

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for a rate)
 increase in Pasco County by)
 UTILITIES INC. OF FLORIDA)
 _____)

DOCKET NO. 910020-WS
 ORDER NO. 24962
 ISSUED: 8/22/91

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

BACKGROUND

Utilities, Inc. of Florida (Utilities Inc. or the utility) is a Class B utility providing water and wastewater service for 26 systems in 6 counties in Central Florida. The Paradise Point West (PPW) water and wastewater system in Pasco County has been operated by Utilities, Inc. since October, 1990. The system serves a predominantly residential area. The minimum filing requirements (MFRs) indicate that in 1990 the utility was providing water and wastewater service to 715 customers at PPW with revenues of \$64,311 and \$54,996 recorded for the respective water and wastewater systems. The corresponding net income amounts were (\$32,649) and (\$5,935). The utility's water and wastewater rates were last adjusted by Order No. 14158, issued on March 12, 1985, as a result of the 1984 price index adjustment. The utility has not previously had a rate case before the Commission.

By Order No. 24259, issued on March 20, 1991, the Commission approved the transfer of the PPW water and wastewater systems from PPW Water and Sewer, Inc. to Utilities, Inc. and ordered that establishing a rate base and determining the appropriateness of an acquisition adjustment would be determined in this rate case.

On December 17, 1990, Utilities, Inc. initiated a limited proceeding to request a wastewater rate increase and recover operating cost increases resulting from a Department of Environmental Regulation ordered interconnection with Pasco County. By Order No. 24277, issued on March 25, 1991, the Commission approved a temporary wastewater rate increase subject to refund to compensate the utility for increased operational costs incurred as a result of having Pasco County handle wastewater treatment and

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disposal. The utility was granted a wastewater revenue increase of \$195,561 (355.6 percent). Final determination of the interconnection costs and any possible refunds arising from the limited proceeding will be addressed in this rate case.

On April 19, 1991, Utilities, Inc. filed an application for increased water and wastewater rates. The MFRs were deficient, and the utility submitted a revised application on June 6, 1991. The information in the revised application satisfied the MFRs and the official filing date was established as June 6, 1991. The application for increased rates is based on the projected twelve month test year ended April 30, 1991. The last day to suspend the proposed rates is August 5, 1991, but the utility agreed to a one day waiver of the sixty day requirement.

The utility has requested interim water rates designed to generate annual revenues of \$157,337. These revenues exceed test year revenues by \$93,026 (144.6 percent). The utility has not requested a wastewater interim rate increase since those rates were increased in the limited proceeding. The utility requested annual revenue requirements of \$185,258 for water service and \$454,384 for wastewater service. These requested revenues exceed the test year revenues by \$120,947 (188 percent) for water and \$399,414 (726 percent) for wastewater.

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. Further, the above-referenced statute permits the proposed rates to go into effect, under bond, eight (8) months after filing unless final action has been taken by the Commission. The sixty day period ends on August 5, 1991, but the utility has agreed to a one day waiver of the sixty day requirement for suspension of its proposed rates.

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, as well as additional data. In consideration of the above, we find it appropriate to suspend the proposed rate schedules.

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INTERIM RATES

Upon review of the information filed in the application, we find that, pursuant to Section 367.082, Florida Statutes, the utility has made a prima facie showing and thus it is appropriate, on an interim basis, to increase annual water revenues by \$86,893, subject to refund with interest. In determining the interim revenue amount we have made several adjustments to the information filed which are discussed below.

Rate Base

The utility used end of year balances to calculate rate base with a working capital allowance using the one-eighth of operation and maintenance expenses. Section 367.082(5) (b) (1), Florida Statutes, states that "the achieved rate of return shall be calculated by applying appropriate adjustments consistent with those which were used in the most recent rate case of the Utility . . ." The utility has never had a previous rate case. To be consistent with the Commission's practice, we have adjusted rate base to reflect a beginning and end of year average and calculated rate base with a working capital allowance using the one-eighth operation and maintenance expenses formula approach. The difference between the average balances that we have determined to be appropriate and the end of year balances the utility provided requires adjustments to the Plant, Accumulated Depreciation, and Amortization of CIAC accounts. The reductions to the respective accounts are \$16,829 (Plant), \$15,603 (Accumulated Depreciation) and \$5,016 (Amortization of CIAC) for the water division.

Based on the foregoing, we have determined that the appropriate average, interim rate base is \$236,329 for the water division. The calculation of these figures is shown on Schedule No. 1-A, and the adjustments to these schedules are itemized on Schedule No. 1-B.

Cost of Capital

In its application, the utility requested approval of a 9.62 percent cost of capital for interim purposes. To calculate cost of capital we have used an average rather than a year-end capital structure, and have included investment tax credits (ITCs) and deferred income taxes in the capital structure. An average capital structure is consistent with our calculation of an average rate base amount. Concerning the ITCs and deferred taxes, the utility contends that these items preceded the acquisition of the PPW utility systems, and should, therefore, be excluded in determining

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the cost of capital for this docket. Excluding investment tax credits and deferred income taxes implies that funds may be traced. We do not believe that funds may be traced. Therefore, investment tax credits and deferred income taxes have been included in the interim revenue requirement.

The utility's requested return on equity is 10.6 percent, which is consistent with the lower end of the range of reasonableness established in Order No. 24246, issued March 18, 1991. Using this return and the average capital structure, as discussed above, we find the appropriate overall cost of capital is 8.32 percent for interim purposes. The schedule showing the calculation of the capital structure is attached as Schedule No. 2-A. The adjustments to this schedule are itemized on Schedule No. 2-B.

Net Operating Income

The utility's proposed interim operating statement includes adjustments to reflect added taxes other than income due to payment of the current 4.5 percent rate for regulatory assessment fees, which became effective 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 December 31, 1990. Thus, the increased tax rate was in effect for one-half of the year. Accordingly, the interim revenue requirement includes a blended, 3.5 percent provision for the regulatory assessment fee. Further, because rate base and the cost of capital are reduced, as discussed above, the provision for income taxes is also reduced. Our calculation net operating income is attached as Schedule No. 3-A, and our adjustments to this schedule are itemized on Schedule No. 3-B.

Revenue Requirement

Based upon recovery of actual operating expenses for the year ended December 31, 1990, and allowance for an 8.32 percent return on average rate base, we find that it is appropriate, on an interim basis, to increase the utility's annual revenue requirement by \$86,893 (135.11 percent) for water service. This results in annual revenues of \$151,204 for the water division.

Interim Rates

The interim water rates are designed to allow the utility the opportunity to generate additional revenues of \$86,893 for the

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water system. We find these rates to be fair, just and reasonable. The existing rates and the approved interim rates are set forth below for comparison.

WATER

RESIDENTIAL AND GENERAL SERVICES

	(Monthly) Utility Present Rates	(Monthly) Utility Requested Interim Rates	(Monthly) Commission Approved Interim Rates
<u>Meter Size</u>			
<u>All Meter Sizes</u>			
0-4,000 gal.	\$ 5.36	\$ 13.11	\$ 12.60
Over 4,000 gal. (per 1,000 gal.)	\$ 0.53	\$ 1.30	\$ 1.25

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, Utilities, Inc. of Florida, in the amount of \$48,000 as guarantee of any potential refund of water 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

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

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

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

ORDERED that Utilities, Inc. of Florida 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 Utilities, Inc. of Florida 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 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 AUGUST, 1991.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

CB

by: Kay Flynn
Chief, Bureau of Records

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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 sewer 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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UTILITIES, INC. OF FLORIDA (PPW)
SCHEDULE OF WATER RATE BASE-INTERIM
TEST YEAR ENDING DECEMBER 31, 1990

SCHEDULE NO. 1-A
DOCKET NO. 910020-WS

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
UTILITY PLANT IN SERVICE	\$ 711,646	\$ 0	\$ 711,646	\$(16,829)	694,817
LAND	5,500	0	5,500	0	5,500
NON-USED & USEFUL COMPONENTS	0	0	0	0	0
ACCUMULATED DEPRECIATION	(180,814)	0	(180,814)	15,603	(165,211)
CIAC	(374,778)	0	(374,778)	0	(374,778)
AMORTIZATION OF CIAC	69,487	0	69,487	(5,016)	64,471
ACQUISITION ADJUSTMENTS	0	0	0	0	0
ACCUM. AMORT. OF ACQ. ADJUST.	0	0	0	0	0
WORKING CAPITAL ALLOWANCE	11,530	0	11,530	0	11,530
RATE BASE	\$ 242,571	\$ 0	\$ 242,571	\$(6,242)	236,329

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UTILITIES, INC. OF FLORIDA (PPW)
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDING DECEMBER 31, 1990

SCHEDULE NO. 1-B
 PAGE 1 OF 1
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EXPLANATION	ADJUSTMENT WATER
-----	-----
1 PLANT	
A. Decrease to reflect an average balance	\$ (16,829)

2 ACCUMULATED DEPRECIATION	
A. Adjustment to reflect average balance	\$ 15,603

3 AMORTIZATION OF CIAC	
A. Adjustment to reflect average balance	\$ (5,016)

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UTILITIES, INC. OF FLORIDA (PPW)
 COST OF CAPITAL - WATER
 TEST YEAR ENDING DECEMBER 31, 1990

SCHEDULE NO. 2-A
 DOCKET NO. 910020-W5

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COMM	COMMISSION PRO RATA ADJ TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
1 LONG TERM DEBT	\$ 378,799	23.27%	6.40%	1.49%	\$ (329,309)\$	49,490	20.94%	6.40%	1.34%
2									
3 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4									
5 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
6									
7 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8									
9 COMMON EQUITY	1,248,703	76.73%	10.60%	8.13%	(1,093,093)	155,610	65.84%	10.60%	6.98%
10									
11 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	17,718	17,718	7.50%	0.00%	0.00%
12									
13 DEFERRED INCOME TAXES	0	0.00%	0.00%	0.00%	13,512	13,512	5.72%	0.00%	0.00%
14									
15 OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
16									
17 TOTAL CAPITAL	\$ 1,627,502	100.00%		9.62%	\$ (1,391,173)\$	236,329	100.00%		8.32%
18									

RANGE OF REASONABLENESS	LOW	HIGH
EQUITY	10.60%	12.60%
OVERALL RATE OF RETURN	8.32%	9.64%

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UTILITIES, INC. OF FLORIDA (PPW)
 ADJUSTMENTS TO CAPITAL STRUCTURE
 TEST YEAR ENDING DECEMBER 31, 1990

SCHEDULE NO. 2-B
 DOCKET NO. 910020-WS

DESCRIPTION	UTILITY ADJUSTED TEST YEAR	COMM ADJUST TO YIELD AVERAGE BAL	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 378,799	\$ 17,164	\$ (346,473)	\$ (329,309)
2				
3 SHORT TERM DEBT	0		0	0
4				
5 CUSTOMER DEPOSITS	0		0	0
6				
7 PREFERRED STOCK	0		0	0
8				
9 COMMON EQUITY	1,248,703	(3,690)	(1,089,403)	(1,093,093)
10				
11 INVESTMENT TAX CREDITS	0	141,757	(124,039)	17,718
12				
13 DEFERRED INCOME TAXES	0	108,107	(94,595)	13,512
14				
15 OTHER CAPITAL	0	0	0	0
16				
17 TOTAL CAPITAL	\$ 1,627,502	\$ 263,338	\$ (1,654,511)	\$ (1,391,173)
18				

UTILITIES, INC. OF FLORIDA (PPW)
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDING DECEMBER 31, 1990

SCHEDULE NO. 3-A
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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMM ADJUSTMENTS	COMM ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 64,311	\$ 93,026	\$ 157,337	\$(93,026)	\$ 64,311	\$ 86,893	151,204
2							
3 OPERATING EXPENSES						135.11%	
4							
5 OPERATION AND MAINTENANCE	\$ 92,243	\$ 0	\$ 92,243	\$ 0	\$ 92,243	\$ 0	92,243
6							
7 DEPRECIATION	16,372	0	16,372	0	16,372	0	16,372
8							
9 AMORTIZATION	0	0	0	0	0	0	0
10							
11 TAXES OTHER THAN INCOME	7,973	5,507	13,480	(3,256)	10,224	3,041	13,265
12							
13 INCOME TAXES	0	11,902	11,902	(33,794)	(21,892)	31,553	9,661
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 116,588	\$ 17,409	\$ 133,997	\$(37,050)	\$ 96,947	\$ 34,594	131,541
17							
18							
19 OPERATING INCOME	\$(52,277)	\$ 75,617	\$ 23,340	\$(55,976)	\$(32,636)	\$ 52,298	19,663
20							
21							
22 RATE BASE	\$ 242,571		\$ 242,571		\$ 236,329		\$ 236,329
23							
24							
25 RATE OF RETURN	-21.55%		9.62%		-13.81%		8.32%
26							

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UTILITIES, INC. OF FLORIDA (PPW)
 ADJUSTMENTS TO OPERATING STATEMENT
 TEST YEAR ENDING DECEMBER 31, 1990

SCHEDULE NO. 3-B
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EXPLANATION	ADJUSTMENT WATER
-----	-----
1 OPERATING REVENUES	
A. To remove utility's requested revenue increase	\$ (93,026)

2 TAXES OTHER THAN INCOME	
A. Reg. assess. fees on revenue increase	\$ (3,256)

3 INCOME TAXES	
A. Adjustment to income taxes	\$ (33,794)

4 REVENUE REQUIREMENT	
A. To reflect the increase in the revenues required	\$ \$86,893

5 TAXES OTHER THAN INCOME	
A. RAF on revenue increase recomm.	\$ 3,041

6 INCOME TAXES	
A. To reflect income taxes relating to revenue requirement.	\$ 31,553
