

REVISED

FLORIDA PUBLIC SERVICE COMMISSION  
Capital Circle Office Center • 2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

May 7, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF LEGAL SERVICES (REYES) *but JAG*  
DIVISION OF WATER & WASTEWATER (GILCHRIST, MCCASKILL) *OK*

RE: DOCKET NO. 961416-WS - RESPONSE TO COMMISSION ORDER TO  
SHOW CAUSE BY SOUTHERN STATES UTILITIES, INC. IN PASCO  
COUNTY

AGENDA: MAY 19, 1997 - REGULAR AGENDA - ISSUES 2 AND 4 ARE  
PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY  
PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\LEG\WP\961416WS.RCM

CASE BACKGROUND

At the April 1, 1997 Agenda Conference, the Commission deferred this item to allow staff and the utility the opportunity to resolve the differences brought forth at the agenda conference. Subsequent to the April 1, 1997, Agenda Conference, the utility has provided additional information which has changed the recommendation staff previously filed on March 20, 1997.

Section 367.081(4)(b), Florida Statutes, provides that the approved rates of any utility which receives all or any portion of its utility service from a governmental authority or from a water or wastewater utility regulated by the Commission and which redistributes that service to its utility customers shall be automatically increased or decreased without hearing, upon verified notice to the Commission 45 days prior to its implementation of the increase or decrease that the rates charged by the governmental authority or other utility have changed.

On December 12, 1995, after a public hearing, the Pasco County Board of County Commissioners approved a rate change for all customers encompassing the period of January 1, 1996 through September 30, 1999. As a result of this rate change, the rates for all bulk water and/or wastewater customers were decreased effective January 1, 1996. On December 20, 1995, the Commission staff received from Pasco County copies of the notices it sent to

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utilities regulated by the Florida Public Service Commission (PSC), advising the utilities of the bulk water and/or wastewater rate change. There are nine PSC regulated utilities which purchase water and/or wastewater from Pasco County. According to the notice, Pasco County extended the January 1, 1996 effective date until April 1, 1996 in order to allow the utilities sufficient time to contact the Commission and/or incorporate the new charges into its rate structure.

The bulk water and/or wastewater rate change approved by Pasco County qualifies for a pass-through rate adjustment for PSC regulated utilities pursuant to Section 367.081(4)(b), Florida Statutes. Section 367.081(4)(e), Florida Statutes, provides that a utility may not adjust its rates under this subsection more than two times in any 12 month period. Therefore, on March 29, 1996, staff sent letters to the nine affected utilities regarding the Pasco County rate change advising them that because Pasco County approved two rate changes in 1996, the utilities had the option of using the pass-through statute to adjust their rates accordingly. Specifically, staff informed the utilities that one of the rate changes could be filed as a pass-through in conjunction with an index and the other pass-through adjustment could be filed separately to be effective for October 1, 1996.

To date, only three of the nine (Utilities Inc. of Florida, Betmar Utilities, Inc. and Jasmine Lakes Utilities Corporation) have filed for a pass-through rate reduction. Another utility, Virginia City Utilities, Inc. (Virginia City) had a staff assisted rate case in Docket No. 960625-WU, through which the county's decreased rates were incorporated. By Order No. PSC-97-0458-FOF-SU, in Docket No. 961417-SU, the Commission indicated that a pass-through rate reduction was not necessary for Hudson Utilities, Inc., d/b/a Hudson Bay Company (Hudson). By Order No. PSC-97-0457-FOF-WU, in Docket No. 961428-WU, the Commission indicated that a pass-through rate reduction was not necessary for Forest Hills Utilities, Inc (Forest Hills). The three utilities which have not filed a pass-through rate reduction are: Mad Hatter Utility, Inc. (Mad Hatter or MHU); Aloha Utilities, Inc. (Aloha); and Southern States Utilities, Inc. (SSU). By Order No. PSC-96-1226-FOF-WS, issued September 27, 1996, in Docket No. 960878-WS, each of these three utilities was ordered to show cause in writing why their rates should not be adjusted, effective April 1, 1996, to reflect the reduction in purchased water and/or wastewater costs to bulk water and/or wastewater customers in Pasco County. Order No. PSC-96-1226-FOF-WS also required the utilities to file the information required by Rule 25-30.425(1)(a) through (f), Florida Administrative Code, along with a calculation of the rate reduction. On October 17, 1996, SSU filed its response to the show cause order.

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Southern States Utilities, Inc. is a Class A utility, providing water and wastewater service to 152 service areas in 25 counties. As of December 31, 1995, the utility had gross operating revenues of \$23,919,123 for water and \$18,104,984 for wastewater and reported operating income of \$1,927,299 for water and \$1,646,772 for wastewater. The purpose of this recommendation is to determine whether SSU's rates should be adjusted to reflect the reduction in purchased water and wastewater costs to bulk water and/or wastewater customers in Pasco County.



DISCUSSION OF ISSUES

ISSUE 1: Should Southern States Utilities, Inc.'s rates be adjusted to reflect the increase in commercial water rates and decrease in purchased water and wastewater costs to bulk water and wastewater customers in Pasco County?

RECOMMENDATION: No. SSU's rate of return on equity is less than the minimum of its authorized range of return on equity; therefore, SSU's rates should not be reduced to reflect a reduction in purchased water and wastewater costs. (GILCHRIST, MCCASKILL)

STAFF ANALYSIS: On October 17, 1996, SSU filed its response to Order No. PSC-96-1226-FOF-WS, issued September 27, 1996, in Docket No. 960878-WS. Order No. PSC-96-1226-FOF-WS required SSU to show cause in writing why its rates should not be adjusted to reflect the reduction in purchased water and/or wastewater costs to bulk water and/or wastewater customers in Pasco County. Staff's recommendation of March 20, 1997 was filed and presented to the Commission at the April 1, 1997, Agenda Conference, accordingly. After much discussion, the Commission deferred this item to allow staff and the utility the opportunity to further discuss and resolve the differences brought forth during the Agenda Conference.

As stated in staff's March 20, 1997 recommendation to the Commission, SSU failed to file the information required by Rule 25-30.425(1)(a) through (f), Florida Administrative Code, pursuant to Order No. PSC-96-1226-FOF-WS. Instead, SSU provided in its response the same legal arguments it raised at the September 3, 1996 Agenda Conference along with Exhibits B and C. Exhibit B is a summary of the water and wastewater service purchased by SSU from Pasco County for its Palm Terrace and Zephyr Shores plants. Exhibit C is SSU's Affirmation Statement affirming that the forbearance of the pass-through decrease referenced in Order No. PSC-96-1226-FOF-WS, will not cause SSU to exceed the range of its last authorized rate of return on equity, which is 10.88% to 12.88%. In its response to the show cause order, SSU also asserted that the Commission has no authority to require a utility to decrease its rates in response to a reduction in purchased bulk water and/or wastewater costs.

In its March 20, 1997 recommendation, staff indicated that the utility's achieved rate of return on equity (AROE) was 11.38% for the calendar year ended December 31, 1995. At the April 1, 1997 Agenda Conference, the utility indicated that the 11.38% rate was not correct. On April 3, 1997, staff met with the utility via teleconference call. During the conference call, the utility advised staff that the 11.38% rate contained in staff's recommendation of March 20, 1997 was based on the achieved rate of

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return on equity rate established in the utility's last rate case, by Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS. During the conference call, the utility reminded staff that the achieved rate of return on equity established in the utility's last rate case is based on a projected 1996 test year. In calculating the proposed rate reduction for purchased water and wastewater, the most recent 12-month period data available was the calendar year 1995. Since the proposed rate deduction was based on consumption during 1995, staff agrees that the utility's achieved rate of return on equity should be the rate determined in its 1995 annual report rather than the achieved rate of return on equity determined in its last rate case. According to SSU's 1995 annual report, its combined achieved rate of return on equity was (10.20%) for the calendar year ended December 31, 1995.

Further, it should be pointed out that the utility's current rates became effective September 20, 1996, and because the rates have not been in effect for an entire year, a true picture of the effect on earnings of the new rates cannot be determined at this time. Staff will better understand what the true effect on earnings and rate of return these rates will have on this utility once the rates have been in effect for an entire year. Staff will monitor the utility's annual report for 1997, and if it is determined that the utility is overearning, an overearnings investigation will be conducted accordingly.

As previously stated, SSU filed Exhibit B, which shows a summary of the water and wastewater services purchased from Pasco County for its Zephyr Shores and Palm Terrace plants. In Exhibit B, a comparison of the purchased water and wastewater costs allowed in the utility's last rate case (Docket No. 950495-WS) for these plants with SSU's actual 1995 costs as adjusted for Pasco County's rate decrease shows that SSU should receive a rate increase of \$18,083 to fully recover its costs for purchasing Pasco County service at Pasco County's reduced rate. In its recommendation of March 20, 1997, staff disagreed with this conclusion and adjustments were made accordingly. Based on the updated information provided during the April 3, 1997, conference call, staff is now in agreement with the utility.

On April 1, 1996, Pasco County's bulk rates for water decreased from \$2.31 to \$2.18 and on October 1, 1996, Pasco County's bulk rates for water decreased from \$2.18 to \$2.15 per 1,000 gallons. The rate reduction on a prospective basis is the difference between \$2.31 and \$2.15 or \$.16. On April 1, 1996, Pasco County's bulk rates for wastewater decreased from \$3.11 to \$2.20 and on October 1, 1996, Pasco County's bulk rates for wastewater increased from \$2.20 to \$2.23 per 1,000 gallons. The rate reduction on a prospective basis is the difference between

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\$3.11 and \$2.23, or \$.88. Also, Pasco County charges a Capital Recovery Surcharge which is applicable to some existing bulk water and wastewater customers. The Capital Recovery Surcharge is \$.68/1,000 gallons for bulk water customers and \$1.00/1,000 gallons for bulk wastewater customers.

When staff originally calculated the pass-through rate adjustment for Zephyr Shores, staff compared the costs of water and wastewater purchased at the old rate for the most recent 12-month period with the costs of water and wastewater purchased at the new rate. The most recent 12-month period data available was the calendar year 1995, as contained in the information provided by the utility. Originally, staff calculated an increase of \$722.07 for purchased water and a decrease of \$6,832.67 for purchased wastewater for Zephyr Shores. For Palm Terrace, staff originally calculated a decrease of \$9,715.27 for purchased water. These amounts include the gross up for regulatory assessment fees (RAFs).

However, during the conference call, the utility advised staff that the cost approved by the Commission in Docket No. 950495-WS for purchased water for Zephyr Shores and the cost embedded in the utility's rates is more than the cost it is paying to Pasco County. Further, the cost approved by the Commission in Docket No. 950495-WS for purchased wastewater for Zephyr Shores and the cost embedded in the utility's rates is less than the cost it is paying to Pasco County. As for Palm Terrace, the utility indicated that the cost approved by the Commission for purchased water and the cost embedded in its rates is less than the cost it is paying to Pasco County. Based on this updated information, for Zephyr Shores, staff has calculated a decrease of \$11,907 for purchased water and an increase of \$4,882 for purchased wastewater. For Palm Terrace, staff has calculated an increase of \$24,371 for purchased water. These amounts have been grossed up for RAFs.

Staff believes a utility's rates should be reduced to reflect a reduction in purchased water and/or wastewater costs only in the event that the utility meets or exceeds the minimum of its authorized range of return on equity. Staff further believes that the Commission is vested with the authority to order a reduction in rates when the utility fails to initiate a decrease pursuant to Section 367.081(4)(b), Florida Statutes. The utility is earning well below its minimum 12.14% authorized rate of return on equity (ROE) Therefore, staff recommends that no reduction in rates be required. This is consistent with the Commission's decision in the case of Hudson Utilities, Inc., Docket No. 961417-SU, Order No. PSC-97-0458-FOF-SU, and Forest Hills Utilities, Inc., Docket No. 961428-WU, Order No. PSC-97-0457-FOF-WU, issued April 22, 1997.



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**ISSUE 2:** Should Southern States Utilities, Inc. be required to refund excess purchased water and wastewater costs collected from April 1, 1996 to the effective date of the new rates?

**RECOMMENDATION:** If the Commission approves staff's recommendation in Issue 1, no refund should be required. (GILCHRIST, MCCASKILL)

**STAFF ANALYSIS:** If the Commission approves staff's recommendation in Issue 1, no refund should be required. As discussed in Issue 1, the utility's achieved rate of return on equity is well below the minimum of its authorized range of return; therefore, no reduction should be required. This is consistent with the Commission's decision in the case of Hudson Utilities, Inc., Docket No. 961417-SU, Order No. PSC-97-0458-FOF-SU, and Forest Hills Utilities, Inc., Docket No. 961428-WU, Order No. PSC-97-0457-FOF-WU, issued April 22, 1997.

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ISSUE 3: Should this docket be closed?

RECOMMENDATION: Upon expiration of the protest period, if a timely protest is not received from a substantially affected person, this docket should be closed. (REYES)

STAFF ANALYSIS: Upon expiration of the protest period, if a timely protest is not received from a substantially affected person, this docket should be closed.