



# Public Service Commission

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RECORDS AND REPORTING

**DATE:** JANUARY 20, 2000

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

**FROM:** DIVISION OF WATER AND WASTEWATER (WILLIS RENDELL, BUTTS)  
DIVISION OF LEGAL SERVICES (BRUBAKER)

**RE:** DOCKET NO. 991835-WS - APPLICATION FOR ALLOWANCE FOR FUNDS PRUDENTLY INVESTED (AFPI) CHARGE FOR ADDITIONAL WATER IMPROVEMENTS AND ADDITIONAL LINES ASSOCIATED WITH THE WASTEWATER EXTENSION INTO GEORGE MAYO SUBDIVISION BY TRADEWINDS UTILITIES, INC.  
COUNTY: MARION

**AGENDA:** 2/1/00 - REGULAR AGENDA - TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** 8-MONTH EFFECTIVE DATE: 8/4/00 (AFPI)

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\WAW\WP\991835.RCM

### CASE BACKGROUND

Tradewinds Utilities, Inc. (Tradewinds or utility) is a Class C water and wastewater utility located in Marion County. According to the utility's 1998 annual report, the utility was serving approximately 442 water customers and approximately 270 wastewater customers. The utility reported in its 1998 annual report, water revenues in the amount of \$90,121 and wastewater revenues in the amount of \$138,618 with expenses of \$93,990 for water and \$138,983 for wastewater, resulting in net operating losses of (\$3,869) and (\$365) for water and wastewater, respectively. The utility's service area is located in the St. Johns River Water Management District.

On December 6, 1999, the utility filed proposed tariffs along with an application for authority to initiate allowance for funds

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prudently invested (AFPI) charges, pursuant to Section 367.091, Florida Statutes, and Rules 25-30.565 and 25-30.434, Florida Administrative Code. The utility requested approval of AFPI charges to cover non-used and useful plant. The Department of Environmental Protection (DEP) provided the utility with a loan from the State of Florida Revolving Fund for the amount of \$632,700, in connection with improving the quality of water being served to the utility's customers in the George Mayo Subdivision in accordance with the Safe Water Drinking Act. As a result of the wastewater extension, the utility was granted a \$280,000 loan from a local financial institution.

A filing fee is not required for an AFPI proceeding. The utility is requesting AFPI charges for the recovery of the carrying cost for the additional water plant and the extension of wastewater lines for the subdivision. In preparation for this recommendation, staff has reviewed the utility's December 31, 1998 annual report for compliance with Commission rules and Orders and determined components for rate setting.

This recommendation addresses the utility's request for AFPI charges in the George Mayo Subdivision.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should Tradewinds Utilities, Inc. be authorized to collect wastewater AFPI charges, and if so, what are the appropriate charges?

**RECOMMENDATION:** Yes, Tradewinds Utilities, Inc. should be authorized to collect wastewater AFPI charges. The appropriate AFPI charges should be as recommended in the staff analysis. Therefore, wastewater Original Tariff Sheet No. 16.2 which was filed by the utility on December 6, 1999 should be approved as filed. The wastewater AFPI charges should be effective on or after the stamped approval date of the tariff sheet, provided future customers have been noticed pursuant to Rule 25-30.475(2), Florida Administrative Code. The beginning date of the AFPI charges should be January 1, 1999. If this recommendation is approved by the Commission, in event of a protest, staff recommends that Wastewater Tariff Sheet No. 16.2 containing AFPI charges for the George Mayo Subdivision should be placed in effect, subject to refund, pending resolution of the protest. In no event should the rates be effective for services rendered prior to the stamped approval date. (BUTTS)

**STAFF ANALYSIS:** An Allowance for Funds Prudently Invested (AFPI) charge is a mechanism designed to allow the utility to earn a fair rate of return on a portion of the plant facilities which were prudently constructed and held for future use for future customers that will be served by that plant in the form of a charge paid by those customers. This charge allows the recovery of carrying cost on the non-used and useful plant. By providing this type of charge, the existing customers do not pay for plant expansion used to serve future customers. Future customers bear their equitable share of the carrying costs related to the plant facilities being constructed to provide service to them.

This one-time charge is based on the number of Equivalent Residential Connections (ERCs) and is generally applicable to all future customers who have not already prepaid the connection fees, contribution in aid of construction (CIAC) charge, or customer advances. The charge should be assessed based on the date the future customers make some form of "prepayment" (connection charge, CIAC, or advance) or on the date the customer connects to the system, whichever comes first. The AFPI charge has been calculated using the standard program furnished by the Commission's Bureau of Economic Regulation.

The utility submitted contractual invoices and a copy of a standard loan as justification of the wastewater AFPI charges. The utility received a loan from a local financial institution for \$280,000 in connection with the wastewater extension into the George Mayo Subdivision. From invoices and utility payments, the actual final cost for wastewater lines is \$212,564. Staff has examined the utility's 1998 annual report, invoices, and loan documents, and determined that this amount is reasonable and prudent.

The AFPI charge should be based upon the number of ERCs required by a particular customer. The AFPI charge is intended to recover the carrying costs associated with all future plant. Therefore, the charge will vary based upon the date a future customer makes a prepayment on such connection, or on the date the customer actually connects to the system. Rule 25-30.434(5), Florida Administrative Code states "unless the utility demonstrates that the 5-year period is inappropriate, it is prudent for a utility to have an investment in future use plant for a period of no longer than 5 years beyond the test year." It is Commission practice in establishing AFPI charges to calculate the charge for a five year period, unless the utility states extraordinary or unusual circumstances to justify an AFPI charge for a longer period. However, in this docket, the utility has not stated any extraordinary or unusual circumstances.

Staff has prepared the following schedule which represents the recommended wastewater AFPI charges based upon the time of the initial connection or prepayment. These charges represent one (1) ERC, and if a future customer requires more than 1 ERC, the connection fee should be multiplied by the number of connections (ERCs) which are required to provide service to the customer. Using the final cost figures, staff recommends the following wastewater AFPI charges:

WASTEWATER

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
January	\$ 16	\$208	\$406	\$613	\$ 832
February	\$ 32	\$225	\$423	\$632	\$ 851
March	\$ 48	\$241	\$440	\$650	\$ 870
April	\$ 64	\$258	\$458	\$668	\$ 889
May	\$ 80	\$274	\$475	\$686	\$ 908
June	\$ 96	\$290	\$492	\$704	\$ 927
July	\$112	\$307	\$509	\$722	\$ 946
August	\$128	\$323	\$526	\$740	\$ 965
September	\$144	\$340	\$544	\$758	\$ 984
October	\$160	\$356	\$561	\$776	\$1,003
November	\$176	\$372	\$578	\$794	\$1,022
December	\$192	\$389	\$595	\$812	\$1,041

The test year used in this case for establishing the amount of non-used and useful plant is the year ending December 31, 1998. Pursuant to Rule 25-30.434(4), Florida Administrative Code, the beginning date for accruing the AFPI charge should agree with the month following the end of the test year that was used to establish the amount of non-used and useful plant. Therefore, the beginning date for accruing the AFPI in this case was January 1999. No charge may be collected for any connections made between the beginning dates and the effective date of the AFPI charge.

Staff recommends that the utility collect wastewater AFPI charges as shown in the staff analysis. However, staff believes the utility should be allowed recovery beyond the five year period, as allowed pursuant to Rule 25-30.434(6), Florida Administrative Code. This will enable the utility to collect for all 113 wastewater ERCs, although the AFPI charge should cease accruing charges and should remain constant after the five year accrual period has expired. The utility should be allowed to collect the constant charge until all projected 113 wastewater ERCs in the calculation have been added, at which time the charge should be discontinued.

The appropriate AFPI charges should be as recommended in the staff analysis. Therefore, wastewater Original Tariff Sheet No.

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16.2 which was filed by the utility on December 6, 1999 should be approved as filed. The wastewater AFPI charges should be effective on or after the stamped approval date of the tariff sheet, provided future customers have been noticed pursuant to Rule 25-30.475(2), Florida Administrative Code. The beginning date of the AFPI charges should be January 1, 1999. If this recommendation is approved by the Commission, in event of a protest, staff recommends that Wastewater Tariff Sheet No. 16.2 containing AFPI charges for the George Mayo Subdivision should be placed in effect, subject to refund, pending resolution of the protest. In no event should the rates be effective for services rendered prior to the stamped approval date.

**ISSUE 2:** In the event of a protest, what is the appropriate form of security to guarantee the revenues associated with the wastewater AFPI charges?

**RECOMMENDATION:** In the event of a protest, the utility should be required to file an escrow agreement to guarantee any of the wastewater AFPI charges collected subject to refund. Pursuant to an escrow agreement, the utility would be required to deposit the monthly amount of any AFPI charges collected. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th day of each month indicating the monthly revenues collected subject to refund. (BUTTS)

**STAFF ANALYSIS:** Since the number of future customers to be connected to the utility's system is not readily certain, the most appropriate security for AFPI charges would be an escrow agreement. An escrow agreement is the only security that can guarantee, with certainty, the amount of AFPI charges collected. Therefore, in the event of a protest, staff recommends that the utility provide an escrow agreement to guarantee the revenues collected subject to refund.

An escrow account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: that the account is established at the direction of this Commission for the purpose set forth above; that no withdrawals of funds should occur without the prior approval of the Commission through the Director of the Division of Records and Reporting; that the account should be interest bearing; that information concerning that escrow account should be available from the institution to the Commission of its representative at all times; that the amount of any AFPI charges collected subject to refund should be deposited in the escrow account within seven days of receipt; and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

The escrow agreement should also state the following: that if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers; and if a refund to the customers is not required, the interest earned on the escrow account should revert to the utility. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

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In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.



**ISSUE 3:** Should the utility's proposed water AFPI charges be suspended?

**RECOMMENDATION:** Yes, the utility's proposed water AFPI charges should be suspended pending further investigation by staff. (BUTTS)

**STAFF ANALYSIS:** Pursuant to Section 367.091(6), Florida Statutes, the water AFPI tariff sheets proposed by the utility shall become effective within sixty (60) days after filing, unless the Commission votes to withhold consent to operation of any or all portions of the new rate schedules, giving a reason or statement of good cause for withholding its consent.

Section 367.091(3), Florida Statutes, states that the utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the Commission.

Staff has reviewed the filing and has considered the utility's water proposal. However, staff believes it is reasonable and necessary to require further amplification and explanation of the water proposal and to require production of corroborative information, if necessary. Therefore, staff is recommending that Tradewinds Utilities, Inc. proposed water AFPI charges for the George Mayo Subdivision be suspended.

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**ISSUE 4:** Should this docket be closed?

**RECOMMENDATION:** No, this docket should remain open to allow staff time to require further amplification and explanation of the utility's water AFPI proposal. (BRUBAKER, BUTTS)

**STAFF ANALYSIS:** Staff believes that this docket should remain open to allow time to require further amplification and explanation of the utility's water AFPI proposal.