

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Potential overearnings) DOCKET NO. 920449-WS
investigation of BETMAR UTILITIES) ORDER NO. PSC-92-1300-FOF-WS
INC., in Pasco County) ISSUED: 11/10/92

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO

ORDER CONCLUDING OVERTURNINGS INVESTIGATION, REQUIRING
MAINTENANCE OF BOOKS AND RECORDS IN CONFORMITY WITH NARUC
AND COLLECTION OF EXISTING RATES AND CHARGES AND CLOSING DOCKET

BY THE COMMISSION:

BACKGROUND

Betmar Utilities, Inc. (Betmar or utility) is a Class C water and wastewater utility operating in Pasco County. The 1991 Annual Report indicates that the utility was serving 1,548 water customers and 945 wastewater customers as of December 31, 1991. The utility's gross water revenues are \$153,559 and operating expenses are \$140,492, resulting in net water operating income of \$13,067. Gross wastewater revenues are reported as \$191,338 and operating expenses as \$146,712, resulting in net wastewater operating income of \$44,626.

On August 10, 1990, Betmar filed an application for a staff assisted rate case, and October 9, 1990 became the utility's official date of filing. The test year was the projected test year ended December 31, 1991. In Order No. 24225, issued on March 12, 1991, in Docket No. 900688-WS, we approved a rate increase for the utility's water and wastewater systems.

However, a desk audit of the utility's 1991 annual report suggested that the utility was exceeding its last authorized rate of return. We opened Docket No. 920449-WS in order to investigate the potential overearnings of Betmar's wastewater system. At our June 16, 1992, Agenda Conference, we required that all of Betmar's revenues which exceeded the ceiling of the range of its last allowed rate of return be held subject to refund pending the result

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of the overearnings investigation. This Order reflects the findings of our investigation.

RESULT OF OVEREARNINGS INVESTIGATION

The utility's 1991 annual report indicated that the utility was earning a 50.07 percent rate of return on rate base. Betmar's overall authorized rate of return was last established as 11.78 percent, with a range of 11.15 percent to 12.43 percent. The return on equity was established as 12.18 percent. We completed a review of the annual report and found that several adjustments needed to be made to the amounts as filed, including updating the reported balances to include pro forma plant allowances that had been granted in the last rate case but not included in the utility's annual report. When these adjustments were made, including adjustments to annualized test year revenues and the recalculation of the income tax expense, the test year rate of return was calculated to be 14.01 percent, which resulted in test year overearnings of \$2,557 or 1.33 percent of test year revenues of \$193,933. The potential overearnings of \$2,557 or 1.33 percent of the test year revenues of \$193,933 were made subject to refund until the completion of the investigation.

In this proceeding, in calculating rate base, we have made adjustments necessary to compute the test year achieved rate of return in accordance with the regulatory philosophies applied in the utility's last rate case. Our investigation revealed that Betmar's annual report did not include many adjustments allowed in its last rate case. Upon making these adjustments, including the recalculation of the income tax expense, the test year rate of return is calculated to be 11.39 percent, which is within the range of the utility's last authorized rate of return of 11.15 percent to 12.43 percent. Therefore, we find that the utility is not exceeding the range of its last authorized rate of return, and it shall continue to charge its existing rates and charges. The funds being held in escrow pending the results of this investigation shall be released to the utility. We will discuss our findings below.

Rate Base

Betmar's 1991 annual report did not include proforma plant additions which were allowed in its last rate case. The excluded adjustments consist of \$12,500 to construct a garage/workshop/shed

and \$21,002 for the cost of rehabilitating manholes and tightening the collection system. The related depreciation on these amounts was also omitted from the annual report. In addition, the utility reported land expense of \$3,110. We have increased the land account by \$350 in order to reflect the level determined in the last rate case. We have used the one-eighth of operation and maintenance (O & M) expense method in calculating the working capital allowance. Based upon the formula method with O & M expenses of \$140,360 for the test year, we find that the appropriate working capital allowance was \$17,545.

Therefore, based upon the above adjustments, we find that the appropriate rate base for the purposes of this proceeding is \$132,434. The calculation of rate base is illustrated on Schedule No. 1, and the adjustments to rate base are reflected on Schedule No. 1-A. Both schedules are attached hereto.

Cost of Capital

Betmar's achieved rate of return for the test year was calculated to be 11.39 percent. We find that the appropriate overall weighted cost of capital is 11.95 percent. We calculated this amount by using the test year levels of the capital structure components and applying a weighted average interest rate of 12 percent on outstanding debt, 8 percent on customer deposits, and 0 percent for deferred taxes, along with an equity return of 12.18 percent, which is the last allowed midpoint. Based upon our findings in the previous rate case and audit, we have reclassified the notes payable balance into the long term debt account to reflect the correct reporting method. Our calculation of the appropriate cost of capital is depicted on Schedule No. 2, attached hereto. The adjustments to the capital structure are shown on Schedule No. 2-B, also attached hereto.

Net Operating Income

Betmar recorded operating revenues of \$188,992 for the test year. We have annualized the 1991 revenues to reflect the rate increase granted in the last rate case. Except for adjusting salaries and wages, transportation, pensions and benefits, and insurance expenses to reflect the levels that were determined in the last rate case, we have accepted the test year operation and maintenance expenses as reported by the utility. The adjustments

which are self-explanatory or which are essentially mechanical in nature are reflected on Schedules Nos. 3 and 3-A, attached hereto.

Betmar reported having purchased sewage treatment costs of \$60,436 in its annual report. We have adjusted this balance to reflect two months of accrued service that was omitted from the reported amount. The service was rendered in 1991 but the invoices were paid in 1992. This account has the most significant margin of difference from the level determined in the previous rate case. The adjusted total is \$77,411 which is based on 18,743,700 gallons of sewage treated by Pasco County at a charge of \$4.13 per thousand gallons. In the last rate case we determined that 24,461,000 gallons would be treated based upon estimated connections during 1991 and two months of wastewater flow data compared to water meter readings. Using the estimated gallons and the county's charge, the utility was granted a total wastewater treatment allowance of \$101,024. The revenue requirement granted in that docket of \$223,816 was based on the higher consumption amount. However, since actual consumption for purchased sewage treatment billed by the utility during the test year was less than the consumption allowed in the last rate case, the actual revenue collected in the test year \$188,992 was less than projected in the rate case.

Based upon the reported amounts and the allowances and adjustments discussed above, we find that the appropriate total of wastewater O & M expenses is \$140,360, which is an \$8,865 increase over the 1991 reported balance. Further, the utility failed to record \$14,686 for the amortization of the loss on the retirement of the wastewater treatment plant which was allowed in the previous rate case.

In addition, the utility stated that the Zephyrhills telephone number, which was excluded in the previous order, is for the customers' convenience in reporting any emergencies. The emergency phone number is monitored after hours in order to provide additional security for the customers.

The utility requested that transportation costs be allocated with 50 percent to the water system and 50 percent to the wastewater system instead of the current allocation of 63 percent water and 37 percent wastewater. We find that the costs associated with the telephone number and with transportation are reasonable and shall be allocated with 50 percent to the water system and 50 percent to the wastewater system. These adjustments result in an

increase to the O & M expenses of \$1,196. However, we are not providing for an adjustment for these additional expense allocations since the utility will be able to continue collecting its existing rates and charges.

Taxes other than income taxes have been increased by \$44 to reflect the appropriate amount of regulatory assessment fees associated with the proposed wastewater revenue increase. Income tax expense has been increased in order to reflect the appropriate amount of tax expense associated with an 11.95 percent return on test year rate base.

Betmar's revenue requirement has been determined to be \$194,908. The calculation of the revenue requirement is reflected on Schedule No. 3, attached hereto. Based on all of the foregoing, we find it appropriate that the utility continue to charge its existing rates and charges for water and wastewater service.

REQUIREMENT TO MAINTAIN BOOKS IN CONFORMITY WITH NARUC

During the test year, the utility's books were not consistently maintained in compliance with the Uniform System of Accounts (USOA) by failing to accrue costs incurred but not paid. The utility was also in violation of the USOA by not classifying some plant additions to the proper account. The wastewater depreciable plant-in-service was understated by an amount equal to \$32,507 as noted previously in this Order. Betmar also failed to accrue some expenses and made some misclassifications which caused wastewater expenses to be understated by a net total of \$8,865.

We believe that Betmar has the expertise necessary to maintain the utility's records and books in conformity with Rule 25-30.115, Florida Administrative Code, which is entitled "Uniform System of Accounts for Water and Sewer Utilities." Therefore, Betmar is hereby ordered to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts and to reconcile its books with the attached schedules.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that our overearning investigation of Betmar Utilities, Inc. is hereby concluded and that Betmar shall continue to collect its existing rates and charges. It is further

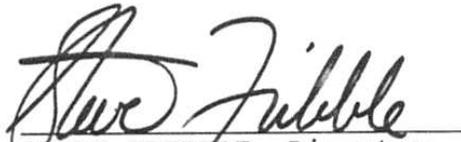
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ORDERED that Betmar Utilities, Inc. shall maintain its books and records in conformity with the NARUC 1984 Uniform System of Accounts for Class C water and wastewater utilities and, in so doing, shall reconcile its books with the schedules attached hereto. It is further

ORDERED that the funds deposited in escrow by Betmar Utilities, Inc. as a condition of the overearning investigation, shall be released to Betmar Utilities, Inc. It is further

ORDERED that this docket is closed.

By ORDER of the Florida Public Service Commission this 10th day of November, 1992.


STEVE TRIBBLE, 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 120.59(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 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 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

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

BETMAR UTILITIES, INC.
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1991

SCHEDULE NO. 1
 DOCKET NO. 920449-WS

| | TEST YEAR PER UTILITY | COMM. ADJ. | AVERAGE BALANCE PER COMM. |
|----------------------------------|--------------------------|---------------|---------------------------------|
| | ----- | ----- | ----- |
| UTILITY PLANT IN SERVICE | \$432,671 | \$13,194 A | \$445,865 |
| LAND/NON-DEPRECIABLE ASSETS | 3,110 | 350 B | 3,460 |
| ACCUMULATED DEPRECIATION | (143,461) | 10,650 C | (132,811) |
| CIAC | (347,199) | 7,750 D | (339,449) |
| ACCUMULATED AMORTIZATION OF CIAC | 147,031 | (9,207)E | 137,824 |
| WORKING CAPITAL ALLOWANCE | 0 | 17,545 F | 17,545 |
| | ----- | ----- | ----- |
| WASTEWATER RATE BASE | \$92,152 | \$40,282 | \$132,434 |
| | ===== | ===== | ===== |

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BETMAR UTILITIES, INC.
TEST YEAR ENDED DECEMBER 31, 1991
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1A
DOCKET NO. 920449-WS

| | |
|---|-------------------|
| ----- | |
| A. To adjust the utility's balance to Comm.'s adjusted balance. | \$32,507 |
| To reflect average balance. | (19,313) |
| | ----- |
| | 13,194 |
| | ===== |
| B. Land updated to reflect the balance established in the last rate case. | 350 |
| | ===== |
| C. To adjust utility's balance to Comm.'s recalculated balance. | 3,402 |
| To reflect average balance. | 7,24 ⁹ |
| | ----- |
| | 10,650 |
| | ===== |
| D. To reflect average balance. | 7,750 |
| | ===== |
| E. Adjustment of the utilities balance to Comm.'s recalculated balance. | (3,826) |
| To reflect average balance. | (5,381) |
| | ----- |
| | (9,207) |
| | ===== |
| F. 1/8 Operation and Maintenance Expense. | \$17,545 |
| | ===== |

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BETMAR UTILITIES, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1991

SCHEDULE NO.2
 DOCKET NO. 920449-WS

| | BALANCE PER UTIL. | ADJUST. PER AUDIT | BALANCE PRIOR TO RECON. | RECON. ADJUST. | COMM. BALANCE | RATIO | COST | WTD COST |
|-----------------------|----------------------|----------------------|-------------------------------|--------------------|------------------|----------------|--------|---------------|
| COMMON EQUITY | \$5,000 | \$0 | \$5,000 | (\$3,605) | \$1,395 | 1.05% | 12.18% | 0.13% |
| OTHER PAID IN CAPITAL | 275,000 | 17,858 | 292,858 | (211,163) | 81,695 | 61.69% | 12.18% | 7.51% |
| RETAINED EARNINGS | 17,185 | (1,500) | 15,685 | (11,310) | 4,375 | 3.30% | 12.18% | 0.40% |
| LONG-TERM DEBT | 153,314 | 0 | 153,314 | (110,546) | 42,768 | 32.29% | 12.00% | 3.88% |
| DEFERRED TAXES | 6,040 | 0 | 6,040 | (4,355) | 1,685 | 1.27% | 0.00% | 0.00% |
| CUSTOMER DEPOSITS | 1,850 | 0 | 1,850 | (1,334) | 516 | 0.40% | 8.00% | 0.03% |
| INVESTMENT TAX CREDIT | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| OTHER | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| TOTAL | \$458,389 | \$16,358 | \$474,747 | (\$342,313) | \$132,434 | 100.00% | | 11.95% |

BETMAR UTILITIES, INC.
 SCHEDULE OF WASTEWATER OPERATING INCOME
 TEST YEAR ENDED DECEMBER 31, 1991

SCHEDULE NO. 3
 DOCKET NO. 920449-WS

| | TEST YEAR PER UTILITY | COMM. ADJ. TO UTILITY | COMM. ADJ. TEST YEAR | COMM. ADJ. FOR INC. | BALANCE PER COMM. |
|------------------------------------|--------------------------|--------------------------|-------------------------|------------------------|----------------------|
| | ----- | ----- | ----- | ----- | ----- |
| OPERATING REVENUES | \$188,992 | \$4,941 A | \$193,933 | \$975 H | \$194,908 |
| | ----- | ----- | ----- | ----- | ----- |
| OPERATING EXPENSES: | | | | | |
| OPERATION AND MAINTENANCE | 131,495 | 8,865 B | 140,360 | 0 | 140,360 |
| DEPRECIATION AND AMORTIZATION EXP. | 16,442 | (1,944)C | 14,498 | 0 | 14,498 |
| AMORTIZATION-CIAC | (14,589) | 3,826 D | (10,763) | 0 | (10,763) |
| TAXES OTHER THAN INCOME | 16,655 | 3,485 E | 20,140 | 44 I | 20,184 |
| GAIN ON DISPOSITION OF UTIL. PROP. | (2,346) | 0 | (2,346) | 0 | (2,346) |
| LOSS ON DISPOSITION OF UTIL. PROP. | 0 | 14,686 F | 14,686 | 0 | 14,686 |
| INCOME TAXES | (4,804) | 7,083 G | 2,279 | 183 J | 2,462 |
| TOTAL OPERATING EXPENSES | \$142,853 | \$36,001 | \$178,854 | \$227 | \$179,081 |
| | ----- | ----- | ----- | ----- | ----- |
| OPERATING INCOME/(LOSS) | \$46,139 | (\$31,060) | \$15,079 | \$748 | \$15,827 |
| | ===== | ===== | ===== | ===== | ===== |
| WASTEWATER RATE BASE | \$92,152 | | \$132,434 | | \$132,434 |
| | ===== | | ===== | | ===== |
| RATE OF RETURN | 50.07% | | 11.39% | | 11.95% |
| | ===== | | ===== | | ===== |

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WASTEWATER

| | |
|--|----------------|
| A. Adjustment to annualize test year revenues. | <u>\$4,941</u> |
| B. Operating and Maintenance Expenses | |
| 1. Reduce salaries and wages-employees to the level determined reasonable in the last rate case. | (\$3,268) |
| 2. Reduce salaries and wages-officers, to the level determined reasonable in last case. | (4,350) |
| 3. Reflects the health insurance benefits allowed in the last rate case. | 1,448 |
| 4. To reflect purchased sewage that was accrued but not paid. | 16,975 |
| 5. Reclassify from sludge removal to contractual serv. | (131) |
| 6. Reduced purchased power to the level that was determined reasonable in the last rate case. | 586 |
| 7. Reclassify M&S expense to proper account. | (770) |
| 8. Reclassify contractual Ser. to proper acct. | 2,527 |
| 9. Reclassify rental expense to proper account | 204 |
| 10. Remove payments for private auto. | (1,202) |
| 11. Adjustment based on audited insurance amount. | (3,135) |
| 12. To reflect removal of charitable amount. | (19) |
| | ----- |
| | <u>\$8,865</u> |
| | ===== |

BETMAR UTILITIES, INC.
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TEST YEAR ENDED DECEMBER 31, 1991
ADJUSTMENTS TO NOI-WASTEWATER
SCHEDULE NO. 3A Page 2 of 2

| | |
|--|-------------------------------|
| C. To reflect depreciation associated with additional plant. | <u>(\$1,944)</u> |
| D. To adjust utility's balance to staff's recalculated balance. | <u>\$3,826</u> |
| E. 1. To reflect RAF adjustment on increase to annualize revenues. | 222 |
| 2. To reallocate personal property taxes to 80%. | <u>3263</u> <u>\$3,485</u> |
| F. Adjustment allowed in last rate case to reflect 1/5 of loss associated with retirement of wastewater plant. | <u>\$14,686</u> |
| G. Adjustment to reflect Income taxes on adjustment to test year revenues. | <u>\$7,083</u> |
| H. Revenue increase required to allow calculated rate of return. | <u>\$975</u> |
| I. RAF associated with the revenue increase. | <u>\$44</u> |
| J. To reflect income taxes associated with increase revenue. | <u>\$183</u> |