

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request by FLORIDA CITIES)	DOCKET NO. 890781-WS
WATER COMPANY for approval to charge)	ORDER NO. 22016
allowance for funds used during)	ISSUED: 10-09-89
construction (AFUDC) rates in Brevard,)	
Collier, and Lee Counties.)	
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING AFUDC RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

On June 8, 1989, Florida Cities Water Company (Florida Cities or utility) filed an application for approval of Allowance for Funds Used During Construction (AFUDC) rates for its water and sewer systems in Brevard, Collier, and Lee Counties. AFUDC rates were last established for this utility in Order No. 880648-WS, issued August 22, 1988. The filing is pursuant to Rule 25-30.116, Florida Administrative Code. The application satisfied the minimum filing requirements and June 8, 1989 was established as the official filing date.

The utility used a test year ended December 31, 1988, for each of its systems. Its capital structure is comprised of 43.24% common equity, 38.97% long-term debt, 1.52% short-term debt, 3.79% unamortized investment tax credits, and 12.48% deferred income taxes.

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LEE COUNTY DIVISION

The Lee County Division consists of the Ft. Myers water system and North Ft. Myers and South Ft. Myers sewer systems. The Lee County Division served approximately 14,577 water customers and 6,949 sewer customers as of December 31, 1988. Operating revenues totalled \$7,335,820 and \$2,759,099 for the water and sewer systems, respectively, and the utility reported net operating income of \$2,713,107 for the water system and a net operating loss of \$103,338 for the sewer systems.

SOUTH FT. MYERS SEWER SYSTEM

Florida Cities calculated the AFUDC rate for the South Ft. Myers sewer system in accordance with Rule 25-30.116(2)(a), Florida Administrative Code, using the most recent twelve-month average embedded cost of capital from all sources. Pursuant to Rule 25-30.116(2)(b), Florida Administrative Code, the utility used the end of period cost of long-term debt, the most recent twelve-month average cost of short-term debt, a zero cost rate for all investment tax credits and deferred income taxes, and the midpoint of the last allowed return on common equity. The utility used a 14.19% rate of return on equity, which was established in the last rate case for this system in Order No. 16818, issued November 6, 1986. The utility calculated a 10.46% AFUDC rate for the South Ft. Myers sewer system pursuant to Rule 25-30.116, Florida Administrative Code. We hereby approve such AFUDC rate, the calculation of which is presented in Schedules Nos. 1 and 2 to this Order.

FT. MYERS WATER AND NORTH FT. MYERS SEWER SYSTEMS

Pursuant to Rule 25-30.116(2)(b), Florida Administrative Code, Florida Cities used the end of period cost of long-term debt, the most recent twelve-month average cost of short-term debt, and a zero cost rate for all investment tax credits and deferred income taxes in calculating the AFUDC rate for the Ft. Myers water and North Ft. Myers sewer systems.

The utility used a 14.27% rate of return on equity, based upon a stipulation set forth in Order No. 18661, issued January 7, 1988. For purposes of calculating AFUDC rates for these two systems for calendar years 1988 and 1989, the utility, in Order No. 18661, agreed to a return on equity calculated from the

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leverage graph in Order No. 16975, issued December 18, 1986, plus 100 basis points. However, in its present request for AFUDC for the two systems, the utility used its capital structure for the twelve month period ended December 31, 1987, which it had used in its last AFUDC filing addressed in Order No. 19847, issued August 22, 1988. We find that, in order to compute the most recent twelve month average embedded cost of capital, as required by Rule 25-30.116(2)(a), Florida Administrative Code, the utility must use its current capital structure for the twelve month period ended December 31, 1988. Using the current capital structure in applying Order No. 18661 yields a 13.98% rate of return on equity, for an AFUDC rate of 10.37%. Accordingly, we find it appropriate to approve an AFUDC rate of 10.37% for the Ft. Myers water and North Ft. Myers sewer systems, the calculation of which is presented in Schedules Nos. 1 and 2 to this Order.

GOLDEN GATE WATER AND SEWER DIVISION (COLLIER COUNTY)

The Golden Gate Water and Sewer Division is located in Collier County. As of December 31, 1988, approximately 2,134 water customers and 1,740 sewer customers were served. Operating revenues totalled \$628,330 and \$648,286 for the water and sewer systems, respectively, and the utility reported net operating income of \$102,906 for the water system and \$75,033 for the sewer system.

GOLDEN GATE WATER SYSTEM

Pursuant to Rule 25-30.116(2)(b), Florida Administrative Code, Florida Cities used the end of period cost of long-term debt, the most recent twelve-month average cost of short-term debt, and a zero cost rate for all investment tax credits and deferred income taxes to calculate the AFUDC rate for the Golden Gate Water System (the water system). Florida Cities calculated a 10.17% AFUDC rate, using the leverage formula in Order No. 19718, issued July 26, 1988. Although the water system has never had an authorized rate of return on equity established in a prior docket, this system was included in the stipulation set forth in Order No. 18661, issued January 7, 1988. For purposes of calculating the AFUDC rate for the water system for calendar years 1988 and 1989, the utility, in Order No. 18661, agreed to a return on equity calculated from the leverage graph approved in Order No. 16975, issued December 18, 1986, plus 100 basis points. Therefore, utilizing Order No.

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18661, instead of Order No. 19718, results in a 13.98% rate of return on equity and a 10.37% AFUDC rate for the water system. Accordingly, we find it appropriate to approve an AFUDC rate of 10.37% for the Golden Gate water system, the calculation of which is presented in Schedule No. 2 to this Order.

GOLDEN GATE SEWER SYSTEM

Florida Cities calculated the AFUDC rate for the Golden Gate sewer system (the sewer system) in accordance with Rule 25-30.116(2)(a), Florida Administrative Code, using the most recent twelve-month average embedded cost of capital from all sources. Pursuant to Rule 25-30.116(2)(b), Florida Administrative Code, the utility used the end of period cost of long-term debt, the most recent twelve-month average cost of short-term debt, a zero cost rate for all investment tax credits and deferred income taxes, and the midpoint of the last allowed return on common equity. The utility used a 13.95% rate of return on equity, which was established in the last rate case for the sewer system in Order No. 20537, issued December 29, 1988. The utility calculated a 10.35% AFUDC rate for the this system pursuant to Rule 25-30.116, Florida Administrative Code. We hereby approve such AFUDC rate, the calculation of which is presented in Schedules Nos. 1 and 2 to this Order.

BAREFOOT BAY WATER AND SEWER DIVISION (BREVARD COUNTY)

The Barefoot Bay Water and Sewer Division (Barefoot Bay) is located in Brevard County. As of December 31, 1988, approximately 4,009 water customers and 3,994 sewer customers were served. Operating revenues totalled \$498,730 and \$391,980 for the water and sewer systems respectively, and the utility reported net operating income of \$103,727 for the water system and \$23,331 for the sewer system.

The utility's calculation of the AFUDC rate for these systems, and our adjustments thereto, are precisely the same as for the Ft. Myers water and North Ft. Myers sewer systems, discussed above. Therefore, we find it appropriate to approve a 10.37% AFUDC rate for Barefoot Bay, the calculation of which is presented in Schedules Nos. 1 and 2 to this Order.

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EFFECTIVE DATE

Rule 25-30.116(5), Florida Administrative Code, provides that the AFUDC rate shall become effective the month following the end of the twelve-month period used to establish that rate. Since the twelve-month period ended on December 31, 1988, the AFUDC rates shall be effective for eligible projects as of January 1, 1989.

Based on the foregoing, it is hereby

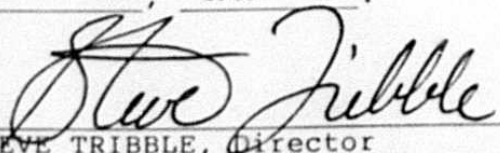
ORDERED by the Florida Public Service Commission that the request by Florida Cities Water Company for approval to charge AFUDC is hereby approved as set forth in the body of this Order. Schedules Nos. 1 and 2, reflecting the calculation of the AFUDC rates, are attached to this Order and by reference incorporated herein. It is further

ORDERED that the AFUDC rates approved in this Order shall be effective for eligible projects as of January 1, 1989. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition in the form provided by Rule 25-22.36, Florida Administrative Code, is received by the Director, Division of Records and Reporting, at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings, below.

ORDERED that in the event that this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission
 this 9th day of October, 1989.


 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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on October 30, 1989.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 of the effective date 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.

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Florida Cities Water Company
Commission Approved AFUDC Rates
12-Month Period Ended December 31, 1988

Schedule No. 1

Docket No. 890781-WS

South Ft. Myers-Sewer	Average Capital Structure	Commission Adjustments	Adjusted Capital Structure	Percent of Capital	Cost Rates	Weighted Cost	Discounted Monthly Rate
Class of Capital							
Common Equity	23,764,296		23,764,296	43.24%	14.19%(2)	6.14%	
Long-Term Debt	21,414,500		21,414,500	38.97%	10.68%	4.16%	
Short-Term Debt	833,333		833,333	1.52%	10.50%(1)	0.16%	
Tax Credits - Zero Cost	2,083,372		2,083,372	3.79%	0.00%	0.00%	
Deferred Income Taxes	6,861,196		6,861,196	12.48%	0.00%	0.00%	
Total	54,956,697	0	54,956,697	100.00%		10.46%	0.832473%

Golden Gate-Sewer	Average Capital Structure	Commission Adjustments	Capital Structure	of Capital	Cost Rates	Weighted Cost	Monthly Rate
Class of Capital							
Common Equity	23,764,296		23,764,296	43.24%	13.95%(3)	6.03%	
Long-Term Debt	21,414,500		21,414,500	38.97%	10.68%	4.16%	
Short-Term Debt	833,333		833,333	1.52%	10.50%(1)	0.16%	
Tax Credits - Zero Cost	2,083,372		2,083,372	3.79%	0.00%	0.00%	
Deferred Income Taxes	6,861,196		6,861,196	12.48%	0.00%	0.00%	
Total	54,956,697	0	54,956,697	100.00%		10.35%	0.824102%

Ft. Myers-Water, North Ft. Myers-Sewer And Barefoot Bay:	Average Capital Structure	Commission Adjustments	Adjusted Capital Structure	Percent Capital	Rates	Cost	Discounted Rate
Class of Capital							
Common Equity	23,764,296		23,764,296	43.24%	13.98%(4)	6.05%	
Long-Term Debt	21,414,500		21,414,500	38.97%	10.68%	4.16%	
Short-Term Debt	833,333		833,333	1.52%	10.50%(1)	0.16%	
Tax Credits - Zero Cost	2,083,372		2,083,372	3.79%	0.00%	0.00%	
Deferred Income Taxes	6,861,196		6,861,196	12.48%	0.00%	0.00%	
Total	54,956,697	0	54,956,697	100.00%		10.37%	0.825624%

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Florida Cities Water Company
Commission Approved AFUDC Rates
12-Month Period Ended December 31, 1988

Schedule No. 2
Docket No. 890781-WS

Golden Gate-Water Class of Capital	Average Capital Structure	Commision Adjustments	Adjusted Capital Structure	Percent of Capital	Cost Rates	Weighted Cost	Discounted Monthly Rate
Common Equity	23,764,296		23,764,296	43.24%	13.98%(5)	6.05%	
Long-Term Debt	21,414,500		21,414,500	38.97%	10.68%	4.16%	
Short-Term Debt	833,333		833,333	1.52%	10.50%(1)	0.16%	
Tax Credits - Zero Cost	2,083,372		2,083,372	3.79%	0.00%	0.00%	
Deferred Income Taxes	6,861,196		6,861,196	12.48%	0.00%	0.00%	
Total	54,956,697	0	54,956,697	100.00%		10.37%	0.825624%

- NOTES: (1) Rate charged December 31, 1988.
 (2) Cost of equity authorized in Rate Case, Docket 840419-SU, Order No. 16618.
 (3) Cost of equity authorized in Rate Case, Docket 871249-SU, Order No. 20537.
 (4) Cost of equity authorized in Tax Stipulation, Docket No. 871206-WS, Order No. 18661.
 (5) Cost of equity authorized in Tax Stipulation, Docket No. 871206-WS, Order No. 18661.