

VOTE SHEET

MARCH 10, 1998

RE: DOCKET NO. 971065-SU - Application for rate increase in Pinellas County by Mid-County Services, Inc.

Quality of Service:

Issue 1: Is the quality of service provided by Mid-County Services, Inc., to its customers satisfactory?

Recommendation: Yes. The quality of service provided by Mid-County Services, Inc., to its customers is satisfactory.

**DEFERRED**

COMMISSIONERS ASSIGNED: Full Commission

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

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REMARKS/DISSENTING COMMENTS:

*To the March 24, 1998  
Commission Conference*

DOCUMENT NUMBER-DATE

03094 MAR 11 88

FPSC-RECORDS/REPORTING

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Rate Base

Issue 2: What is the appropriate flow data to use for calculating used and useful for wastewater treatment plant and effluent disposal?

Recommendation: The appropriate flow data to use is the flow upon which the FDEP operating permit is based. The newer FDEP operating permits contain the most recent and accurate information describing the flows upon which capacity is based. When such information is not available, the average daily flow in the maximum month should be used. For this case, as indicated by the FDEP permit, annual average daily flow (AADF), should be used for calculating used and useful.

Issue 3: Should the utility be granted a margin reserve?

Recommendation: Yes. The utility should be granted a margin reserve of 26,825 gallons per day (GPD) equaling 3% of its treatment plant flow capacity, based on the linear regression method of calculating growth and an eighteen-month construction period.

Issue 4: What is the appropriate used and useful percentage of the wastewater treatment facility?

Recommendation: The wastewater treatment plant should be considered to be 83.09% used and useful.

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Issue 5: What is the appropriate used and useful percentage of the wastewater collection system and effluent disposal system?

Recommendation: Staff recommends the collection system and effluent disposal system should be considered 100% used and useful with no margin reserve.

Issue 6: Should the Commission include an imputation of Contributions in Aid of Construction (CIAC) on the margin reserve?

Recommendation: Yes. The Commission should include an imputation of CIAC as a matching provision to the margin reserve calculation. However, as an averaging method, only 50% of the imputed CIAC should be recognized since the imputed amount will be collected over the life of the margin reserve period rather than all at the beginning of the period. In addition, the imputation should be limited to the amount of net plant included in the margin reserve. Accordingly, wastewater CIAC should be increased by \$50,733. Corresponding adjustments should also be made to increase wastewater accumulated amortization of CIAC by \$943 and decrease test year amortization expense by \$1,887.

Issue 7: Should deferred charges from Water Service Corporation be allowed in plant-in-service?

Recommendation: Deferred charges in the amount of \$2,205 that is allocated from the parent company should be disallowed as part of plant-in-service.

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Issue 8: Should capitalized legal expenses and capitalized acquisition costs be allowed in rate base?

Recommendation: No. Capitalized legal expenses in the amount of \$16,644 and capitalized acquisition costs in the amount of \$1,812 should be removed from plant-in-service. This results in an average reduction to plant of \$6,073. The corresponding adjustments to accumulated depreciation and depreciation expense should be \$89 and \$178, respectively.

Issue 9: Should discounts not taken be allowed in rate base?

Recommendation: No. Discounts not taken in the average amount of \$1,700 should be removed from plant in service.

Issue 10: Should retirements since the last rate case be recognized in rate base?

Recommendation: Yes, additional retirements in the amount of \$4,242 should be removed from plant-in-service.

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Issue 11: Should construction-work-in-progress (CWIP) be corrected for errors and should pro forma plant additions be shown as utility plant-in-service?

Recommendation: Yes, CWIP should be reduced by \$4,500, and \$292,159 of pro forma plant additions should be reclassified in rate base and shown as utility plant-in-service.

Issue 12: What is the appropriate allowance for working capital for the test year?

Recommendation: The appropriate allowance for working capital for the test year is \$84,195, as updated with staff's proposed adjustments to operation and maintenance expenses.

Issue 13: What is the appropriate test year rate base?

Recommendation: The appropriate wastewater rate base for the test year ended December 31, 1996 is \$1,299,756.

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Capital Structure

Issue 14: What is the appropriate capital structure for rate-making purposes?

Recommendation: The capital structure of Utilities, Inc., which is Mid-County's parent, should be used for rate-making purposes.

Issue 15: What is the appropriate rate of return on equity?

Recommendation: Using the current leverage formula, the rate of return on equity should be 10.16%, with a range of 9.16% to 11.16%.

Issue 16: What is the appropriate overall rate of return?

Recommendation: The appropriate overall rate of return should be 9.34%, with a range of 8.89% to 9.79%.

Net Operating Income

Issue 17: Should adjustments be made for late fees, out-of-period expenses and misclassifications, as recommended in the staff audit?

Recommendation: Yes, operation and maintenance expenses should be reduced by \$8,022 and taxes other than income should be increased by \$755 to remove late fees, prior period expenses, and to correct misclassifications.

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Issue 18: Are the allocations from Utilities, Inc. a reasonable distribution of the cost of the services provided to Mid-County?

Recommendation: No. The allocation methods employed by Utilities, Inc. at the time of this filing overstate costs to Mid-County. Operation and maintenance expenses should be reduced by \$119,685, depreciation expense should be reduced by \$13,747, and taxes other than income should be reduced by \$2,293.

Issue 19: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense for this docket is \$50,206. In accordance with the provisions of Order No. PSC-94-1042-FOF-SU, the utility should be allowed to recover \$44,753 in rate case expense from the previous case. This is a total of \$94,959 in rate case expense to be recovered over four years for an annual expense of \$23,740.

Issue 20: What is the appropriate net operating income for the test year?

Recommendation: The appropriate net operating for the test year is \$92,464, as shown on Schedule No. 3-A in staff's February 26, 1998 memorandum.

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Revenue Requirement

Issue 21: What is the total revenue requirement?

Recommendation: The following revenue requirement should be approved:

	<u>TOTAL</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT</u>
Wastewater	\$ 962,162	\$ 48,569	5.32%

Rates

Issue 22: What are the appropriate wastewater rates?

Recommendation: The recommended wastewater rates should be designed to produce annual operating revenues of \$960,778, the \$962,162 revenue requirement less \$1,384 in miscellaneous revenue, using the base facility charge rate structure. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets. The revised tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision, that the protest period has expired, and the proposed customer notice is adequate.

Issue 23: What is the appropriate amount of rate reduction in four years as required by Section 367.0816, Florida Statutes?

Recommendation: As reflected on Schedule No. 5 of staff's memorandum, the wastewater rates should be reduced by \$24,858 at the expiration of the four-year period in compliance with Section 367.0816, Florida Statutes.



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Issue 24: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The final revenue requirement should be adjusted for items not representative of the period interim rates were in effect. The adjusted final revenue requirement should then be compared with the interim revenue requirement to determine whether a refund is necessary. The utility should refund 23.79% of the wastewater service revenues collected under interim rates. The refunds should be made, including interest, as required by Rule 25-30.360(4), Florida Administrative Code.

Other Issues

Issue 25: Are the utility's books and records in compliance with Rule 25-30.115 and Rule 25-30.450, Florida Administrative Code?

Recommendation: No. Mid-County's books and records are not in compliance with the above-mentioned rules. Mid-County should be given six months from the issuance date of this order to bring its books and records into compliance with the NARUC Uniform System of Accounts. At that time, staff will perform compliance audits. The utility should be put on notice, that if substantial compliance is not evident at that time, a show cause proceeding will be initiated.

Issue 26: Should the docket be closed?

Recommendation: Yes. In the event a timely protest is not filed, the docket should be closed upon the utility's filing and staff's approval of revised tariff sheets and verification that the utility has completed the required refund. The utility's corporate undertaking may be released upon staff's verification that the refund has been completed.