

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Malabar Woods)	DOCKET NO. 890694-WS
Utilities, Inc. for water and sewer)	ORDER NO. 22447
certificates in Brevard County.)	ISSUED: 1/22/90
_____)	

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RATES AND CHARGES

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

In February 1989, Malabar Woods Utilities, Inc. (Malabar) noticed its intent to file an application with this Commission for water and sewer certificates in Brevard County. On February 22, 1989, the City of Melbourne filed an objection to Malabar's notice. On March 29, 1989, the City of Melbourne withdrew its objection to Malabar's notice of intent to apply for water and sewer certificates. Order No. 21264, issued May 19, 1989, acknowledged the City of Melbourne's withdrawal of its objection.

On April 26, 1989, Malabar Woods Utilities, Inc. (Malabar) filed an application with this Commission for water and sewer certificates in Brevard County. Order No. 21641 was issued on July 31, 1989, granting Malabar Water Certificate No. 521-W and Sewer Certificate No. 455-S, prior to the establishment of initial rates and charges to enable Malabar to secure a

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construction permit from the Department of Environmental Regulation.

Rates

Malabar will provide water and sewer service to approximately 329 acres. Normally, in original certificate applications, rates are set 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, rates are calculated based on 80% of Phase I plant and expenses, which is expected to occur in 1997. The utility development will serve approximately 1,000 equivalent residential connections (ERCs) at buildout. The utility will receive bulk water and sewer service from the City of Palm Bay.

On November 20, 1989, our Staff met with a utility representative to discuss original cost information. The original cost information was used to calculate proforma schedules of rate base, operating income, and capital structure. Subsequent to the meeting, proforma schedules were adjusted to determine the revenue requirement and initial rates.

The proforma water and sewer rate bases have been adjusted to increase utility plant-in-service (UPIS) to add the distribution lines that the developer will donate to the utility. Contributions-in-aid-of-construction (CIAC) for water and sewer has also been adjusted to include donated lines. Accumulated depreciation and accumulated amortization of CIAC have been adjusted to reflect the adjustments made to UPIS and CIAC. Our calculation of rate base appears on Schedules 1 and 2, with adjustments shown on Schedule No. 3.

A few adjustments have been made to the utility's water and sewer proforma schedules of operations. Depreciation expense and income taxes for both water and sewer have been changed to reflect the adjustment made to plant. Revenues have been adjusted to allow the utility an opportunity to earn a 11.70% overall rate of return on its water and sewer rate bases. We have also recalculated income taxes and regulatory assessment fees at the level of gross revenue found to be

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appropriate. The annual water and sewer revenue requirements are \$331,913 and \$376,363, respectively. The schedule of operations appears on Schedules 4 and 5, with adjustments shown on Schedule 6.

The bulk of the utility's operation and maintenance expenses is the cost of purchased water and sewage treatment from the City of Palm Bay. For the water system, \$251,200 of the total \$271,200 in operation and maintenance expenses is purchased water. For the sewer system, \$290,000 of the \$311,500 in operation and maintenance expenses is purchased sewage treatment.

The utility's proforma capital structure schedule has been adjusted to reflect a more reasonable amount for customer deposits. The only other adjustment necessary was to reconcile the capital structure to rate base. The return on common equity is found to be 11.80% using the current leverage formula, authorized by Order No. 21775, issued August 23, 1989. The utility's capital structure appears on Schedule No. 7.

These schedules are used only as tools in establishing initial rates and are not intended to establish rate base. We are, however, establishing a return on equity of 11.80% to be used in future proceedings involving such things as the calculation of AFUDC, interim rates and tax savings.

The utility has not proposed specific water and sewer rates. It does, however, support the use of the base facility charge rate structure. We have calculated rates using this rate structure based on revenue requirements of \$331,913 for water and \$376,363 for sewer. As mentioned previously, Malabar will purchase water and sewer treatment from the City of Palm Bay. The City will charge \$2.44 and \$3.62 per 1,000 gallons for purchased water and sewage treatment, respectively. The rates shown on the following pages will allow the utility to recover its expenses and earn a fair return on its investment.

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Water

Residential and General Service
Monthly Service

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Approved Rates</u>
5/8" x 3/4"	\$ 3.67
3/4"	5.51
1"	9.18
1 1/2"	18.35
2"	29.36
3"	58.72
4"	91.75
6"	183.50
8"	293.60
<u>Gallonage Charge</u> (Per 1,000 Gallons)	\$ 2.85

Sewer

Residential
Monthly Service

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Approved Rates</u>
All Meter Sizes	\$ 3.78
<u>Gallonage Charge</u> (Per 1,000 Gallons)	\$ 3.18

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General Service
Monthly Service

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Approved Rates</u>
5/8" x 3/4"	\$ 3.78
3/4"	5.67
1"	9.45
1 1/2"	18.90
2"	30.24
3"	60.48
4"	94.50
6"	189.00
8"	302.40
 <u>Gallonage Charge</u> (Per 1,000 Gallons)	 \$ 3.82

The above rates are reasonable and they are, therefore, approved. These rates shall be effective for meter readings on or after thirty days from the stamped approval date on the tariff sheets.

The utility plans to charge initial deposits of \$65 and \$85 for water and sewer, respectively, which represent approximate charges for water and sewer service for two billings periods. This is consistent with Rule 25-30.311(7), Florida Administrative Code.

Miscellaneous Service Charges

The utility requested the following miscellaneous service charges:

Initial Connection	\$15.00
Normal Reconnection	15.00
Violation Reconnection	15.00
Premises Visit	10.00

These rates are reasonable and are, therefore, approved.

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Service Availability Charges

Malabar intends to install the water transmission mains, the water meters and the sewer force main. The developer will be required to donate the on-site water and sewer lines, services, and fire hydrants. The utility has proposed a meter installation charge of \$85 per ERC and water and sewer line capacity charges of \$100 and \$75, respectively. Our analysis indicates that these charges will result in a level of 75% when the systems reach build-out. These charges are reasonable and they are, therefore, approved. Our analysis of the service availability charges is shown on Schedule No. 8.

The utility is directed to file a service availability policy, as part of its tariffs, which reflects the above charges. The tariffs shall also reflect the developer's donation of the on-site facilities.

It is, therefore,

ORDERED by the Florida Public Service Commission that Malabar Woods Utilities, Inc., 390 N. Orange Avenue, Orlando, Florida 32801, shall charge the rates and charges set forth in this Order. It is further

ORDERED that Malabar Woods shall submit tariff sheets reflecting the rates, initial deposits, miscellaneous service charges, service availability charges and donation of on-site facilities by the developer as set forth in the body of this Order within 30 days of the date of this Order. It is further

ORDERED that Malabar shall use the return on equity of 11.80%, established in the body of this Order, in future proceedings involving such things as calculation of AFUDC, interim rates and tax savings. 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

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

By ORDER of the Florida Public Service Commission, this 22nd day of JANUARY, 1990.


STEVE TRIBBLE, Director
Division of Records and Reporting

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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 February 12, 1990.

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In the absence of such a petition, this order shall become effective on the day 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 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.

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Malabar Woods Utilities, Inc.
 Schedule of Water Rate Base
 At 80% of Design Capacity

Docket No. 890694-WS
 Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	422,580	0	422,580	240,000 (1)	662,580
Land	0	0	0	0	0
Accumulated Depreciation	(78,314)	0	(78,314)	(17,093) (2)	(95,407)
Contributions-in-aid-of-Construction	(256,000)	0	(256,000)	(132,000) (3)	(388,000)
Accumulated Amortization of C.I.A.C.	29,196	0	29,196	8,975 (4)	38,171
Plant Held for Future Use	0	0	0	0	0
Working Capital Allowance	33,900	0	33,900	0	33,900
TOTAL	151,362	0	151,362	99,882	251,244

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Malabar Woods Utilities, Inc.
 Schedule of Sewer Rate Base
 At 80% of Design Capacity

Docket No. 890694-WS
 Schedule No. 2

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	363,395	0	363,395	400,000 (1)	763,395
Land	0	0	0	0	0
Accumulated Depreciation	(89,849)	0	(89,849)	(53,333) (2)	(143,182)
Contributions-in-aid-of-Construction	(188,000)	0	(188,000)	(272,000) (3)	(460,000)
Accumulated Amortization of C.I.A.C.	24,791	0	24,791	30,664 (4)	55,455
Working Capital Allowance	38,938	0	38,938	0	38,938
TOTAL	149,275	0	149,275	105,331	254,606

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Schedule No. 3

Malabar Woods Utilities, Inc.
 Adjustments to Schedule of Rate Base

<u>Description</u>	<u>Water</u>	<u>Sewer</u>
<u>Utility Plant-in-Service</u>		
1) To add the sewer collection and water distribution lines that the Developer will be donating to the utility.	<u>\$ 240,000</u>	<u>\$ 400,000</u>
<u>Accumulated Depreciation</u>		
2) To reflect depreciation associated with the adjustment made to plant.	<u>\$(17,093)</u>	<u>\$(53,333)</u>
<u>Contributions-in-aid-of-construction</u>		
3) To reflect water and sewer lines donated by the Developer and to reflect staff's recommended service availability charges.	<u>\$(132,000)</u>	<u>\$(272,000)</u>
<u>CIAC Amortization</u>		
4) To reflect amortization associated with the adjustment made to CIAC.	<u>\$ 8,975</u>	<u>\$ 30,664</u>

Malabar Woods Utilities, Inc.
 Schedule of Water Operations
 At 80% of Design Capacity

Docket No. 890694-WS
 Schedule No. 4

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	313,440	0	313,440	18,473 (3)	331,913
Operating and Maintenance	271,200	0	271,200	0	271,200
Depreciation Expense	6,118	2,712 (1)	8,830	0	8,830
Taxes Other Than Income	13,836	0	13,836	461 (4)	14,297
Income Taxes	4,074	(454) (2)	3,620	4,580 (5)	8,199
Total Operating Expenses	295,228	2,257	297,485	5,041	302,526
Net Operating Income	18,212	(2,257)	15,955	13,432	29,387
Rate Base	151,362		251,244		251,244
Rate of Return	12.03%		6.35%		11.70%

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Malabar Woods Utilities, Inc.
 Schedule of Sewer Operations
 At 80% of Design Capacity

Docket No.890694-WS
 Schedule No. 5

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	355,651	0	355,651	20,712 (3)	376,363
Operating and Maintenance	311,500	0	311,500	0	311,500
Depreciation Expense	6,944	3,420 (1)	10,364	0	10,364
Taxes Other Than Income	15,891	0	15,891	519 (4)	16,410
Income Taxes	4,018	(398) (2)	3,620	4,689 (5)	8,309
Total Operating Expenses	338,353	3,022	341,375	5,208	346,583
Net Operating Income	17,298	(3,022)	14,276	15,504	29,780
Rate Base	149,275		254,606		254,606
Rate of Return	11.59%		5.61%		11.70%

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Schedule No. 6

Malabar Woods Utilities, Inc.
 Adjustments to Schedule of Operations

<u>Description</u>	<u>Water</u>	<u>Sewer</u>
<u>Depreciation Expense</u>		
1) To reflect depreciation associated with the adjustment made to plant.	<u>\$ 2,712</u>	<u>\$ 3,420</u>
<u>Taxes Other Than Income</u>		
2) To reflect taxes associated with the adjustment made to plant.	<u>\$(454)</u>	<u>\$(398)</u>
<u>Operating Revenues</u>		
3) To adjust the requested operating revenue to a level which will allow the utility to earn a 11.70% overall rate of return on its water and sewer rate bases.	<u>\$18,473</u>	<u>\$ 20,712</u>
<u>Taxes Other Than Income</u>		
4) To reflect the increase in regulatory assessment fees resulting from the increase in operating revenue.	<u>\$ 461</u>	<u>\$ 519</u>
<u>Income Taxes</u>		
5) To reflect Staff's calculation of of state and federal income taxes at the recommended operating revenue level.	<u>\$ 4,580</u>	<u>\$ 4,689</u>

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Malabar Woods Utilities, Inc.
 Schedule of Capital Structure
 At 80% of Design Capacity

Docket No. 890694-WS
 Schedule No. 7

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	718,000		718,000		718,000	(226,126)	491,874	97.24%	11.80%	11.48%
Long and Short-Term Debt			0		0	0	0	0.00%	0.00%	0.00%
Customer Deposits	30,000		30,000	(9,600)	20,400	(6,425)	13,975	2.76%	8.00%	0.22%
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%
	748,000	0	748,000	(9,600)	738,400	(232,550)	505,850	100.00%		11.70%

Range of Reasonableness:	High	Low
Common Equity	12.80%	10.80%
Overall Rate of Return	12.67%	10.72%

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Malabar Woods Utilities, Inc.
 Schedule of Net Plant to Net C.I.A.C.
 At 100% of Design Capacity

Docket No. 890694-WS
 Schedule No. 8

Account Number	Account Description	Water	Sewer	Total
101	Utility Plant in Service	692,580	813,395	1,505,975
104	Accumulated Depreciation	(130,667)	(169,329)	(299,996)
	Net Plant	561,913	644,066	1,205,979
271	C.I.A.C.	485,000	575,000	1,060,000
272	Accum. Amortization of C.I.A.C.	(59,643)	(89,930)	(149,573)
	Net C.I.A.C.	425,357	485,070	910,427
	Net C.I.A.C. / Net Plant	75.70%	75.31%	75.49%
	Commission Approved Charge	185	75	260
	Total ERC's	1,000	1,000	