

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into the
wastewater rates of Commercial
Utilities, Division of Grace &
Company, Inc., in Duval County.

DOCKET NO. 991902-SU
ORDER NO. PSC-00-0346-FOF-SU
ISSUED: February 18, 2000

The following Commissioners participated in the disposition of
this matter:

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

ORDER INITIATING INVESTIGATION INTO RATES AND CHARGES
AND MAKING REVENUES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Commercial Utilities, Division of Grace & Company, Inc., (CU
or utility) is a Class B wastewater only facility located in
Jacksonville, Florida. The utility serves 35 wastewater general
service customers. These customers include hotels, banks, a
shopping center, restaurants, and other small businesses. CU was
issued Certificates Nos. 219-W and 164-S by Order No. 6704, issued
June 4, 1975, in Dockets Nos. 74787-W and 74788-S.

Pursuant to the Environmental Protection Board's Rule 3,
Section 3.402 F.2.2, the Jacksonville Department of Health,
Welfare, and Bio-Environmental Service required CU to connect to a
regional wastewater facility. The original deadline for this was
March 10, 1992. The actual interconnection took place July 30,
1992.

The utility's last rate proceeding was in Docket No. 910766-WS
which resulted in Order No. PSC-93-0233-FOF-WS, issued February 12,
1993. In that order, we transferred \$343,080 in interconnection
costs, which were to be accounted for in the Intangible Plant
category. The intangible plant was to be amortized over 27 years.

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CU's water certificate was canceled through Order No. PSC-97-0094-FOF-WU, issued January 27, 1997, in Docket No. 961268-WU. All water service is now provided by the City of Jacksonville.

Our review of the utility's 1998 Annual Report indicates that the utility achieved a greater return than what was authorized in Order No. PSC-93-0233-FOF-WS. Accordingly, we find it necessary and appropriate to initiate an investigation into the potential overearnings of this utility.

INITIATION OF OVEREARNINGS INVESTIGATION
AND PLACING REVENUES SUBJECT TO REFUND

Section 367.082(2)(b), Florida Statutes, authorizes this Commission to initiate an investigation of a utility's earnings upon a preliminary demonstration that the utility is earning a rate of return which is outside the range of reasonableness. To the extent that the achieved rate of return exceeds the required rate of return applied to an average investment rate base or an end-of-period rate base, we may require revenues to be collected subject to refund during the investigation. Section 367.082(2)(b), Florida Statutes.

Our preliminary analysis of the utility's 1998 Annual Report indicates that during 1998 the utility's wastewater system earned a 19.43% return, which exceeds the range of reasonableness authorized in Order No. PSC-93-0233-FOF-WS, between 10.40% and 10.70%. Therefore, we find that a full investigation of this utility's earnings for wastewater service is appropriate. The test year for the investigation shall be the year ended December 31, 1999.

The 1998 Annual Report shows wastewater operating revenues totaling \$350,194 for the year ended December 31, 1998. The corresponding annual wastewater revenue requirement, based on our adjusted rate base, capital structure and operating expenses, totals \$296,334. (Schedule No. 3-A).

Using the upper boundary of 11.88% for return on equity, in conjunction with the appropriate cost rates for other components in the utility's capital structure, yields a 10.55% overall cost of capital. (Schedule No. 2). Our preliminary review indicates that the utility is earning a return of 19.35% on the wastewater system. (Schedule No. 3-A).

Section 367.082(5)(b)1., Florida Statutes, requires that adjustments consistent with those made in the last individual rate proceeding shall be made in arriving at the achieved rate of return of the utility. For the purpose of this Order, the schedules reflect average 1998 balances per the annual report, as well as specific adjustments to show accounting for the interconnection costs in accordance with Order No. PSC-93-0233-FOF-WS. This Order reflects the appropriate adjustments, the nature and magnitude of which are discussed below.

RATE BASE

Plant in Service

The utility did not book the interconnection costs as intangible plant, but did include \$153,492 in plant in service which represents the unpaid balance of interconnection costs owed to the Jacksonville Electric Authority (JEA), the operator of the regional wastewater treatment plant. The resulting average balance for utility plant in service is \$366,050.

Intangible Plant

We have included the entire amount of interconnection costs as Intangible Plant in accordance with Order No. PSC-93-0233-FOF-WS.

Accumulated Amortization of Intangible Plant

We have calculated the 1998 balance of accumulated amortization of the intangible plant using the 27-year amortization period from Order No. PSC-93-0233-FOF-WS.

Working Capital

Section 367.082(5)(b)1., Florida Statutes, requires that in calculating interim rates, adjustments be made consistent with those in the utility's last rate proceeding. Consistent with the methodology used in CU's last rate case, we have calculated the Allowance for Working Capital using the formula method.

Rate base for interim purposes, as adjusted, is \$466,974 for the wastewater system. The rate base is shown on Schedule No. 1-A and the related adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

We have added the estimated 1998 average unpaid balance due to JEA for interconnection of \$217,360 as short term debt at a 12% cost rate, which the utility is paying JEA.

In Order No. PSC-93-0233-FOF-WS, we found it appropriate to establish a return on equity of 10.88% for the utility, with a range of 9.99%-11.88%, to be used in future proceedings. Consistent with Section 367.082(5)(b)3., Florida Statutes, the appropriate return on equity for interim refund purposes is calculated using the maximum of the last authorized range. Using the upper boundary of 11.88% for return on equity, in conjunction with the appropriate cost rates for other components in the utility's capital structure, yields a 10.70% overall cost rate of return for interim purposes.

OPERATING INCOME

Operation and Maintenance Expenses

We have removed \$49,446 in payments to JEA for interconnection, which represent payment of debt principle and interest, from Operation and Maintenance expense.

Amortization Expense

We have included \$12,694 to show the 1998 amortization of the intangible asset.

Income Taxes

We have recalculated income taxes based on the above adjustments.

REVENUE REQUIREMENT FOR THE INTERIM PERIOD

As discussed previously, the wastewater system generated operating revenues of \$350,194. Our adjustments result in revenue requirements for the interim test period of \$296,334, using the ceiling of the range of reasonableness as the cost of equity. This represents a decrease of \$53,860, or 15.38% of the 1998 revenue. Since 1998 has already passed, we order an investigation of 1999. If the study of 1999 indicates a rate adjustment, revenue collected

in excess of the adjusted rates from February, 2000, shall be refunded to the customers.

SECURITY FOR REFUND

Pursuant to Section 367.082(2)(b), Florida Statutes, when revenues are held subject to refund, the utility is authorized to continue collecting the previously authorized rates. However, revenues collected under those rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by this Commission. The amount of potential overearnings on an annual basis is \$53,860 for the wastewater system. Assuming a 10-month time frame, the potential refund amount is \$44,833.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The 1996, 1997 and 1998 annual reports of CU were used to determine the financial condition of the utility. CU has shown steady improvement in liquidity and equity capitalization over the three-year period. CU has also shown improvement in interest coverage and profitability for 1998 compared with previous periods. Based upon this analysis, we find that CU can support a corporate undertaking in the amount of \$45,000.

The utility shall keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. If a refund is 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. Finally, the utility is on notice that if it does not comply with the requirements stated in this Order, a show cause proceeding will be initiated.

Based on our preliminary analysis, the utility's wastewater system is overearning by \$54,066. Therefore, this docket shall remain open pending an investigation of the utility's earnings for 1999.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that an investigation of the wastewater rates of Commercial Utilities, Division of Grace & Company, Inc., shall be initiated. It is further

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

ORDERED that Commercial Utilities, Division of Grace & Company, Inc., shall place \$45,000 of its revenues for wastewater service subject to refund with interest in accordance with Rule 25-30.360, Florida Administrative Code, as set forth in the body of this Order. It is further

ORDERED that Commercial Utilities, Division of Grace & Company, Inc., shall provide the Commission with a corporate undertaking in the amount of \$45,000 as set forth in the body of this Order as a guarantee of any potential refund of water and wastewater revenues collected subject to refund. It is further

ORDERED that Commercial Utilities, Division of Grace & Company, Inc., shall keep an accurate and detailed account of all monies collected subject to refund. It is further

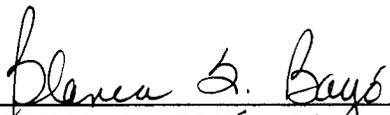
ORDERED that by no later than the twentieth day of each month, Commercial Utilities, Division of Grace & Company, Inc., shall file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund, pursuant to Rule 25-30.360(6), Florida Administrative Code. It is further

ORDERED that should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that this docket shall remain open.

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By ORDER of the Florida Public Service Commission this 18th
day of February, 2000.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) 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 and/or wastewater utility by filing a notice of appeal with the Director, Division of Records and reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This

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filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

For the decision making revenues subject to refund, which is preliminary, procedural, or intermediate in nature, any party adversely affected by this order may do (1) and (2) in the paragraph above. However judicial review of a preliminary, procedural or intermediate ruling or order is available only 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.

**COMMERCIAL UTILITIES
 SCHEDULE OF WASTEWATER RATE BASE
 YEAR ENDED 12/31/98**

**SCHEDULE NO. 1-A
 DOCKET NO. 991902-SU**

DESCRIPTION	1998 PER ANNUAL REPORT	UTILITY ADJUST- MENTS	AVERAGE 1998 PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED 1998
1 UTILITY PLANT IN SERVICE	\$519,542	\$0	\$519,542	(\$153,492)	\$366,050
2 LAND	\$0	\$0	\$0	\$0	\$0
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$187,838)	\$9,611	(\$178,228)	\$0	(\$178,228)
5 CIAC	(\$15,440)	\$0	(\$15,440)	\$0	(\$15,440)
6 AMORTIZATION OF CIAC	(\$3,997)	\$7,709	\$3,712	\$0	\$3,712
7 INTANGIBLE PLANT	\$0	\$0	\$0	\$343,080	\$343,080
8 AMORTIZATION OF INTANGIBLE PLT.	\$0	\$0	\$0	(\$82,511)	(\$82,511)
9 WORKING CAPITAL ALLOWANCE	<u>\$30,311</u>	<u>\$0</u>	<u>\$30,311</u>	<u>\$0</u>	<u>\$30,311</u>
RATE BASE	<u>\$342,578</u>	<u>\$17,319</u>	<u>\$359,897</u>	<u>\$107,077</u>	<u>\$466,974</u>

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**COMMERCIAL UTILITIES
ADJUSTMENTS TO RATE BASE
YEAR ENDED 12/31/98**

**SCHEDULE NO. 1-B
DOCKET NO. 991902-SU**

EXPLANATION	WASTEWATER
<u>PLANT IN SERVICE</u>	
To show intangible plant, per Order No. PSC-93-0233-FOF-WS, separately.	<u>(\$153,492)</u>
<u>LAND</u>	<u>\$0</u>
<u>NON-USED AND USEFUL</u>	
To reflect net non-used and useful adjustment	<u>\$0</u>
<u>ACCUMULATED DEPRECIATION</u>	<u>\$0</u>
<u>CIAC</u>	<u>\$0</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>	<u>\$0</u>
<u>INTANGIBLE PLANT</u>	
Per Order No. PSC-93-0233-FOF-WS	<u>\$343,080</u>
<u>ACCUMULATED AMORTIZATION OF INTANGIBLE PLANT</u>	
Per Order No. PSC-93-0233-FOF-WS	<u>(\$82,511)</u>
<u>WORKING CAPITAL</u>	<u>\$0</u>

**COMMERCIAL UTILITIES
AVERAGE CAPITAL STRUCTURE
YEAR ENDED 12/31/98**

**SCHEDULE NO. 2
DOCKET NO. 991902-SU**

DESCRIPTION	TOTAL CAPITAL PER ANNUAL REPORT	SPECIFIC ADJUST- MENTS/ AVERAGING	PRO RATA ADJUST- MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER ANNUAL REPORT 1998							
1 LONG TERM DEBT	\$446,656	(\$5,731)	\$0	\$440,926	79.37%	9.75%	7.74%
2 SHORT-TERM DEBT	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$128,471	(\$13,830)	\$0	\$114,642	20.64%	10.88%	2.25%
5 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	6.00%	0.00%
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
8 TOTAL CAPITAL	<u>\$575,127</u>	<u>(\$19,560)</u>	<u>\$0</u>	<u>\$555,567</u>	<u>100.00%</u>		<u>9.98%</u>
PER COMMISSION 1998							
9 LONG TERM DEBT	\$440,926	\$0	(\$174,535)	\$266,391	57.05%	9.75%	5.56%
10 SHORT-TERM DEBT	\$0	\$217,360	(\$86,039)	\$131,321	28.12%	12.00%	3.37%
11 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
12 COMMON EQUITY	\$114,642	\$0	(\$45,379)	\$69,262	14.83%	10.88%	1.61%
13 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	6.00%	0.00%
14 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
16 TOTAL CAPITAL	<u>\$555,567</u>	<u>\$217,360</u>	<u>(\$305,953)</u>	<u>\$466,974</u>	<u>100.00%</u>		<u>10.55%</u>

COMMERCIAL UTILITIES
 STATEMENT OF WASTEWATER OPERATIONS
 YEAR ENDED 12/31/98

SCHEDULE NO. 3-A
 DOCKET NO. 991902-SU

DESCRIPTION	1998 PER ANNUAL REPORT	UTILITY ADJUST- MENTS	ADJUSTED 1998 PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED 1998	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$350,194</u>	<u>\$0</u>	<u>\$350,194</u>	<u>\$0</u>	<u>\$350,194</u>	<u>(\$53,860)</u> -15.38%	<u>\$296,334</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	<u>\$242,486</u>	<u>\$0</u>	<u>\$242,486</u>	<u>(\$49,446)</u>	<u>\$193,040</u>		<u>\$193,040</u>
3 DEPRECIATION	<u>\$18,650</u>	<u>\$0</u>	<u>\$18,650</u>	<u>\$0</u>	<u>\$18,650</u>		<u>\$18,650</u>
4 AMORTIZATION	<u>\$5,653</u>	<u>\$0</u>	<u>\$5,653</u>	<u>\$12,694</u>	<u>\$18,347</u>		<u>\$18,347</u>
5 TAXES OTHER THAN INCOME	<u>\$16,613</u>	<u>\$0</u>	<u>\$16,613</u>	<u>\$0</u>	<u>\$16,613</u>	<u>(\$2,424)</u>	<u>\$14,189</u>
6 INCOME TAXES	<u>\$6,635</u>	<u>\$0</u>	<u>\$6,635</u>	<u>\$6,162</u>	<u>\$12,797</u>	<u>(\$10,648)</u>	<u>\$2,148</u>
7 TOTAL OPERATING EXPENSES	<u>\$290,037</u>	<u>\$0</u>	<u>\$290,037</u>	<u>(\$30,590)</u>	<u>\$259,447</u>	<u>(\$13,072)</u>	<u>\$246,374</u>
8 OPERATING INCOME	<u>\$60,157</u>	<u>\$0</u>	<u>\$60,157</u>	<u>\$30,590</u>	<u>\$90,747</u>	<u>(\$40,787)</u>	<u>\$49,960</u>
9 RATE BASE	<u>\$342,578</u>		<u>\$359,897</u>		<u>\$466,974</u>		<u>\$466,974</u>
10 RATE OF RETURN	<u>17.56%</u>		<u>16.72%</u>		<u>19.43%</u>		<u>10.70%</u>

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**COMMERCIAL UTILITIES
ADJUSTMENTS TO OPERATING INCOME
YEAR ENDED 12/31/98**

**SCHEDULE NO. 3-B
DOCKET NO. 991902-SU**

EXPLANATION	WASTEWATER
<u>OPERATING REVENUES</u>	<u>\$0</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>	
Remove payments to JEA for intangible assets	<u>(\$49,446)</u>
<u>DEPRECIATION EXPENSE-NET</u>	<u>\$0</u>
<u>AMORTIZATION EXPENSE</u>	
Per Order No. PSC-93-0233-FOF-WS	<u>\$12,694</u>
<u>TAXES OTHER THAN INCOME</u>	
RAFs on revenue adjustments above	<u>\$0</u>
<u>INCOME TAXES</u>	
To adjust to test year income tax expense	<u>\$6,162</u>

M E M O R A N D U M

February 3, 2000

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RECORDS AND
REPORTING

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (FUDGE) *of JES*

RE: DOCKET NO. 991902-SU - INVESTIGATION INTO THE WASTEWATER
RATES OF COMMERCIAL UTILITIES, DIVISION OF GRACE &
COMPANY, INC., IN DUVAL COUNTY.

FOR 0346-

Attached is an ORDER INITIATING INVESTIGATION INTO RATES AND CHARGES AND MAKING REVENUES SUBJECT TO REFUND, to be issued in the above-referenced docket.

(Number of pages in order - 13)

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Attachment

cc: Division of Water and Wastewater (B.Davis)

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