

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of MILES GRANT WATER &) DOCKET NO. 890481-WS
 SEWER COMPANY for approval to charge) ORDER NO. 21581
 AFUDC in Martin County.) ISSUED: 7-18-89

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, CHAIRMAN
 THOMAS M. BEARD
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTIONORDER ESTABLISHING AFUDC RATE FOR MILES GRANT
 WATER AND SEWER COMPANY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein establishing an AFUDC rate is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Miles Grant Water and Sewer Company (Miles Grant or utility) is a water and sewer utility located in Martin County. On April 6, 1989, the utility filed an application for an Allowance For Funds Used During Construction (AFUDC) rate. The application did not meet the minimum filing requirements of Rule 25-30.116, Florida Administrative Code, and the utility was so informed. Subsequently, on May 25, 1989, Miles Grant filed the required information and this date was established as the official filing date for its application.

Miles Grant's application is the first request by this utility for approval of an AFUDC rate, and is made in accordance with Rule 25-30.116, Florida Administrative Code. The utility's current rate base was established in Docket No. 870981-WS through Order No. 20066, issued September 26, 1988.

DOCUMENT NUMBER-DATE

07198 JUL 18 1989

FPSC-RECORDS/REPORTING

ORDER NO. 21581
DOCKET NO. 890481-WS
PAGE 2

In those proceedings, the test year ending June 30, 1987 was used for calculating the utility's capital structure. The utility did not have an approved AFUDC rate, nor was one requested by the utility during the September, 1988 proceedings.

METHODOLOGY FOR CALCULATING
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 all sources of capital. However, in the present case, the utility is requesting that it be permitted to use a modified simple average methodology for calculating an AFUDC rate, as opposed to that methodology required by the rule. As discussed below, we find the utility's request to be reasonable and consistent with our previous decision in the utility's above-discussed rate case proceeding.

In the utility's most recent rate case proceeding, (Docket No. 870981-WS), we approved a stipulation by the parties to the use of a modified simple average methodology for calculating the cost of capital. The reason for this was due to the complexities involved in calculating the allocations of the utility's common equity and long-term debt components of its cost of capital. Because of such complexities, we allowed the utility to calculate its capital structure twice a year, on June 30 and December 31, using the actual customer deposits, tax credits, and deferred income taxes of Miles Grant, with the common equity and long-term debt allocated in the same proportion as they occur in the parent company, Utilities, Inc. We also allowed the utility to calculate the test year capital structure using three points in time; the beginning, the midpoint, and the end of the test year for simplification purposes.

Based on the above, we find that in order to be consistent with the previous rate case proceeding for Miles Grant, Rule 25-30.116(2)(a), Florida Administrative Code, is hereby waived to allow the use of a modified simple average to establish an AFUDC rate for the utility.

AFUDC RATE

Miles Grant's petition requested an AFUDC rate of 10.66%. However, we find that because of an error in calculating the

ORDER NO. 21581
DOCKET NO. 890481-WS
PAGE 3

utility's long-term debt, the correct annual AFUDC rate should be 10.43%, with a corresponding monthly rate of 0.830440%. Attachment A reflects our calculations of the various components of the AFUDC rate. Upon due consideration, we find that an annual AFUDC rate of 10.43% to be appropriate and is approved.

EFFECTIVE DATE AND PENALTY

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 twelve-month period used to establish the rate. In the present case, the period used for the calculation of the AFUDC rate was the twelve-month ending December 31, 1988. Therefore, pursuant to the above rule, the effective date for the accrual of AFUDC for eligible projects is January 1, 1989. The above-cited rule also permits retroactive application of the AFUDC rate to a previous fiscal year, if authorized by the Commission. The utility requested retroactive application to October, 1985. However, since Miles Grant's most recent rate case proceeding was based on the test-year ended June 30, 1987, and further, since the utility did not request an AFUDC rate in its last rate case proceeding, we find that the earliest date the utility should be permitted to accrue AFUDC is July 1, 1987.

As discussed above, the present application is Miles Grant's first such application for our approval of an AFUDC rate. Accordingly, we find that the utility's approved AFUDC rate of 10.43% should be reduced by a one-hundred basis point penalty, to 9.43%, with respect to the retroactive period because of the utility's untimely application for our approval of such rate.

Based on the above, we find that for the period July 1, 1987 through December 31, 1988, Miles Grant Water and Sewer Company is hereby authorized to accrue AFUDC on its books at the annual rate of 9.43% for all eligible projects. Commencing on January 1, 1989, Miles Grant is hereby authorized to accrue AFUDC at the annual rate of 10.43% for all eligible projects.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the

ORDER NO. 21581
DOCKET NO. 890481-WS
PAGE 4

application by Miles Grant Water and Sewer Company, c/o Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062, for an AFUDC rate for its operations in Martin County is approved as modified in the body of this Order. It is further

ORDERED that Miles Grant Water and Sewer Company is hereby authorized to retroactively accrue AFUDC at the annual rate of 9.43% for all eligible projects for the period July 1, 1987 through December 31, 1988. It is further

ORDERED that Miles Grant Water and Sewer Company is hereby authorized to accrue AFUDC at the annual rate of 10.43% for all eligible projects commencing January 1, 1989. 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 August 8, 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 18th day of July, 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

ORDER NO. 21581
DOCKET NO. 890481-WS
PAGE 5

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 August 8, 1989. In the absence of such a petition, this order shall become effective August 9, 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 August 9, 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.

ORDER NO. 21581
 DOCKET NO. 890481-WS
 PAGE 6

Miles Grant Water and Sewer Company
 Commission Approved AFUDC Rate
 12-Month Period Ended December 31, 1988

Schedule No. 1
 Docket No. 890481-WS

Class of Capital	Average Capital Structure	Commission Adjustments	Adjusted Capital Structure	Percent of Capital	Cost Rates	Weighted Cost	Discounted Monthly Rate
Common Equity	262,328		262,328	38.73%	14.16%	5.48%	
Long-Term Debt	320,623		320,623	47.33%	9.96%	4.71%	
Short-Term Debt	0		0	0.00%	0.00%	0.00%	
Customer Deposits	19,883		19,883	2.94%	8.00%	0.23%	
Tax Credits - Zero Cost	37,364		37,364	5.52%	0.00%	0.00%	
Deferred Income Taxes	37,157		37,157	5.49%	0.00%	0.00%	
Total	677,355	0	677,355	100.00%		10.43%	0.830440%