

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

JUNE 4, 1992

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND WASTEWATER (DEARDEN)
DIVISION OF LEGAL SERVICES (JABER) *LAJ* *SS* *BD*

RE : UTILITY: GULF UTILITY COMPANY
DOCKET NO.: 920222-WS
COUNTY: LEE
CASE: APPLICATION FOR APPROVAL OF ALLOWANCE FOR FUNDS
USED DURING CONSTRUCTION (AFUDC) RATE.

AGENDA: 06/16/92 - CONTROVERSIAL AGENDA - PROPOSED AGENCY ACTION
- PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

CASE BACKGROUND

Gulf Utility Company (Gulf Utility or utility) is a Class A utility operating in Lee County. As of December 31, 1991, the utility had 5,513 water customers and 1,507 wastewater customers.

On March 9, 1992, Gulf Utility filed an application for approval of Allowance for Funds Used During Construction (AFUDC) rate. The application was not in compliance with the filing requirements of Rule 25-30.116, Florida Administrative Code. On May 7, 1992, the utility submitted a revised application that met the filing requirements of the above mentioned rule.

DOCUMENT NUMBER-DATE

05753 JUN-4 1992

FPC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the utility's proposed Allowance for Funds Used During Construction (AFUDC) rate of 10.48% be approved?

RECOMMENDATION : Yes. The AFUDC rate should be accepted as submitted by the utility on Schedule No. 1A. (DEARDEN)

STAFF ANALYSIS: On March 9, 1992, Gulf Utility Company filed an application for an AFUDC rate. In the application, the utility proposed cost rates and a capital structure as of December 31, 1991, rather than a twelve-month average as required by Rule 25-30.116, Florida Administrative Code. The utility submitted a revised application on May 7, 1992. The cost rates were adjusted and its amounts for the capital structure were computed on a twelve-month average as required by rule.

The utility used all sources of capital and adjustments consistent with those allowed by the Commission in the company's last rate case, to calculate the average embedded cost of capital. In calculating the annual AFUDC rate, the utility used a common equity cost rate of 13.11%, which was set in the last water rate case, Docket No. 900718-WU, by Order No. 24735, issued July 1, 1991. In the utility's last wastewater rate case, Docket No. 880308-SU, the equity rate of return was set at 14.35% by Order No. 20272, issued November 7, 1988. Because the utility requested the lower rate of return on equity, staff accepts the common equity cost rate as reasonable. The calculation of the AFUDC rate is outlined on Schedule No. 1A.

In summary, staff recommends approval of the utility's requested AFUDC annual rate of 10.48% and a discounted monthly rate of .833961%. Pursuant to Rule 25-30.116(5), Florida Administrative Code, the approved rate shall be applicable for eligible construction projects beginning January, 1992.

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ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes, the docket should be closed upon expiration of the protest period if no protest is received. (JABER)

STAFF ANALYSIS: Upon expiration of the protest period, if no protests have been received, the docket may be closed.

**GULF UTILITY COMPANY
 CAPITAL STRUCTURE
 12-MONTH PERIOD ENDED DECEMBER 31, 1991**

SCHEDULE NO. 1-A
 DOCKET NO. 920222-WS

DESCRIPTION	AMOUNT (AVERAGE)	WEIGHT	COST RATE	UTILITY WEIGHTED COST
1 LONG TERM DEBT	\$ 8,975,000	89.77%	10.43%	9.36%
2 SHORT-TERM DEBT	75,360	0.75%	11.04%	0.08%
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%
4 CUSTOMER DEPOSITS	166,455	1.66%	8.00%	0.13%
5 COMMON EQUITY (a) (b)	683,278	6.83%	13.11%	0.90%
6 CONSTRUCTION ADVANCES	0	0.00%	0.00%	0.00%
7 ACCUM. DEFERRED INCOME TAXES	97,473	0.97%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 9,997,566	100.00%		10.48%

**GULF UTILITY COMPANY
 CALCULATION OF DISCOUNTED-
 MONTHLY AFUDC RATE**

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Formula:
$$M = \left[\left(1 + \frac{A}{100} \right)^{\frac{1}{12}} - 1 \right] \times 100$$

Where: M = discounted monthly AFUDC rate.
 A = annual AFUDC rate.

$$M = \left[\left(1 + \frac{10.48}{100} \right)^{.083333} - 1 \right] \times 100$$

$$M = .833961$$