

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for rate ) DOCKET NO. 931052-SU  
increase in Highlands County by ) ORDER NO. PSC-94-0840-FOF-SU  
HIGHLANDS UTILITIES CORPORATION. ) ISSUED: July 11, 1994

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK  
JULIA L. JOHNSON  
DIANE K. KIESLING

ORDER SUSPENDING PROPOSED RATES AND  
GRANTING INTERIM RATE INCREASE SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Highlands Utilities Corporation (Highlands or utility) is a Class B utility providing wastewater services in Highlands, Florida. As of December, 1993, the utility served approximately 1,290 customers. In 1993, the utility recorded operating revenues of \$344,018, and reported a \$33,567 operating loss.

On May 2, 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 has asked the Commission to process this application using the Proposed Agency Action (PAA) procedure outlined in Section 367.081(8), Florida Statutes. This Commission established the utility's present rate structure by Order No. 18036 in Docket No. 861234-SU.

The utility's application for increased rates is based on the twelve-month period ended December 31, 1993. The utility contends that its interim revenue requirement, determined in accordance with Section 367.082(5), Florida Statutes, is \$390,761. This amount exceeds annualized test year revenues by \$44,015 (12.69%). The utility contends that its permanent revenue requirement is \$533,025, a \$186,279 (53.72%) increase relative to test year revenues.

SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within

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sixty (60) days after filing unless this Commission votes to withhold consent to implementation of the requested rates.

We have reviewed the filing and have considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We note that the requested final rates are substantially greater than the interim request, which is due to inclusion of many pro forma adjustments. We find that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination by staff will include on-site investigations by staff accountants, engineers and rate specialists. In consideration of the above, we find that it is appropriate to suspend the proposed rate increase.

#### INTERIM RATES

Highlands filed rate base, cost of capital, and operating statements to support its requested interim rate increase of \$390,761. We find it appropriate to approve a reduced interim revenue requirement and allow Highlands to collect interim rates as set forth below and in the schedules attached hereto which are incorporated by reference.

#### Rate Base

Our calculation of the appropriate rate base for interim purposes is depicted in Schedule No. 1-A. Our adjustments to the rate base are depicted in Schedule No. 1-B. The utility requested a working capital sum based upon the formula approach, or that calculation which equals one-eighth of test year expenses. However, in the utility's last rate proceeding, we did not allow a provision for working capital, because in using the balance sheet approach we discovered that the utility had incomplete accounting records. Further, an examination of the utility's current balance sheet revealed an excess of current liabilities over current assets. Accordingly, consistent with the treatment employed in the utility's last rate proceeding, we find it appropriate to deny any provision for working capital.

A used and useful adjustment is also appropriate in order to reflect the methodology employed in the utility's last rate proceeding. Consistent with that procedure, 91.2 percent of the net investment in the treatment plant facilities is included in our approved rate base determination. This adjustment assumes an equal investment among the four operating plants and an average used and useful percentage, and reduces rate base by \$22,249.

### Cost of Capital

Our calculation of the appropriate cost of capital is contained in Schedule No. 2-A. Our adjustments to cost of capital are contained in Schedule No. 2-B. The utility has requested an 11.33 percent cost of capital for interim purposes. That return, however, reflects the overall cost of capital established in Docket No. 861234-SU, and not the separately established return on equity allowance. In fact, the various components in the capital structure and their respective cost rates have changed. Because of an accumulation of operating losses, the equity component has been completely eliminated.

The current capital structure consists of two accounts: a short-term debt account, payable to a related company, and a provision for customer deposits. The utility reported a 6.33 percent interest cost for the short-term debt component. For the purpose of setting interim rates, we have reduced the interest rate for customer deposits from 8 percent to 6 percent. This treatment reflects the prescribed rate we established in Order No. 18036.

### Net Operating Income

Our calculation of net operating income is depicted in Schedules Nos. 3-A and 3-B. Pursuant to Section 367.082, F.S., an interim rate increase shall be authorized based upon the utility's failure to achieve its required rate of return during the most recent twelve month period. The utility's achieved rate of return must be measured consistent with adjustments used in its most recent rate proceeding. Adjustments which tend to reflect post-test year expenses (pro forma adjustments) or which annualize conditions in the test year must be excluded, since those adjustments do not affect the achieved rate of return.

We reviewed the reported provision for annualized test year revenues and discovered two significant errors. First, the utility removed revenues associated with flat residential rates. Second, the utility incorrectly reported the annualized revenues associated with a price index implemented in October of 1993. We have corrected these errors, thereby increasing test year revenues by \$21,372.

The utility's requested interim revenue requirement is based on recovery of actual test year operating expenses and receipt of an 11.33% rate of return. We have corrected the miscalculated rate of return component corrected the misstated provision for annualized revenues. We also find it appropriate make a \$1,304 used and useful adjustment related to depreciation expense.

Revenue Requirement

Based upon recovery of actual expenses for the year ended December 31, 1993, and a 6.3 percent return on rate base, we find it appropriate to approve an interim rate increase of \$12,742 (3.46 percent), for a resulting annual revenue amount of \$380,860.

Interim Rates

Highland's current, proposed interim, proposed final, and our approved interim rates are shown on Schedule No. 4. Based upon our decisions regarding rate base, cost of capital and net operating income, we find it appropriate to grant Highlands interim rates designed to allow the utility the opportunity to generate annual operating revenues of \$380,860 for its wastewater system using the base facility charge rate structure. This will allow the utility the opportunity to generate additional annual operating revenues of \$12,742 for its wastewater operations. This results in an increase of 3.46 percent in existing wastewater rates, when applied as an across the board increase to total revenues.

The interim rates shall be implemented for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The revised tariff sheets will be approved upon our staff's verification that the tariffs are consistent with the Commission's decision, that the proposed notice to the customers of the approved increase is adequate and the required security discussed has been filed.

SECURITY FOR 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 \$5,415.33. A review of the utility's financial statements indicates that the utility cannot support a corporate undertaking for \$5,415.33. Therefore, we find it appropriate to require the utility to provide security in the form of an escrow account, bond or letter of credit. In no instance should maintenance and administrative costs associated with any refund be borne by the customers.

If the security provided is an escrow account, that account shall be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement

shall state the following: That the account is established at the direction of this Commission for the purpose set forth above, that no withdrawals of funds shall occur without the prior approval of the Commission through the Director of the Division of Records and Reporting, that the account shall be interest bearing, that information concerning the escrow account shall be available from the institution to the Commission or its representative at all times, and that pursuant to Consentino v. Elson, 263 So. 2d 253 (Fla. 3d. DCA 1972), escrow accounts are not subject to garnishments. The utility shall deposit the funds to be escrowed, \$1,083.07, into the escrow account each month. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

If the utility chooses to provide security in the form of a bond or a letter of credit, the instrument shall be in the amount of \$5,415.33. If the utility chooses a bond as security, the bond shall state that it will be released or should terminate upon subsequent order of this Commission addressing overearnings or requiring a refund. If the utility chooses to provide a letter of credit as security, the letter of credit shall state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered addressing overearnings or requiring a refund.

Irrespective of the type of security provided, the utility shall keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), 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. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the final rates and schedules proposed by Highland Utilities, Inc. are hereby suspended in accordance with Section 367.081(6). It is further

ORDERED that the request for an interim increase in wastewater rates by Highland Utilities, Inc. is hereby granted in part, as set forth in the body of this Order. It is further

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

ORDERED that Highland Utilities, Inc. shall provide a bond or letter of credit in the amount of \$5,415.33 or an escrow agreement as guarantee for any potential refund of interim wastewater revenues. It is further

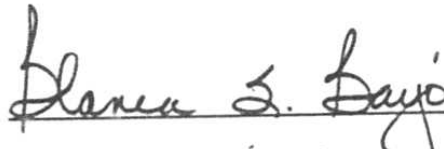
ORDERED that the approved interim rates shall become effective for service rendered on or after the stamped approval date on the tariff sheets. It is further

ORDERED that prior to the implementation of the interim rates approved herein, Highland Utilities, Inc. shall file and have approved tariff pages revised in accordance with the provisions of this Order, appropriate security for the refund, a proposed customer notice, and proof that the customers have received notice of the rate increase. It is further

ORDERED that 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 is provided. It is further

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

By ORDER of the Florida Public Service Commission, this 11th day of July, 1994.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or 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.

HIGHLAND UTILITIES CORPORATION SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/93			SCHEDULE NO. 1-A DOCKET NO. 931052-SU		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,174,370	\$ 0	\$ 1,174,370	\$ 0	1,174,370
2 LAND	30,499	0	30,499	0	30,499
3 NON-USED & USEFUL COMPONENTS	0	0	0	(22,249)	(22,249)
4 ACCUMULATED DEPRECIATION	(359,930)	0	(359,930)	0	(359,930)
5 CIAC	(968,259)	0	(968,259)	0	(968,259)
6 AMORTIZATION OF CIAC	166,255	0	166,255	0	166,255
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
9 DEFERRED TAXES	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	0	40,522	40,522	(40,522)	0
<b>RATE BASE</b>	<b>\$ 42,935</b>	<b>\$ 40,522</b>	<b>\$ 83,457</b>	<b>\$(62,771)</b>	<b>20,686</b>



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HIGHLAND UTILITIES CORPORATION  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDED 12/31/93

SCHEDULE NO. 1-B  
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EXPLANATION	WATER	WASTEWATER
(1) <u>NON-USED AND USEFUL PLANT</u> Used and Useful adjustment applied to net Wastewater Treatment Plant accounts	\$	<u>(22,249)</u>
(2) <u>WORKING CAPITAL</u> Remove provision for working capital to reflect Balance Sheet Approach	\$	<u>(40,522)</u>

HIGHLAND UTILITIES CORPORATION CAPITAL STRUCTURE TEST YEAR ENDED 12/31/93					SCHEDULE NO. 2-A DOCKET NO. 931052-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	\$ 0	0.00%	0.00%	0.00%	\$ 0	\$ 0	0.00%	0.00%	0.00%	
2 SHORT-TERM DEBT	76,621	91.81%	0.00%	0.00%	(57,629)	18,992	91.81%	6.33%	5.81%	
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
5 CUSTOMER DEPOSITS	6,836	8.19%	0.00%	0.00%	(5,142)	1,694	8.19%	6.00%	0.49%	
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
8 DEFERRED TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 83,457	100.00%		11.33%	\$ (62,771)	\$ 20,686	100.00%		6.30%	
RANGE OF REASONABLENESS							LOW	HIGH		
							-----	-----		
							0.00%	0.00%		
							=====	=====		
							6.30%	6.30%		
							=====	=====		

HIGHLAND UTILITIES CORPORATION ADJUSTMENTS TO CAPITAL STRUCTURE TEST YEAR ENDED 12/31/93		SCHEDULE NO. 2-B DOCKET NO. 931052-SU			
DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT	
1 LONG TERM DEBT	\$ 0	\$ 0	0 \$	0	
2 SHORT-TERM DEBT		0	(57,629)	(57,629)	
3 PREFERRED STOCK		0	0	0	
4 COMMON EQUITY		0	0	0	
5 CUSTOMER DEPOSITS		0	(5,142)	(5,142)	
6 ACCUM. DEFERRED INCOME TAX		0	0	0	
7 OTHER (Explain)		0	0	0	
8 TOTAL CAPITAL	\$ 0	\$ 0	(62,771) \$	(62,771)	

HIGHLAND UTILITIES CORPORATION  
 STATEMENT OF WASTEWATER OPERATIONS  
 TEST YEAR ENDED 12/31/93

SCHEDULE NO. 3-A  
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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 344,018	\$ 46,743	\$ 390,761	\$(22,643)	\$ 368,118	\$ 12,742	\$ 380,860
OPERATING EXPENSES		13.59%				3.46%	
2 OPERATION AND MAINTENANCE	\$ 324,178	\$ 0	\$ 324,178	\$ 0	\$ 324,178	\$	\$ 324,178
3 DEPRECIATION	25,104	0	25,104	(1,304)	23,800		23,800
4 AMORTIZATION	1,710	0	1,710	0	1,710		1,710
5 TAXES OTHER THAN INCOME	26,593	3,721	30,314	(1,019)	29,295	573	29,868
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 377,585	\$ 3,721	\$ 381,306	\$(2,323)	\$ 378,983	\$ 573	\$ 379,556
8 OPERATING INCOME	\$ (33,567)	\$ 43,022	\$ 9,455	\$(20,320)	\$(10,865)	\$ 12,169	\$ 1,304
9 RATE BASE	\$ 42,935		\$ 83,457		\$ 20,686		\$ 20,686
RATE OF RETURN	-78.18%		11.33%		-52.52%		6.30%

HIGHLAND UTILITIES CORPORATION ADJUSTMENTS TO OPERATING STATEMENTS TEST YEAR ENDED 12/31/93		SCHEDULE NO. 3-B DOCKET NO. 931052-SU PAGE 1 OF 1	
EXPLANATION	WATER	WASTEWATER	
(1) <u>OPERATING REVENUES</u> 1) Remove requested rate increase 2) Adjustment to annualize revenues		\$ (44,015) 21,372 <u>\$ (22,643)</u>	
(2) <u>DEPRECIATION EXPENSE</u> Used and useful adjustment to depreciation expense		\$ <u>(1,304)</u>	
(3) <u>TAXES OTHER THAN INCOME TAXES</u> Regulatory assessment taxes on requested revenues		\$ <u>(1,019)</u>	
(4) <u>OPERATING REVENUES</u> Adjustment to reflect recommended revenue requirement		\$ <u>12,742</u>	
(5) <u>TAXES OTHER THAN INCOME TAXES</u> Regulatory assessment taxes on additional revenues		\$ <u>573</u>	

**RATE SCHEDULE  
WATER**

UTILITY: Highlands Utility Corporation  
 COUNTY: Highlands  
 TEST YEAR ENDED: December 31, 1993

Monthly Rates

	Utility Rates Prior to Filing	Utility Proposed Interim	Utility Proposed Final	Commission Approved Interim
<u>Residential and General Service</u>				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	\$8.70	\$9.31	\$12.70	\$9.00
1"	\$21.74	\$23.26	\$31.74	\$22.50
1-1/2"	\$43.45	\$46.49	\$63.44	\$44.96
2"	\$69.53	\$74.40	\$101.51	\$71.95
3"	\$139.04	\$148.77	\$203.00	\$143.88
4"	\$226.33	\$242.17	\$330.44	\$234.21
6"	\$434.48	\$464.89	\$634.34	\$449.60
Gallage Charge per 1,000 G.	\$2.49	\$2.66	\$3.64	\$2.58
<u>Flat Rates</u>				
Brunners Mobile Home Park	\$18.01	\$18.01		\$18.64
Days Inn	\$238.85	\$238.85		\$247.16

Typical Residential Bills

<u>5/8" x 3/4" meter</u>				
3 M	\$16.17	\$17.29	\$23.62	\$16.73
5 M				