

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase
in water rates in Orange County
by Wedgefield Utilities, Inc.

DOCKET NO. 991437-WU
ORDER NO. PSC-00-0910-PCO-WU
ISSUED: May 8, 2000

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
E. LEON JACOBS, JR.
LILA A. JABER

ORDER SUSPENDING PROPOSED FINAL RATES AND
GRANTING INTERIM RATES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Wedgefield Utilities, Inc. (Wedgefield or utility) is a Class B utility which, according to the Minimum Filing Requirements (MFRs) filed in this rate case, serves approximately 840 water and wastewater customers in Orange County, Florida. Wedgefield is a wholly-owned subsidiary of Utilities, Inc. In its annual report for 1998, the utility reported operating revenues of \$252,903.

Rate base was last established for Wedgefield's water facilities by Order No. PSC-98-1092-FOF-WS, in Dockets No. 960235-WS and 960283-WS, pursuant to a transfer of the utility's assets from Econ Utilities Corporation.

On November 12, 1999, Wedgefield filed an application for an increase in water rates. The utility was notified of several deficiencies in the filing by our staff. Those deficiencies were corrected and the official filing date was established as February 29, 2000, in accordance with Section 367.083, Florida Statutes.

The utility's requested test year for final and interim purposes is the historical year ended June 30, 1999. Also, the utility requested that this case be processed using the Proposed

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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Agency Action (PAA) procedure pursuant to Section 367.081(8), Florida Statutes.

In its MFRs, the utility has requested annual interim and final revenues of \$404,098 for water. This represents a revenue increase of \$144,838 (55.88%) for water. The final and interim revenues are based on the utility's request for an overall rate of return of 8.34%. The utility is not requesting any changes in its wastewater revenues, or its water miscellaneous service or service availability charges.

SUSPENSION OF FINAL RATES

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 we vote to withhold consent to implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, states that the utility may implement its requested final rates, secured and subject to refund, at the expiration of five months if we have not acted upon the requested rate increase or if PAA action is protested by a party other than the utility.

We have reviewed the filing and have considered the proposed final rates, the revenues thereby generated, and the information filed in support of the rate application. We find 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 our staff accountants and engineers. Based on the above, we find it appropriate to suspend the utility's proposed final rate increase.

INTERIM RATES

Wedgfield requested interim rates for its water system to generate annual revenues of \$404,098. This amount represents an increase of \$144,838 (55.88%). The test year for interim rates is the historical year ended June 30, 1999. The utility filed rate base, cost of capital and operating statements to support its requested increase.

We find it appropriate to increase Wedgfield's rates on an interim basis as set forth below and in the schedules attached hereto, which are incorporated herein by reference.

RATE BASE

In its application, the utility has used the simple beginning and end-of-year average to calculate its requested water rate base. Wedgefield also used the formula method to calculate its requested allowance for working capital. Since Wedgefield is a class B utility, the MFRs are consistent with the averaging and working capital requirements of Rule 25-30.433, Florida Administrative Code. The simple beginning and end-of-year average and formula approach are required for a class B utility.

Our analysis of the MFRs indicates that no adjustments are needed to the utility's requested rate base, except for the corresponding adjustment of working capital resulting from adjustments to the utility's operations and maintenance expense discussed below. Section 367.082(5)(b)(1), Florida Statutes, requires that the required rate of return for interim purposes be calculated by applying appropriate adjustments consistent with those used in the utility's most recent rate proceeding. Because this is the first rate proceeding since the utility acquired its operating assets from Econ Utilities Corporation, we find that the utility's requested rate base was calculated in accordance with the interim statute. Based on the above, we approve a rate base of \$1,164,178 for water.

COST OF CAPITAL

The utility determined its cost of capital using a blended capital structure of its actual deferred income taxes and customer deposits, with the remainder of its capital reconciled to rate base using Utilities, Inc.'s (the parent) ratio of investor sources of capital. Using the actual debt cost for long-term debt (8.32%) and short-term debt (6.55%), and a cost of equity of 14.35% (the most recent cost of equity approved for Econ Utilities Corporation), the utility requested an overall cost of capital of 10.15%.

We find that an adjustment to the cost of equity is appropriate for interim purposes. On March 5, 1996, Wedgefield filed an application for transfer and amendment of Certificates Nos. 404-W and 341-S to include additional territory in Orange County. By Order No. PSC-96-1241-FOF-WS, issued October 7, 1996, in Dockets Nos. 960325-WS and 960283-WS, we approved the transfer and granted the amendment of the certificates to include the additional territory requested. Further, pursuant to the Order, we

established rate base for purposes of the transfer. In the Order, we stated:

Rule 25-9.044(1), Florida Administrative Code, requires the new owner of a utility to adopt and use the rates, classifications and regulations of the former owner unless authorized to change by this Commission. Wedgefield has not requested a change in the rates and charges and we see no reason to change them at this time. Wedgefield shall continue to charge the rates and charges approved in Econ's tariff until authorized to change by this Commission in a subsequent proceeding.

We find that the adoption of a former owner's rates pursuant to Rule 25-9.044(1), Florida Administrative Code, does not constitute an "individual rate proceeding." Section 367.082(5)(b)(3), Florida Statutes, provides that "last authorized rate of return on equity" means the minimum of the range of the last authorized rate of return on equity established in the most recent individual rate proceeding of the utility. Further, Section 367.082(6), Florida Statutes, states that we may establish interim rates for a utility which does not have an authorized rate of return previously established by the Commission. Section 367.082(5)(b)(3), Florida Statutes, further provides that, in cases where a utility does not have an authorized return on equity, the last authorized return on equity can be established by using an equity leverage formula established pursuant to Section 367.081(4)(f), Florida Statutes. Accordingly, we calculated the minimum of the required rate of return on equity of 8.88%, using the leverage graph formula determined in Order No. PSC-99-1224-FOF-WS, issued June 21, 1999. This treatment has been consistently applied in interim rate proceedings. Based on the above, we have calculated an overall rate of return of 8.02% for interim purposes.

NET OPERATING INCOME

In its MFRs, Wedgefield made several specific adjustments to its revenue and operation and maintenance expenses. Our analysis of the MFRs indicated that most of these adjustments are non-pro forma in nature. They are mainly reclassifications, reallocations or correction of errors. However, we find that the following adjustments are necessary in order to meet the statutory requirement that adjustments be consistent with the utility's most recent rate proceeding.

The first adjustment relates to the utility's test year salary expense. The utility made an adjustment of \$3,416 to reflect the difference between test year salaries and present salaries. The utility also made an adjustment to increase payroll taxes by \$254 pursuant to the salary adjustment. Accordingly, we find it appropriate that the test year revenues be decreased by \$3,670 for water.

Based on the utility's filing and the above adjustments, test year operating income, before any revenue increase, is \$31,735 for water. This represents an achieved rate of return of 2.73% for water.

REVENUE REQUIREMENT

Based upon recovery of actual operating expenses for the year ended June 30, 1999, and an 8.02% overall rate of return on an average rate base, we find that the appropriate interim revenue requirement is \$362,654 for water. This represents an annual increase of \$103,394 (39.88%) for water.

INTERIM RATES

Revenues for interim purposes were annualized based on the rates in effect at the end of the test year ended June 30, 1999, pursuant to Section 367.082(5)(b)(1), Florida Statutes.

We find it appropriate that interim rates for Wedgefield be designed to allow the utility the opportunity to generate additional annual operating revenues of \$103,394 for its water operations. This results in an increase of 40.19% in existing water rates when applied as an across the board increase to total revenues, excluding miscellaneous service charges. These increases were applied to the rates in effect as of June 30, 1999, the end of the test year.

The interim rates shall be implemented 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 customers have received notice. The revised tariff sheets will be approved upon our staff's verification that the tariffs are consistent with our decision, that the proposed notice to the customers of the approved increase is adequate and the required security discussed below has been filed. The utility shall provide proof of the date notice was given within 10 days after the date of notice.

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Wedgefield's current, requested interim, and the approved interim rates are shown on Schedule No. 4-A.

SECURITY FOR REFUND

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. We have reviewed the financial data of the utility and its parent company, Utilities, Inc., and approve a corporate undertaking guaranteed by the parent company. We have calculated the potential refunds of water revenues and interest collected under interim conditions to be \$63,000. This amount is based on an estimated seven months of revenue being collected from the approved interim rates over the previously authorized rates shown on Schedule 4-A.

The corporate undertaking shall 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 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 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 the final rates and schedules proposed by Wedgefield Utilities, Inc. are hereby suspended. It is further

ORDERED that the request for an interim rate increase for water rates by Wedgefield Utilities, Inc. is hereby granted to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

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

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ORDERED that the approved interim rates shall become effective for service rendered on or after the stamped approval date on the tariff sheets, provided customers have received notice. It is further

ORDERED that Wedgefield Utilities, Inc. shall provide a corporate undertaking guaranteed by Utilities, Inc., its parent company, in the amount of \$63,000 which shall remain in effect until released or terminated by subsequent Commission Order as guarantee of any potential refund of water revenues collected under the interim conditions. It is further

ORDERED that prior to implementation of the interim rates approved herein, Wedgefield Utilities, Inc. shall file and have approved tariff pages revised in accordance with the provisions of this Order, appropriate security for the refund, a proposed customer notice, and proof that the customers have received notice of the rate increase. It is further

ORDERED that the tariff sheets will be stamped approved upon verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the appropriate security is provided. It is further

ORDERED that during the time the interim rates are in effect, Wedgefield Utilities, Inc. shall file a report by 20th of each month indicating the monthly and total revenue collected subject to refund pursuant to Rule 25-30.360(6), Florida Administrative Code.

By ORDER of the Florida Public Service Commission this 8th day of May, 2000.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

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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 this order, which is intermediate in nature, may request 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 or wastewater utility. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final nor reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

WEDGEFIELD UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
INTERIM TEST YEAR ENDED

SCHEDULE NO. 1-A
DOCKET 991437-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$2,768,175	\$0	\$2,768,175	\$0	\$2,768,175
2 LAND & LAND RIGHTS	\$3,218	\$0	\$3,218	\$0	\$3,218
3 NON-USED & USEFUL COMPONENTS	(\$306,966)	\$0	(\$306,966)	\$0	(\$306,966)
4 ACCUMULATED DEPRECIATION	(\$863,631)	\$0	(\$863,631)	\$0	(\$863,631)
5 CIAC	(\$642,436)	\$0	(\$642,436)	\$0	(\$642,436)
6 AMORTIZATION OF CIAC	\$163,348	\$0	\$163,348	\$0	\$163,348
7 ALLOCATED PLANT	\$25,183	\$0	\$25,183	\$0	\$25,183
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE.	\$0	\$0	\$0	\$0	\$0
10 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$18,560		\$18,560	(\$1,273)	\$17,287
12 OTHER	\$0	\$0	\$0	\$0	\$0
RATE BASE	<u>\$1,165,451</u>	<u>\$0</u>	<u>\$1,165,451</u>	<u>(\$1,273)</u>	<u>\$1,164,178</u>

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WEDGEFIELD UTILITIES, INC.
ADJUSTMENTS TO RATE BASE
INTERIM TEST YEAR ENDED 06/30/99

SCHED. NO. 1-B
DOCKET 991437-WU

EXPLANATION	WATER	WASTEWATER
<u>WORKING CAPITAL</u> 1 Commission adjustments to O&M	<u>(\$1,273)</u>	<u>\$0</u>

WEDGEFIELD UTILITIES, INC.
 CAPITAL STRUCTURE
 INTERIM TEST YEAR ENDED 06/30/99

SCHEDULE NO. 2
 DOCKET 991437-WU

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY AVERAGE 1999							
1 LONG TERM DEBT	\$45,786,053	\$0	(\$45,000,131)	\$785,922	39.88%	8.32%	3.32%
2 SHORT-TERM DEBT	\$12,499,700	\$0	(\$12,285,057)	\$214,643	10.89%	6.55%	0.71%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$48,581,126	\$0	(\$47,747,139)	\$833,987	42.32%	14.35%	6.07%
5 CUSTOMER DEPOSITS	\$12,020	\$0	\$0	\$12,020	0.61%	8.00%	0.05%
6 DEFERRED INCOME TAXES	\$124,256	\$0	\$0	\$124,256	6.30%	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	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	<u>\$107,003,155</u>	<u>\$0</u>	<u>(\$105,032,32)</u>	<u>\$1,970,828</u>	<u>100.00%</u>		<u>10.15%</u>
PER COMMISSION AVERAGE 1999							
11 LONG TERM DEBT	\$45,786,053	\$0	(\$45,309,989)	\$476,064	40.89%	8.32%	3.40%
12 SHORT-TERM DEBT	\$12,499,700	\$0	(\$12,369,733)	\$129,967	11.16%	6.55%	0.73%
13 PREFERRED STOCK	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
14 COMMON EQUITY	\$48,581,126	\$0	(\$48,076,000)	\$505,126	43.39%	8.88%	3.85%
15 CUSTOMER DEPOSITS	\$12,020	(\$5,933)	\$0	\$6,087	0.52%	6.00%	0.03%
16 DEFERRED INCOME TAXES	\$124,256	(\$77,321)	\$0	\$46,935	4.03%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
19 OTHER	\$0	\$0	\$-0	\$0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	<u>\$107,003,155</u>	<u>(\$83,254)</u>	<u>(\$105,755,72)</u>	<u>\$1,164,178</u>	<u>100.00%</u>		<u>8.02%</u>
					<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY					<u>8.88%</u>	<u>10.88%</u>	
OVERALL RATE OF RETURN					<u>8.02%</u>	<u>8.88%</u>	

WEDGEFIELD UTILITIES, INC.
 STATEMENT OF WATER OPERATIONS
 INTERIM TEST YEAR ENDED

SCHEDULE NO. 3-A
 DOCKET 991437-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$259,209	\$144,889	<u>\$404,098</u>	<u>(\$144,838)</u>	<u>\$259,260</u>	<u>\$103,394</u> 39.88%	<u>\$362,654</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$148,483	(\$6,771)	\$141,712	(\$3,416)	\$138,296		\$138,296
3 DEPRECIATION	\$73,179	(\$11,350)	61,829	0	61,829		61,829
4 AMORTIZATION	(\$58,799)	\$58,799	0	0	0		0
5 TAXES OTHER THAN INCOME	\$37,251	\$6,774	\$44,025	(\$6,518)	\$37,507	\$4,653	\$42,160
6 INCOME TAXES	<u>\$6,558</u>	<u>(\$17,641)</u>	<u>(\$11,083)</u>	<u>\$976</u>	<u>(\$10,107)</u>	<u>\$37,156</u>	<u>\$27,049</u>
7 TOTAL OPERATING EXPENSES	<u>\$206,672</u>	<u>\$29,811</u>	<u>\$236,483</u>	<u>(\$8,958)</u>	<u>\$227,525</u>	<u>\$41,809</u>	<u>\$269,334</u>
8 OPERATING INCOME	<u>\$52,537</u>	<u>\$115,078</u>	<u>\$167,615</u>	<u>(\$135,880)</u>	<u>\$31,735</u>	<u>\$61,585</u>	<u>\$93,320</u>
9 RATE BASE	<u>\$1,165,451</u>		<u>\$1,165,451</u>		<u>\$1,164,178</u>		<u>\$1,164,178</u>
10 RATE OF RETURN	<u>4.51%</u>		<u>14.38%</u>		<u>2.73%</u>		<u>8.02%</u>

WEDGEFIELD UTILITIES, INC.
 ADJUSTMENTS TO OPERATING INCOME
 INTERIM TEST YEAR ENDED 06/30/99

SCHED. NO. 3-B
 DOCKET 991437-WU

EXPLANATION	WATER	WASTEWATER
<u>OPERATING REVENUES</u>		
1 Remove requested final revenue increase	<u>(144,838)</u>	0
<u>OPERATION & MAINTENANCE EXPENSE</u>		
1 Remove utility pro-forma salary adjustment	<u>(3,416)</u>	0
<u>TAXES OTHER THAN INCOME</u>		
1 RAFs on revenue adjustments above	(6,518)	0
2 Remove utility pro-forma payroll tax adjustment	(254)	0
3 Correct test year RAFs	<u>254</u>	<u>0</u>
Total	<u>(6,518)</u>	<u>0</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense	<u>976</u>	<u>0</u>

WEDGEFIELD UTILITIES, INC.
 WATER MONTHLY SERVICE RATES
 INTERIM TEST YEAR ENDED 06/30/99

SCHEDULE NO. 4-A
 DOCKET 991437-WU

	Rates Prior to Filing	Utility Requested Interim	Commission approved Interim
<u>Residential</u>			
Base Facility Charge:			
Meter Size			
5/8"	\$14.40	\$22.51	\$20.19
3/4"	\$21.64	\$33.82	\$30.34
5/8" Irrigation	\$14.40	\$22.51	\$20.19
Gallonage Charge, per 1,000 Gallons	\$1.50	\$2.34	\$2.10
<u>General Service: Commercial and Irrigation</u>			
Base Facility Charge:			
Meter Size			
5/8"	\$14.40	\$22.51	\$20.19
1"	\$36.09	\$56.41	\$50.59
1.5"	\$71.89	\$112.36	\$100.78
2"	\$115.47	\$180.48	\$161.88
5/8" Irrigation	\$14.40	\$22.51	\$20.19
2" Irrigation	\$115.47	\$180.48	\$161.88
Gallonage Charge, per 1,000 Gallons	\$1.50	\$2.34	\$2.10
<u>Typical Residential Bills</u>			
5/8" Meter Size			
3,000 Gallons	\$18.90	\$29.53	\$26.50
5,000 Gallons	\$21.90	\$34.21	\$30.70
10,000 Gallons	\$29.40	\$45.91	\$41.22