

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation of rates) DOCKET NO. 950170-WS
of Marion Utilities, Inc. in) ORDER NO. PSC-95-0424-FOF-WS
Marion County for possible) ISSUED: March 29, 1995
overearnings.)
_____)

The following Commissioners participated in the disposition of this matter:

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

ORDER INITIATING INVESTIGATION INTO RATES AND CHARGES
AND MAKING REVENUES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Marion Utilities, Inc. (Marion or utility) is a Class B utility providing water and wastewater service for approximately 3,792 water and 118 wastewater customers in Marion County. The utility's systems are located in the St. Johns River Water Management District Water Conservation Area as designated by the Governing Board of the Water Management District. For the test year ending June 30, 1994, the utility reported water operating revenues of \$866,560 and a net operating income of \$124,052. Wastewater operating revenues were \$20,920, with a net operating loss of \$226.

Marion's last rate case was finalized on January 31, 1983, by Order No. 11568, Docket No. 810259-W. In that order, rate base was set and an overall rate of return of 16.18 percent was approved. Index and pass-through increases were granted in 1985, 1986, 1989, and 1991-1993.

INITIATION OF OVEREARNINGS INVESTIGATION AND PLACING
REVENUES SUBJECT TO REFUND

Based on a desk audit of the 1993 annual report for Marion, we began an informal investigation into potential overearnings. The 1993 annual report indicated that Marion's water systems were earning an overall rate of return of 14.91 percent. We requested

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an audit of the utility's books for the test year ending June 30, 1994. Our audit indicated that the water systems were earning an overall rate of return of 25.19 percent. Based on this, we find it appropriate that this docket be opened to investigate the potential overearnings of the utility. Furthermore, water and wastewater rate base should be established since both were last set by this Commission as of December 31, 1981.

Water operating revenues as adjusted by our auditors totalled \$863,660. Our calculation of the gross annual revenue requirement, based on the auditors' adjusted rate base and net operating income totals \$760,046 for water. The difference of \$103,615 shall be held subject to refund, pursuant to Section 367.082, Florida Statutes. Based on our preliminary analysis, the wastewater system is operating at a loss. After our investigation is complete, we will be able to determine if the utility is, in fact, overearning.

Accounting schedules are attached to illustrate the approved water and wastewater rate base, capital structure, and test year operating income amounts. The rate base schedules are numbered 1-A and 1-B. The capital structure is Schedule No. 2. Schedules Nos. 3-A and 3-B are reserved for the operating statements.

For purposes of this interim Order, the schedules reflect the test year ending balances per the auditors, as well as specific audit adjustments. Since there was no filing on the part of the utility, the amounts per audit do not necessarily reflect the utility's position. These balances do not include any utility calculations for working capital, income taxes or the overall cost of capital.

RATE BASE

Working Capital

Section 367.082(5)(b)1, Florida Statutes, requires us to use adjustments consistent with the utility's last rate proceeding in calculating interim rates. Consistent with the treatment allowed in Marion's last rate case, we have calculated working capital using the balance sheet method. Based on our preliminary review, a negative working capital amount was calculated. When negative working capital exists, our practice is to use a zero balance. Based on the audited balances and the use of the balance sheet approach for working capital, we find it appropriate to establish rate base for interim purposes as \$650,556 for water and a negative \$8,994 for wastewater.

COST OF CAPITAL

In the utility's last rate case, the overall cost of capital was established at 16.18 percent. At that time, the capital structure consisted of 100 percent debt. Currently, the utility's equity ratio is 65.96 percent. Consistent with Section 367.082(2)(b), Florida Statutes, the appropriate rate of return on equity for interim refund purposes is calculated using the maximum of the range of the last authorized rate of return on equity. Since a rate of return on equity has not been previously established for Marion, we find it appropriate to use our current leverage formula contained in Order No. PSC-94-1051-FOF-WS, issued on August 29, 1994. Thus, we find that the utility's required rate of return on equity is 10.34 percent with a range of 9.34 percent to 11.34 percent. Using the high-end of the range to calculate any potential overearnings, we have established an overall rate of return of 9.38 percent for interim purposes.

NET OPERATING INCOME

Revenue Requirement

Water operating revenues adjusted per our auditors total \$863,660. Our calculation indicates a revenue requirement of \$760,046 for the interim period, representing a decrease of \$103,615. Accordingly, 12 percent of test year revenues shall be held subject to refund pending our final determination.

Based on our calculation, the water systems are overearning by 25.19 percent on an annual basis. However, the wastewater system is operating at a loss, with a negative rate base. Since the number of customers for the water system is substantially larger than the number of customers for the wastewater system, we find it inappropriate to net the revenues together.

SECURITY

Pursuant to Section 367.082, Florida Statutes, the utility is authorized to continue collecting the previously authorized rates. As previously stated, the amount of potential overearnings in the water system is \$103,615 on an annual basis. On August 27, 1993, the utility implemented a price index of \$17,401 for the water system. According to Section 367.081(4)(d), Florida Statutes, an index is subject to refund for up to fifteen months after the date of filing of the annual report for the year the index was implemented. The utility's 1993 annual report was filed on April 4, 1994, consequently, fifteen months from that date is July 4, 1995. Since the index is already subject to refund, only \$86,214

in annual revenues shall be collected under guarantee, subject to refund with interest. Assuming a 9-month time frame, the potential refund amount is \$67,584.

A corporate undertaking signed by Marion Utilities, Inc. will be sufficient to protect the potential refunds. Therefore, the utility shall provide a corporate undertaking in the amount of \$67,584 as a guarantee of any potential refund of water revenues collected under interim conditions.

Also, by no later than the twentieth day of each month, 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 amount 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 administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and shall be borne by, the utility.

Based on the foregoing, it is therefore,

ORDERED by the Florida Public Service Commission that an investigation of the water rates and charges of Marion Utilities, Inc. shall be initiated. It is further

ORDERED that Marion Utilities, Inc. shall place \$103,615 annually of its revenues for water service, subject to refund with interest in accordance with Rule 25-30.360, Florida Administrative Code, to the extent set forth in the body of this Order. It is further

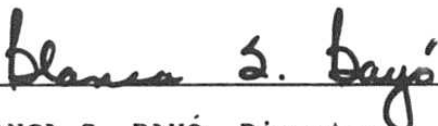
ORDERED that Marion Utilities, Inc. shall provide the Commission with a corporate undertaking in the amount of \$67,584 as a guarantee of any potential refund of water revenues collected under interim conditions. It is further

ORDERED that by no later than the twentieth day of each month, 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 amount subject to refund.

ORDERED that this docket shall remain open.

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By ORDER of the Florida Public Service Commission, this 28th
day of March, 1995.



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 the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) 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 and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.

MARION UTILITIES, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 06/30/94			SCHEDULE NO. 1-A DOCKET NO. 950170-WS			
COMPONENT	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	ADJUSTMENT TO REFLECT AVERAGE	AVERAGE BALANCE PER COMMISSION	
1 UTILITY PLANT IN SERVICE	\$ 2,107,573	\$ (15,965)	\$ 2,091,608	\$ (35,741)	2,055,867	
2 LAND	53,260	16,241	69,501	0	69,501	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(681,638)	1,856	(679,782)	39,691	(640,091)	
5 CIAC	(1,165,001)	(28,104)	(1,193,105)	36,751	(1,156,354)	
6 AMORTIZATION OF CIAC	220,941	13,846	234,787	(21,731)	213,056	
7 ACQUISITION ADJUSTMENTS -NET	80,811	24,632	105,443	3,134	108,577	
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0	
9 WORKING CAPITAL ALLOWANCE	0	0	0	0	0	
RATE BASE	\$ 615,946	\$ 12,506	\$ 628,452	\$ 22,104	650,556	
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MARION UTILITIES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 06/30/94			SCHEDULE NO. 1-B DOCKET NO. 950170-WS			
COMPONENT	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	ADJUSTMENT TO REFLECT AVERAGE	AVERAGE BALANCE PER COMMISSION	
1 UTILITY PLANT IN SERVICE	\$ 155,282	\$ 0	\$ 155,282	\$ 0	155,282	
2 LAND	3,869	0	3,869	0	3,869	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(82,626)	(985)	(83,611)	2,989	(80,622)	
5 CIAC	(126,250)	0	(126,250)	0	(126,250)	
6 AMORTIZATION OF CIAC	39,453	1,704	41,157	(2,430)	38,727	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0	
9 WORKING CAPITAL ALLOWANCE	0	0	0	0	0	
RATE BASE	\$ (10,272)	\$ 719	\$ (9,553)	\$ 559	(8,994)	

MARION UTILITIES, INC. CAPITAL STRUCTURE TEST YEAR ENDED 06/30/94		SCHEDULE NO. 2 DOCKET NO. 950170-WS			
DESCRIPTION	ADJUSTED TEST YEAR PER AUDIT	WEIGHT	COST	WEIGHTED COST PER COMMISSION	
1 LONG TERM DEBT	\$ 140,437	26.53%	8.42%	2.23%	
2 SHORT-TERM DEBT	0	0.00%	0.00%	0.00%	
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	272,118	51.41%	11.34%	5.83%	
5 CUSTOMER DEPOSITS	116,726	22.05%	6.00%	1.32%	
7 DEFERRED TAXES	0	0.00%	0.00%	0.00%	
8 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 529,280	100.00%		9.38%	
RANGE OF REASONABLENESS		LOW	HIGH		
	RETURN ON EQUITY	9.34%	11.34%		
	OVERALL RATE OF RETURN	8.35%	9.38%		

MARION UTILITIES, INC. STATEMENT OF WATER OPERATIONS TEST YEAR ENDED 06/30/94		SCHEDULE NO. 3-A DOCKET NO. 950170-WS					
DESCRIPTION	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	AMOUNT SUBJECT TO REFUND	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 866,560	\$ (2,900)	\$ 863,660	\$ 0	\$ 863,660	\$ (103,615)	760,046
OPERATING EXPENSES:						-12.00%	
2 OPERATION AND MAINTENANCE	\$ 599,953	\$ (32,694)	\$ 567,259	\$ 0	\$ 567,259	\$	567,259
3 DEPRECIATION	40,501	(4,584)	35,917	0	35,917		35,917
4 AMORTIZATION	6,156	113	6,269	0	6,269		6,269
5 TAXES OTHER THAN INCOME	71,387	0	71,387	0	71,387	(4,663)	66,724
6 INCOME TAXES	24,511	0	24,511	35,578	60,090	(37,236)	22,854
7 TOTAL OPERATING EXPENSES	\$ 742,509	\$ (37,165)	\$ 705,344	\$ 35,578	\$ 740,922	\$ (41,898)	699,024
8 OPERATING INCOME	\$ 124,052	\$ 34,265	\$ 158,317	\$ (35,578)	\$ 122,739	\$ (61,716)	61,022
9 RATE BASE	\$ 615,946		\$ 628,452		\$ 650,556		\$ 650,556
RATE OF RETURN	20.14%		25.19%		18.87%		9.38%

MARION UTILITIES, INC. STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 06/30/94			SCHEDULE NO. 3-B DOCKET NO. 950170-WS			
DESCRIPTION	TEST YEAR PER AUDIT	AUDIT ADJUSTMENTS	BALANCE PER AUDIT	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 OPERATING REVENUES	\$ 20,920	\$ 0	\$ 20,920	\$ 0	20,920	

OPERATING EXPENSES						
2 OPERATION AND MAINTENANCE	\$ 18,005	\$ 9,801	\$ 27,806	\$ 0	27,806	
3 DEPRECIATION	823	295	1,118	0	1,118	
4 AMORTIZATION	0	0	0	0	0	
5 TAXES OTHER THAN INCOME	1,727	0	1,727	0	1,727	
6 INCOME TAXES	592	0	592	(4,133)	(3,541)	

7 TOTAL OPERATING EXPENSES	\$ 21,146	\$ 10,097	\$ 31,243	(4,133)	27,110	

8 OPERATING INCOME	\$ (226)	\$ (10,097)	\$ (10,323)	4,133	(6,189)	
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9 RATE BASE	\$ (10,272)	\$	(9,553)	\$	(8,994)	
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RATE OF RETURN	N/A		N/A		N/A	
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