

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for a rate increase)	DOCKET NO. 910093-WS
in Sumter County by CONTINENTAL)	ORDER NO. 24836
UTILITY, INC.)	ISSUED: 7/22/91
_____)	

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 J. TERRY DEASON
 BETTY EASLEY
 MICHAEL MCK. WILSON

ORDER SUSPENDING PROPOSED RATES
AND GRANTING INTERIM RATES

BY THE COMMISSION:

BACKGROUND

Continental Utility, Inc. (Continental or utility) is a Class C utility providing water and wastewater services for a predominantly residential area in Wildwood, Florida. On December 31, 1990, Continental was serving 848 customers. In 1990, revenues of \$168,031 and \$180,596 were recorded for the water and wastewater systems, respectively. The corresponding income amounts were \$29,889 and \$9,982.

On May 28, 1991, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility asked the Commission to process this application using the Proposed Agency Action (PAA) procedure outlined in Section 367.081(8), Florida Statutes. The utility's present rates were established by Order No. 21680, issued August 4, 1989.

The utility's application for increased rates is based on the twelve-month test year ended September 30, 1990, which was the utility's first full year of metering and billing based on water consumption. Prior to issuance of Order No. 21680, water and wastewater services were included in a monthly maintenance fee. In its application the utility gave the following reasons for requesting increased rates: 1) less water usage than predicted when

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metered rates were first implemented, 2) increased regulatory assessment fees, and 3) increased property taxes.

The utility has requested interim rates designed to generate annual revenues of \$243,853 for water service and \$209,013 for wastewater service. These amounts exceed test year revenues by \$77,026 (46.2 percent) and \$28,890 (16 percent) for the respective water and wastewater systems. The utility has requested final rates designed to generate revenues of \$249,792 for water service and \$215,274 for wastewater service.

SUSPENSION

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

We have reviewed the filing and have considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We find that it is reasonable and necessary to require further amplification and explanation of this data, and to require production of additional data.

In consideration of the above, we find it appropriate to suspend the utility's proposed rate schedules.

INTERIM RATES

Upon review of the information filed in the application, we find that, pursuant to Section 367.082, Florida Statutes, it is appropriate, on an interim basis, to increase annual water revenues by \$69,905 and to increase annual wastewater revenues by \$19,746, subject to refund with interest.

Rate Base

The utility's requested working capital amount is based on one-eighth of operation and maintenance expenses, which is consistent with treatment applied in its last rate case. However, because we have reduced operating expenses, corresponding

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reductions to working capital are required. These reductions to working capital are \$198 and \$555 for water and wastewater, respectively. Based on the above, we have determined that the appropriate interim rate base for the water system is \$814,525 and for the wastewater system is \$425,500. The calculation of these figures is shown on Schedules Nos. 1-A and 1-B and the adjustments to these schedules are itemized on Schedule No. 1-C, attached to this Order.

Cost of Capital

In its application, the utility requested approval of an 11.96 percent overall cost of capital for interim purposes. The requested return on equity was 13.35 percent, or the lower end of the range of reasonableness established in Docket No. 881178-WS. This is consistent with the requirements of Section 367.082 (5)(b)(3.), Florida Statutes. For interim purposes, our only adjustment to capital structure is a reconciliation measure due to reduced rate base totals. Therefore, we find that the appropriate overall cost of capital is 11.96 percent and the appropriate return on equity for interim purposes is 13.35 percent.

Net Operating Income

In its application, the utility made several adjustments to its test year operating statements to reflect: 1) reclassifying certain operating costs, 2) equally dividing common expenses between water and wastewater based on equivalent customers, and 3) revising some expenses due to changed operating conditions. These changed conditions include additional employee wages, a corresponding elimination of payments for outside operator services, and increased taxes due to payment of the current 4.5 percent rate for Regulatory Assessment Fees.

Some of the utility's adjustments are simply entries that correct misclassified or improperly allocated operating expenses, and those corrections have been included in our interim revenue calculation. However, other adjustments appear to be "pro forma" adjustments which were not actual expenses in the test year. Other adjustments annualize expenses, which are typically removed in setting interim rates. We find that most of the utility's adjustments concerning misclassified accounts to be reasonable. However, we find that some of the corrections are insufficiently explained and they have been removed for interim rate setting purposes. Our calculation of net operating income is depicted on Schedules Nos. 3-A and 3-B, and our adjustments are itemized on Schedule No. 3-C which are attached hereto. Those adjustments

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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.

We have restored the actual test year expense for an outside contractor to operate the utility's treatment plants, and have made a corresponding adjustment to employee wages, benefits and taxes. This restoration of actual expenses increases interim expenses by \$1,539. We have reversed the utility's entry to reclassify costs incurred in an unproductive petition for a limited proceeding. Reversal of this entry reduces interim expenses by \$4,876. We have reversed the utility's reclassification of certain "vacation credits" which reversal reduces interim expenses by \$1,724. We have removed a \$1,264 increase relating to a misstated provision for purchase power costs. We removed a \$3,240 adjustment to "annualize" property taxes.

In its application, the utility also requested interim recovery of the 4.5 percent regulatory assessment fee which went into effect on July 1, 1990. Since the interim rate determination must, by statute, be made upon a historical basis, this known change cannot be allowed in this interim proceeding. The test year for this proceeding is the twelve-month period ended September 30, 1990. Thus, the increased tax rate was in effect for one-fourth of the year. Therefore, we have reduced taxes other than income to reflect a blended rate of three percent for the regulatory assessment fee for interim purposes.

Revenue Requirement

Based upon recovery of actual operating expenses for the year ended September 30, 1990, and allowance for an overall 11.96 percent cost of capital, we find that it is appropriate, on an interim basis, to increase the utility's annual revenue requirement by \$69,905 (41.90 percent) for water service and \$19,746 (10.96 percent) for wastewater service. This results annual revenue amounts are \$236,732 and \$199,869 for water and wastewater, respectively.

Interim Rates

The interim rates are designed to allow the utility the opportunity to generate additional revenues of \$69,905 for the water system and \$19,746 for the wastewater system. This is an increase of 41.90 percent for water and 10.96 percent for wastewater over existing rates. We find these rates to be fair,

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just and reasonable. The existing rates and the approved interim rates are set forth below for comparison.

WATER

MONTHLY RATES

	<u>Existing Rates</u>	<u>Requested Interim Rates</u>	<u>Commission Approved Interim Rates</u>
<u>Residential & General Service</u>			
Base Facility Charge			
<u>Meter Size:</u>			
5/8" x 3/4"	\$ 8.19	\$ 12.22	\$ 11.63
1"	20.47	30.55	29.07
1 1/2"	40.94	61.10	58.13
2"	65.50	97.76	93.01
3"	131.00	183.30	186.02
4"	204.69	305.50	290.66
6"	409.38	611.00	581.32
Gallonge Charge per 1,000 G.	\$ 1.22	\$ 1.75	\$ 1.73

WASTEWATER

MONTHLY RATES

	<u>Existing Rates</u>	<u>Requested Interim Rates</u>	<u>Commission Approved Interim Rates</u>
<u>Residential Service</u>			
Base Facility Charge			
<u>Meter Size:</u>			
All Meter Sizes	\$ 6.80	\$ 10.93	\$ 7.55
Gallonge Charge per 1,000 G. (Maximum 6,000 G)	\$ 2.26	\$ 2.01	\$ 2.51

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WASTEWATER

MONTHLY RATES

	<u>Existing Rates</u>	<u>Requested Interim Rates</u>	<u>Commission Approved Interim Rates</u>
<u>General Service</u>			
Base Facility Charge			
<u>Meter Size:</u>			
5/8" x 3/4"	\$ 6.80	\$ 10.93	\$ 7.55
1"	17.00	27.33	18.86
1 1/2"	34.00	54.65	37.73
2"	54.41	87.44	60.37
3"	108.81	163.95	120.74
4"	170.02	273.25	188.65
6"	340.03	546.50	377.30
Gallage Charge			
per 1,000 G.	\$ 2.71	\$ 2.01	\$ 3.01

The interim rates shall be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's vote, that the appropriate security has been filed with the Commission, and that the proposed customer notice is adequate.

Security For Refund

Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. Therefore, we hereby require the utility to provide a corporate undertaking, guaranteed by the parent company, Continental Country Club R.O., in the amount of \$95,000 as guarantee of any potential refund of water or wastewater revenues collected under interim conditions. 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 subject to refund.

Based on the foregoing, it is

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ORDERED by the Florida Public Service Commission that the proposed final rate schedules filed by Continental Utility, Inc. are hereby suspended. It is further

ORDERED that the request of Continental Utility, Inc. for an interim increase in water and wastewater rates is hereby approved to the extent set forth in the body of this Order. It is further

ORDERED that the increased water and wastewater rates approved herein are subject to refund with interest pending the outcome of this proceeding. It is further

ORDERED that Continental Utility, Inc. shall submit, pursuant to Rule 25-30.360(6), Florida Administrative Code, a report by the 20th day of each month indicating the monthly and total revenues collected subject to refund. It is further

ORDERED that Continental Utility, Inc. shall file revised tariff pages in accordance with the provisions of this Order, as well as a proposed notice to customers, in accordance with the provisions of this Order. It is further

ORDERED that the interim water and wastewater rates shall be effective for meter readings on or after 30 days from the stamped approval date on the revised tariff sheets. It is further

ORDERED that the revised tariff sheets will be approved upon Commission Staff's verification that the tariff sheets are consistent with the Commission's decision, the appropriate security has been filed to guarantee any potential refund, and the proposed customer notice is adequate.

By ORDER of the Florida Public Service Commission, this 22nd day of JULY, 1991.



STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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CONTINENTAL UTILITY, INC.
SCHEDULE OF WATER RATE BASE
HISTORICAL TYE 9/30/90

SCHEDULE NO. 1-A
DOCKET NO. 910093-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,107,266	\$	\$ 1,107,266	\$	\$ 1,107,266
2 LAND	2,000		2,000		2,000
3 NON-USED & USEFUL COMPONENTS	(11,071)		(11,071)		(11,071)
4 ACCUMULATED DEPRECIATION	(204,355)		(204,355)		(204,355)
5 ACQUISITION ADJUSTMENT -NET	0		0		0
6 CIAC	(126,456)		(126,456)		(126,456)
7 AMORTIZATION OF CIAC	36,544		36,544		36,544
8 DEBIT DEFERRED INCOME TAXES	0		0		0
9 WORKING CAPITAL ALLOWANCE	11,608	(813)	10,795	(198)	10,597
RATE BASE	\$ 815,536	(813)\$	814,723	(198)\$	814,525

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CONTINENTAL UTILITY, INC.
SCHEDULE OF WASTEWATER RATE BASE
HISTORICAL TYE 9/30/90

SCHEDULE NO. 1-B
DOCKET NO. 910093-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,142,480	\$	\$ 1,142,480	\$	\$ 1,142,480
2 LAND	5,000		5,000		5,000
3 NON-USED & USEFUL COMPONENTS	(235,980)		(235,980)		(235,980)
4 ACCUMULATED DEPRECIATION	(295,807)		(295,807)		(295,807)
5 ACQUISITION ADJUSTMENT -NET	0		0		0
6 CIAC	(291,880)		(291,880)		(291,880)
7 AMORTIZATION OF CIAC	87,147		87,147		87,147
8 DEBIT DEFERRED INCOME TAXES	0		0		0
9 WORKING CAPITAL ALLOWANCE	14,399	696	15,095	(555)	14,540
RATE BASE	\$ 425,359	\$ 696	\$ 426,055	(555)\$	425,500

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CONTINENTAL UTILITY, INC.
ADJUSTMENTS TO RATE BASE
HISTORICAL TYE 9/30/90

SCHEDULE NO. 1-C
PAGE 1 OF 1
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EXPLANATION	WATER	WASTEWATER
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WORKING CAPITAL		

Adjustment due to reduced operating and maintenance expenses	\$ (198)	\$ (555)
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CONTINENTAL UTILITY, INC.
 CAPITAL STRUCTURE
 HISTORICAL TYE 9/30/90

SCHEDULE NO. 2-A
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DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION
1 LONG TERM DEBT	\$ 931,398	74.97%	11.50%	8.62%	\$ (1,728)	\$ 929,670	74.97%	11.50%	8.62%
2 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 CUSTOMER DEPOSITS	70	0.01%	8.00%	0.00%	(0)	70	0.01%	8.00%	0.00%
5 COMMON EQUITY	310,862	25.02%	13.35%	3.34%	(577)	310,285	25.02%	13.35%	3.34%
6 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
7 DEFERRED TAXES	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 1,242,330	100.00%		11.96%	\$ (2,305)	\$ 1,240,025	100.00%		11.96%

RANGE OF REASONABLENESS

LOW HIGH

RETURN ON EQUITY

13.35% 15.35%

OVERALL RATE OF RETURN

11.96% 12.46%

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CONTINENTAL UTILITY, INC.
ADJUSTMENTS TO CAPITAL STRUCTURE
HISTORICAL TYE 9/30/90

SCHEDULE NO. 2-B
DOCKET NO. 910093-WS

DESCRIPTION	SPECIFIC ADJUSTMENT (EXPLAIN)	SPECIFIC ADJUSTMENT (EXPLAIN)	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	(1,728)\$	(1,728)
2 SHORT TERM DEBT	0		0	0
3 PREFERRED STOCK	0		0	0
4 CUSTOMER DEPOSITS	0		(0)	(0)
5 COMMON EQUITY	0	0	(577)	(577)
6 INVESTMENT TAX CREDITS	0		0	0
7 DEFERRED INCOME TAXES	0		0	0
8 TOTAL CAPITAL	\$ 0	\$ 0	(2,305)\$	(2,305)

CONTINENTAL UTILITY, INC.
STATEMENT OF WATER OPERATIONS
HISTORICAL TYE 9/30/90

SCHEDULE NO. 3-A
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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 166,315	\$ 77,538	\$ 243,853	\$ (77,026)	\$ 166,827	\$ 69,905	\$ 236,732
OPERATING EXPENSES						41.90%	
2 OPERATION AND MAINTENANCE	92,860	(6,497)	86,363	(1,586)	84,777		84,777
3 DEPRECIATION	34,537	(645)	33,892		33,892		33,892
4 AMORTIZATION - U/U	0	930	930		930		930
5 TAXES OTHER THAN INCOME	7,004	13,967	20,971	(8,014)	12,957	2,097	15,054
6 INCOME TAXES	0	4,228	4,228	(4,228)	0	4,661	4,661
7 TOTAL OPERATING EXPENSES	\$ 134,401	\$ 11,983	\$ 146,384	\$ (13,828)	\$ 132,556	\$ 6,759	\$ 139,315
8 OPERATING INCOME	\$ 31,914	\$ 65,555	\$ 97,469	\$ (63,198)	\$ 34,271	\$ 63,146	\$ 97,417
9 RATE BASE	\$ 815,536		\$ 814,723		\$ 814,525		\$ 814,525
RATE OF RETURN	3.91%		11.96%		4.21%		11.96%

CONTINENTAL UTILITY, INC.
STATEMENT OF WASTEWATER OPERATIONS
HISTORICAL TYE 9/30/90

SCHEDULE NO. 3-B
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DESCRIPTION	ADJUSTMENTS		ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	COMMISSION		REVENUE INCREASE	REVENUE REQUIREMENT
	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS			ADJUSTED TEST YEAR	ADJUSTED TEST YEAR		
1 OPERATING REVENUES	\$ 179,669	\$ 29,344	\$ 209,013	\$ (28,890)	\$ 180,123	\$ 19,746	\$ 199,869	
OPERATING EXPENSES						10.96%		
2 OPERATION AND MAINTENANCE	\$ 115,189	\$ 5,575	\$ 120,764	\$ (4,446)	\$ 116,318		\$ 116,318	
3 DEPRECIATION	33,312	(16,289)	17,023		17,023		17,023	
4 AMORTIZATION	0	930	930		930		930	
5 TAXES OTHER THAN INCOME	7,564	9,566	17,130	(5,453)	11,677	592	12,269	
6 INCOME TAXES	0	2,151	2,211	(2,211)	0	2,439	2,439	
7 TOTAL OPERATING EXPENSES	\$ 156,065	\$ 1,933	\$ 158,058	\$ (12,110)	\$ 145,948	\$ 3,031	\$ 148,979	
8 OPERATING INCOME	\$ 23,604	\$ 27,411	\$ 50,955	\$ (16,780)	\$ 34,175	\$ 16,715	\$ 50,890	
9 RATE BASE	\$ 425,359		\$ 426,055		\$ 425,500		\$ 425,500	
RATE OF RETURN	5.55%		11.96%		8.03%		11.96%	

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CONTINENTAL UTILITY, INC.
 ADJUSTMENTS TO OPERATING STATEMENTS
 HISTORICAL TYE 9/30/90

SCHEDULE NO. 3-C
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EXPLANATION	WATER	WASTEWATER
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OPERATING REVENUES		
<hr/>		
Adjustment to reverse requested rate increase	\$ (77,026)\$	(28,890)
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OPERATING EXPENSES		
<hr/>		
1) Reverse adjustment concerning reclassified vacation credit	\$ (862)\$	(862)
2) Restore adjustment concerning water used at WWP		372
3) Reverse proposed restatement of accounts payable	(203)	(1,061)
4) Reverse proposed adjustments that reclassify limited proceeding costs	(2,438)	(2,438)
5) Reverse proposed adjustment that reclassifies charge to Account #18800		(336)
6) Adjustment to restore actual expense for outside operator services	3,923	1,884
7) Remove pro forma provision for increased wages and benefits	(2,006)	(2,005)
	<hr/>	<hr/>
	\$ (1,586)\$	(4,446)
<hr/>		
TAXES OTHER THAN INCOME TAXES		
<hr/>		
1) Remove provision for annualized property taxes	\$ (1,918)\$	(1,322)
2) Remove porvsion for pro forma payroll taxes	(128)	(129)
3) Adjustment to reflect 3% rate for RAF	(5,968)	(4,002)
	<hr/>	<hr/>
	\$ (8,014)\$	(5,453)
<hr/>		
INCOME TAXES		
<hr/>		
Adjustment to reflect income taxes per staff	\$ (4,228)\$	(2,211)
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OPERATING REVENUES		
<hr/>		
Adjustment to achieve revenue requirement	\$ 69,905 \$	19,746
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CONTINENTAL UTILITY, INC.
 ADJUSTMENTS TO OPERATING STATEMENTS
 HISTORICAL TYE 9/30/90

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EXPLANATION	WATER	WASTEWATER

TAXES OTHER THAN INCOME TAXES		

Adjustment to reflect added RAF due to added revenues	\$ 2,097	\$ 592
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INCOME TAXES		

Adjustment to reflect income taxes per staff	\$ 4,661	\$ 2,439
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