

FLORIDA PUBLIC SERVICE COMMISSION  
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Tallahassee, Florida 32399-0850

**M E M O R A N D U M**

MAY 29, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (OKOME, EDWARDS) *RO*  
DIVISION OF LEGAL SERVICES (K. JOHNSON) *AK* *KMJ* *bl*

RE: DOCKET NO. 961332-SU - KIRBY D. MORGAN, INC. - STAFF-  
ASSISTED RATE CASE  
COUNTY: COLUMBIA

AGENDA: 06/10/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT  
FOR ISSUE 10 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: FIFTEEN MONTH EXPIRES APRIL 6, 1998

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\961332SU.RCM  
LOTUS WORKSHEET FILE NAME: R:\961332.WK3

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Kirby D. Morgan, Inc. (KDMI or utility) is a Class C wastewater utility located in Columbia County. The utility currently serves approximately 140 single family residences. There are 182 single family homes in the retirement community of which 36 of the homes purchase wastewater service from the Lake City Utility Department and 6 homes have septic tanks. The community's water service is provided by Lenvil H. Dicks Water Systems (LDWS).

The utility was originally owned by Greene-Horne Corporation (GHC). KDMI purchased the system in June of 1995. At the time of the purchase, GHC informed Mr. Kirby D. Morgan that it was in the process of applying for a certificate, but had not done so. Upon purchasing the utility, Mr. Kirby D. Morgan attempted to convince the homeowners association to run the wastewater plant, but the homeowners could not reach an agreement.

On October 26, 1995, KDMI filed an application with this Commission for a certificate to provide wastewater service in Columbia County. The utility consists of a wastewater treatment plant and a wastewater collection system. The utility has a maximum capacity at build out of 225 customers. By Order No. PSC-96-0564-FOF-SU, issued April 30, 1996, Kirby D. Morgan, Inc. was granted Certificate No. 429-W.

On November 7, 1996, KDMI filed an application for a staff-assisted rate case (SARC) and has paid the appropriate filing fees. Staff selected a historical test year ending December 31, 1996. In preparation for this report, staff audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's wastewater plants and the service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant and operating costs.

A customer meeting was held on April 15, 1997, in the utility's service area to receive quality of service comments. The results of the meeting are discussed in Issue No. 1.

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DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Kirby D. Morgan, Inc. satisfactory?

RECOMMENDATION: Yes. The overall quality of service provided by Kirby D. Morgan, Inc. should be considered satisfactory. (EDWARDS)

STAFF ANALYSIS: Kirby D. Morgan, Inc. is a Class C utility providing wastewater treatment service to the retirement community of Eastside Village Mobile Home Park. The community's water service is provided by Lenvil H. Dicks Water Systems.

A review of the Department of Environmental Protection's (DEP) records has revealed that the wastewater treatment and collection system is in compliance with the appropriate environmental regulations. The engineer also checked with the PSC's Division of Consumer Affairs for any registered complaints and found that no complaints have been received. In addition, only one customer that attended the customer meeting, which was held on April 15, 1997 in Lake City, expressed a concern about the quality of services. The customer's concern was in regards to an occasional sewer odor. At the time of the engineering investigation, staff did not smell any abnormal odors discharged by the plant. The wastewater treatment plant and collection system appeared to be operating properly. Consequently, staff recommends that the quality of service provided by Kirby D. Morgan, Inc. be considered satisfactory.

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**RATE BASE**

**ISSUE 2:** What percentage of the utility's wastewater treatment plant and collection system is used and useful?

**RECOMMENDATION:** The wastewater treatment plant should be considered 56% used and useful, and the wastewater collection system should be considered 65% used and useful. (EDWARDS)

**STAFF ANALYSIS:** The utility's Monthly Operation Reports (MORs) for the test year were utilized to calculate the used and useful percentages. These calculations appeared to be low (50 gallons per day (gpd) in comparison to using the standard 280 gpd per equivalent residential connection (ERC) factor. A documented statement by the plant's operator, which was in the MOR's, indicated that the inflow meter was not functioning properly and in need of repair. The Florida Rural Water Association (FRWA) has recently investigated the problem concerning the malfunction of the inflow meter and the problem is being corrected. The patrons of this utility are retired persons and a significant percentage of the customer base consists of one person households. In addition, since a portion of the customer base is away part of the year, staff concluded that the low flow readings were reasonable. Therefore, the MOR's low flow readings were utilized to calculate the used and useful percentages. The service area is 73% built out and all of the service lines have been installed (this includes the remaining 68 available lots). It is recommended that the wastewater treatment plant be considered 56% used (Attachment "A") and useful and the wastewater collection system be considered 65% used and useful (Attachment "B").

**Wastewater Treatment Plant:** The utility's wastewater treatment facility has a designed flow capacity of 25,000 (gpd). The design components consist of a concrete structure, an extended aeration plant, a chlorinator, and two percolation ponds. Chlorination is provided by liquid chlorine injected (15 gpd Chem-Tech chlorine feeder) into the weir chamber of the final settling tank. The wastewater influent is transported from three lift stations by gravity where the raw waste is then pumped to the plant site by a force main from each lift station. The chlorinated effluent is measured by a flow meter and deposited into two percolation ponds (8,800 sq. ft.). Both ponds are adjacent to the wastewater treatment plant. The housekeeping at the plant site and the maintenance of the percolation ponds are satisfactory. At the time of the engineering field investigation, this facility appeared to be operating properly.

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Wastewater Collection Systems: The wastewater collection system is comprised of 11,500 ft. of 8 inch PVC pipe, approx. 200 ft. of 4 inch PVC pipe, 3,800 ft. of 3 inch PVC pipe, 34 manholes and 3 lift stations. At the time of the engineering investigation, the collection system appeared to be operating properly.

In conclusion, staff recommends that the wastewater treatment plant be considered 56% used and useful (Attachment A), and the wastewater collection system be considered 65% used and useful (Attachment B).

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**ISSUE 3:** What is the average test year rate base for the system?

**RECOMMENDATION:** The average test year rate base is \$47,247.  
(OKOME)

**STAFF ANALYSIS:** The appropriate components of the utility's rate base include depreciable plant in service, land, non-used and useful plant, contribution in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC and working capital. Staff has selected a historical test year ending December 31, 1996, for this rate case. All rate base components have been updated through December 31, 1996, to include additions and reclassification. A discussion of each component of rate base follows:

**Utility Plant in Service (UPIS):** The utility recorded UPIS of \$36,184 at the end of the test year. The 1984 NARUC Uniform System of Accounts requires that all utility plant be recorded on the books at its original cost. Therefore, UPIS has been increased by \$199,442 to bring the utility's balance to the appropriate amount based on staff's original cost study. Averaging adjustments reducing wastewater UPIS by \$17,174 were also made. The total adjustment increases UPIS by \$182,268. Therefore, total recommended utility plant in service is \$218,452.

**LAND:** The utility had not recorded any values on its books at the end of the test period. Based on the information provided by the utility, the original cost of the land was \$2,291 (April 1988). Therefore, staff made an adjustment of \$2,291 to reflect land value at cost.

**Non-Used & Useful Plant:** The staff engineer has determined the used and useful percentage of each plant account. Applying the non-used and useful percentages as determined by the staff engineer, staff made an adjustment to reflect average non-used and useful plant of \$84,422. An adjustment was made to reflect average non-used and useful accumulated depreciation of \$10,871. The average non-used and useful CIAC is \$45,487. We made an adjustment to reflect average non-used and useful amortization of CIAC for \$4,522. Therefore, the total recommended non-used and useful plant balance is \$32,586 for the wastewater system.

**Contributions-in-Aid-of-Construction (CIAC):** The utility recorded no CIAC during the test period. When determining the amount of CIAC that should be reflected on the utility's books, it is appropriate to refer to Rule 25-30.570, Florida Administrative Code. This rule provides:

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- (1) If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

In conformity with the above-referenced rule, staff imputed \$147,136 CIAC for the value of the collection system. CIAC has been decreased by \$17,174 to reflect averaging adjustments. Total recommended average CIAC balance is \$129,962.

**Accumulated Depreciation:** The utility's books reflected accumulated depreciation balance of \$738. Consistent with Commission practice, staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Accumulated depreciation has been increased by \$29,958 to reflect depreciation at December 31, 1996 in conformity with Rule 25-30.140, Florida Administrative Code. Averaging adjustments of \$3,347 were also made. Total recommended average accumulated depreciation is \$27,349.

**Amortization of CIAC:** Amortization of CIAC has been calculated consistent with staff's calculation of accumulated depreciation. The utility recorded no amortization of CIAC during the test period. Staff made an adjustment of \$14,590 to increase the balance to the recommended amount. Staff reduced amortization of CIAC by \$1,671 to reflect averaging adjustments. The resulting balance is \$12,919 accumulated amortization of CIAC for the system.

**Working Capital Allowance:** Following current Commission practice and consistent with Rule 25-30.443, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$3,482 (based on O&M of \$27,852).

**Rate Base Summary:** Based on the foregoing, the appropriate balances for test year rate base is \$47,247.

Rate base is shown on Schedule No. 1. Related adjustments are shown on Schedule No. 1A.



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COST OF CAPITAL

ISSUE 4: What is the appropriate rate of return on equity, and what is the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 10.18% with a range of 9.18% - 11.18% and the appropriate overall rate of return is 10.18% with a range of 9.18% - 11.18%. (OKOME)

STAFF ANALYSIS: The utility's capital structure reflected an equity balance of \$35,446, which is 100% of the total capital structure. The utility's return on equity, when based on the leverage graph formula in Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, is 11.21% with a range of 10.21% to 12.21% and the overall rate of return is 10.18% with a range of 9.18% to 11.18%.

Staff's audit of the utility's invoices on plant improvements provided amounts not included as equity. The utility understated its equity balance. Additionally, the utility's tax returns reflect that total depreciable plant assets were understated. Based on these findings staff made pro rata adjustments to reconcile the equity balance upward to reconcile with staff's recommended rate base for wastewater.

The return on equity and overall rate of return are shown on Schedule No. 2.

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NET OPERATING INCOME

ISSUE 5: What is the appropriate test year operating revenue?

RECOMMENDATION: The appropriate test year operating revenue should be \$20,592 (OKOME)

STAFF ANALYSIS: The utility recorded test year wastewater system revenue of \$20,592. The utility charged \$13 per month for the wastewater service pursuant to Order No. PSC-96-0564-FOF-SU, issued April 30, 1996. The utility's billing records reflected that the utility billed an average of 132 customers for the test year. Staff did not make any adjustments to the test year revenue.

Test year revenue is shown on Schedule No. 3 and the adjustments are shown on Schedule No. 3A.

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**ISSUE 6:** What is the appropriate amounts for operating expense for the system?

**RECOMMENDATION:** The appropriate amounts for operating expense should be \$31,933. (OKOME)

**STAFF ANALYSIS:** The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense, amortization of CIAC, and taxes other than income taxes.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and reflect recommended allowances for plant operations.

**OPERATION AND MAINTENANCE EXPENSES (O & M):** The utility charged \$15,230 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

- 1) Salaries and Wages - Employees - All expenditures for personnel are accounted for in contractual services.
- 2) Salaries and Wages - Officers - All expenditures for personnel are accounted for in contractual services.
- 3) Sludge Removal Expense - The utility recorded \$1,245 for test year sludge removal expense. No adjustments were deemed necessary.
- 4) Purchased Power - The utility recorded \$3,220 for purchased power expense during the test year. Staff increased the expense by \$352 to reflect recommended test year purchased power amount.
- 5) Chemicals - The utility recorded \$557 for test year chemical expense. No adjustment was deemed necessary.
- 6) Materials and Supplies - The utility did not record materials and supplies expense during the test year. Staff increased this expense by \$120 to record test year materials and supplies.
- 7) Contractual Services - The utility recorded \$9,938 for the system during the test period. Numerous adjustments were made to reflect reclassifications,

allowances and disallowances. Staff increased the amount recorded in contractual service by \$4,160 to record a part time manager position at a rate of five hours per week at \$16 per hour on utility duties. Staff increased the contractual service amount by \$5,184 (48 hours per month at \$9.00 per hour) to record annual salary for the office manager. Additionally, increases to reflect annual office expense of \$300 for electric bill, \$396 for telephone bill and \$60 for water bill were also made. The resulting annual recommended balance for contractual service is \$20,038 for the system.

- 8) Rents - The utility did not book a rent expense for the test year, but the new owners have requested an allowance of \$3,360. Staff is recommending annual rent expense of \$1,800 for the test year. Staff is recommending \$150 per month based on the going rate for rental property in Columbia County. The utility is utilizing rental space of 15' x 12' for office space.
- 9) Regulatory Commission Expense - This expense has been increased by \$250 to reflect the rate case filing fee amortized over four years.
- 10) Miscellaneous Expense - The utility recorded \$270 for test year miscellaneous expense. Staff did not make any adjustments to this amount.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are \$12,622. Staff recommends test year operation and maintenance expenses of \$27,852.

Depreciation Expense (Net): The utility books reflected depreciation expense net of CIAC of \$375 for the test year. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances results in depreciation expense net of CIAC amortization of \$3,354 for the test year for the system.

Taxes Other Than Income: The utility recorded taxes other than income of \$626. Staff reduced this amount by \$626 to remove payroll taxes recorded on contractual salary expense for the test year.

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Operating Revenues : Revenues have been adjusted by \$16,151 to reflect the increase in revenue required to cover expenses and allow the recommended rate of return on investment.

Taxes Other Than Income Taxes : This expense has been increased by \$727 to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary : The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$31,933.

Operating expenses are shown on Schedule No. 3. Adjustments are shown on Schedule No. 3A.

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REVENUE REQUIREMENT

ISSUE 7: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is \$36,743.  
(OKOME)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$16,151 (78.43%) for the wastewater system. This will allow the utility the opportunity to recover its operating expenses and earn a 10.18% return on its investment. The calculations are as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$ 47,247
Rate of Return	x .1018
Return on Investment	\$ 4,810
Adjusted Operation Expenses	27,852
Net Depreciation Expense	3,354
Taxes Other Than Income Taxes	727
Revenue Requirement	<u>\$ 36,743</u>
Annual Revenue Increase	\$ 16,151
Percentage Increase	<u>78.43%</u>

The revenue requirements and resulting annual increases are shown on Schedule No. 3.

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RATES AND CHARGES

ISSUE 8: What is the appropriate rate structure and what are the recommended rates for this utility?

RECOMMENDATION: Rates should be set to allow the utility the opportunity to recover its operating expenses and earn a 10.18% rate of return on its rate base. The approved rates will 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. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (OKOME)

STAFF ANALYSIS: During the test year, the utility provided wastewater service to 140 customers. The utility employs a flat rate structure. Accordingly, staff has calculated rates based on the test year number of customers.

The preferred rate structure is the base facility and gallonage charge rate structure, because it is designed to provide for the equitable sharing by the rate payers of both fixed and variable cost of providing service. The utility's customers are individually metered and are provided water service by Lenvil H. Dicks Water System (LDWS). Staff investigated how much it would cost the utility to obtain the monthly water consumption data from LDWS. However, the information could not be provided because of the way LDWS kept its records. It would be time consuming and cumbersome to obtain the information. Additionally, at the customer meeting on April 15, 1997, the customers were unanimous in their desire to remain on the flat rate system which the utility currently employs. Based on the above reasons, staff employed the flat rate structure in calculating the rates for this rate case.

The utility currently provides service to approximately 140 residential customers. Schedules of the utility's existing rates and rate structure and staff's recommended rates and rate structure are as follows:

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MONTHLY WASTEWATER RATES  
Residential and Multi-Residential Service

<u>Monthly Flat Rates :</u>	<u>Current Rates</u>
Residential :	\$ 13.00

<u>Monthly Flat Rates:</u>	<u>Staff's Preliminary</u>
Residential:	<u>Rates</u>
	\$ 22.42



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OTHER ISSUES

ISSUE 9: What is the appropriate amount by which revenues should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: Revenues should be reduced by a total of \$262 annually to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. Using the utility's current revenues, expenses, capital structure and customer base, the effect of the revenue reduction results in rate decreases as shown on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (OKOME)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$262 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

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**ISSUE 10:** Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

**RECOMMENDATION:** Yes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the Staff Analysis. (OKOME, EDWARDS, JOHNSON)

**STAFF ANALYSIS:** This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of security of both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$11,170. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until final Commission order is rendered, either approving or denying the rate increase.

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If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In

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addition, after the increased rates are in effect, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

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**ISSUE 11:** Should the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts (USOA)?

**RECOMMENDATION:** Yes, the utility should be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. (OKOME, EDWARDS, K. JOHNSON)

**STAFF ANALYSIS:** During the test year, the utility's books were not maintained in conformity with the USOA.

Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

- 1) Water and Sewer Utilities shall, effective January 1, 1986, maintain its [sic] accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Staff believes the utility has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, staff recommends that the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts.

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ISSUE 12: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if no timely protest is received from a substantially affected person, this docket should be closed. (OKOME, EDWARDS, K. JOHNSON)

STAFF ANALYSIS: If no timely protest is received within twenty-one days of the issue date of the Commission Order, no further action will be required and this docket should be closed.

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Attachment A  
USED AND USEFUL DATA

WASTEWATER TREATMENT PLANT

Docket No. 961332-SU Utility KIRBY D. MORGAN, INC. Date JAN. 97

- 1) Capacity of Plant 25,000 gallons per day
  - 2) Maximum Daily Flow 27,000 gallons per day
  - 3) Average Daily Flow 12,500 gallons per day
  - 4) Fire Flow Requirements NOT APPLICABLE gallons per day
  - 5) Margin Reserve 1,420 gallons per day  
\*Not to exceed 20% of present customers
    - a) Test Year Customers in ERC's - Begin 120 End 144 Av. 132
    - b) Customer Growth Using Regression Analysis in ERC's  
for Most Recent 5 Years Including Test Year 10 ERC's
    - c) Construction Time for Additional Capacity 1.5 Years
- (b) x (c) x  $\left[ \frac{3}{(a)} \right] = \underline{1,420}$  gallons per day
- 6) Excessive Infiltration gallons per day
    - a) Total Amount \_\_\_ gallons per day \_\_\_% of Av. Daily Flow
    - b) Reasonable Amount \_\_\_ gallons per day \_\_\_% of Av. Daily Flow
    - c) Excessive Amount \_\_\_ gallons per day \_\_\_% of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

(3) + (5)	- 6
1	

= 56 % Used and Useful

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Attachment B  
USED AND USEFUL DATA

WASTEWATER COLLECTION SYSTEM

Docket No. 961332-SU Utility KIRBY D. MORGAN, INC. Date JAN. 97

- 1) Capacity 225 ERC's (Number of potential customers without expansion)
- 2) Number of TEST YEAR Connections 132 ERC'S
  - a) Begin Test Year 120 ERC'S
  - b) End Test Year 144 ERC'S
  - c) Average Test Year 132 ERC'S
- 3) Margin Reserve 15 ERC'S
  - a) Customer Growth Using Regression Analysis in ERC'S for Most Recent 5 Years Including Test Year 10 ERC'S
  - c) Construction Time for Additional Capacity 1.5 Years  
(a) x (b) = 0 ERC'S Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{65} \% \text{ Used and Useful}$$



KIRBY D. MORGAN, INC  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 1  
 DOCKET NO. 961332-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 36,184	\$ 182,268 A	\$ 218,452
LAND/NON-DEPRECIABLE ASSETS	0	2,291 B	2,291
NON-USED & USEFUL PLANT	0	(32,586) C	(32,586)
CIAC	0	(129,962) D	(129,962)
ACCUMULATED DEPRECIATION	(738)	(26,611) E	(27,349)
ACCUMULATED AMORTIZATION OF CIAC	0	12,919 F	12,919
WORKING CAPITAL ALLOWANCE	<u>1,951</u>	<u>1,531 G</u>	<u>3,482</u>
WASTEWATER RATE BASE	\$ 37,397	\$ 9,850	\$ <span style="border: 1px solid black; padding: 2px;">47,247</span>

KIRBY D. MORGAN, INC  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 1A  
DOCKET NO. 961332-SU

<b>A. <u>UTILITY PLANT IN SERVICE</u></b>	<b><u>WASTEWATER</u></b>
1. To bring utility balance to staff's recommended plant.	\$ 199,442
2. To reflect averaging adjustment.	(17,174)
	<u>\$ 182,268</u>
<b>B. <u>LAND</u></b>	
1. To reflect land at original cost.	<u>\$ 2,291</u>
<b>C. <u>NON-USED AND USEFUL PLANT</u></b>	
1. Average non-used & useful plant.	\$ (84,422)
2. Average non-used & useful accumulated depreciation.	10,871
3. Average non-used & useful CIAC.	45,487
4. Average non-used & useful amortization of CIAC.	(4,522)
	<u>\$ (32,586)</u>
<b>D. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION</u></b>	
1. To include CIAC not recorded by utility.	\$ (147,136)
2. To reflect averaging adjustment.	17,174
	<u>(129,962)</u>
<b>E. <u>ACCUMULATED DEPRECIATION</u></b>	
1. To bring utility balance to staff's recommended amount.	\$ (29,958)
2. To reflect averaging adjustment.	3,347
	<u>\$ (26,611)</u>
<b>F. <u>ACCUMULATED AMORTIZATION OF CIAC</u></b>	
1. To include acc/amort. not recorded by utility.	\$ 14,590
2. To reflect averaging adjustment.	(1,671)
	<u>\$ 12,919</u>
<b>G. <u>WORKING CAPITAL ALLOWANCE</u></b>	
1. To bring utility's balance to staff's recommended amount 1/8 of operation and maintenance expenses.	<u>\$ 1,531</u>

KIRBY D. MORGAN, INC  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 2  
 DOCKET NO. 961332-SU

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>	<u>STAFF RECONC. ADJ.</u>	<u>ADJ. STAFF BALANCE</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ 35,446	\$ 0	\$ 35,446	11,801	47,247	100.00%	10.18%	10.18%
SHORT TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 35,446	\$ 0	\$ 35,446	11,801	47,247	100.00%		10.18%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.18%	11.18%
OVERALL RATE OF RETURN	9.18%	11.18%

KIRBY D. MORGAN, INC  
 SCHEDULE OF WASTEWATER OPERATING INCOME  
 TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 3  
 DOCKET NO. 961332-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ 20,592	\$ 0 A	\$ 20,592	\$ 16,151 F	\$ 36,743
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 15,230	\$ 12,622 B	\$ 27,852	\$ 0	\$ 27,852
DEPRECIATION (NET)	375	2,979 C	3,354	0	3,354
AMORTIZATION	0	0 D	0	0	0
TAXES OTHER THAN INCOME	626	(626) E	0	727 G	727
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 16,231	\$ 14,975	\$ 31,206	\$ 727	\$ 31,933
OPERATING INCOME/(LOSS)	\$ 4,361		\$ (10,614)		\$ 4,810
WASTEWATER RATEBASE	\$ 37,397		\$ 47,247		\$ 47,247
RATE OF RETURN	11.66%		-22.46%		10.18%

KIRBY D. MORGAN, INC  
 ADJUSTMENTS TO OPERATING INCOME  
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 3A  
 DOCKET NO. 981332-SU

<u>A. OPERATING REVENUES</u>	<u>WASTEWATER</u>
1. To adjust utility figure to staff's billing analysis.	\$ <u>0</u>
<u>B. OPERATION AND MAINTENANCE EXPENSES</u>	
1. (701) Salaries and Wages - Employees	
a. N/A-cost included in contractual service.	\$ <u>0</u>
2. (703) Salaries and Wages - Officers	
a. N/A-cost included in contractual service.	\$ <u>0</u>
3. (711) Sludge Removal Expense	
a. No adjustment deemed necessary.	\$ <u>0</u>
4. (715) Purchased Power	
a. To record test year purchase power expense.	\$ <u>352</u>
5. (718) Chemicals	
a. No adjustment deemed necessary.	\$ <u>0</u>
6. (720) Materials and Supplies	
a. To record test year postage & fax expenses.	\$ <u>120</u>
7. (730) Contractual Services	
a. To record annual manager expense.	\$ 4,160
b. To record annual clerical expense.	5,184
c. To record annual electric bill.	300
d. To record annual telephone expense.	396
e. To record annual water expense for the office.	60
	<u>\$ 10,100</u>
8. (740) Rents	
a. To record test year rent expense.	\$ <u>1,800</u>
9. (765) Regulatory Commission Expense	
a. To reclassify reg. assessment fee to taxes other than income	\$ <u>250</u>
10. (775) Miscellaneous Expense	
a. No adjustment deemed necessary.	\$ <u>0</u>
O & M TOTAL	\$ <u>12,622</u>
<u>C. DEPRECIATION</u>	
1. To adjust to staff's recommended balance.	\$ <u>2,979</u>
<u>D. AMORTIZATION</u>	
1. To include staff's recommended amortization expense.	\$ <u>0</u>
<u>E. TAXES OTHER THAN INCOME</u>	
1. To remove payroll taxes recorded on contractual salary.	\$ <u>(626)</u>
<u>F. OPERATING REVENUES</u>	
1. To reflect staff's recommended revenue increase.	\$ <u>16,151</u>
<u>G. TAXES OTHER THAN INCOME</u>	
1. To reflect the additional regulatory assessment fee associated with staff's recommended revenue requirement.	\$ <u>727</u>

KIRBY D. MORGAN, INC  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE  
 TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 3B  
 DOCKET NO. 961332-SU

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0 [1]	\$ 0
(703) SALARIES AND WAGES - OFFICERS	0	0 [2]	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	1,245	0 [3]	1,245
(715) PURCHASED POWER	3,220	352 [4]	3,572
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	557	0 [5]	557
(720) MATERIALS AND SUPPLIES	0	120 [6]	120
(730) CONTRACTUAL SERVICES	9,938	10,100 [7]	20,038
(740) RENTS	0	1,800 [8]	1,800
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSE	0	250 [9]	250
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	270	0 [10]	270
	<b>\$ 15,230</b>	<b>\$ 12,622</b>	<b>\$ 27,852</b>

RECOMMENDED RATE REDUCTION SCHEDULE

KIRBY D. MORGAN, INC  
TEST YEAR ENDING DECEMBER 31, 1996

SCHEDULE NO. 4  
DOCKET NO. 961332-SU

CALCULATION OF RATE REDUCTION AMOUNT  
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES

<u>RESIDENTIAL &amp; MULTI-RESIDENTIAL SERVICE</u>	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RECOMMEND REDUCTION</u>
FLAT RATES:	\$ 22.42	\$ 0.16

Commissioners:

JULIA L. JOHNSON, CHAIRMAN  
SUSAN F. CLARK  
J. TERRY DEASON  
JOE GARCIA  
DIANE K. KIESLING



DIVISION OF CONSUMER AFFAIRS  
BEVERLEE DeMELLO,  
DIRECTOR  
(904) 413-6100  
TOLL FREE 1-800-342-3552

# Public Service Commission

May 23, 1997

**RECEIVED**

MAY 23 1997

FPSC - Records/Reporting

*961332-SU*

Mr. and Mrs. W. S. Hahn  
Route 23 Box 1403  
7 Willow Court  
Lake City, FL 32025

Dear Mr. and Mrs. Hahn:

Thank you for your April 25 letter regarding Kirby D. Morgan, Inc.'s rate case. I certainly understand your concerns.

I can assure you that all the concerns will be carefully reviewed before a final decision is made in this case. Your letter has been placed in the correspondence file of Docket #961332-SU, so your comments will be available for review by commissioners and all other interested parties.

I have enclosed a copy of the ratemaking brochure for your review, and I hope this information is helpful.

If you have any questions, please give me a call at 1-800-342-3552 or at my direct line 1-904-413-6107.

Sincerely,

*Beverlee S. DeMello*  
Beverlee S. DeMello, Director  
Division of Consumer Affairs

BSD:ewe

Enclosure

- c: Chairman Julia L. Johnson
- Commissioner Susan F. Clark
- Commissioner J. Terry Deason
- Commissioner Diane K. Kiesling
- Commissioner Joe A. Garcia

Division of Records and Reporting  
Docket File 961332-SU



April 25, 1997

5

Florida Public Services Commission  
Bureau of Consumer Information - Conservation Education  
2540 Shurmart Oak Blvd.  
Tallahassee, FL 32399-0850

**RECEIVED**  
APR 29 1997  
CONSUMER AFFAIRS

Ladies and Gentlemen of the Commission,

I am writing in reference to the application filed by Kirby D. Morgan, Inc., Docket #961332-SU for an increase in sewer rates.

A meeting was held on April 15 with the members of the Eastside Village Homeowners Assn. and the PCS staff.

At the meeting we were told that the staff had reviewed Mr. Morgans invoices, costs and revenues and determined he had an operating loss of \$16,952. This covered the test year ending 12-31-96.

First of all, this system was purchased by Mr. Morgan in April, 1995. It was in very bad shape and required constant attention to keep it operating. In 1996, the needed repairs and part replacements were begun - system pumped out - new pumps installed etc.. Therefore the 1996 activity reflects higher than normal costs.

Later in the meeting we were told that the staff did not take into consideration the loss in 1996, rather it arrived at its figures by calculating what such a system should cost if maintained and operated properly. This seems to be in conflict with the earlier statement.

Therefore, it arrived at a proposed rate increase from \$13.00 per month to \$28.74 per month. Now lets take a look at the numbers. The current system is maintained by a resident at a fee of \$10,000 per year. Energy costs should run approx. \$200-\$250 per month. Mr Morgan should be factored in at 5 hours per month at \$16 per hour and the clerical time of 8 hours per month at a rate of \$9 per hour. There should also be contingency fee of \$400-\$500 per month for unexpected costs. This results in anticipated costs of:

Maintenance/Labor	\$10,000 per year
Electricity )\$250/month	3,000
KM (60 hr. at \$16 per hr.	960
Clerical 96 hr. at \$9 per hr.	864
Contingency Fund	6,000
Est. Operating Budget	\$20,824

There are currently 140 users on the system with a possibility of 213 total when the village is completed.

Anticipated annual revenues at 140 users at \$13 per month is \$21,840, with the potential of 213 users at \$13 per month is \$33,228.

At the proposed rate of \$28.74 per month the annual revenue with 140 users is \$48,283.20 and with 213 users the revenue is \$73,459.44. As you can see, the Eastside Village sewer system would become a major profit center while placing a real financial burden on the residents.

It is therefore recommended that the Commission leave in place the current rate for 1997, and each year following, permit an increase tied to the increase in Social Security payments. (The present water supplier works this way)

Per the staffs study and with full development of Eastside Village, the current system has more than enough capacity.

In summary, the current rate is more than sufficient to cover the projected operating costs and as more homes come on the system, the revenue increases. It is hoped that the Commission will take a hard look at this and render a just decision.

Very truly yours

Mr & Mrs W. S. Hann

  
Rt 23 Box 1403

7 Willow Court

Lake City, FL 32025

cc: Ms Julia L. Johnson - Commission Chairman  
Ms Susan F. Clark  
Ms Diane K. Kiesling  
Mr J. Terry Deason  
Mr Joe Garcia

Name HAHN, W. S.

Company KIRBY D. MORGAN, INC.

Address ROUTE 23, BOX 1403

Attn. \_\_\_\_\_

7 WILLOW COURT

Consumer's Telephone # \_\_\_\_\_

city/zip LAKE CITY 32025 County COLL

Can Be Reached \_\_\_\_\_

Account Number \_\_\_\_\_

Note VIP/BEV/COMMS.

Company Contact \_\_\_\_\_

Limited Response Y

LETTER REGARDING DOCKET 961332-SU (APPLICATION FOR STAFF-ASSISTED RATE CASE IN COLUMBIA COUNTY BY KIRBY D. MORGAN, INC.)

-----  
ECTS 00603 (All commissioners copied on the customer's letter.)

05-22 Closed by letter with copies to all commissioners

1 Letter (5) P-1

Request No. 173272L

By SAS Time 4:11 PM Date 05/21/97

To \_\_\_\_\_ Time \_\_\_\_\_ Date / /

Type B Form MAIL

Category PR-99

Infraction \_\_\_\_\_

Closed by SAS Date 05/22/97

Reply Received I

### CONSUMER REQUEST

## FLORIDA PUBLIC SERVICE COMMISSION

2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FL 32399-0850  
904-413-6100

PLEASE RETURN THIS FORM WITH REPORT OF ACTION TO:

Shirley Stokes

DUE: / /

-----  
From: Shirley Stokes  
To: Veronica Washington  
Subject:  
Fwd: Letter from Mr. & Mrs. W. S.  
Hahn regarding Kirby D. Morgan,  
Inc.'s Rate Case

-----NOTE-----5/21/97-12:27pm-----

The commissioners were copied on the customer's April 25 letter. Have you received a copy?

Fwd-by:-Veronica-Wash-5/21/97-1:43pm-  
Fwd to: Shirley Stokes

.....  
I have not received the letter  
Fwd-by:-Shirley-Stoke-----  
Fwd to: Veronica Washington

.....  
Thanks. I'll go ahead and write a letter for Bev, and send you a copy.  
-----

-----  
From: Veronica Washington  
To: Shirley Stokes  
Subject: Message confirmation  
-----

-----CONFIRMATION-----5/21/97--1:35pm-----

Read by: Veronica Washington

Opened: 5/21/97 1:35pm

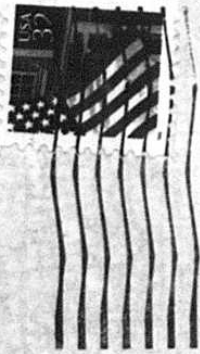
Form: NOTE

Sent: 5/21/97 12:27pm

Text:

The commissioners were copied on the customer's April 25 letter. Have you received a copy?

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Florida Public Service Commission  
 Bureau of Consumer Information - Conservation Ed.  
 2540 Shurward Oak Blvd.  
 Tallahassee, FL 32399-0850

ATT: MS Julia L Johnson - Chairman

32399,7019



## EXTERNAL CONTACT TRACKING ADD FORM

CONTACT NO: 00603 CHAIRMAN NO: DATE OF CONTACT: 05/21/1997 DUE DATE: 05/30/1997  
 CONTACT TYPE: LETTER NATURE OF CONTACT: CONSUMER CONCERN  
 ENTERED BY: SHIRLEY STOKES RECEIVED BY: CAF REFERRED BY:

LAST NAME	FIRST	MI
HANN	W.	MR. S
MAILING ADDRESS	CITY	STATE
ROUTE 23, BOX 1403	LAKE CITY	FL
7 WILLOW COURT	ZIP: 32025	
WORK PHONE:	HOME PHONE:	FAX:
NAME OF ORGANIZATION:		
INTERNET/E-MAIL:		
COMPANY NAME: KIRBY D. MORGAN, INC.		
COMPANY CODE: SU752		

ACCT NO:

TYPE: WB

SUBJECT: PROPOSED RATE INCREASE

NOTES: SAS FOR BEV/ALL COMMISSIONERS COPIED ON LETTER

ASSIGNED TO: CATS 173272L

ACTION TAKENACTION DATE

05/21/1997

DIVISION ASSIGNED:

RESPONSE:

RESPONSE DATE:

DATE CLOSED: 05/21/1997