

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate) DOCKET NO. 940299-SU
increase in Monroe County by KEY) ORDER NO. PSC-94-1078-FOF-SU
HAVEN UTILITY CORPORATION.) ISSUED: September 1, 1994

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
DIANE K. KIESLING

ORDER SUSPENDING PROPOSED RATES

AND

GRANTING INTERIM RATES

BY THE COMMISSION:

BACKGROUND

Key Haven Utility Corporation (Key Haven or utility) is a Class B wastewater utility providing service to approximately 375 residential customers in Monroe County. For the test year ended December 31, 1993, Key Haven reported operating revenues of \$155,096 and a net operating income of \$28,623.

On June 16, 1994, Key Haven filed an application for increased permanent rates and interim rates, pursuant to Sections 367.081 and 367.082, Florida Statutes, respectively. Key Haven's request for interim and final rates is based on the test year ended December 31, 1993. Key Haven satisfied the Minimum Filing Requirements (MFRs) on June 16, 1994, which was established as the official filing date.

Key Haven has requested interim rates to generate annual revenues of \$218,454. These revenues exceed test-year revenues by \$63,358, for an increase of 40.85%. Key Haven has requested final wastewater rates to generate annual revenues of \$233,360, which exceed test-year revenues by \$78,264, for a 50.46% increase.

By Order No. 21100, the Commission set Key Haven's rates and charges, and established its return on equity at 14.35%; however, the Commission did not set Key Haven's rate base. Previously, by Order No. 11544, issued January 25, 1983, we established Key Haven's rate base.

DOCUMENT NUMBER-DATE

09044 SEP-13

FPSC-RECORDS/REPORTING

Key Haven has requested that this case be scheduled for a formal hearing, rather than be processed as a proposed agency action, as provided in Section 367.081(8), Florida Statutes. Accordingly, we have scheduled a hearing in Monroe County on October 27 and 28, 1994.

SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by a utility shall become effective within sixty (60) days after filing, unless the Commission votes to withhold its consent.

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 find it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. Key Haven has proposed adjustments to its operating statements. In consideration of the above, we find that it is appropriate to suspend the proposed rate increase.

INTERIM RATES

Key Haven filed rate base, cost of capital, and operating statements in support of its requested interim revenue of \$218,454, with an increase of \$63,358. Upon consideration, we find it appropriate to approve a reduced interim revenue requirement and allow Key Haven to collect interim rates as set forth below.

RATE BASE

Our calculation of the appropriate rate base for interim purposes is depicted in Schedules Nos. 1-A and 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.

Working Capital

Key Haven requested a working capital amount based upon the formula approach, or one-eighth of its test-year operation and maintenance expenses. Key Haven's requested allowance is \$10,458. In Key Haven'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 Key Haven's latest rate case. Since the balance sheet method was used in the last rate case, we have calculated the working capital allowance using the balance sheet method.

Based on our calculation, the working capital amount would be negative. Rather than have a negative amount, we approve a working capital amount of \$0. Accordingly, an adjustment of \$10,458 is appropriate to remove the requested working capital amount from the calculation of rate base.

Interim Rate Base

In consideration of the foregoing, we find that the appropriate rate base amount by which to determine the appropriate interim increase is \$210,501.

CAPITAL STRUCTURE

Our calculation of the appropriate capital structure is contained in Schedule Nos. 2-A and 2-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.

Key Haven's requested interim rate of return is 12.25%. Key Haven has used the return on equity of 15.27%, set in Order No. 11544. However, by Order No. 21100, issued April 24, 1989, we set the return on equity at a midpoint of 14.35%, with a minimum of 13.35% and a maximum of 15.35%. Accordingly, pursuant to Section 367.082 (5) (a), Florida Statutes, we have used the minimum of the last authorized return on equity in our calculation. This adjustment results in an 11.37% rate of return. Thus, the appropriate cost of capital is 11.37%.

REVENUE REQUIREMENT

Based on our adjustments, we find it appropriate to approve interim revenues of \$210,501, for an increase of \$55,405, on an annual basis, or 35.72% over test-year revenues.

INTERIM WASTEWATER RATES

Key Haven's interim rates are designed to generate annual operating revenues of \$210,501. We are retaining the flat rate structure for interim rate purposes. Key Haven's requested interim rate and the approved rate are set forth below.

WASTEWATER

Monthly Rate

| | <u>Current</u> | Utility Requested <u>Interim</u> | Commission Approved <u>Interim</u> |
|--------------------|----------------|--|--|
| <u>Residential</u> | \$34.65 | \$48.80 | \$47.04 |

Pursuant to Rule 25-30.475(1), Florida Administrative Code, the approved rate will be effective for service rendered on or after the stamped approval date on the tariff sheets. The rate cannot be implemented until the customers receive proper notice. Key Haven must provide proof of the date it gives notice, no less than ten days after the date of notice.

SECURITY FOR REFUND

Key Haven shall file a bond, letter of credit or escrow agreement to guarantee any potential refunds of wastewater revenues collected under interim conditions. Pursuant to Section 367.082, Florida Statutes, the excess interim rates over previously authorized rates must be collected under guarantee, subject to refund with interest. We have calculated the potential refund to be \$42,958. Key Haven's financial statements indicate that Key Haven cannot support a corporate undertaking of \$42,958.

If the security provided is an escrow account, the account should be established between Key Haven 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 should occur without the prior approval of the Commission through the director of the Division of Records and Reporting; that the account should be interest bearing; that information concerning the escrow account should 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.

If Key Haven chooses the escrow method, it should deposit \$4,733, into the escrow account each month. If a refund to the customer 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 Key Haven.

If the security provided is a bond or a letter of credit, the instrument shall be in the amount of \$42,958. If Key Haven chooses a bond as security, the bond shall state that it will be released or shall terminate upon subsequent order of the Commission addressing excessive earnings or requiring a refund. If Key Haven 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 excessive earnings or requiring a refund.

Regardless of the type of security provided, Key Haven shall keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, Key Haven 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. In no instance shall maintenance and administration costs associated with any refund be borne by the customers. The costs are the responsibility of, and shall be borne by, Key Haven.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that Key Haven Utility Corporation's application for a general rate increase is suspended pending further investigation. It is further

ORDERED that the request by Key Haven Utility Corporation for an interim increase in its wastewater rates is granted to the extent set forth in the body of this Order. It is further

ORDERED that Key Haven Utility Corporation shall provide a bond or letter of credit in the amount of \$42,958 or an escrow agreement as guarantee for any potential refund of interim wastewater revenues. It is further

ORDERED that the approved interim rate 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 rate approved herein, Key Haven Utility Corporation shall file and have approved tariff pages revised in accordance with the provisions of

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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, Key Haven Utility Corporation 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. It is further

ORDERED that this docket shall remain open to process the rate application.

By ORDER of the Florida Public Service Commission, this 1st day of September, 1994.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: Kay Flynn
Chief, Bureau of Records

(S E A L)

ELS

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.

KEY HAVEN UTILITY CORPORATION
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 1-A
 DOCKET NO. 940299-SU

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| COMPONENT | TEST YEAR PER UTILITY | UTILITY ADJUSTMENTS | ADJUSTED TEST YEAR PER UTILITY | COMMISSION ADJUSTMENTS | COMMISSION ADJUSTED TEST YEAR |
|--------------------------------|-----------------------------|------------------------|--------------------------------------|---------------------------|-------------------------------------|
| 1 UTILITY PLANT IN SERVICE | \$ 1,062,394 | \$ 0 | \$ 1,062,394 | \$ 0 | 1,062,394 |
| 2 LAND | 5,666 | 0 | 5,666 | 0 | 5,666 |
| 3 NON-USED & USEFUL COMPONENTS | 0 | 0 | 0 | 0 | 0 |
| 4 ACCUMULATED DEPRECIATION | (264,747) | 0 | (264,747) | 0 | (264,747) |
| 5 CIAC | (249,330) | 0 | (249,330) | 0 | (249,330) |
| 6 AMORTIZATION OF CIAC | 144,279 | 0 | 144,279 | 0 | 144,279 |
| 7 ACQUISITION ADJUSTMENTS -NET | 0 | 0 | 0 | 0 | 0 |
| 8 ADVANCES FOR CONSTRUCTION | 0 | 0 | 0 | 0 | 0 |
| 9 DEFERRED TAXES | 18,873 | 0 | 18,873 | 0 | 18,873 |
| 10 WORKING CAPITAL ALLOWANCE | 10,458 | 0 | 10,458 | (10,458) | 0 |
| RATE BASE | \$ 727,593 | \$ 0 | \$ 727,593 | (10,458) | 717,135 |

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KEY HAVEN UTILITY CORPORATION
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 1-B
DOCKET NO. 940299-SU
PAGE 1 OF 1

| EXPLANATION | WASTEWATER |
|---|--------------------|
| (1) <u>WORKING CAPITAL ALLOWANCE</u> Adjustment to recalculate using balance sheet method per Order No. 11544 | \$ <u>(10,458)</u> |

| KEY HAVEN UTILITY CORPORATION CAPITAL STRUCTURE TEST YEAR ENDED DECEMBER 31, 1993 | | | | | | SCHEDULE NO. 2-A DOCKET NO. 940299-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 | \$ 390,499 | 53.67% | 9.66% | 5.18% | \$ (5,613) | \$ 384,886 | 53.67% | 9.66% | 5.18% | |
| 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 | 337,094 | 46.33% | 15.27% | 7.07% | (4,845) | 332,249 | 46.33% * | 13.35% | 6.19% | |
| 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 DEFERRED TAX CREDITS | 0 | 0.00% | 0.00% | 0.00% | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 9 TOTAL CAPITAL | \$ 727,593 | 100.00% | | 12.25% | \$ (10,458) | \$ 717,135 | 100.00% | | 11.37% | |
| RANGE OF REASONABLENESS | | | | | | | LOW | HIGH | | |
| | | | | | | | ----- | ----- | | |
| | | | | | | | RETURN ON EQUITY | 13.35% | 15.35% | |
| | | | | | | | ----- | ----- | | |
| | | | | | | | OVERALL RATE OF RETURN | 11.37% | 12.30% | |
| | | | | | | | ----- | ----- | | |

* Adjustment consistent with Order No. 21100

| KEY HAVEN UTILITY CORPORATION ADJUSTMENTS TO CAPITAL STRUCTURE TEST YEAR ENDED DECEMBER 31, 1993 | | | | SCHEDULE NO. 2-B DOCKET NO. 940299-SU | |
|--|-------------------------------|-------------------------------|-----------------------|--|--|
| DESCRIPTION | SPECIFIC ADJUSTMENT (1) | SPECIFIC ADJUSTMENT (2) | PRO RATA RECONCILE | NET ADJUSTMENT | |
| 1 LONG TERM DEBT | \$ 0 | \$ 0 | (5,613) | \$ (5,613) | |
| 2 SHORT-TERM DEBT | 0 | 0 | 0 | 0 | |
| 3 PREFERRED STOCK | 0 | 0 | 0 | 0 | |
| 4 COMMON EQUITY | 0 | 0 | (4,845) | (4,845) | |
| 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 | (10,458) | \$ (10,458) | |

KEY HAVEN UTILITY CORPORATION
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3-A
DOCKET NO. 940299-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 | \$ 153,846 | \$ 64,608 | \$ 218,454 | (\$ 63,358) | \$ 155,096 | \$ 55,405 | 210,501 |
| OPERATING EXPENSES | | 42.00% | | | | 35.72% | |
| 2 OPERATION AND MAINTENANCE | \$ 83,667 | \$ 0 | \$ 83,667 | \$ 0 | \$ 83,667 | \$ | 83,667 |
| 3 DEPRECIATION NET OF CIAC AMORT. | 33,995 | 0 | 33,995 | 0 | 33,995 | | 33,995 |
| 4 AMORTIZATION | 0 | 0 | 0 | 0 | 0 | | 0 |
| 5 TAXES OTHER THAN INCOME | 8,755 | 2,907 | 11,662 | (2,851) | 8,811 | 2,493 | 11,304 |
| 6 INCOME TAXES | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 TOTAL OPERATING EXPENSES | \$ 126,417 | \$ 2,907 | \$ 129,324 | (\$ 2,851) | \$ 126,473 | \$ 2,493 | 128,966 |
| 8 OPERATING INCOME | \$ 27,429 | \$ 61,701 | \$ 89,130 | (\$ 60,507) | \$ 28,623 | \$ 52,912 | 81,535 |
| 9 RATE BASE | \$ 727,593 | | \$ 727,593 | | \$ 717,135 | | \$ 717,135 |
| RATE OF RETURN | 3.77% | | 12.25% | | 3.99% | | 11.37% |

KEY HAVEN UTILITY CORPORATION
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3-B
DOCKET NO. 940299-SU

| EXPLANATION | WASTEWATER |
|--|--------------------|
| (1) <u>OPERATING REVENUES</u> To remove the utility's test year revenue request | \$ <u>(63,358)</u> |
| (2) <u>TAXES OTHER THAN INCOME</u> To adjust RAF's consistent with test year revenues | \$ <u>(2,851)</u> |
| (3) <u>OPERATING REVENUES</u> Additional revenues to achieve revenue requirement | \$ <u>55,405</u> |
| (4) <u>TAXES OTHER THAN INCOME</u> To reflect RAF's related to adjustment to revenues | \$ <u>2,493</u> |