

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

JULY 8, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF WATER AND WASTEWATER (JETER, MERCHANT)
DIVISION OF LEGAL SERVICES (ERSTLING) *MSJ* *PM* *bl*

RE : UTILITY: VENTURE ASSOCIATES UTILITIES CORPORATION
DOCKET NO.: 930406-WU
COUNTY: MARION
CASE: APPLICATION FOR APPROVAL OF ALLOWANCE FOR FUNDS
USED DURING CONSTRUCTION (AFUDC) RATE.

AGENDA: 07/20/93 - CONTROVERSIAL AGENDA - PROPOSED AGENCY ACTION
- PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

930406.RCM

CASE BACKGROUND

Venture Associates Utilities Corporation, (Venture or utility), is a Class C utility operating in Marion County. The utility had 797 water customers as of December 31, 1992.

On April 21, 1993, Venture filed an application for approval of an Allowance for Funds Used During Construction (AFUDC) rate. The utility submitted the Minimum Filing Requirements (MFRs) on the same date and the MFRs were accepted.

DOCUMENT NUMBER-DATE

07293 JUL-83

FILE NUMBER-REPORTING

DISCUSSION OF ISSUES

ISSUE 1: What Allowance for Funds Used During Construction (AFUDC) rate should be approved?

RECOMMENDATION: An AFUDC rate of 9.30 percent should be approved as reflected on Schedule No. 1. The discounted monthly rate should be 0.743889 percent. The approved rate should be applicable for eligible construction projects beginning January 1, 1993. (JETER)

STAFF ANALYSIS: On April 21, 1993, Venture Associates Utilities Company, (Venture or utility), filed an application for approval of an AFUDC rate for the year ended December 31, 1992. The utility's MFRs were in compliance with the requirements of Section 25-30.116, Florida Administrative Code. The utility's requested annual AFUDC rate was 11.75%.

Staff reviewed the supporting work papers used in calculating the 12-month average embedded capital structure and made two adjustments to the utility's application. The first adjustment is the effect of using the end-of-month balance for January 1992 long-term debt instead of the beginning balance used by the utility in calculating the twelve month average capital structure. The utility used end-of-month balances for the rest of the calculations. In order to calculate the average consistently, Staff recommends an adjustment of \$(579) to the 12-month average long-term debt.

The second adjustment concerns the 11.80% cost rate for long-term debt used by Venture. Staff finds that this cost rate is unreasonably high when compared with the current prime rate of 6% and the utility's note payable from Barnett bank that has a cost rate of only 9.25%. Since all the creditors for Venture's long-term debt are also the owners of the utility, the cost rate is not the result of arms-length transactions. Staff believes that a more reasonable cost rate can be calculated by adding two hundred basis points to the current prime interest rate. Such a rate is commonly used by water and wastewater utilities that obtain debt through an arms-length transaction with a non-related party. This rate is consistent with the Commission's decision in Order No. PSC-92-0862-FOF-SU, (North Fort Myers Utility, Inc.), where the long-term debt cost was adjusted for similar reasons. Therefore, staff recommends that a cost rate of 8% be used for long-term debt.

In summary, staff recommends that an annual AFUDC rate of 9.30

DOCKET NO. 920542-WU
SEPTEMBER 3, 1992

percent and a discounted monthly rate of 0.743889 percent be approved. Pursuant to Section 25-30.116(5), Florida Administrative Code, the approved rate should be applicable for eligible construction projects beginning January 1, 1993. Staff's recommended, as well as the utility's, calculation of the AFUDC rate is outlined on Schedule No. 1.

ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes, the docket should be closed upon expiration of the protest period if no protest is received. (JETER, ERSTLING)

STAFF ANALYSIS: Upon expiration of the protest period, if no protests have been received, the docket may be closed.

WATER AND WASTEWATER "WS, WU, SU" - CHANGES IN MAILING ADDRESSES.
06/03/93

✓
Mr. Henry F. Thomas, C.E.O.
Tamiami Village Utility, Inc. WS597
P. O. Box 4777
North Ft. Myers, FL 33918-4777

✓
Director
Three "S" Disposal, Inc. SU587
% Lee County Utilities Department
2178 McGregor Blvd.
Ft. Myers, FL 33901-3417

930400 ✓
Venture Associates Utilities Corp. WU512
8888 S.W. Highway 200
Ocala, FL 34481-7705

✓
Mr. Michel Saadeh
Vineyards Utility, Inc. WS534
98 Vineyards Blvd.
Naples, FL 33999-4747

✓
Wildwood Estates WS664
5604 Heritage Blvd.
Wildwood, FL 34785-

✓
Windstream Utilities Company WU385
P. O. Box 4201
Ocala, FL 34478-4201

✓
Windstream Utilities Company WU631
P. O. Box 4201
Ocala, FL 34478-4201

VENTURE ASSOCIATES UTILITIES CORPORATION
 CALCULATION OF AFUDC
 TEST YEAR ENDED DECEMBER 31, 1992

SCHEDULE NO. 1
 DOCKET NO. 930406-WU
 PAGE 1 OF 1

Average Capital Structure

| Per Staff | Average Capital Structure | Staff Adjustments | Adjusted Capital Structure | Percent of Capital | Cost Rates | Weighted Cost | Discounted Monthly Rate |
|---------------------------|---------------------------|-------------------|----------------------------|--------------------|------------|---------------|-------------------------|
| Class of Capital | | | | | | | |
| Common Equity | \$88,059 | 0 | \$88,059 | 31.45% | 12.44% | 3.91% | |
| Long-Term Debt | 180,840 | (579) | 180,261 | 64.37% | 8.00% | 5.15% | |
| Note Payable-Barnett Bank | 2,883 | 0 | 2,883 | 1.03% | 9.25% | 0.10% | |
| Note Payable-Assoc. Co. | 3,779 | 0 | 3,779 | 1.35% | 0.00% | 0.00% | |
| Customer Deposits | 5,053 | 0 | 5,053 | 1.80% | 8.00% | 0.14% | |
| Total | \$280,614 | (\$579) | \$280,035 | 100.00% | | 9.30% | 0.743889% |

| Per Utility | Average Capital Structure | Utility Adjustments | Adjusted Capital Structure | Percent of Capital | Cost Rates | Weighted Cost | Discounted Monthly Rate |
|---------------------------|---------------------------|---------------------|----------------------------|--------------------|------------|---------------|-------------------------|
| Class of Capital | | | | | | | |
| Common Equity | \$88,059 | 0 | \$88,059 | 31.38% | 12.44% | 3.90% | |
| Long-Term Debt | 180,840 | 0 | 180,840 | 64.44% | 11.80% | 7.60% | |
| Note Payable-Barnett Bank | 2,883 | 0 | 2,883 | 1.03% | 9.25% | 0.10% | |
| Note Payable-Assoc. Co. | 3,779 | 0 | 3,779 | 1.35% | 0.00% | 0.00% | |
| Customer Deposits | 5,053 | 0 | 5,053 | 1.80% | 8.00% | 0.14% | |
| Total | \$280,614 | \$0 | \$280,614 | 100.00% | | 11.75% | 0.929879% |