

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Lake Griffin)	DOCKET NO. 890554-WU
Utilities, Inc. for Water Certificate)	ORDER NO. 23039
in Lake County.)	ISSUED: 6-6-90
_____)	

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 BETTY EASLEY
 GERALD L. GUNTER

ORDER APPROVING GROSS-UP OF CONTRIBUTIONS-
IN-AID-OF-CONSTRUCTION

AND

NOTICE OF PROPOSED AGENCY ACTION

ORDER SETTING RATES AND CHARGES AND
DENYING UTILITY'S REQUESTED ALLOWANCE FOR
FUNDS PRUDENTLY INVESTED

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein is final except for the setting of rates and charges and denial of the Utility's requested allowance for funds prudently invested, which are 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.

On April 20, 1989, Lake Griffin Utilities, Inc. (Lake Griffin or Utility) filed an application for a certificate to provide service in Lake County. Order No. 21835, issued September 5, 1989, granted the Utility Certificate No. 522-W.

Lake Griffin will provide service to a 735 lot subdivision, with additional territory for multi-family units as well as a small commercial center. The Utility will serve approximately 813 equivalent residential connections (ERC's) at

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

ORDER NO. 23039
DOCKET NO. 890554-WU
Page 2

build-out. 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% of capacity. It is anticipated that the system will reach 80% build-out in 1995.

From the information provided by the Utility, we have calculated proforma schedules of rate base, operating income and capital structure to be used in determining initial rates.

As stated previously, the water treatment plant is designed to serve 813 ERC's. Lines scheduled to be installed during the initial phase of the development are in place and costs have been projected for additional lines to reach build-out. Since a majority of the plant costs are based on actual contracts with the additional line costs based on reasonable estimates, no adjustments have been made to utility plant-in-service. However, an adjustment has been made to rate base by depreciating the \$72,000 chlorine tanks over 10 years instead of 22 years as used by the Utility.

Contributions-in-aid-of-construction (CIAC) have been adjusted to reflect the appropriate service availability charges discussed herein. Accumulated depreciation and CIAC amortization have been adjusted to reflect the change in the depreciation rate and service availability charges.

Lake Griffin's working capital allowance is based upon 1/8 of operation and maintenance expenses. The Utility's operation and maintenance expenses, which are reasonable based upon the size of the Utility, have not been adjusted. However, depreciation expense has been adjusted based upon the use of Commission approved depreciation rates. Income taxes have been adjusted to reflect the revenue requirement. Further, operating revenues and the corresponding regulatory assessment fees have been adjusted to a level which allows the Utility the opportunity to earn an 11.79% overall rate of return. Our calculation of Rate Base is shown on Schedule No. 1, with adjustments shown on Schedule No. 2. The 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 with rate base and to include customer deposits.

ORDER NO. 23039
 DOCKET NO. 890554-WU
 Page 3

Return on common equity has been calculated to be 13.95 percent, using the current Commission approved leverage formula. The adjusted proforma capital structure is shown on Schedule No. 5.

These schedules are being presented only as tools to aid the Commission in establishing initial rates and are not intended to establish rate base. We are, however, establishing a return on equity of 13.95 percent to be used in future proceedings involving such things as calculation of the allowance for funds used during construction (AFUDC) and interim rates.

The Utility's proposed rates are shown below along with rates approved by this Commission. The approved rates have been calculated using the base facility charge rate structure, based on a revenue requirement of \$165,033 for the water system.

WATER
Residential and General Service
Bi-Monthly Rates

<u>Base Facility Charge</u>	<u>Utility Proposed</u>	<u>Commission Approved</u>
Meter Size		
5/8" x 3/4"	\$ 27.83	\$ 16.53
3/4"	41.75	24.80
1"	69.58	41.33
1 1/2"	139.16	82.65
2"	222.65	132.24
3"	445.30	264.48
4"	695.78	413.25
6"	1,391.56	826.50
Gallage Charge		
Per 1,000 Gallons	.66	1.18

The Utility has requested miscellaneous service charges which conform to Staff Advisory Bulletin No. 13, Second Revised and an initial deposit level in accordance with Rule 25-30.311, Florida Administrative Code. These charges will be administratively approved by Commission Staff upon approval of the Utility's tariff.

ORDER NO. 23039
 DOCKET NO. 890554-WU
 Page 4

The Utility shall file tariffs 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 thirty days from the stamped approval date on the tariff sheets.

Lake Griffin, which is a developer-owned utility, will install all of the lines. The Utility requested service availability charges designed to place the Utility at a 75% contribution level at build-out. The Utility's proposed charges and the charges approved by the Commission are as follow:

	<u>Utility Proposed</u>	<u>Commission Approved</u>
<u>Plant Capacity Charge, per ERC</u>		
(1 ERC = 350 GPD)	\$ 275	\$ 263
<u>Main Extension Charge, per ERC</u>	457	457
<u>Meter Installation Fee</u>		
Up to 1"	85	85
Over 1"	Actual Cost	Actual Cost
<u>Tap Fee</u>		
Up to 1"	100	100
Over 1"	Actual Cost	Actual Cost

The difference in the charges results from the use of the Commission approved depreciation rate for the chlorine contract tanks. The increase in accumulated depreciation lowers the plant capacity charge. Our calculation is shown on Schedule 6.

Gross Up of Contributions-in-Aid-of-Construction

The Utility has requested that it be allowed to collect the tax gross up on CIAC. Since donated property is not anticipated, the tax impact relates only to the plant capacity and main extension charges.

ORDER NO. 23039
DOCKET NO. 890554-WU
Page 5

Order No. 21266, issued May 22, 1989, allows companies the opportunity to apply for a gross-up of CIAC. The Commission recognizes that the inclusion of CIAC in a utility's gross income may have a severe impact on the utility's tax liability during the year of collection. If the Utility does not collect the taxes on CIAC, it may experience cash flow problems.

Order No. 21266 also required tests for companies requesting the gross-up. However, since Order No. 21266 has been protested, Lake Griffin filed its gross-up request with an understanding that it is not required to meet those revenue tests set forth in that Order. We have verified that the Utility will be subject to income taxes. However, since the Utility has not begun operation and the CIAC receipts and future revenues are projected, future cash flow or interest levels have not been addressed.

Since the Utility is subject to the tax liability on CIAC and such liability heavily impacts upon new utilities, we find it appropriate to approve Lake Griffin's request. This action does not preclude this Commission from reviewing the appropriateness of the gross-up after we have operating data on the Utility and after criteria have been established to evaluate the gross-up request.

Allowance for Funds Prudently Invested (AFPI)

Allowance for Funds Prudently Invested is a one time charge designed to provide a return on plant prudently constructed, which exceeds the needs of current customers. Lake Griffin has constructed water treatment facilities to serve the entire development although lines will be built in phases. Since rates are designed to recover costs when the utility is 80% built out, the Utility will not recover the fixed costs of the treatment facilities through rates until that time. The requested AFPI is designed to recover these costs in the interim. The charges are based upon the date future customers connect to the system.

The Utility's proposed charges are shown on Schedule No. 7. This proposal has charges escalating through build-out of the Utility. However, since our original rate analysis is based at 80% of build-out, we have capped the charges at 80% of

ORDER NO. 23039
DOCKET NO. 890554-WU
Page 6

build-out, which is expected to occur in 1995. Therefore, the charge shall be capped at the charge in effect in December 1995 or the applicable charge in the month the Utility reaches 80% of capacity, whichever comes first. The Utility can then charge the capped charge until it is serving 813 ERC's.

Our calculation of AFPI is shown on Schedule No. 8, page 4 of 4. The charges that we have determined to be appropriate are lower than the Utility's requested charges based upon the changes to depreciation and cost of equity discussed herein and the exclusion of Federal and State income taxes. Should the Utility find itself in a taxable position, it may file for a revision to its AFPI charges.

It is, therefore,

ORDERED by the Florida Public Service Commission that Lake Griffin Utilities, Inc., Lake Griffin Road, Lady Lake, Florida 32659, shall charge the rates approved in the body of this Order. It is further

ORDERED that the service availability charges set forth in the body of this Order are hereby approved. It is further

ORDERED that Lake Griffin's requested Allowance for Funds Prudently Invested charges are hereby denied. Lake Griffin shall charge the rate determined by the Commission to be appropriate, as set forth in the body of this Order. It is further

ORDERED that Lake Griffin shall file revised tariff sheets reflecting the rates and charges approved herein within 30 days of the date of this Order. It is further

ORDERED that the rates shall be effective for meter readings on or after 30 days from the stamped approval date on the tariff sheets. It is further

ORDERED that the service availability charges shall be effective for connections made on or after the stamped approval date on the tariff sheets. It is further

ORDER NO. 23039
DOCKET NO. 890554-WU
Page 7

ORDERED that a return on equity of 13.95 per cent is established for use in future proceedings involving such things as calculation of AFUDC and interim rates. It is further

ORDERED that Lake Griffin's request to collect gross-up on CIAC is hereby approved, as set forth in the body 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 6th day of JUNE, 1990.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

ALC

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

ORDER NO. 23039
DOCKET NO. 890554-WU
Page 8

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.

As identified in the body of this order, our action setting rates and charges and denying of the utility's requested allowance for funds prudently invested 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 June 27, 1990. In the absence of such a petition, this order shall become effective on the date 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 the relevant portion of 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.

ORDER NO. 23039
DOCKET NO. 890554-WU
Page 9

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or 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 after the issuance 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.

LAKE GRIFFIN UTILITIES, INC.
 Schedule of Water Rate Base
 At 80% of Design Capacity

Docket No. 890554-WU
 Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	1,102,444	0	1,102,444	3 (1)	1,102,447
Land	10,000	0	10,000	0	10,000
Accumulated Depreciation	(185,995)	0	(185,995)	(21,681) (2)	(207,676)
Contributions-in-aid-of-Construction	(640,066)	0	(640,066)	8,376 (3)	(631,690)
Accumulated Amortization of C.I.A.C.	54,713	0	54,713	6,495 (4)	61,208
Plant Held for Future Use	0	0	0	0	0
Working Capital Allowance	11,120	0	11,120	0	11,120
TOTAL	352,216	0	352,216	(6,807)	345,408

ORDER NO. 23039
 DOCKET NO. 890554-WU
 Page 10

ORDER NO. 23039
DOCKET NO. 890554-WU
Page 11

Schedule No. 2

LAKE GRIFFIN UTILITIES, INC.
SCHEDULE OF ADJUSTMENTS TO RATE BASE

<u>DESCRIPTION</u>	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1) To reflect minor addition error.	\$ <u>3</u>
<u>ACCUMULATED DEPRECIATION</u>	
2) To reflect use of Commission approved depreciation rates.	\$(21,681)
<u>CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION</u>	
3) To reflect staff's recommended service availability charges.	\$ 8,376
<u>CIAC AMORTIZATION</u>	
4) To reflect adjustments made to CIAC charges.	\$ 6,495

LAKE GRIFFIN UTILITIES, INC.
 Schedule of Water Operations
 At 80% of Design Capacity

Docket No. 890554-WU
 Schedule No. 3

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	164,336	0	164,336	697 (3)	165,033
Operating and Maintenance	88,956	0	88,956	0	88,956
Depreciation Expense	15,085	1,939 (1)	17,024	0	17,024
Taxes Other Than Income	13,959	0	13,959	32 (4)	13,991
Income Taxes	4,523	(329) (2)	4,194	132 (5)	4,325
Total Operating Expenses	122,523	1,610	124,133	164	124,296
Net Operating Income	41,813	(1,610)	40,203	533	40,737
Rate Base	352,216		345,408		345,408
Rate of Return	11.87%		11.64%		11.79%

ORDER NO. 23039
 DOCKET NO. 890554-WU
 Page 12

ORDER NO. 23039
 DOCKET NO. 890554-WU
 Page 13

Schedule No. 4

LAKE GRIFFIN UTILITIES, INC.
 ADJUSTMENTS TO SCHEDULE OF OPERATIONS

<u>DESCRIPTION</u>	<u>WATER</u>
<u>DEPRECIATION EXPENSE</u>	
1) To adjust depreciation expense based upon Commission approved rates.	\$ 1,939
<u>INCOME TAXES</u>	
2) To reflect staff's recalculation of income taxes.	(329)
<u>OPERATING REVENUES</u>	
3) To adjust operating revenues to a level which will allow the utility to earn an 11.79% rate of return.	\$ 697
<u>TAXES OTHER THAN INCOME</u>	
4) To reflect the additional regulatory assessment fees associated with the revenue income.	\$ 32
<u>INCOME TAXES</u>	
5) To reflect staff's calculation of state and federal income taxes at the recommended operating revenue.	\$ 132

LAKE GRIFFIN UTILITIES, INC.
 Schedule of Capital Structure
 At 80% of Design Capacity

Docket No. 890554-WU
 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	140,886		140,886		140,886	(5,791)	135,095	39.11%	13.95%	5.46%
Long and Short-Term Debt	211,330		211,330		211,330	(8,687)	202,643	58.67%	10.50%	6.16%
Customer Deposits	0		0	8,000	8,000	(329)	7,671	2.22%	8.00%	0.18%
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%
	352,216	0	352,216	8,000	360,216	(14,808)	345,408	100.00%		11.79%

Range of Reasonableness:	High	Low
Common Equity	14.95%	12.95%
Overall Rate of Return	12.18%	11.40%

ORDER NO. 23039
 DOCKET NO. 890554-WU
 Page 14

287

LAKE GRIFFIN UTILITIES, INC.
 Schedule of Net Plant to Net C.I.A.C.
 At 100% of Design Capacity

Schedule No. 6

Account Number	Account Description	Water	Sewer	Total
101	Utility Plant in Service	1,112,447	0	1,112,447
104	Accumulated Depreciation	(243,575)	0	(243,575)
	Net Plant	868,872	0	868,872
271	C.I.A.C.	735,765	0	735,765
272	Accum. Amortization of C.I.A.C.	(83,473)	0	(83,473)
	Net C.I.A.C.	652,292	0	652,292
	Net C.I.A.C. / Net Plant	75.07%	0.00%	75.07%
	Gross to Gross Minimum Contribution Level	69.96%	0.00%	69.96%
	Approved Charge	\$905	\$0	\$905
	Total ERC's	813	0	813

ORDER NO. 23039
 DOCKET NO. 890554-WU
 Page 15