

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Del Tura North)	DOCKET NO. 890975-SU
Limited Partnership for Sewer Certifi-)	ORDER NO. 22682
cate in Lee County.)	ISSUED: 3-13-90
)	

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 ACTIONORDER SETTING RATES AND CHARGES

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

On July 25, 1989, Del Tura North Limited Partnership (Del Tura North or Utility) filed an application with this Commission for a sewer certificate in Lee County. The certification process was bifurcated so that the certificate could be granted prior to establishing rates and charges to enable the Utility to obtain the necessary permits from the Department of Environmental Regulation (DER) for the construction of the sewer system. Del Tura North was granted Certificate No. 456-S by Order No. 22157, issued November 6, 1989.

Del Tura North will provide sewer service only to the residents of Del Vera Country Club; water service will be supplied by Lee County. At buildout, the sewer system will serve approximately 2,000 equivalent residential connections (ERC's). However, the initial rates are based on a 250,000 gallons per day plant sized to serve approximately 1,230 ERC's, which represents the first two phases of the development. When Del Tura North reaches eighty percent of buildout of the first

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two phases, it will be a Class B utility with annual revenue of approximately \$345,000.

Fee for Golf Course

The Utility plans to dispose of all of the treated effluent from the sewer treatment plant by providing spray irrigation to the golf course of the Del Vera Country Club. The golf course is owned by the developer, Del Tura North Ltd., which also owns the Utility. In order to obtain approval from DER, the Utility's treatment plant will include additional filters necessary for spraying treated effluent that would not otherwise be required. In addition, the Utility's rate base includes piping to the golf course and a storage tank to hold the treated effluent during times when it will not be able to spray irrigate.

The Utility did not propose a charge to the golf course for the spray effluent. We do not believe that the ratepayers should absorb the total cost of providing the effluent to the irrigation customer. Therefore, we find that a charge to the golf course is appropriate that recognizes that both the Utility and the irrigation customer receive a benefit from such disposal. If not for the golf course, the Utility would have to purchase more land for percolation ponds in order to dispose of the effluent. The golf course also benefits from receiving the spray effluent as an alternative to other means of irrigation.

Because both the golf course and the Utility receive a benefit from such disposal, we believe the ratepayers and the irrigation customer should share in the costs associated with providing this service. This is consistent with our decisions involving St. Augustine Shores Utilities (Docket No. 870980-WS) and Marco Island Utilities (Docket No. 870743-SU). In the case of St. Augustine Shores, a charge of \$.14 per 1,000 gallons was established. However, St. Augustine Shores uses percolation ponds to dispose of treated effluent in addition to spray irrigation. Marco Island Utilities disposes of basically all of its treated effluent by spray irrigation onto the golf course. The charge established in that case is \$.25 per 1,000 gallons.

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We do not have enough information to establish a truly cost-based rate in this case. However, a charge similar to the one established in Marco Island is appropriate since all of the Utility's treated effluent will be used to irrigate the golf course. Therefore, we find that a charge of \$.25 per 1,000 gallons is appropriate and it is, therefore, approved.

Sewer Rates and Return on Equity

As stated previously, Del Tura North will provide sewer service to the residents of Del Vera Country Club in Lee County. The Utility estimates that it will take approximately six years to reach capacity for the first two phases. Normally, in original certificate applications, we determine rates which will allow the Utility to earn a fair rate of return on investment when the treatment plant reaches 80 percent of capacity, which, in this case, will be in approximately five years. From the information supplied by Del Tura North, we have calculated proforma schedules of rate base, operating income and capital structure to be used in determining initial rates.

In determining the projected rate base at 80 percent of designed capacity, the Utility multiplied total plant-in-service, land, accumulated depreciation, contributions-in-aid-of-construction (CIAC) and amortization of CIAC by .80. This is not accurate because some of the plant-in-service, such as the treatment plant, organization costs and land, cannot be fractioned. Therefore, in determining rate base, we have projected the components by year until the system reaches 80 percent of capacity. Adjustments have been made to the Utility's projected plant-in-service, land, accumulated depreciation, CIAC and amortization of CIAC to reflect our approach in projecting rate base items. In addition, we have adjusted CIAC and amortization of CIAC to agree with the service availability charges approved herein. The Utility's projected working capital allowance has been adjusted to reflect 1/8 of the operations and maintenance expenses. Our calculation of rate base is shown on Schedule No. 1, with adjustments shown on Schedule No. 2.

The Utility's projected Schedule of Operations has been reduced by \$15,000 in operations and maintenance expenses to

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eliminate the estimated cost of plant maintenance and repairs by outside contractors. The Utility included salaries for one Class C plant operator and field supervisor, one full time maintenance man and operator assistant and one full time maintenance assistant. Since three full-time employees should be able to adequately perform the plant maintenance and repairs, the expense for outside contractors is excessive. The only other adjustments made were to reflect the proper depreciation rates and to reduce operating revenues and the corresponding regulatory assessment fees in order for the Utility to earn a rate of return of 12.00 percent on rate base. Our Schedule of Operations is shown on Schedule No. 3, with adjustments shown on Schedule No. 4.

The Utility's proforma capital structure has been adjusted to reconcile to rate base. We have calculated the return on common equity to be 13.95 percent using the current leverage formula, authorized by Order No. 21775, issued August 23, 1989. The adjusted proforma capital structure appears on Schedule No. 5.

The schedules used to establish initial rates and are not intended to establish rate base. However, we are establishing a return on equity of 13.95 percent, which is to be used in future proceedings involving such things as calculation of AFUDC and interim.

The Utility proposed flat rates for service. As mentioned previously, Del Tura North is providing sewer service only. Water will be provided by Lee County, which will separately meter each customer for water service. The Utility requested the flat rate structure because Lee County has not agreed to provide the water consumption of the customers to Del Tura North.

The rates approved herein have been calculated using the base facility charge rate structure, which is based on water consumption. We find this type of rate structure to be reasonable in this case because Del Tura North can obtain the water consumption of its customers by visiting the Lee County utility office when it is ready to prepare its bills or by reading the customers' water meters themselves. The rates approved herein are based on a revenue requirement of \$345,106

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and a charge of \$.25 per 1,000 gallons to the Del Vera Country Club golf course.

Sewer Rates
Residential Service
 (Monthly Rates)

	<u>Utility Proposed</u>	<u>Approved</u>
Monthly Rate:	\$30.35	N/A
Base Facility Charge:	-	\$12.23
Gallongage Charge: (Per 1,000 Gallons, Maximum of 10,000 Gallons Per Month)	-	\$ 1.76
Residential Bill at 10,000 Gallons	-	\$29.83

General Service
 (Monthly Rates)

<u>Meter Size</u>	<u>Utility Proposed</u> <u>Flat Monthly Rate</u>	<u>Approved</u> <u>Base Facility Charge</u>
5/8"x3/4"	\$ 30.35	\$ 12.23
1"	\$ 75.88	\$ 30.58
1 1/2"	\$ 151.75	\$ 61.15
2"	\$ 242.80	\$ 97.84
3"	\$ 485.60	\$ 195.68
4"	\$ 758.75	\$ 305.75
6"	\$1,517.50	\$ 611.50
8"	\$2,428.00	\$ 978.40
Gallongage Charge (Per 1,000 Gallons)	-	\$ 1.76

The Utility will not collect customer deposits. The proposed miscellaneous service charges will be administratively approved by Commission Staff when the tariff is approved.

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The Utility is directed to file a tariff reflecting the approved rates and charges within 30 days of the effective date of this Order. The rates shall be effective for meter readings on or after 30 days from the stamped approval date on the tariff sheets.

Service Availability Charges

According to the Utility, the developer will contribute the collection system. The Utility has proposed no service availability charges since it proposes to meet only the minimum guideline levels for CIAC as set forth in Rule 25-30.580, Florida Administrative Code. Normally, in original certificate cases, service availability charges are established which will result in a level of net contributions of approximately 75 percent of net plant at the time the treatment plant reaches capacity.

Since no capacity charge has been established in this case, the Utility will meet the minimum guidelines of Rule 25-30.580, Florida Administrative Code. However, the ratio of net CIAC to net plant at buildout will be approximately 65 percent, rather than the usual 75 percent target level. The Utility has provided no justification as to why the CIAC standard normally applied to new utilities in establishing initial rates and charges should not be used in this case. We, therefore, find it appropriate to establish a plant capacity charge of \$200, which will result in a net CIAC level at buildout of approximately 74 percent of net plant.

Schedule No. 6 provides a comparison of the levels of net CIAC to net plant at buildout under the Commission's approved capacity charge and the Utility's proposal that no capacity charge be established.

It is, therefore,

ORDERED by the Florida Public Service Commission that the rates and charges set forth in the body of this Order for Del Tura North Limited Partnership, 18621 North Tamiami Trail, North Fort Myers, Florida 33903, are hereby approved. It is further

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ORDERED that Del Tura North shall charge the Del Vera County Club \$.25 per 1,000 gallons for spray irrigation. It is further

ORDERED that a plant capacity charge of \$200 is hereby approved. It is further

ORDERED that Del Tura North shall use the return on equity of 13.95 percent, established in the body of this Order, in future proceedings involving such things as calculation of AFUDC and interim rates. It is further

ORDERED that Del Tura North shall submit tariff sheets reflecting the rates and charges approved herein within 30 days of the effective date of this Order. It is further

ORDERED that the provisions of this Order, issued as 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

ORDERED that in the event that this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission
this 13th day of MARCH, 1990.



STEVE TRIBBLE, Director
Division of Records and Reporting

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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 April 3, 1990.

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.

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DEL TURA NORTH LIMITED PARTNERSHIP
 Schedule of Wastewater Rate Base
 At 80% of Design Capacity

Docket No. 890975-SU
 Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	2,160,400	0	2,160,400	257,302 (1)	2,417,702
Land	128,000	0	128,000	32,000 (1)	160,000
Accumulated Depreciation	(481,387)	0	(481,387)	131,054 (1)	(350,333)
Contributions-in-aid-of-Construction	(1,276,000)	0	(1,276,000)	(342,990) (2)	(1,618,990)
Accumulated Amortization of C.I.A.C.	191,400	0	191,400	(83,928) (2)	107,472
Working Capital Allowance	18,600	0	18,600	1,125 (3)	19,725
TOTAL	741,013	0	741,013	(5,436)	735,577

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SCHEDULE NO. 2

DEL TURA NORTH LIMITED PARTNERSHIP

Adjustments to Schedule of Rate Base

<u>Description</u>	<u>Adjustment</u>
1) To reflect the Commission's approach in projecting plant in service, land and accumulated depreciation.	\$ 420,356
2) To reflect the Commission's approach in projecting CIAC and amortization of CIAC and to agree with the staff recommended service availability charges.	(426,918)
3) To adjust working capital allowance to reflect 1/8 of the operations and maintenance expenses	<u>1,125</u>
TOTAL ADJUSTMENTS:	<u>\$ (5,436)</u>

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DEL TURA NORTH LIMITED PARTNERSHIP
 Schedule of Wastewater Operations
 At 80% of Design Capacity

Docket No. 890975-SU
 Schedule No. 3

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	358,348	0	358,348	(13,242) (3)	345,106
Operating and Maintenance	172,800	(15,000) (1)	157,800	0	157,800
Depreciation Expense	48,331	3,007 (2)	51,338	0	51,338
Taxes Other Than Income	48,295	0	48,295	(596) (3)	47,699
Income Taxes	0	0	0	0	0
Total Operating Expenses	269,426	(11,993)	257,433	(596)	256,837
Net Operating Income	88,922	11,993	100,915	(12,646)	88,269
Rate Base	741,013		735,577		735,577
Rate of Return	12.00%		13.72%		12.00%

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SCHEDULE NO. 4

DEL TURA NORTH LIMITED PARTNERSHIP

Adjustments to Schedule of Operations

<u>Description</u>	<u>Adjustment</u>
1) To eliminate the estimated cost of plant maintenance and repairs by outside contractors.	\$(15,000)
2) To reflect the depreciation rates pursuant to Commission rules	(3,007)
3) To adjust operating revenue and regulatory assessment fees to a level which will allow the utility to earn a 12% overall rate of return on its rate base	(13,838)

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DEL TURA NORTH LIMITED PARTNERSHIP
 Schedule of Capital Structure
 At 80% of Design Capacity

Docket No. 890975-SU
 Schedule No. 5

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity			0		0	0	0	0.00%	13.95%	0.00%
Long and Short-Term Debt	741,013		741,013		741,013	(5,436)	735,577	100.00%	12.00%	12.00%
Customer Deposits	0		0		0	0	0	0.00%	8.00%	0.00%
Advances from Associated Companies			0		0	0	0	0.00%	0.00%	0.00%
Other			0		0	0	0	0.00%	0.00%	0.00%
	741,013	0	741,013	0	741,013	(5,436)	735,577	100.00%		12.00%

Range of Reasonableness:	High	Low
Common Equity	14.95%	12.95%
Overall Rate of Return	12.00%	12.00%

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SCHEDULE NO. 6

DEL TURA NORTH LIMITED PARTNERSHIP

SCHEDULE OF NET CIAC TO NET PLANT
 AT DESIGN CAPACITY

<u>DESCRIPTION</u>	<u>UTILITY PROPOSAL</u>	<u>COMMISSION APPROVED</u>
Utility Plant in Service:	\$2,860,500	\$ 2,860,500
Accumulated Depreciation:	<u>(447,430)</u>	<u>(447,430)</u>
Net Plant:	\$2,413,070	\$ 2,413,070
CIAC:	\$1,696,788	\$ 1,942,788
Amortization of CIAC:	<u>(127,259)</u>	<u>(154,760)</u>
Net CIAC:	\$1,569,529	\$ 1,788,028
Net CIAC/Net Plant at Design Capacity:	65.04%	74.10%
Plant Capacity Charge:	None	\$200.00