

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for establishment of allowance for funds used during construction (AFUDC) rate for systems located in Alachua, Brevard, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties, by Aqua Source Utility, Inc. d/b/a Aqua Utilities Florida, Inc., Arredondo Utility Company, Inc. d/b/a Aqua Utilities Florida, Inc., Crystal River Utilities, Inc. d/b/a Aqua Utilities Florida, Inc., Jasmine Lakes Utilities Corporation d/b/a Aqua Utilities Florida, Inc., Ocala Oaks Utilities, Inc. d/b/a Aqua Utilities Florida, Inc, and Aqua Utilities Florida, Inc., effective January 1, 2006.

DOCKET NO. 060693-WS  
ORDER NO. PSC-07-0277-PAA-WS  
ISSUED: April 2, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
MATTHEW M. CARTER II  
KATRINA J. McMURRIAN

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 a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

Aqua Utilities Florida, Inc. (Aqua or utility) is a wholly owned subsidiary of Aqua Utilities, Inc., formerly AquaSource Utility, Inc. Aqua Utilities, Inc., a Texas corporation, is a wholly owned subsidiary of Aqua America Inc. Aqua America Inc., directly or indirectly through subsidiaries, owns and operates water and wastewater systems in thirteen states. In Florida, Aqua furnishes regulated water and wastewater service in Alachua, Brevard, Highlands,

DOCUMENT NUMBER-DATE

02826 APR-25

FPSC-COMMISSION CLERK

Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties.

Prior to November 22, 2006, Aqua operated six separate subsidiaries in Florida. On September 25, 2006, Aqua's six regulated Florida subsidiaries filed a joint application for acknowledgement of corporate reorganization and approval of name change. By Order No. PSC-06-0973-FOF-WS, issued November 22, 2006, in Docket No. 060643-WS, this Commission approved Aqua's corporate reorganization and request for name change, effective the date of the order. Per that order, all entities are owned and operated under the name Aqua Utilities Florida, Inc.

Prior to our approval of Aqua's corporate reorganization and name change, Aqua filed the instant petition on October 19, 2006, for establishment of an Allowance for Funds Used During Construction (AFUDC) rate for each of the six separate Aqua America-owned entities. In accordance with Rule 25-30.116(4), F.A.C., Aqua filed the following schedules: (a) a schedule showing the capital structure, cost rates and weighted average cost of capital that are the basis for the AFUDC rates requested; (b) a schedule showing capital structure; and, (c) a schedule showing the calculation of the monthly AFUDC rates using the methodology set out in Rule 25-30.116(4), F.A.C. These AFUDC rates would be effective for eligible projects as of January 1, 2006, through October 12, 2006.

On December 21, 2006, Aqua filed a petition for the establishment of a uniform AFUDC rate to be applied to eligible projects as of October 13, 2006, forward. We addressed Aqua's requested uniform AFUDC rate in Docket No. 060819-WS. This Order addresses the establishment of an AFUDC rate for each of the six separate Aqua America-owned entities. We have jurisdiction pursuant to Section 367.121, Florida Statutes.

#### Appropriate AFUDC Rates

Rule 25-30.116, F.A.C., provides that Construction Work in Progress (CWIP) that is not included in rate base may accrue AFUDC. Rule 25-30.116(2)(a), F.A.C., provides that an AFUDC rate shall be determined using the utility's most recent 12-month average embedded cost of capital. Aqua's average cost of capital was calculated using the 12-month period ended December 31, 2005. Rule 25-30.116(5), F.A.C., states that the new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission. Therefore, the approved rates shall be applicable for eligible construction projects beginning January 1, 2006, through October 12, 2006.

Projects may be included in CWIP and accrue AFUDC if the projects involve gross additions to plant in excess of \$5,000, and are expected to be completed in excess of sixty days after commencement of construction or were originally expected to be completed in sixty days or less but are not ready for service after sixty days.

Aqua's application includes a calculation to discount the simple interest rate of each AFUDC rate to reflect the effects of compounding monthly. Our staff reviewed this calculation

and determined that the utility incorrectly used the formula. As such, our staff has recalculated the monthly discounted rates to reflect the appropriate effects of compounding monthly.

Based on this review and recalculation, we find that the following AFUDC rates and monthly discounted rates shall be approved:

<u>Systems</u>	<u>AFUDC Rate</u>	<u>Monthly Discounted Rate</u>
Arredondo Utility Company, Inc.	8.18%	0.657371
Jasmine Lakes Utilities Corporation	8.02%	0.644956
Crystal River Utilities, Inc.	8.88%	0.711487
AquaSource Utility, Inc.	8.88%	0.711487
Ocala Oaks Utilities, Inc.	7.33%	0.591224
Aqua Utilities Florida Inc.	8.85%	0.709174

These AFUDC rates shall be effective for eligible projects from January 1, 2006 through October 12, 2006.

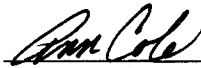
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the AFUDC rates shall be approved as set forth in the body of this Order and shall be effective for each of the systems for the period January 1, 2006, through October 12, 2006. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no timely protest from a substantially affected person on the approved AFUDC rates is received within 21 days of the issuance of the PAA Order, the AFUDC rates will become final upon issuance of a Consummating Order, and the docket shall be closed.

By ORDER of the Florida Public Service Commission this 2nd day of April, 2007.



ANN COLE  
Commission Clerk

( S E A L )

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, 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 will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 23, 2007.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.