

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of SOUTH SEAS)	DOCKET NO. 881518-SU
UTILITY COMPANY for rate increase)	ORDER NO. 21099
in Lee County, Florida.)	ISSUED: 4-24-89
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The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, CHAIRMAN
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

ORDER SUSPENDING GENERAL RATE INCREASE,
 DENYING REQUEST FOR INTERIM RATES, AND
 GRANTING INTERIM SERVICE AVAILABILITY CHARGES

BY THE COMMISSION:

BACKGROUND

On February 21, 1989, South Seas Utility Company (South Seas or utility) filed an application for increased rates for its sewer system in Lee County, Florida, pursuant to Sections 367.081(2), .081(3), and .082, Florida Statutes. The application, as filed, met the minimum filing requirements and the official filing date was established as February 21, 1989.

The test year for this docket is the projected twelve month period ending March 31, 1990. The utility has requested final revenues which produce an increase over historical test year revenues of \$183,051 or an increase of 61.6%. The utility requested authority to collect its proposed permanent rates on an interim basis.

The utility's rates were last considered in Docket No. 800075-SU, culminating in the issuance of Order No. 9744 on January 8, 1981.

The utility contends that the rates established by Order No. 9744 result in an operating loss of \$11,175 for the projected test year. In large measure, the reported inadequacy of existing rates will result from expansion of the utility's wastewater treatment plant to a capacity of 450,000 gallons per day (GPD) from 300,000 GPD and from improvements to the quality of effluent to meet Department of Environmental Regulation (DER) requirements applicable to spray irrigation. The utility intends to dispose of effluent by spray irrigation onto a golf course near the service area.

SUSPENSION OF PROPOSED RATES

Section 367.081(6), Florida Statutes, provides that the rate schedules proposed by the utility shall become effective within sixty days after filing unless the Commission issues an order withholding consent to the operation of the proposed rates requested. Further, the above referenced statute permits

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the proposed rates to go into effect, under bond, eight months after filing unless final action has been taken by the Commission.

We have considered the proposed rates, the amount of the additional revenues sought thereunder and the supporting data which has been submitted. We find it reasonable and necessary to require further amplification, explanation and cross-examination of the data filed by the utility, as well as additional data, and to schedule public hearings, if necessary, for these purposes.

Upon consideration, we find that the proposed permanent rate schedules should be suspended.

DENIAL OF INTERIM RATES

While the utility requested approval of an interim rate increase, a separate calculation showing that the proposed final rates would also be appropriate on an interim basis was not presented. Review of the utility's application indicates that most, if not all, of the requested permanent rate increase relates to expansion of the wastewater treatment plant and related plant improvements, at a projected total expenditure of \$1,097,300, additional funding to finance that expenditure, and increased expenses resulting from this new construction and financing. These increased operating costs will, according to the utility's application, be encountered during the projected test year ending March 31, 1990.

In accordance with Section 367.082, Florida Statutes, the interim revenue deficiency must be computed by comparing the utility's achieved rate of return with its required rate of return for the most recent 12-month period. Our review of the interim revenue requirement is based upon reported investments, revenues, and operating expenses for the historical or base year ended September 30, 1988. The utility's application does not disclose evidence of a revenue deficiency for that recent 12-month period.

The utility reported receipt of operating income of \$48,898 for the base year ended September 30, 1988, which amount would be increased to \$49,955 if a billing adjustment proposed by the company is considered. The utility's petition did not include a calculation of the average rate base amount for the year ended September 30, 1988. There are, however, supporting schedules for plant and other rate base components, and using this information, we have computed an average investment of \$213,497, assuming inclusion of a \$270,000 advance for construction, or \$483,497 if that advance is considered as an offset to future construction. Although this advance was received in 1986, the company anticipates retention of this money to partially defray wastewater plant expansion costs. Dividing the adjusted income (\$49,955) by the lesser investment (\$213,497) yields a 23.4% achieved rate of return. Alternatively, a 10.3% achieved return results when the \$270,000 advance offsets projected construction costs.

In 1988, the utility's investment in plant facilities was supported entirely by debt. Referring to the utility's 1987

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Annual Report to this Commission, the interest rate applicable to this debt was 3% above the interest rate for U.S. Treasury Bills. For the purpose of measuring the utility's "required rate of return", using a 3-month Treasury Bill as a base and adding 3%, the year-end return requirement would be 10.23%. Thus, the utility's achieved return exceeded its required return for the base year ended September 30, 1988, before and after inclusion of a \$270,000 advance. Upon consideration, we find it appropriate to deny the utility's request for an interim rate increase.

Pursuant to Section 367.082, Florida Statutes, the Commission, on its own motion, may permit continued collection of existing rates, subject to partial refund, if a need for an interim rate decrease is indicated. We do not believe this additional interim rate protection is needed in this case. According to the utility, the expansion of the wastewater plant should be completed by March of 1989. Thus, the rate base prior to implementation of permanent rates will be much greater, which would cause a correspondingly greater revenue requirement, and thus the likelihood of a subsequent refund of existing rates appears virtually nonexistent. Therefore, an interim rate decrease is not required and the utility may continue to charge its presently authorized rates during the pendency of this proceeding.

APPROVAL OF INTERIM SERVICE
AVAILABILITY CHARGE

In its application, the utility requested the approval of a \$1,500 service availability charge. Currently, the utility has no service availability charge authorized.

As previously stated, the utility is increasing the capacity of the wastewater system from 300,000 to 450,000 GPD. The expansion was undertaken in order to provide capacity for customer growth and increased flows. We believe that collection of an interim service availability charge is appropriate for customer connections occurring prior to our determination of permanent service availability charges for this utility. Otherwise, the utility's ability to recover some of the plant expansion costs from new customer connections would be impaired if the interim charge were not authorized. We have reviewed the utility's calculation of the proposed charge and find it to be reasonable for interim purposes. Accordingly, we will authorize the collection of a \$1,500 service availability charge, as an interim charge, subject to refund, pending our final determination.

This interim service availability charge will become effective upon the utility's compliance with the notice provisions of Rule 25-30.565, Florida Administrative Code and Staff's approval of the tariff sheets. The utility shall also file a corporate undertaking as security to guarantee a refund in the event that the final service availability charge is lower than the interim charge. Pursuant to Rule 25-30.360(b), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total accumulated amounts of service availability charges collected during the period until the final charge is determined.

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Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the proposed permanent rate schedules filed by South Seas Utility Company are hereby suspended. It is further


ORDERED that South Seas Utility Company's request for interim rates is denied. It is further

ORDERED that a \$1,500 interim service availability charge is approved. It is further

ORDERED that the interim service availability charge shall be effective upon the utility's compliance with the notice requirements of Rule 25-30.565, Florida Administrative Code for connections made on or after the stamped approval date on the tariff sheets. The tariff sheets shall be approved upon Staff's verification that they are consistent with our decision herein. It is further

ORDERED that the utility shall provide a report by the 20th of each month as discussed in the body of this Order.

By ORDER of the Florida Public Service Commission, this 24th day of APRIL, 1989.


STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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 preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) 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 sewer utility. A motion for reconsideration shall be filed

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with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.