 CUSTOMER DEPOSITS	0	0	0	0
6 ACCUM. DEFERRED INCOME TAX	0	0	0	0
7 OTHER (Explain)	0	0	0	0
8 TOTAL CAPITAL	\$ 0	\$ 0	(65,432,141)	\$ (65,432,141)

COMPANY: MID-COUNTY SERVICES, INC.
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 3-A
DOCKET NO. 921293-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 491,644	\$ 304,591	\$ 796,235	\$(300,649)	\$ 495,586	\$ 259,632	\$ 755,218
OPERATING EXPENSES					300,411	52.39%	
2 OPERATION AND MAINTENANCE	\$ 490,478	0	\$ 490,478	0	\$ 490,478		\$ 490,478
3 DEPRECIATION	36,284	0	36,284	0	36,284		36,284
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	55,216	431	55,647	(13,529)	42,118	11,683	53,801
6 INCOME TAXES	109	72,167	72,276	(127,731)	(55,455)	93,303	37,848
7 TOTAL OPERATING EXPENSES	\$ 582,087	\$ 72,598	\$ 654,685	\$(141,260)	\$ 513,425	\$ 104,986	\$ 618,411
8 OPERATING INCOME	\$ (90,443)	\$ 231,993	\$ 141,550	\$(159,389)	\$(17,839)	\$ 154,645	\$ 136,807
9 RATE BASE	\$ 1,411,090		\$ 1,411,090		\$ 1,363,932		\$ 1,363,932
RATE OF RETURN	-6.41%		10.03%		-1.31%		10.03%

COMPANY: MID-COUNTY SERVICES, INC.
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 3-B
DOCKET NO. 921293-SU

EXPLANATION	WASTEWATER
(1) OPERATING REVENUES	

1) To remove the utility's test year revenue request	\$ (304,591)
2) Adjustment to annualize revenues	3,942
TOTAL	\$ (300,649) =====
(2) TAXES OTHER THAN INCOME	

1) Reverse RAFs on the utility's requested revenue increase	\$ (431)
2) Adjustment to correct test year RAFs	(13,098)
TOTAL	\$ (13,529) =====
(3) PROVISION FOR INCOME TAXES	

Income taxes related to taxable income for the test year	\$ (127,731) =====
(4) OPERATING REVENUES	

Additional revenues to achieve revenue requirement	\$ 259,632 =====
(5) TAXES OTHER THAN INCOME	

To reflect RAF's related to adjustment to revenues.	\$ 11,683 =====
(6) PROVISION FOR INCOME TAXES	

Income taxes related to adjusted income	\$ 93,303 =====