

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Lake Hills) DOCKET NO. 881473-WU
 Utilities, Inc. for a water certificate) ORDER NO. 21272
 in Lake County, Florida.) ISSUED: 5-22-89
 _____)

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 ACTIONORDER ESTABLISHING RATES AND CHARGES AND
 DENYING GRANT OF LICENSE

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 November 14, 1988, Lake Hills Utilities, Inc. (Lake Hills or utility) applied for a water certificate in Lake County. Lake Hills requested issuance of the certificate prior to this Commission setting rates and charges so that it could secure a construction permit from the Department of Environmental Regulation. Order No. 20859 was issued March 7, 1989, granting Lake Hills Certificate No. 512-W.

Grant of License

Lake Hills provided the Commission with a Grant of License to be executed by the utility and the developer, The Greater Construction Corporation, proposing that the ownership of the transmission and distribution lines remain with the developer, which is an affiliated company. The Grant of License gives the utility, and its successors and assigns, exclusive license for water utility purposes to maintain, operate, use, repair, replace and add to the facilities. However, the License can be revoked, changed, amended or modified upon the written agreement of the utility and developer. This provision concerns us since termination of the License could interfere with the utility's provision of continuous and adequate service to its customers.

Moreover, the utility's proposed service availability policy allows the utility to enter into a Grant of License with a developer regarding developer-installed lines or require that ownership be conveyed to the utility. We find this provision to be unjustly discriminatory in that it allows the utility to treat developers differently. Upon consideration, we find it appropriate to deny the Grant of License and require the utility to own the distribution and transmission lines.

DOCUMENT NUMBER-DATE

05109 MAY 22 1989

FPSC-RECORDS/REPORTING

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Rates

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. In this case, we have calculated rates based on 80% of Phase I plant and expenses. Phase I is expected to be completed in 1993 and will serve approximately 710 equivalent residential connections (ERCs) at build-out. The Phase I water treatment plant will have a design capacity of approximately .25 million gallons per day (MGD).

Lake Hills has submitted proforma schedules of rate base, operating income and capital structure. We have made adjustments to these schedules for use in calculating the revenue requirement and initial rates.

The pro forma rate base has been adjusted to increase plant-in-service by adding the transmission and distribution lines, which the utility did not include because it proposed that ownership remain with the developer. Utility plant-in-service has been decreased to reflect the removal of a temporary package water plant which will be installed in 1989 and removed in 1991. Accumulated depreciation and accumulated amortization of contributions-in-aid-of-construction (CIAC) have been adjusted to reflect the adjustments made to utility plant in service and to conform to the Commission approved depreciation rates. Rate base appears on Schedule No. 1, with adjustments appearing on Schedule No. 2.

Some adjustments have been made to the pro forma schedule of operations submitted by the utility. Depreciation expense has been adjusted to reflect the adjustments made to utility plant-in-service and the use of Commission approved depreciation rates. A provision for income taxes has been included since the utility is now a "C" corporation and will be liable for taxes. No income taxes were included by the utility because at the time of the initial filing, it was an "S" Corporation and, as such, was not liable for income taxes. The regulatory assessment fees have been recalculated. Operations appear on Schedule No. 3, with adjustments appearing on Schedule No. 4. As shown on the Schedule, the annual revenue requirement is \$151,866, representing a return of 10.96% on rate base.

We find the utility's pro forma capital structure to be reasonable. The only adjustment necessary was to reconcile the capital structure to rate base. Return on common equity has been calculated to be 14.35%, using the Commission approved leverage formula, authorized by Order No. 19718, issued July 26, 1988. The utility's capital structure appears on Schedule No. 5.

The above schedules have been used only as a tool to aid the Commission in establishing initial rates and is not intended to establish rate base. This is consistent with Commission practice in original certificate applications. The return on equity of 14.35% will be used in future proceedings involving such things as calculation of AFUDC, interim rates and tax savings.

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The utility proposed water rates using the base facility charge rate structure. Shown below are the utility's proposed rates and the Commission's approved rates, which are based on a revenue requirement of \$151,866. The approved rates are effective for meter readings on or after thirty days from the stamped approval date on the original water tariff. The tariff will be approved upon verification by Commission staff that they are consistent with the Commission's decision and that the proposed agency action protest period has expired.

WATER RATES

RESIDENTIAL AND GENERAL SERVICE
 (Monthly Rates)

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Utility</u> <u>Proposed</u>	<u>Commission</u> <u>Approved</u>
5/8" x 3/4"	\$ 9.99	\$ 9.11
1"	24.98	22.78
1 1/2"	49.95	45.55
2"	79.92	72.88
3"	159.84	145.76
4"	249.75	227.75
 <u>Gallage Charge</u>		
Per 1,000 Gallons	\$ 1.18	\$ 1.13

Lake Hills originally requested miscellaneous service charges of \$10 for initial connection and \$20 for normal reconnection, violation reconnection and premises visit (in lieu of disconnection). After reviewing Staff Advisory Bulletin (SAB) No. 13, Second Revised, regarding miscellaneous service charges for water and sewer utilities, the utility verbally revised its request to conform with the level of charges suggested in the SAB. Therefore, pursuant to the Administrative Procedures Manual Section 2.08(C)(9)(i), these charges will be approved administratively by Commission staff when the tariff is approved. Additionally, the utility's proposed tariff contains a provision for initial customer deposits by meter size as well as specific criteria for the establishment of credit, payment of interest of 8% on all customer deposits and a refund of residential deposits after 23 months of satisfactory payment. This provision is in compliance with Rule 25-30.311, Florida Administrative Code, and will be approved administratively by Commission staff pursuant to Administrative Procedures Manual Section 2.08(C)(9)(a).

Service Availability Charges

By letter dated January 9, 1989, Lake Hills requested the meter installation charges shown below. The utility provided adequate cost justification for the charges shown. We find them to be reasonable and they are, therefore, approved.

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<u>Meter Size</u>	<u>Approved Charge</u>
5/8" x 3/4"	\$ 73.00
1"	123.00
1 1/2"	325.00
2"	405.00

The utility has also requested a plant capacity charge of \$623 per equivalent residential connection (ERC). According to the utility calculations, this charge will result in a contributed level at design capacity of approximately 52% of net plant. Since the utility proposes that the developer retain ownership of the distribution lines, the utility included only treatment plant costs to determine the proposed charge. However, since we have found it appropriate for the utility to own the lines, we have included the lines in our calculation of the capacity charge. The value of the lines has been added to both plant-in-service and contributed property. Our analysis indicates that a plant capacity charge of \$540 will result in a level of approximately 75% when the treatment plant reaches capacity. Accordingly, we approve \$540 as the plant capacity charge for this utility.

Schedule No. 6 provides a comparison of the utility's calculated plant capacity charge, which does not include transmission and distribution lines, and our calculation, which treats lines as plant-in-service and contributed property.

The utility has filed a tariff provision for the gross-up of CIAC for income tax purposes. Since Lake Hills is a corporation subject to income taxes, this provision is approved.

Guaranteed Revenue Charge

Included in the utility's service availability policy is a provision for guaranteed revenue payments by developers reserving capacity. According to the utility, the charge would commence when the developer reserves capacity and would continue until an active customer is connected to the system. The utility proposes that the guaranteed revenue charge be equal to the water base facility charge approved in this docket. We find that a guaranteed revenue charge is appropriate to allow for recovery of the fixed costs associated with plant reserved by the developer. We further agree with the utility that the base facility charge level would be an appropriate level for a guaranteed revenue charge since it is a good approximation of the fixed costs associated with providing service.

It is, therefore,

ORDERED by the Florida Public Service Commission that Lake Hills Utilities, Inc. is authorized to charge the rates and charges set forth in the body of this Order. It is further

ORDERED that the return on equity of 14.35% shall be used in future proceedings involving such matters as calculation of AFUDC, interim rates and tax savings. It is further

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ORDERED that the Grant of License between Lake Hills and the developer, The Greater Construction Corporation, is hereby denied. Lake Hills shall own the transmission and distribution lines. It is further

ORDERED that the schedules attached to this Order are by reference incorporated herein. It is further

ORDERED that the provisions of this Order, issued as Proposed Agency Action, shall become final unless an appropriate petition in the form provided by Rule 25-22.036, 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 June 12, 1989. It is further

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

By ORDER of the Florida Public Service Commission,
 this 22nd day of MAY, 1989.


 STEVE TRIBBLE, Director
 Division of Records and Reporting

(S E A L)

ALC

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.

As identified in the body of this order, approval of rates and charges and denial of the Grant of License are 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 12, 1989. In the absence of such a petition, this order shall become effective June 13, 1989, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

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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 June 13, 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.

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

Docket No. 881473-WU
 Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	916,200	0	916,200	350,522 (1)	1,266,722
Land	25,000	0	25,000	0	25,000
Accumulated Depreciation	(110,485)	0	(110,485)	(22,781)(2)	(133,266)
Contributions-in-aid-of-Construction	(373,797)	0	(373,797)	(473,003)(3)	(846,800)
Accumulated Amortization of C.I.A.C.	25,893	0	25,893	34,735 (4)	60,628
Plant Held for Future Use	0	0	0	0	0
Working Capital Allowance	10,164	0	10,164	0	10,164
TOTAL	492,975	0	492,975	(110,527)	382,448

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SCHEDULE NO. 2

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

<u>DESCRIPTION</u>	<u>ADJUSTMENT</u>
<u>UTILITY PLANT IN SERVICE</u>	
1) To remove the temporary package water plant which will be installed in 1989 and removed in 1991.	<u>\$(128,478)</u>
To add transmission and distribution lines omitted by the utility.	<u>\$ 479,000</u>
Total Adjustment to UPIS	<u>\$ 350,522</u>
<u>ACCUMULATED DEPRECIATION</u>	
2) To reflect the adjustment in utility plant in service and to apply Commission approved depreciation rates.	<u>\$(22,781)</u>
<u>CONTRIBUTIONS-IN-AID-OF-CONSTRUCTION</u>	
3) To reflect adjustment to the utility's requested service availability charges and to add lines as contributed property.	<u>\$(473,003)</u>
<u>ACCUMULATED AMORTIZATION OF CIAC</u>	
4) To reflect the application of Commission approved depreciation rates.	<u>\$ 34,735</u>

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

Docket No. 881473-WU
 Schedule No. 3

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	157,124	0	157,124	(5,258)(4)	151,866
Operating and Maintenance	81,314	0	81,314	0	81,314
Depreciation Expense	22,100	(4,878)(1)	17,222	0	17,222
Taxes Other Than Income	9,104	638 (2)	9,742	(131)(5)	9,611
Income Taxes	0	2,807 (3)	2,807	(1,008)(6)	1,799
Total Operating Expenses	112,518	(1,434)	111,084	(1,139)	109,945
Net Operating Income	44,606	1,434	46,040	(4,119)	41,921
Rate Base	492,975		382,448		382,448
Rate of Return	9.05%		12.04%		10.96%

SCHEDULE NO. 4

LAKE HILLS UTILITIES, INC.
ADJUSTMENTS TO SCHEDULE OF OPERATIONS

<u>DESCRIPTION</u>	<u>ADJUSTMENT</u>
<u>DEPRECIATION EXPENSE</u>	
1) To reflect the use of Commission approved depreciation rates.	\$ <u>(4,878)</u>
<u>TAXES OTHER THAN INCOME</u>	
2) To increase regulatory assessment fees to 2.5% of the requested revenues.	\$ <u>638</u>
<u>INCOME TAXES</u>	
3) Subsequent to filing, the utility became a C corporation. Therefore, the adjustment has been made to reflect state and Federal income taxes at the requested revenue level.	\$ <u>2,807</u>
<u>OPERATING REVENUE</u>	
4) To reduce Operating Revenue to a level which will allow the utility the opportunity to earn a 10.96% overall rate of return on rate base.	\$ <u>(5,258)</u>
<u>TAXES OTHER THAN INCOME</u>	
5) To reflect the decrease of regulatory assessment fees related to the decrease in operating revenue.	\$ <u>(131)</u>
<u>INCOME TAXES</u>	
6) To reflect state and Federal income taxes at the recommended operating revenue level.	\$ <u>(1,008)</u>

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

Docket No. 881473-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	68,168		68,168		68,168	(17,006)	51,162	13.38%	14.35%	1.92%
Long and Short-Term Debt	430,364		430,364		430,364	(107,364)	323,000	84.46%	10.50%	8.87%
Customer Deposits	11,040		11,040		11,040	(2,754)	8,286	2.17%	8.00%	0.17%
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%
	509,572	0	509,572	0	509,572	(127,124)	382,448	100.00%		10.96%

Range of Reasonableness:	High	Low
Common Equity	15.35%	13.35%
Overall Rate of Return	11.09%	10.83%

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SCHEDULE NO. 6

LAKE HILLS UTILITIES, INC.
COMPARISON OF PLANT CAPACITY CHARGES

<u>Description</u>	<u>Utility Proposed</u>	<u>Staff Recommended</u>
Plant Capacity Charge:	<u>\$623/ERC</u>	<u>\$540/ERC</u>
Utility Plant in Service (less T&D Lines)	\$ 949,230	\$ 820,752
T&D Lines	<u>0</u>	<u>542,000</u>
Total Utility Plant in Service Accumulated Depreciation	\$ 949,230 (143,594)	\$1,362,752 (174,877)
Net Plant	<u>\$ 779,125</u>	<u>\$1,167,875</u>
CIAC Amortization of CIAC	\$ 442,330 (39,353)	\$ 977,230 (87,896)
Net CIAC	<u>\$ 402,977</u>	<u>\$ 889,334</u>
Net CIAC/Net Plant at Design Capacity	52%	75%