State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER ● 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: MARCH 21, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (CLAPP, WALDEN)
OFFICE OF THE GENERAL COUNSEL (HARRIS) JDJ

RE: DOCKET NO. 010859-WS - APPLICATION FOR ORIGINAL CERTIFICATE TO OPERATE WATER AND WASTEWATER UTILITY IN SUMTER COUNTY BY NORTH SUMTER UTILITY COMPANY, L.L.C.
COUNTY: SUMTER

AGENDA: 04/02/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010859WS.RCM

CASE BACKGROUND

On June 18, 2001, North Sumter Utility Company, L.L.C. (NSU or utility) filed its application for original water and wastewater certificates in Sumter County. The area is in the Southwest Florida Water Management District (SWFWMD) but is not in a water use caution area. The utility anticipates serving a total of approximately 17,504 equivalent residential connections (ERCs) when it reaches buildout in approximately 10 years.

Original Certificates Nos. 618-W and 532-S were approved by Order No. PSC-02-0179-FOF-WS, issued February 11, 2002, in this docket, pursuant to Section 367.031, Florida Statutes. However, the initial rates were not addressed at that time because additional time was needed to analyze the utility's proposed rates.

The affiliated developer, The Villages of Lake-Sumter, Inc. (developer or VLS), will be developing the proposed service territory as a Planned Unit Development resulting from the expansion of The Villages of Sumter Development of Regional Impact (DRI) Master Plan. Little Sumter Utility (LSU) provides service to the existing VLS development. Many of the VLS investors are also investors in NSU. The developer plans to construct single family detached and attached conventionally built retirement homes, recreational and mail pickup facilities, golf course clubhouses, neighborhood shopping centers, a hotel, theaters, convention/performing arts center, institutional/educational uses, and office space.

NSU was formed on February 6, 2001. Its application indicates that the utility will be built in two phases. Construction on Phase I is scheduled to commence in 2002 and will be substantially complete in 2004. Phase II construction is scheduled to commence in 2007 and be completed in 2008. VLS plans to construct approximately 6,675 dwelling units during the first phase and 6,024 dwelling units during the second phase with the total build out expected by 2014. The developer and NSU anticipate that the first residents will be moving into the service area in 2004, with the system operating at 80% of design capacity in 2011.

Two water plants are planned. The water treatment plant designed for Phase I will be comprised of four wells, providing 2.8 million gallons per day (mgd); a 0.5 million gallon elevated storage tank; and a mechanical building. Due to the good water quality from the Upper Floridan Aquifer, disinfection with chlorine is the only treatment anticipated. The second phase water treatment plant will provide additional capacity of 2.8 mgd.

The wastewater treatment plant will be constructed in two phases, with each phase being permitted at 1.125 mgd maximum month average daily flow (MMADF), with a total capacity at build out of 2.25 mgd MMADF. The plant will be an aeration facility, using an oxidation ditch design. Treated effluent will be applied to golf courses and landscaped areas within the development.

This recommendation addresses the appropriate initial rates, charges and AFUDC rate for NSU. The Commission has jurisdiction pursuant to Sections 367.031, 367.045, and 367.081, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: What are the appropriate initial water and wastewater rates and return on equity for this utility?

RECOMMENDATION: The staff recommends that the staff recommended water, wastewater, and reuse rates, customer deposits, and miscellaneous service charges described in the staff analysis should be approved. NSU should be required to file tariffs within 30 days of the consummating order finalizing the Commission-approved rates and charges. NSU should charge these rates and charges until authorized to change them by this Commission in a subsequent proceeding. The rates should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, Florida Administrative Code. A return on equity of 11.34% should be approved. Should the utility propose to provide reuse to others beyond the golf course and the common areas in the future, the utility should inform this Commission of its proposal so that staff may review the proposal and bring it to the Commission for approval if necessary. (CLAPP, WALDEN)

STAFF ANALYSIS: The requested rates and charges in the application are based on the system operating at 80% of its designed capacity, which is consistent with Commission policy for setting initial rates and charges. According to the application, the development is expected to grow very rapidly and reach 80% build out in approximately 8 years. Such growth is consistent with the developer's experience in the VLS development. Although the plants are being constructed in two phases, it is anticipated that the first plant will be at 80% of capacity within 2 years. Therefore, many Phase I system components will be oversized to serve Phase II. As a consequence, the application requests that initial rates be based on 80% of the total capacity for Phases I and II.

NSU has estimated average usage per ERC of 125 gallons per day (GPD) for water and 116 GPD for wastewater. In support of these estimates, VLS's engineer provided data from LSU which serves a similar population to that of the proposed development. The current average usage of water in the existing development is approximately 560 GPD. However, the average daily flow for the wastewater treatment facility is approximately 115 GPD. VLS states that the disparity between the water and wastewater usage is a result of irrigation water used by the residents. VLS plans to

contract with a non-potable irrigation firm to provide irrigation service to the residents of the new development, which is expected to greatly reduce the demand for potable water. In addition, the utility's engineer also researched similar senior developments around the country with separate irrigation systems and found their actual usage to be similar to the NSU estimates.

In setting initial rates and charges for a new utility, Commission practice has been to set rates so that the utility will have an opportunity to earn a fair return on its investment when approximately 80% of its projected customers are being served. In the early years of the development, there will not be a sufficient customer base to allow the utility to recover its operating and maintenance expenses and earn a fair return on its investment. As growth reaches 80% of the utility's projected design capacity, the initial rates should be compensatory.

NSU's proposed rates are based on its projected rate base, cost of capital, operating and maintenance expenses, and customer growth. In reviewing the utility's projections and the resulting proposed rates and charges, staff identified areas in which the utility's methodologies differs from those normally used by the Commission in setting initial rates and charges. In some instances, staff has recommended using more recent information than that available when the application was filed. The following analysis describes the utility's proposal and staff's recommendation for projected rate base, return on investment, revenue requirement, and rates and charges for water and wastewater service.

PROJECTED RATE BASE

The utility's proposed schedules for rate base appear on Schedule Nos. 1-A and 1-B. The utility's projected rate base at 80% of total design capacity of Phases I and II is $3,790,601 for water and $7,519,463 for wastewater. The schedules of rate base are for informational purposes to establish initial rates and are not intended to establish rate base. This is consistent with Commission practice in original certificate applications.

Utility Plant in Service (UPIS) and Land

The utility's projected water UPIS costs of $22,614,998 include $9,180 for land and $22,605,818 for structures and

improvements, wells, supply mains, power generation and pumping equipment, water treatment equipment, distribution reservoirs, transmission and distribution mains, service lines, and meters. The proposed water facilities are designed to serve total build out of 17,504 ERCs.

The projected wastewater UPIS costs of $36,764,932 include $144,450 for land and $36,620,482 for structures and improvements, reclaimed water distribution lines, force and gravity collection mains, lift stations, power generation and pumping equipment, treatment and disposal equipment, plant sewers, and services. The proposed wastewater facilities are designed to serve total build out of 15,276 ERCs.

Staff has reviewed the utility's proposed costs and, based on the supporting documentation provided, the projections appear reasonable. While staff normally uses projected plant balances at 80% of design capacity, the utility included its total projected plant costs at design capacity and made an adjustment for plant held for future use. This will be discussed in more detail in the plant held for future use discussion in this issue. This methodology results in a rate base that is comparable to the amount of rate base that would have been calculated using the Commission's traditional method of determining rate base in original certificate cases, and, therefore, is a reasonable mechanism for determining rate base. Therefore, staff recommends that the utility's projected balances of $22,605,818 for water and $36,620,482 for wastewater be included in the projected UPIS. Staff further recommends land should be included at $9,180 for water and $144,450 for wastewater.

Accumulated Depreciation

The utility's projected accumulated depreciation balances for water and wastewater are $2,587,072 and $5,982,916, respectively. These balances reflect the projected accumulated depreciation balances for total projected plant net of the plant held for future use (used and useful plant) at 80% design capacity. The projected accumulated depreciation balances were calculated using the guidelines for average service lives provided for in Rule 25-30.140, Florida Administrative Code.

Contributions-in-aid-of-Construction (CIAC)

The utility's projected CIAC balance for water of $13,148,817 reflects the projected balance at 80% of design capacity based on the proposed main extension charge for water of $839.00 per ERC and meter installation charges of $100.00 per ERC. As discussed in Issue 2, NSU's projected contribution level at design capacity is 78.78%.

The projected CIAC balance for wastewater of $17,854,881 reflects the projected balance at 80% of design capacity based on the proposed main extension charge for wastewater of $1,461.00 per ERC. As discussed in Issue 2, NSU's projected contribution level at design capacity is 72.26%.

Staff's recommendation regarding NSU's proposed service availability charges is discussed more fully in Issue 2. Staff has reviewed the utility's proposed charges and projected CIAC balances and they appear to be reasonable. Therefore, staff recommends CIAC of $13,148,817 and $17,854,881 for water and wastewater, respectively, be included in the projected rate base.

Accumulated Amortization of CIAC

The projected accumulated amortization of CIAC balances for water and wastewater of $1,212,860 and $1,566,603, respectively, reflect the projected balances at 80% of design capacity. The projected accumulated amortization balances were calculated using composite rates of 2.39%, 5.00%, and 2.49% for water lines, meters, and wastewater lines, respectively. The composite rates appear reasonable based on the guideline average service lives in Rule 25-30.140, Florida Administrative Code.

Plant Held for Future Use (PHFU)

In its application, NSU projected PHFU balances of $4,463,578 and $7,261,383 for water and wastewater, respectively. These reflect the projected amounts of excess plant at 80% of design capacity. This accounting treatment is essentially a used and useful adjustment, which is not usually made in original certificate cases. However, such treatment has been used in some original certificate dockets, including the original certificate Docket No. 960305-WS for the affiliated VLS system. Inclusion of this adjustment will result in a reduction of the projected rate

base and a resulting lower return on investment included in the projected revenue requirement. Therefore, staff recommends that the PHFU adjustments of $4,463,578 and $7,261,383 for water and wastewater, respectively, should be included in establishing the projected rate base.

Working Capital

Working capital allowances of $162,210 and $287,108 for water and wastewater, respectively, are included in the projected rate base calculations based on one-eighth of operating and maintenance expenses for each system. The utility's proposal is consistent with Rule 25-30.433(2), Florida Administrative Code. Therefore, staff recommends that working capital allowances of $162,210 and $287,108 be included in rate base.

SUMMARY OF PROJECTED RATE BASE

Therefore, in summary, staff recommends that for purposes of setting initial rates and charges, NSU's projected rate base of $3,790,601 for water and $7,519,463 for wastewater should be approved. The schedules of rate base are for informational purposes to establish initial rates and are not intended to establish rate base.

COST OF CAPITAL

The projected capital structure for NSU appears on Schedule No. 2. As required by Rule 25-30.033(1)(w), Florida Administrative Code, the application contained a schedule of the projected capital structure for NSU including the methods of financing the construction and operation of the utility. The pro forma capital structure, consisting of 40% equity and 60% debt, was provided by the applicant. Equity contributions will be made as required by the stockholders of VLS to finance the operations of the utility in the initial years of development. Debt financing will be in the form of proposed construction loans from banks. The proposed cost of debt of 9.50% is based upon similar loans received by VLS and represents a prime rate of 8.5% plus 1%. The 8.5% prime rate was the rate in effect at the time the application was filed. The current prime rate as of January, 2002, is 4.75% Staff recommends that, while the proposed cost of debt was appropriate at the time the application was filed, recent reductions in the prime interest rate will likely be available to VLS and NSU and should be

considered in setting initial rates for NSU. Therefore, staff recommends that a projected cost of debt based on the prime interest rate, which currently is 4.75%, plus 1% should be used.

The 2000 leverage graph in Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, was used by the applicant to determine the return on equity, which was the leverage graph in effect at the time of the application. Based on that leverage graph formula, NSU projected a return on equity of 9.94%. The 2001 leverage graph, approved in Order No. PSC-01-1226-PAA-WS, issued June 1, 2001, in Docket No. 010006-WS, was protested. A hearing was held and Final Order No. PSC-01-2514-FOF-WS was issued December 24, 2001. Using the current leverage graph, the return on equity would be 11.34%. Staff recommends that, consistent with Commission policy, the most recent leverage graph should be used and a return on equity of 11.34% should be approved.

The applicant proposed an overall 9.68% return on rate base. Based on staff's recommendations regarding cost of debt and return on equity, the resulting overall return on investment is 7.99%.

RETURN ON INVESTMENT

The utility proposed a return on investment of $366,931 and $727,884 for water and wastewater, respectively, which is shown on Schedule Nos. 3-A and 3-B. Based on staff's recommended rate base and overall return on investment for NSU of 7.99%, staff recommends that the Commission approve a return on investment for NSU of $302,717 for water and $600,505 for wastewater.

REVENUE REQUIREMENT

The utility proposed revenue requirements of $2,257,359 and $4,237,507 for water and wastewater, respecitively. NSU's proposed revenue requirements and rates are based on its projected rate base, cost of capital, operating and maintenance expenses, and customer growth. The following analysis describes the utility's proposed and staff recommended revenue requirements.

Operating and Maintenance Expenses

The utility's projected operating and maintenance expenses at 80% of design capacity for water and wastewater are $1,297,680 and $2,296,860, respectively. Included in these expenses are the

operating costs such as chemicals, purchased power, insurance, contractual services, and transportation. Staff compared the projected expenses to those in LSU's 2000 annual report and found the projections to be comparable with the per customer costs of LSU. Staff recommends that the projected amounts appear to be reasonable and, therefore, $1,297,680 for water and $2,296,860 for wastewater should be included in the revenue requirement for operating and maintenance expenses.

Depreciation and Amortization of CIAC

The utility's projected depreciation expense at 80% of design capacity of $623,048 and $1,204,411 for water and wastewater, respectively. The utility also included an adjustment to depreciation, for the projected non-used and useful plant, of $107,927 for water and $231,682 for wastewater. Projected amortization of CIAC is $350,805 and $444,587 for water and wastewater, respectively. Staff recommends that the utility's projected net depreciation and amortization expenses of $164,316 and $528,142 are reasonable and should be included in the projected revenue requirement.

Taxes Other than Income

The projected balances for taxes other than income for NSU of $428,432 and $684,621 for water and wastewater, respectively, include projected regulatory assessment fees (RAFs) of 4.5% of gross revenues, property taxes of 8.6% of rate base, and other taxes and licenses for each system. The utility's proposed property taxes, other taxes, and licenses appear reasonable. However, as a result of staff's proposed change to the utility's overall rate of return, from 9.68% to 7.99%, and the resulting decrease in the recommended net income, staff recommends that the associated regulatory assessment fees included in taxes other than income be adjusted to reflect 4.5% of staff's recommended revenue requirement. Therefore, staff recommends that taxes other than income of $425,406 for water and $678,620 for wastewater should be included in the projected revenue requirement.

Income Taxes

NSU was established as an limited liability company which for income tax purposes is treated like a partnership. Partnerships do not pay income taxes from the partnership, but each partner pays

income taxes on its individual share of the earnings. NSU did not include income taxes in its projected revenue requirement and staff agrees that none should be included.

SUMMARY OF REVENUE REQUIREMENT

Therefore, in summary, based on staff's analysis of the utility's proposed operating and maintenance expenses, depreciation and amortization of CIAC, taxes other than income, and return on investment, staff recommends that projected revenue requirements of $2,190,119 and $4,104,127 for water and wastewater, respectively, should be used in setting initial rates for NSU.

RATES

Water and Wastewater Rates

The requested residential and general service rates for water and wastewater for NSU are based on revenue requirements of $2,257,359 and $4,237,507 for water and wastewater, respectively.

The utility requested a base facility charge rate structure for water and wastewater with an inclining block rate for residential water service. The utility proposed a breakpoint for the first tier of water usage at 8,500 gallons based on approximately 225% of the average expected residential usage of 3800 gallons per month. This is consistent with the projections used in designing the water system.

Further, the utility's proposed rate for usage in excess of 8500 gallons per month is two times the usage rate up to 8500 gallons. Staff notes that the utility shows no revenue at the higher rate block. According to NSU, the Villages Water Conservation Authority, LLC (VWCA), will supply nonpotable irrigation water within the NSU service territory. VWCA will construct and own the nonpotable water system which will be exempt from Commission regulation pursuant to Section 367.022(11), Florida Statutes. Because NSU believes that customers will purchase irrigation water from VWCA, they expect residential usage of potable water from NSU to be below 8500 gallons per month.

Therefore, staff recommends that the utility's proposed inclining block rate structure for residential water customers appears reasonable and we recommend it be approved. Staff's

recommended rates for residential and general service water customers are based on NSU's proposed rate structure and staff's recommended revenue requirement for water.

The proposed wastewater rates include a base facility charge and a single tier gallonage charge. The residential wastewater rate includes a cap of 10,000 gallons. Staff's recommended rates for residential and general service wastewater customers are based on the utility's proposed wastewater rate structure and staff's recommended revenue requirement for wastewater.

The NSU proposed and staff recommended monthly water and wastewater rates, along with a comparison of typical monthly bills, are shown on Schedule 4.

Reuse Rates

Due to growing concerns over water conservation, reclaimed water is increasingly being viewed as an alternative source of water for irrigation of golf courses and, in some cases, residential communities. Along with the increased use of reclaimed water comes a recognition that there are costs associated with the provision of reclaimed water. Consequently, it has become Commission practice to recognize reclaimed water service (sometimes referred to as effluent service) as a class of service which should be included in the utility's tariff, even if the utility is not currently assessing a charge for the service.

Although there are costs associated with the provision of reclaimed water, there are cases in which the "avoided costs" outweigh the actual cost of the service, and thus not charging for the effluent is justified. For example, disposing of effluent on non-utility property may delay or even eliminate the need for the utility to purchase additional land for spray fields or percolation ponds, thereby resulting in lower rates for the utility's existing wastewater customers.

In this case, according to the utility's master plan, wastewater effluent will be reused as much as possible for golf course and common area irrigation, although according to the preliminary engineering report, only 70% of the need will be provided from reuse. Four lined lakes will be used to store this effluent for reuse. In the application, the utility requested that a zero reuse rate be established.

Reuse is consistent with the requirements of SWFWMD, and is a cost effective method to dispose of effluent. Therefore, staff recommends that a reuse rate be set at zero for the golf course and common areas. Should the utility propose to provide reuse to others beyond the golf course and the common areas in the future, the utility should inform this Commission of its proposal and allow staff review.

Customer Deposits and Miscellaneous Service Charges

The application contains proposed customer deposits and miscellaneous service charges. The proposed customer deposits were calculated in compliance with Rule 25-30.311(7), Florida Administrative Code. Staff has recalculated the customer deposits based upon the staff recommended rates. The recommended customer deposits are shown on Schedule 4.

The utility's proposed miscellaneous service charges are in compliance with Rule 25-30.460, Florida Administrative Code, which defines four categories of miscellaneous service charges. Consistent with Commission practice, when both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions. Staff recommends that the proposed miscellaneous service charges for NSU are consistent with Commission rules and should be approved.

SUMMARY

The utility proposed and staff recommended water, wastewater, and reuse rates, customer deposits, and miscellaneous service charges are shown on Schedule No. 4. Staff recommends that the staff recommended water, wastewater, and reuse rates, customer deposits, and miscellaneous service charges described in the staff analysis should be approved. NSU should be required to file tariffs within 30 days of the consummating order finalizing the Commission-approved rates and charges. NSU should charge these rates and charges until authorized to change them by this Commission in a subsequent proceeding. The rates should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, Florida Administrative Code. A return on equity of 11.34% should be approved. Should the utility propose to provide reuse to others beyond the golf course and the common areas in the future,

the utility should inform this Commission of its proposal so that staff may review the proposal and bring it to the Commission for approval if necessary.

ISSUE 2: What are the appropriate service availability charges for North Sumter Utility Company?

RECOMMENDATION: The utility's proposed service availability charges set forth within the staff analysis are appropriate and should be approved effective for connections made on or after the stamped approval date on the tariff sheets. (CLAPP, WALDEN)

STAFF ANALYSIS: Rule 25-30.580(1)(a), Florida Administrative Code, states that the maximum amount of contributions-in-aid-of-construction (CIAC), net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity. Rule 25-30.580(1)(b), Florida Administrative Code, states that the minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and wastewater collection systems.

NSU's proposed service availability charges are designed to result in the CIAC levels allowed by rule. Specifically, the utility is requesting approval of water and wastewater main extension charges and a meter installation fee. The utility stated that the maximum level of CIAC would result in service availability charges which are unacceptably high. The customers ultimately bear the cost of service availability charges, as well as service rates, therefore, the utility has tried to reach a reasonable balance between the two.

The utility's proposed service availability policy states that the utility will construct all on-site, off-site, and treatment facilities and will assess main extension and meter installation charges to new customers that connect to the system. The utility's requested main extension and meter installation charges will result in CIAC levels of 78.78% for water and 72.26% for wastewater at design capacity, as shown on Schedule No. 5.

Ordinarily in original certificate dockets, staff recommends service availability charges which will achieve a 75% contribution level at buildout. Although the utility's proposed policy and charges will not result in a 75% contribution level, they will result in contribution levels that are within the guidelines of the rule.

For water, the minimum contribution level for NSU, pursuant to Rule 25-30.580(2), Florida Administrative Code, is approximately 85%, which exceeds the maximum contribution level of 75% prescribed by Rule 25-30.580(1), Florida Administrative Code. This occurs in systems where the cost of the water treatment facility is relatively low in relation to the cost of the transmission and distribution system. For wastewater, the minimum contribution level for NSU pursuant to Rule 25-30.580(2), Florida Administrative Code, is approximately 55%.

In consideration of these factors, staff recommends that the utility's requested service availability policy and charges are reasonable and result in contribution levels which are consistent with Rule 25-30.580, Florida Administrative Code, and, therefore, should be approved. The utility's proposed and staff recommended service availability charges are shown below. Staff recommends that these charges be effective for connections made on or after the stamped approval date on the tariff sheets.

	Utility Proposed And Staff Recommended
Meter Installation Fee	
5/8" x 3/4"	$100.00
Over 5/8" x 3/4"	Actual Cost
Main Extension Charge	
Water:	
Residential - per ERC	$839.00
All others - per gallon (125 GPD per ERC)	$6.71
Wastewater:	
Residential - per ERC	$1,461.00
All others - per gallon (116 GPD per ERC)	$12.59

ISSUE 3: Should the utility's proposed Allowance for Funds Used During Construction (AFUDC) rate be approved?

RECOMMENDATION: No. The utility's proposed Allowance for Funds Used During Construction rate should not be approved. An annual AFUDC rate of 7.99% should be approved with a discounted monthly rate of 0.665590%. The approved rate should be applicable for eligible construction projects beginning on or after the date the certificate of authorization is issued. (CLAPP, WALDEN)

STAFF ANALYSIS: Rule 25-30.033(4), Florida Administrative Code, provides that "utilities obtaining initial certificates pursuant to this rule are authorized to accrue allowance for funds used during construction (AFUDC) for projects found eligible pursuant to Rule 25-30.116(1), Florida Administrative Code." In its application, NSU proposed an annual AFUDC rate of 9.68%, discounted to a monthly rate of .7729457% for all future construction based on the cost of capital projected in its application.

Rule 25-30.033(4)(a), Florida Administrative Code, states that "the applicable AFUDC rate shall be determined as the utility's projected weighted cost of capital as demonstrated in its application for original certificates and initial rates and charges." Further, Rule 25-30.033(4)(b), Florida Administrative Code, states that "a discounted monthly AFUDC rate calculated in accordance with Rule 25-30.116(3), Florida Administrative Code, shall be used to insure that the annual AFUDC charged does not exceed authorized levels." Staff has reviewed the utility's calculation, and, because of the adjustments recommended in Issue 2 regarding the utility's cost of debt and return on equity, staff recommends that an AFUDC rate of 7.99%, discounted to a monthly rate of .665590% is appropriate and should be approved.

Pursuant to Rule 25-30.033(4)(c), Florida Administrative Code, "the date the utility shall begin to charge the AFUDC rate shall be the date the certificate of authorization is issued to the utility so that such rate can apply to the initial construction of the utility facilities." Accordingly, staff recommends that the utility's AFUDC rate be effective for eligible construction projects beginning on or after the date the certificate of authorization was issued.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: No. The order arising from this Recommendation will be issued as proposed agency action (PAA), which will require that persons who's substantial interests are affected be given 21 days to protest the Commission's actions. Upon expiration of the protest period, if there is no timely protest, a consummating order will be issued and the order will become final, and the docket should be closed. Should there be timely protests, the docket should be held open to resolve these protests. (HARRIS)

STAFF ANALYSIS: The order arising from this Recommendation will be issued as proposed agency action (PAA), which will require that persons who's substantial interests are affected be given 21 days to protest the Commission's actions. Upon expiration of the protest period, if there is no timely protest, a consummating order will be issued and the order will become final, and the docket should be closed. Should there be timely protests, the docket should be held open to resolve these protests.

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Water Rate Base
At 80% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 1-A

DESCRIPTION	BALANCE PER FILING	STAFF ADJUSTMENTS		STAFF RECOMMENDATION
Utility Plant in Service	$22,614,998	$(9,180)	A	$ 22,605,818
Land	0	9,180	B	9,180
Accumulated Depreciation	(2,587,072)	0		(2,587,072)
Contributions-in-aid-of Construction (CIAC)	(13,148,817)	0		(13,148,817)
Accumulated Amortization of CIAC	1,212,860	0		1,212,860
Plant Held for Future Use	(4,463,578)	0		(4,463,578)
Working Capital Allowance	162,210	0		162,210
WATER RATE BASE	$ 3,790,601	$ 0		$ 3,790,601

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Wastewater Rate Base
At 80% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 1-B

DESCRIPTION	BALANCE PER FILING	STAFF ADJUSTMENTS		STAFF RECOMMENDATION
Utility Plant in Service	$36,764,932	$(144,450)	A	$ 36,620,482
Land	0	144,450	B	144,450
Accumulated Depreciation	(5,982,916)	0		(5,982,916)
Contributions-in-aid-of Construction (CIAC)	(17,854,881)	0		(17,854,881)
Accumulated Amortization of CIAC	1,566,603	0		1,566,603
Plant Held for Future Use	(7,261,383)	0		(7,261,383)
Working Capital Allowance	287,108	0		287,108
WASTEWATER RATE BASE	$ 7,519,463	$ 0		$ 7,519,463

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Rate Base Adjustments
At 80% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 1-C

EXPLANATION	WATER ADJUSTMENTS	WASTEWATER ADJUSTMENTS
A Utility Plant in Service		
To remove land cost	$(9,180)	$(144,450)
B Land		
To record land at original cost	9,180	144,450
Total Adjustments	$ 0	$ 0

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Capital Structure
At 80% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 2

DESCRIPTION	BALANCE PER FILING	STAFF ADJUST.	BALANCE PER STAFF	RECON. ADJUST.	RECON. BALANCE	WEIGHT	COST RATE	WEIGHTED COSTS
Common Equity	$4,524,026	0	4,524,026	0	4,524,026	40.0%	11.34%	4.54%
Long and Short-Term Debt	6,786,038	0	6,786,038	0	6,786,038	60.0%	5.75%	3.45%
Customer Deposits	0	0	0	0	0	0.0%	8.00%	0.00%
Advances from Associated Companies	0	0	0	0	0	0.0%	0.00%	0.00%
Other	0	0	0	0	0	0.0%	0.00%	0.00%
	$11,310,064	0	11,310,064	0	11,310,064	100.0%		7.99%

Range of Reasonableness	High	Low
Common Equity	12.34%	10.34%
Overall Rate of Return	8.39%	7.59%

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Water Operating Revenues
At 80% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 3-A

DESCRIPTION	UTILITY REQUESTED	ADJUSTMENTS	STAFF RECOMMENDED
Operating Revenues	$ 2,257,359	$ (67,240)	$ 2,190,119
Operating and Maintenance	1,297,680	0	1,297,680
Depreciation Expense	164,316	0	164,316
Taxes Other Than Income	428,432	(3,026) B	425,406
Income Taxes	0	0	0
Total Operating Expense	1,890,428	(3,026)	1,887,402
Net Operating Income(Loss)	$ 366,931	$ (64,214) A	$ 302,717
Water Rate Base	$3,790,601		$3,790,601
Rate of Return	9.68%		7.99%

DOCKET NO. 010859-WS
DATE: MARCH 21, 2002

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Wastewater Operating Revenues
At 80% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 3-B

DESCRIPTION	UTILITY REQUESTED	ADJUSTMENTS		STAFF RECOMMENDED
Operating Revenues	$ 4,237,507	$(133,380)		$ 4,104,127
Operating and Maintenance	2,296,860	0		2,296,860
Depreciation Expense	528,142	0		528,142
Taxes Other Than Income	684,621	(6,001)	B	678,620
Income Taxes	0	0		0
Total Operating Expense	3,509,623	(6,001)		3,503,622
Net Operating Income(Loss)	$ 727,884	(127,379)	A	$ 600,505
Wastewater Rate Base	$ 7,519,463			$ 7,519,463
Rate of Return	9.68%			7.99%

DOCKET NO. 010859-WS
DATE: MARCH 21, 2002

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Operating Revenue Adjustments
At 80% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 3-C

EXPLANATION	WATER ADJUSTMENTS	WASTEWATER ADJUSTMENTS
A Net Operating Income		
To record reduction based on reduced rate of return	$ (64,214)	$(127,379)
B Taxes Other Than Income		
To record reduction in RAFs	(3,026)	(6,001)
Total Adjustments	$ (67,240)	$(133,380)

MONTHLY RATES AND CHARGES OF NORTH SUMTER UTILITY COMPANY

Monthly Service Rates

WATER

	Utility Requested	Staff Recommended
Residential Service		
Base Facility Charge		
Meter Size:		
5/8" x 3/4"	$ 7.18	$ 7.17
Full 3/4"	10.77	10.76
1"	17.95	17.93
2"	57.44	57.36
3"	114.88	114.72
4"	179.50	179.25
6"	359.00	358.50
8"	574.40	573.60
10"	825.70	824.55
Charge per 1,000 gallons:		
First 8,500 gallons	$ 1.64	$1.54
Over 8,500 gallons	3.29	$3.08
Typical Residential Bills		
5/8" x 3/4" meter:		
3 M	$ 12.10	$ 11.79
5 M	$ 15.38	$ 14.87
10 M	$ 26.06	$ 24.88

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DATE: MARCH 21, 2002

SCHEDULE NO. 4
Page 2 of 4

Monthly Service Rates (Continued)

WATER

	Utility Requested	Staff Recommended
General Service		
Base Facility Charge		
Meter Size:		
5/8" x 3/4"	$ 7.18	$ 7.17
Full 3/4"	10.77	10.76
1"	17.95	17.93
2"	57.44	57.36
3"	114.88	114.72
4"	179.50	179.25
6"	359.00	358.50
8"	574.40	573.60
10"	825.70	824.55
Charge per 1,000 gallons	$ 1.64	$1.54

WASTEWATER

	Utility Requested	Staff Recommended
Residential Service		
Base Facility Charge		
All Meter Size:	$ 10.59	10.57
Charge per 1,000 gallons:		
(10,000 gallon maximum)	$ 4.01	3.79
Typical Residential Bills		
5/8" x 3/4" meter:		
3 M	$ 22.62	21.94
5 M	$ 30.64	29.52
10 M	$ 50.69	48.47

Monthly Service Rates (Continued)

	Utility Requested	Staff Recommended
General Service		
Base Facility Charge		
Meter Size:		
5/8" x 3/4"	$ 10.59	10.57
Full 3/4"	14.30	15.86
1"	26.48	26.43
1-1/2"	52.95	52.85
2"	84.72	84.56
3"	169.44	169.12
4"	264.75	264.25
6"	476.50	528.50
8"	762.40	845.60
Charge per 1,000 gallons:	$ 4.71	4.55

CUSTOMER DEPOSITS

WATER:		
Residential and General Service		
Meter Size:		
5/8" x 3/4"	$ 27.00	$26.00
1"	54.00	48.00
Over 1"	Two Times Estimated Average Monthly Bill	
WASTEWATER:		
Residential and General Service		
Meter Size:		
5/8" x 3/4"	$ 56.00	54.00
1"	112.00	97.00
Over 1"	Two Times Estimated Average Monthly Bill	

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DATE: MARCH 21, 2002

SCHEDULE NO. 4
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MISCELLANEOUS SERVICE CHARGES

	Utility Proposed And Staff Recommended
Initial Connection	$ 15.00
Normal Reconnection	15.00
Violation Reconnection:	
Water	15.00
Wastewater	Actual Cost
Premises Visit (in lieu of disconnection)	10.00

DOCKET NO. 010859-WS
DATE: MARCH 21, 2002

NORTH SUMTER UTILITY COMPANY, LLC
Schedule of Net Plant to Net C.I.A.C.
At 100% of Design Capacity

DOCKET NO. 010859-WS
Schedule No. 5

ACCOUNT NUMBER	ACCOUNT DESCRIPTION	WATER	WASTEWATER
101	Utility Plant in Service	$22,605,818	$36,620,482
104	Accumulated Depreciation	(3,782,818)	(8,594,962)
	Net Plant	18,823,000	28,025,520
271	C.I.A.C.	16,436,256	22,318,236
272	Accum. Amortization of C.I.A.C.	(1,607,530)	(2,066,758)
	Net C.I.A.C.	14,828,726	20,251,478
	Net C.I.A.C./Net Plant	78.78%	72.26%
	Minimum Contribution Level	85.18%	54.81%
	Maximum Contribution Level	75.00%	75.00%