

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for) DOCKET NO. 940687-WU
increased water rates in Brevard) ORDER NO. PSC-94-1237-FOF-WU
County by FLORIDA CITIES WATER) ISSUED: October 11, 1994
COMPANY (Barefoot Bay Division).)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

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

BY THE COMMISSION:

BACKGROUND

Florida Cities Water Company (FCWC or utility) is a Class A utility providing water and wastewater service for a predominately residential area in Barefoot Bay, Florida. The utility's Barefoot Bay Division was serving approximately 4,480 water customers as of June 30, 1994, and is located in an area that has been designated by the St. Johns River Water Management District as a critical use area.

On August 2, 1994, the Barefoot Bay Division filed an application for approval of interim and final water rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. This application did not include the utility's wastewater system. The utility satisfied the Minimum Filing Requirements for a general rate increase, and August 2, 1994, was declared the official date of filing, pursuant to Section 367.083, Florida Statutes. The utility has asked the Commission to process this application using the Proposed Agency Action (PAA) procedures outlined in Section 367.081(8), Florida Statutes. The last general rate increase granted by the Commission for this system was in 1992 by Order No. PSC-92-0563-FOF-WS, issued June 24, 1992. Index and pass-through increases were granted in June, 1994.

The utility's application for increased water rates is based on the twelve-month period ended June 30, 1994. Within its filing,

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the utility states that a rate increase is necessary because it is earning less than a fair rate of return on its investment. For this period, the utility recorded total revenues of \$667,367, and an operating loss of \$18,924 for its water system.

The utility is requesting the Commission grant a "fair and reasonable" rate of return of 8.64%. In order to earn this higher return, the utility will need to increase its water revenues on an interim and permanent basis by 16.7% so as to produce additional operating revenues in the amount of \$114,466 based on the test year. The utility has requested that this increase be approved on both an interim and a permanent basis.

SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty (60) days after filing unless this Commission votes to withhold consent to implementation of the requested rates. In addition, under the provisions of Section 367.081(8), Florida Statutes, the utility may implement its requested rates under bond and subject to refund at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase or (2) if the Commission's PAA action is protested by a party other than the utility.

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 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

Barefoot Bay requested interim rates, as well as final rates, for the water system designed to generate \$798,310 in annual revenues, an increase of \$114,466 or 16.74%. Since Barefoot Bay did not submit separate schedules for the interim determination, we made several adjustments to make the schedules consistent with the interim statute.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1-A, and our adjustments are itemized 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.

Working Capital

Barefoot Bay requested a \$69,683 allowance for working capital. Consistent with the treatment allowed in Barefoot Bay's last rate case, the utility requested a provision for working capital derived using the formula method, or one-eighth of its operation and maintenance expenses. In correlation to our reduction in test year operation and maintenance expenses, an adjustment was made to reduce working capital. Accordingly, a working capital allowance of \$68,922 is appropriate.

Interim Rate Base

Barefoot Bay's requested increase in rate base included proforma provisions in plant-in-service, accumulated depreciation, amortization of CIAC, and allocation of general plant. For interim purposes, we made adjustments to remove these proforma provisions. Applying these adjustments, the appropriate interim rate base amount is \$1,086,735.

Cost of Capital

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. 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.

Section 367.082, Florida Statutes, establishes the rate of return of equity by calculating the lower end of the range of the utility's last authorized return on equity. Order No. PSC-92-0563-FOF-WS, issued June 24, 1992, established a range of Barefoot Bay's rate of return on equity of 12.11 percent to 14.11 percent. However, in this docket, the utility requested a return on equity of 10.97 percent, thereby waiving Section 367.082, Florida Statutes. Therefore, we used the utility's requested return on equity to calculate its overall rate of return. Using the 10.97

percent return on equity, we find that the appropriate overall rate of return for interim purposes is 8.64 percent.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3-A, and our adjustments are itemized on Schedule No. 3-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.

The utility's requested revenue requirement included proforma provisions for employee salaries and general administrative expenses. These provisions were removed for interim purposes. Also, a corresponding adjustment was made to income taxes and taxes other than income to remove the taxes associated with these net operating income proforma adjustments.

Revenue Requirement

Based upon recovery of actual operating expenses for the year ended June 30, 1994, and an 8.99% overall rate of return on an average rate base, we find the appropriate revenue requirement to be \$777,686, an increase of \$93,842 or 13.72%.

Interim Rates

We find it appropriate that interim rates for the FCWC, Barefoot Bay Division, be designed to allow the utility the opportunity to generate additional annual operating revenues of \$93,842 for its water operations.

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 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 below has been filed.

The current water rates, utility requested interim and proposed final rates, and the approved interim rates for the FCWC, Barefoot Bay Division, are shown on Schedule No. 4.

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 \$58,509. The utility's parent company, FCWC, shall provide a corporate undertaking in the amount of \$58,509 as guarantee of any potential refund of water revenues collected under interim conditions.

Also, by no later than the twentieth (20th) day after each monthly billing, the utility shall file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the interim increase. 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 should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the final rates and schedules proposed by Florida Cities Water Company (Barefoot Bay Division) 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 Florida Cities Water Company (Barefoot Bay Division) is hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. 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, provided customers have received notice. It is further

ORDERED that the difference between the interim rates granted herein and Florida Cities Water Company's (Barefoot Bay Division)

ORDER NO. PSC-94-1237-FOF-WU
DOCKET NO. 940687-WU
PAGE 6

previously authorized rates shall be collected subject to refund, with interest. It is further

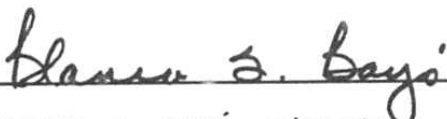
ORDERED that Florida Cities Water Company (Barefoot Bay Division) shall provide a corporate undertaking in the amount of \$58,509 as guarantee of any potential refund of water revenues collected under interim conditions. It is further

ORDERED that prior to the implementation of the interim rates approved herein, Florida Cities Water Company (Barefoot Bay Division) 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, Florida Cities Water Company (Barefoot Bay Division) 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 October, 1994.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

MSN

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.

ORDER NO. PSC-94-1237-FOF-WU
 DOCKET NO. 940687-WU
 PAGE 8

FLORIDA CITIES WATER COMPANY - BAREFOOT BAY
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED JUNE 30, 1994

SCHEDULE NO. 1-A
 DOCKET NO. 940687-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 4,351,887	91,412 \$	4,443,299 \$	(91,412)\$	4,351,887
2 LAND	1,056		1,056	0	1,056
3 CONSTRUCTION WORK IN PROGRESS	16,323	(16,323)	0	0	0
4 ACCUMULATED DEPRECIATION	(1,071,326)	(2,122)	(1,073,448)	2,122	(1,071,326)
5 CIAC	(2,960,556)	0	(2,960,556)	0	(2,960,556)
6 AMORTIZATION OF CIAC	783,002	2,836	785,838	(2,836)	783,002
7 ALLOCATION OF GENERAL OFFICE	0	21,675	21,675	(21,675)	0
8 ADVANCES FOR CONSTRUCTION	(86,250)	0	(86,250)	0	(86,250)
9 DEFERRED TAXES	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	69,057	626	69,683	(761)	68,922
RATE BASE	\$ 1,103,193	\$ 98,104	\$ 1,201,297	(114,562)\$	1,086,735
	=====	=====	=====	=====	=====

FLORIDA CITIES WATER COMPANY - BAREFOOT BAY ADJUSTMENTS TO RATE BASE TEST YEAR ENDED JUNE 30, 1994		SCHEDULE NO. 1-B DOCKET NO. 940687-WU PAGE 1 OF 1	
EXPLANATION	WATER	WASTEWATER	
(1) <u>UTILITY PLANT IN SERVICE</u>			
a) Adjustment to remove proforma plant	\$ <u>(91,412)</u>		
(2) <u>ACCUMULATED DEPRECIATION</u>			
a) To agree with plant adjustment on proforma plant	\$ <u>2,122</u>		
(3) <u>AMORTIZATION OF CIAC</u>			
a) To agree with plant adjustment on proforma plant	\$ <u>(2,836)</u>		
(4) <u>ALLOCATION OF GENERAL PLANT</u>			
a) To remove pro forma adjustment	\$ <u>(21,675)</u>		
(5) <u>WORKING CAPITAL</u>			
a) Adjustment to agree with recommended operating expenses	\$ <u>(761)</u>		

FLORIDA CITIES WATER COMPANY - BAREFOOT BAY CAPITAL STRUCTURE TEST YEAR ENDED JUNE 30, 1994					SCHEDULE NO. 2-A DOCKET NO. 940687-WU					
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	\$ 28,240,625	41.29%	9.39%	3.88%	\$ (27,791,866)	\$ 448,759	41.29%	9.39%	3.88%	
2 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
3 PREFERRED STOCK	9,000,000	13.16%	9.00%	1.18%	(8,856,985)	143,015	13.16%	9.00%	1.18%	
4 COMMON EQUITY	20,435,972	29.88%	10.97%	3.28%	(20,111,233)	324,739	29.88%	10.97%	3.28%	
5 CUSTOMER DEPOSITS	375,265	0.55%	6.00%	0.03%	(369,302)	5,965	0.55%	6.00%	0.03%	
7 TAX CREDITS - Wtd. Cost	1,848,881	2.70%	9.87%	0.27%	(1,819,501)	29,380	2.70%	9.89%	0.27%	
8 ACCUM. DEFERRED TAX	8,488,103	12.41%	0.00%	0.00%	(8,353,222)	134,881	12.41%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 68,388,846	100.00%		8.64%	\$ (67,302,111)	\$ 1,086,735	100.00%		8.64%	
RANGE OF REASONABLENESS							LOW	HIGH		
							-----	-----		
RETURN ON EQUITY							10.97%	12.97%		
							=====	=====		
OVERALL RATE OF RETURN							8.64%	9.24%		
							=====	=====		

FLORIDA CITIES WATER COMPANY – BAREFOOT BAY		SCHEDULE NO. 2-B		
ADJUSTMENTS TO CAPITAL STRUCTURE		DOCKET NO. 940687-WU		
TEST YEAR ENDED JUNE 30, 1994				
DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$	\$	\$ (27,791,866)	\$ (27,791,866)
2 INTERCOMPANY PAYABLES		0	0	0
3 PREFERRED STOCK			(8,856,985)	(8,856,985)
4 COMMON EQUITY		0	(20,111,233)	(20,111,233)
5 CUSTOMER DEPOSITS			(369,302)	(369,302)
6 ACCUM. DEFERRED INCOME TAX			(1,819,501)	(1,819,501)
7 OTHER (Explain)			(8,353,222)	(8,353,222)
8 TOTAL CAPITAL	\$	0 \$	0 \$ (67,302,111)	\$ (67,302,111)
	=====	=====	=====	=====

FLORIDA CITIES WATER COMPANY - BAREFOOT BAY
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED JUNE 30, 1994

SCHEDULE NO. 3-A
 DOCKET NO. 940687-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 667,367	\$ 130,943	\$ 798,310	(114,466)	\$ 683,844	\$ 93,842	777,686
OPERATING EXPENSES:		19.62%				13.72%	
2 OPERATION AND MAINTENANCE	\$ 552,458	\$ 5,008	\$ 557,466	(6,087)	\$ 551,379	\$	551,379
3 DEPRECIATION NET OF CIAC AMORT.	58,025	(4,828)	53,197	0	53,197		53,197
4 AMORTIZATION	1,322	0	1,322	0	1,322		1,322
5 TAXES OTHER THAN INCOME	65,846	6,211	72,057	(5,470)	66,587	4,223	70,810
6 PROVISION FOR INCOME TAXES	8,640	1,836	10,476	(37,118)	(26,642)	33,724	7,081
7 TOTAL OPERATING EXPENSES	\$ 686,291	\$ 8,227	\$ 694,518	\$ 1,340,361	\$ 645,843	\$ 37,947	683,789
8 OPERATING INCOME	\$ (18,924)	\$ 122,716	\$ 103,792	(1,454,827)	\$ 38,001	\$ 55,896	93,897
9 RATE BASE	\$ 1,103,193	\$	1,201,297	\$	1,086,735	\$	1,086,735
RATE OF RETURN	-1.72%		8.64%		3.50%		8.64%

FLORIDA CITIES WATER COMPANY - BAREFOOT BAY
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED JUNE 30, 1994

SCHEDULE NO. 3-B
 DOCKET NO. 940687-WU
 PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) To reverse utility's proposed rate increase	\$ <u>(114,466)</u>	
(2) OPERATING & MAINTENANCE		
a) To reverse utility's proforma adjustments	\$ <u>(6,087)</u>	
(3) TAXES OTHER THAN INCOME TAXES		
a) To remove RAF's on utility's revenue increase		(5,151)
b) Adjustment to reduce payroll taxes		<u>(319)</u>
	\$ <u>(5,470)</u>	
(4) INCOME TAXES		
a) Remove taxes associated with adjusted test year income	\$ <u>(37,118)</u>	
(5) OPERATING REVENUES		
Adjustment to reflect recommended revenue requirement	\$ <u>93,842</u>	
(6) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment fees related to revenue adjustment	\$ <u>4,223</u>	
(7) INCOME TAXES		
a) Income taxes related to revenue increase	\$ <u>33,724</u>	
(8) OPERATING REVENUES		
a) Adjustment to reflect recommended revenue requirement	\$ <u>93,842</u>	

ORDER NO. PSC-94-1237-FOF-WU
 DOCKET NO. 940687-WU
 PAGE 14

UTILITY: FLORIDA CITIES WATER COMPANY – BAREFOOT BAY DIVISION
 COUNTY: BREVARD
 DOCKET NO. 940687-WU
 TEST YEAR ENDED: 6/30/94

Schedule 4

RATE SCHEDULE

WATER

Monthly Rates

	<u>Current</u>	<u>Utility Requested Interim</u>	<u>Utility Requested Final</u>	<u>Staff Recommended Interim</u>
<u>Residential and Multi-Family</u>				
Base Facility Charge:				
5/8" x 3/4"	\$6.15	\$7.18	\$7.53	\$7.00
3/4"	9.23	10.78	\$11.30	\$10.51
1"	\$15.39	\$17.97	\$18.83	\$17.52
1-1/2"	\$30.78	\$35.93	\$37.65	\$35.04
2"	\$49.25	\$57.49	\$60.24	\$56.06
3"	\$98.50	\$114.99	\$120.48	\$112.12
4"	\$153.90	\$179.66	\$188.25	\$175.18
6"	\$307.81	\$359.34	\$376.50	\$350.38
Gallonage Charge/M Gal. (No Maximum)	\$1.88	\$2.19	\$2.10	\$2.14
<u>General Service</u>				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$6.15	\$7.18	\$7.53	\$7.00
3/4"	9.23	10.78	\$11.30	\$10.51
1"	\$15.39	\$17.97	\$18.83	\$17.52
1-1/2"	\$30.78	\$35.93	\$37.65	\$35.04
2"	\$49.25	\$57.49	\$60.24	\$56.06
3"	\$98.50	\$114.99	\$120.48	\$112.12
4"	\$153.90	\$179.66	\$188.25	\$175.18
6"	\$307.81	\$359.34	\$376.50	\$350.38
Gallonage Charge/M Gal. (No Maximum)	\$1.88	\$2.19	\$2.10	\$2.14
<u>Typical Residential Bills</u>				
<u>5/8" x 3/4" meter</u>				
3,000 Gallons	\$11.79	\$13.75	\$13.83	\$13.42
5,000 Gallons	\$15.55	\$18.13	\$18.03	\$17.70
10,000 Gallons	\$24.95	\$29.08	\$28.53	\$28.40