

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
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M E M O R A N D U M

September 4, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (BINFORD) *CB*
DIVISION OF LEGAL SERVICES (CYRUS-WILLIAMS) *AW*

RE: DOCKET NO. 960704-WS - LAKE UTILITY COMPANY - PETITION
FOR AFUDC RATE.
COUNTY: LAKE COUNTY

AGENDA: SEPTEMBER 17, 1996 - REGULAR AGENDA - PROPOSED AGENCY
ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\960704WS.RCM

CASE BACKGROUND

Lake Utility Company is a Class B Utility. Currently, the utility serves 960 water and 920 wastewater customers in Lake County. Annual water and wastewater revenues reported in the December 31, 1995 annual report were \$307,486 and \$297,123, respectively. The utility showed an operating income of \$99,541 for water and \$65,913 for wastewater in 1995.

Lake Utility Company filed an application for approval of an Allowance for Funds Used During Construction (AFUDC) rate on June 5, 1996. The application, as filed, met the filing requirements of Rule 25-30.116, Florida Administrative Code. The utility's return on equity was established in Docket No. 891299-WS by Order No. 22846, issued on April 23, 1990.

DOCUMENT NUMBER-DATE

09357 SEP-4 96

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate AFUDC rate for Lake Utilities Company?

RECOMMENDATION: The utility should be authorized to implement an AFUDC rate of 9.75%, on an annual basis. This results in a monthly discounted rate of 0.778304%. (BINFORD)

STAFF ANALYSIS: By Order No. 22846, issued on April 23, 1990 the Commission established a return on equity of 13.95% for this utility, which was to be used in the calculation of an AFUDC rate.

Rule 25-30.116(2), Florida Administrative Code, provides that an AFUDC rate shall be determined using the utility's most recent 12-month average embedded cost of capital. The utility calculated the average cost of capital and adjustments using the 12-month period ended February 29, 1996. The utility made an adjustment to remove the deficit in common equity to reflect a zero balance. This is simply a mathematical calculation. This adjustment was the only one made by the utility. As stated in the case background, the utility filed an application which met the filing requirements of Rule 25-30.116, Florida Administrative Code. The application included the required schedules that showed the capital structure, cost rates, and weighted average costs of capital, that form the basis for its requested AFUDC rate of 9.75 percent.

Based on its review, staff recommends that an annual AFUDC rate of 9.75 percent and a discounted monthly rate of 0.778304 percent be approved. Pursuant to Section 25-30.116(5), Florida Administrative Code, the approved rate should be applicable beginning March 1, 1996. Staff's recommended calculation of the AFUDC rate is outlined on Schedule No. 1.

DOCKET NO. 960704-WS
DATE: 9/4/1996

ISSUE 2: Should the docket be closed?

RECOMMENDATION: Yes, the docket should be closed upon expiration of the protest period if no protest is filed by a substantially affected person within 21 days of the date of the order. (CYRUS WILLIAMS, BINFORD)

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

LAKE UTILITIES COMPANY
 AFUDC RATES - 12 MONTH AVERAGE
 YEAR ENDED FEBRUARY 29, 1996

SCHEDULE NO 1
 DOCKET NO

DOCKET NO. 960704-MS
 DATE: 9/4/1996

CLASS OF CAPITAL	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS	ADJUSTED TEST YEAR	% TO TOTAL CAPITAL	COST RATE	WEIGHTED COST	DISCOUNTED MONTHLY RATE
PER UTILITY							
1 COMMON EQUITY	(756,277)	756,277	0	0.00%	0.00%	0	
2 LONG-TERM DEBT	3,218,031	0	3,218,031	100.00%	9.75%	9.75%	
3 SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0	
4 CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%	
5 TAX CREDITS-ZERO COST	0	0	0	0.00%	0.00%	0	
6 TAX CREDITS-WEIGHTED COST	0	0	0	0.00%	0.00%	0	
7 DEFERRED INCOME TAXES	0	0	0	0.00%	0.00%	0	
TOTAL	<u>2,461,754</u>	<u>756,277</u>	<u>3,218,031</u>	<u>100.00%</u>		<u>9.75%</u>	<u>0.778304%</u>
PER COMMISSION							
1 COMMON EQUITY	(756,277)	756,277	0	0.00%	0.00%	0	
2 LONG-TERM DEBT	3,218,031	0	3,218,031	100.00%	9.75%	9.75%	
3 SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0	
4 CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%	
5 TAX CREDITS-ZERO COST	0	0	0	0.00%	0.00%	0	
6 TAX CREDITS-WEIGHTED COST	0	0	0	0.00%	0.00%	0	
7 DEFERRED INCOME TAXES	0	0	0	0.00%	0.00%	0	
TOTAL	<u>2,461,754</u>	<u>756,277</u>	<u>3,218,031</u>	<u>100.00%</u>		<u>9.75%</u>	<u>0.778304%</u>