

FLORIDA PUBLIC SERVICE COMMISSION
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TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (B. DAVIS, FUCHS) *BP*
DIVISION OF LEGAL SERVICES (BRUBAKER) *BP*

RE: DOCKET NO. 971065-SU - MID-COUNTY SERVICES, INC. - *BP*
APPLICATION FOR AN INCREASE IN WASTEWATER RATES. *BP*
COUNTY: PINELLAS *BP*

AGENDA: 12/2/97 - REGULAR AGENDA - DECISION ON INTERIM RATES -
PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: 60-DAY SUSPENSION DATE: DECEMBER 13, 1997
5-MONTH EFFECTIVE DATE: MARCH 14, 1997

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\971065I.RCM
R:\PSC\WAW\123\971065I.WK4

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FPSC-RECORDS/REPORTING

DOCKET NO. 971065-SU
DATE: November 20, 1997

CASE BACKGROUND

Mid-County Services, Inc. (Mid-County or utility), a wholly owned subsidiary of Utilities, Inc., of Northbrook, Illinois, is a Class B utility, located in Pinellas County, Florida. Mid-County provides wastewater service to customers located in Dunedin, Florida. The utility is located in a region which has been designated by the South Florida Water Management District (SFWMD) as a critical use area. As of December 31, 1996, the utility served approximately 6,143 residential customers, general service and multi-family dwellings.

The utility's last rate case, Docket No. 921293-SU, was filed on April 1, 1993, culminating in Order No. PSC-93-1713-FOF-SU, issued November 30, 1993. Service availability charges for this utility were set in Order No. PSC-94-1042-FOF-SU, issued on August 24, 1994. Flat rates for unmetered service, a new class of service, were approved by Order No. PSC-95-0159-FOF-SU, issued on March 14, 1995. The 1996 Price Index and Ad Valorem Pass-Through was approved effective September 29, 1996.

On September 4, 1997, the utility filed the instant application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes, and requested that the Commission process this case under the proposed agency action (PAA) procedure. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on October 14, 1997, the utility satisfied the MFRs and this date was designated as the official filing date. The test year for interim and final purposes is the historical twelve-month period ended December 31, 1996.

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DISCUSSION OF ISSUES

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

RECOMMENDATION: Yes. Mid-County's proposed wastewater rates should be suspended. (B. DAVIS)

STAFF ANALYSIS: Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect, under bond and subject to refund, at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. Staff concludes that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination will include on-site investigations by staff accountants, engineers, and rate analysts. Based on the foregoing, staff recommends that it is appropriate to suspend the utility's proposed rate increase.

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ISSUE 2: Should an interim revenue increase be approved?

RECOMMENDATION: Yes. On an interim basis, the utility should be authorized to collect annual wastewater revenues as indicated below: (B. DAVIS, FUCHS)

	<u>Revenues</u>	<u>\$ Increase</u>	<u>% Increase</u>
Wastewater	\$1,177,611	\$264,009	28.90%

STAFF ANALYSIS: As reflected in its MFRs, Mid-County requests interim rates designed to generate annual revenues of \$1,219,230. This represents a revenue increase of \$305,637 (33.45%). The requested test year for interim is the historical year ended December 31, 1996. The utility filed rate base, cost of capital, and operating statements to support its requested water and wastewater increase.

Staff has reviewed the utility's interim request, as well as the prior rate proceeding orders, and we have made adjustments as discussed below. We have attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedule is numbered 1-A, the capital structure is Schedule No. 2. the operating income schedules are numbered 3-A and 3-B for adjustments, respectively.

RATE BASE

The utility has filed an average rate base for the calendar year ending December 31, 1996. The utility appears to have adjusted this rate base consistent with their last rate case. Staff has reviewed the filed rate base and proposes no additional adjustments. Schedule No. 1 details staff's recommendation.

COST OF CAPITAL

Mid-County filed the average capital structure for the year ending December 31, 1996. Since Mid-County does not issue its own debt, the debt and equity components of the parent company, Utilities, Inc., were allocated to Mid-County's equity capital and the resulting components were reconciled to the filed rate base. Based upon these components, amounts, and cost rates associated

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with the capital structure for the interim test year, staff recommends that the weighted average cost of capital is 9.22%. Schedule No. 2 details staff's recommendation.

In arriving at staff's recommended overall rate of return with respect to Mid-County's request for interim rate relief, staff recommends one adjustment to the utility's filing. Specifically, staff substitutes a cost of equity of 9.97%, which is the low end of the cost of equity established in Order No. PSC-93-1713-FOF-SU, Docket No. 921293-SU, the utility's previous rate case. The utility had used a cost rate based on the current leverage formula. Chapter 367.082(2)(a), Florida Statutes, requires that "In a proceeding for an interim increase in rates, the commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return calculated in accordance with subparagraph (5)(b)2." Staff's proposed adjustment brings the filing in compliance with the law.

The net effect of this change is a slight reduction in the overall cost of capital from the 9.34% return requested by the utility to the return of 9.22% recommended by staff. Schedule No. 2 shows the components, amounts, cost rates, and weighted average cost of capital associated with the interim test year capital structure.

NET OPERATING INCOME

Test Year Operating Revenues

Section 367.082(5)(b)(1), Florida Statutes, states that the achieved rate of return is calculated by applying appropriate adjustments and annualizing any rate changes occurring during the interim test year. For purposes of the interim application, Mid-County chose the test year ending December 31, 1996. On September 25, 1996, the utility received a price index. It appears that Mid-County did annualize revenues associated with this price index. Staff has reviewed this adjustment and recommends no further adjustment to test year revenue.

Test Year Net Operating Income

The utility has filed operating expenses, depreciation, amortization and taxes for the calendar year ending December 31, 1996. The utility appears to have adjusted these amounts consistent with their last rate case. Staff has reviewed the filed operating expenses, depreciation, amortization and taxes and proposes no additional adjustments.

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Based on the adjustments recommended above, staff has determined that test year operating income is a loss of \$14,873.

REVENUE REQUIREMENT

Staff has calculated the interim revenue requirements using the actual operating expenses for the year ended December 31, 1996, as adjusted by the utility and a 9.22% overall rate of return on a 13-month average rate base. As a result, staff's recommended revenue requirement is \$1,177,602 as shown on attached Schedule No. 3A and 3B. This represents an interim increase in annual wastewater revenues of \$264,009 or 28.90%. Therefore, staff recommends the Commission approve interim rates which will allow the utility to generate \$264,009 in additional annual wastewater revenue as set forth in Issue 3.

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ISSUE 3: What are the appropriate interim wastewater rates?

RECOMMENDATION: The interim rates for Mid-County should be designed to allow the utility the opportunity to generate additional annual operating revenues of \$264,009. The interim percentage increase should be applied to the rates in effect on December 31, 1996, after the four year rate reduction is removed for the amortization of rate case expense from Docket No. 921293-SU, the utility's last rate case. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice, but no later than January 6, 1997. (B. DAVIS)

STAFF ANALYSIS: Staff recommends that interim service rates for Mid-County be designed to allow the utility the opportunity to generate additional annual operating revenues of \$264,009, an increase of 28.90%. When miscellaneous service revenues are excluded, the increase to the remaining rates is 28.94%, which should be applied as an across the board increase to these rates.

This percentage increase is normally applied to the rates in place at the end of the interim test year. Section 367.0816, Florida Statutes, requires that rate case expense be recovered over a period of four years and that the rates of the utility be reduced immediately at the conclusion of the four years by the amount of rate case expense previously included in the rates. The four-year amortization period of rate case expense granted to Mid-County in Order No. PSC-93-1713-FOF-SU will expire on January 6, 1998. Staff recommends that this rate decrease and the interim rate increase be combined to preclude the utility from filing two sets of tariffs and customer notices within days of each other. The customer notice should inform the customers, not only of the interim increase, but also of the statutory decrease and the combined effect of the two. These tariffs should be effective on or before January 6, 1998.

The rates in effect on December 31, 1996, were first reduced by the amounts specified in Order No. PSC-93-1713-FOF-SU in accordance with Section 367.0816, Florida Statutes. Staff then applied the interim percentage increase, excluding miscellaneous service revenue, to these reduced rates. 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 should be submitted in sufficient time to be approved and allow staff to verify that the

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tariffs are consistent with the Commission's decision, that the proposed notice to the customers of the approved increase is adequate, and that the required security discussed under Issue 4 has been filed on or before January 6, 1998. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice.

The utility's prior, current, proposed interim, and proposed final rates, current less the statutory decrease, 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 corporate undertaking to guarantee any potential refunds of wastewater revenues collected under interim conditions. The corporate undertaking should be in the amount of \$135,000. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should 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. (B. DAVIS)

STAFF ANALYSIS: Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. The utility has indicated in its filing that it will place the excess of interim rates over previously authorized rates under a corporate undertaking, subject to refund with interest, within sixty (60) days of its filing. Staff has reviewed the financial data of the utility and its parent company and recommends that the utility's request for a corporate undertaking be approved. Staff has calculated the potential refunds of wastewater revenues and interest collected under interim conditions to be \$135,000. This amount is based on an estimated six months of revenue being collected from staff's recommended interim rates over the previously authorized rates shown on Schedule 4.

The corporate undertaking should state that it will be released or terminated upon subsequent order of the Commission addressing overearning or requiring a refund. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should 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.

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MID-COUNTY SERVICES, INC.
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 1
 DOCKET 971065-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$3,880,925	(\$131,742)	\$3,749,183	\$0	\$3,749,183
2 LAND	\$18,403	\$0	\$18,403	\$0	\$18,403
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$1,004,622)	\$15,570	(\$989,052)	\$0	(\$989,052)
5 CIAC	(\$2,174,889)	\$0	(\$2,174,889)	\$0	(\$2,174,889)
6 AMORTIZATION OF CIAC	\$777,284	\$2,696	\$779,980	\$0	\$779,980
7 ACQUISITION ADJUSTMENTS - NET	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFITS	\$0	\$0	\$0	\$0	\$0
10 CONSTRUCTION WORK IN PROGRESS	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$103,144	\$0	\$103,144	\$0	\$103,144
12 OTHER	\$0	\$58,787	\$58,787	\$0	\$58,787
RATE BASE	<u>\$1,600,245</u>	<u>(\$54,689)</u>	<u>\$1,545,556</u>	<u>\$0</u>	<u>\$1,545,556</u>

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MID-COUNTY SERVICES, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 2
 DOCKET 971065-SU

DESCRIPTION	TOTAL CAPITAL	ADJUSTMENTS SPECIFIC	PRO RATA	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 1996 - 13-MONTH AVERAGE							
1 LONG TERM DEBT	\$0	\$0	\$772,480	\$772,480	49.98%	9.18%	4.59%
2 SHORT-TERM DEBT	\$0	\$0	\$23,783	\$23,783	1.54%	9.74%	0.15%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$1,633,121	\$0	(\$937,729)	\$695,392	44.99%	10.23%	4.60%
5 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	8.00%	0.00%
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	\$53,901	\$0	\$0	\$53,901	3.49%	0.00%	0.00%
8 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	<u>\$1,687,022</u>	<u>\$0</u>	<u>(\$141,466)</u>	<u>\$1,545,556</u>	<u>100.00%</u>		<u>9.34%</u>
PER STAFF 1996 - 13-MONTH AVERAGE							
10 LONG TERM DEBT	\$772,480	\$0	\$0	\$772,480	49.98%	9.18%	4.59%
11 SHORT-TERM DEBT	\$23,783	\$0	\$0	\$23,783	1.54%	9.74%	0.15%
12 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
13 COMMON EQUITY	\$695,392	\$0	\$0	\$695,392	44.99%	9.97%	4.49%
14 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	8.00%	0.00%
15 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
16 DEFERRED ITC'S-ZERO COST	\$53,901	\$0	\$0	\$53,901	3.49%	0.00%	0.00%
17 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
18 TOTAL CAPITAL	<u>\$1,545,556</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,545,556</u>	<u>100.00%</u>		<u>9.22%</u>
					LOW	MID	HIGH
					9.97%	10.97%	11.97%
					OVERALL RATE OF RETURN	9.22%	10.12%

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MID-COUNTY SERVICES, INC.
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 3-A
 DOCKET 971065-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$883,000	\$336,230	\$1,219,230	(\$305,637)	\$913,593	\$264,009 28.90%	\$1,177,602
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$825,155	\$0	\$825,155	\$0	\$825,155		\$825,155
3 DEPRECIATION	\$63,126	(\$1,581)	\$61,545	\$0	\$61,545		\$61,545
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0		\$0
5 TAXES OTHER THAN INCOME	\$92,989	\$15,687	\$108,676	(\$13,754)	\$94,922	\$11,880	\$106,803
6 INCOME TAXES	(\$64,608)	\$144,164	\$79,556	(\$132,712)	(\$53,156)	\$94,695	\$41,539
7 TOTAL OPERATING EXPENSES	\$916,662	\$159,270	\$1,074,932	(\$146,466)	\$928,466	\$106,575	\$1,035,041
8 OPERATING INCOME	(\$33,662)	\$177,960	\$144,298	(\$159,171)	(\$14,873)	\$157,434	\$142,561
9 RATE BASE	\$1,600,245		\$1,545,556		\$1,545,556		\$1,545,556
10 RATE OF RETURN	-2.10%		9.34%		-0.96%		9.22%

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**MID-COUNTY SERVICES, INC.
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDED 12/31/96**

**SCHEDULE NO. 3-B
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EXPLANATION	WASTEWATER
<u>OPERATING REVENUES</u>	
Remove requested final revenue increase	(\$305,637)
<u>OPERATION & MAINTENANCE EXPENSE</u>	\$0
<u>DEPRECIATION EXPENSE-NET</u>	\$0
<u>AMORTIZATION EXPENSE</u>	\$0
<u>TAXES OTHER THAN INCOME</u>	
RAFs on revenue adjustments above	(\$13,754)
<u>INCOME TAXES</u>	
To adjust to test year net operating income tax expense	(\$132,712)
<u>ADJUSTMENTS FOR REVENUE INCREASE (DECREASE):</u>	
OPERATING REVENUES	\$264,009
TAXES OTHER THAN INCOME TAXES	11,880
INCOME TAXES	94,695
	<u>\$157,434</u>

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MID-COUNTY SERVICES, INC.
 SCHEDULE OF WASTEWATER RATES
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 4
 DOCKET 971065-SU

Class	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Statutory Four-Year Reduction	Staff Recommended Interim
BI-MONTHLY RATES					
Residential and Multi-Family					
Base Facility Charge: 5/8" x 3/4"	\$28.80	\$38.45	\$38.66	\$28.68	\$36.98
Gallonge Charge, per 1,000 Gallons	\$1.51	\$2.02	\$2.03	\$1.50	\$1.93
Sewer Cap, per 1,000 Gallons	20	20	20	20	20
General Service					
Base Facility Charge: Meter Size:					
5/8" x 3/4"	\$28.80	\$38.45	\$38.66	\$28.68	\$36.98
1"	\$72.01	\$96.12	\$96.65	\$71.69	\$92.44
1-1/2"	\$144.02	\$192.24	\$193.30	\$143.38	\$184.87
2"	\$230.44	\$307.59	\$309.29	\$229.40	\$295.79
3"	\$460.89	\$615.18	\$618.57	\$458.81	\$591.59
4"	\$720.13	\$961.22	\$966.52	\$716.71	\$924.13
6"	\$1,440.28	\$1,922.45	\$1,933.03	\$1,433.80	\$1,848.74
Gallonge Charge, per 1,000 Gallons	\$1.81	\$2.42	\$2.43	\$1.80	\$2.32
Flat Rates					
	\$50.67	\$67.64	\$68.01	\$50.44	\$65.04
	\$1,595.45	\$2,129.93	\$2,141.57	\$1,588.27	\$2,047.92
Typical Residential Bills					
5/8" x 3/4" meter					
3,000 Gallons	\$33.33	\$44.51	\$44.74	\$33.18	\$42.77
5,000 Gallons	\$36.35	\$48.55	\$48.80	\$36.18	\$46.63
10,000 Gallons	\$43.90	\$58.65	\$58.93	\$43.68	\$56.28
20,000 Gallons	\$59.00	\$78.85	\$79.20	\$58.68	\$75.58
Sewer Cap, per 10,000 Gallons	20	20	20	20	20