

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of MID-CLAY)	DOCKET NO. 891130-WS
CORPORATION for Allowance for Funds)	ORDER NO. 22194
Used During Construction (AFUDC) rates)	ISSUED: 11-20-89
in Clay County.)	
)	

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 ACTION
ORDER APPROVING AFUDC RATE

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

Mid-Clay Service Corporation (Mid-Clay or utility) is a Class "C" water and sewer utility currently serving approximately 570 water-only customers with plans to serve an additional 425 water and sewer customers. The utility was granted its certificates in Docket No. 870028-WS by Order No. 19196, issued April 21, 1988. This utility has not had any rate cases since certification.

On September 12, 1989, Mid-Clay Service Corp. filed an application for approval of an AFUDC rate and the retroactive application of the approved rate to January 1, 1987. The application satisfied the minimum filing requirements and September 12, 1989 was established as the official filing date. The application is the first request by this utility for

DOCUMENT NUMBER-DATE

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approval of an AFUDC rate and is made pursuant to Rule 25-30.116, Florida Administrative Code.

AFUDC RATE

The utility's application requested our approval of an AFUDC rate of 10.36 percent. The utility used a test year ended date of June 30, 1989 to derive its proposed AFUDC rate.

Our review indicates that the utility's capital structure is comprised of common equity, long-term debt, and customers' deposits.

Rule 25-30.116(2)(c), Florida Administrative Code, provides that a utility, such as Mid-Clay, which has not had its equity return set in a previous rate case proceeding, shall calculate its return on common equity by applying the most recent equity leverage formula. Our most recently approved equity leverage formula was established in Order No. 21775, issued August 23, 1989. Nevertheless, in calculating its return on common equity, the utility incorrectly used the leverage graph previously approved in Order No. 19718, issued July 26, 1988. This error resulted in an overstatement of the utility's cost of equity for the test year. Accordingly, we reduced the utility's cost of equity from 14.35 percent, as calculated by the utility, to 13.95 percent, which we find to be appropriate and consistent with the above-cited rule. Schedule No. 1 attached hereto and incorporated herein, reflects our calculations of the utility's capital structure.

Upon due consideration, we find that the utility's overall weighted cost of capital of 10.28 percent, as shown on Schedule No. 1, is hereby approved as the utility's annual AFUDC rate. We further find that the utility is hereby authorized to accrue AFUDC at the approved rate for all eligible projects commenced on or after July 1, 1989.

RETROACTIVE ACCRUAL OF AFUDC RATE

Rule 25-30.116(5), Florida Administrative Code, provides that the effective date for the AFUDC rate shall be the month following the end of the 12-month period used to establish the rate. In the instant case, since the period used for the calculation of an AFUDC rate was the twelve months ended June 30, 1989, the effective date should be July 1, 1989. However,

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the utility is requesting retroactive application of the AFUDC rate to January 1, 1987, when the utility first began incurring expenses for utility construction projects. In support of its request, the utility argues that it was unaware of its right to accrue AFUDC prior to its present petition.

We believe retroactive accrual to be fair and reasonable in this case in view of the fact that the utility did expend significant sums on construction projects prior to seeking our approval of an AFUDC rate, and such expenditures have ultimately benefited the utility's customers through enhancing the overall quality of the utility's systems and service to its customers. However, since the utility did not apply for an AFUDC rate when it began construction, we believe the utility should be penalized by reducing its approved AFUDC rate of 10.28 percent by 100 basis points for the retroactive period, that is, for that period prior to July 1, 1989.

Accordingly, we hereby authorize the utility to retroactively accrue AFUDC at a reduced annual rate of 9.28 percent for all eligible projects commenced during the period January 1, 1987 through June 30, 1989.

Based on the foregoing, it is, therefore

ORDERED by the Florida Public Service Commission that the request of Mid-Clay Service Corporation for approval of an AFUDC rate in Clay County is approved as modified in the body of this Order. It is further

ORDERED that Mid-Clay Service Corporation shall accrue AFUDC at the annual rate of 9.28 percent effective January 1, 1987 through June 30, 1989, and at the annual rate of 10.28 percent effective July 1, 1989 for all eligible projects until otherwise ordered by this Commission. It is further

ORDERED that the provisions of this Order, issued as a 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 20th day of NOVEMBER, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JRF

by: Kay Flynn
Chief, Bureau of Records

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 December 11, 1989.

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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.

Mid-Clay Service Corp.
 AFUDC Rate Calculation
 12-Month Period Ended June 30, 1989

Schedule No. 1
 Docket No. 891130-WS

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Class of Capital	Average Capital Structure	Utility Adjustments	Adjusted Capital Structure	Percent of Capital	Cost Rates	Weighted Cost	Discounted Monthly Rate
Common Equity	186,117		186,117	20.83%	13.95%(1)	2.91%	
Preferred Stock	0		0	0.00%	0.00%	0.00%	
Long-Term Debt	670,016		670,016	74.97%	9.24%	6.93%	
Short-Term Debt	24,375		24,375	2.73%	11.92%	0.33%	
Customer Deposits	13,210		13,210	1.48%	8.00%	0.12%	
Tax Credits - Zero Cost	0		0	0.00%	0.00%	0.00%	
Deferred Income Taxes	0		0	0.00%	0.00%	0.00%	
Total	893,719	0	893,719	100.00%		10.28%	0.818770%

NOTES: (1) Return on equity authorized in current Leverage Graph, Order No. 21775.

SCHEDULE NO. 1