

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Steeplechase Utility Company, Inc. for water and sewer certificates in Marion County. ) DOCKET NO. 890145-WS  
 ) ORDER NO. 21438  
 ) ISSUED: 6-26-89  
 )

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 AND  
 ESTABLISHING RETURN ON EQUITY

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

Steeplechase Utility Company, Inc. (Steeplechase or Utility) filed an application with this Commission on January 24, 1989 for original water and sewer certificates. In its application, Steeplechase 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). Order No. 21063, issued April 18, 1989, granted Steeplechase Certificates Nos. 515-W and 447-S. This Order is being issued to set appropriate rates and charges for Steeplechase.

Revenue Requirements and Return on Equity

The Utility will provide water and sewer service to the planned single-family community of Steeplechase in Marion County. Phase I of the utility development will serve approximately 275 equivalent residential connections (ERCs) at buildout. 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. In this case, 80% and 100% of capacity will be reached within the same year, 1992. Therefore, we have calculated rates based on 100% of Phase I plant and expenses.

Steeplechase has submitted proforma schedules of rate base, operating income, and capital structure. These schedules, as adjusted, have been used to calculate the revenue requirement and initial rates.

The proforma water and sewer rate bases have been adjusted to show the capitalized interest associated with the additional plant costs submitted by the Utility on May 19, 1989. Our

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review indicates that these costs are reasonable. The proforma water and sewer rate bases have been adjusted to show excess plant capacity as plant held for future use (PHFU). Our PHFU calculations differ from that of the Utility's. In its calculation of accumulated depreciation on PHFU, the Utility removed all depreciation associated with capitalized interest; whereas, we removed only the capitalized interest related to PHFU. Further, we have removed the cost of land from water and sewer rate base since the Utility will be leasing instead of purchasing the land upon which its facilities are located. Accumulated depreciation and contributions-in-aid-of-construction (CIAC) amortization have been adjusted to conform with Commission approved depreciation rates.

Working capital has been adjusted to reflect use of the 1/8 of operating and maintenance (O & M) method of calculation. We used this method because the systems are not operating at this time and, thus, a balance sheet is not available to calculate working capital using the balance sheet method. Our Schedules of Rate Base appear on Schedules Nos. 1 and 2, with adjustments appearing on Schedule No. 3.

A few adjustments have been made to the Utility's water and sewer proforma schedules of operations. As mentioned previously, the Utility is leasing the land where its facilities are located. Operation and maintenance expenses have been increased accordingly. Depreciation expense for both water and sewer have been adjusted to reflect the adjustment made to PHFU and to apply commission approved depreciation rates. Income taxes and regulatory assessment fees have been recalculated at the level of gross revenue found to be appropriate. Based on our calculations, the annual water and sewer revenue requirements are \$61,072 and \$78,583, respectively, representing an overall return of 12.14%. Our schedules of operations appear on Schedules Nos. 4 and 5, with adjustments appearing on Schedule No. 6.

The proforma capital structure, as submitted by the Utility, has been adjusted to reflect customer deposits. The only other adjustment necessary is to reconcile the capital structure 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. 7.

The rate base calculations do not include the normal rate making adjustments of working capital calculations and used and useful adjustments. The rate base calculations are used purely to establish the book value of the property being transferred. This is consistent with Commission policy in original certificate applications. We are establishing a return on equity of 14.35% to be used in future proceedings involving such things as calculation of AFUDC, interim rates and tax savings.

#### Capitalization of Interest During Construction

The Utility has requested that interest during construction be included in its rate base. Normally, a utility is required to file an application requesting approval for an Allowance For funds Used During Construction (AFUDC) rate in order to be able to capitalize interest during construction. The rate is usually applied to existing utilities. Since this

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is an application for an original certificate and the Utility does not have actual construction cost, it would be premature to set an AFUDC rate. Therefore, we are not establishing an AFUDC rate for this Utility. However, we find that the utility should be allowed to collect interest costs on its long-term debt, which conforms with Generally Accepted Accounting Principles (GAAP). The Utility should file an application for an AFUDC rate as soon as it has actual construction costs.

The Utility's interest cost was based on an average interest rate of 11.50%. Since the 11.50% rate is lower than what would have been allowed under an AFUDC rate, we find the 11.50% rate to be reasonable. The Utility calculated interest during construction by multiplying the average cost of construction by its average cost of debt. Since the Phase I development will be completed in one year, the Utility calculated interest during construction to be \$26,367 and \$31,734 for its water and sewer systems, respectively. We adjusted these figures to remove the interest capitalized on land and to reflect capitalized interest associated with the utility's adjustment to UPIS. Therefore, capitalized interest per our calculation is \$26,933 and \$32,076 for the Utility's water and sewer systems, respectively.

#### Rates

The Utility proposed water and sewer rates using the base facility charge rate structure. Based upon revenue requirements of \$61,072 for water and \$78,583 for sewer, we find the following rates to be appropriate and they are, therefore, approved.

#### WATER Residential and General Service Monthly

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Approved</u>
5/8" x 3/4"	\$ 6.25
3/4"	\$ 9.38
1"	\$ 15.63
1 1/2"	\$ 31.25
2"	\$ 50.00
3"	\$ 100.00
4"	\$ 156.25
6"	\$ 312.50
8"	\$ 500.00
 <u>Gallage Charge</u>	
Per 1,000 Gallons	\$ .76

#### SEWER Residential Monthly

<u>Base Facility Charge</u>	<u>Approved</u>
All Meter Sizes	\$ 10.44
 <u>Gallage Charge</u>	
Per 1,000 Gallons (Maximum 10,000 Gallons)	\$ 1.65

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General Service

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Approved</u>
5/8" x 3/4"	\$ 10.44
3/4"	\$ 15.66
1"	\$ 26.10
1-1/2"	\$ 52.20
2"	\$ 83.52
3"	\$ 167.04
4"	\$ 261.00
6"	\$ 522.00
8"	\$ 835.20
 <u>Gallonge Charge</u> per 1,000 Gallons	 \$ 1.65

Miscellaneous Service Charges

In its application, the Utility requested the following miscellaneous service charges:

Initial Connection	\$15.00
Normal Reconnection	15.00
Violation Reconnection	15.00
Premises Visit	10.00

We find these charges to be reasonable and they are, therefore, approved.

The approved monthly service rates will be effective for meter readings on or after thirty days from the stamped approval date on the tariff sheets. Miscellaneous service charges will be effective for connections made or service rendered on or after the stamped approval date on the tariff sheets.

Deposits

The utility requested that it be allowed to collect initial deposits of \$45.00 for water and \$45.00 for sewer. Since this request is in compliance with Rule 25-30.311(7), Florida Administrative Code, the requested deposit levels are approved.

Service Availability Charges

The Utility will install all utility plant, receiving no property contributions. The Utility has proposed a meter installation charge and system capacity charge for the water system as well as a system capacity charge for the sewer system. The Utility's analysis was done on gross CIAC to gross plant calculation. Our analysis, as shown on Schedule No. 8, is based upon a net CIAC to net plant analysis and reflects changes to plant balances.

Based upon this analysis, the following charges, designed to place the Utility at a 75% contribution level at build-out of the initial 275 ERCs, are approved.

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Water

	<u>Proposed</u>	<u>Approved</u>
System Capacity Charge (per ERC 525 GPD)	\$ 823.00	\$ 900.00
Meter Installation Charge (5/8 x 3/4")	\$ 75.00	\$ 75.00

Sewer

System Capacity Charge (per ERC 263 GPD)	\$ 1,168.00	\$ 1,175.00
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Service availability charges will be effective for connections made or service rendered on or after the stamped approval date on the tariff sheets.

It is, therefore,

ORDERED by the Florida Public Service Commission that Steeplechase Utility Company, Inc., c/o The Shultz Corporation, Post Office Box 2768, Amarillo, Texas 79104, shall charge the rates, charges and deposits set forth in the body of this Order. It is further

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

ORDERED that the miscellaneous service charges and service availability charges shall be effective for connections made or service rendered on or after the stamped approval date of the original tariff. It is further

ORDERED that Steeplechase shall be allowed to capitalize interest accrued during construction at the rate of 11.50% in its rate base. It is further

ORDERED that the Utility shall file an application for an approved AFUDC rate as soon as it has actual construction costs available. It is further

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 July 17, 1989. It is further

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

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By ORDER of the Florida Public Service Commission,  
this 26th, day of JUNE, 1989.

  
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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 July 17, 1989. In the absence of such a petition, this order shall become effective July 18, 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.

If this order becomes final and effective on July 18, 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.

Steeplechase Utility Company, Inc.  
Schedule of Water Rate Base  
At 100% of Design CapacityDocket No. 890145-WS  
Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	496,135	27,000	523,135	2,820 (1)	525,955
Land	19,416	0	19,416	(19,416) (2)	0
Accumulated Depreciation	(42,628)	0	(42,628)	76 (3)	(45,149)
Contributions-in-aid-of-Construction	(246,950)	0	(246,950)	(21,175) (4)	(268,125)
Accumulated Amortization of C.I.A.C.	12,660	0	12,660	(1,464) (5)	11,196
Plant Held for Future Use	(142,012)	0	(142,012)	4,341 (6)	(137,671)
Working Capital Allowance	4,413	0	4,413	279 (7)	4,691
<b>TOTAL</b>	<b>101,034</b>	<b>27,000</b>	<b>128,034</b>	<b>(34,539)</b>	<b>90,897</b>

Steeplechase Utility Company, Inc.  
 Schedule of Sewer Rate Base  
 At 100% of Design Capacity

Docket No. 890145-WS  
 Schedule No. 2

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Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	566,308	33,000	599,308	628 (1)	599,936
Land	27,495	0	27,495	(27,495)(2)	0
Accumulated Depreciation	(67,693)	0	(67,693)	(3,118)(3)	(70,811)
Contributions-in-aid-of-Construction	(321,200)	0	(321,200)	(1,925)(4)	(323,125)
Accumulated Amortization of C.I.A.C.	21,606	0	21,606	(2,856)(5)	18,750
Plant Held For Future Use	(127,269)	0	(127,269)	1,372 (6)	(125,897)
Working Capital Allowance	5,663	0	5,663	395 (7)	6,057
<b>TOTAL</b>	<b>104,910</b>	<b>33,000</b>	<b>137,910</b>	<b>(32,999)</b>	<b>104,910</b>

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Steeplechase Utilities, Inc.  
Schedule of Adjustments to Rate Base

Schedule 3

<u>Description</u>	<u>Water</u>	<u>Sewer</u>
<u>Utility Plant-in-Service</u>		
1) To reflect capitalized interest associated with utility's adjustment to plant	\$ 2,820	\$ 628
<u>Land</u>		
2) To remove cost of land since the utility will be leasing its land instead of purchasing it	\$(19,416)	\$(27,495)
<u>Accumulated Depreciation</u>		
3) To reflect application of Commission approved rates	\$ 76	\$( 3,118)
<u>Contributions-in-aid-of-construction</u>		
4) To reflect Staff's recommended adjustment to the utility's requested service availability charges	\$(21,175)	\$(1,925)
<u>CIAC Amortization</u>		
5) To reflect the application of Commission approved depreciation rates	\$( 1,464)	\$( 2,856)
<u>Plant Held for Future Use</u>		
6) To remove capitalized interest pertaining to land and to remove depreciation associated with PHFU adjustment	\$ 4,341	\$ 1,372
<u>Working Capital Allowance</u>		
7) To reflect the calculation of working capital using the 1/8 of O & M method	\$ 279	\$ 395

Steeplechase Utility Company, Inc.  
 Schedule of Water Operations  
 At 100% of Design Capacity

Docket No. 890145-WS  
 Schedule No. 4

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Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	57,606	0	57,606	3,466 (5)	61,072
Operating and Maintenance	35,300	2,229 (1)	37,529	0	37,529
Depreciation Expense	1,284	3,171 (2)	4,455	0	4,455
Taxes Other Than Income	6,775	184 (3)	6,959	87 (6)	7,046
Income Taxes	1,476	(1,133) (4)	343	663 (7)	1,005
Total Operating Expenses	44,835	4,451	49,286	750	50,035
Net Operating Income	12,771	(4,451)	8,320	2,716	11,037
Rate Base	101,034		90,897		90,897
Rate of Return	12.64%		9.15%		12.14%

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Steeplechase Utility Company, Inc.  
Schedule of Sewer Operations  
At 100% of Design Capacity

Docket No. 890145-WS  
Schedule No. 5

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	70,623	0	70,623	7,960 (5)	78,583
Operating and Maintenance	45,300	3,156 (1)	48,456	0	48,456
Depreciation Expense	2,238	5,386 (2)	7,624	0	7,624
Taxes Other Than Income	8,405	65 (3)	8,470	135 (6)	8,605
Income Taxes	1,419	(1,603) (4)	(184)	1,344 (7)	1,160
Total Operating Expenses	57,362	7,004	64,366	1,480	65,845
Net Operating Income	13,261	(7,004)	6,257	6,480	12,738
Rate Base	104,910		104,910		104,910
Rate of Return	12.64%		5.96%		12.14%

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Steeplechase Utilities, Inc.  
 Adjustments to Schedule of Operations

Schedule 6

<u>Description</u>	<u>Water</u>	<u>Sewer</u>
<u>Operating and Maintenance</u>		
1) To include expense for land lease	\$ 2,229	\$ 3,156
<u>Depreciation Expense</u>		
2) To reflect adjustment to PHFU and to reflect the use of Commission approved depreciation rates	\$ 3,171	\$ 5,386
<u>Taxes Other Than Income</u>		
3) To reflect taxes associated with utility's adjustment to plant	\$ 184	\$ 65
<u>Income Taxes</u>		
4) To reflect staff's calculation of state and federal income taxes at the requested revenue levels	\$ (1,133)	\$ (1,603)
<u>Operating Revenues</u>		
5) To adjust the requested operating revenue to a level which will allow the utility to earn a 12.14% overall rate of return on its water and sewer rate bases	\$ 3,466	\$ 7,960
<u>Taxes Other Than Income</u>		
6) To reflect the increase in regulatory assessment fees resulting from the increase in operating revenue	\$ 87	\$ 135
<u>Income Taxes</u>		
7) To reflect staff's calculation of state and federal income taxes at the recommended operating revenue level	\$ 663	\$ 1,344

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Steeplechase Utility Company, Inc.  
Schedule of Capital Structure  
At 100% of Design Capacity

Docket No. 890145-W5  
Schedule No. 7

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity	82,378		82,378		82,378	(12,457)	69,921	35.71%	14.35%	5.12%
Long and Short-Term Debt	123,566		123,566		123,566	(18,686)	104,880	53.56%	11.50%	6.16%
Customer Deposits			0	24,750	24,750	(3,743)	21,007	10.73%	8.00%	0.86%
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%
	205,944	0	205,944	24,750	230,694	(34,886)	195,808	100.00%		12.14%

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Steeplechase Utility Company, Inc.  
Schedule of Net Plant to Net C.I.A.C.  
100% of Design Capacity

DOCKET NO. 890145-WS  
SCHEDULE NO. 8

Account Number	Account Description	Water	Sewer	Total
101	Utility Plant in Service	388,284	474,039	862,323
104	Accumulated Depreciation	(45,149)	(70,811)	(115,960)
	Net Plant	343,135	403,228	746,363
271	C.I.A.C.	268,125	323,125	591,250
272	Accum. Amortization of C.I.A.C.	(11,196)	(18,750)	(29,947)
	Net C.I.A.C.	256,929	304,375	561,303
	Net C.I.A.C. / Net Plant	74.88%	75.48%	75.21%
	Net to Net Minimum Contribution Level	88.79%	54.23%	70.14%
	Gross to Gross Minimum Contribution Level	86.76%	51.11%	67.16%
	Approx. Service Avail. Charge at 75%	936	1,100	0
	Commission Approved Charge	975	1,175	2,150
	Total ERC's	275	275	0