

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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RECORDS AND REPORTING

DATE: 11/16/2000

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

FROM: DIVISION OF ECONOMIC REGULATION (TED DAVIS, WETHERINGTON, *RD*)
PL CROUCH, B. DAVIS, MERCHANT) *PL*
 DIVISION OF LEGAL SERVICES (VAN LEUVEN) *DR PS* *19X* *mw* *mt*

RE: DOCKET NO. 992015-WU - APPLICATION FOR LIMITED PROCEEDING TO RECOVER COSTS OF WATER SYSTEM IMPROVEMENTS IN MARION COUNTY BY SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC. COUNTY: MARION

AGENDA: 11/28/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\992015WU.RCM

CASE BACKGROUND

Sunshine Utilities of Central Florida, Inc. (Sunshine or utility) is a Class B utility which provides water service to approximately 2,871 water customers in 21 separate small systems around the Ocala area in Marion County (see attached map No. 1). Wastewater service is provided by septic tanks. The utility's last rate proceeding was in Docket No. 900386-WU, resulting in Order No. 25722, issued February 13, 1992. Order No. PSC-94-0738-FOF-WU, issued June 15, 1994, addressed Sunshine's appellate rate case expense for that docket.

On December 21, 1999, Sunshine filed an application for a limited proceeding to increase water rates and charges for all of its customers in Marion County. The rate increase requested would be used to initiate a water facilities plan in which the utility would interconnect and consolidate five of the 21 separate systems

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owned by Sunshine. In conjunction, the utility would construct a centralized water treatment, pumping, and storage facility (see attached maps Nos. 2 & 3) to serve the five systems specified in the utility's comprehensive plan. Sunshine proposed this plan in order to resolve contamination problems faced by some customers and by a few non-customers near its service area. Further, the plan is designed to meet growth demands in the area of the interconnection.

Contamination

One of the five systems to be interconnected in this proposal is Lakeview Hills. The Lakeview Hills water treatment plant, which consists of a well and a hydro pneumatic tank, is located across from a county dump along S.E. 115th Avenue in the southeastern portion of Marion County, very near the northwest shoreline of Lake Weir. (See attached map No. 2). The Department of Environmental Protection (DEP) discovered the presence of Dichloroethylene, a carcinogen, in the well serving the Lakeview Hills system. While the level detected was still within the Maximum Contaminant Level (MCL), it was very close to the MCL. While no corrective actions have been ordered by DEP to date, DEP is requiring quarterly Volatile Organic Compound (VOC) tests to monitor these levels.

In addition, a second contamination problem was discovered in private wells serving residents living along S.E. 138th Place Road near the northwest shoreline of Little Lake Weir, midway between the utility's Hilltop system and its Little Lake Weir system (See Map No. 3). The contaminant found in the private wells is Ethylene Dibromide (EDB), used as a grain fumigant, general solvent, and as a waterproofing preparation. EDB, a carcinogen, which may enter an underground water source through industrial discharges or spills and is on the Environmental Protection Agency's (EPA) Special Health Hazard Substance List. Any level of this contaminant is considered unsafe and wells that contain this substance should be abandoned for an alternate source of water. However, these residents are not customers of Sunshine and the contaminated wells are private, residential wells. Due to the severity of EDB contamination, the DEP makes grants available for private utilities to extend their systems to meet the needs of those residents outside the utility's service area who are victims of contamination and must seek alternate sources of water.

Utility's Proposal

Sunshine has proposed to solve the two contamination problems discussed above by obtaining funding from DEP for its water facilities plan. This plan included the construction of a new water facility, the installation of over twelve miles of transmission mains, and the extension of specific water service to serve two residents outside the utility's existing territory. In addition, funding for this project would be a combination of a grant and a low-interest "State Revolving Fund" (SRF) loan arranged through the DEP. The DEP concerns itself with this matter primarily because the utility has made application with the Bureau of Water Facilities Funding to convert five older systems to one larger system that would be more compliance friendly, and to eliminate contamination. That Bureau has a program that has money available for such needs, and the utility has satisfied the criteria and has qualified for a \$751,555 grant and could qualify for a low-interest loan of \$1,423,591 contingent upon Commission approval of a rate increase. On December 28, 1998, the DEP issued \$153,000 as a Preconstruction Grant, and \$32,500 as a Preconstruction Loan toward the total project.

After several meetings with Commission staff, it became apparent to the utility that staff did not support its proposal since the proposal would provide limited benefits to only five (5) of the utility's 21 systems. It was staff's belief that the improvements did little to improve the quality of water or the service provided to the customers of those five affected systems and no benefits what so ever to the other 16 systems. In its filing, Sunshine wanted the rate increase to be passed on to all of its customers, not just the customers of the five systems involved. In light of staff's comments, Sunshine withdrew the application and asked for and was allowed time to revise its proposal.

On September 8, 2000, Sunshine submitted an Amended Application in which it presented two alternatives. Under its first alternative, Sunshine submitted essentially the original proposal as discussed above. The utility still proposed passing on a rate increase of 22.19% to all its customers. Under Alternative #2, Sunshine proposed a project of a more limited scope that would address only the contamination problems in Little Lake Weir and Lakeview Hills systems as well as the sulfur concerns in the Ocklawaha area. While the estimated cost of Alternative No. 1 was \$1,948,873, the estimate for Alternative No. 2 was \$1,675,954 and would involve consolidation of only four (4) of its 21 systems: Little Lake Weir, Lakeview Hills, Ocklawaha, and Hilltop, and would only add approximately seven miles of new water mains, two new

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wells, a new treatment facility and a 500,000 gallon elevated storage tank. A drawing of the proposed improvements included in Alternative No. 2 is attached as map No. 4.

Within Alternative No. 2, Sunshine proposed two different rate plans. First, the rate increase of 18.2% would be passed on to all of Sunshine's customers. In the second proposal, a rate increase of approximately 88.45% would be passed on to only the 750 customers of the four systems involved.

Sunshine claims that the proposed system improvements under either alternative are in the public interest, that these improvements will eliminate the contamination problems, reduce the sulfur in the water, improve the level of service, insure adequate flow for peak demand, meet fire flow requirements, and promote water conservation.

This recommendation addresses the prudence of the project under both alternatives, and whether this limited proceeding should be approved.

DISCUSSION OF ISSUES

ISSUE 1: As proposed in Alternative No. 1, is the elimination of five water treatment plants, the construction of a single water treatment plant, and the proposed interconnection of all five systems by constructing approximately nine miles of transmission mains for the purpose of eliminating contamination problems and meeting development demands prudent and justified?

RECOMMENDATION: No. The utility's proposal to eliminate five water treatment plants, construct a single water treatment plant, and interconnect all five systems by constructing approximately nine miles of transmission mains for the purpose of eliminating contamination problems and meeting development demands is not prudent or justified. (CROUCH, TED DAVIS, WETHERINGTON)

STAFF ANALYSIS:

Problem-Contamination

As stated in the case background, contamination has been detected in Lakeview Hills, which is one of the five systems related to this project. The utility wishes to eliminate the contamination found in the Lakeview Hills water treatment system (57 customers), and provide service to private landowners outside the five existing service areas. The utility has proposed to construct a central water plant, discontinue the existence of treatment plants at each of the five water systems and construct approximately nine miles of transmission mains to interconnect the service areas of Little Lake Weir, Lakeview Hills, Belleview Oaks, Hilltop, and Ocklawaha/Lake Weir Pines (See Map No. 2). Drinking water will then be distributed to the new network of transmission mains from the one large regional plant. This new plant, equipped with two ten-inch wells and an elevated storage tank, is to be located at the corner of US Highway 27A (State Road 25) and S.E. 100th Avenue (See Map No. 3). The transmission main will radiate from the newly constructed plant to interconnect the five existing systems via approximately nine miles of 6-10 inch pipe.

The utility states the reason for this project is that it "will meet peak water demand of customers in the project area and resolve the contamination problems in the Lakeview Hills service area." However, there are currently no corrective orders mandating that the utility lower the levels of MCL detected in the Lakeview Hills service area. The DEP is currently requiring quarterly tests for Volatile Organic Compounds to monitor the existing levels. In

addition, the County has agreed to install an activated carbon filter at the Lakeview Hills water treatment plant, which is suitable to remove the contamination. This offer by the County is without charge to the utility, and with no time limit on the return of the filter. By all appearances, the contamination within the utility's existing water system has been brought under control.

Utility Proposal

Sunshine appears very concerned that there are residents outside its service territory whose wells have been contaminated with EDB. EDB is on the Special Health Hazard Substance List, and considered at any level to be unsafe. Persons with wells that contain this substance should seek an alternate source of water supply. However, the utility does not have the responsibility, nor is it being required to supply an alternate water source to those private landowners with contaminated wells.

The utility has also offered that the consolidation of the systems would resolve pressure problems noted in the five separate systems. This was not specifically addressed in the utility's Water Facilities Plan (WFP) which was prepared in January 1999, and later revised in September 1999, by H. W. Barrineau and Associates, Inc. However, in the Special Report prepared by Cronin, Jackson, Nixon & Wilson, CPAs, P.A. (dated December 8, 1999, and filed with this limited proceeding), the utility infers that normalizing pressure differences would "improve the level of service, and provide adequate flow to meet peak demand, while promoting water conservation." While it is true that an elevated storage facility will increase and normalize pressure, the DEP currently does not have any citations or corrective orders pending against the utility for low pressure problems.

The utility also claims that this project will help improve water quality since it proposes to abandon two wells that have high levels of sulfur (hydrogen sulfide) which causes odor in the water.

Justification

Providing adequate flow to meet future development demands is a very obvious portion of the utility's current filing for limited proceeding. The utility's WFP devotes much time and gives careful attention to the growth potential in the County. As stated by the WFP, Marion County covers approximately 1,030,400 acres with about 50% of the land mass being dedicated to agriculture, about 30% is allocated to conservation, about 10% is utilized as residential, and the remaining 10% is utilized as commercial, industrial,

recreation, institutional and public facilities. The utility's WFP cites that from 1980 to 1989, the population in Marion County grew 93% (an average of 10.3% per year) and is continuing to grow steadily as middle-aged or retired persons move into Marion County. The WFP further notes that "The southern region has experienced the highest growth and yields the greatest demand in water service." Specifically, this is referring to the "State Road 200 corridor" which includes the Belleview, Lake Weir, Ocklawaha area. The WFP expounds on the climate, topography, geology, and water hydrology of the Lake Weir/Ocklawaha area as components favorable to future anticipated growth. The transmission mains, that would link the five systems, extends and runs past a vast area of undeveloped land. This makes drinking water service available to any and all future development in the Belleview, Lake Weir, Ocklawaha area.

The utility's Water Facilities Plan, prepared by Hal Barrineau P.E., states that "The [existing] treatment plants are adequate to treat the existing demands." Further, the WFP states that "The existing distribution system is currently adequate within the service area subdivisions." Again, the utility is not under any corrective order from the DEP to correct pressure problems. It is also stated in the WFP that the distribution system "will require additional lines before the end of the planning period because of continued new development." It is further stated that "The treatment plant does not have adequate capacity for the design year needs." The end of the planning period and the design year are both 2018. Therefore, staff believes that the existing systems are adequate for the current demands, and the proposed interconnection project is for future growth and not necessary to serve the existing customers.

DEP Funding

As noted in the Case Background, the utility has qualified with the DEP's Bureau of Water Facilities Funding for a combination of a grant and a low-interest "State Revolving Fund" loan. Staff believes that it is important to note that during the onset of making application for DEP funding, the utility informally approached staff concerning this project. After a review of the proposed project, staff informed the utility that a system wide rate increase for a project that would benefit only a limited number of customers was, in staff's opinion, imprudent. Yet, the utility persisted and sought DEP approval of its WFP.

Presently, the DEP has approved the utility's request for funding contingent upon the Commission's approval of the proposed

rate increase and DEP is in full favor of the project. For the DEP, this project allows the dispersement of funds to convert five older systems to one larger system that would be more compliance friendly. To do this, the DEP has tentatively approved \$751,555 in grants and \$1,423,591 in a low-interest loan. A preconstruction grant of \$153,000 was awarded on December 28, 1998, as was a preconstruction loan of \$32,500. The DEP has an accounting staff that reviews the utility's financial health concerning low-interest loan payback. When the DEP's accountant reviewed Sunshine's financial condition, it was concluded that an increase in rates and charges would be necessary before any other monies could be awarded. In discussions with the DEP, it was noted that the utility had not discussed the issue of obtaining the filter unit from the County. Nevertheless, the DEP would still like to see this project go forward, and may withdraw approval of the loans if the utility can not show the ability to repay those loans.

Summary

In summary, Sunshine is not under a mandate concerning the high MCL for contaminants detected in the Lake View Hills subdivision. The contamination concerns of this one system are eliminated by the use of the County's filter unit. Interconnecting the five systems and constructing a single plant to serve those existing customers is not required. Neither is the interconnection of the five water systems into one system necessary to provide a source of drinking water to the two private residents in need of an alternate drinking water source due to EDB contamination.

Staff notes that DEP is in favor of this project since it would create a centralized system with the capacity to serve a greatly expanded customer base. However, as an environmental regulator, DEP's jurisdiction does not extend to regulating the costs that would have to be recovered from the customers through rates. As economic regulators, the PSC is concerned with the costs to the ratepayers. For the reasons discussed above, staff recommends that the utility's Alternative No. 1 to interconnect five separate water supply and treatment systems to eliminate contamination problems and to meet development demands at the expense of its entire customer base is not prudent or justified.

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ISSUE 2: Should Alternative No. 1 of this limited proceeding for an increase in rates and charges to all the customers of Sunshine be approved?

RECOMMENDATION: No. The proposed expansion will only create a slight improvement to a few of Sunshine's customers, and would not benefit all the customers of Sunshine Utilities. Therefore, the limited proceeding to approve Alternative No. 1 should be denied. (CROUCH, TED DAVIS, WETHERINGTON)

STAFF ANALYSIS: Sunshine was established in 1989 to provide water service to residents, businesses, and commercial customers within Marion County, Florida. According to the 1999 Annual Report, the utility serves 21 separate systems which account for approximately 2,759 active customers that are dispersed throughout the County. The five systems that the utility is proposing to interconnect under this alternative and convert to one system serve about 793 active customer connections, which is approximately 28% of the utility's total customer base. These five systems are located in the south-eastern portion of the County. The other 16 individual systems owned by Sunshine are geographically separated from these five systems and would remain unchanged by this proposal.

The utility proposes to increase its rates and charges to all of its customers in the County to repay the low-interest loan obtained from the DEP to fund its WFP. The utility states that the WFP is needed due to the contamination found in the groundwater in and around one of the five service areas included in the plan. The presence of Dichloroethylene was detected in the utility's 4-inch well at the Lakeview Hills plant which is across the road from the County landfill. Lakeview Hills serves 57 customers and is the only one of Sunshine's wells that tested positive for contaminants. The level of Dichloroethylene detected is very near, but, does not exceed the MCL. At present, the County is providing the utility with a filtration system to eliminate the presence of Dichloroethylene.

Other contaminants were found in surrounding areas, the worst of which is the detection of EDB. EDB was found in private wells located about 7,500 linear feet south of the Hilltop water system. The Hilltop system is a small system serving 44 customers. It is staff's opinion that the utility could extend a water main to the private homesteads from the Hilltop system without interconnecting the other water systems. However, the utility would need to amend its certificate to add these customers who are currently outside its service area. Other than slight improvements in pressure and

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flow volume, interconnecting the five systems would only benefit a limited number of customers currently being served by the five systems. Sunshine customers living in other areas of the County, outside the five system area, would not realize any benefit for the increased rates and charges.

As stated in Issue 1 of this recommendation, the contaminant level does not exceed the MCL limit, and Sunshine is not under a mandate concerning the high MCL for contaminants. What is being required in the one subdivision experiencing high MCLs is quarterly monitoring of VOCs which will be resolved by the use of the County's filter unit. Interconnecting the five systems and constructing a single plant to serve existing customers is not being required. Neither is it necessary to construct approximately nine miles of transmission mains to provide drinking water to the two private residences in need of an alternate drinking water source.

It appears that "meeting development demands" is the driving force behind this project. The approximately nine miles of water mains that the utility is proposing extend past large areas of vacant land. Staff believes that a more thorough review of potential customers created by this transmission main needs to be studied. Since the transmission main is not being mandated by a governing agency, the allowance of an automatic 100% used and useful prescribed by Chapter 367.081(2)(a), Florida Statutes, would not apply. A used and useful analysis, based on the potential customers that this new water system could ultimately serve, may negate the need for additional rates.

As discussed in Issue 1, DEP may withdraw approval of the remaining loan and grant if the utility can not demonstrate the ability to repay the loans. The ultimate potential customer growth within the five system area might resolve DEP's concerns over repayment of loans. Staff believes that since this project appears to be intended for expansion, the utility should look for funding of the loan repayments from not just current customers, but from increased service availability charges and a possible AFPI charge. The majority of the cost of this project should be borne by future customers and not the current customers.

Therefore, because the proposed expansion will only create a slight improvement to a few of Sunshine's customers, and would not benefit all the customers of Sunshine, it is recommended that Alternative No. 1 of this limited proceeding should be denied.

ISSUE 3: Should Alternative No. 2 to this limited proceeding, whereby the utility will only eliminate four water treatment plants, construct a single water treatment plant, interconnect the four systems with approximately six miles of water mains for the purpose of eliminating contamination problems and meeting development demands, with the rate increase passed on to either all of its customers, or only to the customers of the four affected systems, be approved?

RECOMMENDATION: No. Alternative No. 2 should be denied. The proposal in Alternative No. 2, although less involved than Alternative No. 1, has very limited benefit to all of the existing customers of Sunshine Utilities. The major benefit again appears to be to the utility, which would gain a greatly enlarged system capable of serving a larger and a future customer base with limited benefit to the customers of the four systems involved. However, if the Commission approves this alternative, staff recommends that a used and useful analysis be performed and the rates set to collect the majority of the modification costs from the future customers who the utility will be capable of serving after the proposed modifications and interconnections. (CROUCH, TED DAVIS, WETHERINGTON)

STAFF ANALYSIS: Alternative No. 2, while slightly more limited in scope, will benefit the utility by providing it with the capability and capacity to serve a greatly expanded customer base. The benefits to the small existing customer base served only by the four systems to be upgraded are negligible when compared to the rate increase requested. The benefit to the remaining customer of the seventeen remaining systems are non-existent. Since the primary benefit would be to enlarge the utility's system and capacity, it would thereby enable Sunshine Utility to serve a considerably larger customer base.

For these reasons, staff recommends that a used and useful (U&U) analysis of this project would result in a very small U&U percentage for the existing customers and a large non used and useful rate application to future customers. Sunshine is using the DEP grants and possible loans and the contamination of a few non-customers as justification for enlarging its system when in actuality, DEP will pay to connect the non-customers with contaminated wells and DEP/Marion County have already provided the filter to treat the contamination from the dump site. The low interest loan from DEP has not received final approval to date and is contingent upon the Commission approving the requested rate increase.

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The utility presented a cost recovery option in alternative #2 in which only the customers of the four systems to be improved would bear the expense through a rate increase of approximately 88.45%. Although this option would collect the rate increase from only those customers of the four systems involved, it is still not considered prudent or justified. A used and useful analysis would show that the major benefit would be to the utility, in the form of increased capacity for the utility and an ability to serve a greatly expanded area.

Staff recommends that Alternative No. 2, with either option for recovering costs, is neither prudent nor justified and that the application for a limited proceeding should be denied. However, if the Commission approves this alternative, staff recommends that a used and useful analysis be performed and the rates set to collect the majority of the modification costs from the future customers who the utility will be capable of serving after the proposed modifications and interconnections.

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ISSUE 4: Should the Commission, on its own motion, update Sunshine's authorized return on equity (ROE)?

RECOMMENDATION: Yes, the utility's authorized ROE should be lowered from 11.89% to 9.38%, with a range of 8.38% to 10.38%, in order to establish a more appropriate return on a going-forward basis. (B. DAVIS)

STAFF ANALYSIS: The utility's current authorized return on equity of 11.89% was approved in Order No. 25722, issued February 13, 1992, in Docket No. 900386-WU, the company's last rate case. It is staff's belief that the utility's ROE of 11.89% is unreasonable given today's economic climate. Considering the length of time since the utility's last rate case, staff believes it is necessary to revise the authorized ROE. In this case, the utility has used an ROE based on the current leverage formula for its prospective cost recovery for this limited proceeding. In order to calculate the ROE on a prospective basis, staff believes that it is appropriate to use Sunshine's average capital structure for the year ended December 31, 1999 as found in the utility's 1999 Annual Report. Using this capital structure, the resulting equity ratio is 96.08%. Based on the current leverage formula from Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, staff has calculated a ROE of 9.38% with a range of 8.38% to 10.38%. Staff notes that, based on the financial information for December 31, 1999, from the utility's annual report, the utility was at the low-end of the range of the rate of return. Based on the return on equity recommended by staff, the utility is earning slightly above the recommended range.

In conclusion, staff's recommendation is to reduce the ROE to 9.38%, consistent with the current water and wastewater leverage formula. This recommended ROE should be effective as of the date that the Commission's order becomes final and should be applied to any future proceedings of this utility, including, but not limited to, price indexes, interim rates, and over earnings.

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ISSUE 5: Should the annual Allowance for Funds Used During Construction (AFUDC) rate for Sunshine be changed?

RECOMMENDATION: Yes, the annual AFUDC rate for Sunshine should be changed from 6.50% to 9.04% and the discounted monthly rate should be 0.753021%. The effective date of the new AFUDC rate should be January 1, 2000. (B. DAVIS)

STAFF ANALYSIS: Sunshine was ordered to use an annual rate of 6.50% for calculating AFUDC by Order No. PSC-00-0369-PAA-WU, issued February 21, 2000, in Docket No. 991693-WU. According to the order, staff was to revisit the AFUDC rate in this docket to determine if any adjustments were necessary. The capital structure used to calculate the 6.50% AFUDC rate included a pro forma loan from DEP for the construction project requested in this docket. In Issues 2 and 3, staff is recommending that the Commission not approve the construction project requested by Sunshine. Without the construction project and the DEP loan, the utility's capital structure changes considerably, thereby increasing the overall cost of capital upon which the AFUDC rate was based. If no Commission action is taken, the existing AFUDC rate will be too low.

Staff recommends recalculating the AFUDC rate based on the capital structure from the utility's 1999 Annual Report, which is the most current available, and using the ROE recommended in Issue 4. Staff's calculations show that the annual AFUDC rate to be applied should be 9.04% and the discounted monthly rate should be 0.753021%. The effective date of the new AFUDC rate should be January 1, 2000, according to Rule 25-30.116, Florida Administrative Code.

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ISSUE 6: What is the appropriate amount of rate case expense for Docket No. 992015-WU?

RECOMMENDATION: Staff recommends that rate case expense for this limited proceeding should be disallowed. (B. DAVIS)

STAFF ANALYSIS: As discussed in Issues 2 and 3, staff has recommended that no increase be granted for this limited proceeding filed by Sunshine. Based on the financial information for December 31, 1999 as submitted by the utility in the 1999 annual report, the utility was earning slightly over the high-end of the range of the rate of return based on the return on equity recommended by staff. Staff recommends that it is inappropriate to approve rate case expense.

Without the additional construction costs requested, no rate increase is warranted. Staff believes that the decision to file for rate relief was imprudent and the customers should not have to bear this cost. Chapter 367.081(7), Florida Statutes, states that the Commission shall disallow all rate case expense determined to be unreasonable. The Commission has previously disallowed rate case expense in a limited proceeding when the rate increase was denied. See Order No. PSC-98-1583-FOF-WS, issued November 25, 1998 in Docket No. 971663-WS, Application of Florida Cities Water Company for Recovery of Environmental Litigation Costs, and Order No. PSC-99-1917-PAA-WS issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, Aloha Utilities, Inc., limited proceedings. Moreover, the Commission enjoys broad discretion with respect to the allowance of rate case expense. Meadowbrook Utility Systems, Inc. v. FPSC, 518 So. 2d 326 (Fla. 1st DCA 1988).

Based on the above, staff recommends that all rate case expense should be denied and excluded from the utility's regulated operating income.

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ISSUE 7: Should this docket be closed?

RECOMMENDATION: Yes. If no timely protest is received upon the expiration of the 21 day protest period, the PAA Order will become final upon the issuance of the consummating order, and this docket should be closed. (TED DAVIS, WETHERINGTON, VAN LEUVEN)

STAFF ANALYSIS: If no timely protest is received upon the expiration of the 21 day protest period, the PAA Order will become final upon the issuance of a consummating order, and this docket should be closed.

SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
COST OF CAPITAL AND AFUDC RATE
TEST YEAR ENDED 12/31/99

SCHEDULE NO. A
DOCKET NO. 992015-WU

<u>DESCRIPTION</u>	<u>AVERAGE CAPITAL</u>	<u>RATIO</u>	<u>COST RATE</u>	<u>WEIGHTED COST</u>
1 TOTAL LONG-TERM DEBT	\$16,689	3.61%	7.12%	0.26%
2 COMMON EQUITY	409,418	88.64%	9.38%	8.32%
3 CUSTOMER DEPOSITS	35,782	7.75%	6.00%	0.46%
4 OTHER	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
5 TOTAL CAPITAL	<u>\$461,889</u>	<u>100.00%</u>		<u>9.04%</u>
		<u>LOW</u>	<u>HIGH</u>	
	RETURN ON EQUITY	<u>8.38%</u>	<u>10.38%</u>	
	OVERALL RATE OF RETURN	<u>8.15%</u>	<u>9.92%</u>	

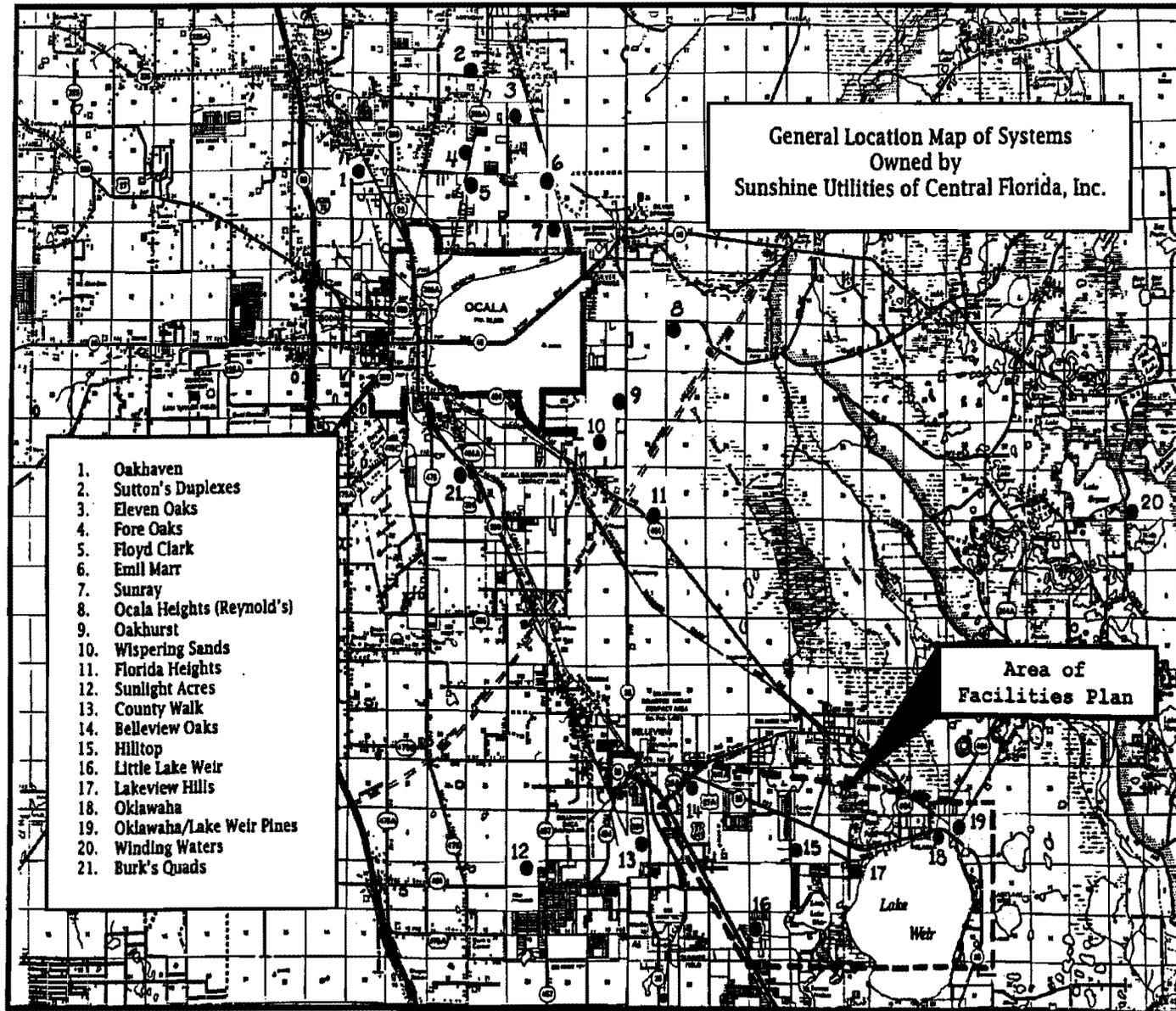
DISCOUNTED MONTHLY AFUDC RATE

FORMULA $M = [(1 + (A/100))^{1/12} - 1] \times 100$

WHERE: M = Discounted Monthly AFUDC Rate

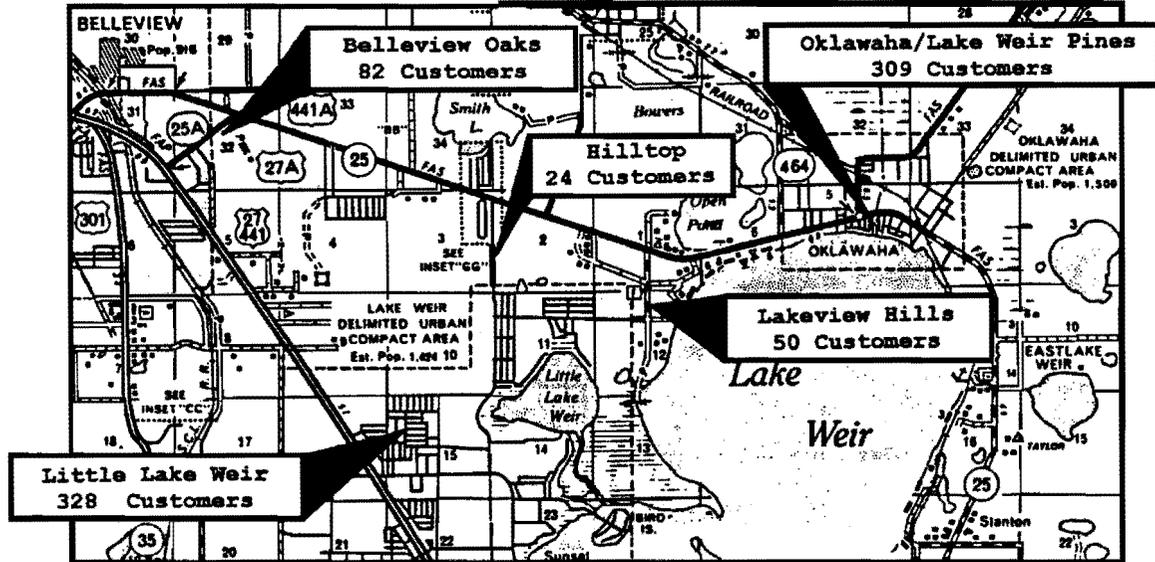
A = Annual AFUDC Rate = 9.04%

APPLICATION: A / 100 0.00090400
 1 + A/100 1.00090400
 1/12 power 1.00007530
 -1 0.00007530
 x 100 0.00753021
 M = 0.753021%



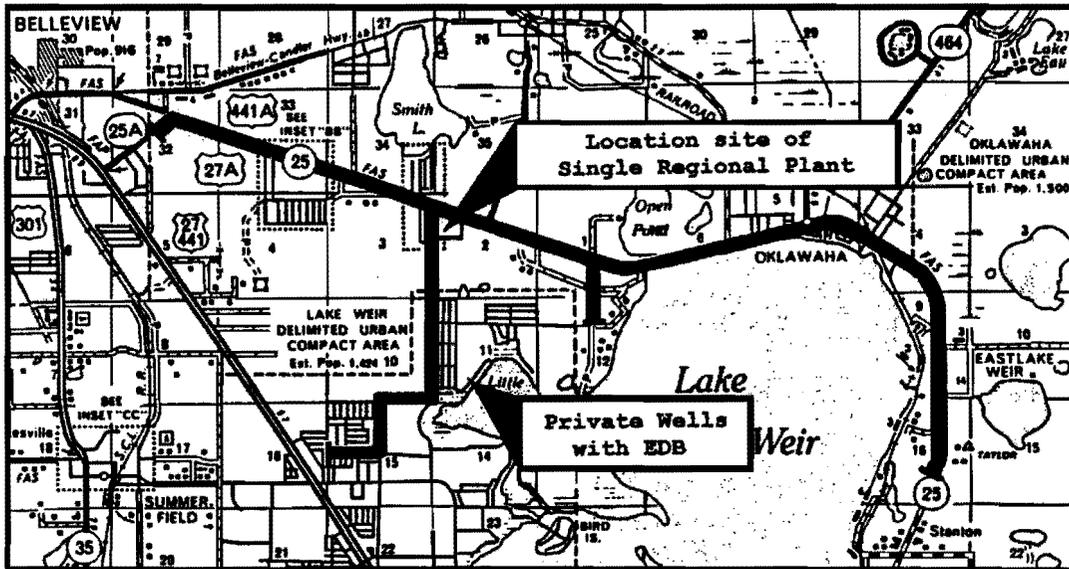
MAP No. 1

Existing Five Independent
Water Systems



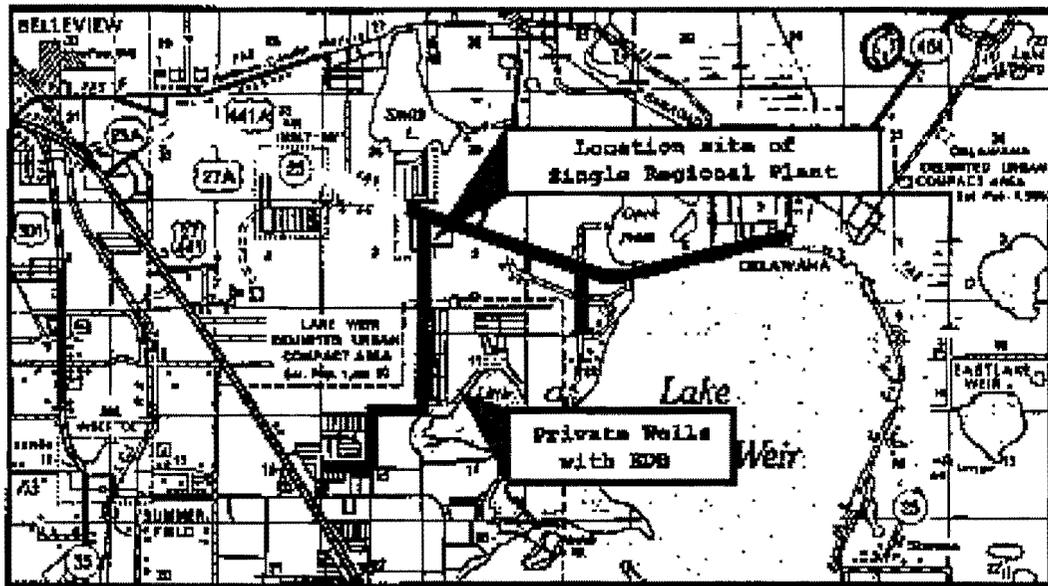
MAP No. 2

Proposed Plant and Regional
Transmission System



MAP No. 3

Alternative #2
Proposed Plant and Regional
Transmission System



MAP No. 4

