

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for limited) DOCKET NO. 920834-WS
proceeding to increase rates to) ORDER NO. PSC-93-0430-FOF-WS
recover cost of purchased assets) ISSUED: 03/22/93
disallowed in Docket No. 910020-)
WS by UTILITIES, INC. OF)
FLORIDA.)
_____)

The following Commissioners participated in the disposition of this matter:

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

ORDER GRANTING TEMPORARY RATES
IN THE EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING WATER AND WASTEWATER RATE BASE
AND GRANTING WATER RATE INCREASE

BY THE COMMISSION:

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

BACKGROUND

Utilities, Inc. of Florida (UIF or utility) is a class B utility providing water and wastewater service for 27 systems in 6 counties in Central Florida. UIF is a wholly owned subsidiary of Utilities, Inc. Order No. 24259, issued March 20, 1991, approved the transfer of Paradise Pointe West's (PPW) water and wastewater system to UIF. PPW's water and wastewater system is located in Pasco County.

PPW's rates were last established by Order No. 25821, issued February 27, 1992. The utility was authorized a 10.65 percent rate

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of return with a range of reasonableness of 10.21 percent to 11.09 percent. In Order No. 25821, the Commission assigned a zero value to all assets acquired through the purchase of the PPW system. The Commission determined that the original costs of the assets acquired at the time of the transfer were not supported by the record. Consequently, the Commission found that rate base contained only plant investments made by UIF after the acquisition of PPW.

On August 19, 1992, UIF filed a petition for a limited proceeding to increase water and wastewater rates to recover the cost of purchased assets disallowed by Order No. 25821. The utility developed an original cost study for the purchased assets and submitted it along with other supporting documentation to the Commission as part of the application. The study assigns a value to the purchased assets so that the plant can be included in rate base. The limited proceeding was appropriate in this instance so that the utility could attempt to recover the costs disallowed by Order No. 25821. Based on past policy, the Commission has allowed use of an original cost study in determining original cost of a plant.

On September 18, 1992, UIF filed a notice of withdrawal of its request for the wastewater rate increase. However, the utility requested that the Commission establish a rate base for wastewater. The Commission denied the utility's request for interim water rates in Order No. PSC-92-1217-FOF-WS, issued October 27, 1992. On November 19, 1992, a customer meeting was held at PPW's recreation center in New Port Richey, Florida.

QUALITY OF SERVICE

At the customer meeting, one customer testified that since the area has fire hydrants, the utility must have the capacity to serve them. Another customer was concerned about the utility's apparent defiance of Order No. 25821, specifically regarding adequate fire flow capacity.

In Order No. 25821, the utility was ordered to aggressively pursue reaching an agreement with Pasco County for emergency fire protection within six months of the date of the Order. The utility notified our Staff that it had requested and received a bulk water agreement from Pasco County; however, the agreement had not been finalized because the County would not include language in the contract that would waive impact fees for future connections. The

utility stated that because the bulk water agreement would be used only for fire protection, it believes that it would be unfair and perhaps discriminatory for the County to charge its current impact fee to future customers. We are currently reviewing the status of this situation.

Another customer testified that the quality of service has not improved, and asked the Commission to disallow a rate increase. She complained about stagnant water and bad odors primarily on those streets that have closed systems or dead-end lines. She testified that she had called 42 families, and 27 families have problems with odors, rust, and low pressure. Of the families she had contacted, 26 buy bottled water to drink, and those that do drink the water, chill and settle it before it is consumed. Although the utility's occasional flushing of lines does help, she requested that the dead-end lines be looped to eliminate the problem altogether.

In a December 7, 1992, letter to the Commission, the utility responded to the customers' testimony. The utility agreed that there is an odor problem in dead-end lines and indicated that additional blow-off valves will be installed within 30 days. The utility also stated that it will examine the possibility of looping the dead-end lines.

One customer testified about a water leak that covered her meter. Even though she had contacted the utility, it was not repaired for many days. In its December 7, 1992, letter, the utility responded that the water meter was flooded due to several days of constant rain. However, the meter was capable of being read, and a leak between the main and the meter was found and repaired.

Concerning infiltration in the wastewater collection system, Mr. Holzmann testified that the customers were told that there is a 50% water leak (infiltration) in piping that is assumed to be in the recently installed force main. In its response the utility indicated that the force main has been pressure tested and that no leakage occurred. Infiltration has been reviewed by our staff and there is no indication that it is excessive.

The Commission has received written comments about the quality of service from a customer who attended the customer meeting. That customer, Mr. Wilson, indicated that he does not drink the water because of its poor quality. He had recently purchased a water

purifier because he believes the water is unsafe to drink. He believes that water rates should be lowered with no increase until the utility can deliver safe drinking water.

In Order No. 25821, it was determined that the quality of service provided by the utility was satisfactory for water and wastewater. In this case, based upon our review, the utility is in compliance with state and local health requirements. Therefore, we believe the quality of service remains satisfactory. However, some of the customer complaints about water quality made during the previous rate case are similar to those that have been received during this limited proceeding. Order No. 25821 stated that the utility should continue to address those concerns. Based on our review of the utility's December 7, 1992, letter, we believe that the utility is making an effort to improve on problem areas, such as the dead-end lines situation.

We encourage the utility to continue in this matter and notify the Commission when the installation of the blow-off valves is completed. The utility shall aggressively pursue either looping the dead-end lines, or initiating a regular flushing program that ensures a quality product. The utility shall submit its findings as to the feasibility of looping the lines within 90 days of the effective date of this Order. The utility's findings shall include costs associated with the looping of the dead-end lines and a time frame for completion if it decides it to be cost feasible. If the utility determines that line looping is cost prohibited, an explanation shall be given as to why. In its place, a satisfactory alternative, such as a well-documented flushing program, shall be presented to the Commission for review.

RATE BASE AT DATE OF TRANSFER

The PPW water and wastewater systems were transferred to UIF on October 30, 1990. We have reviewed the filing and the utility's requested adjustments. The utility has adjusted rate base to reflect the original cost for the PPW water and wastewater systems, which was disallowed by Order No. 25821 in the previous rate case in Docket No. 910020-WS.

- We have made some adjustments to rate base to comport with Order No. 25821, which establishes rate base at the time of transfer. Therefore, we have determined that the adjusted rate base for water at the date of transfer is \$211,396. The wastewater rate base was calculated to be \$80,982. The rate base is shown on

Schedules Nos. 1-A and 1-B and our rate base adjustments are shown on Schedule No. 1-C.

Plant-In-Service

According to the original cost study, plant-in-service is \$764,183 for water and \$723,958 for wastewater. We have reviewed the calculations and agree with the values assigned. The original cost study indicates that the value for land and land rights for water and wastewater is \$9,371 and \$16,714, respectively. These amounts have been reported consistently in the annual reports for 1981 through 1989. No evidence suggested any other valuation to be appropriate. Therefore, we find that these values shall be allowed. According to the warranty deed referenced in the audit prepared for Docket No. 910020-WS, the water plant has .34 acre and the wastewater plant has 10.29 acres.

Our adjusted plant-in-service balance at October 30, 1990, is \$764,183 for water and \$723,958 for wastewater. Our adjusted land and land rights balance at October 30, 1990, for water is \$9,371 and for wastewater is \$16,714. The balances are consistent with the amounts reported by the utility.

Accumulated Depreciation

Based on the original cost study, the accumulated depreciation for plant at October 30, 1990, was \$196,844 for water and \$254,590 for wastewater. The book depreciation life of 33 years was used to derive these amounts. We believe both these amounts are appropriate based on our review of the original cost study.

At October 30, 1990, our adjusted balance for accumulated depreciation is \$196,844 and \$254,590 for water and wastewater, respectively. These balances are consistent with the amounts reported by the utility.

Contributions-In-Aid-Of-Construction

The utility reported contributions-in-aid-of-construction (CIAC) in the original cost study as \$438,419 for the water system and \$398,738 for the wastewater system. The CIAC for water is composed of \$395,919 related to contributed plant and \$42,500 related to Pointe West's imputed connection fees. Likewise, the wastewater CIAC includes \$334,988 of contributed plant and \$63,750 relates to the imputed connection fees.

According to the sales agreement found in the abandonment audit prepared for Docket No. 890914-WS, the Pointe West customers were to pay the utility \$100 for water connection fees and \$150 for wastewater connection fees. Since there were no records available to indicate whether the connection fees were collected, the connection fees were imputed at the time of the audit as though the fees were collected.

We also have imputed additional CIAC of \$34,591 and \$199,075 for water and wastewater respectively, to reflect as CIAC, the difference in the cost of plant reported in the utility's annual report and the original cost of plant determined in the original cost study. In reviewing the utility's annual reports from 1981 to 1989, we noted that the cost of the contributed lines was not reported in the annual reports. Since it appears that the utility may not have included the cost of contributed plant in its annual reports, we believe that it is reasonable to conclude that the unexplained difference in plant values reported in the annual report and the original cost study may be attributable to unrecorded CIAC. Therefore, we find it is necessary to impute additional CIAC. This is consistent with past decisions. See Orders Nos. 22969 and 25722. For water, the original cost study reports \$773,554 for plant. The plant balance reflected in the annual report is \$300,544. The difference of \$473,010 is considered unjustified plant. The \$473,010 of unjustified plant is then netted against \$395,919 of contributed property and \$42,500 of imputed connection fees per the original cost study; thus, arriving at our additional imputed CIAC of \$34,591.

Similarly, for wastewater, the original cost study reports plant of \$740,672 and according to the annual report, the plant balance is \$142,859, for a difference of \$597,813 of unjustified plant. The remaining \$597,813 of unjustified plant is netted against \$334,988 of contributed property and \$63,750 of imputed connection fees per the original cost study; thus, arriving at our additional imputed CIAC of \$199,075.

The utility reflected the cost of the water transmission and distribution system and the wastewater sewage collection system for PPW as non-contributed because connection fees were imputed for these systems due to a 1973 "franchise" document between PPW, and Pointe West Water Company and Pointe West Sewer Company. Rule 25-30.570, Florida Administrative Code, provides that if the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of

CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to water transmission and distribution system and the sewage collection system. Therefore, in determining the non-contributed cost of plant-in-service, connection fees imputed for the PPW systems first were netted against the transmission and distribution system for water and the sewage collection system for wastewater. Any excess connection fees and other imputed CIAC then was applied to treatment plant because we believe that after recovery of the transmission and distribution system and sewage collection system as CIAC, it is reasonable that a utility would recover the cost of its treatment plant through CIAC. For water, the imputed connection fees of \$20,886 for Pointe West was allocated to the transmission and distribution mains to make this account fully contributed. The excess \$21,614 of the \$42,500 connection fees for Pointe West is allocated to services. We have applied \$20,440 of the imputed CIAC to services to make the account fully contributed. The remaining \$14,151 of the imputed CIAC was allocated to distribution reservoirs and standpipes to make this account 16.01 percent contributed. The imputed CIAC allocated to this account is 16.01 percent of the total plant balance.

For wastewater, \$1,345 of the imputed connection fees of \$63,750 was allocated to collection sewers - force. By allocating those imputed connection fees, this account is made fully contributed. The remaining imputed connection fees for Pointe West, \$62,405, is applied to collection sewers - gravity. In addition, \$16,895 of the imputed CIAC also is applied to this account to make it fully contributed. The remaining \$182,180 of the imputed CIAC then is spread over the "services to customers" and "treatment & disposal equipment" accounts as follows. The account, services to customers, was allocated \$27,870, which makes the account fully contributed. The remaining imputed CIAC of \$154,310 was allocated to treatment and disposal equipment, of which this amount is 62.23 percent of the total plant account; therefore, the account is partially contributed.

After the above adjustments, we find the adjusted CIAC balance at October 30, 1990, was \$473,010 for water and \$597,813 for wastewater.

Accumulated Amortization of CIAC

We have determined that the balance for amortization of CIAC on October 30, 1990, based on the original cost study, was \$68,939 and \$59,402 for water and wastewater, respectively. Although we agree with the amount the utility initially calculated, we have made several adjustments to reflect amortization of the imputed CIAC. Since the imputed CIAC was offset against specific account balances, the amortization of CIAC was the same as the depreciation on those accounts.

For the water system, amortization of CIAC imputed for the transmission and distribution mains was calculated to be \$12,235. The amortization associated with CIAC imputed for services for Pointe West is \$21,777. Finally, the amortization for distribution reservoirs and standpipes was calculated to be \$4,745. We have determined this amount by taking the percentage of contributed plant, 16.01, and applying it to the respective accumulated depreciation accounts for Pointe West's distribution reservoirs and standpipes.

Regarding the wastewater system, the amortization of imputed CIAC associated with the collection sewers, force and gravity, is \$747 and \$44,056, respectively. Also, \$14,395 is the amortization of CIAC associated with services to customers. Lastly, we computed the amortization for treatment and disposal equipment to be \$74,113. This amount is derived by applying the percentage of contributed plant, which is 62.23, to the respective accumulated depreciation accounts.

The total of the water adjustments increased the CIAC amortization by \$38,757. The wastewater amortization was increased by \$133,311. The account balance for water at the date of purchase, October 30, 1990, is \$107,696 and for wastewater, \$192,713.

Acquisition Adjustment

An acquisition adjustment is the difference between the purchase price and the previous owner's original cost amount. When the purchase price exceeds the previous owner's original cost amount, a positive acquisition adjustment results. When the purchase price is less, a negative acquisition adjustment results. Rate base at the date of purchase has been determined to be \$211,396 for water and \$80,982 for wastewater. The purchase price

paid by UIF for the water and wastewater system was \$208,000 and \$20,000, respectively. Since the purchase price was less than rate base in both instances, a negative acquisition adjustment would have resulted. Our policy regarding acquisition adjustments has been that, in the absence of extraordinary circumstances, a purchase of a utility system at a premium or at a discount shall not affect the rate base calculation.

For water, the adjustment would have been a negative \$3,396 and for wastewater, a negative \$60,981. However, had the abandoned plant been reflected in the rate base calculation at the date of transfer, the wastewater rate base would have been \$32,319, resulting in a negative acquisition adjustment of \$12,319. We do not find that there are extraordinary circumstances that warrant a negative acquisition adjustment. Therefore, we have made no acquisition adjustment.

TEST YEAR RATE BASE

The utility's calculation of rate base at April 30, 1991, was \$272,755 for water and \$252,777 for wastewater. The test year rate base is shown on Schedules Nos. 2-A and 2-B and our rate base adjustments are shown on Schedule No. 2-C. Our calculation of rate base at April 30, 1991, totalled \$222,693 for water and \$187,396 for wastewater. These balances were calculated by updating rate base for the purchased assets at October 30, 1990, to April 30, 1991. These amounts then were added to the rate base values allowed in Order No. 25821 to develop the adjusted April 30, 1991, rate base value. Rate base for water at April 30, 1991, includes our adjustments to reclassify specific plant-in-service accounts as plant held for future use. Rate base for wastewater at April 30, 1991, reflects our adjustment to remove the cost of the abandoned wastewater treatment plant. The adjusted rate base for water and wastewater for the test year, April 30, 1991, is \$234,425 and \$213,579, respectively

Plant-In-Service

The utility's balance of water plant-in-service for the purchased assets at April 30, 1991, was \$764,183. We agree with this initial balance; however, it was necessary to increase this amount by the water plant-in-service permitted in Order No. 25821, \$44,084. Our adjusted balance for water plant-in-service has been calculated to be \$808,267, which is consistent with the utility's reported amount.

Our balance of plant-in-service for the purchased wastewater assets has been determined to be \$723,958 as of April 30, 1991. This amount was reduced by \$274,799 to reflect the removal of the cost of the abandoned wastewater treatment plant from plant-in-service. As a result of this adjustment the value of the purchased wastewater assets at April 30, 1991, has been determined to be \$449,159. Order No. 25821 permitted wastewater plant-in-service of \$185,689. Therefore, the adjusted balance of wastewater plant-in-service has been calculated to be \$634,848 at April 30, 1991. This amount is consistent with the utility's reported balance.

Land and Land Rights

The original cost of land for the water system has been determined to be \$9,371 as of April 30, 1991. This amount is consistent with the utility's reported balance. We agree and approve the land balance of \$9,371 for the water system as of April 30, 1991.

The original cost of land for the wastewater system has been determined to be \$16,714 as of April 30, 1991. The amount was reduced by \$8,357 to reflect non-used land as plant held for future use. Order No. 25821 permitted wastewater land of \$97. As a result, the adjusted balance of wastewater land at April 30, 1991, has been determined to be \$8,454. This amount is consistent with the utility's reported balance.

Plant Held For Future Use

We made a \$20,075 adjustment to plant held for future use. This adjustment is comprised of the plant-in-service account, net of the respective accumulated depreciation, and land. We reclassified \$31,693 of plant-in-service to reflect \$4,514 of structure and improvement, \$24,090 of wells and springs, and \$3,089 of power generation equipment as plant held for future use. These amounts relate to the removal of well no. 2, which in its present condition is of no benefit to the existing customers and is considered to be non-operational. There appears to be no immediate plans to put this well back on line; therefore, all dollars related to this facility are plant held for future use. Also, we reclassified \$4,686 of the land balance to reflect non-used land as plant held for future use. Lastly, we reclassified the accumulated depreciation for the water purchased assets of \$16,304 to accumulated depreciation for the plant held for future use.

Contributions-In-Aid-Of-Construction

The utility reported CIAC of \$438,419 and \$355,048 for water and wastewater, respectively, at April 30, 1991. These amounts do not include the additional imputed CIAC. Further, the utility's balance of wastewater CIAC excludes \$43,690 for removal of imputed connection fees allocated to the abandoned wastewater treatment plant.

We calculated CIAC for the water system to be \$473,010 as of April 30, 1991. CIAC for wastewater has been determined to be \$597,813. These amounts include additional imputed CIAC of \$34,591 and \$334,988 for the water and wastewater systems, respectively. CIAC for wastewater was reduced by \$154,310 to remove CIAC associated with the abandoned wastewater treatment plant. As a result of this adjustment, CIAC at April 30, 1991, was determined to be \$443,503.

Accumulated Depreciation

Accumulated depreciation from October 30, 1990, to April 30, 1991, was calculated using the water and wastewater guideline average service lives in Rule 25-30.140(2)(a) and (b), Florida Administrative Code. We increased accumulated depreciation of the purchased assets at October 30, 1990, by \$12,973 for water and \$15,654 for wastewater to derive the balance at April 30, 1991. These amounts are consistent with the utility's balances.

The adjusted balance of accumulated depreciation on the purchased water assets at April 30, 1991, was calculated to be \$209,817. Order No. 25821 allowed accumulated depreciation of \$6,787 for rate base at April 30, 1991. Therefore, the adjusted balance of accumulated depreciation for total water plant-in-service has been determined to be \$216,604 as of April 30, 1991. This amount is consistent with the utility's reported balance.

Accumulated depreciation for the wastewater purchased assets was reduced by \$141,458 to remove depreciation on the abandoned wastewater treatment plant. As a result, the adjusted balance at April 30, 1991, was calculated to be \$128,786. Order No. 25821 allowed accumulated depreciation of \$8,879 for rate base at April 30, 1991. Therefore, the adjusted accumulated depreciation balance

for total wastewater plant-in-service has been determined to be \$137,665 as of April 30, 1991. This balance is consistent with the utility's calculation.

Accumulated Amortization of CIAC

The utility reflected accumulated amortization of CIAC as \$97,834 for water and \$75,527 for wastewater at April 30, 1991. These balances do not include amortization of the additional imputed CIAC. Further, the utility's amortization of connection fees for water and wastewater was based on the composite depreciation rate, while our amortization was based on the depreciation rate for transmission and distribution mains for water and the sewage collection system depreciation rate for wastewater because we related the CIAC to the lines for which it was imputed.

We calculated accumulated amortization of CIAC to be \$114,744 for water and \$204,615 was wastewater. As we related CIAC to specific accounts, the amortization of CIAC was consistent with the depreciation of those accounts. Therefore, we increased accumulated amortization of CIAC at October 30, 1990, by \$7,048 for water and \$11,902 for wastewater to derive the April 30, 1991, balance.

The wastewater accumulated amortization balance of \$204,615 was reduced by \$79,256 to remove amortization of CIAC associated with the abandoned wastewater treatment plant. Therefore, the adjusted balance of accumulated amortization for the wastewater system has been calculated to be \$125,359.

Working Capital

The working capital allowance at April 30, 1991, was reported by the utility to be \$12,305 for water and \$26,659 for wastewater. The utility utilized the formula approach (one-eighth of O & M expenses) to calculate the increase in working capital associated with the rate case expense for this limited proceeding. In this case, the utility's reported rate case expense was \$6,355 for both water and wastewater; therefore, the utility's adjustment to working capital was \$794 for both water and wastewater.

However, we calculated the water and wastewater increase to working capital to be \$221 at April 30, 1991, and the total account balance at April 30, 1991, was determined to be \$11,732 and \$26,086 for water and wastewater, respectively. We took one-eighth of the

allowed rate case expense associated with this limited proceeding, \$1,770, to compute the increase in the working capital allowed in Order No. 25821.

In consideration of the above, we find that rate base shall be established as \$234,425 and \$213,579 for water and wastewater, respectively, at April 30, 1991.

RATE OF RETURN

The utility has requested that its last authorized overall rate of return be used in this proceeding. By Order No. 25821, the utility was authorized an overall rate of return of 10.65 percent and a return on equity of 12.83 percent. Section 367.022, Florida Statutes, states that "the commission shall not adjust rates if the effect of the adjustment would be to change the last authorized rate of return." We believe it is appropriate to use the last authorized rate of return in determining the revenue requirement in this limited proceeding.

In consideration of the above, we find it appropriate to use the utility's last authorized rate of return of 10.65 percent to determine the return on investment in this proceeding.

RATE CASE EXPENSE

By Order No. 25821, in the last rate case, we allowed UIF rate case expense of \$96,101. In this filing, the utility's initial estimate of total rate case expense was \$50,840. This amount was amortized over four years and was allocated 50 percent to water and 50 percent to wastewater. The adjustment to O & M expenses for rate case expense was \$6,355 for water and wastewater, respectively. The utility's requested amount of rate case expense is comprised of \$29,960 of expenses through proposed agency action (PAA) and an estimated \$20,880 of expenses associated with any hearing. The utility's consulting firm estimated the cost of the original cost study to be \$13,500 and the preparation of the minimum filing requirements for the limited proceeding to be \$7,500. The projected consulting costs related to hearing procedures are \$7,500. Utility subsidiary personnel involvement with the filing was estimated to cost \$1,160 through PAA and the projected expenses for participating in a hearing were estimated to be \$580. The legal expenses were estimated to be \$6,000 through PAA and the expenses after PAA are estimated to be \$12,800. Also, the filing fee associated with the limited proceeding is \$1,800.

The utility provided, upon request, supplemental information providing a more complete description of the tasks involved as well as detailing the actual expenses incurred to date, and projected costs yet to be incurred. The revised estimate totalled \$57,237.

We find it appropriate to allow UIF to recover at this time only the cost of the original cost study, which is \$14,160. This amount represents \$13,464 for consulting fees for preparation of the original cost study and \$696, which is attributed to subsidiary personnel involvement.

In its last rate case, the utility used an audit and an original cost study prepared by the Commission to establish rate base at the date of transfer. At the hearing, it was determined that there was no supporting or corroborative evidence to support the audit and the cost study. For that reason, the audit and cost study were ruled inadmissible, and rate base for the transferred assets was established as zero at the date of transfer. In this proceeding, the utility has developed its own original cost study to establish rate base. We believe that it is appropriate to allow the cost of preparing the original cost study in rate case expense for this proceeding. However, for ratemaking purposes, we believe that rate case expense should include only those costs that could not have been avoided had the utility presented supporting or corroborative evidence in the prior rate case.

Any costs in this case that are duplicative of the last rate case or that could have been avoided had the utility provided corroborative evidence to support its request in its recent rate case shall be disallowed. For example the filing fees of \$1,800 could have been avoided and shall be disallowed. Some of the legal and consulting fees in preparing this filing are duplicative or could have been avoided. Although we believe that some of the legal and consulting fees in this case may not be duplicative, we are not able to identify or quantify those amounts at this time because the utility did not provide enough detailed information to make those determinations. Furthermore, some of the costs that obviously could have been avoided are disallowed; however, there was no significant detailed information provided to identify or quantify duplicative duties performed in the last rate case. Therefore, we find that all costs shall be disallowed, except the costs associated with the original cost study.

In consideration of the above, we find that the appropriate rate case expense through proposed agency action is \$14,160. This amount shall be amortized over four years and allocated 50 percent to water and 50 percent to wastewater, resulting in an adjustment of \$1,770 to O & M expense.

INCREASE IN REVENUE REQUIREMENT

The utility requested a revenue increase of \$53,453 (45.70%). We approve an increase in revenue of \$40,764 (34.85%) for the water system. These revenues will allow the utility the opportunity to recover its operating expenses associated with the plant included in rate base, and provide the utility the opportunity to earn its authorized rate of return of 10.65 percent. As a result of this increase, the revenue requirement for the water system has been determined to be \$157,740. Schedule No. 3 is attached, which depicts the approved increase calculation and our adjustments are shown on Schedule No. 3-A.

In the filing, the utility increased O & M expenses by \$6,355 to reflect amortization of rate case expense of \$50,840 over four years. This amount was allocated 50 percent to water and 50 percent to wastewater. We have found earlier in this Order that the appropriate rate case expense is \$1,770, which represents amortization of rate case expense of \$14,160 over four years. As a result, the total test year O & M expenses have been calculated to be \$93,857.

The utility increased depreciation expense by \$12,796 to reflect depreciation expense on the purchased assets, net of CIAC amortization. The utility calculated the annual expense to be \$25,945. This amount was then reduced by \$13,150 to reflect amortization of CIAC. As a result, the net increase to depreciation expense was \$12,796. We find that the appropriate depreciation expense associated with the purchased assets, net of CIAC amortization, is \$10,612. We calculated the annual expense to be \$25,945. This amount was then reduced by \$14,098 to reflect amortization of CIAC, and by \$1,235 to remove depreciation on plant held for future use. As a result of these adjustments, depreciation expense on the purchased assets was calculated to be \$10,612. The total test year depreciation expense, therefore, is calculated to be \$15,039.

The utility increased taxes other than income by \$2,405 to reflect regulatory assessment fees on its requested revenue increase of \$53,453. We find that the appropriate revenue increase is \$40,764. Therefore, the additional regulatory assessment fees associated with this increase are \$1,834. The taxes other than income for the test year, therefore, is calculated to be \$15,930.

The utility calculated \$9,220 as the income tax provision for the test year. We recalculated the income tax provision based on its net operating income requirement. As a result, the income tax expense for the test year has been calculated to be \$7,948.

After applying the above adjustments, the revenue increase was calculated to be \$40,764 (34.85%), resulting in a revenue requirement of \$157,740 and net operating income of \$24,966. The increase in net operating income is \$19,769 over the net operating income set in the last rate case.

FINAL RATES

The rates should be designed to allow the utility the opportunity to generate additional annual water operating revenues of \$40,764 which results in a water increase of 34.85 %. The appropriate rate structure is the base facility and gallonage charge rate structure currently utilized by the utility. The approved rates for the water system allow the utility the opportunity to recover its operating expenses and to earn a 10.65% return on its investment. The rates will become effective for meter readings 30 days on or after the stamped approval date of the tariff sheets. The tariff sheets will be approved provided the utility has filed the appropriate revised tariff sheets, staff verifies that the tariff sheets are consistent with the Commission's decision, that the proposed customer notice is adequate, and that no protest has been filed.

The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of the variable costs of providing service, through the consumption or gallonage charge, and also pay their share of the fixed costs of providing service, through the base facility charge.

Approximately 47.12% (or \$74,323) of the water revenue increase is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on the annualized number of factored equivalent residential connections (ERCs). The remaining 52.88% (or \$83,417) of the water revenue requirement represents the consumption charge based on the number of gallons consumed during the test period.

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

AMORTIZATION OF RATE CASE EXPENSE

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates.

In accordance with Section 367.0816, Florida Statutes, the water rates shall be reduced by \$1,853 (1.17%) at the expiration of the four year period as shown in Schedule No. 5. The revenue reductions reflect the annual rate case amounts amortized and the gross-up for regulatory assessment fees.

The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility shall file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

TEMPORARY RATES IN EVENT OF PROTEST

We find, herein, that UIF is entitled to recover the plant costs, for PPW, previously disallowed by Order No. 25821. UIF was not authorized to recover those costs up to this point. A timely protest to this Order will delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein, on a temporary basis, subject to refund, provided that the utility first furnish and have approved by

Commission Staff adequate security for a potential refund in the form of an escrow agreement.

The utility shall establish an escrow agreement with an independent financial institution and the temporary rates should be placed into escrow, pursuant to the provisions below, pending completion of the hearing process. The utility shall be authorized to collect the temporary rates after our Staff's approval of the proposed customer notice, the escrow agreement, and the revised tariff sheets.

SECURITY

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Consentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

In the event that no timely protests are filed within 21 days of the issuance of this Order, this docket may be closed.

Based on the foregoing, it is, therefore,

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

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that all of the provisions of this Order, except for the granting of temporary rates, subject to refund, in the event of a protest, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-222.029, Florida Administrative Code, is received by the Director or Records and Reporting at his office at 101 Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Utilities, Inc. of Florida is authorized to charge the new water rates as set forth in the body of this Order. It is further

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ORDERED that the rates approved herein shall be effective for meter readings 30 days on or after the stamped approval date of the tariff sheets. It is further

ORDERED that prior to the implementation of the rates approved herein, Utilities, Inc. of Florida shall submit and have approved a proposed notice to its customers of the increased rates and the reasons therefor. The notice will be approved upon Staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to the implementation of the rates approved herein, Utilities, Inc. of Florida shall submit and have approved an escrow agreement as a guarantee of any potential refund of revenues collected on a temporary basis. It is further

ORDERED that prior to the implementation of the rates approved herein, Utilities, Inc. of Florida shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our Staff's verification that they are consistent with our decision herein. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, Utilities, Inc. of Florida is authorized to collect the rates approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Utilities, Inc. of Florida has furnished an escrow agreement and provided that it has submitted and Staff has approved revised tariff pages and a proposed customer notice. It is further

ORDERED that Utilities Inc. of Florida shall submit its findings as to the feasibility of looping the dead-end lines within ninety days of the effective date of this Order. Such findings shall include costs associated with the looping, a time frame for completion, and if the looping is cost prohibitive, the utility shall provide an explanation. It is further

ORDERED that rate base shall be established at \$234,425 for water and \$213,579 for wastewater, respectively at April 30, 1991. It is further

ORDERED that in accordance with Section 376.0816, Florida Statutes, the water rates shall be reduced by \$1,853 at the expiration of the four-year period. It is further

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ORDERED that upon expiration of the protest period, this docket may be closed.

By ORDER of the Florida Public Service Commission this 22nd day of March, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

LAJ

by: Kay Deason
Chief, Bureau of Records

Chairman J. Terry Deason dissented without opinion.

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.

The action proposed herein, except for the granting of temporary rates, subject to refund, in the event of a protest, 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 Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on April 12, 1993.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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 this order becomes final and effective on the date described above, 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 wastewater 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.

UTILITIES INC. OF FLORIDA (PPW)
 SCHEDULE OF WATER RATE BASE
 RATE BASE AT 10/30/90 - TRANSFER DATE

SCHEDULE NO. 1-A
 DOCKET NO. 920834-WS

	PER ORIGINAL COST STUDY	COMM. ADJUST. TO COST STUDY	COMM. BAL. AT 10/30/90
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 764,183	\$ 0	\$ 764,183
LAND/NON-DEPRECIABLE ASSETS	9,371	0	9,371
PLANT HELD FOR FUTURE USE	0	0	0
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	(438,419)A	(34,591)	(473,010)
ACCUMULATED DEPRECIATION	(196,844)	0	(196,844)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	68,939 B	38,757	107,696
WORKING CAPITAL ALLOWANCE	0	0	0
	-----	-----	-----
WATER RATE BASE	\$ 207,230	\$ 4,166	\$ 211,396
	=====	=====	=====

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UTILITIES INC. OF FLORIDA (PPW)
 SCHEDULE OF WASTEWATER RATE BASE
 RATE BASE AT 10/30/90 - TRANSFER DATE

SCHEDULE NO. 1-B
 DOCKET NO. 920834-WS

	PER ORIGINAL COST STUDY	COMM. ADJUST. TO COST STUDY	COMM. BAL. AT 10/30/90
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 723,958	\$ 0	\$ 723,958
LAND/NON-DEPRECIABLE ASSETS	16,714	0	16,714
PLANT HELD FOR FUTURE USE	0	0	0
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	(398,738)A	(199,075)	(597,813)
ACCUMULATED DEPRECIATION	(254,590)	0	(254,590)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	59,402 B	133,311	192,713
WORKING CAPITAL ALLOWANCE	0	0	0
	-----	-----	-----
WASTEWATER RATE BASE	\$ 146,746	\$ (65,764)	\$ 80,982
	=====	=====	=====

UTILITIES INC. OF FLORIDA (PPW)
 ADJUSTMENTS TO RATE BASE
 RATE BASE AT 10/30/90 - TRANSFER DATE

SCHEDULE NO. 1-C
 DOCKET NO. 920834-WS
 PAGE 1 OF 1

DESCRIPTION	WATER	WASTEWATER
	-----	-----
A. C.I.A.C.		
1. To reflect staff imputed CIAC	\$ (34,591)	\$ (199,075)
	-----	-----
TOTAL ADJUSTMENTS	\$ (34,591)	\$ (199,075)
	=====	=====
B. AMORITZATION OF C.I.A.C.		
1. To reflect additional amortization on staff imputed CIAC	\$ 38,757	\$ 133,311
	-----	-----
TOTAL ADJUSTMENTS	\$ 38,757	\$ 133,311
	=====	=====

UTILITIES, INC. OF FLORIDA (PPW)
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 4/30/91

SCHEDULE NO. 2-A
DOCKET NO. 920834-WS

	UTILITY ADJUST. BAL.	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 808,267	\$ 0	\$ 808,267
LAND/NON-DEPRECIABLE ASSETS	9,371	0	9,371
PLANT HELD FOR FUTURE USE	0 A	(20,075)	(20,075)
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	(438,419)B	(34,591)	(473,010)
ACCUMULATED DEPRECIATION	(216,604)	0	(216,604)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	97,834 C	16,910	114,744
WORKING CAPITAL ALLOWANCE	12,305 D	(573)	11,732
	-----	-----	-----
WATER RATE BASE	\$ 272,754	\$ (38,329)	\$ 234,425
	=====	=====	=====

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UTILITIES, INC. OF FLORIDA (PPW)
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED 4/30/91

SCHEDULE NO. 2-B
 DOCKET NO. 920834-WS

	UTILITY ADJUST. BAL.	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 634,848	\$ 0	\$ 634,848
LAND/NON-DEPRECIABLE ASSETS	16,811	0	16,811
PLANT HELD FOR FUTURE USE	(8,357)A	0	(8,357)
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	(355,048)B	(88,455)	(443,503)
ACCUMULATED DEPRECIATION	(137,665)	0	(137,665)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	75,527 C	49,832	125,359
WORKING CAPITAL ALLOWANCE	26,659 D	(573)	26,086
	-----	-----	-----
WASTEWATER RATE BASE	\$ 252,775	\$ (39,196)	\$ 213,579
	=====	=====	=====

UTILITIES, INC. OF FLORIDA (PPW)
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 4/30/91

SCHEDULE NO. 2-C
DOCKET NO. 920834-WS
PAGE 1 OF 1

DESCRIPTION	WATER	WASTEWATER
	-----	-----
A. PLANT HELD FOR FUTURE USE		
1. To reflect plant removed	\$ (31,693)	0
2. To reflect land removed	(4,686)	0
3. To reflect accumulated depreciation removed	16,304	0
	-----	-----
TOTAL ADJUSTMENTS	\$ (20,075)	\$ 0
	=====	=====
B. C.I.A.C.		
1. To reflect staff imputed CIAC	\$ (34,591)	\$ (199,075)
2. To remove CIAC on retired plant.	0	110,620
	-----	-----
TOTAL ADJUSTMENTS	\$ (34,591)	\$ (88,455)
	=====	=====
C. AMORITZATION OF C.I.A.C.		
1. To reflect staff's additional amortization of connection fees.	\$ 1,053	\$ 1,783
2. To reflect additional amortization on staff's imputed CIAC.	15,857	103,664
3. To reflect staff's balance of CIAC amortization associated with the abandoned plant.	0	(55,615)
	-----	-----
TOTAL ADJUSTMENTS	\$ 16,910	\$ 49,832
	=====	=====
D. WORKING CAPITAL ALLOWANCE		
1. Reduce utility amount to reflect staff balance	\$ (573)	\$ (573)
	=====	=====

UTILITIES, INC. OF FLORIDA (PPW)
 SCHEDULE OF WATER OPERATING INCOME
 TEST YEAR ENDED 4/30/91

SCHEDULE NO. 3
 DOCKET NO. 920834-WS

	UTIL. ADJUST. TEST YEAR	UTILITY ADJUSTMENTS	UTILITY REQUESTED REV.	COMM. ADJUST. TO TEST YEAR	COMM. ADJUST. TEST YEAR	COMM. ADJUST. FOR INCREASE	BALANCE PER COMM.
OPERATING REVENUES	\$ 116,976	\$ 53,453	\$ 170,429 A	\$ (53,453)	\$ 116,976 F	\$ 40,764	\$ 157,740
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	92,087	6,355	98,442 B	(4,585)	93,857	0	93,857
DEPRECIATION	17,223	0	17,223 C	(2,184)	15,039	0	15,039
AMORTIZATION	0	0	0	0	0	0	0
TAXES OTHER THAN INCOME TAXES	14,096	2,405	16,501 D	(2,405)	14,096 G	1,834	15,930
INCOME TAXES	0	9,220	9,220 E	(9,220)	0 H	7,948	7,948
TOTAL OPERATING EXPENSES	\$ 123,406	\$ 17,980	\$ 141,386	\$ (18,394)	\$ 122,992	\$ 9,782	\$ 132,774
OPERATING INCOME/(LOSS)	\$ (6,430)	\$ 35,473	\$ 29,043	\$ (35,059)	\$ (6,016)	\$ 30,982	\$ 24,966
WATER RATE BASE	\$ 272,755		\$ 272,755		\$ 234,425		\$ 234,425
RATE OF RETURN	-2.36%		10.65%		-2.57%		10.65%

UTILITIES, INC. OF FLORIDA (PPW)
 ADJUSTMENTS TO THE OPERATING STATEMENT
 TEST YEAR ENDED 4/30/91

SCHEDULE NO. 3-A
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DESCRIPTION	WATER

A. OPERATING REVENUE	
1. Remove utility requested revenue increase.	\$ (53,453)
	=====
B. OPERATION AND MAINTENANCE	
1. To reduce utility balance to staff balance	\$ (4,585)
	=====
C. DEPRECIATION	
1. To reduce utility balance to staff balance	\$ (2,184)
	=====
D. TAXES OTHER THAN INCOME TAXES	
1. Reduce utility balance to staff balance	\$ (2,405)
	=====
E. INCOME TAXES	
1. Remove taxes on utility requested revenue increase	\$ (9,220)
	=====
F. OPERATING REVENUE	
1. Reflect increase in revenue.	\$ 40,764
	=====
G. TAXES OTHER THAN INCOME TAXES	
1. Reflect regulatory assessment fees on increased revenue.	\$ 1,834
	=====
H. INCOME TAXES	
1. To reflect income taxes related to staff's recommended revenue increase	\$ 7,948
	=====

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SCHEDULE NO. 4

WATER
MONTHLY RATES
GENERAL AND RESIDENTIAL SERVICE

METER SIZE	UTILITY PRESENT RATES	UTILITY PROPOSED RATES	COMMISSION APPROVED RATES
5/8" x 3/4"	\$6.76	\$8.34	\$7.90
3/4"	10.14	12.51	11.85
1"	16.90	20.86	19.75
1-1/2"	33.80	41.72	39.50
2"	54.08	66.74	63.20
3"	108.16	133.49	126.40
4"	169.00	208.58	197.50
6"	338.00	417.15	395.00
GALLONAGE CHARGE	\$0.90	\$1.62	\$1.47

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SCHEDULE NO. 5

CALCULATION OF NEW WATER RATES
AFTER FOUR YEAR AMORTIZATION EXPIRED

RESIDENTIAL AND GENERAL SERVICE:

METER SIZE	COMMISSION APPROVED RATES	COMMISSION APPROVED DECREASE
5/8" X 3/4"	\$7.90	\$0.09
3/4"	11.85	0.14
1"	19.75	0.23
1-1/2"	39.50	0.46
2"	63.20	0.74
3"	126.40	1.48
4"	197.50	2.31
6"	395.00	4.62
GALLONAGE CHARGE PER 1,000 GALLONS	\$1.47	\$0.02