

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of water
and wastewater rates of Lake
Haven Utility Association, Ltd.
d/b/a Lake Wales Utility Co.,
Ltd. in Polk County for possible
overearnings.

DOCKET NO. 981258-WS
ORDER NO. PSC-98-1570-FOF-WS
ISSUED: November 23, 1998

The following Commissioners participated in the disposition of
this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

ORDER INITIATING INVESTIGATION INTO WATER AND
WASTEWATER RATES AND MAKING REVENUES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Lake Wales Utility Co., Ltd. (Lake Wales or utility) is a Class B utility providing water and wastewater service for approximately 84 residential and 15 general service water and wastewater customers in Polk County since 1962. The utility's systems are located in Fedhaven. For the twelve months ended December 31, 1997, the utility reported water operating revenues of \$140,740 and a net operating income of \$33,120. Wastewater operating revenues were \$214,793, with a net operating income of \$76,907.

Lake Wales became subject to the jurisdiction of the Commission on May 14, 1996. In Order No. PSC-97-0567-FOF-WS, issued May 20, 1997, in Docket No. 961485-WS, the utility was granted grandfather certificates to provide water and wastewater service. Rate base was last set by Polk County in a 1991 rate increase resolution dated February 2, 1992. A pass-through for regulatory assessment fees was granted by this Commission on February 20, 1997.

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FPSC-RECORDS/REPORTING

INITIATION OF INVESTIGATION INTO POSSIBLE OVEREARNINGS

The utility's last rate of return set by Polk County in a 1991 rate increase resolution, dated February 2, 1992, was 10.7%. Based on a review of the 1997 annual report for Lake Wales, the utility appears to be earning an overall rate of return of 81.56% in water and 28.30% in wastewater. Even though this Commission has never established a rate of return for this utility, these returns are obviously excessive. Therefore, we find it appropriate to initiate an investigation of the level of water and wastewater rates to determine potential overearnings. Furthermore, we believe that water and wastewater rate base should be established since both were last set by Polk County as of December 31, 1991.

REVENUES SUBJECT TO REFUND

As stated earlier, based on Lake Wales' 1997 annual report, the utility achieved an overall rate of return for its water and wastewater systems of 81.56% and 28.30%, respectively. The water operating revenue is \$140,740, while the wastewater operating revenue is \$214,793. The gross annual revenue requirement we have calculated, based on the adjusted rate base and net operating income, totals \$112,947 for water and \$166,339 for wastewater. Accordingly, we find that the difference of \$28,719 for water and \$49,867 for wastewater shall be held subject to refund pursuant to Section 367.082, Florida Statutes.

We have attached accounting schedules to illustrate the adjusted water and wastewater rate base, capital structure, and test year operating income amounts. The rate base schedules are numbered 1-A, 1-B, and the adjustments to rate base are set forth on schedule 1-C. The capital structure is set forth on schedule number 2, and schedules 3-A, 3-B, and 3-C contain the schedules and adjustments for the operating statements. Below, we will discuss our adjustments for the test year ending December 31, 1997 balances for interim purposes.

Rate Base

Our calculation of Lake Wales' water and wastewater rate base is based upon information shown in its 1997 annual report. Rule 25-30.433(2), Florida Administrative Code, requires the Commission to calculate working capital for Class B utilities using the formula method (one-eighth of operation and maintenance expenses). Since the utility used the formula method in its annual report, no

adjustment is necessary. Also, Rule 25-30.433(4), Florida Administrative Code, requires that the simple beginning and end-of-year average methodology be used in rate case proceedings. Accordingly, we have adjusted rate base to average amounts. Based on this methodology, we find that the interim rate base amounts for the Lake Wales' water and wastewater systems are \$46,325 and \$278,350, respectively.

Cost of Capital

The approved capital structure for interim refund purposes reflects the utility's outstanding capital balances shown in Lake Wales' 1997 annual report. Again, simple averages were computed using the beginning and ending balances for each component of the capital structure. In accordance with Section 367.082(2)(b), Florida Statutes, an interim decrease shall be calculated using the maximum of the range of the last authorized rate of return on equity investment.

As stated earlier, this Commission has not previously established a rate of return on equity for Lake Wales. Further, Section 367.082(6), Florida Statutes, states that the Commission is allowed to establish interim rates for a utility which does not have an authorized rate of return previously established by the Commission. Therefore, we find it appropriate to use the current leverage formula contained in Order No. PSC-98-0903-FOF-WS, issued July 6, 1998, in Docket No. 980006-WS. Accordingly, we find that the utility's required rate of return on equity is 9.85% with a range of 8.57% to 9.85%. Using the high-end of the range to calculate any potential overearnings, an overall rate of return of 9.80% has been established for interim purposes.

Net Operating Income

On February 20, 1997, the utility implemented a pass-through for regulatory assessment fees that increased revenues by 4.71%. In accordance with the interim statute, the revenue impact of that adjustment is annualized and, therefore, is reflected as an increase of \$926 for water and \$1,413 for wastewater to test year 1997 revenues. Also, the utility did not reflect the correct amount of regulatory assessment fees on the revenues reported in its 1997 annual report. As such, regulatory assessment fees should be increased by \$2,038 for water and \$3,356 for wastewater, respectively.

We have made no other adjustments in operating expenses. As a result, Lake Wales' test year net operating income for water and wastewater is \$31,966 and \$74,901, respectively. This reflects a 52.58% and 23.92% achieved rate of return for water and wastewater, respectively. The revenue requirements using the interim rate of return of 9.80% are \$112,947 for water and \$166,339 for wastewater. As such, \$28,719 in water and \$49,867 in wastewater revenues shall be held subject to refund pending our final determination in this case.

SECURITY FOR FUNDS HELD SUBJECT TO REFUND

Pursuant to Section 367.082, Florida Statutes, when the Commission authorizes an interim decrease, the utility is authorized to continue collecting its previously authorized rates. However, revenues collected under those rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As determined earlier, the amount of potential overearnings is \$78,586, or \$28,719 for the water system and \$49,867 for the wastewater system on an annual basis.

On February 20, 1997, the utility implemented a pass-through rate increase of \$5,678 for water and \$7,689 for wastewater. According to Section 367.081(4)(d), Florida Statutes, if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity after an adjustment in rates, the Commission may order the utility to refund, with interest, the difference to the ratepayers and adjust rates accordingly. The utility's 1997 annual report was filed on February 27, 1998; consequently, fifteen months from that date is May 27, 1999. Therefore, only \$23,041 for water and \$42,178 for wastewater, or a total of \$65,219 in additional revenues shall be held subject to refund for interim purposes. Assuming a 9-month time frame, the total potential refund, with interest, is \$50,884.

The Division of Auditing and Financial Analysis has advised that a corporate undertaking signed by Lake Wales would be sufficient to protect the potential refund. Therefore, Lake Wales shall file a corporate undertaking in the amount of \$50,884 as guarantee for any potential refund of water or wastewater revenues collected under the interim conditions.

Further, an accurate and detailed account of all monies received shall be kept by the utility. Pursuant to Rule 25-

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30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that an investigation of the water and wastewater rates of Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility Co., Ltd. shall be initiated. It is further

ORDERED that all matters contained in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility Co., Ltd. shall place \$50,884 of its revenues for water and wastewater service subject to refund with interest in accordance with Rule 25-30.360, Florida Administrative Code, to the extent set forth in the body of this Order. It is further

ORDERED that Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility Co., Ltd. shall provide the Commission with a corporate undertaking in the amount of \$50,884 as set forth in the body of this Order as a guarantee of any potential refund of water and wastewater revenues collected subject to refund. It is further

ORDERED that Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility Co., Ltd. shall keep an accurate and detailed account of all monies collected subject to refund. It is further

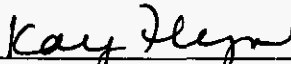
ORDERED that by no later than the twentieth day of each month, Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility Co., Ltd. shall file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund, pursuant to Rule 25-30.360(6), Florida Administrative Code. It is further

ORDERED that should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. It is further

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ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 23rd
day of November, 1998.



KAY FLYNN, Chief
Bureau of Records

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/or wastewater 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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LAKE WALES UTILITY CO., LTD.			SCHEDULE NO. 1-A		
SCHEDULE OF WATER RATE BASE - SIMPLE AVERAGE			DOCKET 981258-WS		
TEST YEAR ENDED 12/31/97					
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUSTMENTS	COMM. ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$429,973	\$0	\$429,973	(\$359)	\$429,615
2 LAND & LAND RIGHTS	\$14,473	\$0	\$14,473	\$0	\$14,473
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$352,483)	\$0	(\$352,483)	\$9,281	(\$343,203)
5 CIAC	(\$218,000)	\$0	(\$218,000)	\$0	(\$218,000)
6 AMORTIZATION OF CIAC	\$155,740	\$0	\$155,740	(\$3,205)	\$152,536
7 CWIP	\$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 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$10,905	\$0	\$10,905	\$0	\$10,905
12 OTHER	\$0	\$0	\$0	\$0	\$0
RATE BASE	<u>\$40,608</u>	<u>\$0</u>	<u>\$40,608</u>	<u>\$5,718</u>	<u>\$46,325</u>

LAKE WALES UTILITY CO., SCHEDULE OF WASTEWATER RATE BASE - TEST YEAR ENDED			SCHEDULE NO. 1-B DOCKET 981258-WS			
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENT	UTILITY ADJUSTED TEST YR.	COMM. ADJUSTMENT	COMM. ADJUSTED TEST YR.	
1 UTILITY PLANT IN SERVICE	\$654,841	\$0	\$654,841	(\$611)	\$654,230	
2 LAND	\$34,247	\$0	\$34,247	\$0	\$34,247	
3 NON-USED & USEFUL	\$0	\$0	\$0	\$0	\$0	
4 ACCUMULATED DEPRECIATION	(\$412,985)	\$0	(\$412,985)	\$10,218	(\$402,768)	
5 CIAC	(\$157,439)	\$0	(\$157,439)	\$0	(\$157,439)	
6 AMORTIZATION OF CIAC	\$139,316	\$0	\$139,316	(\$3,055)	\$136,262	
7 ACQUISITION ADJUSTMENTS	\$0	\$0	\$0	\$0	\$0	
8 ADVANCES FOR	\$0	\$0	\$0	\$0	\$0	
9 UNFUNDED POST-RETIRE.	\$0	\$0	\$0	\$0	\$0	
1 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0	
1 WORKING CAPITAL	\$13,818	\$0	\$13,818	\$0	\$13,818	
1 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
RATE BASE	<u>\$271,798</u>	<u>\$0</u>	<u>\$271,798</u>	<u>\$6,552</u>	<u>\$278,350</u>	

LAKE WALES UTILITY CO., LTD. SCHED. NO. 1-C DOCKET 981258-WS TEST YEAR ENDED 12/31/97 PAGE 1 OF 1		
ADJUSTMENTS TO RATE BASE	WATER	WASTEWATER
EXPLANATION	WATER	WASTEWATER
<u>PLANT IN SERVICE</u>		
1 Using 1996 and 1997 amounts to compute for simple average	(359)	(611)
Total	<u>(359)</u>	<u>(611)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1 Using 1996 and 1997 amounts to compute for simple average	9,281	10,218
Total	<u>9,281</u>	<u>10,218</u>
<u>ACCUM. AMORT. OF CIAC</u>		
1 Using 1996 and 1997 amounts to compute for simple average	(3,205)	(3,055)
Total	<u>(3,205)</u>	<u>(3,055)</u>

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LAKE WALES UTILITY CO., LTD.
 CAPITAL STRUCTURE - SIMPLE AVERAGE
 TEST YEAR ENDED 12/31/97

SCHEDULE NO. 2
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DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED		COST RATE	WEIGHTED COST
				TO RATE BASE	RATIO		
PER COMM. 1997 - SIMPLE AVERAGE							
1 LONG TERM DEBT	\$110,643	\$0	(\$3,378)	\$107,265	33.04%	9.32%	3.08%
2 SHORT-TERM DEBT	\$16,583	\$0	(\$506)	\$16,077	4.95%	9.32%	0.46%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$207,674	\$0	(\$6,340)	\$201,334	62.01%	10.09%	6.26%
5 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	6.00%	0.00%
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
9 OTHER	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
10 TOTAL CAPITAL	<u>\$334,900</u>	<u>\$0</u>	<u>(\$10,225)</u>	<u>\$324,675</u>	<u>100.00%</u>		<u>9.80%</u>
					<u>LOW</u>	<u>HIGH</u>	
				RETURN ON EQUITY	<u>8.09%</u>	<u>10.09%</u>	
				OVERALL RATE OF RETURN	<u>8.56%</u>	<u>9.80%</u>	

LAKE WALES UTILITY CO., LTD. STATEMENT OF WATER OPERATIONS TEST YEAR ENDED 12/31/97		SCHEDULE NO. 3-A DOCKET 981258-WS					
DESCRIPTION	TEST YEAR	ADJUSTED		COMM.		REVENUE INCREASE	REVENUE REQUIREMENT
	PER UTILITY	UTILITY ADJUSTMENTS	TEST YEAR PER UTILITY	COMM. ADJUSTMENTS	ADJUSTED TEST YEAR		
1 OPERATING REVENUES	<u>\$140,740</u>	<u>\$0</u>	<u>\$140,740</u>	<u>\$926</u>	<u>\$141,666</u>	<u>(\$28,719)</u> -20.27%	<u>\$112,947</u>
OPERATING EXPENSES:							
2 OPERATION AND MAINTENANCE	\$87,236	\$0	\$87,236	\$0	\$87,236	\$0	\$87,236
3 DEPRECIATION	\$12,152	\$0	\$12,152	\$0	\$12,152	\$0	\$12,152
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5 TAXES OTHER THAN INCOME	\$8,232	\$0	\$8,232	\$2,080	\$10,312	(\$1,292)	\$9,020
6 INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7 TOTAL OPERATING EXPENSES	<u>\$107,620</u>	<u>\$0</u>	<u>\$107,620</u>	<u>\$2,080</u>	<u>\$109,700</u>	<u>(\$1,292)</u>	<u>\$108,408</u>
8 OPERATING INCOME	<u>\$33,120</u>	<u>\$0</u>	<u>\$33,120</u>	<u>(\$1,154)</u>	<u>\$31,966</u>	<u>(\$27,426)</u>	<u>\$4,540</u>
9 RATE BASE	<u>\$40,608</u>		<u>\$40,608</u>		<u>\$46,325</u>		<u>\$46,325</u>
10 RATE OF RETURN	<u>81.56%</u>		<u>81.56%</u>		<u>69.00%</u>		<u>9.80%</u>

LAKE WALES UTILITY CO., LTD. STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/97		SCHEDULE NO. 3-B DOCKET 981258-WS					
DESCRIPTION	TEST YEAR	ADJUSTED		COMM.		REVENUE INCREASE	REVENUE REQUIREMENT
	PER UTILITY	UTILITY ADJUSTMENTS	TEST YEAR PER UTILITY	COMM. ADJUSTMENTS	ADJUSTED TEST YEAR		
1 OPERATING REVENUES	<u>\$214,793</u>	0	<u>\$214,793</u>	<u>\$1,413</u>	<u>\$216,206</u>	<u>(\$49,867)</u> -23.06%	<u>\$166,339</u>
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	110,546	0	\$110,546	\$0	\$110,546	\$0	\$110,546
3 DEPRECIATION	14,326	0	\$14,326	\$0	\$14,326	\$0	\$14,326
4 AMORTIZATION	0	0	\$0	\$0	\$0	\$0	\$0
5 TAXES OTHER THAN INCOME	\$13,014	\$0	\$13,014	\$3,419	\$16,433	(\$2,244)	\$14,189
6 INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7 TOTAL OPERATING EXPENSES	<u>\$137,886</u>	<u>\$0</u>	<u>\$137,886</u>	<u>\$3,419</u>	<u>\$141,305</u>	<u>(\$2,244)</u>	<u>\$139,061</u>
8 OPERATING INCOME	<u>\$76,907</u>	<u>\$0</u>	<u>\$76,907</u>	<u>(\$2,006)</u>	<u>\$74,901</u>	<u>(\$47,623)</u>	<u>\$27,278</u>
9 RATE BASE	<u>\$271,798</u>		<u>\$271,798</u>		<u>\$278,350</u>		<u>\$278,350</u>
10 RATE OF RETURN	<u>28.30%</u>		<u>28.30%</u>		<u>26.91%</u>		<u>9.80%</u>

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LAKE WALES UTILITY CO., LTD. SCHED. NO. 3-C		
ADJUSTMENTS TO OPERATING INCOME		
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TEST YEAR ENDED 12/31/97 PAGE 1 OF 1		
EXPLANATION	WATER	WASTEWATER
OPERATING REVENUES		
1 Pass-Through Adjustment for Jan-Feb 20, 1997	926	1,413
Total	<u>926</u>	<u>1,413</u>
TAXES OTHER THAN INCOME		
1 RAFs on revenue adjustments above	42	64
2 Correct understated test RAFs	2,038	3,356
Total	<u>2,080</u>	<u>3,419</u>