

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Spruce Creek Development Company of Ocala d/b/a Spruce Creek South Utilities for a water certificate in Marion County.	)	DOCKET NO. 881597-WU
	)	ORDER NO. 21340
	)	ISSUED: 6-6-89

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 ACTIONORDER SETTING RATES AND CHARGES

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.

Background

On December 27, 1988, Spruce Creek Development Company of Ocala, Inc., d/b/a Spruce Creek South Utilities (Spruce Creek or utility) filed an application with this Commission for certificates to provide water and sewer service in Marion County, Florida. In its application, Spruce Creek requested that the Commission issue the water and sewer certificates prior to the final determination of rates and charges to enable the utility to obtain the construction permits required by the Department of Environmental Regulation (DER). By letter dated March 2, 1989, the utility withdrew its request for a sewer certificate. By Order No. 20933, issued March 24, 1989, the utility was granted water Certificate No. 511-W. The purpose of this Order is to set rates and charges for Spruce Creek.

Rates and Charges

Normally, in original certificate applications, rates are calculated which will allow the utility to earn a fair rate of return on investment when the treatment plant reaches 80% of capacity. The utility anticipates that it will begin connecting 20 customers per month to the water system in September or October of this year. At this rate, the residential customers will reach build-out in 1991. Further, Spruce Creek anticipates that the commercial customers will connect after the residential customers (in 1992). Using this growth rate, the utility will reach 80% of its capacity in 1991.

Spruce Creek has not submitted schedules of rate base, operating income and capital structure as required by Rule 25-30.035, Florida Administrative Code. The utility has

DOCUMENT NUMBER-DATE

05618 JUN-6 1989

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provided sufficient information regarding plant costs, growth rates and expenses for the preparation of schedules for use in calculating the revenue requirement and initial rates and charges. Since the information has been provided, although not in the form required by the Rule 25-30.035, we are waiving the the requirement that the information be filed in the format of a schedule.

In preparing the schedule of rate base, we used the plant costs for the treatment facilities and the transmission and distribution system provided by the utility. The only adjustments made to these costs have been to remove an excessive amount of six-inch pipe and to add sufficient distribution plant costs to include the commercial customers which were omitted from the utility's costs. In determining the amount of plant to add, we used the utility's average costs for lines, services and meters. We have projected the utility requested level of Contributions-in-Aid-of-Construction (CIAC) based on the charges contained in the proposed tariff. Accumulated depreciation and accumulated amortization of CIAC have been calculated to conform to Commission approved depreciation rates. Working capital allowance has been set at 1/8 of the operations and maintenance expenses projected by the utility. Our Schedule of Rate Base appears on Schedule No. 1, with adjustments appearing on Schedule No. 2.

In preparing the schedule of operations, we have used information provided by the utility regarding projected operations and maintenance expenses and property taxes. Depreciation expense has been calculated using the Commission approved depreciation rates. There is no provision for income taxes since the utility is a Sub-S corporation and will not be liable for such taxes. Our Schedule of Operations appears on Schedule No. 3, with adjustments appearing on Schedule No. 4. As shown on that schedule, the annual revenue requirement is \$107,616, representing a return of 11.39% on rate base.

The initial filing did not provide information on the projected capital structure of the utility. According to the utility consultant, the utility will have approximately a 60/40 debt to equity ratio when the system reaches 80% of build-out. Using this information and the fact that the utility will have customer deposits, we have constructed a schedule of capital structure reconciled to rate base. We calculated the return on common equity to be 14.35% using the Commission approved leverage formula, authorized by Order No. 19718, issued July 26, 1988. The utility's capital structure appears on Schedule No. 5.

The above schedules are being presented only as tools to aid the Commission in establishing initial rates, and not to establish rate base. This is consistent with Commission policy in original certificate applications. A return on equity of 14.35% is found to be appropriate and shall be used in all future proceedings involving such matters as calculation of Allowance for Funds Used During Construction (AFUDC), interim rates and tax savings.

The utility has proposed water rates using the base facility charge rate structure, although no workpapers have been provided indicating how the rates were calculated. The

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utility requested rates for the 5/8" x 3/4" meters only, since it is anticipated that all customers will be served through this size of meter. However, we are setting rates for other meter sizes in case the utility connects customers requiring larger meters. The following table sets forth the utility's proposed rates and the Commission approved rates, which are based on a revenue requirement of \$107,616. The approved rates shall be effective for meter readings on or after thirty days from the stamped approval date on the original water tariff. The tariff will be approved upon staff's verification that it is consistent with the Commission's decision and that the protest period has expired.

WATER RATES

RESIDENTIAL AND GENERAL SERVICE

(Monthly Rates)

<u>Base Facility Charge</u>	<u>Utility Proposed</u>	<u>Commission Approved</u>
<u>Meter Size</u>		
5/8" x 3/4"	\$ 14.22	\$ 10.16
1"	--	25.40
1 1/2"	--	50.80
2"	--	81.28
3"	--	162.56
4"	--	254.00
<u>Gallage Charge</u>		
(per 1,000 Gallons)	\$ 1.24	\$ 1.10

Spruce Creek's proposed tariff contains miscellaneous service charges of \$20.00 for initial connections, normal reconections and violation reconections during normal working hours and \$25.00 after normal working hours. In addition, the utility has requested a charge of \$10.00 for a premises visit (in lieu of disconnection). No cost justification was provided for the proposed charges. Staff Advisory Bulletin (SAB) No. 13, Second Revised, contains the current Commission practice regarding miscellaneous service charges for water and sewer utilities. The charges contained in that SAB include \$15.00 for initial, normal and violation reconections and \$10.00 for premises visits. The utility has revised its request to conform with the level of charges contained in the SAB. Therefore, pursuant to the Administrative Procedures Manual Chapter 2.08(C)(9)(i), these charges will be approved administratively by Commission staff when the tariff is approved.

Additionally, the utility's tariff contains a provision for an initial customer deposit of \$40.00, as well as specific criteria for the establishment of credit, payment of interest of 8% on all customer deposits and a refund of residential deposits after 23 months of satisfactory payment. This provision is in compliance with Rule 25-30.311, Florida Administrative Code, and will be approved administratively by Commission staff, pursuant to Administrative Procedures Manual Section 2.08(C)(9)(a).

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Spruce Creek's proposed tariff contains a meter installation fee of \$100.00 and a system capacity charge of \$885.00 per equivalent residential connection (ERC). The plant cost data submitted by the utility supports a meter installation fee of \$75.00 which we find to be reasonable. A meter installation fee of \$75.00 is, therefore, approved.

The utility has not provided documentation supporting the requested system capacity charge of \$885.00 per ERC. In developing capacity charges, we project the amount of plant-in-service and contributed property at the time the treatment plant reaches capacity. We then determine a capacity charge which will result in a level of total net contributions of approximately 75% of net plant at the time the treatment plant reaches capacity. This is in compliance with Rule 25-30.580, Florida Administrative Code, which provides that the maximum amount of net CIAC should not exceed 75% of total net plant.

In this case, no lines or other facilities will be donated by developers; therefore, no donated property has been included in our calculations. According to our calculations, a total service availability charge of \$935 per ERC will result in a net contribution level of approximately 75% when the utility reaches capacity.

The utility requested a "system" capacity charge, which does not separate charges for treatment plant and distribution lines. We find that separate charges should be developed for these facilities so that if the utility receives donated lines in the future, an appropriate cash contribution for treatment plant only can be assessed without the need of a complete service availability case to determine the charge. Based on the cost data available in this case, we find that charges of \$800.00 per ERC for distribution lines and \$135.00 per ERC for plant capacity charge are reasonable and they are, therefore, approved.

Net plant to net CIAC at build-out is provided as Schedule No. 6. This schedule indicates that the charges will result in a contribution level of approximately 75% of net plant when the utility system reaches capacity.

It is, therefore,

ORDERED by the Florida Public Service Commission that Spruce Creek Development Company of Ocala d/b/a Spruce Creek South Utilities, 7753 S.W. State Road 200, Ocala, Florida 32676, is hereby authorized to charge the rates and charges set forth in the body of this Order. It is further

ORDERED that the rates shall be effective for meter readings on or after thirty days from the stamped approval date on the original water tariff. It is further

ORDERED that the service availability charges approved herein shall be effective for service rendered after the stamped approval date on the tariff. It is further

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ORDERED that a return on equity of 14.35% is hereby established for use in future proceedings involving this Utility. It is further

ORDERED that the provisions of this Order, issued as Proposed Agency Action, shall become final unless an appropriate petition in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on June 26, 1989. It is further

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

By ORDER of the Florida Public Service Commission,  
this 6th day of JUNE, 1989.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

ALC

by: Kay Ferguson  
Chief, Bureau of Records

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.

As identified in the body of this order, the setting of rates and charges 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 June 26, 1989. In the absence of such a petition, this order shall become effective June 27, 1989, 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.

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If the relevant portion of this order becomes final and effective on June 27, 1989, 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.

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 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 Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

SPRUCE CREEK SOUTH UTILITIES  
 Schedule of Water Rate Base  
 At 80% of Design Capacity

Docket No. 881597-WU  
 Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Staff Adjust.	Balance Per Staff
Utility Plant in Service	532,074	0	532,074	9,434 (1)	541,508
Land	17,438	0	17,438	0	17,438
Accumulated Depreciation	0	0	0	(23,444) (2)	(23,444)
Contributions-in-aid-of-Construction	(443,250)	0	(443,250)	32,180 (3)	(411,070)
Accumulated Amortization of C.I.A.C.	0	0	0	16,363 (4)	16,363
Plant Held for Future Use	0	0	0	0	0
Working Capital Allowance	0	0	0	9,227 (5)	9,227
<b>TOTAL</b>	<b>106,262</b>	<b>0</b>	<b>106,262</b>	<b>43,759</b>	<b>150,021</b>

SCHEDULE NO. 2

SPRUCE CREEK DEVELOPMENT COMPANY OF OCALA, INC. d/b/a  
 SPRUCE CREEK SOUTH UTILITIES

SCHEDULE OF ADJUSTMENTS TO RATE BASE

<u>DESCRIPTION</u>	<u>ADJUSTMENT</u>
<u>UTILITY PLANT IN SERVICE</u>	
1) To remove the excessive amount of 6" pipe and to add distribution plant for the commercial customers.	\$ <u>9,434</u>
<u>ACCUMULATED DEPRECIATION</u>	
2) To reflect the adjustment in utility plant in service and to apply Commission approved depreciation rates.	\$ <u>(23,444)</u>
<u>CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION</u>	
3) To reflect Staff's recommended adjustment to the utility's requested service availability charges and to add lines as contributed property.	\$ <u>32,180</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>	
4) To reflect the application of Commission approved depreciation rates.	\$ <u>16,363</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
5) To include an allowance for working capital calculated as 1/8 of O&M expenses	\$ <u>9,227</u>



SPRUCE CREEK SOUTH UTILITIES  
 Schedule of Water Operations  
 At 80% of Design Capacity

Docket No. 881597-WU  
 Schedule No. 3

Description	Balance Per Utility	Staff Adjust.	Balance Per Staff	Staff Adjust. Required Revenue	Required Revenue Per Staff
Operating Revenues	0	0	0	107,616 (2)	107,616
Operating and Maintenance	73,812	0	73,812	0	73,812
Depreciation Expense	0	7,081 (1)	7,081	0	7,081
Taxes Other Than Income	6,940	0	6,940	2,690 (3)	9,630
Income Taxes	0	0	0	0	0
Total Operating Expenses	80,752	7,081	87,833	2,690	90,523
Net Operating Income	(80,752)	(7,081)	(87,833)	104,926	17,093
Rate Base	106,262		150,021		150,021
Rate of Return	-75.99%		-58.55%		11.39%

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SCHEDULE NO. 4

SPRUCE CREEK DEVELOPMENT COMPANY OF OCALA, INC. d/b/a  
SPRUCE CREEK SOUTH UTILITIES

ADJUSTMENTS TO SCHEDULE OF OPERATIONS

<u>DESCRIPTION</u>	<u>ADJUSTMENT</u>
<u>DEPRECIATION EXPENSE</u>	
1) To reflect the use of Commission approved depreciation rates.	\$ <u>7,081</u>
<u>OPERATING REVENUE</u>	
4) To reflect Operating Revenue at a level which will allow the utility the opportunity to earn a 11.39% overall rate of return on rate base.	\$ <u>107,616</u>
<u>TAXES OTHER THAN INCOME</u>	
5) To add regulatory assessment fees calculated as 2/5% of the staff recommended revenue.	\$ <u>2,690</u>

SPRUCE CREEK SOUTH UTILITIES  
Schedule of Capital Structure  
At 80% of Design Capacity

Docket No. 881597-WU

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Staff Adjust.	Balance Per Staff	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity			0	54,457	54,457	0	54,457	36.30%	14.35%	5.21%
Long and Short-Term Debt			0	81,685	81,685	0	81,685	54.45%	10.00%	5.44%
Customer Deposits			0	13,880	13,880	0	13,880	9.25%	8.00%	0.74%
Advances from Associated Companies			0		0	0	0	0.00%	0.00%	0.00%
Other			0		0	0	0	0.00%	0.00%	0.00%
	0	0	0	150,022	150,022	0	150,021	100.00%		11.39%

Range of Reasonableness:	High	Low
Common Equity	15.35%	13.35%
Overall Rate of Return	11.76%	11.03%

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SCHEDULE NO. 6

SPRUCE CREEK DEVELOPMENT COMPANY OF OCALA, INC. d/b/a  
SPRUCE CREEK SOUTH UTILITIES

SCHEDULE OF NET PLANT TO NET CIAC

<u>Description</u>	<u>Water System</u>
Utility Plant In Service:	\$608,962
Accumulated Depreciation:	( 38,808)
Net Plant	<u>\$570,154</u>
CIAC	\$454,500
Accumulated Amortization of CIAC	( 28,805)
Net CIAC	<u>\$425,695</u>
Net CIAC/Net Plant at Design Capacity	74.66%
Staff Recommended Charges -Total	\$935.00