BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 90-124-W/S - ORDER NO. 91-444

MAY 22, 1991

IN RE: Application of Heater of Seabrook, Inc. for an Increase in Water and Wastewater Rates and Charges	))))	ORDER DENYING PETITIONS FOR REHEARING AND RECONSIDERATION

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of three separate Petitions for Rehearing and Reconsideration of Order No. 91-231 filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate), the Town of Seabrook Island (the Town), and the Seabrook Island property Owners Association (the POA) (hereinafter collectively referred to as Petitioners). Heater of Seabrook, Inc. (Heater or the Company) filed a Reply to the Petitions.

The issues raised in the Petitions may be set forth into the five following categories:

1. The appropriate test year for use in this proceeding.

2. Recognition of post test year increase in price of purchased water.

3. The appropriate commodity charge to be used in this proceeding.

4. The appropriate operating margin for use in this proceeding and facility utilization.

5. The level of increase in operation and maintenance expense.

The Commission will address the issues raised in all three Petitions collectively, in the above order.

1. APPROPRIATE TEST YEAR

2. PURCHASED WATER ADJUSTMENT[1]

The appropriate test year for use in this proceeding and the Commission's recognition of the post test year increase in the price of purchased water were challenged by both the Town and the Consumer Advocate. Their contention is that the Commission's decision was inconsistent because it recognized the post test year increase in cost of purchased water while ignoring the increased revenue associated with increased sales. The contention is that this violates the concept of matching test year revenues with expenses.

The Commission, in approving the Applicant's test year, has matched revenues with expenses for that twelve month period. This does not preclude the inclusion of known and measurable post test year changes. By accepting the known and measurable change in the price of purchased water, the Commission has not violated any matching concept and is consistent with precepts of Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984). The purchased water price increase was applied to the approved test year gallonage which was less than the Applicant

1. The Commission addresses these two issues at the same time since the Petitions link these issues in the allegations of error.

actually purchased during the test year, due to the Commission's unaccounted for water adjustment.

The Commission found in Conclusion 4A that the Staff included the purchase water price increase because the Staff was able to verify the increase during its audit and investigation of the Company. The increase was in effect when Order No. 91-231 was issued and is in effect now. The Commission properly concluded this Staff verified increase which was known and measurable and in effect prior to the Commission's April 1, 1991 Order. This did not violate the test year concept.

Evidence was produced from the Applicant and Intervenors regarding the appropriate test year for use in this proceeding. To increase the revenues for increased post test year sales, the Commission would have had to increase the appropriate post test year expense accounts such as purchased water, operation and maintenance expenses and taxes to comply with the matching concept. There was no evidence presented by any party to this proceeding upon which the expense accounts could be properly adjusted.

The test year presented by the Applicant was the twelve month period ending May 25, 1990 and only four months old at the time of filing of the application. This was the most recent test year the Applicant could be reasonably expected to submit. The Commission Staff concurred in using the same test year for its accounting and pro forma adjustments.

The Commission found in Conclusion 2, page 14, that Company witness Tweed in his rebuttal testimony, Hearing Exhibit No. 12,

Appendix A, presented the consumption for every possible test year Heater of Seabrook could have picked. The average consumption for all the test years shown is 165,000,000 gallons compared to 156,000,000 test year gallons, for a difference of 9,000,000 gallons. Company witness Tweed testified that 9,950,000 gallons of water were consumed on an annual basis by accounts which were now inactive. This properly accounts for the difference and substantiates the validity of accepting the test year consumption figures. The Commission properly concluded the test year ending May 25, 1990 was the appropriate test year.

The Consumer Advocate alleges the Commission's reliance on Hearing Exhibit No. 12 is misplaced and that the exhibit does not constitute reliable evidence. Order No. 91-231 recognized that the Consumer Advocate and the Town questioned the appropriateness of the May 25, 1990 test year. The Company addressed the issue on rebuttal through the testimony and evidence supplied by witness Tweed. The only evidence in the record concerning the appropriateness of the test year was supplied by the Company which supported the selected test year. Mr. Tweed's responses on cross-examination were found to be credible and there is no reason that Mr. Tweed's testimony and evidence should not be relied upon by the Commission. There was not enough of a difference in the test year gallons compared to average annual gallons to warrant either changing the test year or making adjustments to water and sewer revenues. The 9,000,000 gallons difference amounts to approximately 6%. The Commission concluded the selected test year

was appropriate since the test year consumption was not significantly impacted. The evidence relied upon by the Commission was substantial evidence and the Commission made adequate findings in compliance with S.C. Code Ann.§§1-23-250 and 380 (Cum. Supp. 1990).

While the Commission is confident in the reliability of the test year figures, the Commission notes that the Commission Staff regularly monitors water and sewer utilities to determine their compliance with Commission procedures and policy. If it was determined that the Company was earning more than the authorized operating margin, the Commission could take appropriate action at that time.

3. COMMODITY CHARGE

The Town and the POA in their Petitions contend that the commodity charge should be set at no more than $1.60 per 1,000 gallons based upon the fact that Kiawah has a $1.60 commodity charge and that in the last Seabrook rate case the commodity charge was set 12% higher than the cost of purchased water. This contention is inappropriate for ratemaking purposes. The Commission considers each utility's rate filings on its own merits and own set of facts. That is why the Commission uses the test year concept-- to get a "snap-shot" of the utility's operations. Comparisons of different utilities whose rates were set at different times, using different test years and different factual situations are not appropriate. That is one reason why Kiawah Utility's commodity charge cannot be compared to Heater of

Seabrook, Inc's. Additionally, the amount of increase granted by the Commission and the chosen rate design by the Company are the principle drivers of the commodity charge.

Once the Commission determines the appropriate operating margin and the resultant revenue requirement, the rates (if a reduction from the proposed rates) are designed to recover the necessary revenues. As the Commission noted in Order No. 91-231, it fully considered the concerns of the Town and the POA to design a rate structure which fairly spread the cost over all users. The Commission stated in its Conclusion 12 "the rate structure and the Commission's treatment of availability fees recognized the points made by Mayor Thompson." The Commission further stated "the rates designed herein consider the quality of the service provided by the Company to its customers and the need for the continuance of the provision of adequate service, as well as the impact of the increase on those customers receiving service and the need for conservation of water resources." This meets the requirements of Seabrook Island Property Owners Association v. S. C. Public Service Commission, __S.C.__, 401 S.E.2d 672 (1991).

4. OPERATING MARGIN

The Town of Seabrook Island contends that the operating margin of 12.46% is excessive because the existing facility is "underutilized." The Commission recently considered this issue put forth somewhat differently in Order No. 91-367, issued in Docket No. 90-287-W/S, Application of TCU, Inc. for approval of a new schedule of rates and charges for water and sewer service provided

to Tega Cay, South Carolina. The issue in TCU was framed as whether or not an addition to an existing sewerage plant was "used and useful" in the utility's operations. The facts of the matter before the Commission are different from the facts of TCU. Here, it is not a plant addition whose utilization is being questioned, rather, the original plant capacity is alleged to be "underutilized." The original plant is not, as the Commission concluded in TCU, "a reserve for future use by the developer." Indeed, Heater of Seabrook, Inc. has no relationship with the developer of Seabrook Island. This sufficiently distinguishes the two situations.

However, the Commission considered the utilization factor under "Depreciation" on pages 16 and 17 of its Order. The Commission there states "[t]he Staff also recognized the receipt of availability fees by the Company which would offset the rate base and investment of the Company by a similar amount. Therefore, the reduction in rate base should be recognized through reduced depreciation expense."

The Commission Staff reduced the water and sewer combined rate base by $210,000 of availability fees for single family residential lots. Hearing Exhibit No. 9, Staff Accounting Exhibits AC, AS and AW, Revised February 4, 1991. The Commission Staff also reduced the depreciation expense for these availability fees through the reduction of plant upon which depreciation was allowed as cost of service, Staff Accounting Exhibit AC-1, line 21. The reduction of rate base and reduction to depreciation expense for availability

fees, reduce the revenue requirement for Heater of Seabrook.

The Town implies in its Petition that Heater should subsidize the operation by obtaining a less than reasonable return until such time as the facility is fully utilized. However, fair ratemaking practices should not require Heater of Seabrook to subsidize the operating cost until the system is built out nor should it be allowed to earn an excessive return now or in the future. The Commission further recognized the Town's concerns on page 24 of the Order where it states "The rate structure and the Commission's treatment of availability fees recognized the points made by Mayor Thompson."

The Commission has properly dealt with the issue of utilization of the Company's facilities and has established a fair and reasonable operating margin. To do as the Town requests would require Heater to operate at a loss or less than reasonable return today and accrue those losses to be recovered through higher returns in the future. The regulated ratemaking process simply does not allow for this type of treatment.

5. INCREASE IN O&M EXPENSES

The Consumer Advocate in its Petition states '[t]he Consumer Advocate, as well as the Intervenors, presented testimony concerning the alarming increases in the Company's operation and maintenance expenses, including salaries and wages. Other than discussing the reasonableness of the salaries and wages adjustment, the Commission fails to address this issue."

The Commission, in fact, made significant downward adjustments to numerous expenses such as rate case expense, depreciation, unaccounted for water, contractual services, rent, insurance and others. The Commission discusses on pages 10 through 12 of the Order under "Other Adjustments" twelve uncontested adjustments to various expense accounts. The Commission further discusses expense account adjustments on pages 16 through 18 of its Order. The Commission has closely scrutinized and significantly reduced the requested level of operating expenses.

The Company in the rebuttal testimony of Company witness Grantmyre presented extensive evidence on the reasonableness of the Company's operations and maintenance expenses including salaries and wages. The evidence was all employees keep daily time sheets and all salaries are allocated based upon these time sheets. The evidence was the salaries and wages plus billing and accounting had decreased more than $17,000 since the 1988 rate case of Utilities Services, Inc., the predecessor of Heater of Seabrook. The testimony of Company witness Grantmyre showed that there are now additional labor demands caused by DHEC which require increased sewer monitoring.

Company witness Grantmyre in his rebuttal testimony stated the operations and maintenance plus general expenses had increased by only $4,644 for a total of 0.81% from the prior rate case of Utilities Services, Inc., which had a test year ending December 31, 1986. He also testified there were now additional expenses caused by new sewer regulations required by DHEC including new daily and

weekly monitoring test of sewer effluent, quarterly testing of the new monitoring wells and the expenses of maintaining the new laboratory at Seabrook.

The Commission properly concluded the Company's operation and maintenance and general expenses including salaries and wages are reasonable. This issue was adequately addressed in Order No. 91-231 and is supported by the substantial evidence and the findings and conclusions of the Commission.

For the foregoing reasons, the Commission denies the Petitions for Rehearing and Reconsideration filed by the Consumer Advocate, the Town and the POA. The Commission has herein clarified its decision in Order No. 91-231 as to those issues raised by the Petitioners, but has determined that as to the law, logic and facts of this Docket, there has been no adequate showing by any Petitioner that the Commission should change, alter or amend Order No. 91-231.

IT IS SO ORDERED.

BY ORDER OF THE COMMISSION:

Marjorie Amos-Frazier
Chairman

ATTEST:

Charles Ballentine
Executive Director

(SEAL)