

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a Rate) DOCKET NO. 920808-SU  
Increase for the South Fort ) ORDER NO. PSC-93-0216-FOF-SU  
Myers Division of FLORIDA ) ISSUED: 02/10/93  
CITIES WATER COMPANY in Lee )  
County. )

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman  
THOMAS M. BEARD  
SUSAN F. CLARK  
JULIA L. JOHNSON  
LUIS J. LAUREDO

ORDER SUSPENDING PROPOSED RATE SCHEDULES,  
DENYING INTERIM RATES, AND PLACING REVENUES SUBJECT TO REFUND

BY THE COMMISSION:

CASE BACKGROUND

Florida Cities Water Company's South Ft. Myers wastewater system (FCWC or utility) is a class A utility which provides wastewater services for two distinct service areas in Ft. Myers, Florida. As of June 30, 1992, the South Ft. Myers wastewater system served 5,009 customers and the corresponding number of ERC's was 7,469. The utility recorded wastewater revenues of \$2,645,715 with a net operating income of \$794,767. This system is located in a critical use area of the Southwest Florida Water Management District.

On November 5, 1992, the utility filed an application for approval of interim and permanent rate increases in Lee County pursuant to Sections 367.081 and 367.082, Florida Statutes. The application, however, did not meet the minimum filing requirements (MFRs). On December 3, 1992, the utility completed the MFRs for its application and that date was established as the official filing date. This Commission last established rates for FCWC's wastewater system in Order No. PSC-92-0266-FOF-SU, issued on April 28, 1992.

The utility's application for increased rates is based upon the historical test year ended June 30, 1992. According to the utility, its principal reasons for requesting increased rates are: (1) to have the opportunity to earn a fair and reasonable rate of return of 9.77 percent; (2) to be allowed to account for post-retirement benefits other than pensions in accordance with the

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FPSC-RECORDS/REPORTING

Statement of Financial Accounting Standards No. 106, Employers Accounting for Post-retirement Benefits Other Than Pensions (SFAS 106), for ratemaking purposes; and (3) to defer depreciation on non-used and useful plant effective January 1, 1991.

The utility submitted MFRs requesting revenues of \$3,092,782 for both interim and final rate setting purposes. This amount exceeds test year revenues by \$396,326, an increase of 14.7 percent, for the test year ended June 30, 1992.

#### SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within 60 days after filing unless this Commission votes to withhold consent to the implementation of the 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. The utility significantly increased the percentage of used and useful plant in service since the last rate case. The utility is also requesting an increase to historical test year pensions and benefits expense based on a change in an accounting method. We find that it is reasonable and necessary to require further amplification and explanation of this data, and to require production of additional or corroborative data. In consideration of the above, we find that it is appropriate to suspend the proposed rate schedules.

#### INTERIM RATE INCREASE REQUEST DENIED; POTENTIAL OVERTURNINGS PLACED SUBJECT TO REFUND

FCWC has requested interim rates designed to generate annual revenues of \$3,092,782. These revenues exceed test year revenues by \$396,326 (14.7 percent). The utility's interim test year overall rate of return is greater than the maximum overall rate of return allowed by this Commission. Therefore, we find that \$262,079 shall be held subject to refund because it equals the difference between the maximum authorized revenues of \$2,434,377 and the test year revenues of \$2,696,456, or 9.72 percent of the revenues collected during the historical test year.

The attached accounting schedules illustrate our adjustments. Schedules 1-A and 1-B show the rate base and related adjustments, respectively. Schedules 2-A and 2-B show the capital structure and related adjustments, and Schedules 3-A and 3-B show the net operating income and related adjustments, respectively.

Rate Base

Used and Useful

Review of the utility's used and useful methodology indicates that corrections are appropriate for interim rate setting purposes. The utility based its used and useful estimate on a recent investment allocation analysis and recommendation made by outside consultants. The requested used and useful percentages significantly increase the amount of used and useful plant since the utility's last rate case because of a change in the utility's methodology for determining used and useful plant. Consistent with Section 367.082, Florida Statutes, the same used and useful method should be employed for interim purposes as was used in the last rate case. This calculation results in a decrease to the utility's proposed amounts for used and useful plant.

We have recalculated the used and useful percentages with the methodology from the utility's last rate case. We find that it is appropriate to reduce the used and useful percentages as shown below. We find that it is not appropriate to make adjustments to other plant accounts for interim purposes.

<u>TREATMENT &amp; DISPOSAL PLANT</u>	<u>UTILITY</u>	<u>COMMISSION</u>
Structures & Improvements	63.8 %	49.0 %
Treatment & Disposal Equip.	68.6 %	49.0 %
Adv. Treatment & Disp. Equip.	79.2 %	49.0 %
Outfall Sewer Lines	92.2 %	49.0 %
Effluent Services	100.0 %	49.0 %
Effl. Meters & Meter Install.	100.0 %	49.0 %
Other Plant & Misc Equip.	59.3 %	49.0 %

Working Capital

FCWC used the formula method to calculate interim working capital requirements, which is consistent with the utility's last rate case. We believe that the formula method yields a reasonable estimate of the utility's working capital needs for setting interim rates.

The formula method determines a provision for working capital by dividing operation and maintenance (O&M) expenses by eight. The appropriate adjustments to O&M expenses result in a reduction to working capital of \$11,089.

Capital Structure

FCWC was allowed a return on equity of 13.11 percent with a range of reasonableness of 12.11 percent to 14.11 percent in its

last rate case by Order No. PSC-92-0266-FOF-SU, issued April 28, 1992. The authorized range of reasonableness for the return on equity provides FCWC with an authorized overall rate of return from 9.66 percent to 10.28 percent. Upon review, we have found that the utility earned an overall rate of return in the interim test year of 12.86 percent, which is greater than the 10.28 percent maximum overall rate of return allowed by this Commission. Therefore, for interim purposes, the utility earned above the range of reasonableness established by this Commission, and, therefore, an interim rate decrease is required.

Section 367.082(2) (b) & (5) (b), Florida Statutes, states that in a proceeding for an interim decrease in rates, the maximum of the range of the last authorized rate of return on equity shall be used in determining the amount that shall be placed subject to refund. Therefore, for interim purposes, we find that it is appropriate to use the maximum of the range of the last authorized return on equity, 14.11 percent.

#### Net Operating Income

The utility increased the historical test year pensions and benefits expense account by \$43,212 based on a change in the accounting method used. The utility also included \$45,500 in the regulatory rate case expense account for expenses related to the current rate case. We find that both adjustments are pro forma in nature and should be removed for interim purposes, consistent with Section 367.082, Florida Statutes. Therefore, we find that it is appropriate to remove the utility's operating expense adjustments.

As discussed in the rate base section above, we find that it is appropriate to adjust the used and useful provisions for plant. Corresponding reductions to depreciation expense are necessary since only depreciation on used and useful plant can be recognized. Therefore, we find that a reduction to depreciation expense of \$179,734 is appropriate.

#### Revenue Requirement

Based upon our decisions regarding the utility's actual operating expenses for the year ended December 31, 1991, and the appropriate cost of capital on an average rate base, we find that it is not appropriate to allow an interim revenue increase. Moreover, as the utility appears to be overearning, we find that it is appropriate to require that the difference between the maximum authorized revenues of \$2,434,377 and the test year revenues of \$2,696,456, or \$262,079 (9.72 percent), be held subject to refund. Therefore, the utility is hereby ordered to place subject to refund 9.72 percent of the revenues collected for service on or after

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January 19, 1993, on an interim basis, to protect these revenues for a potential refund. Accordingly, FCWC's rates shall remain unchanged for interim purposes.

REFUND SECURITY

As our adjustments discussed above reflect that an interim decrease in revenues is appropriate, we hereby find it appropriate to authorize FCWC to continue to collect its currently approved rates on a temporary basis subject to refund. However, the utility shall furnish and have approved by Commission staff adequate security for a potential refund in the form of a corporate undertaking in the amount of \$200,490 or an equivalent bond, letter of credit or escrow agreement. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the twentieth day of each month indicating the monthly total revenue collected subject to refund.

Based on the foregoing, it is, therefore,

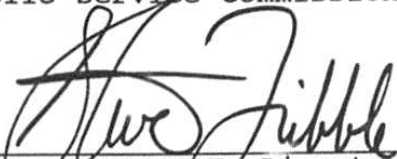
ORDERED by the Florida Public Service Commission that the rate schedules proposed by Florida Cities Water Company for the South Ft. Myers division are hereby suspended, pursuant to Section 367.081(6), Florida Statutes. It is further

ORDERED that the request by Florida Cities Water Company for an interim increase in wastewater rates is hereby denied as set forth in the body of this Order. It is further

ORDERED that 9.72 percent of all revenues collected on or after January 19, 1993, shall be placed subject to refund due to potential overearnings. It is further

ORDERED that Florida Cities Water Company shall file and have approved a corporate undertaking in the amount of \$200,490, or an equivalent bond, letter of credit or escrow agreement, as guarantee for any potential overearnings refund.

By ORDER of the Florida Public Service Commission this 10th day of February, 1993.

  
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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.

FCWC - SOUTH FT. MYERS DIVISION SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED JUNE 30, 1992			SCHEDULE NO. 1-A 920808-SU		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 23,598,425	\$ (258,430)	\$ 23,339,995	0	\$ 23,339,995
2 LAND	6,327	0	6,327	0	6,327
3 NON-USED & USEFUL COMPONENTS	0	(3,170,010)	(3,170,010)	(2,601,893)	(5,771,903)
4 ACCUMULATED DEPRECIATION	(5,326,053)	1,004,610	(4,321,443)	0	(4,321,443)
5 CIAC	(9,891,544)	0	(9,891,544)	0	(9,891,544)
6 AMORTIZATION OF CIAC	2,543,331	0	2,543,331	0	2,543,331
7 ACQUISITION ADJUSTMENTS -NET	467	(467)	0	0	0
8 ADVANCES FOR CONSTRUCTION	(20,747)	0	(20,747)	0	(20,747)
9 WORKING CAPITAL ALLOWANCE	147,099	14,300	161,399	(11,089)	150,310
<b>RATE BASE</b>	<b>\$ 11,057,305</b>	<b>\$ (2,409,997)</b>	<b>\$ 8,647,308</b>	<b>\$ (2,612,982)</b>	<b>\$ 6,034,326</b>

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FCWC - SOUTH FT. MYERS DIVISION ADJUSTMENTS TO RATE BASE TEST YEAR ENDED JUNE 30, 1992	SCHEDULE NO. 1-B PAGE 1 OF 1 920808-SU
EXPLANATION	WASTEWATER
1) NON-USED AND USEFUL COMPONENTS	
----- Adjustment to net plant based on recommended used and useful	\$ (2,601,893) =====
2) WORKING CAPITAL	
----- Adjustment based on recommended operating expenses	\$ (11,089) =====



FCWC - SOUTH FT. MYERS DIVISION  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 2-A  
 920808-SU

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 COMM.	
1 LONG TERM DEBT	\$ 27,594,125	43.89%	9.92%	4.35%	\$(24,945,483)	\$ 2,648,642	43.89%	9.92%	4.35%	
2 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
3 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
4 PREFERRED STOCK	9,000,000	14.32%	9.00%	1.29%	(8,136,129)	863,871	14.32%	9.00%	1.29%	
5 COMMON EQUITY	19,225,048	30.58%	12.44%	3.80%	(17,379,718)	1,845,330	30.58%	14.11%	4.31%	
6 INVESTMENT TAX CREDITS	2,050,881	3.26%	9.77%	0.32%	(1,854,026)	196,855	3.26%	9.77%	0.32%	
7 DEFERRED TAXES	4,996,865	7.95%	0.00%	0.00%	(4,517,237)	479,628	7.95%	0.00%	0.00%	
8 TOTAL CAPITAL	<u>\$ 62,866,919</u>	<u>100.00%</u>		<u>9.77%</u>	<u>\$(56,832,593)</u>	<u>\$ 6,034,326</u>	<u>100.00%</u>		<u>10.28%</u>	
RANGE OF REASONABLENESS							LOW	HIGH		
RETURN ON EQUITY							12.11%	14.11%		
OVERALL RATE OF RETURN							9.66%	10.28%		

FCWC - SOUTH FT. MYERS DIVISION ADJUSTMENTS TO CAPITAL STRUCTURE TEST YEAR ENDED JUNE 30, 1992					SCHEDULE NO. 2-B 920808-SU	
DESCRIPTION	SPECIFIC ADJUSTMENT (EXPLAIN)	SPECIFIC ADJUSTMENT (EXPLAIN)	PRO RATA RECONCILE	NET ADJUSTMENT		
1 LONG TERM DEBT	\$ 0	\$ 0	0 \$ (24,945,483)	\$ (24,945,483)		
2 SHORT TERM DEBT	0	0	0	0		
3 CUSTOMER DEPOSITS	0	0	0	0		
4 PREFERRED STOCK	0	0	(8,136,129)	(8,136,129)		
5 COMMON EQUITY	0	0	(17,379,718)	(17,379,718)		
6 INVESTMENT TAX CREDITS	0	0	(1,854,026)	(1,854,026)		
7 DEFERRED INCOME TAXES	0	0	(4,517,237)	(4,517,237)		
8 TOTAL CAPITAL	\$ 0	\$ 0	0 \$ (56,832,593)	\$ (56,832,593)		

FCWC - SOUTH FT. MYERS DIVISION  
 STATEMENT OF WASTEWATER OPERATIONS  
 TEST YEAR ENDED JUNE 30, 1992

SCHEDULE NO. 3-A  
 920808-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
1 OPERATING REVENUES	\$ 2,645,715	\$ 447,067	\$ 3,092,782	\$(396,326)	\$ 2,696,456	\$(262,079)	2,434,377
						-9.72%	
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$ 1,176,795	\$ 114,401	\$ 1,291,196	\$(88,712)	\$ 1,202,484	\$ 0	1,202,484
3 DEPRECIATION	330,316	95,561	425,877	(179,734)	246,143	0	246,143
4 AMORTIZATION	2,408	0	2,408		2,408	0	2,408
5 TAXES OTHER THAN INCOME	272,839	20,118	292,957	(17,835)	275,122	(11,794)	263,328
6 INCOME TAXES	68,590	166,913	235,503	(41,410)	194,093	(94,183)	99,911
7 TOTAL OPERATING EXPENSES	\$ 1,850,948	\$ 396,993	\$ 2,247,941	\$(327,691)	\$ 1,920,250	\$(105,976)	1,814,274
8 OPERATING INCOME	\$ 794,767	\$ 50,074	\$ 844,841	\$(68,635)	\$ 776,206	\$(156,103)	620,103
9 RATE BASE	\$ 11,057,305	\$	\$ 8,647,308	\$	\$ 6,034,326	\$	\$ 6,034,326
RATE OF RETURN	7.19%		9.77%		12.86%		10.28%

FCWC – SOUTH FT. MYERS DIVISION ADJUSTMENTS TO OPERATING STATEMENTS TEST YEAR ENDED JUNE 30, 1992	SCHEDULE NO. 3-B PAGE 1 OF 1 920808-SU
EXPLANATION	WASTEWATER
<b>1) OPERATING REVENUES</b>	
Remove the utility test year revenue request	\$ (396,326) =====
<b>2) OPERATING EXPENSES</b>	
a) Remove pensions and benefits adjustment	\$ (43,212)
b) Remove rate case expense adjustment	(45,500)
	\$ (88,712) =====
<b>3) DEPRECIATION EXPENSE</b>	
Adjustment consistent with used and useful adjustment	\$ (179,734) =====
<b>4) TAXES OTHER THAN INCOME TAXES</b>	
Remove amounts related to the utility test year revenue request	\$ (17,835) =====
<b>5) PROVISION FOR INCOME TAXES</b>	
Adjust test year income taxes for prior adjustments	\$ (41,410) =====
<b>6) OPERATING REVENUES</b>	
Additional revenues to acheive revenue requirement	\$ (262,079) =====
<b>7) TAXES OTHER THAN INCOME TAXES</b>	
Adjustment for RAF taxes	\$ (11,794) =====
<b>8) PROVISION FOR INCOME TAXES</b>	
Adjustment to reflect increased income	\$ (94,183) =====