

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Interim and ) DOCKET NO. 940109-WU  
Permanent Rate Increase in ) ORDER NO. PSC-94-0461-FOF-WU  
Franklin County by ST. GEORGE ) ISSUED: April 18, 1994  
ISLAND UTILITY COMPANY, LTD. )  
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The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman  
JULIA L. JOHNSON  
LUIS J. LAUREDO

ORDER SUSPENDING RATE INCREASE AND  
GRANTING INTERIM RATES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

St. George Island Utility Company, Ltd., (St. George or utility) is a Class B water utility providing service for approximately 993 water customers in Franklin County.

On January 31, 1994, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the Minimum Filing Requirements (MFRs) for a rate increase, and this date was designated as the official filing date. The utility's present rate of return was established in Order No. 21122, issued on April 24, 1989, in Docket No. 871177-WU. The utility's application for increased rates is based on the test year ended December 31, 1992 for both interim and final rates. For the test year ended December 31, 1992, the utility reported in its application, operating revenues of \$314,517 and a net operating loss of \$428,201.

In its application, the utility has requested that this case be scheduled for a formal hearing and not be processed as a proposed agency action as provided for in Section 367.081 (8), Florida Statutes. The case has been set for hearing on July 20 and 21, 1994, in Franklin County.

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FPC-RECORDS/REPORTING

St. George has requested interim water rates designed to generate annual revenues of \$435,453. The utility's requested revenues exceed test year revenues by \$120,935, for an increase of 38.45%. The utility has requested final water rates designed to generate annual revenues of \$742,718, which exceed test year revenues by \$428,201, for a 136.15% increase. In support of its request, the utility asserts that the final rates requested would be sufficient to recover a 8.07% rate of return on its rate base.

#### SUSPENSION OF PROPOSED RATES

Pursuant to Section 367.081 (6), Florida Statutes, the utility may implement its proposed rate schedules within sixty (60) days after filing unless the Commission votes to withhold consent to implementation of the requested rates. According to our initial review of the filing, the utility has made numerous adjustments to the rate base and operating statements. We believe these adjustments must be examined more closely before a determination can be made in setting rates. Upon consideration of the above, we find it reasonable and necessary to require further amplification, explanation, and corroboration of the utility's rate application. Therefore, we find it appropriate to suspend the utility's proposed rates.

#### INTERIM RATES

The utility requested approval of interim rates for its water division based upon recovery of operating expenses and receipt of a 7.97% return on its simple average rate base. The utility has requested interim revenues of \$435,453 on an annual basis, for an increase of \$120,935. The test year for interim rates is the historical year ended December 31, 1992. The utility filed rate base, cost of capital, and operating statements to support its requested water rate increase.

Upon our review of the information filed in the utility's MFRs, we find that, pursuant to the interim statute, Section 367.082, Florida Statutes, it is appropriate for the utility to collect annual operating revenues on an interim basis as set forth below and in the schedules attached hereto, which are by reference incorporated herein.

### RATE BASE

Our calculation of the appropriate rate base is depicted on Schedules Nos. 1-A and 1-B. The capital structure is depicted in Schedules Nos. 2-A and 2-B. Schedules Nos. 3-A and 3-B contain the operating statements.

#### Plant-in-Service and Land

In its MFRs, the utility included pro forma adjustments to capitalize engineering design fees and to reclassify land. However, in its petition, the utility stated that interim rates are based on the historical test year December 31, 1992. There were no pro forma plant adjustments. Pursuant to Section 367.082 (1), Florida Statutes, the utility should report expenses and rate base items for the interim test year without any annualizations or projections. Accordingly, we find it appropriate to disallow the pro forma adjustments. Therefore, we reverse the utility's adjustment of \$21,000 in engineering design fees and reverse the \$23,276 in land.

#### Accumulated Depreciation and Accumulated Amortization of CIAC

The utility included in its rate base pro forma adjustments that increased rate base by \$4,978 for accumulated depreciation and by \$6,134 for accumulated amortization of CIAC. Without explanation by the utility of whether the adjustments were corrections or pro forma adjustments, we determined to treat the adjustments as pro forma adjustments. Therefore, we find it appropriate to reverse the adjustments.

#### Working Capital

The utility used the formula method to compute its requested provision for working capital, which is inconsistent with the method used in the utility's last rate case, in which working capital was derived using the balance sheet method. In this case, the utility requests a provision for working capital of \$41,573. Pursuant to Section 367.082(5)(b)(1), Florida Statutes, the achieved rate of return is calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding. In order to be consistent with the interim statute, we find it appropriate to use the balance sheet method to calculate working capital.

In its MFRs, the utility is required to submit a balance sheet for the beginning and end of the test year for final rates. Based on our calculation using the balance sheet method, the working capital amount would be negative. Rather than a negative amount, we have determined that a working capital provision of \$0 is appropriate. Based on the above, we find it appropriate to reduce working capital by \$41,573.

#### CAPITAL STRUCTURE

The utility's requested cost of capital for interim purposes is 7.97%. However, the utility included a pro forma short-term debt note that should have been excluded for interim purposes. Based on our recalculation, the cost of capital is 7.93%. Since the utility's capital structure consists of 100% debt, there is no authorized return on equity.

#### NET OPERATING INCOME

We find it appropriate to make several adjustments to the utility's operating income for interim purposes pursuant to the Section 367.082, Florida Statutes. The adjustments are discussed below.

#### Operation and Maintenance Expenses

The utility's requested revenue requirement includes an annualized provision for salaries and employee benefits. Pursuant to Section 367.082(1), Florida Statutes, only the test year expenses are used for interim determination, not annualized expenses. Therefore, we find it appropriate to reduce salaries and employee benefits by \$31,121 and \$13,641, respectively. In addition, we find it appropriate to reduce payroll taxes by \$3,215.

The utility also included pro forma adjustments to increase building rent, equipment rental and bad debt expense. However, based on the above, we find it appropriate to reverse these adjustments by \$1,076, \$2,633 and \$6,276, respectively.

#### Depreciation

In its MFRs, the utility made adjustments to its test year depreciation and amortization expenses. Without any explanation as to whether the utility's adjustments were corrections or pro forma adjustments, we determined to treat the adjustments as pro forma adjustments. We, therefore find it appropriate to decrease depreciation expense by \$7,863 and increasing contribution-in-aid-of-construction amortization expense by \$13,514.

Amortization Expense

The utility has included in its filing a pro forma adjustment to increase amortization expense for system analysis, aerator analysis, and system maps. However, pursuant to Section 367.082, Florida Statutes, pro forma adjustments for expenses should be removed. Based on our review, we find it appropriate to reduce amortization expense by \$22,122.

REVENUE REQUIREMENT

Based on the above adjustments, we find the appropriate interim revenues for water service to be \$348,824 on an annual basis, an increase of \$34,307.

INTERIM RATES

The approved interim rates are designed to allow the utility the opportunity to generate additional operating revenues of \$34,307 on an annual basis, using the base facility charge rate structure. This results in an increase of 11.11% in existing water rates, when applied as an across the board increase to total revenues. The approved rates will be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets will be approved upon Staff's verification that the tariffs are consistent with this Commission's decision, that the proposed notice to the customers of the approved increase is adequate and that the required security has been filed. The utility must provide proof of the date notice was given no less than 10 days after the date of notice.

SECURITY FOR POTENTIAL REFUND

Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. The amount of a potential refund in this case has been calculated to be \$34,307. A review of the utility's financial statements indicates that the utility cannot support a corporate undertaking for \$34,307. For the past three years the utility has operated at a loss. Additionally, this Commission has initiated show cause proceedings against the utility for failure to pay its regulatory assessment fees. Therefore, we find it appropriate to require St. George to provide a bond to guarantee the potential refund of any revenues collected under interim rates.

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The utility is required to keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the rate schedules filed by St. George Island Utility Company, Ltd., are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the request for an interim increase in water rates by St. George Island Utility Company, Ltd., is hereby granted in part, as set forth in the body of this Order. It is further

ORDERED that the approved interim rates shall be collected subject to refund as set forth in the body of this Order. It is further

ORDERED that St. George Island Utility Company, Ltd., shall provide a bond in the amount of \$34,307 as guarantee for any potential refund of interim water revenues. It is further

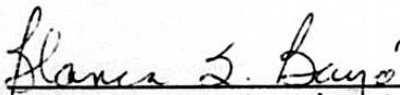
ORDERED that, prior to its implementation of the interim rates approved herein, St. George Island Utility Company, Ltd., shall file and have approved tariff sheets in accordance with the provisions of this Order, a proposed customer notice, and the required bond as security for a refund. It is further

ORDERED that the approved interim rates shall be effective for meter readings on or after 30 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 required bond for security of refund is provided. It is further

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ORDERED that during the time that interim rates are in effect, St. George Island Utility Company, Ltd., shall file a report by the twentieth (20) day of each month indicating the monthly and total revenues collected subject to refund.

By ORDER of the Florida Public Service Commission, this 18th day of April, 1994.

  
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BLANCA S. BAYO, Director  
Division of Records and Reporting

( S E A L )

JBL  
Commissioner Luis J. Lauredo dissented.

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.