

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request of SUNRAY UTILITIES,)	DOCKET NO. 881552-WS
INC. for approval to charge AFUDC)	ORDER NO. 21107
in Nassau County.)	ISSUED: 4-24-89

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

PROPOSED AGENCY ACTION

ORDER ESTABLISHING AFUDC RATE FOR
SUNRAY UTILITIES, INC., NASSAU COUNTY DIVISION

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

Sunray Utilities, Inc. (Sunray or utility) is a water and sewer utility with divisions in Nassau and St. Johns Counties. On December 2, 1988, the utility filed an application for an Allowance for Funds Used During Construction (AFUDC) rate for its Nassau County Division. Sunray's application did not meet the minimum filing requirements of Rule 25-30.116, Florida Administrative Code, and the utility was so informed. Subsequently, on December 23, 1988, Sunray filed the required information and this date was established as the official filing date for its application.

AFUDC RATE

Rule 25-30.116(2)(a), Florida Administrative Code, provides that an AFUDC rate shall be determined using a utility's most recent twelve-month average embedded cost of capital, to be derived using all sources of capital. Sunray Utilities, Inc. based the capital structure for its two divisions, Nassau County, and St. Johns County, on chronological events, that is, the order in which the two divisions were funded with equity and debt. This resulted in a capital structure of 100 percent equity for St. Johns County and 100 percent debt for Nassau County. We believe that this allocation is arbitrary and inappropriate. We find combining the capital structures of the two divisions, which comprise the whole of Sunray Utilities, Inc. to be the appropriate method. Accordingly, a capital structure of 16.54 percent equity and 83.46 percent debt is derived.

Sunray's filings requested an AFUDC rate of 8.69% for its Nassau County Division and 14.33% for its St. Johns Division. The Nassau County Division has an approved return on equity of

DOCUMENT NUMBER-DATE

04098 APR 24 1989

FPSC-RECORDS/REPORTING

ORDER NO. 21107
DOCKET NO. 881552-WS
PAGE 2

14.33% pursuant to Order No. 20252, issued November 3, 1988. Using this percentage, and the cost of debt, an AFUDC rate of 9.93% is derived. Even though this rate is higher than the requested rate of 8.69%, the utility's requested rate of 14.33% for its other operating division (St. Johns County), if granted, would have resulted in an actual blended AFUDC rate of 11.51% for the utility. Therefore, we find that the derived rate of 9.33% to be reasonable, and is approved.

EFFECTIVE DATE

Rule 25-30.116(5), Florida Administrative Code, provides that the effective date for a new AFUDC rate will be the month following the end of the 12-month period used to establish the rate. Since the period used for the calculation was the year ended September 30, 1988, the effective date would be October 1, 1988. However, the utility is requesting retroactive application to July 1, 1987, the date when the utility commenced its engineering studies for its construction project.

Sunray Utilities, Inc., filed for an original certificate for its Nassau County Division on August 6, 1987. The certificate was granted on May 31, 1988, and rates and charges were set on November 3, 1988. The utility filed for approval of its AFUDC rate on December 2, 1988, immediately after the setting of rates and charges.

At the time of the original certificate filing, we did not, as a matter of practice, consider requests for approval of an AFUDC rate as part of the certification process. Because of the frequency with which we were being asked to consider the retroactive accrual of AFUDC, we have since determined that, as a practical matter, it is more appropriate to establish an AFUDC rate before the utility begins construction, even if it does not have an approved rate of return. The utility was of the understanding that it had to wait until it had an authorized rate of return to apply for approval of an AFUDC rate, therefore, it did not apply for an AFUDC rate prior to beginning construction. Since at the time Sunray filed its application for a certificate, we were not requiring utilities to obtain our approval of AFUDC rate prior to beginning construction, we find that it would be unreasonable to now penalize the utility for its failure to obtain such approval.

Upon due consideration, we find that the date of August 6, 1987, which is the date that the utility originally applied for its certificate, is reasonable and thus, is approved for the accrual of AFUDC by the utility.

Based on the foregoing, it is, therefore

ORDERED by the Florida Public Service Commission that the application by Sunray Utilities, Inc. for an AFUDC rate for its Nassau County Division is approved as modified in the body of this Order. It is further

ORDERED that the effective date for the herein approved 9.33% AFUDC rate is August 6, 1987. It is further

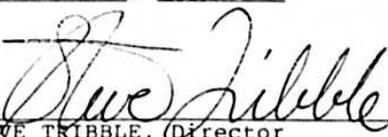
ORDERED that the provisions of this Order, issued as proposed agency action, shall become final unless an

ORDER NO. 21107
DOCKET NO. 881552-WS
PAGE 3

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 May 15, 1989. It is further

ORDERED that this docket shall be closed if no timely protests are received.

By ORDER of the Florida Public Service Commission this 24th day of APRIL, 1989.


STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JRF

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 15, 1989. In the absence of such a petition, this order shall become effective May 16, 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 May 16, 1989, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or

ORDER NO. 21107
DOCKET NO. 881552-WS
PAGE 4

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.