

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a staff-) DOCKET NO. 920961-WU
assisted rate case in Citrus) ORDER NO. PSC-93-0741-FOF-WU
County by LUCKY HILLS, INC.) ISSUED: 5/14/93

The following Commissioners participated in the disposition of this matter:

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

FINAL ORDER GRANTING TEMPORARY RATES
IN EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES

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 in event of protest, is preliminary in nature and as such, 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.

CASE BACKGROUND

Lucky Hills, Inc., (Lucky Hills or the utility) is a Class C water utility located near Homosassa Springs in Citrus County. The utility served 34 residential customers during the test year and has been providing water service to its customers since 1977. Developer owned, the Commission did not learn of the utility's existence until 1988. Lucky Hills was granted a certificate by Order No. 20943, issued March 27, 1989.

On August 27, 1992, Lucky Hills applied for this staff-assisted rate case (SARC), and it has paid the appropriate filing fee. A historical test year ended October 31, 1992, was utilized to establish a representative analysis of the utility's operating results. During that period, the utility recorded operating

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revenues of \$3,699 and operating expenses of \$10,420, resulting in test period operating loss of \$6,721.

Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District. The Commission has a memorandum of understanding with the Florida Water Management Districts, in which the Commission has recognized that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Below, we have approved a change in the utility's rate structure to encourage conservation.

QUALITY OF SERVICE

A customer meeting was held on March 4, 1993, at the Lecanto Government Complex, located near the utility's service area in Homosassa, Florida. There were four customers present.

One of the customers attending the meeting had several problems with the quality of service rendered by the utility. He commented about fluctuating pressure, air and sediment in the water lines, and low chlorine residuals. Another customer also had pressure problems. Although these concerns were brought up at the meeting, they do not appear to be widespread throughout the system. A third customer had no problem at all with quality of service, and the utility does not have a significant complaint history with these difficulties.

These problems, though not serious, can be corrected by making minor alterations. Concerning the pressure situation, the customer who indicated that there was a problem had tested the pressure and found it to be above 40 pounds per square inch (PSI). The Department of Environmental Regulation requires the minimum pressure to be at least 20 PSI. Given this criteria, there does not appear to be a serious problem with pressure. However, the utility has verbally agreed to increase the pressure to help eliminate the fluctuations. It also has agreed to implement a flushing program to remove trapped air and sediment.

The utility shall maintain a flushing record, including details as to the date, time of day, flushing duration, and the volume of water used.

Chlorination is routinely monitored to safeguard against residual problems. Low levels of chlorine do not appear to be a continual problem.

Overall, it appears that customer satisfaction with the utility's service is adequate. Also, it has been determined that the utility is in compliance with state and local health requirements. Therefore, we find that the quality of service rendered by Lucky Hills, Inc. is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding are depicted on Schedule No. 1. Our adjustments are itemized on Schedule No. 1-A. Those adjustments 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.

Used and Useful

We find that the utility's water treatment facility is 57% used and useful and the water distribution system is 35% used and useful.

Water Treatment Plant - The water treatment facility has a pumping capacity of 33,600 gallons per day. The average daily flow of the peak 5 usage days that occurred during the test year was 19,000 gallons per day. Since the utility has added no additional connections in the last five years, a margin reserve was not considered. Also, there does not appear to be an excessive unaccounted for water problem. Therefore, we find that the water treatment facility shall be considered 57% used and useful.

Water Distribution System - The water distribution system has an available capacity of 96 connections. With a test year average of 34 customers, and no connections added for margin reserve considerations, we find that the distribution system shall be considered 35% used and useful.

We find that the appropriate average test year rate base is \$12,423. A discussion of each component follows.

Depreciable Plant in Service: The utility's books reflected a total of \$3,991 for plant in service. This amount has been adjusted by \$35,555 to reflect the appropriate amount of depreciable plant in service established by Order No. 20943 issued on March 27, 1989. An additional adjustment of \$3,990 was made to reflect the additions to the plant from October 1988 through October 1992. An averaging adjustment of (\$81) also was made to reflect the average utility plant in service of \$43,455.

Land: The utility did not record any land value associated with its water system. We have adjusted land by \$447 to reflect the balance established by Order No. 20943.

Plant Held for Future Use (PHFU): As discussed above, there were used and useful adjustments made to the utility's treatment and distribution system plant accounts. The water treatment facility is 57% used and useful, and the water distribution system is 35% used and useful.

To determine the average amount of plant held for future use (PHFU), the nonused and useful percentages of 43% and 65% were applied to the corresponding average balances of plant in service and accumulated depreciation. These adjustments result in an average PHFU balance of \$13,985.

Contributions-in-Aid-of-Construction (CIAC): The utility did not record any CIAC on its books. However, CIAC of \$6,900 was established by Order No. 20943 at October 31, 1988. The utility has since collected an additional \$500 for connection charges. Therefore, we have adjusted the CIAC balance by \$6,900 to reconcile the utility's totals with the total established by Order No. 20943 and by \$500 to reflect CIAC additions since 1988. Test year CIAC remained constant and no averaging adjustment is necessary.

Accumulated Depreciation: The utility did not record any accumulated depreciation on its books. Order No. 20943 established accumulated depreciation of (\$7,629) at October 31, 1988. We have adjusted accumulated depreciation by (\$7,629) to reconcile the utility's total with the total established by Order No. 20943. We have also adjusted accumulated depreciation by (\$6,408) to reflect accumulated depreciation for the period October 1988 through October 1992. An averaging adjustment of \$871 has also been made to reflect an average accumulated depreciation total of (\$13,166).

Accumulated Amortization: The utility did not record any accumulated amortization of CIAC. We have adjusted accumulated amortization of CIAC by \$1,039 to reflect amortization established by Order No. 20943. An adjustment of \$1,128 has also been made to reflect amortization of CIAC from October 1988 through October 1992. An averaging adjustment of (\$148) was made to reflect an average amortization of CIAC of \$2,019.

Working Capital Allowance: Following current Commission practice and consistent with Rule 25-30.443, Florida Administrative Code (Form PSC/WAS 18), we find that the one-eighth of operation and maintenance expense formula approach shall be used for calculating the working capital allowance. Applying that formula, we find the appropriate working capital allowance to be \$1,053 (\$8,427/8).

COST OF CAPITAL

The utility's capital structure contained no equity at the end of the test year. The utility's capital structure consists of 99.20% long term debt (\$12,323 adjusted) and .80% (\$100) customer deposits.

Order No. PSC-92-0686-FOF-WS, issued July 21, 1992, capped the return on common equity at 12.44% for all water and wastewater utilities having equity ratios less than 40%. Even though the utility does not have a positive equity balance, we believe it is appropriate to establish a cost of common equity for use in future proceedings. Since the utility's equity ratio is zero, we find that the appropriate return on common equity is 12.44%.

The long term debt recorded by the utility is an intercompany loan. Based on the staff audit, there is no executed debt instrument or scheduled payments associated with this loan. In instances where a utility has no debt instrument or scheduled payments, Commission practice requires that the assignment of the cost of debt be based on the current leverage graph. Following Commission practice, we have assigned the appropriate cost rate to the debt following the guidelines set forth in Order No. PSC 92-0686-FOF-WS (Docket No. 920006-WS). We have assigned a cost of debt at 10.44% and the cost of customer deposits is set at 8% by rule.

The utility's capital structure has been reconciled with the approved rate base and the resulting pro rata adjustments resulted

in weighted cost of 10.37% on debt and .06% on customer deposits. Therefore, we find that the appropriate overall rate of return is 10.43%.

The rate of return and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

Our calculation of net operating income for the water system is depicted on Schedule No. 3. Our adjustments are itemized on Schedule No. 3-A. Those adjustments 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.

Test Period Operating Revenue

The utility recorded revenues of \$3,699 during the test period. A revenue check indicated that the appropriate amount of test period revenues is \$3,867. We have adjusted revenue by \$168 to reflect annualized revenue based on the existing rates and billing analysis.

The utility is a Section 1120, Internal Revenue Code, Corporation. However, since the utility has been operating at a loss for the past several years, the resulting income tax loss carryforwards eliminate an income tax expense.

Test Period Operating Expenses

The utility recorded test year operating expenses of \$10,420. These expenses include operation and maintenance expense of \$9,302 and taxes other than income of \$1,118. Explanations of the utility's recorded expenses and our approved allowances follow.

OPERATION AND MAINTENANCE EXPENSE

- 1) Salaries and Wages - Employees (601) - The utility recorded a total of \$3,569 in salaries expense during the test period. An adjustment of \$50 was made to reflect our approved salary allowance of \$3,519. This amount includes an allowance for a manager and maintenance personnel.
- 2) Purchased Power - The utility recorded \$1,037 in this account. An adjustment of (\$270) was made to remove a non-utility expense.
- 3) Materials and Supplies - The utility recorded \$8 in the materials and supplies account during the test period. The utility recorded the following amounts in miscellaneous expense: Bank charges - \$91; postage expense - \$204; and miscellaneous supplies - \$14 for a total adjustment of \$309.
- 4) Contractual Services - The utility recorded contractual services of \$1,130 during the test period. This total includes \$1,100 for a contractual operator and \$30 for accounting services. We have adjusted this expense by \$100 to reflect an annual contractual allowance of \$1,200. This expense has also been adjusted by \$55 to reflect an accrual of an accounting expense associated with tax preparation. The utility's DER required water testing expense is \$300 (\$900/3 years) annually. We have adjusted this expense by \$300 to reflect the appropriate annual allowance for DER required water testing.
- 5) Rents - The utility recorded \$1,598 in this account. We have adjusted this amount by (\$399). Included in the adjustment is (\$193) to remove a non-utility telephone expense, (\$142) to remove a non-utility expense and (\$64) to reflect the approved rent allowance. The resulting balance in this account is \$1,200.
- 6) Transportation Expenses - This expense has been adjusted by \$236 to reflect a reclassification of transportation expense from miscellaneous expense.

- 7) Insurance Expense - The utility recorded insurance expense of \$969 in the miscellaneous expense account. This expense has been adjusted by \$969 to reflect a reclassification from miscellaneous expense. It appears that the insurance provides coverage for the utility's property and for bodily injury on the property. The coverage for the utility's property is provided at a cost of \$168 annually. The coverage for bodily injury on the utility's property is provided at a cost of \$20 (\$1,135 total coverage for 54 vacant lots plus 1 lot where the plant is located / 55 total lots). Therefore, we have adjusted this expense by (\$781) to reflect an annual insurance expense of \$188.
- 8) Regulatory Commission Expense - The utility recorded taxes of \$152 in this account. This account has been adjusted by (\$152) to reflect reclassification to taxes other than income. This expense has also been adjusted by \$38 to reflect the rate case filing fee of \$150 amortized over four years.
- 9) Miscellaneous Expenses - The utility recorded \$1,413 in this account. This expense has been adjusted by (\$969) to reflect reclassification to insurance expense, by (\$236) to reflect reclassification to transportation expense, and by (\$25) to reflect reclassification to contractual services.

Depreciation Expense: The utility recorded \$0 on its books during the test period. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances results in depreciation expense of \$1,099.

Amortization of CIAC: Applying the composite depreciation rates to the appropriate CIAC account balance results in amortization expense of (\$296).

Taxes Other than Income: The utility recorded taxes other than income of \$1,118. We have adjusted this account by \$523 to remove non-utility expense. We have also adjusted this expense by \$91 to reflect the accrued tangible taxes total of \$284, by (\$10) to reflect the accrued real estate taxes total of \$244, by \$174 to

reflect regulatory assessment fee at 4.5% of test year revenue and by \$189 to reflect the cost for governmental permits and reports.

Increases in Operating Revenues and Expenses for Ratesetting Purposes:

Operating Revenue: Revenue has been adjusted by \$8,061 to reflect the increase in revenue required to cover expenses and allow the approved rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by an additional \$363 to reflect the regulatory assessment fee of 4.5% on the approved increase in revenue.

The test year operating revenue for Lucky Hills is \$3,867, while the corresponding test year operating expense is \$10,269. This results in a test year operating loss of \$6,402.

REVENUE REQUIREMENT

We find that the appropriate revenue requirement for this utility is \$11,928. This represents an annual increase in revenue of \$8,061 (208%). This will allow the utility the opportunity to recover its operating expenses and earn a 10.43% return on its investment.

RATES AND CHARGES

The utility currently employs a base facility and gallonage charge rate structure; however, the base facility charge includes 2,000 gallons usage. We believe it is inappropriate to allow gallonage in the fixed monthly charge because it discourages conservation and is inconsistent with the Commission's agreement with the Water Management Districts to implement an effective, statewide water conservation policy. Billing customers for each gallon of usage encourages conservation and allows customers more control over their bills.

The preferred rate structure is a base facility charge and a gallonage charge rate structure, designed to provide for the equitable sharing by the ratepayers of both the fixed and variable costs of providing service. 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).

We believe excessive consumption will be discouraged through the use of the base facility and gallonage charge rate structure. Therefore, we find that the utility shall retain its base facility and gallonage charge rate structure, deleting the existing minimum gallonage in its base charge.

The utility currently bills its customers quarterly. We believe that monthly billings instead of quarterly billings would allow the utility to meet its monthly obligations in a more timely manner. Therefore, we find that the utility's billing cycle shall be changed to a monthly cycle.

Based on the test year billing analysis, the utility provided water service to approximately 34 customers. The utility's average water usage is approximately 5,490 gallons per month per customer. Rates have been calculated based on this number of customers and this consumption level.

The utility's existing rates and rate structure are as follows:

EXISTING MONTHLY WATER RATES

Residential and General Service

0-2,000 Gallons per Month	\$ 5.92
All additional usage: (per 1,000 gallons)	.94

We find that the following rates and charges shall be approved for Lucky Hills, Inc.:

APPROVED MONTHLY WATER RATES

Residential and General Service

<u>Base Facility Charge</u>	<u>Approved Rates</u>
<u>Meter Sizes:</u>	
5/8" x 3/4"	\$ 13.05
3/4"	19.58
1"	32.63
1 1/2"	65.25
2"	104.40
3"	208.80
4"	326.25
6"	652.50
<u>Gallonge Charge</u>	
Per 1,000 Gallons	\$ 2.95

These rates shall be effective for meter readings taken on or after 30 days after 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 decision and that the proposed customer notice is adequate.

Service Availability Charges

The Commission approved the utility's existing service availability charges in Order No. 20943, issued March 27, 1989. The existing charges are as follows:

Plant Capacity Charge	\$300
Meter Installation Charge	\$200

Rule 25-30.580 (1) (a) and (b), Florida Administrative Code, sets guidelines for maximum and minimum CIAC levels for utilities. The utility's current level of CIAC is 17.89%. The utility's minimum level of CIAC is 35.24%. The utility's contribution level is below the minimum set by rule.

The utility is in an isolated area and there has been no customer growth since 1988. Therefore, we find it appropriate that the existing plant capacity and meter installation charges shall remain in effect.

Miscellaneous Service Charges

The utility's current tariff contains only the following provision for miscellaneous service charges:

Violation Reconnection Charge \$10.00

We find it appropriate that charges be contained in each utility's tariff for initial connections, normal reconnections, violation reconnections, and premises visit charges, if applicable. However, the utility's current water tariff contains provisions for only one of these charges.

Staff Advisory Bulletin No. 13 (Second Revision) entitled "Tariff Provisions for Miscellaneous Service Charges," defines the four categories of charges, contains an example of an approved level of charges (listed above), and provides guidance as to the timing and procedures for including or revising the tariff provisions for these items.

The four types of miscellaneous service charges are:

- 1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.
- 2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer-requested disconnection.
- 3) Violation Reconnection: This charge is to be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), F.A.C., including a delinquency in bill payment.
- 4) Premises Visit (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for

nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole.

We find that the utility shall be authorized to collect the following charges:

	<u>Existing</u>	<u>Commission Approved</u>
Initial Connection	none	\$15.00
Normal Reconnection	none	\$15.00
Violation Reconnection	\$10.00	\$15.00
Premises Visit (in lieu of disconnection)	none	\$10.00

These miscellaneous service charges shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision and that the proposed customer notice is adequate.

RECOVERY OF RATE CASE EXPENSE

We find that the appropriate recovery period for rate case expenses is four years. We find that the appropriate annual revenue reduction at the end of that period is \$40.

Section 367.0816, Florida Statutes, entitled "Recovery of Rate Case Expenses" provides:

The amount of rate case expense determined by the Commission pursuant to the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period of 4 years. At the conclusion of the recovery period, the rate of public

utility shall be reduced immediately by the amount of rate case expense previously included in rates.

The rate case expense incurred by the utility for this case totaled \$150. Based on the above-mentioned statute, the appropriate recovery period for this expense is four years, which allows the utility to recover \$38 per year through its rates. Once the annual Regulatory Commission Expense recovery is grossed up to reflect regulatory assessment fees, the annual recovery increases to \$40.

At the end of four years, the utility's rates shall be reduced by \$40 annually. Using current revenues, expenses, capital structure and customer base, the rate reduction would be \$.04 in the base facility charge for a 5/8" x 3/4" meter and \$.01 in the gallonage charge.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility should also 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 should 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.

The four year rate case expense reductions are shown on Schedule No. 4.

TEMPORARY RATE APPROVAL IN EVENT OF PROTEST

This Order proposes an increase in water rates. A timely protest might 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 find that the rates shall be approved as temporary rates. The rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon the Staff's approval of security for the potential refund, a copy of the proposed customer notice and the revised tariff sheets. The security shall be in the form of a bond or letter of credit in the amount of \$5,492. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall 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 shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Lucky Hills, Inc., for an increase in its water and wastewater rates in Citrus 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 are by reference incorporated herein. It is further

ORDERED that all of the 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 in the event of protest, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the

Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Lucky Hills, Inc. is authorized to collect the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days after the stamped approval date on the revised tariff pages for the utility's general service customers and shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets for the utility's residential customers. It is further

ORDERED that the service availability charges approved herein shall be effective for connections made on or after the stamped approval date on the revised tariff pages. It is further

ORDERED the miscellaneous service charges previously approved shall remain in effect. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Lucky Hills, Inc. shall submit and have approved a proposed notice to its customers of the increased rates and charges 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 its implementation of the rates and charges approved herein, Lucky Hills, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein and that the protest period has expired. It is further

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

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ORDERED that this docket shall be closed if a timely protest of this Order is not received.

By ORDER of the Florida Public Service Commission, this 14th day of May, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

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Chairman Deason dissents.

I dissent from the majority's decision in order to express my disagreement with the way the authorized rate of return was established for this utility. This is a developer-related utility with historically low rates. The utility's capital structure consists of only a loan from an affiliate and customer deposits. There are no scheduled payments or executed debt instrument or stated interest rate associated with this loan. I believe that without more evidence of the nature of the loan, it is inappropriate to allow the utility to recover a cost it does not actually incur and would treat this loan as a source of cost free capital. This is consistent with the treatment accorded a similar type of funds source in Order No. 25092 (Docket No. 900816-WS - Petition for a Rate Increase in Martin County by Sailfish Point Utility Corporation).

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, all of our actions taken herein, except for the granting of temporary rates in the event of protest, are 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 June 4, 1993. In the absence of such a petition, this order shall become effective on the date 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 the relevant portions of 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 sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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LUCKY HILLS, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED OCTOBER 31, 1992

SCHEDULE NO. 1
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	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMMISSION
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UTILITY PLANT IN SERVICE	\$ 3,991 A	\$ 39,464	\$ 43,455
LAND/NON-DEPRECIABLE ASSETS	0 B	447	447
PLANT HELD FOR FUTURE USE	0 C	(13,953)	(13,953)
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	0 D	(7,400)	(7,400)
ACCUMULATED DEPRECIATION	0 E	(13,240)	(13,240)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	0 F	1,988	1,988
WORKING CAPITAL ALLOWANCE	0 G	1,151	1,151
	-----	-----	-----
WATER RATE BASE	\$ 3,991	\$ 8,457	\$ 12,448
	=====	=====	=====

	DESCRIPTION	WATER -----
A.	UTILITY PLANT IN SERVICE	
	1. To adjust the utility's plant total at 10/31/88 to agree with totals established by Order No. 20943	\$ 35,555
	2. To reflect plant additions from 10/88 thru 10/92	3,990
	3. To reflect averaging adjustment	(81)
	TOTAL ADJUSTMENTS	\$ 39,464 =====
B.	LAND/NON-DEPRECIABLE ASSETS	
	1. To record land value established by Order No. 20943	\$ 447 =====
C.	PLANT HELD FOR FUTURE USE	
	1. To reflect average non-used and useful plant	\$ (19,442)
	2. To reflect average non-used and useful accumulated depreciation	5,457
	TOTAL ADJUSTMENTS	\$ (13,985) =====
D.	C.I.A.C.	
	1. To adjust utility's CIAC balance to agree with totals established by Order No. 20943	\$ (6,900)
	2. To reflect CIAC collected after 10/31/88	(500)
	TOTAL ADJUSTMENTS	\$ (7,400) =====
E.	ACCUMULATED DEPRECIATION	
	1. To record the utility's total accumulated depreciation at 10/31/88	\$ (7,629)
	2. To reflect Commission approved accumulated depreciation for the period 10/88 thru 10/92	(6,408)
	3. To reflect averaging adjustment	871
	TOTAL ADJUSTMENTS	\$ (13,166) =====

LUCKY HILLS, INC.
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED OCTOBER 31, 1992

SCHEDULE NO. 1-A
 DOCKET NO. 920961-WU
 PAGE 2 OF 2

	DESCRIPTION	WATER -----
F.	ACCUMULATED AMORTIZATION OF C.I.A.C.	
	1. To reflect accumulated amortization of CIAC established by Order No. 20943	\$ 1,039
	2. To reflect amortization expense from 10/31/88 thru 10/31/92	1,128
	3. To reflect average adjustment	(148)

	TOTAL ADJUSTMENTS	\$ 2,019 =====
G.	WORKING CAPITAL ALLOWANCE	
	1. To reflect working capital allowance based on one-eighth of O&M expenses	\$ 1,053 =====

LUCKY HILLS, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED OCTOBER 31, 1992

SCHEDULE NO. 2
 DOCKET NO. 920961-WU

	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
	-----	-----	-----	-----	-----	-----
LONG-TERM DEBT	\$ 32,354	\$ (20,006)	\$ 12,348	99.69%	10.44%	10.41%
SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
PREFERRED EQUITY	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	100	0	100	0.31%	8.00%	0.02%
COMMON EQUITY	0	0	0	0.00%	0.00%	0.00%
INVESTMENT TAX CREDITS	0	0	0	0.00%	0.00%	0.00%
DEFERRED TAXES	0	0	0	0.00%	0.00%	0.00%
OTHER	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 32,454	\$ (20,006)	\$ 12,448	100.00%		10.43%
	=====	=====	=====	=====		=====

RANGE OF REASONABLENESS	LOW	HIGH
-----	-----	-----
RETURN ON EQUITY	0.00%	0.00%
OVERALL RATE OF RETURN	9.43%	11.43%

LUCKY HILLS, INC.
SCHEDULE OF WATER OPERATING INCOME
TEST YEAR ENDED OCTOBER 31, 1992

SCHEDULE NO. 3
DOCKET NO. 920961-WU

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	COMM. ADJUST. TEST YEAR	COMM. ADJUST. FOR INCREASE	BALANCE PER COMM.
OPERATING REVENUES	\$ 3,699 A	\$ 168	\$ 3,867 F	\$ 9,357	\$ 13,224
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	9,302 B	(94)	9,208	0	9,208
DEPRECIATION	0 C	1,744	1,744	0	1,744
AMORTIZATION (CIAC)	0 D	(296)	(296)	0	(296)
TAXES OTHER THAN INCOME TAXES	1,118 E	(269)	849 G	421	1,270
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	10,420	\$ 1,085	\$ 11,505	\$ 421	\$ 11,926
OPERATING INCOME/(LOSS)	(6,721)	\$ (917)	\$ (7,638)	\$ 8,936	\$ 1,298
WATER RATE BASE	3,991		\$ 12,448		\$ 12,448
RATE OF RETURN	-168.40%		-61.36%		10.43%

LUCKY HILLS, INC.
ADJUSTMENTS TO THE OPERATING STATEMENT
TEST YEAR ENDED OCTOBER 31, 1992

SCHEDULE NO. 3-A
DOCKET NO. 920961-WU
PAGE 1 OF 3

DESCRIPTION	WATER

A. OPERATING REVENUE	
1. To reflect the utility's appropriate test year revenues based on the billing analysis and existing rates	\$ 168
	=====
B. OPERATION AND MAINTENANCE	
1. Salaries and Wages - Employees	
A. To reflect Commission approved salary allowances	\$ (50)
	=====
2. Purchased Power	
A. To remove a non-utility expense	\$ (270)
	=====
3. Materials and Supplies	
A. To reflect reclassification of bank charges from account no. 675	\$ 91
B. To reflect reclassification of postage expense from account no. 675	204
C. To reflect reclassification of miscellaneous reclassification from account no. 675	14

Subtotal	\$ 309
	=====
4. Contractual Services	
A. To reflect an allowance for DER required water testing (\$900/3)	\$ 300
B. To reflect accrual of contract operator allowance	100
C. To reflect tax preparation expense	55

Subtotal	\$ 455
	=====
5. Rents	
A. To remove a non-utility telephone expense	\$ (193)
B. To remove a non-utility expense	(142)
C. To reflect Commission approved rent allowance	(64)

Subtotal	\$ (399)
	=====

LUCKY HILLS, INC.
ADJUSTMENTS TO THE OPERATING STATEMENT
TEST YEAR ENDED OCTOBER 31, 1992

SCHEDULE NO. 3-A
DOCKET NO. 920961-WU
PAGE 2 OF 3

DESCRIPTION	WATER

6. Transportation expenses	
A. To reflect reclassification of transportation expense for the use of the manager's personal vehicle	\$ 236
	=====
7. Insurance expense	
A. To reflect reclassification of Insurance expense from account no. 675	\$ 969
B. To reflect appropriate insurance expense for utility property/bodily injury	(781)

Subtotal	\$ 188
	=====
8. Regulatory Commission expense	
A. To reflect reclassification of regulatory assessment fee to taxes other than income	\$ (152)
B. To reflect amortization of rate case expense (\$150/4)	38

Subtotal	\$ (114)
	=====
9. Miscellaneous expense	
A. To reflect reclassification to insurance expense	\$ (969)
B. To reflect reclassification to transportation expense	(236)
C. To reflect reclassification to contractual services	(25)

Subtotal	\$ (1,230)
	=====
TOTAL O&M ADJUSTMENTS	\$ (875)
	=====
C. DEPRECIATION EXPENSE	
1. To reflect Commission approved test year depreciation expense net of non-used and useful depreciation	\$ 1,099
	=====
D. AMORTIZATION (CIAC)	
1. To reflect Commission approved test year amortization of CIAC	\$ (296)
	=====

LUCKY HILLS, INC.
 ADJUSTMENTS TO THE OPERATING STATEMENT
 TEST YEAR ENDED OCTOBER 31, 1992

SCHEDULE NO. 3-A
 DOCKET NO. 920961-WU
 PAGE 3 OF 3

	DESCRIPTION	WATER

E.	TAXES OTHER THAN INCOME TAXES	
	1. To remove a non-utility expense	\$ (523)
	2. To adjust tangible taxes to accrued total	91
	3. To adjust real estate taxes to discounted amount	(10)
	4. To reflect regulatory assessment fee at 4.5% on test year revenue	174
	5. To reflect cost for governmental permits and reports	189

	TOTAL TAXES OTHER THAN INCOME TAXES	\$ (79) =====
F.	OPERATING REVENUE	
	1. To reflect Commission approved increase in revenue	\$ 8,061 =====
G.	TAXES OTHER THAN INCOME TAXES	
	1. To reflect regulatory assessment fees on recommended increased revenue.	\$ 363 =====

LUCKY HILLS, INC.
 ANALYSIS OF WATER O & M EXPENSES
 TEST YEAR ENDED OCTOBER 31, 1992

ACCOUNT TITLE	BALANCE PER UTIL.	COMM. ADJUST.	COMM. BALANCE
SALARIES AND WAGES - EMPLOYEES	\$ 3,569	\$ (50)	\$ 3,519
SALARIES AND WAGES - OFFICERS	0	0	0
PENSIONS AND BENEFITS	0	0	0
PURCHASED WATER	0	0	0
PURCHASED POWER	1,037	(270)	767
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	393	0	393
MATERIALS AND SUPPLIES	8	309	317
CONTRACTUAL SERVICES	1,130	455	1,585
RENTS	1,598	(398)	1,200
TRANSPORTATION EXPENSES	0	236	236
INSURANCE EXPENSE	0	969	969
REGULATORY COMMISSION EXPENSES	152	(114)	38
BAD DEBT EXPENSE	0	0	0
MISCELLANEOUS EXPENSES	1,413	(1,230)	184
TOTAL	\$ 9,302	\$ (94)	\$ 9,208

LUCKY HILLS, INC.
 TEST YEAR ENDED
 OCTOBER 31, 1992

SCHEDULE NO. 4
 RATE REDUCTION AFTER
 RECOVERY OF RATE CASE EXPENSE

Residential and General Service

Monthly Rates

<u>Meter Size</u>	BASE FACILITY CHARGE	
	<u>Recommended Rates</u>	<u>Recommended Rate Decrease</u>
5/8" x 3/4"	\$ 13.05	\$ 0.04
3/4"	19.58	0.07
1"	32.63	0.11
1-1/2"	65.25	0.22
2"	104.40	0.35
3"	208.80	0.71
4"	326.25	1.11
6"	652.50	2.22
<u>Gallonage Charge</u> (Per 1,000 gallons)	2.95	.01