

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of )  
Highlands Ridge Associates, )  
Inc. for Water and Wastewater )  
Certificates in Highlands )  
County, Florida. )  
\_\_\_\_\_ )  
)

DOCKET NO. 920306-WS  
ORDER NO. PSC-92-0954-FOF-WS  
ISSUED: 09/09/92

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman  
SUSAN F. CLARK  
J. TERRY DEASON  
BETTY EASLEY  
LUIS J. LAUREDO

ORDER GRANTING CERTIFICATES

AND

NOTICE OF PROPOSED AGENCY ACTION

ORDER ESTABLISHING RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein, except for the granting of water and wastewater certificates, is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Background

On April 3, 1992, Highlands Ridge Associates, Inc. (Highlands or Utility) filed an application with this Commission for certificates to provide water and wastewater service in Highlands County. Highlands has been in operation since October, 1990, providing service without compensation to approximately 35 connections. The Utility filed the application so that it may charge for service.

When it began operation, Highlands believed that it was automatically exempt from Commission regulation because it did not charge for service. Taking into consideration Highlands' mistaken belief that it was not jurisdictional and the fact that Highlands has been very cooperative during the application process, we will not institute show cause proceedings against the Utility for operating without a certificate.

DOCUMENT NUMBER-DATE

10325 SEP -9 1992

Highlands proposes to provide water and wastewater service to 394 equivalent residential connections (ERC) at buildout of Phases I and II, which is anticipated to occur in 1998. The development consists of mobile homes, a clubhouse, golf course and pro-shop. This is the first of two phases; ultimately, approximately nine phases are planned. The Utility consists of four systems: Highlands Ridge Water System, Highlands Ridge Water Distribution System, Highlands Ridge Wastewater Treatment System and Highlands Ridge Collection System.

Highlands is in a critical use area, as defined by the Southwest Florida Water Management District (Water Management District). The Water Management District has been contacted regarding the need for Highlands to provide reclaimed water to the golf course. The existing wastewater system is not sized to provide reclaimed water; however, it is anticipated that reclaimed water will be provided to the golf course when the wastewater treatment plant is upgraded. This will occur when the plant is upgraded when flows reach 100,000 gallons per day, which is expected to occur in five years.

#### Application

The application, as filed, was deficient. All deficiencies were corrected on May 21, 1992. Therefore, the application is in compliance with Section 367.045, Florida Statutes, and other pertinent statutes and administrative rules. In particular, the application contains a filing fee in the amount of \$1,800, as prescribed by Rule 25-30.020, Florida Administrative Code. The Utility also provided evidence, in the form of a warranty deed, that the Utility owns the land upon which its facilities are located, as required by Rule 25-30.033(1)(j), Florida Administrative Code.

Highlands provided adequate service territory and system maps and a territory description, as prescribed by Rule 25-30.033(1)(l)(m) and (n), Florida Administrative Code. The territory which the Utility proposes to serve is described in Attachment A of this Order, which by reference is incorporated herein. All phases of the Highlands development are described on Attachment A.

Highlands also provided proof of compliance with the noticing provisions of Rule 25-30.030, Florida Administrative Code, including notice to the existing customers. No protests to the application have been received and the time for filing such has expired.

The Utility has been operated by Howard Short, under contract, since it began operation in 1990. Mr. Short also manages other utilities under the Commission's jurisdiction. He appears to have the technical ability to continue to operate the utility for Highlands. Also, from information filed with the application, it appears that Highlands has the financial ability to operate the Utility. In addition, according to the Department of Environmental Regulation, there are no outstanding violations against the Utility.

It should be noted that there is no other utility operating within close enough proximity to make connection financially feasible. Therefore, we find that it is in the public interest to grant Highlands Certificates Nos. 544-W and 474-S to serve the territory described in Attachment A.

#### Rates and Return on Equity

Normally, the Commission sets rates which allow a utility to earn a fair rate of return on investment when the treatment plant reaches 80% of capacity. From information provided by Highlands, we have calculated proforma schedules of rate base, operating income and capital structure to be used in determining initial rates. A factor of 350 gallons per day for water has been used as typical for each connection. Wastewater usage has been established at 250 gallons per day for each connection.

Raw plant costs were provided by Highlands in a cost study, which took into account the developer's actual costs to construct the facilities and included general, administrative and engineering costs. Capital costs have been reconciled to rate base and return on equity has been adjusted to the most recent leverage graph amount.

Water treatment and pumping consists of two 8-inch wells and a 10,000 gallon hydropneumatic tank. DER has permitted capacity of the water treatment plant to be 138,000 gallons per day. The Utility will reach 80 percent of that capacity in 7 years. The Utility has a Moroff package plant for wastewater treatment. The plant has been permitted by DER for 76,000 gallons per day. Eighty percent of that capacity will be reached in 6 years. Secondary treatment of wastewater is provided and final effluent is disposed of in a percolation pond.

Disposal of effluent to percolation ponds is acceptable to DER at this time. However, as stated previously, Highlands is in a critical use area. According to the Utility's Engineer, the

wastewater system will be upgraded when flows reach 100,000 gallons per day. At that time, reclaimed water will be provided to the golf course. When the Utility's DER operating permit expires in five years, Highlands will be required to file a feasibility study of the use of reclaimed water as part of its request for renewal of its operating permit.

The Schedule of Rate Base appears on Schedules Nos. 1 and 3 for water and wastewater, respectively, with adjustments shown in the notes to the schedules.

Highlands did not allocate General and Administrative costs. Therefore, the asset accounts have been adjusted to reflect inclusions of those amounts. Adjustments made to plant-in-service for water consisted of the addition of meters each year from 1992 through 1998. Also, we have projected the addition of a hydropneumatic tank in 1995. Since the Utility did not include a value for land in its filing, the value of the land upon which the water and wastewater facilities are located has been added to the water and wastewater rate bases. Highlands did not provide projected accumulated depreciation, contributions-in-aid-of-construction (CIAC) and accumulated amortization of CIAC for the water and wastewater treatment plants. Appropriate adjustments have been made.

The Schedule of Operations is shown on Schedules Nos. 2 and 4; adjustments are shown on each Schedule. Since limited information was provided by the Utility in its application, it has been necessary to work with the Utility and its contract operator to project operating and maintenance expense. Projected revenue for water and wastewater operations has been adjusted since it was not included in the application. Salaries and wages, chemicals, materials and supplies and general liability insurance have been increased. Purchased power, contractual services, regulatory commission expense and miscellaneous expense have been reduced. These adjustments result in a reduction of \$8,600 in operating and maintenance expense for water.

Since Highlands did not estimate depreciation expense for the water and wastewater treatment plant, we have calculated this amount. Property taxes for the water and wastewater treatment facilities were increased after discussions with the Utility. Salaries and wages, materials and supplies and general liability insurance for wastewater have been increased. Sludge removal expense, purchased power, chemicals, contractual services for engineering, regulatory commission expense and miscellaneous expenses have been reduced. As a result of these adjustments,

operating and maintenance expense for wastewater has been reduced by \$14,200.

Highlands proforma capital structure has been adjusted to reflect reconciliation with the projected rate base and the most recent return on equity. The return on common equity has been calculated to be 12.44 percent using the current Commission approved leverage formula. The adjusted proforma capital structure is shown on Schedule No. 5.

The Schedules included herein are being presented as tools only for the establishment of initial rates. Rate base is not being established in this Docket. However, we do find it appropriate to establish a return on equity of 12.44 percent, which shall be used in future proceedings, involving such things as calculation of AFUDC and interim rates. Since it is Commission practice to include a 100 basis point range on both sides of the target rate of return, the range is established from 11.44 percent to 13.44 percent.

The rates shown below have been calculated using the base facility rate structure and are based on projected revenue requirements of \$90,038 and \$88,416 for the water and wastewater systems, respectively. We find these rates to be reasonable and they are hereby approved. Highlands shall charge these rates until authorized to change by the Commission.

Water  
Monthly Rates  
Residential and General Service

<u>Base Facility Charge</u>	<u>Rate</u>
5/8" x 3/4"	\$ 9.90
3/4"	14.85
1"	24.75
1-1/2"	49.50
2"	79.20
3"	158.40
4"	247.50
6"	495.00
8"	792.00
<u>Gallonage Charge</u>	
Per 1,000 Gallons	\$ 1.17

Wastewater  
Monthly Rates  
Residential Service

<u>Base Facility Charge</u>	<u>Rate</u>
All Meter Sizes	\$ 11.93
<u>Gallonage Charge</u>	
Per 1,000 Gallons (Maximum of 10,000 Gallons)	\$ 1.40

General Service

<u>Base Facility Charge</u>	<u>Rate</u>
5/8" x 3/4"	\$ 11.93
3/4"	17.90
1"	29.83
1-1/2"	59.65
2"	95.44
3"	190.88
4"	298.25
6"	596.50
8"	954.40
<u>Gallonage Charge</u>	
Per 1,000 Gallons	\$ 1.68

Highlands initially requested miscellaneous service charges which are inconsistent with Staff Advisory Bulletin (SAB) 13, Second Revised. Upon being advised that it would have to provide justification for the higher charges, Highlands requested miscellaneous service charges consistent with the Advisory Bulletin. These charges will be approved administratively when the tariff sheets are approved. Highlands does not require customer deposits and none are approved herein.

Highlands filed a sample tariff as part of its application. The Utility shall file revised tariff sheets within 30 days of the effective date of this Order reflecting the rates and charges approved herein. The rates shall be effective for meter readings on or after 30 days from the stamped approved date on the tariff sheets.

As discussed previously, the capacity of the wastewater treatment plant is not sufficient to provide reclaimed water. When

the expansion of the wastewater plant for the Second Phase begins, Highlands should plan to provide reclaimed water to the golf course. The Utility should also determine whether or not a reuse charge is appropriate. If such a charge is determined to be appropriate, Highlands must come to the Commission for approval of the reuse rate.

#### Service Availability Policy

Highlands, which is both the utility and the developer, does not collect contributions-in-aid-of-construction (CIAC). According to the Utility, the investment in lines is not written off to cost of goods sold as lots are sold. Therefore, we find it appropriate to establish a main extension charge based on the Utility's average actual cost per ERC of lines. We also find that a plant capacity charge should be established. The charges will be recovered from future connections.

We find the following service availability charges are appropriate and they are hereby approved.

	<u>Water</u>	<u>Wastewater</u>
Plant Capacity Charge	\$ 272	\$ 532
Main Extension Charge	\$ 567	\$ 677
Meter Installation Charge		
5/8" x 3/4"	\$ 125	
1"	\$ 150	
1-1/2"	\$ 175	
2" and Above	Actual Cost	

These charges will achieve the 75 percent target of net CIAC to net plant at buildout as shown on Schedule No. 6. Highlands shall file tariff sheets within 30 days of the effective date of this Order reflecting the service availability policy and charges approved herein. The charges shall be effective for connections made on or after the stamped approval date on the tariff sheets.

#### Allowance For Funds Used During Construction (AFUDC)

Although not requested by the Utility, we find that an AFUDC rate should be established for Highlands for projects deemed eligible, pursuant to Rule 25-30.116(1), Florida Administrative Code. This will allow Highlands to accrue AFUDC for construction-work-in-progress (CWIP) not included in rate base.

Highlands' proforma capital structure has been utilized to calculate the AFUDC rate. Using a return on equity of 12.44 percent results in an annual AFUDC rate of 11.34 and a monthly discount rate of .899171 percent. These rates are appropriate and they are hereby approved. In accordance with Rule 25-30.116(5), Florida Administrative Code, the AFUDC rate is effective the month after the end of the 12-month period used to establish the rate. Therefore, the AFUDC rate shall be effective upon the effective date of this Order, and shall apply to future construction of utility facilities.

It is, therefore,

ORDERED by the Florida Public Service Commission that Highlands Ridge Associates, Inc., Post Office Box 768, Sebring, Florida 33871, is hereby granted Certificates Nos. 544-W and 474-S to serve the territory in Highlands County described in Attachment A of this Order. It is further

ORDERED that Highlands shall charge its customers the rates approved in the body of this Order until authorized to change by the Commission. The rates shall be effective for meter readings on or after 30 days from the stamped approval date on the tariff sheets. It is further

ORDERED that the service availability policy and charges approved herein shall be effective for connections made on or after the stamped approval date on the tariff sheets. It is further

ORDERED that the AFUDC rate of 11.34 percent and monthly discount rate of .899171 percent is hereby approved. The rate shall be effective on the effective date of this Order and shall apply to the construction of future utility facilities. It is further

ORDERED that Highlands shall file revised tariff sheets reflecting the rates and charges approved herein within 30 days of the effective date of this Order. It is further

ORDERED that Highlands shall use a return on equity of 12.44 percent, as established herein, in future proceedings involving such things as the calculation of AFUDC and interim rates. It is further

ORDERED that the provisions of this Order, except for the granting of water and wastewater certificates, are issued as proposed agency action and will become final unless an appropriate



petition is filed with the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings on Judicial Review. It is further

ORDERED that, in the event no timely protest is received to the proposed agency action provisions of this Order, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 9th day of September, 1992.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

ALC

by: Kay Seay  
Chief, Bureau of Records

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, our action herein, except for the granting of water and wastewater certificates, 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 September 30, 1992. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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 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 wastewater 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 wastewater 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.

HIGHLANDS RIDGE ASSOCIATES, INC.  
 Schedule of Water Rate Base  
 At 80% of Design Capacity

Schedule No. 1

Description	Balance Per Filing	Staff Adjust.	Commission Vote
Utility Plant in Service	529,042	53,964	583,007
Land	0	1,944	1,944
Accumulated Depreciation	0	(119,823)	(119,823)
Contributions-in-aid-of-Construction	0	(325,955)	(325,955)
Accumulated Amortization of C.I.A.C.	0	32,045	32,045
Plant Held for Future Use	0	0	0
Working Capital Allowance	7,108	(1,075)	6,033
TOTAL	536,150	(358,900)	177,250

HIGHLANDS RIDGE ASSOCIATES, INC.  
 Schedule of Water Operations  
 At 80% of Design Capacity

Schedule No. 2

Description	Balance Per Utility	Staff Adjust.	Commission Vote
Operating Revenues	0	88,273	88,273
Operating and Maintenance	56,860	(8,600)	48,260
Depreciation Expense	0	9,527	9,527
Taxes Other Than Income	4,000	6,393	10,393
Income Taxes	0	0	0
Total Operating Expenses	60,860	7,320	68,180
Net Operating Income	(60,860)	80,953	20,093
Rate Base	536,150		177,250
Rate of Return	-11.35%		11.34%

HIGHLANDS RIDGE ASSOCIATES, INC.  
 Schedule of Wastewater Rate Base  
 At 80% of Design Capacity

Schedule No. 3

Description	Balance Per Filing	Staff Adjust.	Commission Vote
Utility Plant in Service	572,622	(3,858)	568,764
Land	0	3,858	3,858
Accumulated Depreciation	0	(117,760)	(117,760)
Contributions-in-aid-of-Construction 12	0	(332,475)	(332,475)
Accumulated Amortization of C.I.A.C.	0	29,697	29,697
Working Capital Allowance	7,820	(1,775)	6,045
TOTAL	580,442	(422,313)	158,129

HIGHLANDS RIDGE ASSOCIATES, INC.  
 Schedule of Wastewater Operations  
 At 80% of Design Capacity

Schedule No. 4

Description	Balance Per Utility	Staff Adjust.	Commission Vote
Operating Revenues	0	86,682	86,682
Operating and Maintenance	62,560	(14,200)	48,360
Depreciation Expense	0	10,260	10,260
Taxes Other Than Income	0	10,136	10,136
Income Taxes	0	0	0
Total Operating Expenses	62,560	6,197	68,757
Net Operating Income	(62,560)	80,485	17,925
Rate Base	580,442		158,129
Rate of Return	-10.78%		11.34%

HIGHLANDS RIDGE ASSOCIATES, INC.  
 Schedule of Capital Structure  
 At 80% of Design Capacity

Schedule No. 5

Description	Balance Per Filing	Staff Adjust.	Commission Vote	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity	633,646	0	633,646	(499,557)	134,089	40.00%	12.44%	4.98%
Long and Short-Term Debt	9,403,207	0	9,403,207	(9,202,073)	201,134	60.00%	10.60%	6.36%
Customer Deposits	0	0	0	0	0	0.00%	8.00%	0.00%
Advances from Associated Companies	0	0	0	0	0	0.00%	0.00%	0.00%
Other	0	0	0	0	0	0.00%	0.00%	0.00%
	10,036,853	0	10,036,853	(9,701,631)	335,223	100.00%		11.34%

Range of Reasonableness:

	High	Low
Common Equity	13.44%	11.44%
Overall Rate of Return	11.74%	10.94%

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HIGHLANDS RIDGE ASSOCIATES, INC.  
 Schedule of Net Plant to Net C.I.A.C.  
 At 100% of Design Capacity  
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Schedule No. 6

Account Number	Account Description	Water	Wastewater	Total
101	Utility Plant in Service	592,792	572,622	1,165,414
104	Accumulated Depreciation	(139,949)	(139,171)	(279,120)
	Net Plant	452,843	433,451	886,294
271	C.I.A.C.	383,362	367,536	750,898
272	Accum. Amortization of C.I.A.C.	(44,243)	(42,873)	(87,116)
	Net C.I.A.C.	339,119	324,663	663,782
	Net C.I.A.C. / Net Plant	74.89%	74.90%	74.89%
	Gross to Gross Minimum Contribution Level	45.92%	46.61%	46.26%
	Staff Recommended Charge	973	1,209	2,182



Attachment A

LEGAL DESCRIPTION OF TERRITORY SERVED

That part of the South 1/2 of the Northwest 1/4 lying North and East of the present right-of-way line of the Seaboard Airline Railroad: the West 1100.00 feet of the Northeast 1/4: the East 220.00 feet of the West 1/2 of the Northeast 1/4 and the East 1/2 of the Northeast 1/4, all being in Section 8. Township 34 South, Range 29 East, Highlands County, Florida.

AND,

The West 1/2 of the Northeast 1/4: the East 1/2 of the Northwest 1/4: the Northwest 1/4 of the Northwest 1/4: the North 1/2 of the Southwest 1/4 of the Northwest 1/4: the Northwest 1/4 of the Southeast 1/4: and the Northeast 1/4 of the Southwest 1/4 all being in Section 9, Township 34 South, Range 29 East, Highlands County, Florida. The above described property includes the Subdivision known as BONNET LAKE VILLAGE, according to the plat thereof as recorded in Plat Book 10, Page 8, of the Public Records of Highlands County, Florida. Less and Except that portion of the following described property that lies in the Northwest 1/4 of the Southeast 1/4 of said Section 9, described as follows: commence at the Southeast corner of the Southwest 1/4 of the Southeast 1/4 of said Section 9: thence North 00°25'00" East along the East line of said Southwest 1/4 of the Southeast 1/4 a distance of 1449 feet to the point of beginning: thence North 89°35'00" West 660 feet to the West line of the East 1/2 of the Northwest 1/4 of the Southeast 1/4 of said Section 9: thence South 00°25'00": East 129.42 feet to the South line of said Northwest 1/4 of the Southeast 1/4: thence South 89°35'00" East along said South line 660 feet to the Southeast corner of said Northwest 1/4 of the Southeast 1/4: thence North 00°25'00" East along the East line of said Northwest 1/4 of the Southeast 1/4 of said Section 9 a distance of 129.42 feet to the point of beginning.

AND,

Tracts A and B and lot 52 of BASKET LAKE GROVES according to plat thereof recorded in Plat Book 3, Page 25, of the Public Records of DeSoto (now Highlands) County, Florida, and that portion of a 40 foot platted road right-of-way lying north of said Tracts "A" and "B" and Lot 52 of said BASKET LAKE GROVES, closed by Resolution recorded in Official Records Book 1053 Pages 472-474, of the public records of Highlands County Florida, all being more particularly

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described as follows: Commence at the Southeast corner of the Northeast 1/4 of: Section 8, Township 34 South, Range 29 East, Highlands County, Florida: thence North 00°31'31" East 84.00 feet to the North line of a 40 foot platted right-of-way as shown on said plat of BASKET LAKE GROVES: thence North 89°29'30" West along said North right-of-way line 638.02 feet to the Point of Beginning: thence continue North 89°29'30" West along said right-of-way line 1142.07 feet: thence South 00°31'30" West along the West line of said Tract "B" a distance of 326.00 feet to the Southwest corner of said Tract "B": thence South 89°29'30" East along the South line of said Tracts "B" and "A" a distance of 823.06 feet to the Southeast corner of said Tract "A" thence South 00°31'30" West along the West line of said Lot 52 a distance of 1058.00 feet to the Southwest corner of said Lot 52: thence South 89°28'30" East along the South line of said Lot 52 a distance of 319.01 feet to the Southeast corner of said Lot 52: thence North 00°31'30" East along the East line of said Lot 52 and its extension 1384.00 feet to the Point of Beginning.