

State of Florida



Public Service Commission PSC  
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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION CLERK

DATE: OCTOBER 22, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYO)

FROM: DIVISION OF ECONOMIC REGULATION (FLETCHER, MAUREY, MERCHANT) OFFICE OF THE GENERAL COUNSEL (Vining) *285* *ALM* *M*

RE: DOCKET NO. 020408-SU - APPLICATION FOR RATE INCREASE IN SEMINOLE COUNTY BY ALAFAYA UTILITIES, INC. *JDJ*

AGENDA: 11/03/03 - REGULAR AGENDA - PARTICIPATION IS AT THE DISCRETION OF THE COMMISSION

CRITICAL DATES: 5-MONTH EFFECTIVE DATE: 12/16/03

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020408.RCM

CASE BACKGROUND

Alafaya Utilities, Inc. (Alafaya or utility), a subsidiary of Utilities, Inc., is a Class A wastewater utility located in Seminole County. Alafaya provides wastewater service to approximately 5,600 residential customers and 100 general service customers. Water service is provided by the City of Oviedo. For the year ended December 31, 2001, the utility reported wastewater operating revenues of \$1,809,140, and a net operating income of \$303,246.

On September 30, 2002, the utility filed an application for approval of permanent and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. By letter dated October 24, 2002, staff informed Alafaya of numerous minimum filing requirement (MFR) deficiencies. On January 10, 2003, Alafaya satisfied the MFRs, and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. The

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utility has requested that we process this case using the proposed agency action (PAA) procedures, pursuant to Section 367.081(8), Florida Statutes.

The utility's requested test year for both interim and final rate purposes is based on the year ended December 31, 2001. Alafaya requested interim revenues of \$1,988,523, which represents an increase of \$177,045 or 9.77%. The requested final revenues are \$2,125,634. This represents an increase of \$314,156 or 17.34%.

By Order No. PSC-03-0380-PCO-SU, issued March 19, 2003, the Commission suspended the utility's proposed final rates and approved an interim revenue requirement of \$1,857,865. This represents an interim increase in annual revenues of \$46,387 or 2.56%. In that Order, the Commission also calculated the potential refund of revenues and interest collected, under interim conditions, to be \$31,057. This amount is based upon an estimated eight months of revenue being collected pursuant to the approved interim rates.

On October 8, 2003, Alafaya provided documentation for additional pro forma plant not included in its MFRs. Then, by letter dated October 21, 2003, the utility waived the 5-month statutory time frame until January 20, 2004, in order to allow staff time to consider this additional pro forma plant. Since the amount of time for which interim rates are in effect has lengthened, the potential refund of revenues and interest collected under interim conditions will increase. As a result, the amount of guarantee required to secure any potential refund should be increased.

Staff's recommendation addresses the appropriate amount of guarantee required to secure the increased potential refund of revenues and interest collected under interim conditions. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the security to guarantee the approved interim rates be increased, and if so, what is the appropriate guarantee amount?

**RECOMMENDATION:** Yes. Continuing the corporate undertaking is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc.- (UI), 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. This includes staff's recommended total amount subject to refund in this docket of \$46,637, which is an increase of \$15,580 from the previous security balance. UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions. UI's total guarantee should be a cumulative amount of \$581,960. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should continue to provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (FLETCHER, MAUREY)

**STAFF ANALYSIS:** By Order No. PSC-03-0380-PCO-SU, the Commission calculated the potential refund of revenues and interest collected under interim conditions to be \$31,057. This amount was based on an estimated 8-month time period that interim rates would be in effect. Since the utility has waived the 5-month statutory time frame until January 20, 2004, the interim rates will remain in effect for four more months. In accordance with Rule 25-30.360, Florida Administrative Code, staff has recalculated the potential refund of revenues and interest collected under the revised interim period to be \$46,637. This amount is based on an estimated twelve months of revenue being collected from the approved interim rates over the utility's currently authorized rates.

The utility has requested a corporate undertaking to secure any interim increase granted. Alafaya is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. As such, staff reviewed the financial statements of the parent company. UI currently is guaranteeing a total of \$566,380 as a corporate undertaking on behalf of its Florida subsidiaries. This request will bring the total cumulative amount to \$581,960.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff has reviewed UI's financial statements from 2000 to 2002 to determine the financial condition of the parent company. Staff's analysis shows that UI has experienced a significant decline in net income and interest coverage from 2000 to 2002. The primary reason for this reversal has been merger-related charges of \$9.8 million in 2001 and \$9.9 million in 2002. UI states that merger related costs have been fully recovered and there will be no additional charges levied by the parent. Absent these merger-related charges, UI's financial performance would show a 3-year trend of stable equity capitalization, interest coverage, and profitability. Based upon this analysis, staff recommends that a cumulative corporate undertaking of \$581,960 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), Florida Administrative Code, the utility shall continue to 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 should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: No. The docket should remain open pending the Commission's final action on the utility's requested rate increase.  
(FLETCHER, VINING)

STAFF ANALYSIS: The docket should remain open pending the Commission's final action on the utility's requested rate increase.