

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of MAGNOLIA VALLEY SERVICES, INC. for interim and final Approval of Wastewater Plant Capacity Charges and Allowance for Funds Prudently Invested in Pasco County)	DOCKET NO. 881136-SU
)	ORDER NO. 20891
)	ISSUED: 3-14-89

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 WASTEWATER PLANT CAPACITY AND ALLOWANCE FOR FUNDS PRUDENTLY INVESTED CHARGES, "GROSS-UP" OF CIAC COLLECTIONS AND ACKNOWLEDGING COMPLETION OF REPAIRS

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions proposed herein are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition in accordance with Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

Magnolia Valley Services, Inc. (utility) provides water and wastewater service to approximately 800 customers in Pasco County. The utility's last case before the Commission was an investigation into its level of earnings and contributions, processed under Docket No. 861432-WS. By Order No. 18722, issued January 25, 1988, we indicated that the utility was overearning by 24.04 percent on its wastewater operations and underearning by 31.81 percent on its water operations. However, since the utility was not exceeding its last authorized rate of return on a combined basis, we did not reduce its rates or require any refund. Also, in light of the utility's high level of contributions, we reduced its service availability charges for both water and wastewater to zero.

On August 20, 1988, the utility filed an application for approval of a wastewater plant capacity charge and an AFPI charge. The utility did not request a plant capacity charge for the water system. There is no current charge or service availability policy in the tariff for the water system. A review of the utility's 1987 Annual Report indicates that the water system is 86.6 percent contributed. The application was deficient and on October 4, 1988, the utility completed its application. By Order No. 20437, issued December 9, 1988, we authorized the utility to collect interim wastewater plant capacity charges and interim AFPI charges, subject to refund. By that Order, we also required the utility to make certain repairs to the water and wastewater system. Further, by Order

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No. 20437, we clarified the utility's service availability policy to authorize it to require the donation of both on-site and off-site wastewater lines.

Plant Capacity Charge

The basis for the utility's application for a wastewater plant capacity charge is based upon the construction of a new 150,000 gallons per day (gpd) treatment plant and refurbishment of its existing 250,000 gpd plant. The utility has now completed the construction, with the exception of the installation of a filter, and has provided records showing the actual cost of the project. We have verified the completion of the construction and believe that the cost of the expansion and refurbishment is reasonable.

In response to a request for additional information, the utility provided information regarding the estimated value of additional donated lines which will be received by the utility in accordance with its approved policy. It appears that the requested charge of \$500 per equivalent residential connection (ERC) would result in a 76 percent level of contribution at design capacity. Pursuant to Rule 25-30.585, Florida Administrative Code, the target level of contribution is 75 percent. We find that \$500 per ERC is an appropriate wastewater plant capacity charge. It is, therefore, approved. Further, since the final approved charge is equal to the charge approved for interim purposes, we find that no refund is necessary. The funds currently held in escrow may, therefore, be released to the utility.

AFPI Charges

The utility requested two AFPI charges, one for customers that have already prepaid a service availability charge and another for those that have not prepaid a charge. An AFPI charge is designed to allow a utility to recover a fair rate of return on the portion of the plant facilities which were prudently constructed, but which exceed the amount necessary to serve current customers. The Commission's policy has been to accumulate the carrying costs associated with the excess plant as an AFPI charge to be collected from future customers at the time of connection. As previously noted, by Order No. 20437, we approved the interim AFPI charges set forth on Schedule No. 1. In addition, we approved a formula to reduce the AFPI charge for those connections that have prepaid contributions-in-aid-of-construction (CIAC).

The AFPI charge requested by the utility for those customers who have not prepaid CIAC begins at \$12.86 in December, 1988, and accumulates to \$921.17 after five years. The utility's calculation of the AFPI charge is based upon a capital structure consisting of 100 percent equity and includes income taxes on the full amount of the charge. Section V of the utility's application indicates that the utility is 100 percent debt-financed. In the utility's prior rate case and overearnings investigation, we also found that it was 100 percent debt-financed. For ratemaking purposes, all of the utility's net operating income is for debt service. We have, therefore, recalculated the requested charges, removing all income tax expense. The utility has argued that the debt is

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shareholder-owned and that the intent is to forgive a portion of the debt in order to realign the capital structure. However, the utility has submitted no evidence that this event has occurred or is likely to occur in the near future. Therefore, we find that the interim charges, adjusted to remove income taxes, should be made final. These charges are based upon 568 additional ERCs. Once the utility has provided service to the additional 568 ERCs, the charge will no longer be applicable.

Further, we believe that five years is a prudent amount of time for which to build excess capacity. Absent extraordinary or unusual circumstances, we generally consider any plant constructed for more than five years in the future to be excessive. We do not believe that the utility has justified a longer period. In fact, the utility's request also caps the AFPI charge after five years. Therefore, Schedule No. 1 provides our calculation of the appropriate AFPI charge for a five-year period beginning December, 1988 and ending November, 1993. After November, 1993, the utility may still collect the AFPI charge, however, it shall remain fixed after that date, reflecting that the utility should bear the additional cost of carrying the excess plant.

Since the utility has collected prepaid CIAC from 196 customers, by Order No. 20437, we also approved a lesser AFPI charge for these customers. Since the prepaid CIAC has already allowed the utility to recover a portion of its investment in the plant needed to serve those customers, the utility suggested that we approve a credit against the AFPI charge for these customers. While this Commission has not previously approved such a credit, we believe that such a credit is an appropriate way for the utility to recognize the differences in carrying costs for plant constructed for those customers who have prepaid CIAC and those customers who have not. We find that this credit should be calculated by multiplying the prepaid amount by the AFPI charge and dividing that amount by the cost of the plant per ERC. However, we also believe that the formula should be clarified to include the actual cost of plant per ERC and state that the prepaid amount is per ERC. Based upon the above discussion, we hereby approve the following formula:

$$\text{CREDIT} = \frac{\text{PREPAID CAPACITY FEE PER ERC} \times \text{AFPI CHARGE}}{\$660.71}$$

Gross-up of CIAC

In addition to its request for service availability and AFPI charges, the utility has requested approval to "gross-up" CIAC collections. By Order No. 16971, issued December 18, 1986, this Commission authorized corporate water and sewer utilities to elect to gross-up CIAC collections, in order to offset the tax effect of the repeal of the exemption of CIAC collections from gross income under the Tax Reform Act of 1986. In addition, Order No. 16971 included a formula to complete the gross-up. The gross-up is currently under review in Docket No. 860184-PU and certain changes may be made. However, in the meantime, we will grant the utility approval to

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collect the gross-up in accordance with Order No. 16971, subject to refund and to a true-up upon our final resolution of the CIAC gross-up matter.

Maintenance of Facilities

By Order No. 20437, we also directed the utility to perform certain repairs and maintenance of the utility sites and facilities. An inspection by the staff of this Commission has verified that the utility has complied with our directions. It does not appear that any further repairs are required at this time.

Based upon the foregoing discussion, it is

ORDERED by the Florida Public Service Commission that the provisions of this Order are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding in accordance with Rule 25-22.029, Florida Administrative Code, with the Director of the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, before the close of business on April 4, 1989. It is further

ORDERED that the application of Magnolia Valley Services, Inc. for a wastewater plant capacity charge is hereby approved as set forth in the body of this Order. It is further

ORDERED that the application of Magnolia Valley Services, Inc. for an AFPI charge is hereby approved, in part, as set forth in the body of this Order. It is further

ORDERED that the request by Magnolia Valley Services, Inc. for approval to gross-up CIAC is hereby approved, as set forth in the body of this Order. It is further

ORDERED that all portions of this Order, whether in the form of discourse or schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that, if this Order becomes final, Magnolia Valley Services, Inc. shall file revised tariff pages, which shall be effective on or after the stamped approval date. The revised tariff pages will be approved upon staff's verification that they are in accordance with the Commission's decision.

By ORDER of the Florida Public Service Commission,
this 14th day of MARCH, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

RJP

by: Kay Ferguson
Chief, Bureau of Records

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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 4, 1989. In the absence of such a petition, this order shall become effective April 5, 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 April 5, 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.

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Schedule No. 1

Allowance for Funds Prudently Invested
 Calculation of Carrying Cost Per ERC Per Month:

	88/89	89/90	90/91	91/92	92/93
December	11.96	155.88	304.95	466.62	642.43
January	23.92	168.21	318.32	481.16	658.27
February	35.89	180.55	331.70	495.70	674.12
March	47.85	192.88	345.07	510.25	689.97
April	59.81	205.22	358.45	524.79	705.82
May	71.77	217.56	371.83	539.33	721.67
June	83.73	229.89	385.20	553.87	737.52
July	95.69	242.23	398.58	568.41	753.37
August	107.66	254.56	411.95	582.95	769.21
September	119.62	266.90	425.33	597.49	785.06
October	131.58	279.24	438.70	612.04	800.91
November	143.54	291.57	452.08	626.58	816.76