

FLORIDA PUBLIC SERVICE COMMISSION  
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M E M O R A N D U M

December 5, 1996

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

FROM: DIVISION OF WATER & WASTEWATER (KEMP, EDWARDS) *MS* *BP*  
DIVISION OF LEGAL SERVICES (JABER) *MS* *BP*

RE: DOCKET NO. 960625-WU - VIRGINIA CITY UTILITIES, INC. -  
SARC  
COUNTY: PASCO

AGENDA: 12/17/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
EXCEPT ISSUE 11 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15 MONTH EFFECTIVE DATE: OCTOBER 20, 1997

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960625WU.RCM

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Virginia City Utilities, Inc. (VCUI or utility) is a class "C" water only utility located in Pasco County. VCUI resells water services to 299 residential and 12 general service customers in an area known as Virginia City. VCUI began operation in 1970. On July 26, 1973, the Virginia City, Inc. was granted a water certificate. On January 24, 1994, the commission granted the utility a certificate of transfer by Order No. PSC-94-0084-FOF-WU. Some of the docketed filings under the prior owner were for a rates investigation, Orders No. 9467 and 8673 and a staff assisted rate case (SARC), Order No. 9185. The prior owner also took advantage of price indexes and pass-throughs.

On July 17, 1996 the utility applied for a SARC pursuant to Section 367.0814, Florida Statutes. Audit and engineering investigations have been done to determine the appropriate components necessary for setting rates. Due to a lack of records beyond 1993, the engineer performed an Original Cost Study (OCS). Staff selected a historical test year ended December 31, 1995. A customer meeting was held on October 23, 1996. The current utility owner has taken advantage of two price indexes and pass-throughs.

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### DISCUSSION OF ISSUES

#### QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Virginia City Utilities, Inc. satisfactory?

RECOMMENDATION: Yes. The overall quality of service provided by Virginia City Utilities, Inc. should be considered satisfactory. However, to prevent a potential problem which would affect the entire community's continuous water service during a single resident's line repair, and to insure accurate billing, the utility should be required to replace old valves and old meters. The utility has one hundred meters in pro forma which should be installed within six months from the effective date of the order. The remaining meters and the gate valves are to be replaced through the valve and meter change out program. (EDWARDS)

STAFF ANALYSIS: Virginia City Utilities, Inc. purchases water service from the Pasco County Utility Department. Because this is a consecutive public water system, there is no water treatment plant to evaluate. The distribution system is over 23 years old, and there are some components that are in need of being replaced. Presently, the utility is in the process of initiating a gate valve replacement program. Because the average service life of a gate valve is twenty years, staff has concluded that the utility should be required to implement a valve change out program to replace all of the gate valves, at the rate of five valves per year over a period of five years. In addition, the meters in this system are old and in need of replacement. Staff is recommending one hundred meters in pro forma which should be installed within six months from the effective date of the order. In addition, the remaining meters should be replaced through a meter change out program, to be amortized over seventeen years. Furthermore, staff recommends that the cost of replacing the valves and meters should be allowed.

A review of the Department of Environmental Protection (DEP) records has revealed that the water distribution system is in compliance with the appropriate environmental regulation. 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, the two customers that attended the customer meeting, which was held on October 23, 1996 in New Port Richie, expressed no concerns about the quality of services. At the time of the engineering investigation, the water distribution system appeared to be operating properly. Consequently, staff recommends that the quality of service provided by Virginia City Utilities, Inc. be considered satisfactory.

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RATE BASE

ISSUE 2: What percentage of the utility's water distribution system is used and useful?

RECOMMENDATION: The water distribution system should be considered 100% used and useful. (EDWARDS)

STAFF ANALYSIS: Virginia City Utilities, Inc. is a consecutive water system which purchases processed water for resale from the Pasco County Utility Department. The service area is 97% built out and the only area available for expansion has been sold, but not developed. Presently, the utility's records indicate that the system is operating properly. It is recommended that the water distribution system be considered 100% used and useful (Attachment "A").

Water Distribution System - The water distribution system is comprised of: 4,200 ft. of 1 inch PVC pipe, 6161 ft. of 2-1/2 inch PVC pipe, 5697 ft. of 4 inch PVC pipe and 1507 ft. of 6 inch PVC pipe.

Because the utility is operating at capacity, staff recommends that the water distribution system be considered 100% used and useful (Attachment "A").



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ISSUE 3: What is the appropriate average amount of test year rate base for this system?

RECOMMENDATION: The appropriate average amount of test year rate base for VCUI should be \$23,846. (KEMP, EDWARDS)

STAFF ANALYSIS: According to the auditor, VCUI does not have any records beyond 1993, which is when the utility received a transfer of certificate. Consequently, an Original Cost Study (OCS) was performed by the engineer. The appropriate components of rate base consist of plant, accumulated depreciation, CIAC, Amortization of CIAC and working capital allowance. Staff has used the amounts set forth in the OCS as a base for the rate base components. Further adjustments are necessary to reflect test year changes. A discussion of each adjusted component follows.

PLANT IN SERVICE: The utility recorded a plant in service balance of \$36,311. Utility plant in service has been increased by \$23,169 to reflect the correct balance as established by the engineer in the OCS as well as plant additions and retirements since the transfer of the utility in 1993. The utility is implementing a meter change out program, however, some of the meters have exceeded their useful life and accurate meter readings can not be guaranteed. Consequently, staff has recommended that 100 of the meters be replaced now. Staff has made adjustments of \$4,500 to reflect the installation of meters on a pro forma basis and \$3,500 to reflect the retirement of the old meters. Staff also made an adjustment to reduce plant by \$1,805 to reflect an average plant balance. Total recommended utility plant in service is \$58,675.

Contributions in Aid of Construction (CIAC): The utility recorded test year CIAC of \$1,747. An adjustment was made to increase CIAC by \$8,363 to agree the utility's recorded amounts with Order No. 9467. An adjustment of \$5,150 was made to reflect additions to CIAC since the order. Staff also made an adjustment to reduce CIAC by \$180 to reflect average CIAC. Staff recommends an average CIAC balance of \$15,080.

Accumulated Depreciation: The utility recorded \$28,493 in accumulated depreciation on its books. Consistent with Commission practice, accumulated depreciation was calculated using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff increased accumulated depreciation by \$6,847 to reflect additions and retirements to plant from 1970, through 1995 and pro forma meters. Also, to reflect an average balance, an increasing adjustment of \$693 was made. Staff recommends an accumulated depreciation balance of \$36,033.

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Accumulated Amortization of CIAC: The utility recorded amortization of CIAC at \$117. Order No. 9467 established amortization of CIAC at \$612, therefore staff added \$495 to the utility's balance. In order to reflect current accumulated amortization of CIAC, staff made an adjustment of \$5,290 to reflect amortization amassed since Order No. 9467. In keeping with the practice of reflecting an average balance, an adjustment was made to accumulated amortization of CIAC by \$264. Staff recommends a balance of \$5,638.

Working Capital Allowance: 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 \$10,646 (based on O&M of \$85,169).

Rate Base Summary: Based on the aforementioned adjustments, the appropriate balance of VCUI'S test year rate base is \$23,846. Rate base is shown on Schedule No. 1 and 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 the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 11.88% with a range of 10.88% - 12.88% and the appropriate overall rate of return is 10.72% with a range of 10.64% - 10.80%. (KEMP)

STAFF ANALYSIS: The utility's capital structure consists of long term debts from Barnett Bank for \$39,000 with an interest rate of 12.50% and from F. Potter for \$12,775 with an interest rate 6%, customer deposits of \$3,040 with an interest rate of 6% and common equity of \$4,665; using the current leverage formula approved under Docket No. 950006-WS, Order No. PSC-95-0982-FOF-WS, issued August 10, 1995, the rate of return on common equity is 11.88% with a range of 10.88% - 12.88%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 10.72% with a range of 10.64% to 10.80%. Staff made pro forma rata adjustments to reconcile the capital structure downward to match the recommended rate base.

VCUI's 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 for this system?

RECOMMENDATION: The appropriate test year operating revenue should be \$78,714. (KEMP)

STAFF ANALYSIS: The utility recorded revenues of \$78,449 during the test period. Staff performed a billing analysis and revenue check using the utility's most recent rates in effect. Staff made an adjustment to increase this amount by \$265 to reflect annualized revenues and revenues from miscellaneous service charges.

Operating revenues are shown on Schedules Nos. 3 and 3A.

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ISSUE 6: What is the appropriate test year loss for this system?

RECOMMENDATION: The appropriate test year loss is \$13,390. (KEMP)

STAFF ANALYSIS: The test year revenue is \$78,714, corresponding test year operating expenses are \$92,104. This results in an operating loss of \$13,390.

The test year operating loss is shown on Schedule No. 3

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ISSUE 7: What is the appropriate amount for operating expense for this system?

RECOMMENDATION: The appropriate amount for operating expenses should be \$92,104. (KEMP, EDWARDS)

STAFF ANALYSIS: The utility recorded operating expenses of \$98,042. The components of these expenses include operation and maintenance expenses, depreciation expense and taxes other than income.

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

Operation and Maintenance Expenses(O & M): The utility charged \$85,570 in O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

1) Salaries & Wages - The utility recorded wages of \$21,200 for two employees; a full time office manager and part time office manager. An adjustment was made to reduce the hours of the full time office manager from 40 to 20 hours per week at \$10.15 per hour for an adjustment of \$9,444. Staff also made an adjustment to reflect a maintenance person 5 hours per week at \$10.42 per hour for an increase of \$2,710. Staff recommends salaries and wages of \$14,456.

2) Employee Pensions & Benefits - The utility recorded \$3,360 in employee pensions & benefits. Staff made an adjustment of \$1,280 to reduce the utility's balance to reflect the recommended decrease in salary for the office manager. Staff recommends employee pensions & benefits of \$2,080.

3) Purchased Water - The utility recorded test year purchased water of \$49,141. During the test year, the utility paid a bulk water rate of \$2.31 to Pasco County. On October 1, 1996, Pasco county reduced its bulk water rate to \$2.15; consequently, staff has made an adjustment to reduce purchased water by \$3,404 to reflect annualized purchased water at the new rate. Staff recommends a purchased water expense of \$45,737.

4) Materials & Supplies - The utility recorded test year materials and supplies expense of \$1,513. Staff made an adjustment to increase this amount by \$308 to reflect the annual cost of postage and an allowance of \$250 for miscellaneous materials &

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supplies. Staff recommends materials and supplies expense of \$1,821.

5) Contractual Services - The utility recorded contractual services of \$7,408. Staff has made several adjustments to reflect: a) the cost of \$350 to set up a pension plan amortized over four years for a reduction of \$262, b) a \$30 per month testing allowance for an adjustment of \$360, c) annualized contractual services for an increase of \$592, d) reclassification of \$1,848 to plant from contractual service, e) a gate valve change out program of \$12,184 amortized over five years for an adjustment of \$2,438 and f) reflect a meter change out program of \$15,493 amortized over the life of meters, 17 years for an adjustment of \$911. Staff recommends contractual service expense of \$9,599.

6) Insurance Expense - The utility recorded an insurance expense balance of \$953. Staff reduced the utility's balance by \$146 to reflect annualized insurance expense. Staff recommends \$807 for insurance expense.

7) Regulatory Commission Expense - The utility did not record anything for Regulatory commission expense. Staff made an adjustment of \$490 to reflect regulatory commission expense of \$1,959 amortized over four years.

8) Miscellaneous Expense - The utility recorded miscellaneous expenses of \$968. Staff made adjustments to: a) reclassify license fees of \$219 from taxes other than income (TOTI), b) reflect annualized phone and bank charges for an increase of \$165, and c) include a monthly allowance of \$400 for miscellaneous repairs and expenses for an increase of \$4,800. Staff recommends miscellaneous expense of \$6,152.

Operation and Maintenance Expenses(O & M) Summary: Total O & M adjustments are \$3,401. Staff recommends O & M expenses of \$85,169. O & M expenses are shown in Schedule No. 3B.

Depreciation Expense: The utility recorded \$3,501 for depreciation expense during the test year. Consistent with Commission practice, staff calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made an adjustment to reduce the utility's balance by \$1,150 to reflect the correct depreciation expense on test year plant. Staff also made a netting adjustment of \$579 to reflect amortization of CIAC. Staff recommends \$1,772 for depreciation expense.

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Taxes Other Than Income Taxes (TOTI): The utility recorded test year TOTI of \$5,971. Staff made an adjustment to reduce TOTI by \$808 to reflect the decrease in payroll taxes associated with the office manager. The appropriate test year TOTI is \$5,163.

Increase in Operating Revenues and Expenses Summary:

Operating Revenues - Revenue has been increased by \$16,698 to reflect the increase in revenue required to allow the utility to recover its expenses and earn the authorized return on its investment.

Taxes Other Than Income - This expense has been increased by \$751 to reflect regulatory assessment fee at 4.5% on the required revenue increase.

The application of staff's recommended adjustments to the utility's recorded operating expenses results in staff recommended operating expenses of \$92,104.

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



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REVENUE REQUIREMENT

ISSUE 8: What is the appropriate revenue requirement for this system?

RECOMMENDATION: The appropriate revenue requirement is \$95,412. (KEMP)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$16,698 (21.21%). This will allow the utility the opportunity to recover its expenses and earn a 10.72% return on its investment. The revenue requirement includes \$2,975 in revenues from miscellaneous service charges. Although miscellaneous service charges are not included in the calculation of rates, it is included in the utility's revenue requirement to allow the utility the opportunity to recover the cost of related operating expenses and regulatory assessment fees incurred. For the purpose of setting rates, the utility's annualized revenues are \$75,739.

The calculation for rates are as follows:

	<u>AMOUNT</u>
Adjusted Rate Base	\$ 23,846
Rate of Return	x .1072
Return on Investment	\$ 2,556
Adjusted Operation Expenses	85,169
Depreciation Expense (Net)	1,772
Taxes Other Than Income Taxes	5,914
Less Miscellaneous Service Charges	<u>(2,975)</u>
Revenue Requirement	<u>\$ 92,437</u>
Annual Revenue Increase	\$ 16,698
Percentage Increase/(Decrease)	<u>21.21%</u>

The revenue requirement and resulting annual increase are shown on Schedules No. 3.

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RATES AND CHARGES

ISSUE 9: What are the appropriate rates and rate structure?

RECOMMENDATION: The recommended rates should be designed to produce revenues of \$92,437. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code. 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 the notice. (KEMP)

STAFF ANALYSIS: The utility currently employs the base facility and gallonage charge rate structure, which is the Commission's preferred rate structure. This rate structure is designed to provide for the equitable sharing by the ratepayers of both the fixed and variable cost for providing service. The base facility charge is based on the concept of readiness to serve all customers connected to the system whereas the gallonage charge covers the variable costs. This ensures that ratepayers pay their share of the variable costs of providing service (through the consumption or gallonage charge) and also pay their share of the fixed costs of providing service (through the base facility charge). Staff recommends that the utility retain its existing rate structure.

During the test year, the utility provided water service to approximately 299 residential and 13 general service customers. The utility's initial rates were approved by Order No. 9467, issued July 29, 1980, in Docket No. 790990-W. Staff has calculated rates based on test year revenues, annual number of bills and gallonage consumption. The metered rates have been calculated to generate staff's recommended revenue requirement. The utility's current rates and staff's preliminary rates are as follows.

RESIDENTIAL AND GENERAL SERVICE MONTHLY RATES

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Current Rates</u>	<u>Staff's Recommended</u> <u>Rates</u>
5/8 x 3/4"	\$ 3.99	\$ 7.07
3/4"	5.99	10.60
1"	9.98	17.67
1 1/2"	19.95	35.35
2"	31.92	56.55
Gallonage Charge (Per 1,000 gallons)	\$ 3.07	\$ 3.28

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The average water usage for an individually metered residential customer is approximately 5,000 gallons per month. A schedule of an average bill for a 5/8" x 3/4" meter using existing rates and recommended rates follows:

Average bill using recommended rates	\$ 23.47
Average bill using existing rates	<u>\$ 19.34</u>
Increase in Bill	\$ 4.13
Percentage increase in bill ( $\$4.13/\$19.34$ )	21.35%

Staff's recommended rate are designed to produce revenue of \$92,437. The utility should retain its existing rate structure. The 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. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge may be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event should the rates be effective for service rendered prior to the stamped approval date.

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ISSUE 10: What is the appropriate amount by which rates 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 \$513.00 annually to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. 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. (KEMP)

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 \$513.75 annually. The reduction in revenues will result in the rates recommended by staff on Schedules 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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OTHER ISSUES

ISSUE 11: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (KEMP)

STAFF ANALYSIS: This recommendation proposes an increase in water 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 timely 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 staff's approval of the security for potential refund and the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$11,531. 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 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 addition, after the increased rates are in effect, the utility should file reports with the Division of Water and Water 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 12: Should this docket be closed?

RECOMMENDATION: No. Upon expiration of the protest period, if no timely protest is received from a substantially affected person, this docket should remain open for an additional six months from the effective date of the Order to allow the utility time to complete pro forma plant and so that staff may verify the pro forma plant additions recommended in Issue 3. After the utility has complied with the Order in all respects, has submitted approved revised tariff sheets reflecting the recommended rates, this docket should be closed administratively. However, if the utility fails to timely complete the aforementioned pro forma additions, staff will prepare a follow-up recommendation. (JABER)

STAFF ANALYSIS: As discussed in Issue 3, staff has recommended to include 100 meters in the utility's rate base as pro forma form plant. Therefore, this docket should remain open for an additional six months from the effective date of the Order to allow the utility time to complete pro forma plant and so that staff may verify the pro forma plant additions recommended in Issue 3. After the utility has complied with the Order in all respects, and has submitted approved revised tariff sheets reflecting the recommended rates, this docket should be closed administratively. However, if the utility fails to timely complete the aforementioned pro forma additions, staff will prepare a follow-up recommendation.

VIRGINIA CITY UTILITIES, INC  
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 1  
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SCHEDULE OF WATER RATE BASE

COMPONENT	BALANCE PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$ 36,311	\$ 22,364	\$ 58,675
2. LAND/NON-DEPRECIABLE ASSETS	0	0	0
3. ACCUMULATED DEPRECIATION	(28,493)	(7,540)	(36,033)
4. CIAC	(1,747)	(13,333)	(15,080)
5. ACCUMULATED AMORTIZATION OF CIAC	117	5,521	5,638
6. WORKING CAPITAL ALLOWANCE	0	10,646	10,646
<b>WATER RATE BASE</b>	<b>\$ 6,188</b>	<b>\$ 17,658</b>	<b>\$ 23,846</b>

ADJUSTMENTS TO RATE BASE

EXPLANATION	WATER
<b>A. UTILITY PLANT IN SERVICE</b>	
1. To reconcile utility balance to Order No. 9467	17,704
2. To reflect plant additions and retirements from 1993 through 1995	3,617
3. Reclassification from O & M	1,848
4. Proforma	4,500
5. Proforma retirement of meters	(3,500)
6. Averaging adjustment	(1,805)
	<u>\$ 22,364</u>
<b>B. ACCUMULATED DEPRECIATION</b>	
1. Adjustment to reconcile utility balance to staffs	(6,847)
2. To reflect averaging adjustment on Accum. Dep.	(693)
	<u>\$ (7,540)</u>
<b>C. CIAC</b>	
1. To reconcile utility's balance to Order No. 9467	(8,363)
2. To reflect additions to CIAC since 1980	(5,150)
3. To reflect average adjustment on CIAC	180
	<u>(13,333)</u>
<b>D. Accum. Amortization of CIAC</b>	
1. To reconcile utility's balance to Order No. 9467	495
2. To reflect additions to amortization of CIAC since 1980	5,290
3. To reflect average adjustment on amortization of CIAC	(264)
	<u>5,521</u>
<b>E. WORKING CAPITAL ALLOWANCE</b>	
1. To reflect 1/8 of test year O & M expenses	<u>\$ 10,646</u>

SCHEDULE OF CAPITAL STRUCTURE

DESCRIPTION	PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF	% OF TOTAL	COST	WEIGHTED COST
Long Term Debt - F. Potter	\$ 12,775	\$ 0	\$ 5,122	21.48%	6.00%	1.29%
Long Term Debt - Barnett	39,000	(23,365)	16,635	65.57%	12.50%	8.20%
EQUITY	4,665	(2,795)	1,870	7.84%	11.88%	0.93%
Customer Deposits	<u>3,040</u>	<u>(1,821)</u>	<u>1,219</u>	<u>5.11%</u>	6.00%	<u>0.31%</u>
TOTAL	\$ 59,480	\$ (27,980)	\$ 23,846	100.00%		<span style="border: 1px solid black;">10.72%</span>
<b>RANGE OF REASONABLENESS</b>		<u>LOW</u>	<u>HIGH</u>			
RETURN ON EQUITY		10.88%	12.88%			
OVERALL RATE OF RETURN		10.64%	10.80%			

VIRGINIA CITY UTILITIES, INC  
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 3  
 DOCKET NO. 960625-WU

SCHEDULE OF WATER OPERATING INCOME

DESCRIPTIONS	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
OPERATING REVENUES	\$ 78,449	\$ 265	78,714	\$ 16,698	\$ 95,412
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 88,570	(3,401)	85,169		85,169
DEPRECIATION (NET)	3,501	(1,729)	1,772		1,772
AMORTIZATION	0	0	0		0
TAXES OTHER THAN INCOME	5,971	(808)	5,163	751	5,914
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 98,042	\$ (5,938)	\$ 92,104	\$ 751	\$ 92,855
OPERATING INCOME/(LOSS)	\$ (19,593)		\$ (13,390)		\$ 2,556
WATER RATE BASE	\$ 5,188		\$ 23,846		\$ 23,846
RATE OF RETURN	-316.63%		-56.15%		10.72%

ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WATER
<b>A. Operating Revenues</b>	
1. To reflect annualized revenues	\$ <u>265</u>
<b>B. OPERATION AND MAINTENANCE EXPENSES.</b>	
<b>1. Salaries &amp; Wages</b>	
a. To reduce hours and salary of office manager	\$ <u>(6,744)</u>
<b>2. Employee Pensions &amp; Benefits.</b>	
a. To reflect pension based on reduced salary.	<u>(1,280)</u>
<b>3. Purchased Water</b>	
a. To reflect Pasco County's reduction in bulk water rate	\$ <u>(3,404)</u>
<b>4. Materials &amp; Supplies</b>	
a. To reflect annualized postage and banking	\$ <u>308</u>
<b>5. Contractual Services</b>	
a. To reflect expense of setting up pension plan amort. over 4 years	\$ (262)
b. To reflect monthly testing expense	360
c. To reflect annualized contractual services	592
d. Reclassification of plant from contractual services	(1,274)
e. Reclassification of plant from contractual services	(574)
f. To reflect gate valve change out program amort. over 5 years.	2,438
g. To reflect meter change out program.	<u>911</u>
	<u>2,191</u>
<b>6. Insurance Expense</b>	
a. To reflect annual insurance expense	\$ <u>(146)</u>
<b>7. Regulatory Commission expense</b>	
a. To reflect regulatory commission expense amort. over 4 years	\$ <u>490</u>



ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WATER
8. <u>Miscellaneous Expense</u>	
a. To reflect annual allowance for miscellaneous repairs and expenses	4,800
b. To reflect annualized phone and bank charges	165
c. Reclassification from TOTI	219
	<u>\$ 5,184</u>
TOTAL O & M EXPENSE ADJUSTMENTS	<u>\$ (3,401)</u>
C. <u>DEPRECIATION EXPENSE (NET)</u>	
1. To properly reflect test year depreciation expense net of CIAC	<u>\$ (1,729)</u>
D. <u>TAXES OTHER THAN INCOME</u>	
1. To reflect annual payroll taxes	<u>\$ (808)</u>
E. <u>OPERATING REVENUES</u>	
1. To reflect increase in revenues per revenue requirement	<u>\$ 16,698</u>
F. <u>TAXES OTHER THAN INCOME</u>	
1. To reflect RAF on increased revenues	<u>\$ 751</u>

VIRGINIA CITY UTILITIES, INC  
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 3B  
 DOCKET NO. 960625-WU

**ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE**

DESCRIPTION	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$ 21,200	\$ (6,744)	\$ 14,456
(603) SALARIES AND WAGES - OFFICERS	1,200	0	1,200
(604) EMPLOYEE PENSIONS AND BENEFITS	3,360	(1,280)	2,080
(610) PURCHASED WATER	49,141	(3,404)	45,737
(615) PURCHASED POWER		0	
(616) FUEL FOR POWER PRODUCTION		0	
(618) CHEMICALS		0	
(620) MATERIALS AND SUPPLIES	1,513	308	1,821
(630) CONTRACTUAL SERVICES	7,408	2,191	9,599
(640) RENTS	600	0	600
(650) TRANSPORTATION EXPENSE	1,473	0	1,473
(655) INSURANCE EXPENSE	953	(146)	807
(665) REGULATORY COMMISSION EXPENSES	0	490	490
(670) BAD DEBT EXPENSE	754	0	754
(675) MISCELLANEOUS EXPENSES	968	5,184	6,152
UNCLASSIFIED DISBURSEMENTS			
	\$ 88,570	\$ (3,401)	\$ 85,169

## RECOMMENDED RATE REDUCTION SCHEDULE

VIRGINIA CITY UTILITIES, INC  
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 4  
DOCKET NO. 960625-WU

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

RESIDENTIAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
5/8"	\$7.07	0.04
3/4"	\$10.60	0.06
1"	\$17.67	0.10
1 1/2"	\$35.35	0.19
2"	\$56.55	0.30
GALLONAGE (per 1,000 gals)	\$3.28	0.02

DOCKET NO. 960625-WU  
DATE: December 5, 1996

ATTACHMENT A

WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 960625-WU Utility Virginia City Utilities, Inc. Date April 96

- 1) Capacity 271 ERC's (Number of potential customers without expansion)
- 2) Number of TEST YEAR Connections 270 ERC's per day
  - a) Begin Test Year 264
  - b) End Test Year 270
  - c) Average Test Year 267
- 3) Margin Reserve 0  
\*Not to exceed 20% of present customers
  - a) Customer Growth using regression analysis in ERC's for the most recent 5 years including the test year 0
  - c) Construction Time for Additional Capacity 1.5 Years(a) x (b) = 0 Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = * 100 \% \text{ Used and Useful}$$

\*ALL LOTS HAVE BEEN SOLD

Gerald Edwards - Engineer