

- DIVISION OF WATER AND WASTEWATER (CASEY, EDWAR FROM: WILLIS) DIVISION OF LEGAL SERVICES (REYES) BUH
- DOCKET NO. 980726-WU APPLICATION FOR STAFF-ASSISTED RATE RE: CASE BY DIXIE GROVES ESTATES, INC. COUNTY: PASCO
- AGENDA: 08/04/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION -INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 11/08/99 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\980726.RCM

CASE BACKGROUN

Dixie Groves Estates, Inc. (Dixie coves or utility), came under jurisdiction of this Commission on July 11, 1972, by resolution of the Pasco County Commission. The utility is a Class C ucility providing water service to approximately 336 customers in Pasco County. By Order No. 6417, issued December 19, 1974, the Commission ordered the utility to install meters at its own cost within 90 days, for all customers not receiving metered service. The same Order also established metered rates for the utility. By Order No. 7268, issued June 10, 1976, the Commission established rate base, revenues, expenses, and cost of capital, after all meters were installed.

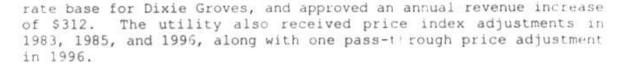
On November 13, 1980, the utility submitted an application for a staff assisted rate case. The Commission found Dixie Groves eligible for staff assistance and assigned Docket No. 800712-W for the case. Order No. 10535, issued January 20, 1982, established

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FPSC - RECORDS/REPORTING



On June 9, 1998, the utility submitted in application for this staff assisted rate case. The cover letter submitted with the application requested emergency interim rates within the scope of the utility's staff assisted rate case. Staff completed a preliminary analysis of the utility using the utility's 1997 annual report and other data provided by the utility. Staff discussed the feasibility of emergency interim rates with the utility and informed it that based on the preliminary information, staff believes the utility does not qualify for emergency rates. However, the utility disagreed with staff's opinion. This recommendation addresses whether the utility should be allowed to collect emergency interim rates within the scope of its staff assisted rate case.

DISCUSSION OF ISSUES

ISSUE 1: Should Dixie Groves Estates, Inc. be granted emergency interim rates within the scope of this staff assisted rate case?

RECOMMENDATION: No, Dixie Groves Estates, Inc. should not be granted emergency interim rates within its staff assisted rate case. (CASEY, EDWARDS, REYES)

STAFF ANALYSIS: On June 9, 1998, staff received the utility's application for a staff assisted rate case accompanied by a cover letter from the utility requesting emergency interim rates within this rate case. A utility may receive "interim" rates pursuant to the interim statute set forth in Section 367.082, Florida statutes. Although Section 367.082, Florida Statutes, contains very broad language regarding the availability of interim rates, it has been past Commission practice and policy not to use Section 367.082, Florida Statutes, Dixie Groves' petition was filed under Section 367.0814, Florida Statutes, which does not include a provision for interim rates.

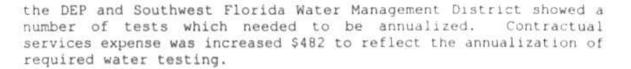
By Order No. PSC-96-1284-FOF-WS, issued October 15, 1996, in Docket No. 960799-WS, the Commission stated, "Although the Commission recognizes that if Lake Suzy was a Class A or Class B utility it would have been able to request interim rates during the ratemaking proceeding, this only suggests that perhaps we should seek a statutory change which allows interim rates for staffassisted rate cases where it is needed." As a follow-up to that order, the Commission did propose, as part of a legislative package in the 1997 legislative session, statutory language which would have allowed Class C utilities to request interim rates; however, the legislative package was withdrawn.

However, as recognized in Order No. PSC-96-1284-FOF-WS, the Commission has granted emergency rates in unique circumstances. The Commission has been reluctant to do so because there is typically a lack of adequate financial data to set rates until the staff audit is completed, and due to a concern over Class C utilities' ability to refund. Both of these concerns stem from a desire to protect the ratepayers in the event rates are set too high. <u>See, e.g.</u>, Order No. PSC-93-0633-FOF-SU, Order Granting Emergency Temporary Rates and Placing Docket in Monitor Status, In <u>Re: Application for Staff-Assisted Rate Case by L.C.M. Sewer</u> Authority in Lee County, 93 FPSC 4:608, April 22, 1993.

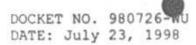
In restricting emergency relief to unique circumstances, the Commission has attempted to encourage timely seeking of rate relief. <u>See</u>, <u>e.g.</u>, Order No. PSC-94-1053-FOF-WS, Order Denying Petition for Emergency Rates or for Reconsideration of Order No. 24653, <u>In Re: Application for Staff-Assisted Rate Case in Volusia</u> <u>County by PINE ISLAND UTILITY CORPORATION</u>, 94 FPSC 8:510, August 29, 1994 (emergency rates denied because appropriate only where immediate and urgent need in very unique circumstances). <u>Cf.</u> Order No. PSC-93-1844-FOF-WS, Order Granting Emergency Rates and Charges, <u>In Re: Application for Staff-Assisted Rate Case in Marion County by</u> <u>ASTOR WEST. INC.</u>, 93 FSPC 12:528, December 28, 1993 (Commission does not ordinarily consider emergency rates in a staff-assisted rate case unless utility is in receivership, in order to encourage timely seeki...; of rate relief).

Staff reviewed the utility's 1995, 1996, and 1997 annual reports, along with information submitted on the SARC application, to determine if the utility would qualify for emergency rates. The utility also provided staff with copies of invoices from the utility operator, along with a copy of a Department of Environmental Protection (DEP) report showing deficiencies which needed to be corrected. When an analysis is done to determine if a utility is eligible for emergency rates in staff assisted rate cases, staff reviews operation and maintenance expenses, along with taxes other than income, to determine if the utility is meetinday-to-day operating expenses. Depreciation, amortization, and return on capital are not considered in the analysis.

In this case, Dixie Groves is showing an estimated \$30,088 cash shortfall in 1997. Staff made a number of adjustments for its analysis. The utility's revenues were increased by \$262 to annualize an index and pass-through rate adjustment which was effective March 1, 1997. Of the \$30,088 cash shortfall, \$19,502 is related to salaries and benefits of the owners or relatives. There was a related-party transfer of the utility completed in 1997. Staff removed the \$19,502 in salaries and benefits of the owners and relatives and included \$9,600 for a manager's salary which was the amount reported in the utility's 1996 annual report prior to the transfer. The utility was required to install an aqua mag unit because its treated water has failed lead and copper testing. Chemical expense was increased by \$2,528 to reflect the cost of the aqua mag chemical now required of the utility. A further analysis of operation and maintenance expenses shows \$4,941 of the shortfall was attributed to purchases of utility plant which should have been capitalized instead of expensed. Staff removed the \$4,941 from contractual services to reflect the utility plant which should have been capitalized. A review of tests required by



Staff's analysis, as shown on Schedule No. 1, shows the utility will experience an estimated cash shortfall of \$17,993 on an annual basis prior to receiving final rates in the staff assisted rate case. The utility's last rate case (Docket No. 800712-W) was processed 18 years ago. It appears the present cash shortfall has been caused by the utility not filing for timely rate relief. Although repairs and replacements have been made to utility plant as required by DEP, and additional water testing is now being required of the utility, they should be expected in the normal course of utility operations. Accordingly, staff does not believe any unique circumstance is evident in this case. Therefore, based on our analysis, staff recommends denial of emergency rates given the absence of any unique circumstances which would support the collection of such rates during the pendency of this proceeding.



ISSUE 2: Should this docket be closed?

RECOMMENDATION: No, this docket should remain open for processing of the utility's staff assisted rate case. (CASEY, EDWARDS, REYES)

STAFF ANALYSIS: This recommendation concerns only the utility's request for emergency rates within the scope of its staff assisted rate case. This docket should remain open pending the completion of the staff audit, engineering analysis, and final recommendation scheduled to be filed January 7, 1999 for the January 19, 1999 agenda conference.

DIXIE GROVES ESTATES, INC. TEST YEAR ENDING DECEMBER 31, 1997 ANALYSIS OF WATER OPERATION AND								SCHEDULE DOCKET N	26-WU		
MAINTENANCE EXPENSES AND TAXES OTHER THAN INCOME FOR EMERGENCY RATES		1995 PER UTIL.	1996 PER UTIL		1	1997 PER UTIL.	STAFF ADJUST. TO 1997 FIGURES			TOTAL PER STAF	
GROSS REVENUE	\$	25,300	\$	25,337	\$	28,429	\$	262 (1]	\$	28,691
OPERATION AND MAINTENANCE EXPENSES										_	
(601) SALARIES AND WAGES - EMPLOYEES	\$	0	\$	9,375	\$	14,400	\$	(14,400) [2]	\$	0
(604) EMPLOYEE PENSIONS AND BENEFITS	19293	0		0	10.02	2,340		(2,340)	2]	in the second	0
(615) PURCHASED POWER		1,623		1,848		1,929		0			1,829
(618) CHEMICALS		1,654		711		530	015	2,528 (3]		3,058
(630) CONTRACTUAL SERVICES - BILLING		17,015		13,881	10.57	26,993	110	(4,459)	4]		22,534
(635) CONTRACTUAL SERVICES - TESTING	auch	0	0.0001	0		0		0	1.20	1 105	0
(640) RENTS		0		600		600		0		àn.	600
(655) INSURANCE EXPENSE		1,178		1,264		1,587		0		2.5	1,567
(670) BAD DEBT EXPENSE		0		0		152		0	52	1210	152
	\$	22,712		30,112		52,163	ALL NO.	(10,271)		\$	41,892
TAXES OTHER THAN INCOME											
STATE AD VALOREM TAXES LOCAL PROPERTY TAX FEDERAL INCOME TAX STATE INCOME TAX REGULATORY ASSESSMENT FEE CORPORATE RENEWAL INTANGIBLE PAYROLL LICENSE	\$ \$	0 308 0 1,039 200 26 0 1,573	\$ \$	0 1,688 0 0 1,140 200 46 134 19 3,227	\$ \$	19 1,377 1,562 0 1,189 165 42 0 0 4,354	\$	0 (1.562) (0 0 0 0 0 (1.562)	2]	5	19 1,377 0 1,189 185 42 0 2,792
ESTIMATED CASH FLOW	\$	1,015	\$	(8,002)	\$	(30,088)				5	(17,993

Notes:

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1. To annualize 1997 revenues due to a price index and pasa-through rate adjustment effective March 1, 1997.

2. To disallow (for purposes of emergency rate consideration) salaries, benefits, and payroll taxes of related parties.

3. To annualize aqua mag chemical cost + \$2,528.

4. (a) To annualize DEP and SWFWMD required testing +\$482.

(b) To remove utility plant which should have been capitalized (\$4,941).

5. To include contractual services amount for utility manager as shown on 1996 annual report prior to transfer.