

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of MARION OAKS)	DOCKET NO. 881406-WS
UTILITIES, a division of UNITED FLORIDA)	
UTILITIES CORPORATION, to modify water)	ORDER NO. 20944
and sewer service availability charges)	
and allowance for funds prudently)	ISSUED: 3-27-89
invested charges in Marion County)	

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING MODIFICATION OF SERVICE
AVAILABILITY CHARGES AND APPROVING ALLOWANCE
FOR FUNDS PRUDENTLY INVESTED CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein are 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.

BACKGROUND

Marion Oaks Utilities (Marion Oaks or utility) is a utility which provides water and wastewater service to approximately 2,000 residential and general service customers in Marion County. On October 26, 1988, Marion Oaks filed an application for an increase in service installation charges for water and wastewater, an increase in main extension charges for water and a reduction in meter installation charges. The utility also requested an allowance for funds prudently invested (AFPI) charge and to be allowed to gross-up its plant capacity and main extension charges for both water and wastewater. The application was found deficient and the utility was so notified. On December 15, 1988, Marion Oaks completed its application.

REQUEST FOR WAIVER OF RULE REQUIREMENT

The utility's application was based upon a test year ended March 31, 1988. Under Rule 25-30.565(4)(e-g), Florida Administrative Code, Marion Oaks was required to file certain schedules based upon information as of 90 days prior to the application. However, by letter dated December 13, 1988, the utility requested that we waive this requirement. The utility stated that it filed the information based upon a March, 1988 test year because it had already prepared the information for a rate case, which was subsequently withdrawn.

Although the information is some five months older than required by the rule, we believe that it is still fresh and accurate. It does not appear that any circumstances have changed and the utility has experienced little growth during this time. We, therefore, find it appropriate to grant its request for a waiver of the requirement that it file schedules based upon information as of 90 days prior to its application.

DOCUMENT NUMBER-DATE

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MAIN EXTENSION CHARGE

Marion Oaks has requested that we approve an increase in its main extension charges from \$210 to \$434. The proposed charges were derived from the historical cost of transmission and distribution lines. The average cost of these lines, per equivalent residential connection (ERC), was determined by dividing the historical cost by the number of ERCs connected by these lines. We find this method of calculation, and the proposed charges derived therefrom, to be reasonable. Marion Oaks' proposed charge is, therefore, approved. The utility's current main extension charge for wastewater is \$550 per ERC. It did not request any change in this charge and we do not believe that any change is warranted at this time.

SERVICE INSTALLATION CHARGES

Marion Oaks requested that we approve an increase in its service installation charges. A "service" is the line from the utility's water main to the meter or the line from the "point of collection" (property line) to the utility's collection system. The proposed charges were derived from the average costs for labor, equipment and materials for 3/4" and 1" single and double service installations. Based upon the historical costs, as reported by the utility, the requested charges appear reasonable. The following charges are, therefore, approved:

Service Installation Charges

	<u>WATER</u>	
<u>Meter Size</u>	<u>Present</u>	<u>Approved</u>
5/8" x 3/4"	\$112.00	\$170.00
1"	\$162.00	\$170.00
1-1/2"	\$251.00	Actual Cost
2"	\$300.00	Actual Cost
Over 2"	Actual Cost	Actual Cost

SEWER
All Meter Sizes

<u>Present</u>	<u>Approved</u>
\$120.00	\$150.00

METER INSTALLATION CHARGES

Marion Oaks has also requested that we approve decreased meter installation charges. The proposed charges are based upon actual meter, labor and equipment costs. Based upon these costs, as reported by the utility, the proposed charges appear reasonable and are, therefore, approved. The approved meter installation charges are set forth below.

METER INSTALLATION CHARGES

<u>Meter Size</u>	<u>Charges</u>	
	<u>Present</u>	<u>Approved</u>
5/8" x 3/4"	\$ 89.00	\$ 69.00
1"	\$145.00	\$ 99.00

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<u>Meter Size</u>		<u>Charges</u>
1-1/2"	\$201.00	Actual Cost
2"	\$345.00	Actual Cost
Over 2"	Actual Cost	Actual Cost

AFPI CHARGES

Marion Oaks has also requested that we approve AFPI charges. AFPI charges are charges designed to allow a utility to recover a fair rate of return on portions of plant facilities which were prudently constructed, but which exceed the amount necessary to serve current customers. Our practice has been to allow a utility to accumulate the carrying costs associated with the excess plant as AFPI charges, to be collected from future customers at the time of connection. This one time connection fee is based upon the number of customers in ERCs and is generally applicable to all future customers who have not already prepaid connection fees, contributions-in-aid-of-construction (CIAC) or customer advances.

Water Treatment Plant - The proposed AFPI charges for the water treatment plant begin at \$1.31 in January, 1988 and accumulate to \$96.63 after five years. Our review of the utility's application indicates that certain adjustments need to be made to the proposed charges. First, based upon our analysis of capacity and current demand, we find that the water treatment plant is 82 percent used and useful rather than 82.66 percent used and useful as reported by Marion Oaks. We find further that the plant will be able to serve 1,614 future customers rather than 1,190, as stated by the utility. In addition, Marion Oaks utilized a 12.28 percent return on equity in its calculation of the proposed charges. However, Marion Oaks' last authorized return on equity, established by this Commission in Order No. 16778, issued October 27, 1986, is 13.43 percent. We have, therefore, used this percentage of return in our calculation of the appropriate AFPI charges.

Based upon the utility's application and the adjustments discussed above, we find that the appropriate AFPI charges for the water treatment plant should begin at \$1.11 and accumulate to \$81.60 after five years. The approved charges are set forth on Schedule No. 1. These charges will only be applicable until Marion Oaks provides service to 1,614 additional ERCs.

Water Distribution System - For the water distribution system, Marion Oaks requested that we approve AFPI charges which begin at \$4.05 in January, 1988 and accumulate to \$308.78 after five years. As with the charges for the water treatment plant, we have adjusted the return on equity to 13.43 percent, the percentage approved in the utility's last rate case. Based upon the utility's application, adjusted as stated, we find that the appropriate AFPI charges for the water distribution system should begin at \$4.42 and accumulate to \$343.62 after five years. The charges approved herein are set forth on Schedule No. 2. These charges will only be applicable until the utility provides service to 5,189 additional ERCs.

Wastewater Treatment Plant - Marion Oaks requested AFPI

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charges for its wastewater treatment plant which begin at \$6.34 in January, 1988 and accumulate to \$461.77 after five years. Our review of the utility's application indicates, however, that certain adjustments need to be made. First, based upon our analysis of plant capacity and current demand, we find that the plant is 53 percent used and useful rather than 74 percent as reported by the utility. The main difference in our calculation is that we used average daily flows rather than peak flows to determine current demand. Our use of the average daily flows is consistent with Commission practice and the method used in the utility's last rate case. We have also adjusted the number of future customers and the return on equity, as discussed above.

Based upon the utility's application and the adjustments discussed above, we find that the appropriate AFPI charges for the wastewater treatment plant should begin at \$10.97 and accumulate to \$790.72 after five years. The charges approved herein are set forth on Schedule No. 3. These charges will only be applicable until the utility provides service to 484 additional ERCs.

Wastewater Collection System - For the wastewater collection system, Marion Oaks requested AFPI charges which begin at \$9.60 in January, 1988 and accumulate to \$730.99 after five years. We have adjusted the utility's proposed charges to utilize its last authorized return on equity, as discussed above. Based upon the utility's application, as adjusted, we find that the appropriate AFPI charges for the wastewater collection system should begin at \$10.46 and accumulate to \$813.48 after five years. The charges approved herein are set forth on Schedule No. 4. These charges will be applicable only until the utility has provided service to 151 additional ERCs.

Accrual Period - We believe that five years is a prudent period for a utility to accrue carrying costs on excess plant and that excess capacity to serve growth beyond five years is imprudent, unless extraordinary or unusual circumstances are demonstrated. 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.

Marion Oaks' proposed charges begin accruing in January, 1988. However, its application utilizes a test year ending March 25, 1988. We find that the charges should not begin to accrue before the end of the test year. Therefore, we have calculated the AFPI charges for a five-year period beginning April, 1988 and ending March, 1993. After March, 1993, the utility may still collect the AFPI charges, however, the charges will remain fixed after March, 1993, to reflect that the utility should bear the additional costs of carrying the excess plant after that date. The AFPI charges approved herein will be effective for connections made on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariff sheets are consistent with our decision.

GROSS-UP OF CIAC

In its application, Marion Oaks also requested that we approve its request to "gross-up" CIAC in order to offset the

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effect of the repeal of the exemption of CIAC from gross income under the Federal Tax Reform Act of 1986. The utility requested, however, that we defer making a decision on this request until some later date. We agreed to defer consideration of this issue and will, therefore, address this matter in a subsequent order.

Base upon the foregoing, it is

ORDERED by the Florida Public Service Commission that the provisions of this Order are issued as proposed agency action and will become final unless an appropriate petition, in the form prescribed by Rule 25-22.036, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on April 17, 1989. It is further

ORDERED that Marion Oaks Utilities' request for approval of increased water main extension charges is hereby approved, as set forth in the body of this Order. It is further

ORDERED that Marion Oaks Utilities' request for approval of increased water and wastewater service installation charges is hereby approved, as set forth in the body of this Order. It is further

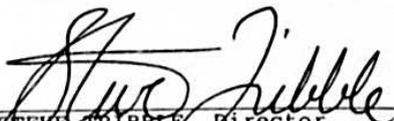
ORDERED that Marion Oaks Utilities' request for approval of increased meter installation charges is hereby approved, as set forth in the body of this Order. It is further

ORDERED that Marion Oaks Utilities' request for approval of AFPI charges is hereby approved, in part, as set forth in the body of this Order. It is further

ORDERED that, if this Order becomes final, Marion Oaks Utilities shall file revised tariff pages which will become effective when stamped approved. The revised tariff pages will be approved upon Staff's verification that the revised tariff pages accurately reflect this Commission's decision. It is further

ORDERED that after April 17, 1989, this Commission will issue either a notice of further proceedings or an Order indicating that the provisions of this Order have become final and effective.

By ORDER of the Florida Public Service Commission,
 this 27th day of MARCH, 1989.


 STEVE TRIBBLE, Director
 Division of Records and Reporting

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RJP

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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 17, 1989. In the absence of such a petition, this order shall become effective April 18, 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 18, 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
Schedule of Charges:

	88/89	89/90	90/91	91/92	92/93
April	1.11	14.57	29.11	45.29	63.33
May	2.23	15.77	30.45	46.78	64.99
June	3.34	16.97	31.78	48.27	66.65
July	4.46	18.17	33.12	49.76	68.31
August	5.57	19.37	34.46	51.25	69.97
September	6.68	20.57	35.79	52.74	71.64
October	7.80	21.77	37.13	54.23	73.30
November	8.91	22.97	38.46	55.71	74.96
December	10.03	24.17	39.80	57.20	76.62
January	11.14	25.38	41.13	58.69	78.28
February	12.25	26.58	42.47	60.18	79.94
March	13.37	27.78	43.81	61.67	81.60

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Schedule No. 2

Allowance for Funds Prudently Invested
Schedule of Charges:

	88/89	89/90	90/91	91/92	92/93
April	4.42	58.01	118.57	187.01	264.36
May	8.84	63.00	124.21	193.39	271.56
June	13.25	67.99	129.85	199.76	278.77
July	17.67	72.99	135.50	206.14	285.97
August	22.09	77.98	141.14	212.52	293.18
September	26.51	82.97	146.78	218.89	300.39
October	30.93	87.96	152.42	225.27	307.59
November	35.34	92.96	158.07	231.65	314.80
December	39.76	97.95	163.71	238.02	322.00
January	44.18	102.94	169.35	244.40	329.21
February	48.60	107.94	174.99	250.77	336.42
March	53.02	112.93	180.64	257.15	343.62

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Schedule No. 3

Allowance for Funds Prudently Invested
Schedule of Charges:

	88/89	89/90	90/91	91/92	92/93
April	10.97	143.34	284.70	441.31	615.16
May	21.94	155.01	297.63	455.66	631.12
June	32.92	166.69	310.56	470.01	647.08
July	43.89	178.36	323.49	484.37	663.04
August	54.86	190.04	336.43	498.72	679.00
September	65.83	201.71	349.36	513.08	694.96
October	76.80	213.39	362.29	527.43	710.92
November	87.78	225.06	375.22	541.78	726.88
December	98.75	236.74	388.16	556.14	742.84
January	109.72	248.41	401.09	570.49	758.80
February	120.69	260.09	414.02	584.84	774.76
ERR	131.66	271.76	426.95	599.20	790.72

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Schedule No. 4

Allowance for Funds Prudently Invested
 Schedule of Charges:

	88/89	89/90	90/91	91/92	92/93
April	10.46	137.33	280.70	442.73	625.83
May	20.52	149.15	294.06	457.82	642.89
June	31.38	160.97	307.41	472.92	659.95
July	41.84	172.79	320.77	488.01	677.01
August	52.29	184.61	334.13	503.11	694.07
September	62.75	196.42	347.49	518.20	711.13
October	73.21	208.24	360.84	533.30	728.19
November	83.67	220.06	374.20	548.39	745.24
December	94.13	231.88	387.56	563.49	762.30
January	104.59	243.70	400.92	578.58	779.36
February	115.05	255.52	414.27	593.68	796.42
March	125.51	267.34	427.63	608.77	813.48