

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation of ) DOCKET NO. 960984-SU  
possible overearnings in Volusia ) ORDER NO. PSC-97-0263-FOF-SU  
County by North Peninsula ) ISSUED: MARCH 11, 1997  
Utilities Corporation. )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

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

ORDER REQUIRING CONTINUATION OF ESCROW OF FUNDS  
COLLECTED SUBJECT TO REFUND PENDING FINAL DETERMINATION  
AND NOTICE OF PROPOSED AGENCY ACTION  
ORDER ESTABLISHING RATE BASE, REQUIRING REFUNDS OF  
INDEX AND PASS-THROUGH RATE ADJUSTMENTS AND REVENUES  
COLLECTED DURING INTERIM COLLECTION PERIOD, AND REDUCING RATES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein establishing rate base, requiring refunds of certain index and pass-through rate adjustments and interim revenues, and reducing rates, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

North Peninsula Utilities Corporation (North Peninsula or utility) is a Class C wastewater only utility providing wastewater service to approximately 480 customers in Volusia County. For the year ending December 31, 1995, the utility reported wastewater operating revenues of \$143,189 and a net operating income of \$22,459.

Our review of the utility's 1995 annual report, filed April 23, 1996, indicated that North Peninsula's wastewater system was earning an overall rate of return of 17.26%. On July 26, 1996,

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FPSC-RECORDS/REPORTING

we received a 1996 index and pass-through application for North Peninsula. This index and pass-through rate adjustment became effective on September 28, 1996, and increased customer rates by 1.74% or \$2,538. On September 16, 1996, we initiated an investigation of possible overearnings and required annual wastewater revenues of \$12,311 to be held subject to refund, which amount included the 1996 index and pass-through rate increases. Our decision was memorialized by Order No. PSC-96-1243-FOF-SU, issued October 7, 1996. The utility complied with the Order by placing \$6,381 of security in an escrow account with Barnett Bank. The \$6,381 represents \$6,156 of security and \$225 of interest, calculated in accordance with Rule 25-30.360, Florida Administrative Code, and assumed a six-month time frame for the investigation.

The utility's last staff-assisted rate case was completed by Order No. 16184, issued June 4, 1986, in Docket No. 850121-SU, when the utility was known as Shore Utility Corporation (Shore Utility). By Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU, the Commission approved the transfer of Shore Utility to North Peninsula. Rate base was established during that transfer proceeding for book value of the property being transferred and did not include the typical ratemaking adjustments of working capital calculations and used and useful adjustments.

North Peninsula has not applied for a staff-assisted rate case since the transfer, but received price index rate increases in 1991, 1992, 1993, 1994, 1995, and 1996, and pass-through rate increases in 1993, 1994, 1995, and 1996. The utility's 1995 annual report was the first indication of possible utility overearnings. The annual report reviews for the previous six years showed the following earnings for North Peninsula:

<u>Year</u>	<u>Net Income</u>	<u>Rate of Return</u>
1994	(\$ 6,191)	( 4.31%)
1993	(\$19,899)	(11.51%)
1992	(\$22,469)	( 8.55%)
1991	\$ 4,941	3.95%
1990	(\$24,908)	(21.39%)
1989	\$ 4,016	3.10%

We have audited the utility's records for compliance with Commission rules and orders and have determined all components necessary for rate setting. We selected a historical test year ending June 30, 1996. We have conducted an engineering field investigation of the utility's wastewater treatment plant,

wastewater collection system, and service area. We have also performed a review of the utility's operation expenses, maps, and files in order to obtain information on the systems and operating costs.

We first considered and ruled upon our staff's recommendation on this overearnings investigation on February 18, 1997. However, upon finding certain errors in the calculation of the used and useful percentages for the wastewater treatment plant and collection system, on March 4, 1997, we reconsidered, on our own motion, our February 18, 1997, decision with respect to those percentages. This Order reflects our decision of February 18, 1997, as modified by our subsequent decision of March 4, 1997.

#### QUALITY OF SERVICE

A review of Department of Environmental Protection (DEP) records has shown that the utility is generally in compliance with DEP standards. In addition, there are no customer complaints presently on file at the Commission. We therefore find that the quality of service provided by North Peninsula is satisfactory.

#### RATE BASE

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

#### Used and Useful Adjustments

##### Wastewater Treatment Plant

The wastewater treatment plant has a treatment capacity of 210,000 gallons per day (gpd) and a permitted capacity of 181,000 gpd. The average daily flow of the peak usage month during the test year is 128,000 gallons per day. If we were to base the used and useful percentage on plant flows, with 8,817 gallons per day considered for margin reserve, the resulting used and useful percentage for the wastewater treatment plant would be 76%.

Although plant flows are generally used in treatment plant used and useful calculations, we have, in past cases, found it appropriate to approve plant used and useful based on other criteria. For example, in Dockets Nos. 940496-WS and 900749-WS,

the approved plant used and useful determinations were based on system connection capacities because we found that those systems were essentially built out.

We note that the North Peninsula wastewater treatment plant was built to serve the existing territory. Moreover, there is little likelihood of further territorial expansion due to resistance from Volusia County (County). The County protested a previous request by the utility to amend its territory in Docket No. 930851-SU. The proposed amendment would have potentially added approximately 1,000 equivalent residential connections (ERCs), which included potential new development in the proposed service area and a certain number of existing property owners who were on septic tanks. The utility subsequently filed a request to modify its application, limiting its amendment request to include only 25 ERCs to its territory. However, continued resistance to the amendment resulted in the utility's withdrawal of the application. Since the County has objected to further expansion of the utility's territory, and areas adjacent to its territory are almost completely developed, we believe there is little likelihood of further expansion.

For the foregoing reasons, we find it appropriate to calculate treatment plant used and useful on the basis of connection capacity of the service area rather than on plant flows. Based on this calculation, we find the wastewater treatment plant to be 91% used and useful.

#### Wastewater Collection System

The wastewater collection system has a capacity of 485 ERCs. The number of test year connections is 422 ERCs. Adding 19.4 ERCs for margin reserve considerations, we find the wastewater collection system to also be 91% used and useful.

#### Test Year Rate Base

The appropriate components of North Peninsula's rate base include depreciable plant-in-service, land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. A discussion of each component follows.

#### Plant-in-Service

The wastewater treatment facility has a combined treatment capacity of 210,000 gpd and a permitted capacity of 181,000 gpd. This facility is composed of three package plants: one concrete

plant at 60,000 gpd; one steel plant at 90,000 gpd; and one steel plant at 60,000 gpd. Disinfection is achieved through gas chlorination, with the treated effluent flowing to two percolation/evaporation basins.

The wastewater collection system is composed of PVC pipe. The system has two lift stations. One is a master station located at the plant site, and the other is located in the service area.

The utility's books showed a utility plant-in-service balance of \$781,227 for wastewater. We made an adjustment of \$2,471 to bring the utility amount to our approved amount, along with an adjustment of \$6,296 to include pro forma plant consisting of two backup blowers required by DEP. Also, an adjustment of (\$1,235) was made to reflect an averaging adjustment. Accordingly, we find at the appropriate utility plant-in-service amount is \$788,759.

#### Land

Land value of \$46,800 was established by Order No. 22345, issued December 27, 1989, in Docket No. 891016-SU, and was included on the utility's books. We find it unnecessary to make any adjustments to the land account.

#### Non-Used and Useful Plant

In accordance with approved formulas, we have calculated both the wastewater treatment plant and the wastewater collection system to be 91% used and useful. Average non-used and useful plant has been calculated based on the non-used and useful percentages times average plant and average accumulated depreciation.

Adjustments were made to the wastewater system to reflect: non-used and useful plant of (\$69,854); average non-used and useful accumulated depreciation associated with non-used and useful plant of \$30,156; average non-used and useful CIAC of \$56,073; and average accumulated amortization of non-used and useful CIAC of (\$25,511). Accordingly, we find that the appropriate amount of non-used and useful plant is (\$9,136).

#### Contributions in Aid of Construction (CIAC)

The utility books reflected a CIAC balance of (\$630,494) at the end of the test year. By Order No. 16184, the Commission ordered the utility, then known as Shore Utility, to cease charging service availability charges in order to avoid exceeding the 75% maximum level as established by Rule 25-30.580, Florida Administrative Code. North Peninsula did not request a change in

rates or charges at the time of transfer. Therefore, by Order No. 22345, North Peninsula was directed to continue charging the rates and charges approved for Shore Utility. The utility's current contribution level is 68.93%. Since there are currently no approved service availability charges for North Peninsula, we have not calculated CIAC for margin reserve. We do, however, find it appropriate to make an averaging adjustment of \$1,150, which results in a CIAC balance of (\$629,344).

#### Accumulated Depreciation

The utility books reflected an accumulated depreciation balance of (\$352,175) at the end of the test year. We have calculated accumulated depreciation in accordance with Rule 25-30.140, Florida Administrative Code, starting with balances as established by Order No. 22345. We have made adjustments of (\$3,832) to bring the utility's figures to our approved amount, and \$18,105 to reflect an averaging adjustment. We find that the appropriate accumulated depreciation balance is (\$337,902).

#### Accumulated Amortization

The utility books reflected an accumulated amortization balance of \$267,798 at the end of the test year. We have calculated amortization of CIAC by calculating a yearly composite rate. An increase of \$33,055 was made to accumulated amortization to bring the utility balance to our approved amount. An averaging adjustment of (\$14,565) was also made. Accordingly, the appropriate test year accumulated amortization of CIAC balance is \$286,288.

#### Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, the one-eighth of operation and maintenance expense formula approach is used to calculate the working capital allowance. After applying that formula, based on operation & maintenance expenses (O&M) of \$86,014, we find that the appropriate working capital allowance is \$10,752.

#### Rate Base Summary

Based on the foregoing, we find that the appropriate test year rate base balance is \$156,217.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is shown 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.

The utility's capital structure consists of \$295,000 of long-term debt at a cost of 1 1/2% over prime along with negative retained earnings of \$172,438. Since including a negative retained earnings would penalize the utility's capital structure by understating the overall rate of return, we have adjusted the negative retained earnings to zero. The current prime rate is 8.25% resulting in a cost of long-term debt of 9.75%. Using the current leverage formula approved by Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, we find that the rate of return on equity for future proceedings is 11.88% with a range of 10.88% to 12.88%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.75%. We have made pro rata adjustments to reconcile the capital structure downward to match the approved rate base.

#### NET OPERATING INCOME

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

#### Test Year Operating Revenues

The utility recorded revenues of \$143,811 during the test period. We have decreased test year operating revenues by \$122 to remove non-utility interest income. Accordingly, North Peninsula's test year operating revenues are \$143,689.

#### Test Year Operating Expenses

The utility recorded operating expenses of \$163,423 during the test year. The components of these expenses include O&M expenses, net depreciation expense, and taxes other than income taxes.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and our approved allowances for plant operations. Accordingly, the appropriate amount of operating expenses is \$109,835.

#### O&M Expenses

The utility charged \$143,318 to O&M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

##### Sludge Removal Expense

The utility included no sludge removal expense in this account during the test year. We find it appropriate to make an adjustment of \$5,075 to reclassify sludge removal expense from the contractual services account. Accordingly, sludge removal expense totals \$5,075.

##### Purchased Power Expense

The utility recorded test year purchased power of \$13,257. We have made adjustments of (\$2,871) to reclassify utility-used water expense to the contractual services account, (\$744) to remove out of period purchased power expense, and \$869 to include June 1996 purchased power expense. Accordingly, we find that purchased power expense totals \$10,511.

##### Chemical Expense

The utility recorded no chemical expense in this account for the test year. We have made an adjustment of \$624 to reclassify a chemical expense from the contractual services account. Accordingly, chemical expense totals \$624.

##### Contractual Services

The utility recorded \$72,153 in the contractual services account during the test year. We have made several adjustments to contractual services to reclassify a \$2,871 water expense from account no. 715; a \$5,075 sludge removal expense to account no. 711; \$624 of chemical expense to account no. 718; a \$385 fence repair from account no. 775; and to amortize \$19,890 of legal expenses over four years. Our adjustments total (\$17,361) for contractual services.



We find that the contractual services expense totals \$54,792, which includes \$5,670 for an operator's contract; \$7,970 for accounting, legal and engineering fees; \$21,152 for repairs and maintenance and DEP testing; and \$20,000 for a management contract.

#### Transportation Expenses

The utility recorded transportation expenses of \$4,073 during the test year. We have made an adjustment of \$934 to reclassify a transportation expense from account no. 775, along with an adjustment of (\$2,394) to remove estimated non-utility transportation expenses. Accordingly, test year transportation expenses total \$2,613.

#### Miscellaneous Expense

The utility recorded \$48,288 of miscellaneous expenses during the test year. We have made adjustments to miscellaneous expenses to reclassify \$33,892 of interest expense to account no. 427 and \$934 of transportation expense to account no. 750; disallow a \$150 charitable contribution and \$4,637 of non-verifiable entertainment expense; reclassify \$385 of fence repair expense to contractual services; include \$712 for a DEP permit fee amortized over the five year life of the permit; and remove \$2,150 of estimated non-utility telephone expense. Accordingly, test year miscellaneous expense totals \$6,852.

#### O&M Summary

We have made O&M adjustments of (\$57,304) for the test year. After making the appropriate adjustments, we find that the O&M expenses total \$86,014.

#### Depreciation Expense

The utility recorded \$1,239 of net depreciation expense during the test year. We have calculated test year depreciation expense in accordance with Rule 25-30.140, Florida Administrative Code. We have made a \$5,382 adjustment to net depreciation expense to bring the utility balances to the approved balances. We have also made an adjustment of \$420 to include one year of depreciation expense on pro forma plant. After applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances, and after applying the composite depreciation rates to the appropriate CIAC account balances, we find that the appropriate depreciation expenses net of CIAC amortization is \$7,041.

### Test Year Taxes Other Than Income Taxes

The utility recorded \$18,866 of taxes other than income taxes in this account during the test year. We have made an adjustment of (\$1,248) to reflect the non-used and useful amount of property taxes. Therefore, the appropriate test year taxes other than income taxes amount is \$17,618.

### Operating Revenues

Revenues have been adjusted by (\$18,623) to reflect the decrease in revenue required to cover expenses and allow the rate of return on investment approved herein, based on test year figures.

### Taxes Other Than Income Taxes

This expense has been decreased by \$838 to reflect the regulatory assessment fee of 4.5% associated with the decrease in revenue.

### Summary of Operating Revenues and Expenses for Test Year

Revenues have been decreased by \$18,623 to reflect the decrease in revenue required to allow the utility the opportunity to recover its expenses and earn the authorized rate of return on its investment, based on test year figures. We find the appropriate test year revenue requirement to be \$125,066.

## REFUNDS

### Refund of Price Index and Pass-Through Revenues

North Peninsula implemented price index and pass-through rate adjustments on July 30, 1994, August 11, 1995, and September 28, 1996, to represent anticipated increases in operating expenses and to offset allowable pass-through cost increases for the forthcoming years. Those rate adjustments were designed to increase revenues by \$6,559, \$2,024, and \$2,538, respectively, on an annual basis.

Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and/or pass-through rate adjustment if, within fifteen months after the filing of a utility's annual report, we find that the utility exceeded the range of its last authorized rate of return on equity after an index and/or pass-through rate adjustment was implemented within the year for which the annual report was filed or was implemented in the preceding year. The utility's 1995

annual report was filed on April 23, 1996. Therefore, July 23, 1997, is the fifteen-month expiration date of our allotted term for ordering refunds of index and/or pass-through adjustments.

Our annual report review indicated that the utility achieved a 17.26% return on its 1995 rate base amount. North Peninsula's authorized rate of return has never been set by this Commission. However, our audit confirms that the utility's capital structure is 100% debt at a cost of 1 1/2% over prime, with the latest prime rate being 8.25%. Accordingly, we find that the utility's overall rate of return is 9.75%.

An audit investigation was conducted to determine if actual overearnings occurred in 1995. We chose a test year ending June 30, 1996. Based on the audit with applicable adjustments for calendar years, we estimate the utility December 31, 1995, rate base as \$154,406, operating revenue as \$143,189, and operating expenses as \$110,021. We also estimate the utility's December 31, 1996, rate base as \$152,025, operating revenue as \$147,765, and operating expenses as \$113,250. Based on these figures, we conclude that the utility earned a 21.48% return on rate base for 1995 and we estimate a 22.70% return on rate base for 1996. Allowing a 9.75% overall rate of return, we find that the utility overearned by approximately \$18,967 (13.25%) in 1995 and \$20,620 (13.95%) in 1996.

Based on these results, we find it appropriate to require that the price index and pass-through rate increases initiated in 1994 (for 1995 and 1996 income levels), 1995, and 1996 be refunded with interest based upon the income levels for those years as calculated herein. Our review indicates that the 1994 and 1995 index and pass-through adjustments collected in 1995 total approximately \$9,503. This refund is less than the overall decrease (13.25% or \$18,967) that could occur for 1995 and still preserve a 9.75% overall return on rate base.

Employing average test year conditions for 1996, and annualizing actual operating costs to show expected calendar year amounts, our review indicates that North Peninsula would earn an approximate 22.70% return on rate base. Using a 9.75% overall rate of return, we find it appropriate to require that the 1994, 1995, and 1996 index and pass-through adjustments collected throughout 1996, or about \$11,752, shall be refunded. This refund is also less than the overall decrease (13.95% or \$20,620) that could occur for 1996 and still preserve a 9.75% overall rate of return.

Our review clearly shows that the 1994, 1995, and 1996 price index and pass-through rate increases were implemented during a period of utility overearnings. Therefore, the index and pass-through rate increases shall be refunded with interest, as required by Rule 25-30.360(4), Florida Administrative Code.

The following is a yearly breakdown of the required refunds:

<u>Year</u>	<u>Net Income</u>	<u>Rate of Return</u>	<u>Allowable Net Income</u>	<u>Revenue from Index &amp; Pass-Throughs</u>	<u>Refund</u>
1995	\$33,168	21.48%	\$15,055	\$ 9,503	\$ 9,503
1996	\$34,515	22.70%	\$14,822	\$11,752	\$11,752*
1997	\$17,560	11.06%	\$15,474	-0-	1.47%**

\* The 1996 refund amount will also include 6.71% of revenues from October 7, 1996, through December 31, 1996, for funds held subject to refund by Order PSC-96-1243-FOF-SU.

\*\* The 1997 refund amount will be 1.47% of monthly revenues from January 1, 1997, until such time that this Order is final and effective.

The utility has requested that it be given longer than ninety days in which to make the required refunds. Pursuant to Rule 25-30.360(2), Florida Administrative Code, refunds must be made within ninety days of the Commission's order unless a different time frame is prescribed by the Commission. We find it appropriate to prescribe a different time frame in this instance, and we hereby extend the allotted time frame to twelve months. Accordingly, the utility shall complete the refunds of the 1994, 1995, and 1996 index and pass-through rate increases for the years 1995 and 1996, along with the required interim refund, as discussed below, within twelve months of the effective date of this Order. The utility shall be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The refund shall be made to customers of record as of the effective date of this Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

#### Refund of Interim Revenues

Pursuant to Order No. PSC-96-1243-FOF-SU, issued October 7, 1996, we initiated an investigation of the rates and charges for North Peninsula. We also required \$12,311 of annual utility income

to be held subject to refund on an interim basis, pending our final determination. The utility provided security through an escrow agreement which holds 8.45% of monthly revenues subject to refund. Our review discloses that excess earnings were present throughout the interim collection period. The amount held subject to refund included the index and pass-through rate increase implemented in 1996. Subtracting that element, the required refund amounts to 6.71% of the revenues collected from October 7, 1996 through December 31, 1996. The other 1.74% of the 8.45% escrow amount is already being taken into account by the requirements that all of the revenues for the 1996 price index and pass-through adjustments be refunded, and that 1.47% of sales revenues from January 1, 1997, be refunded until rates are reduced as required below.

Based upon average conditions for 1996, the overall rate of return is 9.75%. In accordance with Section 367.082(5), Florida Statutes, we have calculated that North Peninsula would earn a 22.70% return on rate base in 1996 which would result in an approximate 13.95% overearnings situation. We therefore find, pursuant to Section 367.082(1), Florida Statutes, that the utility is earning outside the range of reasonableness on rate of return. Therefore, pursuant to Section 367.082(4), Florida Statutes, the interim revenues held subject to refund by Order No. PSC-96-1243-FOF-SU shall be refunded. For October 7, 1996, through December 31, 1996, the expected refund amount is \$2,321. That amount is derived by multiplying the October 7, 1996, through December 31, 1996, estimated operating revenues (\$34,595) by 6.71% (8.45% less the 1.74% 1996 index and pass-through amount).

Based on our audit with applicable adjustments on a 1997 projected year basis, we find that utility rate base is \$158,709, revenue is \$148,398, and operating expenses are \$130,838. These figures result in a projected 1.47% overearnings situation for the utility. Until the rates are reduced as outlined below, 1.47% of the revenues collected in 1997 shall be refunded. We find that this will allow the utility the opportunity to earn a 9.75% rate of return on a going-forward basis.

Along with the refunds of the price index and pass-through increases as discussed above, pursuant to Section 367.082(4), Florida Statutes, these interim refunds shall be made with interest as required by Rule 25-30.360(4), Florida Administrative Code. The refunds shall be made within twelve months of the effective date of this Order, to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. The utility shall submit the proper refund reports pursuant to Rule 25-

30.360(7), Florida Administrative Code. Moreover, the utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

#### REVENUE REQUIREMENT FOR SETTING RATES

In order to determine the revenue requirement on a going-forward basis, we have made applicable adjustments to test year figures to reflect a 1997 projected year and to allow the utility the opportunity to recover expenses and earn a 9.75% return on rate base. Accordingly, a revenue requirement of \$146,214 shall be used for setting rates on a going-forward basis.

#### REDUCTION IN RATES AND CHARGES

To reflect the revenue requirement presented above, wastewater rates shall be reduced by \$2,184 (1.47%) per year, on a going-forward annual basis. We find that this revenue reduction will provide the utility the opportunity to earn a 9.75% rate of return on rate base. We have calculated this decrease using a projected test year, adjusting revenues and costs, including a new management contract which was effective January 1, 1997, and adjusting for the used and useful percentages approved herein.

In addition to adjusting its wastewater rates, the utility shall file revised tariff sheets along with a proposed customer notice reflecting the appropriate rates and the reason for the reduction.

The rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision herein, that the customer notice is adequate, and that any required security has been provided. The utility shall provide proof of the date notice was given within ten days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event shall the rates be effective for service rendered prior to the stamped approval date.

ESCROWING OF FUNDS PENDING FINAL DETERMINATION

Under the terms of the escrow agreement signed by the utility and Barnett Bank on October 28, 1996, and in accordance with Order No. PSC-96-1243-FOF-SU, the utility escrowed \$6,381. Pursuant to Section 367.082, Florida Statutes, when revenues are held subject to refund, the utility is authorized to continue collecting the previously authorized rates. In the event of a protest, the current rates shall remain in effect pending the resolution of the protest. The utility shall maintain in escrow 8.45% of its monthly revenues from October 7, 1996, through December 31, 1996, and 1.47% of its revenues from January 1, 1997, until such time as the proposed agency actions taken herein become final, or, in the event of a protest, until such time as the final order becomes effective regarding overearnings. The utility shall begin depositing additional funds once the amount calculated, using the above formula, exceeds the \$6,381 already in the escrow account.

In no instance shall the maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Also, by no later than the twentieth day of each month, the utility shall continue to 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.

DOCKET CLOSURE

As stated above, pursuant to Section 367.081(4)(d), Florida Statutes, the fifteen-month expiration date of our allotted term for ordering refunds of index and/or pass-through adjustments is July 23, 1997. Therefore, pursuant to Rule 25-22.029(2), Florida Administrative Code, substantially affected persons shall have fourteen days after issuance of this Order in which to protest any proposed agency action(s) contained herein. If the utility protests any portion(s) of this Order, it shall submit its prefiled direct testimony at the same time that the protest is filed.

If a protest is not received by the date set forth in the Notice of Further Proceedings below, the proposed agency actions contained in this Order will become final. If the Order becomes final, the docket shall be closed upon the utility's filing and our staff's approval of the proposed customer notice and the revised tariff sheets, and staff's verification that the utility has completed the refunds required herein. The utility's escrow account may be terminated upon our staff's verification that the refunds have been completed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that North Peninsula Utilities Corporation shall refund with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the 1994, 1995, and 1996 price index and pass-through rate increases collected in 1995 and 1996 within twelve months of the effective date of this Order, as set out in the body of this Order. It is further

ORDERED that North Peninsula Utilities Corporation shall refund with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code, the interim revenues collected subject to refund within twelve months of the effective date of this Order, as set out 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 incorporated herein by reference. It is further

ORDERED that North Peninsula Utilities Corporation shall make the refunds to customers of record as of the date of the Order pursuant to Rule 25-30.360(3), Florida Administrative Code. It is further

ORDERED that North Peninsula Utilities Corporation shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that North Peninsula Utilities Corporation shall treat any unclaimed refunds as contributions-in-aid-of-construction pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that North Peninsula Utilities Corporation shall reduce its rates and charges as set forth in the body of this Order. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, North Peninsula Utilities Corporation shall submit and have approved revised tariff sheets. The revised tariff sheets will be approved upon our staff's verification that they are consistent with our decision herein, that the customer notice is adequate, and that any required security has been provided. It is further



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ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped date of approval on the revised tariff sheets, provided the customers have received notice. It is further

ORDERED that North Peninsula Utilities Corporation shall provide proof that notice was given within ten days of the date of the customer notice. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that, in the event of a protest, the current rates shall remain in effect pending the resolution of the protest. It is further

ORDERED that North Peninsula Utilities Corporation shall maintain revenues in escrow as set forth in the body of this Order until such time as the proposed agency actions taken herein become final, or, in the event of a protest, until such time as the final order becomes effective. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed upon our staff's approval of the proposed customer notice and revised tariff sheets and verification of the completion of the required refunds.

By ORDER of the Florida Public Service Commission, this 11th day of March, 1997.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kay Flynn  
Chief, Bureau of Records

( S E A L )

RGK

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

As identified in the body of this order, our actions proposed herein establishing rate base, requiring refunds of certain index and pass-through rate adjustments and revenues collected during the interim collection period, and reducing rates, are preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 25, 1997. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water 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 of the effective date 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.

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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 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.

NORTH PENINSULA UTILITIES CORPORATION  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 1  
 DOCKET NO. 960984-SU

	<u>PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	\$ 781,227	\$ 7,532 A	\$ 788,759
LAND/NON-DEPRECIABLE ASSETS	46,800	0	46,800
NON-USED AND USEFUL PLANT	0	(9,136) B	(9,136)
CIAC	(630,494)	1,150 C	(629,344)
ACCUMULATED DEPRECIATION	(352,175)	14,273 D	(337,902)
AMORTIZATION OF CIAC	267,798	18,490 E	286,288
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>10,752</u> F	<u>10,752</u>
WASTEWATER RATE BASE	\$ 113,156	\$ 43,061	\$ <span style="border: 1px solid black; padding: 2px;">156,217</span>

NORTH PENINSULA UTILITIES CORPORATION  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 1A  
DOCKET NO. 960984-SU

	<u>WASTEWATER</u>
<b>A. <u>UTILITY PLANT IN SERVICE</u></b>	
1. To reflect commission approved utility plant.	\$ 2,471
2. To reflect averaging adjustment.	(1,235)
3. To include pro forma plant required by DEP.	6,296
	<u>\$ 7,532</u>
<b>B. <u>NON-USED AND USEFUL PLANT</u></b>	
1. To reflect non-used and useful plant.	\$ (69,854)
2. To reflect non-used and useful accumulated depreciation.	30,156
3. To reflect average non-used and useful CIAC.	56,073
4. To reflect average non-used and useful accumulated amortization.	(25,511)
	<u>\$ (9,136)</u>
<b>C. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION</u></b>	
1. To reflect an averaging adjustment.	<u>\$ 1,150</u>
<b>D. <u>ACCUMULATED DEPRECIATION</u></b>	
1. To reflect commission approved accumulated depreciation.	\$ (3,832)
2. To reflect averaging adjustment.	18,105
	<u>\$ 14,273</u>
<b>E. <u>AMORTIZATION OF CIAC</u></b>	
1. To reflect commission approved accumulated amortization.	\$ 33,055
2. To reflect averaging adjustment.	(14,565)
	<u>\$ 18,490</u>
<b>F. <u>WORKING CAPITAL ALLOWANCE</u></b>	
1. To reflect 1/8 of operation and maintenance expenses.	<u>\$ 10,752</u>

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NORTH PENINSULA UTILITIES CORPORATION  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 2  
 DOCKET NO. 960984-SU

	<u>PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
LONG-TERM DEBT	\$ 295,000	(138,783)	156,217	100.00%	9.75%	9.75%
COMMON EQUITY	(172,438)	172,438	0	0.00%	11.88%	0.00%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 122,562	33,655	156,217	100.00%		9.75%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	9.75%	9.75%

NORTH PENINSULA UTILITIES CORPORATION  
SCHEDULE OF WASTEWATER OPERATING INCOME  
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3  
DOCKET NO. 960984-SU

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR DECREASE	TOTAL PER COMM.
OPERATING REVENUES	\$ 143,811	\$ (122) A	\$ 143,689	\$ (18,623) E	\$ 125,066
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	143,318	(57,304) B	86,014	0	86,014
DEPRECIATION (NET)	1,239	5,802 C	7,041	0	7,041
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	18,866	(1,248) D	17,618	(838) F	16,780
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 163,423	\$ (52,750)	\$ 110,673	\$ (838)	\$ 109,835
OPERATING INCOME/(LOSS)	\$ (19,612)		\$ 33,016		\$ 15,231
WASTEWATER RATE BASE	\$ 113,156		\$ 156,217		\$ 156,217
RATE OF RETURN	<u>-17.33%</u>		<u>21.13%</u>		<u>9.75%</u>

NORTH PENINSULA UTILITIES CORPORATION  
 ADJUSTMENTS TO OPERATING INCOME  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3A  
 DOCKET NO. 960984-SU

<b>A.</b>	<b><u>OPERATING REVENUES</u></b>	
1.	To remove non-utility interest income.	WASTEWATER \$ <u>(122)</u>
<b>B.</b>	<b><u>OPERATION AND MAINTENANCE EXPENSES</u></b>	
1.	(711) Sludge Removal Expense	
a.	To reclassify sludge removal cost from acct # 730.	\$ <u>5,075</u>
2.	(715) Purchased Power	
a.	To reclassify utility used water cost to acct # 730.	(2,871)
b.	To remove out of period purchased power expense.	(744)
c.	To include June 1996 purchased power expense.	869
		\$ <u>(2,746)</u>
3.	(718) Chemicals	
a.	To reclassify chemical expense from acct # 730.	\$ <u>624</u>
4.	(730) Contractual Services	
a.	To reclassify utility used water expense from acct # 715.	\$ 2,871
b.	To reclassify sludge removal expense to acct # 711.	(5,075)
c.	To reclassify chemical expense to acct # 718.	(624)
d.	To reclassify fence repair from acct # 775.	385
e.	To amortize \$19,890 of legal expenses over 4 years.	(14,918)
		\$ <u>(17,361)</u>
5.	(750) Transportation Expenses	
a.	To reclassify transportation expense from acct. No. 775.	\$ 934
b.	To remove non-utility portion of transportation expenses.	(2,394)
		\$ <u>(1,460)</u>
6.	(775) Miscellaneous Expenses	
a.	To reclassify interest expense to acct # 427.	\$ (33,892)
b.	To reclassify transportation expense to acct. No. 750.	(934)
c.	To disallow \$150 charitable contribution.	(150)
d.	To disallow non-verifiable entertainment expense.	(4,637)
e.	To reclassify fence repair cost to acct # 730.	(385)
f.	To include permit fee amortized over 5 year life.	712
g.	To remove non-utility portion of telephone expense.	(2,150)
		\$ <u>(41,436)</u>
	<b>O &amp; M TOTAL</b>	\$ <u>(57,304)</u>
<b>C.</b>	<b><u>DEPRECIATION NET OF CIAC</u></b>	
1.	To reflect test year U & U test year depreciation net of CIAC U & U test year amortization.	\$ 5,382
2.	To include 1 year of depreciation expense on pro forma plant.	420
		\$ <u>5,802</u>
<b>D.</b>	<b><u>TAXES OTHER THAN INCOME</u></b>	
1.	To reflect used and useful % on property taxes.	\$ <u>(1,248)</u>
<b>E.</b>	<b><u>OPERATING REVENUES</u></b>	
1.	To reflect commission approved revenue increase.	\$ <u>(18,623)</u>
<b>F.</b>	<b><u>TAXES OTHER THAN INCOME</u></b>	
1.	To reflect the additional regulatory assessment fee associated with commission approved revenue requirement.	\$ <u>(838)</u>



NORTH PENINSULA UTILITIES CORPORATION  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3B  
 DOCKET NO. 960984-SU

	<u>TOTAL</u> <u>PER UTIL.</u>	<u>COMM.</u> <u>ADJUST.</u>	<u>TOTAL</u> <u>PER COMM.</u>
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	5,075 [1]	5,075
(715) PURCHASED POWER	13,257	(2,746) [2]	10,511
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	624 [3]	624
(720) MATERIALS AND SUPPLIES	1,286	0	1,286
(730) CONTRACTUAL SERVICES	72,153	(17,361) [4]	54,792
(740) RENTS	2,504	0	2,504
(750) TRANSPORTATION EXPENSE	4,073	(1,460) [5]	2,613
(755) INSURANCE EXPENSE	1,757	0	1,757
(765) REGULATORY COMMISSION EXPENSE	0	0	0
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	48,288	(41,436) [6]	6,852
	<u>\$ 143,318</u>	<u>\$ (57,304)</u>	<u>\$ 86,014</u>