

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Lake Utility)	DOCKET NO. 891299-WS
Company, Inc. for Water and Sewer)	ORDER NO.22846
Certificates in Lake County.)	ISSUED:4-23-90
)	

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 APPROVING 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 November 15, 1989, Lake Utility Company, Inc. (Lake Utility or Utility) filed an application with this Commission for water and sewer certificates in Lake County. On February 15, 1990, the Commission issued Order No. 22557 granting Lake Utility Certificates Nos. 527-W and 461-S. The certificate process was bifurcated so that the certificates could be issued within the 90 days as required by Section 367.031, Florida Statutes.

Lake Utility is providing water and sewer service to 187 customers in the Plantation of Leesburg (Plantation), a seasonal golf course community developed by an affiliate of the Utility. The Utility will serve approximately 1015 water and 1013 sewer equivalent residential connections (ERCs) in the

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first phase of the development. The Utility currently has water and sewer treatment plants in operation which are designed to serve 1,015 and 685 ERCs, respectively. However, the water transmission and distribution and the sewer collection systems currently in place will serve only approximately 490 ERCs.

Because we are concerned about water conservation, we encourage the disposal of treated effluent by providing spray irrigation to golf courses. The golf course at Plantation is owned by an affiliate of Lake Utility, H. Smith Richardson Testamentary Trust. Therefore, Lake Utility is directed to file a report with this Commission regarding its plans for the disposal of effluent by providing spray irrigation to the Plantation golf course. The report should set forth the feasibility of supplying spray effluent to the golf course and the volume of effluent available, and should be filed within 30 days of the date of this Order

Rates and Return on Equity

In original certificate applications, rates are established which will allow a utility to earn a fair rate of return on investment when the facilities reach 80% of design capacity. It is estimated that the Utility will reach 80% in 7 years for water and 5 years for sewer.

Lake Utility calculated rates based on plant-in-service and made an adjustment to treatment plant, since the plants can serve more ERCs than the lines in place. In establishing rates, we have increased the capacity of the lines to match that of the treatment plants. This method is a more accurate and reasonable way of matching treatment plant and lines and is consistent with Section 367.081(2)(b), Florida Statutes. Therefore, adjustments have been made to the Utility's projected plant-in-service to reflect the difference in methodology.

Contributions-in-aid-of-construction (CIAC) for water and sewer have been adjusted to reflect the service availability charges established in this Order. Accumulated depreciation and CIAC Amortization have been adjusted to reflect the changes in plant-in-service and CIAC.

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The Utility's working capital allowance reflects 1/8 of operations and maintenance expenses. The schedule of rate base is shown on Schedules Nos. 1 and 2, with adjustments shown on Schedule No. 3.

The Utility originally calculated its operation and maintenance (O & M) expenses based upon 491 water and 489 sewer ERCs. After being informed that rates would be set based upon 80% of design capacity, the Utility revised its O & M expenses accordingly. Since the Utility's revised O&M expenses appear to be reasonable, no adjustments have been made.

Depreciation expense and property taxes for water and sewer have been adjusted to reflect the adjustments made to utility plant-in-service (UPIS) for water and sewer. Depreciation expense also reflects the use of Commission approved depreciation rates. Income taxes for water and sewer have been adjusted to reflect the calculation of state and federal income taxes at the requested and approved levels.

Operating revenues and the corresponding regulatory assessment fees have been adjustment to a level which allows the Utility the opportunity to earn a 13.08% overall rate of return. The Schedule of Operations is shown on Schedules Nos. 4 and 5, with adjustments shown on Schedule No. 6.

The Utility's proforma capital structure has been adjusted to reconcile with rate base. Return on common equity has been calculated to be 13.95% using the current leverage formula approved by the Commission in Order No. 21775, issued August 23, 1989. The adjusted proforma capital structure is shown on Schedule No. 7.

These schedules have been used only to established initial rates and are not intended to establish rate base. We are, however, establishing a return on equity of 13.95%, which is to be used in future proceedings involving such matters as calculation of AFUDC and interim rates.

The following rates have been calculated using the base facility charge rate structure and are based on a revenue requirement of \$173,480 and \$157,286 for the water and sewer systems, respectively.

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WATER

Residential and General Service

Monthly

Base Facility Charge

Meter Size

5/8" x 3/4"	\$ 6.01
3/4"	\$ 9.02
1"	\$ 15.03
1-1/2"	\$ 30.05
2"	\$ 48.08
3"	\$ 96.16
4"	\$ 150.25
6"	\$ 300.50
8"	\$ 480.80

Gallage Charge

Per 1,000 Gallons

\$ 1.75

SEWER

Residential

Monthly

Base Facility Charge

Meter Size

All Meter Sizes \$ 8.68

Gallage Charge

Per 1,000 Gallons

(Maximum 10,000 Gallons)

\$ 2.92

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General Service

Base Facility Charge
Meter Size

5/8" x 3/4"	\$ 8.68
3/4"	\$ 13.02
1"	\$ 21.70
1-1/2"	\$ 43.40
2"	\$ 69.44
3"	\$ 138.88
4"	\$ 217.00
6"	\$ 434.00
8"	\$ 694.40

<u>Gallage Charge</u>	
Per 1,000 Gallons	\$ 2.92

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

Since the Utility does not intend to collect customer deposits, none are approved herein. If Lake Utility wishes miscellaneous service charges, it should file tariff sheets reflecting the charges, which can be approved administratively by Commission Staff.

Service Availability Charges

The Utility will install all water and wastewater treatment facilities, water transmission and distribution and sewer collection systems. Thus, all contributions-in-aid-of-construction (CIAC) will be in the form of cash payments to the Utility. According to Rule 25-30.580, Florida Administrative Code, the minimum amount of CIAC shall be the percentage of plant represented by the water transmission and distribution and sewer collection systems. The maximum amount of CIAC should not exceed 75% of the total net plant when the facilities are at design capacity. In this case, the water transmission and distribution systems represent approximately 87% of total plant, which is greater than the maximum allowed. Therefore, in conformance with Rule 25-30.580, Florida Administrative Code, we find it appropriate to cap the water

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service availability charge at 75% of net plant at buildout, which results in a charge of \$1,050 per ERC. This amount is separated into a meter installation charge of \$100 and a main extension charge of \$950 per ERC.

The sewer collection system represents approximately 64% of the total plant. However, we find that the service availability charge should be set at 75% of net plant at the time the system reaches capacity, which results in a charge of \$825 per ERC.

The Utility requested main extension charges of \$600 per ERC for water and \$400 per ERC for sewer, which do not meet the minimum levels required by Rule 25-30.580, Florida Administrative Code. Therefore, Lake Utility requested a waiver of the rule, stating:

- (1) The request for waiver is based on the fact that due to the repeal of Section 118(b), Internal Revenue Code (IRC), the tax impact of collecting the minimum level of CIAC will impose an unusual hardship and is not in the best interests of the company's customers.
- (2) The utility believes that its proposal for a waiver from the guideline CIAC levels represents the most reasonable and economic approach in dealing with the burdens imposed by the taxation of CIAC. Under this proposal, the company would collect a combined main extension charge of approximately \$1,000 from each new customer. Gross-up would not be collected. With a service availability charge at this level, the company expects to incur annual tax operating losses which would offset any taxes on such CIAC. At the same time, the utility proposed monthly rates are no higher than those recently set for other new utilities.
- (3) The utility believes that a waiver from the guideline minimum levels of CIAC will provide an economic solution to the burdens imposed by the taxation of CIAC and is in the best interest of the company's stockholders and customers.

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In accordance with Rule 25-30.580, Florida Administrative Code, the Commission can exempt a utility from the guidelines contained therein in any case where compliance will introduce unusual hardship or unreasonable difficulty and it is shown that it is not in the best interest of the customers of the utility to require compliance. Although we recognize that the higher service availability charges will increase the Utility's income tax liability, we do not believe that the Utility has shown that compliance with the Rule will introduce unusual hardship. Further, since the monthly rates for service are significantly lower if the higher service availability charges are implemented, we find that it is in the best interest of the customers to require compliance with Rule 25-30.580, Florida Administrative Code. A comparison of the levels of net CIAC to net plant at buildout under the Utility's proposed and the service availability charges determined to be appropriate by the Commission is shown on Schedule No. 8.

The following service availability charges are found to be appropriate and they are, therefore, approved:

Service Availability Charges

WATER

	<u>Approved Charge</u>
Main Extension Charge	\$ 950
Meter Installation Charge	\$ 100

SEWER

Main Extension Charge	\$ 825
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Effective Dates

Lake Utility shall file a tariff reflecting the rates and charges approved herein within 30 days of the effective date of this Order. The rates shall be effective for meter readings on or after 30 days from the stamped approval date on the tariff sheets. The service availability charges shall be effective for connections on or after the stamped approval date on the tariff sheets.

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It is, therefore,

ORDERED by the Florida Public Service Commission that Lake Utility Company, Inc., 25200 U.S. Highway 27 South, Leesburg, Florida 32748, shall charge the rates and charges set forth in the body of this Order. It is further

ORDERED that Lake Utility shall submit tariff sheets reflecting the rates and service availability charges set forth in the body of this Order within 30 days of the date of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings on or after 30 days from the stamped approval date of the tariff sheets. It is further

ORDERED that the service availability charges shall become effective for connections made on or after the stamped approval date on the tariff sheets. It is further

ORDERED that Lake Utility shall use the return on equity of 13.95%, established in the body of this Order, in future proceedings involving such things as calculation of AFUDC and interim rates. It is further

ORDERED that Lake Utility shall file a report with this Commission, as set forth in the body of this Order, regarding its intention to supply spray effluent to the Plantation golf course. The report shall be filed within 30 days of the date of this Order. 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, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

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

By ORDER of the Florida Public Service Commission, this 23rd day of APRIL, 1990.



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 May 14, 1990.

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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.

Lake Utility Company, Inc.
 Schedule of Water Rate Base
 At 80% of Design Capacity

Docket No. 891299-WS
 Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	763,486	0	763,486	538,613 (1)	1,302,099
Land	0	0	0	0	0
Accumulated Depreciation	(85,820)	0	(85,820)	(93,126) (2)	(178,946)
Contributions-in-aid-of-Construction	(294,600)	0	(294,600)	(609,450) (3)	(904,050)
Accumulated Amortization of C.I.A.C.	17,400	0	17,400	82,978 (4)	100,378
Plant Held for Future Use	(82,597)	0	(82,597)	82,597 (5)	0
Working Capital Allowance	6,128	5,375	11,503	0	11,503
TOTAL	323,997	5,375	329,372	1,612	330,984

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Lake Utility Company, Inc.
 Schedule of Wastewater Rate Base
 At 80% of Design Capacity

Docket No. 891299-WS
 Schedule No. 2

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	751,471	0	751,471	(10,092) (1)	741,379
Land	0	0	0	0	0
Accumulated Depreciation	(114,218)	0	(114,218)	(2,134) (2)	(116,352)
Contributions-in-aid-of-Construction	(195,600)	0	(195,600)	(307,650) (3)	(503,250)
Accumulated Amortization of C.I.A.C.	13,047	0	13,047	38,964 (4)	52,011
Plant Held For Future Use	(186,876)	0	(186,876)	186,876 (5)	0
Working Capital Allowance	7,449	5,630	13,329	0	13,329
TOTAL	275,273	5,630	281,153	(94,036)	187,116

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SCHEDULE NO. 3

LAKE UTILITY COMPANY, INC.
SCHEDULE OF ADJUSTMENTS TO RATE BASE

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
<u>Utility Plant-in-Service</u>		
1) To adjust plant costs to reflect 80% of design capacity and to match plant capacities with its transmission, distribution and collection systems.	<u>\$ 538,613</u>	<u>\$(10,092)</u>
<u>Accumulated Depreciation</u>		
2) To reflect adjustments made to UPIS	<u>\$(93,126)</u>	<u>\$(2,134)</u>
<u>Contributions-in-aid-of-construction</u>		
3) To reflect staff's recommended service availability charges	<u>\$(609,450)</u>	<u>\$(307,650)</u>
<u>CIAC Amortization</u>		
4) To reflect adjustments made to CIAC	<u>\$ 82,978</u>	<u>\$ 38,964</u>
<u>Plant Held For Future Use</u>		
5) To remove adjustment from utility's rate base	<u>\$ 82,597</u>	<u>\$ 186,876</u>

Lake Utility Company, Inc.
 Schedule of Water Operations
 At 80% of Design Capacity

Docket No. 891299-WS
 Schedule No. 4

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	114,833	0	114,833	58,646 (4)	173,479
Operating and Maintenance	92,021	0	92,021	0	92,021
Depreciation Expense	11,021	1,523 (1)	12,544	0	12,544
Taxes Other Than Income	16,349	2,296 (2)	18,645	2,638 (5)	21,283
Income Taxes	4,422	(4,422) (3)	0	4,338 (6)	4,338
Total Operating Expenses	123,813	(603)	123,210	6,976	130,186
Net Operating Income	(8,980)	603	(8,377)	51,670	43,293
Rate Base	323,997		330,984		330,984
Rate of Return	-2.77%		-2.53%		13.08%

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Lake Utility Company, Inc.
 Schedule of Wastewater Operations
 At 80% of Design Capacity

Docket No. 891299-WS
 Schedule No. 5

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	122,374	0	122,374	34,912 (4)	157,286
Operating and Maintenance	104,628	2,000	106,628	0	106,628
Depreciation Expense	15,966	(5,120) (1)	10,846	0	10,846
Taxes Other Than Income	10,559	755 (2)	11,314	1,571 (5)	12,885
Income Taxes	3,766	(3,766) (3)	0	2,452 (6)	2,452
Total Operating Expenses	134,919	(6,131)	128,788	4,023	132,812
Net Operating Income	(12,545)	6,131	(6,414)	30,889	24,474
Rate Base	275,273		187,116		187,116
Rate of Return	-4.56%		-3.43%		13.08%

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LAKE UTILITY COMPANY, INC.
ADJUSTMENTS TO SCHEDULE OF OPERATIONS

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
<u>Depreciation Expense</u>		
1) To reflect adjustments made to UPIS and to reflect Commission approved depreciation rates.	<u>\$ 1,523</u>	<u>\$(5,120)</u>
<u>Taxes Other Than Income</u>		
2) To adjust property taxes to reflect the changes made to UPIS and to reflect regulatory assessment fees at 4.5%.	<u>\$ 2,296</u>	<u>\$ 755</u>
<u>Income Taxes</u>		
3) To reflect Staff's calculation of state and federal income taxes at the requested revenue levels.	<u>\$(4,422)</u>	<u>\$(3,766)</u>
<u>Operating Revenues</u>		
4) To adjust the requested operating revenue to a level which will allow the utility to earn a 13.08% overall rate of return on its water and wastewater rate bases.	<u>\$ 58,647</u>	<u>\$34,912</u>
<u>Taxes Other Than Income</u>		
5) To reflect the increase and decrease in regulatory assessment fees resulting from the increase and decrease in operating revenue.	<u>\$ 2,639</u>	<u>\$ 1,571</u>
<u>Income Taxes</u>		
6) To reflect Staff's calculation of state and federal income taxes at the recommended operating revenue level.	<u>\$ 4,338</u>	<u>\$ 2,452</u>

Lake Utility Company, Inc.
 Schedule of Capital Structure
 At 80% of Design Capacity

Docket No. 891299-WS
 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	239,708		239,708		239,708	(32,468)	207,240	40.00%	13.95%	5.58%
Long and Short-Term Debt	359,562		359,562		359,562	(48,702)	310,860	60.00%	12.50%	7.50%
Customer Deposits			0		0	0	0	0.00%	8.00%	0.00%
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%
	599,270	0	599,270	0	599,270	(81,170)	518,100	100.00%		13.08%

Range of Reasonableness:	High	Low
Common Equity	14.95%	12.95%
Overall Rate of Return	13.48%	12.68%

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

Schedule No.8

Account Number	Account Description	Utility's Requested Charges		
		Water	Wastewater	Total
101	Utility Plant in Service	1,474,744	801,741	2,276,485
104	Accumulated Depreciation	(222,788)	(135,777)	(358,564)
	Net Plant	1,251,956	665,964	1,917,921
271	C.I.A.C.	609,000	274,000	883,000
272	Accum. Amortization of C.I.A.C.	(75,212)	(35,924)	(111,137)
	Net C.I.A.C.	533,788	238,076	771,863
	Net C.I.A.C. / Net Plant	42.64%	35.75%	40.24%
	Utility's Requested Charge	600	400	1,000
	Total ERC's	1,015	685	0

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

Commission Approved Charges

Account Number	Account Description	Commission Approved Charges		
		Water	Wastewater	Total
101	Utility Plant in Service	1,474,744	801,741	2,276,485
104	Accumulated Depreciation	(222,788)	(135,777)	(358,565)
	Net Plant	1,251,956	665,964	1,917,920
271	C.I.A.C.	1,065,750	565,125	1,630,875
272	Accum. Amortization of C.I.A.C.	(131,622)	(74,094)	(205,716)
	Net C.I.A.C.	934,128	491,031	1,425,159
	Net C.I.A.C. / Net Plant	74.61%	73.73%	74.31%
	Commission Approved Charge	1,050	825	1,875
	Total ERC's	1,015	685	0