

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase in Charlotte County by
Utilities, Inc. of Sandalhaven.

DOCKET NO. 020409-SU
ORDER NO. PSC-02-1703-PCO-SU
ISSUED: December 6, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

ORDER SUSPENDING PROPOSED RATE INCREASE AND AUTHORIZING INTERIM
RATE INCREASE

Utilities, Inc. of Sandalhaven (Sandalhaven or utility) is a class B wastewater utility providing service to approximately 1,000 customers in Charlotte County. Sandalhaven is a wholly-owned subsidiary of Utilities, Inc. In its 2001 Annual Report, the utility reported operating revenues of \$221,904 and a net operating loss of \$16,329.

In 1995, we were given jurisdiction over privately-owned water and wastewater utilities in Charlotte County as a result of a resolution by the Board of County Commissioners of Charlotte County. Sandalhaven was granted a grandfather certificate by Order No. PSC-95-0478-FOF-SU, issued April 13, 1995, in Docket No. 941341-SU. In 1999, the Commission approved the certificate transfer of Sandalhaven Utility, Inc. to Utilities, Inc. of Sandalhaven by Order No. PSC-99-2114-PAA-SU, issued October 25, 1999, in Docket No. 981221-SU.

This utility has never had a full rate case; however the utility's rate base was established as of August 31, 1998, by Order No. PSC-99-2114-PAA-SU. The rates and charges for service were continued as approved in Order No. PSC-95-0478-FOF-SU.

DOCUMENT NUMBER-DATE

13336 DEC-6 02

FPSC-COMMISSION CLERK

On August 16, 2002, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on October 1, 2002, the utility satisfied the MFRs and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. The utility requested that the Commission process this case under the proposed agency action (PAA) procedure.

The test year for interim and final purposes is the historical test year ended December 31, 2001. Sandalhaven has requested interim revenues of \$305,495, which represents an increase of \$83,590 or 37.67%. The requested final revenues are \$336,914, representing an increase of \$115,009, or 51.83%.

The sixty-day statutory deadline for suspension of the utility's requested final rates is November 30, 2002. This Order addresses the suspension of Sandalhaven's final rates and approves an interim rate increase.

We have jurisdiction pursuant to Sections 367.081, and 367.082, Florida Statutes.

Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty days after filing unless we vote to withhold consent to implement the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the requested rate increase has not been acted upon; or (2) the 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 explanation of the data, and to require production of additional or corroborative data. This further examination will include on-site investigations by our staff accountants and engineers. Based on the foregoing, we find that it is appropriate to suspend the utility's proposed rate increase.

On an interim basis, the utility shall be authorized to collect annual wastewater revenues as indicated below:

	<u>Revenues</u>	<u>\$ Increase</u>	<u>% Increase</u>
Wastewater	\$276,505	\$54,601	24.61%

As stated in its MFRs, Sandalhaven requests interim rates designed to generate annual revenues of \$305,495. This represents a wastewater revenue increase of \$83,590 (37.67%). The utility has filed rate base, cost of capital, and operating statements to support its requested wastewater increase.

We have reviewed the utility's interim request, as well as prior orders concerning the utility's rate base. The adjustments are discussed below. Accounting schedules are attached to illustrate the rate base, capital structure, and test year operating income amounts. The Rate Base Schedule is labeled as No. 1, the Capital Structure Schedule is No. 2, and the Operating Income Schedule is No. 3.

Pursuant to Section 367.082(5)(b)(1), Florida Statutes, the achieved rate of return for interim purposes shall be calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding. The utility's most recent rate proceeding occurred in 1999. See Order No. PSC-99-2114-PAA-SU, issued October 25, 1999, in Docket No. 981221-SU. That Order established rate base, depreciation rates, and ordered that a positive acquisition adjustment would not be recognized in the calculation of rate base.

RATE BASE

The utility filed a simple average rate base for the calendar year ending December 31, 2001. The utility made adjustments to remove non-used and useful plant of \$120,350; to remove \$8,546 in Construction Work in Progress; to remove the positive acquisition adjustment of \$448,387; and to increase rate base by \$47,715 to reflect a proforma adjustment to impute accumulated amortization of contributions in aid of construction (CIAC) not accrued in 1999. It also made an adjustment to working capital to reflect 1/8 of

operation and maintenance (O&M) expenses. Based on our analysis, we find that three adjustments discussed below are necessary to the utility's rate base.

Non-used and Useful Plant

In its MFRs, the utility calculated used and useful wastewater treatment pursuant to Rule 25-30.431 and proposed Rule 25-30.432, Florida Administrative Code. The annual average daily flow (AADF) plus an allowance for growth was matched against the AADF permitted capacity of the treatment plant. The utility did not make an adjustment for excess inflow and infiltration in its used and useful calculation. The allowance for growth was derived using linear regression, consistent with Rule 25-30.431. The utility's calculated used and useful percentage is 60.27% for treatment and disposal plant, or 39.73% non-used and useful. The utility reflected its collection system as 100% used and useful because it states that virtually all wastewater mains and lift stations are contributed by developers.

Before the utility applied its non-used and useful percentage to treatment plant, it removed \$74,546 as reuse facilities considered 100% used and useful. As a result, the utility calculated a weighted non-used and useful percentage of 33.78% to be applied to treatment and disposal accounts, excluding land.

We have reviewed the utility's calculation of used and useful and find that it is appropriate on an interim basis, except for the removal of the reuse plant. The utility's MFRs do not specifically reflect any balances of reuse-designated plant. The Uniform System of Accounts, since 1996, has specifically delineated plant accounts for reuse water treatment, disposal and distribution functions. Since this utility has not reflected these amounts in its filing, we do not have a prima facie basis to support that these amounts are, in fact, reuse related and thus to be deemed 100% used and useful. Thus, we find that the used and useful percentage of 60.27%, or 39.73% non-used and useful, should be applied to the plant, accumulated depreciation and depreciation expense accounts. This results in a decrease to rate base of \$21,198 for net non-used and useful and \$879 to test year depreciation expense.

Accumulated Amortization of CIAC

In its MFRs, the utility made a pro forma adjustment to increase rate base to impute amortization of CIAC not accrued in 1999. This adjustment is not consistent with the last rate proceeding and is not appropriate for interim purposes. As such, we have decreased accumulated amortization of CIAC by \$47,715 to remove this adjustment from rate base.

Working Capital

Adjustments shall be made to reduce working capital by \$1,794 to reflect 1/8 of the O&M expense adjustments, which are addressed below.

Based on the above adjustments, we find that Sandalhaven's interim rate base shall be \$168,095. Schedule No. 1-A details the rate base, with adjustments reflected on Schedule No. 1-B.

COST OF CAPITAL

In its MFRs, Sandalhaven used a simple average capital structure, which consisted of allocated investor sources of capital from Utilities, Inc. (the parent) and actual customer deposits for Sandalhaven. Sandalhaven did not include any balance of deferred income taxes in its capital structure. Since the utility has never had an authorized return on equity (ROE) established, Sandalhaven used 11.14%, the mid-point of the cost rate calculated using the leverage formula in effect at December 31, 2001. This formula was established by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS. The utility's requested interim cost of capital was 9.16%.

We have reviewed the utility's calculation and we believe that two adjustments are appropriate. First, pursuant to Section 367.082, Florida Statutes, the required rate of return for an interim increase, a utility that has never had an authorized ROE, shall be calculated using the minimum of the current equity leverage formula. The current leverage formula was approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, and was made final by Consummating Order No. PSC-02-1252-CO-WS, issued September 11, 2002. Using the 2002 leverage

formula and Sandalhaven's adjusted equity ratio, we calculated a ROE of 10.94%, with a range of 9.94% to 11.94%. Using the minimum of the range, for interim purposes, we find a cost of equity of 9.94%.

Our second adjustment to cost of capital relates to the exclusion of Sandalhaven's balance of accumulated deferred income taxes in the utility's calculated cost of capital. As reflected in its MFRs, Sandalhaven has a simple average balance of credit deferred income taxes of \$8,107. Pursuant to Rule 25-30.433(3), Florida Administrative Code, net credit deferred income taxes shall be included in the capital structure. We have reflected these amounts in the cost of capital calculation at zero cost.

Based on the above, we find that the cost of capital for interim purposes shall be 8.16%. Schedule No. 2 illustrates the cost of capital.

NET OPERATING INCOME

Operating Revenues

Section 367.082(5)(b)(1), Florida Statutes, states that the achieved rate of return is calculated by applying appropriate adjustments and annualizing any rate changes occurring during the interim test year. For purposes of the interim application, Sandalhaven chose the test year ending December 31, 2001. Adjusted test year operating revenues were \$221,904. We have reviewed the utility's revenues and find no adjustments are needed.

Operating Expenses

The utility made several adjustments to operating expenses for interim purposes. We have reviewed these and find that several adjustments are appropriate, as discussed below.

Sandalhaven increased salaries for differences between the test year expense and present salaries, reduced pensions and benefits, increased the common expense allocation, and decreased bad debts to reflect the collection of guaranteed revenues originally written off. Based on our review, the adjustment to bad debt expense is a correction of an error. The other 3 adjustments

are pro forma in nature and are not appropriate on an interim basis and shall be disallowed. These adjustments result in a reduction to O&M expenses of \$14,352. Corresponding adjustments shall also be made to remove the utility's proforma adjustment for payroll taxes of \$1,335.

We have also made corresponding adjustments to depreciation expense and property taxes related to our used and useful adjustment.

Net Operating Income

Based on these adjustments, we find that the appropriate test year operating income, before any revenue increase, is a loss of \$18,800. Schedule No. 3-A illustrates the approved net operating income, with adjustments reflected on Schedule No. 3-B.

REVENUE REQUIREMENT

Based on the above, we find that an interim revenue requirement of \$276,505, as shown on attached Schedule No. 3, is appropriate. This represents an interim increase in annual wastewater revenues of \$54,601, or 24.61%. This will allow the utility the opportunity to recover its operating expenses and earn an 8.16% return on its rate base.

INTERIM WASTEWATER RATES

The service rates for Sandalhaven in effect as of December 31, 2001, shall be increased by 25.22% to generate the approved revenue increase for the interim period. The approved rates shall be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. Also, the rates shall not be implemented until the required security has been filed. The utility shall provide proof of the date notice was given within 10 days after the date of notice.

We find that interim service rates for Sandalhaven shall be designed to allow the utility the opportunity to generate additional annual operating revenues of \$54,601, an increase of 24.61%. To determine the appropriate increase to apply to the

service rates, miscellaneous service and other revenues shall be removed from the test year revenues. The calculation is as follows:

1	Total Test Year Revenues	\$221,904
2	Less: Miscellaneous & Other Revenues	\$5,392
3	Test Year Revenues from Service Rates	\$216,512
4	Revenue Increase	\$54,601
5	% Service Rate Increase (Line 4/Line3)	25.22%

This rate increase of 25.22% shall be applied as an across the board increase to the service rates in effect as of December 31, 2001. 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 shall be approved upon verification that the tariff sheets are consistent with this Order, that the proposed notice to the customers is adequate, and that the required security discussed below has been filed.

The utility's current and proposed interim and final rates, and the approved interim rates, are shown on Schedule No. 4.

SECURITY

Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. We have reviewed the financial data of the utility and its parent company and approve a corporate undertaking guaranteed by the parent company. The potential refund of wastewater revenues and interest collected under interim conditions is \$36,615. This amount is based on an estimated eight months of revenue being collected from the interim rates over the previously authorized rates shown on Schedule No. 4.

The corporate undertaking shall state that it will be released or terminated upon our issuance of subsequent Order addressing any refund requirements. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected

ORDER NO. PSC-02-1703-PCO-SU
DOCKET NO. 020409-SU
PAGE 9

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

ORDERED by the Florida Public Service Commission that the proposed rates of Utilities Inc. of Sandalhaven shall be suspended. It is further

ORDERED that the interim rate increase is granted as described herein. It is further

ORDERED that the utility shall file a corporate undertaking as described herein. It is further

ORDERED that prior to implementation of the interim rates approved herein, Utilities Inc. of Sandalhaven 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 this docket shall remain open pending final action on the requested rate increase.

ORDER NO. PSC-02-1703-PCO-SU
DOCKET NO. 020409-SU
PAGE 10

By ORDER of the Florida Public Service Commission this 6th
Day of December, 2002.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

MKS

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.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 15 days pursuant to 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

ORDER NO. PSC-02-1703-PCO-SU
DOCKET NO. 020409-SU
PAGE 11

of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

UTILITIES, INC. OF SANDALHAVEN SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/01			SCHEDULE NO. 1-A DOCKET 020409-SU			
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	APPROVED ADJUST- MENTS	APPROVED ADJUSTED TEST YEAR	
1	UTILITY PLANT IN SERVICE	\$1,685,206	\$0	\$1,685,206	\$0	\$1,685,206
2	LAND	\$225,000	\$0	\$225,000	\$0	\$225,000
3	NON-USED & USEFUL COMPONENTS	\$0	(\$120,350)	(\$120,350)	(\$21,198)	(\$141,548)
4	CWIP	\$8,546	(\$8,546)	\$0	\$0	\$0
5	ACCUMULATED DEPRECIATION	(\$565,289)	\$0	(\$565,289)	\$0	(\$565,289)
6	CIAC	(\$1,607,051)	\$0	(\$1,607,051)	\$0	(\$1,607,051)
7	AMORTIZATION OF CIAC	\$544,039	\$47,715	\$591,754	(\$47,715)	\$544,039
8	ACQUISITION ADJUSTMENT - NET	\$448,387	(\$448,387)	\$0	\$0	\$0
9	WORKING CAPITAL ALLOWANCE	\$0	\$29,531	\$29,531	(\$1,794)	\$27,737
10	RATE BASE	<u>\$738,838</u>	<u>(\$500,037)</u>	<u>\$238,801</u>	<u>(\$70,706)</u>	<u>\$168,095</u>

ORDER NO. PSC-02-1703-PCO-SU
 DOCKET NO. 020409-SU
 PAGE 13

UTILITIES, INC. OF SANDALHAVEN ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/01	SCHEDULE NO. 1-B DOCKET NO. 020409-SU
EXPLANATION	WASTEWATER
<u>NON-USED AND USEFUL COMPONENTS</u>	
1 To reflect net non-used and useful adjustment-Plant.	(\$29,629)
2 To reflect net non-used and useful adjustment-Acc. Deprec.	\$8,431
Total	<u>(\$21,198)</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>	
3 To remove utility's adjustment to impute amort. not accrued in 1999.	<u>(\$47,715)</u>
<u>WORKING CAPITAL</u>	
4 To reduce to 1/8 O&M expense.	<u>(\$1,794)</u>

UTILITIES, INC. OF SANDALHAVEN						SCHEDULE NO. 3-A	
STATEMENT OF WASTEWATER OPERATIONS						DOCKET 020409-SU	
TEST YEAR ENDED 12/31/01							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	APPROVED ADJUST- MENTS	APPROVED ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$221,904</u>	<u>\$83,590</u>	<u>\$305,494</u>	<u>(\$83,590)</u>	<u>\$221,904</u>	<u>\$54,601</u> 24.61%	<u>\$276,505</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	<u>\$228,069</u>	<u>\$8,182</u>	<u>\$236,251</u>	<u>(\$14,352)</u>	<u>\$221,899</u>	<u>\$0</u>	<u>\$221,899</u>
3 DEPRECIATION	<u>\$4,507</u>	<u>(\$4,990)</u>	<u>(\$483)</u>	<u>(\$879)</u>	<u>(\$1,362)</u>	<u>\$0</u>	<u>(\$1,362)</u>
4 AMORTIZATION	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
5 TAXES OTHER THAN INCOME	<u>\$37,964</u>	<u>\$3,124</u>	<u>\$41,088</u>	<u>(\$5,440)</u>	<u>\$35,648</u>	<u>\$2,457</u>	<u>\$38,105</u>
6 INCOME TAXES	<u>(\$32,307)</u>	<u>\$39,076</u>	<u>\$6,769</u>	<u>(\$22,250)</u>	<u>(\$15,481)</u>	<u>\$19,622</u>	<u>\$4,141</u>
7 TOTAL OPERATING EXPENSES	<u>\$238,233</u>	<u>\$45,392</u>	<u>\$283,625</u>	<u>(\$42,921)</u>	<u>\$240,704</u>	<u>\$22,079</u>	<u>\$262,783</u>
8 OPERATING INCOME	<u>(\$16,329)</u>	<u>\$38,198</u>	<u>\$21,869</u>	<u>(\$40,669)</u>	<u>(\$18,800)</u>	<u>\$32,522</u>	<u>\$13,723</u>
9 RATE BASE	<u>\$738,838</u>		<u>\$238,801</u>		<u>\$168,095</u>		<u>\$168,095</u>
10 RATE OF RETURN	<u>-2.21%</u>		<u>9.16%</u>		<u>-11.18%</u>		<u>8.16%</u>

UTILITIES, INC. OF SANDALHAVEN
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDED 12/31/01

SCHEDULE NO. 3-B
 DOCKET NO. 020409-SU

<u>EXPLANATION</u>	<u>WASTEWATER</u>
<u>OPERATING REVENUES</u>	
1 Remove requested interim revenue increase.	<u>(\$83,590)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>	
2 Remove proforma salary adjustments.	(\$15,751)
3 Remove proforma pensions and benefits.	\$2,255
4 Remove proforma common expense allocation.	<u>(\$856)</u>
Total	<u>(\$14,352)</u>
<u>DEPRECIATION EXPENSE-NET</u>	
5 To reflect non-used and useful adjustment.	<u>(\$879)</u>
<u>TAXES OTHER THAN INCOME</u>	
6 RAFs on revenue adjustments above.	(\$3,762)
7 Remove proforma taxes on salary increases.	(\$1,335)
8 Property taxes on increased non-used and useful %.	<u>(\$344)</u>
Total	<u>(\$5,440)</u>
<u>INCOME TAXES</u>	
9 To adjust to test year income tax expense.	<u>(\$22,250)</u>

UTILITIES, INC. OF SANDALHAVEN WASTEWATER MONTHLY SERVICE RATES TEST YEAR ENDED 12/31/01		SCHEDULE NO. 4 DOCKET 020409-SU		
	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Approved Interim
<u>Residential</u>				
Base Facility Charge				
All Meter Sizes:	\$12.00	\$16.66	\$18.40	\$15.03
Gallage Charge (per 1,000 gallons) 8,000 gallons maximum	\$2.59	\$3.59	\$3.97	\$3.24
<u>Multi-Family</u>				
Base Facility Charge:				
All Meter Sizes:	\$12.00	\$16.66	\$18.40	\$15.03
Gallage Charge(per 1,000 gallons)	\$2.59	\$3.59	\$3.97	\$3.24
<u>General Service</u>				
Base Facility Charge:				
Meter				
Size:				
5/8" x 3/4"	\$12.00	\$16.66	\$18.40	\$15.03
1"	\$30.00	\$41.64	\$46.01	\$37.57
1-1/2"	\$60.00	\$83.28	\$92.02	\$75.13
1-1/2" (15 ERC Restaurant)	\$180.00	\$249.83	\$276.07	\$225.39
2"	\$96.00	\$133.24	\$147.24	\$120.21
3"	\$180.00	\$249.83	\$276.07	\$225.39
4"	\$300.00	\$416.38	\$460.12	\$375.66
6"	\$600.00	\$832.75	\$920.24	\$751.31
Gallage Charge, per 1,000 Gallons	\$2.59	\$3.59	\$3.97	\$3.24
<u>Guaranteed Revenue Charge</u>	\$12.00	\$16.66	\$18.40	\$15.03
<u>Typical Residential Bills</u>				
5/8" x 3/4" Meter Size				
3,000 Gallons	\$19.77	\$27.43	\$30.31	\$24.76
5,000 Gallons	\$24.95	\$34.61	\$38.25	\$31.24
8,000 Gallons	\$32.72	\$45.38	\$50.16	\$40.95