

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application of HUDSON)
UTILITIES, INC., for a staff-)
assisted rate case in Pasco County)

DOCKET NO. 881398-SU
ORDER NO. 21348
ISSUED: 6-7-89

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, CHAIRMAN
THOMAS M. BEARD
BETTY EASLEY
GERALD L. GUNTER
JOHN T. HERNDON

ORDER SETTING TEMPORARY
RATES AND CHARGES IN THE EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER SETTING FINAL RATES AND CHARGES

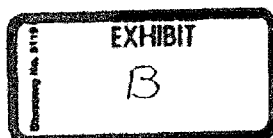
BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein, except for the portion setting temporary rates and charges in the event of protest, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Hudson Utilities, Inc. (Hudson or utility), is a wastewater utility located in Pasco County. On October 25, 1988, the utility filed its request for a staff-assisted rate case. Staff assistance was granted. The test year for this rate case is the projected twelve-month period ending July 31, 1990. The basis for the projections was residential customer growth based on the completion of eleven subsections of the Phase I expansion plan. General service growth was projected by entity or entity type.

The utility is currently pursuing an aggressive expansion plan, which is projected to add approximately 5,000 customers within the next seven years. The majority of the projected customer growth will come from persons who reside within the service area and currently use septic tanks. Reportedly, the septic tanks overflow when a heavy rain falls and consequently the utility is receiving an abundance of requests for service. In addition, it is reported that because the property is almost at sea level and close to the Gulf, the contents of the older septic tanks and drainfields are being flushed out to the Gulf by the tide. Commission Staff spoke with a representative of the Pasco County Health Department who indicated that Hudson Beach has been closed on numerous occasions because of unsafe bathing conditions. He also stated that the direct cause of the unsafe water condition has not been proven to be caused



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solely by the septic tanks, however, in his opinion, they are a substantial contributing factor.

The utility estimates that Phase I and II construction costs are estimated to be \$3,358,860 and \$3,760,428, respectively. The utility plans to obtain the necessary funds for expansion of Phase I primarily through tax-free industrial development bonds with an interest rate of approximately 9.5 percent. The bond proceeds reportedly will be held and released by a bank.

CUSTOMER MEETING

As part of our Staff's investigation, a customer meeting was held on April 3, 1989 to afford present and potential customers with the opportunity to present testimony on the quality of service provided by the utility and to voice their concerns related to other issues. Approximately 250 people attended. Of those customers who testified to the quality of service, one customer complained about the speed with which the utility had finished the repairs of a connection. The problem has been discussed with the utility and various steps were suggested to insure a smoother connection process. The other customer witnesses said they received good service and had no complaints. Most of the witnesses testified about their concern over the size of the proposed rate increase and the mechanics, cost and requirement of hook-up to the proposed sewer system.

QUALITY OF SERVICE

To determine a utility's quality of service, we look at the following factors: compliance with the regulations of the Department of Environmental Regulation (DER) and other regulatory agencies; operation and maintenance of the system; and overall customer satisfaction with the service. DER reports that there were no outstanding corrective orders or violations against Hudson. Also, this Commission had no outstanding complaints related to the quality of service provided by Hudson.

The Staff engineer conducted a field investigation to review the condition of the utility's system. The system was operating satisfactorily and receiving adequate maintenance.

While in the service area, the engineer spoke with several customers to determine their level of satisfaction with the quality of service. The customers who were receiving service had no problems with the service. Two other persons who live in the service area indicated that the utility has not yet made service available and would like to see the process expedited.

Based on the foregoing and the information received at the customer meeting, we find the quality of service provided by Hudson to be satisfactory.

RATE BASE

Our calculation of the utility's rate base is attached to this Order as Schedule No. 1. Adjustments to the rate base are itemized on Schedule No. 1A. Those adjustments essentially mechanical in nature are shown on the schedule without further explanation in the text of this Order. The major components of the utility's rate base and adjustments to them are discussed below.

Used and Useful

Hudson's existing collection system consists of approximately 8,450 feet of four-inch force main, 16,800 feet of six-inch force main, 15,070 feet of eight-inch gravity main, five lift stations, 45 manholes, and 220 service laterals. The system provides service to approximately 258 customers.

During the projected test period, Hudson will add approximately 59,000 feet of gravity mains, 14,200 feet of force mains, 233 manholes and 19 lift stations. This expansion of its collection system will allow the utility to provide service to a total of approximately 2,479 connections. However, the projected customer additions, which will be added as each subsection of the utility's expansion plan is completed, are expected to fall short of the connections each subsection is capable of serving. An analysis comparing projected monthly connections to projected monthly available connections results in the system being 65 percent used and useful during the test period. Although it is our standard practice to do so, we have not included a margin of reserve in our calculation. This utility is unique in that all the customers are there, currently being served by septic tanks. These customers will be converting over to the central sewage collection system. For these reasons, we do not believe a margin of reserve is appropriate.

Plant-In-Service

Plant-in-service was last established in Commission Order No. 16893 at December 31, 1985 at \$219,102. During 1986, the utility expended \$27,629 in plant additions; during 1987, \$172,482; and during 1988, \$232,590. The historical expenditures were related primarily to the installation of mains and lift stations. Plant-in-service as of December 31, 1988 is therefore \$651,803.

A preliminary engineering study has been prepared by Crane Engineering, Inc. in conjunction with the utility's application for bond financing. Also, bids have been solicited and received, and a construction schedule has been established. Phase I's projected completion date is June 30, 1990. The projected cost of Phase I construction is \$3,358,860, including 5 percent for contingencies and 6.8 percent for engineering plans and engineering certification to the trustee of the bond proceeds and disbursements. In addition, power-operated equipment, vehicles, and office equipment totalling \$160,595 is projected. Based on the above, we find it appropriate to include \$3,519,455 in the test year, thus increasing plant to \$4,171,258. We also find it appropriate to make a

thirteen-month averaging adjustment of \$1,342,003, thus decreasing projected average test year plant to \$2,829,255. This has been reduced further by a non-used and useful adjustment of \$990,239, resulting in the approved projected plant-in-service level of \$1,839,016.

Accumulated depreciation was established at December 31, 1985 at \$24,293 in Order No. 16893. Pursuant to Rule 25-30.140, Florida Administrative Code, we developed a composite rate of 3.96 percent for 1986, 3.91 percent for 1987, 3.97 percent for 1988 and 4.24 percent for January 1, 1989 through July 31, 1990. Depreciation was accumulated on the historical plant and projected plant to July 31, 1990. We find it appropriate to also make a thirteen-month averaging adjustment, as well as a non-used and useful adjustment to accumulated depreciation. These adjustments result in an average projected test year accumulated depreciation level of \$81,314.

Contributions-in-aid-of-Construction (CIAC)

CIAC was established in Commission Order No. 16893 as of December 31, 1985 at \$167,137. Since then, the utility has received \$103,891 in contributions. Therefore, CIAC as of December 31, 1988 is \$271,028. We have projected receipt of additional CIAC of \$1,551,227 by July 31, 1990, premised on completion of subareas within Phase I. As a subarea is completed and in service, the utility believes that all general service establishments will connect and 80 percent of the septic tank residential homes will connect within sixty days. The utility also believes that the remaining 20 percent of the residential homes will connect within a one-year period.

Based on the above and the new service availability charge of \$1,000 per equivalent residential connection discussed subsequently in this Order, projected CIAC at July 31, 1990 is \$1,822,255. The thirteen-month averaging adjustment of \$749,623 reduces projected average test year CIAC to \$1,072,632.

Accumulated amortization of CIAC was established in Commission Order No. 16893 as of December 31, 1985 at \$53,199. We have updated these balances through the end of the projected test year, July 31, 1990, using our calculated historical and projected CIAC balances, along with the composite depreciation rates. This results in projected accumulated amortization of \$128,200 as of July 31, 1990. The thirteen-month averaging adjustment reduces the balance by \$27,718 to \$100,482.

Advances for Construction

The utility has executed numerous contracts to construct mains and provide service to commercial customers. A portion of the cost of the mains are paid for by the establishment requesting service. Based on the hydraulic share of the first establishment and the other establishments which will connect eventually, a portion of the funds is CIAC and a portion is classified as advances for construction.

Since March, 1987, the utility has received \$129,485 in advances for construction. The customers who will share these mains are projected to connect during Phase II of the expansion project. Since Phase II is outside of the test period, no adjustment has been made to recognize its eventual reclassification as CIAC.

Working Capital

We have utilized the balance sheet approach in calculating the working capital allowance for this utility. This approach nets current assets and deferred debits with current liabilities and deferred credits. Based on estimated projected average working capital allowance components, consisting of projected average prepaid taxes of \$279,488 unamortized bond issuance costs of \$209,898 and other working capital components of (\$56,293), we find that the appropriate working capital allowance is \$433,093.

Based on all of our adjustments, we find the appropriate projected thirteen-month average rate base to be \$1,069,160.

CAPITAL STRUCTURE

By Order No. 19718, issued July 26, 1988, we established the leverage formula to be used in calculating equity returns for water and wastewater utilities. That Order also caps the equity return at 14.35 percent for utilities whose equity ratio is .40 or less.

Use of the leverage formula with historical data and the projected \$4,330,000 bond financing, results in an equity ratio of .1365 for Hudson. Accordingly, the appropriate return on equity is 14.35 percent.

The utility's historical capital structure is comprised of 12 percent debt owed to the Seventh-Day Adventists, 8 percent debt owed to stockholders, 10 percent debt owed to Mr. Meyer, common stock, additional paid-in-capital, and negative retained earnings. As previously indicated, the utility is in the process of obtaining \$4,330,000 in financing for its expansion program. It is projected that \$4,000,000 will be from tax exempt bonds; the remaining \$330,000 will be from a taxable issue. We are informed that the current tax-exempt bond interest rate is 9.5 percent and the taxable bond rate is 13 percent. The debt owed to the Seventh-Day Adventists, the current first mortgage holder, will be retired with part of the bond proceeds.

Using the projected weight of each capital structure component and applying the weighted average interest rate of 9.64 percent on outstanding and projected debt, along with the equity return of 14.35 percent, the projected overall cost of capital is 10.28 percent. Thus, the utility's authorized rate of return is 10.28 percent. The cost of capital and rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

Attached as Schedules Nos. 3 and 3A, respectively, are the schedules of wastewater operating income and our adjustments thereto. Those adjustments essentially mechanical in nature or which are self-explanatory are shown on these schedules without further explanation in the text of this order.

Projected Revenues

Based on the projected customer base during the test year, along with the related increased usage and the current rates, projected revenue, before adjustment for increased rates, is \$406,711.

Projected Operating Expenses

1) Salaries and Wages - Employees - During the audit period of January 1, 1988 through December 31, 1988, the utility recorded zero in this account. The utility recently opened and is currently in the process of staffing an office on U.S. Highway 19 near the service area in anticipation of adding approximately twenty-five to thirty customers per week. The utility believes that it will need a bookkeeper and a secretary to handle its clerical needs. The cost of a secretary is estimated to be \$8,333 per year and that of the bookkeeper to be \$10,000 per year. In addition, during the projected test year, the utility anticipates adding twenty lift stations to its existing six lift stations. The cost of a field man for servicing and maintenance of the lift stations as well as other repairs and upkeep of the system is estimated to be \$12,500 per year. The utility believes that initially it will require one field man and half-way through the year, a second field man will be needed. We believe this to be reasonable. Accordingly, we find the level of projected salaries and wages for employees to be \$37,083.

2) Salaries and Wages - Officers, Directors, Stockholders - During 1988, the utility recorded \$19,800 in salaries and wages for the services of Mr. and Mrs. Bammann. Of that amount, \$600 related to services performed in 1987 and we therefore have reduced this account by that amount to \$19,200, which represents \$1,600 per month. Mr. Bammann estimates that he spends about four hours per day performing management duties and about eight hours per week maintaining the lift stations and making repairs to the system. Mrs. Bammann currently does the billing, postings and collections. We believe that \$1,600 per month is an adequate and fair level of compensation for services performed in 1988.

On a prospective basis, Mrs. Bammann's duties will be performed by either the bookkeeper or the secretary and the repairs will be performed by the field personnel. However, as the customer base expands, it is believed that Mr. Bammann will spend more time in management-related duties. Sixteen hours per week at \$14.77 per hour equates to approximately \$12,000 per year, which we believe to be fair compensation on a prospective basis.

3) Pensions and Benefits - During 1988, no expenditures were made for pensions and benefits. On a prospective basis, we estimate the utility's share of health insurance premiums to be \$100 per month per employee. During the projected test year, the utility estimates having four employees for the full year and hiring one additional field person mid-year. Based on this cost estimate and the projected employees, we believe the appropriate allowance to be \$5,400 per year.

4) Purchased Sewage Treatment - During 1988, the utility recorded \$43,016 in sewage treatment costs. We agree with this amount on a historical basis. On a prospective basis, using projected customers, estimated gallons of 78,753,000 and current wastewater treatment costs of \$3.17 per thousand gallons, projected wastewater treatment costs are calculated to be \$249,647.

5) Purchased Power - During 1988, the utility recorded \$2,316 in this account. Review of 1988 expenses revealed that \$346 in power expense was recorded in miscellaneous expense. In addition, the account balance contains a \$243 credit for a refund related to 1987. The combination of the two adjustments increases the account balance to \$2,905. Of that amount, \$677 was nonutility related. Therefore, we have reduced 1988 costs to \$2,228.

On a prospective basis, based on a projected annual flow of 78,753,000 gallons and the cost of \$.1154 per KWH, the estimated cost is calculated to be \$7,100.

6) Materials and Supplies - The utility recorded \$1,227 in materials and supplies for 1988. We agree with the amount. During 1988, the utility had an average of 231 customers. During the test year, the average number of customers is projected to be 1,064. Based on the above, we believe the appropriate allowance on a prospective basis is \$5,650.

7) Contractual Services - The utility recorded \$8,496 during 1988 in contractual services. Of that amount, \$727 was reclassified as regulatory commission expense, \$1,456 was reclassified as unamortized bond costs, \$1,200 was reclassified as nonutility expense and \$1,115 was disallowed due to lack of supporting documentation. The remaining audited balance of \$3,998 is comprised of \$1,628 for accounting services and \$2,170 for repairs.

On a prospective basis, accounting fees are projected to be \$3,050 annually and legal services are projected to be \$1,000 annually.

Projected repair costs have been calculated based on the average cost per customer during 1988 and the projected average test year number of customers. This results in projected test year contractual service repairs of \$9,991. In addition, we believe, and the utility concurs, that rates should be based on water consumption. Currently, the utility is billing its single-family residences on a flat rate and its general service customers by water consumption. The estimated cost of additional meter reading or obtaining consumption data from the water suppliers is \$3,192. This is an appropriate allowance. Based on the above, the projected test year allowance is \$17,233.

8) Rents - During 1988, the utility recorded \$8,100 for rent. Our Staff's examination of the rented facility, leads us to believe that the facility was not used in providing utility service to the existing customers. We have reclassified this amount as nonutility expense, thereby reducing the audited account balance to zero.

As previously stated, the utility is currently leasing office space on U.S. Highway 19 near the service area. The monthly lease cost is \$250 plus tax. We will allow \$3,180 on a prospective basis.

9) Transportation Expense - During 1988, the utility recorded zero in this account. On a prospective basis, it is believed that two vehicles will be needed for utility-related work. An allowance of \$2,400 is appropriate to cover repairs and gasoline.

10) Insurance Expense - During 1988, the utility expended zero in insurance costs. On a prospective basis, we will allow \$1,000 for vehicle insurance and \$1,367 for worker's compensation. The worker's compensation allowance is based on the approved payroll level and the rate of \$4.14 per \$100 of payroll for the field personnel and \$.51 per \$100 of payroll for the office personnel. Projected insurance costs of \$2,367 appear reasonable.

11) Regulatory Commission Expense - During 1988, the utility recorded \$900 for the filing fee for this proceeding. We reclassified \$727 from contractual services, resulting in an audited balance of \$1,627. In addition, we reclassified three-quarters of the \$1,627 as a deferred debit to recognize our standard policy of amortizing rate case expense over a four-year period. The approved level is therefore \$407.

12) Miscellaneous Expenses - The utility recorded \$5,048 in miscellaneous expenses in 1988. We reclassified \$346 as purchased power and disallowed \$200, reducing the audited level to \$4,502.

On a projected basis, we calculate a level of \$7,077, which is comprised of water for the new office and two lift stations for \$590, telephone costs of \$976, postage at \$2,342, office supplies at \$1,800, office equipment repair at \$600, bank service charges at \$415, and other miscellaneous costs of \$354.

Based on the above, we find the appropriate projected operating expenses to be \$349,544.

Depreciation Expense

Our use of the thirteen-month average projected plant balances and the rates prescribed by Rule 25-30.140, Florida Administrative Code, results in the composite depreciation rate of 4.24 percent. The resultant expense is \$102,145. Consistent with the treatment of used and useful plant-in-service of 65 percent, the appropriate used and useful depreciation expense is \$66,394.

Amortization of bond issuance costs

Based upon estimated bond issuance costs of \$228,150 and a twenty-five year payoff period, the appropriate projected annual bond cost amortization is calculated to be \$9,126.

Amortization of CIAC

Use of the projected thirteen-month average test year CIAC and the composite depreciation rate of 4.24 percent discussed previously results in CIAC amortization of \$45,142.

Taxes other than income taxes

Taxes other than income taxes include payroll taxes, regulatory assessment fees, and tangible taxes.

Payroll taxes of \$3,994 were calculated based on the projected payroll level and current tax rates. Regulatory assessment fees were calculated on the basis of projected revenues. The result is projected regulatory assessment fees of \$13,248.

Tangible tax was calculated on the basis of the current rate of .018192 and the projected assessed value of the collection system. The result is projected tangible tax of \$30,944 for the period August 1, 1989 to July 31, 1990. Consistent with the used and useful treatment of plant-in-service of 65 percent, the appropriate allowance is \$20,114.

Accordingly, the level of projected taxes other than income taxes is \$37,356.

Income tax expense

Taxable income was calculated to reflect \$170,758 projected interest earnings on cash CIAC and bond proceeds in escrow, as well as \$67,552 interest expense inherent in the projected capital structure. The Company has incurred book and tax net operating losses (NOL) in prior years and had accumulated losses of \$212,368 by the end of 1988. We believe these NOL carry-forwards will more than offset the calculated taxable income for the test year, resulting in income tax expense of zero.

The CIAC, projected to be \$1,551,227 will be taxable in the year collected, but will not be treated as taxable income on the books of the utility. The income tax expense incurred as a result of the CIAC collections should be included in rate base as prepaid tax. The thirteen-month average amount in rate base should be \$279,488. The prepaid tax balance in rate base will be reduced each year as the CIAC is amortized, but there will be no effect on net operating income.

Projected test year operating losses

As previously indicated, projected test year revenue for the period ending July 31, 1990 is also \$406,711. As a result of previous calculations and adjustments, projected expenses

are \$414,870. This results in a projected operating loss of \$8,159.

REVENUE REQUIREMENT

To give the utility the opportunity to earn a 10.28 percent overall rate of return, the projected annual revenue requirement is \$529,914. This results in a projected increase of \$123,203, on an annual basis.

RATES AND RATE STRUCTURE

Presently, Hudson charges a flat rate for sewer service to its residential customers and a base facility charge rate structure to its multi-residential and general service customers. The base facility charge is the Commission's preferred rate structure because of its ability to track costs and give customers some control over their sewer bills. Each customer pays his or her pro rata share of the fixed costs of providing service through the base facility charge, and pays for actual usage through the gallonage charge. The flat rate existed because the entity providing water service to Hudson's customers, which is a nonregulated cooperative, declined to provide Hudson with consumption data. The cooperative has changed its position and will provide the data.

The rates, which we find to be fair, just and reasonable, and which are designed to achieve the authorized revenue requirement, are set forth below. The present rates are shown for comparison purposes.

MONTHLY RATES

RESIDENTIAL SERVICE

<u>Base Facility Charge</u>	<u>Present</u>	<u>Approved</u>
<u>Meter Size</u>		
5/8" x 3/4"	\$ 25.78	\$ 9.93
3/4"	N/A	14.90
1"	N/A	24.83
1-1/2"	N/A	49.65
2"	N/A	79.44
3"	N/A	158.88
4"	N/A	248.25
6"	N/A	496.50
8"	N/A	794.40
10"	N/A	1,141.95
Gallonage Charge per 1,000 gallons (maximum of 6,000 gallons per month)	N/A	4.69

MULTI-RESIDENTIAL AND GENERAL SERVICE

<u>Base Facility Charge</u>	<u>Present</u>	<u>Approved</u>
<u>Meter Size</u>		
5/8" x 3/4"	\$ 4.40	\$ 9.93
3/4"	6.60	14.90
1"	11.00	24.83
1-1/2"	22.00	49.65
2"	35.20	79.44
3"	70.39	158.88
4"	109.99	248.25
6"	219.99	496.50
8"	352.08	794.40
10"	505.97	1,141.95
 Gallonge Charge per 1,000 gallons (maximum of 6,000 gallons per month)	 3.44	 5.63

MISCELLANEOUS SERVICE CHARGES

Miscellaneous service charges are designed to place the responsibility for the costs associated with miscellaneous services on those persons creating those costs, rather than on the general body of ratepayers. Currently, the utility's tariff provides for miscellaneous service charges. Second Revised Staff Advisory Bulletin (SAB) No. 13, issued on January 11, 1988, addresses miscellaneous service charges. It gives guidance for applicable rates where actual costs are not provided. We believe it is appropriate to revise the utility's existing miscellaneous service charges to more accurately defray the costs associated with each service. The present charges are shown for comparison purposes.

	<u>Present</u>	<u>Approved</u>
Initial Connection	\$ 10.00	\$ 15.00
Normal Reconnection	\$ 10.00	\$ 15.00
Premises Visit Charge (in lieu of disconnection)	\$ 5.00	\$ 10.00
Violation Reconnection	\$10.00 plus actual cost of plugging and reconnecting, service	Actual Cost

The charges are defined as follows:

(1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.

(2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously-served location, or reconnection of service subsequent to a customer-requested disconnection.

(3) Violation Reconnection: This charge is to be levied prior to reconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment. (Actual cost is limited to direct labor and equipment rental).

(4) Premises Visit Charge (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectable bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

SERVICE AVAILABILITY CHARGES

The utility's current service availability policy provides for a system capacity charge of \$265 per ERC, where an ERC is assumed to equal 224 gallons per day (gpd). Recent analysis indicates that an ERC is equal to 173 gpd.

As previously discussed, the utility is currently undertaking an aggressive expansion program which will entail additional plant expenditures of \$7,280,132. Using the current service availability charges of \$265 per ERC, projecting additional capital expenditures of \$7,280,132, additional ERCs of 4,983, and seven years to reach its designed capacity, the utility would be approximately 22 percent contributed at its designed capacity.

Rule 25-30.580, Florida Administrative Code, states that contributions should not be less than the percentage that the collection system is to total plant, nor should they be more than 75 percent of net plant at designed capacity. We do not believe that this rule fits this utility's circumstances. Because Hudson's plant consists solely of collection lines, application of the rule would require that the utility be 100 percent contributed at a minimum and 75 percent contributed at a maximum.

Using the projections outlined above, along with a revised service availability charge which we calculate to be \$1,000 per ERC, will result in this utility being 75 percent contributed at its designed capacity. We believe this \$1,000 charge satisfies the intent of the rule and creates a healthy capital mix. Accordingly, we approve a \$1,000 service availability charge.

CUSTOMER DEPOSITS

Currently, the utility's tariff does not provide for the collection of customer deposits. The utility is experiencing difficulty in collecting the last month of service revenue from persons who rent within the service area. For this reason, it requests approval to assess an initial customer deposit of \$60, as well as specific criteria for the establishment of credit, payment of interest of 8 percent on all residential customer deposits and a refund of residential deposits after twenty-three months of satisfactory payment.

This provision is in compliance with Rule 25-30.311, Florida Administrative Code, and will be approved administratively by our Staff pursuant to Chapter 2.08 (C)(9)(a), Administrative Procedures Manual, when the utility files the appropriate tariff sheet.

RATES AND CHARGES
IN THE EVENT OF PROTEST

This Order proposes an increase in wastewater rates, service availability charges and miscellaneous service charges. A timely protest could delay what may be a justified rate increase, pending a formal hearing and final order in this case, resulting in an unrecoverable loss of revenue and customer contributions to the utility.

Accordingly, in the event that a timely protest is filed by anyone other than the utility, we hereby authorize the utility to collect the rates and charges approved herein, on a temporary basis, subject to refund, provided that it furnishes security for such a potential refund. Ordinarily, only the monthly service rates are collected in the event of protest. However, we believe that it is appropriate to allow collection of the miscellaneous service charges and service availability charge because without them, the County and the bonding agent would not have adequate assurance of the funds needed to service the low-cost tax-exempt debt. The security should be in the form of a bond or letter of credit in the amount of \$800,000.

Alternatively, the utility may establish an escrow account with an independent financial institution pursuant to a written agreement. If this alternative is chosen, all revenue collected under the rate increase will be subject to escrow. Any withdrawals of funds from this escrow account shall be subject to the prior approval of this Commission through the Director of Records and Reporting. Should any refund ultimately be required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall keep an accurate account in detail, of all monies received by said increase, specifying by whom and on whose behalf such amounts were paid. The utility shall also file a report, no later than the twentieth day of each month that the temporary rates and charges are in effect, showing the amount of revenues collected as a result of the temporary rates and charges and the amount of revenue that would have been collected under the prior rates and charges.

EFFECTIVE DATES OF INCREASED
RATES AND CHARGES

We are taking an unusual approach in this proceeding in that we have considered the debt financing, which has not yet been approved, in setting rates. We are taking this approach because we believe the utility's program is in the public interest. Also, by attempting to obtain a tax-free bond issuance, the utility's charges will be lower than if a totally taxable issuance occurred. We are imposing requirements on the utility which will protect the ratepayers as discussed below.

The approved monthly rates shall be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The service availability charges will be effective for connections on or after the stamped approval date on the revised tariff sheets. Miscellaneous service charges will be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariff sheets are consistent with the Commission's decisions, that the proposed customer notice is adequate, that the bond proceeds are in the possession of the bank trustee, and that the required security (if applicable) has been provided. If the bond proceeds fail to materialize, this rate increase will become a nullity and Staff is instructed to return to the Commission with a recommendation based on revised projections.

If there is no timely protest by a substantially affected party, the docket should be closed upon the transfer of the bond money from the bonding agent to the bank trustee and the filing by the utility, and approval by the Staff, of the revised tariff sheets. If the bonding program does not materialize, the docket will remain open for further recommendations by our Staff.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Hudson Utilities, Inc. for an increase in its sewer rates for its customers in Pasco County is approved as set forth in the body of this Order. It is further

ORDERED that all matters contained herein or attached hereto, whether in the form of discourse or schedules, are by this reference, specifically made integral parts of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final 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 at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on June 28, 1989. It is further

ORDERED that the utility is hereby authorized to charge the new rates and charges, effective as follows: the monthly rates shall be effective for meter readings thirty days on or after the stamped approval date on the revised tariff sheets; the service availability charges shall be effective for connections on or after the stamped approval date on the revised tariff sheets; and miscellaneous service charges will be effective for services rendered on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that the revised tariff sheets will be approved upon Staff's verification that the tariff sheets are consistent with the Commission's decisions, that the proposed customer notice is adequate, that the bond proceeds are in the possession of the bank trustee, and that the required security, if applicable, has been provided. It is further

ORDERED that the utility shall notify each customer of the increases authorized herein and explain the reason for the increases. The form of such notice and explanation shall be submitted to the Commission for prior approval. It is further

ORDERED that if the bond proceeds do not materialize, Staff shall return to the Commission with new recommendations based on revised projections. It is further

ORDERED that in the event a substantially affected person, other than the utility, protests this proposed agency action, the utility may implement the rates herein approved on a temporary basis under the terms and conditions set forth in the body of this Order. The temporary rate portion of the Order is not issued as proposed agency action. It is further

ORDERED that in the event no protest is timely received and the bond proceeds are effectuated, this docket shall be closed.

By ORDER of the Florida Public Service Commission
this 7th day of JUNE, 19 89.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

HSD

by: Kay Henson
Chief, Bureau of Records

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.

As identified in the body of this order, our action discussed herein, except for the setting of temporary rates and charges is 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

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and Reporting at his office at 101 East Gaines Street,
Tallahassee, Florida 32399-0870, by the close of business on
June 29, 1989. In the absence of such a petition, this order
shall become effective June 29, 1989, as provided by Rule
25-22.029(6), Florida Administrative Code, and as reflected in
the subsequent order.

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 June 29, 1989, 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 sewer
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.

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 sewer 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.

HUDSON UTILITIES, INC.
DOCKET NO. 881398-SU
PROJECTED TEST YEAR ENDING JULY 31, 1998
WASTEWATER RATE BASE
SCHEDULE NO. 1

	12/31/90 BALANCE PER UTILITY	COMMISSION ADJUSTMENTS	AVERAGE PROJECTED BALANCE PER COMMISSION	REMOVED AND USEFUL	RATEMAKING BALANCE
LAND	\$0	\$0	\$0	N/A	\$0
UTILITY PLANT IN SERVICE	\$651,800	A \$2,177,367	\$2,829,255	(\$990,239)	\$1,839,016
ACCUMULATED DEPRECIATION AND AMORTIZATION	(\$78,292)	B (\$46,806)	(\$125,098)	\$43,784	(\$34,314)
CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)	(\$242,464)	C (\$830,160)	(\$1,072,632)	\$0	(\$1,072,632)
ACCUMULATED AMORTIZATION OF CIAC	\$78,020	D \$22,462	\$100,482	\$0	\$100,482
ADVANCES FOR CONSTRUCTION	(\$158,170)	E \$28,893	(\$129,483)	\$0	(\$129,483)
WORKING CAPITAL ALLOWANCE (WCA)					
PREPAID TAXES	\$0	F \$279,488	\$279,488	\$0	\$279,488
AVERAGE UNAMORTIZED BOND COSTS	\$0	G \$209,898	\$209,898	\$0	\$209,898
OTHER WCA COMPONENTS	\$0	H (\$56,293)	(\$56,293)	\$0	(\$56,293)
					\$0
RATE BASE	\$250,674	\$1,704,641	\$2,035,816	(\$946,455)	\$1,089,160

WADSWORTH UTILITIES, INC.
DOCKET NO. 881398-SU
ADJUSTMENTS TO WASTEWATER RATE BASE
PROJECTED FISCAL YEAR ENDING JULY 31, 1990
SCHEDULE NO. 1A

A. UTILITY PLANT IN SERVICE	
1. ADJUST TO AUDITED BALANCE AT 12/31/88	(\$95.00)
2. PROJECTED ADDITIONS 8/01/88 TO 7/31/90	\$3,818,455.00
3. THIRTEEN-MONTH AVERAGING ADJUSTMENT	(\$1,342,003.00)

SUBTOTAL	\$2,377,357.00
4. NOMINATED AND USEFUL ADJUSTMENT	(\$890,228.00)

	\$1,487,129.00

B. ACCUMULATED DEPRECIATION AND AMORTIZATION	
1. ADJUST TO AUDITED BALANCE AT 12/31/88	\$10,504.00
2. PROJECT DEPRECIATION FOR PERIOD 1/01/89 THROUGH 7/31/89 AT 4.24%	(\$15,417.00)
3. PROJECT DEPRECIATION FOR PERIOD 8/01/89 THROUGH 7/31/90 AT 4.24%	(\$102,148.00)
4. THIRTEEN-MONTH AVERAGING ADJUSTMENT	\$60,252.00

SUBTOTAL	(\$46,806.00)
5. NOMINATED AND USEFUL ADJUSTMENT	\$43,784.00

	(\$3,022.00)

C. CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION (CIAC)	
1. ADJUST TO AUDITED BALANCE AT 12/31/88	(\$26,564.00)
2. PROJECT ADDITIONS 8/01/88 THROUGH 7/31/90	(\$1,551,227.00)
3. THIRTEEN-MONTH AVERAGING ADJUSTMENT	\$749,523.00

	(\$838,188.00)

D. ACCUMULATED AMORTIZATION OF CIAC	
1. ADJUST TO AUDITED BALANCE AT 12/31/88	(51,685.00)
2. PROJECT AMORTIZATION FOR PERIOD 1/01/89 THROUGH 7/31/89 AT 4.24%	86,703.00
3. PROJECT AMORTIZATION FOR PERIOD 8/01/89 THROUGH 7/31/90 AT 4.24%	845,142.00
4. THIRTEEN-MONTH AVERAGING ADJUSTMENT	(327,718.00)

	\$22,462.00

E. ADVANCES FOR CONSTRUCTION	
ADJUST TO AUDITED BALANCE AT 12/31/88	328,893.00

WORKING CAPITAL ALLOWANCE	
F. PROJECT AVERAGE BALANCE OF PREPAID INCOME TAXES	\$279,488.00
G. PROJECT AVERAGE BALANCE OF UNAMORTIZED BOND ISSUANCE COSTS OVER A FOUR-YEAR PERIOD	\$209,898.00
H. OTHER WORKING CAPITAL COMPONENTS	(56,283.00)

HUDSON UTILITIES, INC
 DOCKET NO. 881398-SU
 COST OF CAPITAL/OVERALL RATE OF RETURN
 PROJECTED TEST YEAR ENDING JULY 31, 1990
 SCHEDULE NO. 2

	AVERAGE PROJECTED BALANCE	RECONCILIATION ADJUSTMENTS	PROJECTED BALANCE FOLLOWING RECONCILIATION	RATIO	COST	WEIGHTED COST
STOCKHOLDER'S EQUITY	(\$310,125.00)	\$161,406.85	(\$148,716.05)	0.1365	14.35%	1.96
LONG-TERM DEBT	(\$1,861,161.00)	\$1,020,717.05	(\$840,443.05)	0.8635	9.64%	8.32
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	(\$2,171,287.00)	\$1,182,127.00	(\$989,160.00)	1.0000		10.28
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WJOSON UTILITIES, INC.
DOCKET NO. 881398-SU
PROJECTED TEST YEAR ENDING JULY 31, 1990
SCHEDULE OF WASTEWATER OPERATING INCOME
SCHEDULE NO. 1

	TOTAL PER UTILITY 1/01/88 TO 12/31/88	COMMISSION ADJUSTMENTS	PROJECTED TOTAL PER COMMISSION	COMMISSION ADJUSTMENTS FOR INCREASE	PROJECTED TOTAL FOR INCREASE
OPERATING REVENUE	(\$84,773.00) A	(\$373,586.00)	(\$406,711.00) H	(\$183,203.00)	(\$529,914.00)
OPERATING EXPENSES	\$88,903.00 B	\$260,641.00	\$349,544.00	\$0.00	\$349,544.00
DEPRECIATION AND AMORTIZATION	\$26,799.00 C	\$39,595.00	\$66,394.00	\$0.00	\$66,394.00
AMORTIZATION OF BOND ISSUANCE COSTS	\$0.00 D	\$9,126.00	\$9,126.00	\$0.00	\$9,126.00
AMORTIZATION OF RATE CASE EXPENSE	\$0.00 E	\$672.00	\$672.00	\$0.00	\$672.00
AMORTIZATION OF CIAC	(\$9,294.00) F	(\$35,848.00)	(\$45,142.00)	\$0.00	(\$45,142.00)
TAXES OTHER THAN INCOME TAXES	\$8,560.00 G	\$25,718.00	\$34,278.00 I	\$3,080.00	\$37,358.00
INCOME TAXES	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL OPERATING EXPENSES	\$114,868.00	\$299,802.00	\$414,670.00	\$3,080.00	\$417,650.00
NET OPERATING INCOME	\$30,193.00	(\$73,684.00)	\$8,159.00	(\$180,122.93)	(\$111,963.93)
RATE BASE	\$250,874.00		\$1,089,160.00		\$1,089,160.00
RATE OF RETURN	-12.03%		-0.75%		10.28%

ERSON UTILITIES, INC.
DOCKET NO. 881398-SU
ADJUSTMENTS TO NET OPERATING INCOME
PROJECTED TEST YEAR ENDING JULY 31, 1990
SCHEDULE NO. 2A

A. OPERATING REVENUE	
PROJECT REVENUE BASED ON PROJECTED CUSTOMERS, AVERAGE CONSUMPTION, AND CURRENT RATES	(\$373,586.00)
B. OPERATING EXPENSES	
1. PROJECT SALARY ALLOWANCE TO STAFF UTILITY OFFICE	\$37,083.00
2. RECLASSIFY AS PRIOR PERIOD ADJUSTMENT	(\$609.00)
3. PROSPECTIVE DECREASE IN BANNMAN'S SERVICES, DUE TO STAFFING OF OFFICE	(\$7,200.00)

	(\$7,809.00)
4. PROJECT UTILITY PORTION OF HEALTH INSURANCE PREMIUMS FOR PROJECTED PERSONNEL	\$5,400.00
5. PROJECT ADDITIONAL COST, BASED ON USE OF 78,753,000 GALLONS AT \$3.17 PER THOUSAND GALLONS	\$206,631.00
6. RECLASSIFY FROM MISCELLANEOUS EXPENSES	\$348.00
7. INCREASE FOR PRIOR PERIOD REFUND	\$243.00
8. RECLASSIFY AS NON-UTILITY EXPENSE	(\$677.00)
9. PROJECT ADDITIONAL COST, BASED ON HISTORICAL COST, INCREASED GALLONAGE, AND CURRENT FIRM COST	\$4,872.00

	\$4,784.00
10. PROJECT ADDITIONAL COST, BASED ON HISTORICAL COST PER CUSTOMER AND PROJECTED NUMBER OF CUSTOMERS	\$4,423.00
11. RECLASSIFY AS REGULATORY COMMISSION EXPENSE	(\$727.00)
12. RECLASSIFY AS BOND ISSUANCE COSTS	(\$1,456.00)
13. RECLASSIFY AS NON-UTILITY EXPENSE	(\$1,200.00)
14. DISALLOW DUE TO LACK OF SUPPORTING DOCUMENTATION	(\$1,115.00)

15. PROJECT ADDITIONAL COST OF ACCOUNTING SERVICES	\$1,322.00
16. PROJECT COST OF ATTORNEY FEES	\$1,000.00
17. PROJECT ADDITIONAL CONTRACTUAL SERVICE REPAIRS, BASED ON HISTORICAL COST PER CUSTOMER AND PROJECTED NUMBER OF CUSTOMERS	\$7,821.00
18. PROJECT ADDITIONAL COST OF METER READING	\$3,182.00
	<u>\$13,325.00</u>
19. RECLASSIFY AS NON-UTILITY EXPENSE	(\$8,100.00)
20. PROJECT COST OF OFFICE AT \$285 PER MONTH	\$3,180.00
	<u>(\$4,920.00)</u>
21. PROJECT ALLOWANCE FOR UTILITY VEHICLES (REPAIRS, GAS, OIL)	\$2,400.00
22. PROJECT VEHICLE INSURANCE PREMIUMS AND WORKER'S COMPENSATION PREMIUMS BASED ON RECOMMENDED LEVEL OF PAYROLL AND COST OF \$4.14/\$100 FOR FIELD PERSONNEL AND \$.51/\$100 FOR OFFICE PERSONNEL	\$2,367.00
23. RECLASSIFY FROM CONTRACTUAL SERVICES	\$727.00
24. RECLASSIFY AS DEFERRED DEBIT TO AMORTIZE RATE CASE EXPENSE OVER FOUR-YEAR PERIOD	(\$1,220.00)
	<u>(\$493.00)</u>
25. RECLASSIFY TO PURCHASED POWER	(\$346.00)
26. PROJECT DECREASE IN BILLING AMOUNT INCLUDED IN TEST YEAR. (ALLOWANCE MADE FOR BILLING IN PROJECTED OFFICE SALARIES)	(\$200.00)
27. RECLASSIFY COST OF WATER AS NON-UTILITY	(\$235.00)
28. RECLASSIFY COST OF TELEPHONE AS NON-UTILITY	(\$895.00)
29. PROJECT INCREASED COST OF POSTAGE BASED ON PROJECTED BILLS AT \$.15 PER BILL	\$1,740.00

30. PROJECT ADDITIONAL COST OF OFFICE SUPPLIES	\$1,437.00
31. PROJECT COST OF OFFICE EQUIPMENT REPAIRS	\$580.00

	\$2,017.00

TOTAL OPERATING EXPENSE ADJUSTMENTS	\$260,641.00

C. DEPRECIATION AND AMORTIZATION	
1. PROJECT LEVEL BASED ON PROJECTED MONTHLY PLANT BALANCES AND PROJECTED RATE OF 4.24%	\$75,346.00
2. NONUSED AND USEFUL ADJUSTMENT	(\$35,751.00)

	\$39,595.00

D. AMORTIZATION OF BOND ISSUANCE COSTS	
PROJECT AMORTIZATION OF BOND ISSUANCE COSTS, BASED ON ESTIMATED COSTS OF \$220,150 AND A TWENTY-FIVE YEAR TERM	\$8,125.00

E. AMORTIZATION OF RATE CASE EXPENSE	
AMORTIZE ONE-QUARTER OF COSTS INCURRED FOR FILING FEE AND OTHER OUT-OF-POCKET EXPENSES	\$672.00

F. AMORTIZATION OF CIAC	
PROJECT LEVEL BASED ON PROJECTED MONTHLY CIAC BALANCES AND PROJECTED AMORTIZATION RATE OF 4.24%	(\$35,648.00)

G. TAXES OTHER THAN INCOME TAXES	
1. ADJUST TO ADMITTED 1988 BALANCE	(\$38.00)
2. PROJECT ADDITIONAL TANGIBLE TAX BASED ON PROJECTED PLANT	\$24,520.00
3. NONUSED AND USEFUL TANGIBLE TAX ASSOCIATED WITH NONUSED AND USEFUL PLANT IN SERVICE	(\$10,030.00)

4. PROJECT ADDITIONAL REGULATORY ASSESSMENT FEES, BASED ON PROJECTED CUSTOMERS AT EXISTING RATES	\$8,071.00
5. PROJECT PAYROLL TAXES, BASED ON RECOMMENDED SALARIES AND CURRENT TAX RATES	\$3,994.00

	\$25,716.00

H. OPERATING REVENUE ADJUST TO PROJECTED LEVEL WHICH WILL ALLOW THE UTILITY TO RECOVER THE PROJECTED EXPENSES AND EARN A RETURN OF 10.20%	(\$123,203.00)

I. TAXES OTHER THAN INCOME TAXES ADJUST TO RECOGNIZE INCREASED REGULATORY ASSESSMENT FEES ON RECOMMENDED REVENUE INCREASE	\$3,080.00

HUDSON UTILITIES, INC.
 DOCKET NO. 881398-SU
 DETAIL OF WASTEWATER OPERATING EXPENSES
 PROJECTED TEST YEAR ENDING JULY 31, 1990
 SCHEDULE NO. 38

	TOTAL PER UTILITY 1/01/88 TO 12/31/88		COMMISSION ADJUSTMENTS	PROJECTED TOTAL PER COMMISSION
SALARIES & WAGES - EMPLOYEES	\$0.00	1	\$37,083.00	\$37,083.00
SALARIES & WAGES - STOCKHOLDERS	\$10,600.00	2	(\$7,800.00)	\$12,800.00
PENSIONS AND BENEFITS	\$0.00	3	\$5,400.00	\$5,400.00
PURCHASED SEWAGE TREATMENT	\$43,016.00	4	\$206,631.00	\$249,647.00
PURCHASED POWER	\$2,316.00	5	\$4,784.00	\$7,100.00
MATERIALS AND SUPPLIES	\$1,227.00	7	\$4,423.00	\$5,650.00
CONTRACTUAL SERVICES	\$6,496.00	8	\$8,737.00	\$15,233.00
RENTS	\$8,100.00	9	(\$5,920.00)	\$3,180.00
TRANSPORTATION EXPENSE	\$0.00	10	\$2,400.00	\$2,400.00
INSURANCE EXPENSE	\$0.00	11	\$2,367.00	\$2,367.00
REGULATORY COMMISSION EXPENSE	\$906.00	12	(\$483.00)	\$423.00
MISCELLANEOUS EXPENSES	\$5,048.00	13	\$2,029.00	\$7,077.00
	\$80,803.00		\$269,641.00	\$349,544.00