

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater
rates in Seminole County by Alafaya Utilities,
Inc.

DOCKET NO. 060256-SU
ORDER NO. PSC-06-0664-FOF-SU
ISSUED: August 7, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
J. TERRY DEASON
ISILIO ARRIAGA
MATTHEW M. CARTER II
KATRINA J. TEW

ORDER SUSPENDING PROPOSED RATES AND APPROVING INTERIM RATES

BY THE COMMISSION:

I. BACKGROUND

Alafaya Utilities, Inc. (Alafaya or utility) is a Class A utility providing wastewater service to approximately 8,482 customers in Seminole County. Water service is provided in the area by the City of Oviedo. Wastewater rates were last established for this utility in its 2002 rate proceeding.¹

On May 15, 2006, Alafaya filed the Application for Rate Increase at issue in the instant docket. The utility had a few deficiencies in the Minimum Filing Requirements (MFRs). At the time of consideration of its request for interim rates, those deficiencies remain outstanding. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ending December 31, 2005.

Alafaya requested interim rates designed to generate annual revenues of \$3,475,879. This represents a revenue increase on an annual basis of \$617,794 (21.62%) for wastewater. The utility requested final rates designed to generate annual revenues of \$4,195,278. This represents a revenue increase of \$1,337,192 (46.79%).

The original 60-day statutory deadline for this Commission to suspend the utility's requested final rates was July 14, 2006. However, by letter dated June 5, 2006, the utility agreed to extend the statutory time frame by which this Commission is required to address Alafaya's interim rate request. This Order addresses the suspension of Alafaya's requested final rates and

¹See Order No. PSC-04-0363-PAA-WS, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc. That Order was consummated by Order No. PSC-04-0435-CO-SU, issued April 28, 2004.

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PSC-COMMISSIONER

the utility's requested interim rates. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

II. SUSPENSION OF PROPOSED RATES

Section 367.081(6), F.S., provides that this Commission may, for good cause, withhold consent to the implementation of the requested rates by a vote to that effect within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Having reviewed the filing and having considered the information filed in support of the rate application and the proposed final rates, we find that it is necessary to require further investigation of this information, including on-site investigations by our staff accountants and engineers. Based on the foregoing, we suspend the utility's proposed rate increase.

III. INTERIM RATES

The utility has filed rate base, cost of capital, and operating statements to support its requested wastewater increase. Pursuant to Section 367.082(5)(b)1., F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding and annualizing any rate changes. We have reviewed the utility's interim request, as well as Order No. PSC-04-0363-PAA-SU, in which this Commission last established rate base. Our adjustments are discussed below, and we have attached accounting schedules to illustrate our calculation of rate base, capital structure, and test year operating income amounts. The rate base schedule is labeled as No. 1-A, and the adjustment schedule is No. 1-B. The capital structure schedule is No. 2, and the operating income schedule is labeled as No. 3-A, with the adjustments shown on No. 3-B.

A. Rate Base

Based on an analysis of the MFRs and Order No. PSC-04-0363-PAA-SU from the utility's last rate proceeding, we find that one adjustment is necessary to the utility's rate base. Rule 25-30.433(2), Florida Administrative Code (F.A.C.), states that Class A utilities shall calculate its working capital allowance using the balance sheet approach. On MFR Schedule A-17, Alafaya reflected a 13-month average balance of \$311,419 for "Accounts and Notes Receivable, Less provision for Uncollectible Accounts." However, on MFR Schedule A-18, the utility reflected a 13-month average balance of \$311,419 for accounts receivable and \$1,414 for allowance for bad debts. As such, Alafaya did not offset its allowance for bad debts against its accounts receivable in the working capital allowance. Therefore, Alafaya's working capital allowance shall be reduced by \$1,414, and its interim wastewater rate base is \$6,047,665.

B. Cost Of Capital

On MFR Schedule D-2, Alafaya reflected a 13-month average balance of \$1,264 for accumulated deferred income taxes (ADITs). This amount was derived by a negative 2004 year-end balance of \$10,600 and a positive 2005 year-end balance of \$143,632. However, according to MFR Schedule A-19, the utility reflected a 13-month average ADITs balance of \$20,833. On MFR Schedules A-19 and C-6, the utility reflected a positive 2004 year-end of \$10,600 for ADITs. Thus, Alafaya understated its ADITs in the capital structure because of an apparent typographical error for the 2004 year-end ADITs balance. Therefore, the utility's 13-month average ADITs balance shall be increased by \$19,569 (\$20,833 less 1,264).

In its interim request, Alafaya used a 10.47% return on equity (ROE) which is the minimum of the range of its last authorized ROE. Based on the above, the interim weighted average cost of capital is 8.10%.

C. Net Operating Income

Based on a review of the utility's calculation of net operating income, we find two adjustments to operating expenses are necessary. First, on MFR Schedule B-15, Alafaya reflected historical per book regulatory assessment fees (RAFs) of \$114,373. Using the 4.50% RAF rate pursuant to Section 367.145, F.S., and Rule 25-30.120, F.A.C., we calculate RAFs of \$125,151. As such, the utility's historical per book RAFs are understated and shall be increased by \$10,778.

Second, on MFR Schedule A-2, the utility made an adjustment to reflect non-used and useful plant. However, Alafaya did not make any corresponding non-used and useful adjustments to depreciation expense and property tax expense. Rule 25-30.433(5), F.A.C., states that non-used and useful adjustments shall be applied to the applicable depreciation expense and property tax expense. Section 367.082(5)(b)1., F.S., states that the achieved rate of return is calculated by applying adjustments consistent with the utility's last rate proceeding. By Order No. PSC-04-0363-PAA-SU, p. 49, this Commission made adjustments to remove depreciation expense and property tax expense associated with non-used and useful plant in Alafaya's last rate case. Therefore, the depreciation expense and property tax expense shall be reduced by \$12,205 and \$2,193, respectively.

Based on the above, we calculate that the appropriate test year operating income, before any revenue increase, is \$168,903.

D. Revenue Requirement

Based on the above adjustments, we find that the interim revenue requirement is \$3,397,156, which represents an interim increase in annual revenues of \$539,070 (or 18.86%). This will allow the utility the opportunity to recover its wastewater operating expenses and earn an 8.10% return on its wastewater rate base.

E. Interim Wastewater Rates

The interim wastewater service rates for Alafaya shall be designed to allow the utility the opportunity to generate annual operating revenues of \$3,397,156 for wastewater operations. Before removal of miscellaneous revenues, this would result in an increase of \$539,070 or 18.86%. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Wastewater</u>
1 Total Test Year Revenues	\$2,858,086
2 Less: Miscellaneous Revenues	<u>8,963</u>
3 Test Year Revenues from Service Rates	\$2,849,123
4 Revenue Increase	<u>\$539,070</u>
5 % Service Rate Increase (Line 4/Line3)	<u>18.92%</u>

The interim rate increase of 18.92% for wastewater shall be applied as an across-the-board increase to the service rates in effect as of December 31, 2005. The approved rates shall be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided customers have received notice. The rates shall not be implemented until our staff verifies that the tariff sheets are consistent with our decision, the proposed customer notice is adequate, and the required security has been filed. The utility shall provide proof of the date notice was given within ten days after the date of notice.

The utility's test year, proposed interim and final rates, and Commission approved interim rates are shown on Schedule No. 4.

F. Appropriate Security to Guarantee the Interim Increase

Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As approved above, the total annual interim increase is \$539,070. In accordance with Rule 25-30.360, F.A.C., the potential refund of revenues and interest collected under interim conditions is calculated to be \$319,065. This amount is based on an estimated seven months of revenue being collected from our approved interim rates over the utility's current authorized rates shown on Schedule No. 4.

Alafaya is a wholly-owned subsidiary of Utilities, Inc. (UI), which provides all investor capital to its subsidiaries. UI has requested a corporate undertaking to secure any interim increases granted in Dockets Nos. 060254-SU, 060255-SU, 060256-SU, 060257-WS, 060258-WS, 060260-WS, 060261-WS, and 060262-WS. As such, our staff reviewed the financial

statements of the parent company. As a result of the interim increases in all of the above dockets, the total requested cumulative corporate undertaking amount is \$718,575, which includes \$319,065 subject to refund for this docket.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. A review of UI's financial statements from 2003 to 2005 shows that UI has experienced a significant decline in liquidity and interest coverage during 2005 compared to prior years. However, UI's average equity ratio over the three-year period has been 40%. Additionally, net income has been on average six times greater than the requested cumulative corporate undertaking amount. UI's financial performance has demonstrated adequate levels of both profitability and equity capitalization to offset the recent decline in liquidity and interest coverage. Based upon this analysis, we find that a cumulative corporate undertaking of \$718,575 is acceptable contingent upon the receipt of the written guarantee of UI and written confirmation that UI does not have any outstanding guarantees on behalf of UI-owned utilities in other states.

Pursuant to Rule 25-30.360(6), F.A.C., the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the rates proposed by Alafaya Utilities, Inc., are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the request for an interim increase in Alafaya Utilities, Inc.'s wastewater rates is granted to the extent set forth in the body of this Order. It is further

ORDERED that the wastewater rates of Alafaya Utilities, Inc., as of December 31, 2005, shall be increased on an interim basis subject to refund with interest by 18.92% across the board to generate increased revenues of \$539,070. It is further

ORDERED that the approved rates shall be as shown on Schedule No. 4, and be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided customers have received notice. It is further

ORDERED that the rates shall not be implemented until our staff verifies that the tariff sheets are consistent with our decision, the proposed customer notice is adequate, and the required security has been filed. It is further

ORDERED that the utility shall provide proof of the date notice was given within ten days after the date of notice. It is further

ORDERED that the parent company, Utilities, Inc. (UI), shall file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions, and written confirmation of UI's continued attestation that it does not have any outstanding guarantees on behalf of UI-owned utilities in other states. It is further


ORDERED that the total guarantee shall be a cumulative amount of \$718,575, which includes an amount of \$319,065 subject to refund in this docket. It is further

ORDERED that pursuant to Rule 25-30.360(6), F.A.C., the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. 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, F.A.C. It is further

ORDERED that the docket shall remain open pending our final action on the utility's requested rate increase.

By ORDER of the Florida Public Service Commission this 7th day of August, 2006.



BLANCA S. BAYO, Director
Division of the Commission Clerk
and Administrative Services

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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.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 15 days pursuant to 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 or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Alafaya Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/05			Schedule No. 1-A Docket No. 060256-SU Interim		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$21,402,133	\$0	\$21,402,133	\$0	\$21,402,133
2 Land and Land Rights	60,843	0	60,843	0	60,843
3 Non-used and Useful Components	0	(75,568)	(75,568)	0	(75,568)
4 Accumulated Depreciation	(6,497,520)	0	(6,497,520)	0	(6,497,520)
5 CIAC	(13,634,102)	0	(13,634,102)	0	(13,634,102)
6 Amortization of CIAC	4,483,331	0	4,483,331	0	4,483,331
7 CWIP	356,711	(356,711)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>309,962</u>	<u>309,962</u>	<u>(1,414)</u>	<u>308,548</u>
9 Rate Base	<u>\$6,171,396</u>	<u>(\$122,317)</u>	<u>\$6,049,079</u>	<u>(\$1,414)</u>	<u>\$6,047,665</u>

Alafaya Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/05	Schedule No. 1-B Docket No. 060256-SU Interim
Explanation	Wastewater
<u>Working Capital</u> To offset account receivables with bad debt allowance.	<u>(\$1,414)</u>

Alafaya Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/05						Schedule No. 2 Docket No. 060256-SU Interim			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$129,585,817)	\$3,439,285	56.86%	6.65%	3.78%	
2 Short-term Debt	4,522,923	0	4,522,923	(4,405,961)	116,962	1.93%	6.62%	0.13%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	91,510,699	0	91,510,699	(89,144,803)	2,365,896	39.11%	10.47%	4.09%	
5 Customer Deposits	125,672	0	125,672	0	125,672	2.08%	6.00%	0.12%	
6 Deferred Income Taxes	1,264	0	1,264	0	1,264	0.02%	0.00%	0.00%	
7 Total Capital	<u>\$229,185,660</u>	<u>\$0</u>	<u>\$229,185,660</u>	<u>(\$223,136,581)</u>	<u>\$6,049,079</u>	<u>100.00%</u>		<u>8.13%</u>	
Per Commission									
8 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$129,598,023)	\$3,427,079	56.67%	6.65%	3.77%	
9 Short-term Debt	4,522,923	0	4,522,923	(4,406,401)	116,522	1.93%	6.62%	0.13%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	91,510,699	0	91,510,699	(89,153,141)	2,357,558	38.98%	10.47%	4.08%	
12 Customer Deposits	125,672	0	125,672	0	125,672	2.08%	6.00%	0.12%	
13 Deferred Income Taxes	1,264	19,569	20,833	0	20,833	0.34%	0.00%	0.00%	
14 Total Capital	<u>\$229,185,660</u>	<u>\$19,569</u>	<u>\$229,205,229</u>	<u>(\$223,157,564)</u>	<u>\$6,047,665</u>	<u>100.00%</u>		<u>8.10%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.47%</u>	<u>12.47%</u>		
OVERALL RATE OF RETURN						<u>8.10%</u>	<u>8.88%</u>		

Alafaya Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/05						Schedule No. 3-A Docket No. 060256-SU Interim	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$2,781,124</u>	<u>\$694,756</u>	<u>\$3,475,880</u>	<u>(\$617,794)</u>	<u>\$2,858,086</u>	<u>\$539,070</u> 18.86%	<u>\$3,397,156</u>
Operating Expenses							
2 Operation & Maintenance	\$2,013,286	-\$8,500	\$2,004,786	\$0	\$2,004,786		\$2,004,786
3 Depreciation	295,596	0	295,596	(12,205)	283,391		283,391
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	437,478	38,320	475,798	(29,994)	445,804	24,258	470,062
6 Income Taxes	<u>45,626</u>	<u>162,405</u>	<u>208,031</u>	<u>(252,830)</u>	<u>(44,799)</u>	<u>193,724</u>	<u>148,925</u>
7 Total Operating Expense	<u>2,791,986</u>	<u>192,225</u>	<u>2,984,211</u>	<u>(295,028)</u>	<u>2,689,183</u>	<u>217,982</u>	<u>2,907,164</u>
8 Operating Income	<u>(\$10,862)</u>	<u>\$502,531</u>	<u>\$491,669</u>	<u>(\$322,766)</u>	<u>\$168,903</u>	<u>\$321,088</u>	<u>\$489,991</u>
9 Rate Base	<u>\$6,171,396</u>		<u>\$6,049,079</u>		<u>\$6,047,665</u>		<u>\$6,047,665</u>
10 Rate of Return	<u>(0.18%)</u>		<u>8.13%</u>		<u>2.79%</u>		<u>8.10%</u>

Alafaya Utilities, Inc. Adjustment to Operating Income Test Year Ended 12/31/05		Schedule No. 3-B Docket No. 060256-SU Interim
Explanation	Wastewater	
<u>Operating Revenues</u>		
Remove requested interim revenue increase.		<u>(\$617,794)</u>
<u>Depreciation Expense - Net</u>		
To remove net depreciation for non-U&U plant.		<u>(\$12,205)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$38,579)
2 To reflect appropriate historical RAFs.		10,778
3 To remove property taxes for non-U&U plant.		<u>(2,193)</u>
Total		<u>(\$29,994)</u>
<u>Income Taxes</u>		
To adjust to test year income tax expense.		<u>(\$252,830)</u>

Alafaya Utilities, Inc.		SCHEDULE NO. 4		
Wastewater Monthly Service Rates		Docket No. 060256-SU		
Test Year Ended 12/31/05		Interim		
	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Commission Approved Interim
<u>Residential</u>				
Base Facility Charge All Meter Sizes:	\$16.69	\$20.30	\$24.50	\$19.85
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$2.23	\$2.71	\$3.27	\$2.65
<u>General Service</u>				
Base Facility Charge by Meter Size:				
5/8" x 3/4"	\$16.69	\$20.30	\$24.50	\$19.85
1"	\$41.73	\$50.75	\$61.25	\$49.63
1-1/2"	\$83.48	\$101.52	\$122.54	\$99.27
2"	\$133.56	\$162.43	\$196.05	\$158.83
3"	\$267.13	\$324.87	\$392.11	\$317.67
4"	\$417.38	\$507.60	\$612.66	\$496.35
Gallage Charge, per 1,000 Gallons	\$2.60	\$3.22	\$8.48	\$3.09
<u>Reuse Irrigation Service</u>				
Residential Flat Rate	\$6.93	\$8.43	\$10.17	\$8.24
Residential Availability Fee	\$5.78	\$7.03	\$8.48	\$6.87
General Service Gallage Charge	\$0.29	\$0.35	\$0.43	\$0.34
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>				
3,000 Gallons	\$24.49	\$29.96	\$49.94	\$27.80
5,000 Gallons	\$29.69	\$36.40	\$66.90	\$33.10
10,000 Gallons	\$42.69	\$52.50	\$109.30	\$46.35
(Wastewater Gallage Cap - 10,000 Gallons)				