

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

RECORDS AND REPORTING

APR - 6 AM 9:49

RECEIVED FPSC

DATE: APRIL 6, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF WATER AND WASTEWATER (KYLE, QUIJANO, MERCHANT) *JK*
DIVISION OF LEGAL SERVICES (CHRISTENSEN) *gmo*

RE: DOCKET NO. 991437-WU - APPLICATION FOR INCREASE IN WATER RATES IN ORANGE COUNTY BY WEDGEFIELD UTILITIES, INC. COUNTY: ORANGE

AGENDA: 04/18/00 - REGULAR AGENDA - DECISION ON INTERIM RATES - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: 60-DAY SUSPENSION DATE: 04/29/00

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\991437.RCM

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CASE BACKGROUND

Wedgefield Utilities, Inc. (Wedgefield or utility) is a Class B utility which, according to the 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 Staff. Those deficiencies were corrected and the official filing date was established as February 29, 2000, pursuant to Section 367.083, Florida Statutes.

DOCUMENT NUMBER-DATE

04220 APR-68

FPSC-RECORDS/REPORTING

DOCKET NO. 991437-WU
DATE: April 6, 2000

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 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.

DISCUSSION OF ISSUES

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

RECOMMENDATION: Yes. Wedgefield's proposed final water rates should be suspended. This docket should remain open pending completion of the rate case. (KYLE)

STAFF ANALYSIS: 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 the Commission votes to withhold consent to implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, states that the utility may implement its requested rates (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We believe 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 by staff will include on-site investigations by staff accountants and engineers. Based on the above, staff recommends that the utility's requested final rates be suspended. This docket should remain open pending completion of the rate case.

ISSUE 2: Should an interim revenue increase be approved?

RECOMMENDATION: Yes. The utility should be authorized, on an interim basis, to collect annual water revenues as indicated below. (KYLE)

	<u>Revenues</u>	<u>\$ Increase</u>	<u>% Increase</u>
Water	\$362,654	\$103,394	39.88%

STAFF ANALYSIS: Wedgefield 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.

Staff has attached accounting schedules to illustrate the recommended rate base, capital structure, and test year operating income amounts. The rate base schedule is numbered 1-A, and the schedule of adjustments to rate base is Schedule No. 1-B. The capital structure schedule is Schedule No. 2. The operating statement for water is Schedule No. 3-A, and the schedule of adjustments to the operating statements is Schedule No. 3-B. The recommendations by staff are discussed below.

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.

Staff's 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, staff believes

that the utility's requested rate base was calculated in accordance with the interim statute. Based on the above, staff recommends approval of 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 Wedgefield's 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%.

Staff recommends 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. In Order No. PSC-96-1241-FOF-WS, issued October 7, 1996, in Dockets Nos. 960325-WS and 960283-WS, the Commission approved the transfer and granted the amendment of the certificates to include the additional territory requested. Further, pursuant to the Order, the Commission established rate base for purposes of the transfer. In the Order, the Commission 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.

Staff does not believe that adoption of a former owner's rates pursuant to Rule 25-9.044(1), Florida Administrative Code, constitutes 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 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.

Section 367.082(5)(b)(3), Florida Statutes, further provides that 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, staff calculated the minimum of the required rate of return on equity of 8.88%, using the leverage graph formula determined by the Commission in Order No. PSC-99-1224-FOF-WS, issued June 21, 1999. This treatment has been consistently applied by the Commission in interim rate proceedings. Based on the above, staff has 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. Staff's 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, staff believes 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, staff recommends that 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, staff recommends an interim revenue requirement of \$362,654 for water. This represents an annual increase of \$103,394 (39.88%) for water.

ISSUE 3: What are the appropriate interim water rates?

RECOMMENDATION: The interim rates for Wedgefield should be designed to allow the utility the opportunity to generate annual operating revenues of \$362,654 for its water system. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should 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 notice. (KYLE)

STAFF ANALYSIS: 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.

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

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

ISSUE 4: What is the appropriate security to guarantee the water interim increase and the amount subject to refund?

RECOMMENDATION: The utility should be required to file a corporate undertaking guaranteed by the parent company to guarantee any potential refunds of wastewater revenues collected under interim conditions. The corporate undertaking should be in the amount of \$63,000. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (KYLE)

STAFF ANALYSIS: Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. Staff has reviewed the financial data of the utility and its parent company and recommends approval of a corporate undertaking guaranteed by the parent company. Staff has 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 staff's recommended interim rates over the previously authorized rates shown on Schedule 4-A.

The corporate undertaking should state that it will be released or terminated upon subsequent order of the Commission addressing overearning or requiring a refund. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

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

DOCKET NO. 991437-WU
 DATE: April 6, 2000

**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 UTILITY	STAFF ADJUST- MENTS	STAFF 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	(\$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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
RATE BASE	<u>\$1,165,451</u>	<u>\$0</u>	<u>\$1,165,451</u>	<u>(\$1,273)</u>	<u>\$1,164,178</u>

DOCKET NO. 991437-WU
DATE: April 6, 2000

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 Staff 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 ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	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>(\$105,032,327)</u>	<u>\$1,970,828</u>	<u>100.00%</u>		<u>10.15%</u>	
PER STAFF 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>(\$105,755,723)</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 ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF 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>

DOCKET NO. 991437-WU
DATE: April 6, 2000

**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	254	<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	Staff Recomm. 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