

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building  
101 East Gaines Street  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

MARCH 10, 1994

**TO :** DIRECTOR, DIVISION OF RECORDS AND REPORTING *Plum*

**FROM :** DIVISION OF WATER AND WASTEWATER (MONIZ, RASBERRY, AMAYA) *SHH*  
DIVISION OF LEGAL SERVICES (LORENZO) *JP* *R* *MP*

**RE :** UTILITY: ST. GEORGE ISLAND UTILITY CO., LTD.  
DOCKET NO.: [REDACTED]  
COUNTY: FRANKLIN  
CASE: APPLICATION FOR A RATE INCREASE

**AGENDA :** MARCH 22, 1994 - REGULAR AGENDA - DECISION ON INTERIM RATES - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

**CRITICAL DATES:** 60-DAY SUSPENSION DATE: 4/1/94

**SPECIAL INSTRUCTIONS:** NONE

Location of File - [I:\PSC\WAW\WP\940109.RCM]

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FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 940109-WU  
MARCH 10, 1994

CASE BACKGROUND

St. George Island Utility, Ltd. (St. George or utility) is a Class B water utility providing service for approximately 993 water customers in Franklin County. For the test year ended December 31, 1992, the utility reported, in its application, operating revenues of \$314,517 and a net operating loss of \$428,201.

On January 31, 1994, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the Minimum Filing Requirements (MFRs) for a rate increase, and this date was designated as the official filing date. The utility's present rate of return was established in Order No. 21122, issued on April 24, 1989, in Docket No. 871177-WU.

The utility has requested that this case be scheduled for a formal hearing and not processed pursuant to the proposed agency action process as provided for in Section 367.081 (8), Florida Statutes. The case has been set for hearing in Franklin County on July 20 and 21, 1994. The utility's application for increased rates is based on the test year ended December 31, 1992 for both interim and final.

St. George has requested interim water rates designed to generate annual revenues of \$435,453. These revenues exceed test year revenues by \$120,935 for an increase of 38.45%. The utility has requested final water rates designed to generate annual revenues of \$742,718, which exceed test year revenues by \$428,201 for a 136.15% increase. The utility states that the final rates requested would be sufficient to recover a 8.07% rate of return on its rate base.

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DISCUSSION OF ISSUES

ISSUE 1: Should the utility's proposed rates be suspended?

RECOMMENDATION: Yes. The utility's application for a general rate increase should be suspended pending further investigation by staff. (MONIZ)

STAFF ANALYSIS: Section 367.081 (6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty (60) days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, the above-referenced statute permits the proposed rates to go into effect, under bond, eight (8) months after filing unless final action has been taken by the Commission.

Staff has reviewed the filings and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We believe it is reasonable and necessary to require further amplification and explanation of this data, and to require production of additional or corroborative data. The utility has proposed numerous adjustments to the rate base and operating statements. These adjustments must be examined more closely before a determination can be made in setting rates. In consideration of the above, staff recommends suspension of the proposed rate schedules.

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ISSUE 2: Should an interim increase be granted for the water system?

RECOMMENDATION: Yes. The utility should be authorized, on an interim basis, to collect annual operating revenues as indicated below: (MONIZ)

	<u>Revenues</u>	<u>Increase</u>	<u>Percentage</u>
Water	\$348,824	\$34,307	10.91%

STAFF ANALYSIS: St. George Island Utility Co., Ltd. has requested approval of interim rates for its water division based upon recovery of operating expenses and receipt of a 7.97% return on its simple average rate base. The utility has requested interim revenues of \$435,453, with an increase of \$120,935. The test year for interim is the historical year ended December 31, 1992. The utility filed rate base, cost of capital, and operating statements to support its requested water rate increase.

We have attached accounting schedules to illustrate our recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are numbered 1-A and 1-B. The capital structure schedules are numbered 2-A and 2-B. Schedules 3-A and 3-B are reserved for the operating statements. As discussed below, staff believes that several adjustments are appropriate to determine the interim revenue amount.

#### RATE BASE

##### Plant in Service and Land

The utility included pro forma adjustments to capitalize engineering design fees and to reclassify land. However, in its petition, the utility stated that interim rates are based on the historical test year December 31, 1992, without any pro forma plant adjustments. Staff's interpretation of the interim statute is that the utility should report expenses and rate base items for the interim test year without any annualizations or projections. Consequently, since the utility did not request any pro forma plant in its application nor did it justify the need for the projections, staff believes, based on Section 367.082 (1), Florida Statutes, the pro forma adjustments should be disallowed. Based on this, staff recommends reversing the utility's adjustment for \$21,000 in engineering design fees and \$23,276 in land.

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### Accumulated Depreciation and Accumulated Amortization of CIAC

The utility included in its rate base pro forma adjustments that increased rate base by \$4,978 for accumulated depreciation and by \$6,134 for accumulated amortization of CIAC. Staff was unable to determine if the utility's adjustments were corrections or pro forma's. Since the utility gave no other explanation staff assumed the adjustments were pro forma. Based on the analysis above, staff recommends reversing the adjustments.

### Working Capital

In this proceeding, the utility used the formula method, or one-eighth of its operating and maintenance expenses, to compute its requested provision for working capital. The utility's requested provision for working capital is \$41,573. In the utility's last rate case, the provision for working capital was derived using the balance sheet method. Section 367.082(5)(b)(1), Florida Statutes, requires that the achieved rate of return be calculated by applying appropriate adjustments consistent with those used in the most recent rate case of the utility. Consistent with the interim statute, staff believes, the working capital allowance should be calculated using the balance sheet method.

The MFRs require the utility to submit a balance sheet for the beginning and end of the test year for final rates. Based on staff's calculation of the balance sheet approach, the working capital amount would be negative. Accordingly, we recommend approval of a working capital provision of \$0 using the balance sheet approach. Based on the above, the appropriate adjustment is a reduction to working capital of \$41,573.

### CAPITAL STRUCTURE

The utility's requested cost of capital for interim purposes is 7.97%. However, the utility included a pro forma short-term debt note that should have been excluded for interim. Staff has corrected the error and recalculated the cost of capital to be 7.93%. Since the utility's capital structure consists of 100% debt, there is no authorized return on equity.

### NET OPERATING INCOME

Staff has made several adjustments to the utility's operating income for interim purposes. The adjustments are outlined below following the appropriate heading.

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Operation and Maintenance Expenses

The utility's requested revenue requirement includes an annualized provision for salaries and employee benefits. The interim statute requires that annualized expenses be removed for interim rate determination. Therefore, staff has reduced salaries and employee benefits by \$31,121 and \$13,641, respectively. We have also made a corresponding adjustment to reduce payroll taxes by \$3,215. The utility also included pro forma adjustments to increase building rent, equipment rental and bad debt expense. Staff recommends reversing these adjustments by \$1,076, \$2,633 and \$6,276, respectively.

Depreciation

The utility also made adjustments to its test year depreciation and amortization expenses. Staff was unable to determine if the utility's adjustments were corrections or pro forma adjustments. Since the utility gave no other explanation staff assumed the adjustments were pro forma. Based on above and the interim statute, staff recommends decreasing depreciation expense by \$7,863 and increasing CIAC amortization expense by \$13,514.

Amortization Expense

The utility has included in its filing a pro forma adjustment to increase amortization expense for system analysis, aerator analysis, and system maps. However, according to the interim statute, pro forma adjustments for expenses should be removed. Based on this, staff has reduced amortization expense by \$22,122.

REVENUE REQUIREMENT

Based on the above, staff recommends interim revenues for wastewater service of \$348,824, an increase of \$34,307 or 10.91% over test year revenues. The difference between the amount requested by the utility and the amount recommended by staff results from the adjustments described above.

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ISSUE 3: What are the appropriate interim water rates?

RECOMMENDATION: The interim rates for the St. George Island Utility Company should be designed to produce revenues of \$348,824 for water using the base facility charge rate structure. The approved rates will be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to 25-30.475(1), Florida Administrative Code. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of notice. (RASBERRY)

STAFF ANALYSIS: Staff recommends that interim rates for the St. George Island Utility Company be designed to allow the utility the opportunity to generate additional annual operating revenues of \$34,307 for its water operations. This results in an increase of 11.11% in existing water rates, when applied as an across the board increase to total revenues.

The interim rates should be implemented for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the proposed notice to the customers of the approved increase is adequate and the required security discussed under Issue 4 has been filed.

The St. George Island Utility Company's current, proposed interim and proposed final rates, and staff's recommended interim rates are shown on Schedule No. 4.

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**ISSUE 4:** What is the appropriate security to guarantee the interim increase.

**RECOMMENDATION:** The utility should be required to file a bond, letter of credit or escrow agreement to guarantee any potential refunds of water revenues collected under interim conditions. Pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. (RASBERRY)

**STAFF ANALYSIS:** Pursuant to Section 367.082, Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. The amount of a potential refund in this case has been calculated to be \$26,245. A review of the utility's financial statements indicates that the utility cannot support a corporate undertaking for \$26,245. For the past three years the utility has operated at a loss. For 1990, 1991 and 1992 the utility reported net losses of (\$278,565), (\$326,210) and (\$356,270) respectively. Additionally this commission has had to show cause it for failure to pay its regulatory assessment fees. Because of this the utility is not considered a financially viable company. Therefore, we recommend that the utility be required to provide a bond, letter of credit or escrow agreement to guarantee the funds collected subject to refund.

If the security provided is an escrow account, said account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: That the account is established at the direction of this Commission for the purpose set forth above, that no withdrawals of funds should occur without the prior approval of the Commission through the Director of the Division of Records and Reporting, that the account should be interest bearing, that information concerning the escrow account should be available from the institution to the Commission or its representative at all times, and that pursuant to Consentino v. Elson, 263 So. 2d 253 (Fla. 3d. DCA 1972), escrow accounts are not subject to garnishments.

The utility should deposit the funds to be escrowed, \$2,916, into the escrow account each month. If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers. If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.



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If the security provided is a bond or a letter of credit, said instrument should be in the amount of \$26,245. If the utility chooses a bond as security, the bond should state that it will be released or should terminate upon subsequent order of the Commission addressing overearnings or requiring a refund. If the utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered addressing overearnings or requiring a refund.

Irrespective of the type of security provided, the utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

ST. GEORGE ISLAND UTILITY CO.  
 SCHEDULE OF WATER RATE BASE  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1-A  
 DOCKET NO. 940109-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 2,475,081	\$ 21,000	\$ 2,496,081	\$(21,000)	2,475,081
2 LAND	31,542	23,276	54,818	(23,276)	31,542
3 NON-USED & USEFUL COMPONENTS	0	(556,485)	(556,485)	0	(556,485)
4 CWIP	105,828	(105,828)	0	0	0
5 ACCUMULATED DEPRECIATION	(736,847)	(4,978)	(741,825)	4,978	(736,847)
6 CIAC	(988,742)	0	(988,742)	0	(988,742)
7 ACCUM AMORT OF CIAC	132,277	6,134	138,411	(6,134)	132,277
8 ADVANCES FOR CONSTRUCTION	(78,862)	0	(78,862)	0	(78,862)
10 DEFERRED EXPENSES	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	35,113	6,460	41,573	(41,573)	0
<b>RATE BASE</b>	<b>\$ 975,390</b>	<b>\$ (610,421)</b>	<b>\$ 364,969</b>	<b>\$(87,005)</b>	<b>277,964</b>

ST. GEORGE ISLAND UTILITY CO.  
 ADJUSTMENTS TO RATE BASE  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1-B  
 DOCKET NO. 940109-WU

EXPLANATION	WATER
<b>(1) PLANT IN SERVICE</b> -----	
Reverse utility's pro forma adjustment to capitalize engineering design fees	\$ <u>(21,000)</u>
<b>(2) PLANT IN SERVICE</b> -----	
Reverse utility's pro forma adjustment to reclassify land	\$ <u>(23,276)</u>
<b>(3) ACCUMULATED DEPRECIATION</b> -----	
To reverse utility's adjustment	\$ <u>4,978</u>
<b>(4) ACCUMULATED AMORTIZATION OF CIAC</b> -----	
To reverse utility's adjustment	\$ <u>(6,134)</u>
<b>(5) WORKING CAPITAL</b> -----	
Adjust using the balance sheet approach	\$ <u>(41,573)</u>

ST. GEORGE ISLAND UTILITY CO.  
 CAPITAL STRUCTURE  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 2-A  
 DOCKET NO. 940109-WU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	STAFF RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER STAFF	WEIGHT	COST	WEIGHTED COST PER STAFF
1 LONG TERM DEBT	\$ 3,940,451	90.94%	7.68%	6.98%	\$ (3,697,208)	\$ 243,243	87.51%	7.68%	6.72%
2 SHORT-TERM DEBT	377,116	8.70%	10.98%	0.96%	(357,781)	19,335	6.96%	10.98%	0.76%
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	15,386	0.36%	8.00%	0.03%	0	15,386	5.54%	8.00%	0.44%
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8 ADD NEG EQUITY	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	<u>\$ 4,332,953</u>	<u>100.00%</u>		<u>7.97%</u>	<u>\$ (4,054,989)</u>	<u>\$ 277,964</u>	<u>100.00%</u>		<u>7.93%</u>

ST. GEORGE ISLAND UTILITY CO.  
 ADJUSTMENTS TO CAPITAL STRUCTURE  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 2-B  
 DOCKET NO. 940109-WU

DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	(3,697,208)	(3,697,208)
2 SHORT-TERM DEBT	(63,890)	0	(293,891)	(357,781)
3 PREFERRED STOCK	0	0	0	0
4 COMMON EQUITY	0	0	0	0
5 CUSTOMER DEPOSITS	0	0	0	0
6 ACCUM. DEFERRED INCOME TAX	0	0	0	0
7 OTHER (Explain)	0	0	0	0
8 TOTAL CAPITAL	\$ (63,890)	\$ 0	(3,991,099)	(4,054,989)

(1) To remove proforma note associated with Well #3

ST. GEORGE ISLAND UTILITY CO.  
 STATEMENT OF WATER OPERATIONS  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 3-A  
 DOCKET NO. 940109-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 317,843	\$ 117,609	\$ 435,452	\$(120,935)	\$ 314,517	\$ 34,307	\$ 348,824
OPERATING EXPENSES:						10.91%	
2 OPERATION AND MAINTENANCE	\$ 280,907	\$ 51,680	\$ 332,587	\$(54,747)	\$ 277,840	\$	\$ 277,840
3 DEPRECIATION	39,026	(23,879)	15,147	4,405	19,552		19,552
4 AMORTIZATION	0	22,122	22,122	(22,122)	0		0
5 TAXES OTHER THAN INCOME	29,326	7,184	36,510	(8,657)	27,853	1,544	29,397
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 349,259	\$ 57,107	\$ 406,366	\$(81,121)	\$ 325,245	\$ 1,544	\$ 326,789
8 OPERATING INCOME	\$ (31,416)	\$ 60,502	\$ 29,086	\$(39,814)	\$(10,728)	\$ 32,763	\$ 22,035
9 RATE BASE	\$ 975,390		\$ 364,969		\$ 277,964		\$ 277,964
RATE OF RETURN	-3.22%		7.97%		-3.86%		7.93%

ST. GEORGE ISLAND UTILITY CO.  
 ADJUSTMENTS TO OPERATING STATEMENTS  
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 3-B  
 DOCKET NO. 940109-WU

EXPLANATION	WATER
<b>(1) OPERATING REVENUES</b>	
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To remove the utility's test year revenue request	\$ <u>(120,935)</u>
<b>(2) OPERATION AND MAINTENANCE EXPENSES</b>	
-----	
a) To reverse utility's proforma adjustment for salaries	(31,121)
b) To reverse utility's proforma adjustment for employee benefits	(13,641)
c) To reverse utility's proforma adjustment for building rent	(1,076)
d) To reverse utility's proforma adjustment for equipment rental	(2,633)
e) To reverse utility's proforma adjustment for bad debt expense	(6,276)
	\$ <u>(54,747)</u>
<b>(3) DEPRECIATION EXPENSE</b>	
-----	
a) To correct calculation error	(1,246)
b) To reverse utility's proforma adjustment for depreciation expense	(7,863)
c) To reverse utility's proforma adjustment for amortization of CIAC	13,514
	\$ <u>4,405</u>
<b>(4) AMORTIZATION EXPENSE</b>	
-----	
To reverse utility's adjustment for system maps, system analysis, and aerator analysis	\$ <u>(22,122)</u>
<b>(5) TAXES OTHER THAN INCOME</b>	
-----	
a) To reduce payroll taxes related to salary adjustment	(3,215)
b) To adjust RAF's consistent with test year revenues	(5,442)
	\$ <u>(8,657)</u>
<b>(6) OPERATING REVENUES</b>	
-----	
Additional revenues to achieve revenue requirement	\$ <u>34,307</u>
<b>(7) TAXES OTHER THAN INCOME</b>	
-----	
To reflect RAF's related to adjustment to revenues.	\$ <u>1,544</u>

**RATE SCHEDULE**  
**WATER**

UTILITY: St. George Island Utility Company, Ltd.  
COUNTY: Franklin  
TEST YEAR ENDED: December 31, 1992

Monthly Rates

	Utility Rates Prior to Filing	Utility Proposed Interim	Utility Proposed Final	Staff Recommended Interim
<u>Residential and General Service</u>				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	\$14.05	\$19.57	\$37.45	\$15.61
1"	\$35.11	\$49.91	\$93.63	\$39.00
1-1/2"	\$70.24	\$97.84	\$187.26	\$78.03
2"	\$112.37	\$156.53	\$299.62	\$124.83
3" Compound	\$224.74	\$313.05	\$599.24	\$249.67
3" Turbine	\$245.81	\$342.40	\$655.42	\$273.08
4" Compound	\$351.16	\$489.27	\$936.31	\$390.11
4" Turbine	\$421.39	\$586.97	\$1,123.57	\$468.13
6" Compound	\$702.31	\$978.55	\$1,872.61	\$780.21
6" Turbine	\$877.89	\$1,222.86	\$2,340.77	\$975.27
8" Compound	\$1,123.70	\$1,565.68	\$2,996.18	\$1,248.34
8" Turbine	\$1,264.17	\$1,761.38	\$3,370.71	\$1,404.39
10" Compound	\$1,615.33	\$2,250.66	\$4,307.01	\$1,794.50
10" Turbine	\$2,036.72	\$2,837.79	\$5,430.58	\$2,262.63
12" Compound	\$3,019.96	\$4,207.75	\$8,052.24	\$3,354.93
Gallorage Charge per 1,000 G.	\$1.67	\$2.33	\$3.16	\$1.86

Typical Residential Bills

<u>5/8" x 3/4" meter</u>				
3 M	\$19.06	\$26.56	\$46.93	\$21.19
5 M	\$22.40	\$31.22	\$53.25	\$24.91
10 M	\$30.75	\$42.87	\$69.05	\$34.21