

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase in Seminole County by
Alafaya Utilities, Inc.

DOCKET NO. 020408-SU
ORDER NO. PSC-03-1330-PCO-SU
ISSUED: November 21, 2003

The following Commissioners participated in the disposition of
this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER REQUIRING ALAFAYA UTILITIES, INC. TO INCREASE
THE SECURITY GUARANTEEING THE APPROVED INTERIM RATES

BY THE COMMISSION:

Alafaya Utilities, Inc. (Alafaya or utility), a subsidiary of Utilities, Inc., is a Class A wastewater utility located in Seminole County. Alafaya provides wastewater service to approximately 5,600 residential customers and 100 general service customers. Water service is provided by the City of Oviedo. For the year ended December 31, 2001, the utility reported wastewater operating revenues of \$1,809,140, and a net operating income of \$303,246.

On September 30, 2002, the utility filed an application for approval of permanent and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. By letter dated October 24, 2002, Alafaya was informed of numerous minimum filing requirement (MFR) deficiencies. On January 10, 2003, Alafaya satisfied the MFRs, and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. The utility has requested that we process this case using the proposed agency action (PAA) procedures, pursuant to Section 367.081(8), Florida Statutes.

DOCUMENT NUMBER-DATE

11805 NOV21 8

FPSC-COMMISSION CLERK

The utility's requested test year for both interim and final rate purposes is based on the year ended December 31, 2001. Alafaya requested interim revenues of \$1,988,523, which represents an increase of \$177,045 or 9.77%. The requested final revenues are \$2,125,634. This represents an increase of \$314,156 or 17.34%. By Order No. PSC-03-0380-PCO-SU, issued March 19, 2003, we suspended the utility's proposed final rates and approved an interim revenue requirement of \$1,857,865. This represents an interim increase in annual revenues of \$46,387 or 2.56%.

On October 8, 2003, Alafaya provided documentation for additional pro forma plant not included in its MFRs. Then, by letter dated October 21, 2003, the utility waived the 5-month statutory time frame until January 20, 2004, in order to allow our staff time to consider this additional pro forma plant. Since the amount of time for which interim rates are in effect has lengthened, the potential refund of revenues and interest collected under interim conditions will increase. As a result, the amount of guarantee required to secure any potential refund needs to be increased.

This Order addresses the appropriate amount of guarantee required to secure the increased potential refund of revenues and interest collected under interim conditions. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

By Order No. PSC-03-0380-PCO-SU, the Commission calculated the potential refund of revenues and interest collected under interim conditions to be \$31,057. This amount was based on an estimated 8-month time period that interim rates would be in effect. Since the utility has waived the 5-month statutory time frame until January 20, 2004, the interim rates will remain in effect for four more months. In accordance with Rule 25-30.360, Florida Administrative Code, the potential refund of revenues and interest collected under the revised interim period has been recalculated to be \$46,637, which is an increase of \$15,580 from the previous security balance. This amount is based on an estimated twelve months of revenue being collected from the approved interim rates over the utility's currently authorized rates.

The utility has requested a corporate undertaking to secure any interim increase granted. Alafaya is a wholly-owned subsidiary

of Utilities, Inc. (UI), which provides all investor capital to its subsidiaries. As such, we reviewed the financial statements of the parent company. UI currently is guaranteeing a total of \$566,380 as a corporate undertaking on behalf of its Florida subsidiaries. This request will bring the total cumulative amount to \$581,960.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. We have reviewed UI's financial statements from 2000 to 2002 to determine the financial condition of the parent company. Our analysis shows that UI has experienced a significant decline in net income and interest coverage from 2000 to 2002. The primary reason for this reversal has been merger-related charges of \$9.8 million in 2001 and \$9.9 million in 2002. UI states that merger related costs have been fully recovered and there will be no additional charges levied by the parent. Absent these merger-related charges, UI's financial performance would show a 3-year trend of stable equity capitalization, interest coverage, and profitability. Based upon this analysis, we find that a cumulative corporate undertaking of \$581,960 is acceptable, contingent upon the receipt of the written guarantee of UI, and written confirmation that UI does not have any outstanding guarantees on behalf of UI-owned utilities in other states.

Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall continue to provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. If a refund is required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Alafaya Utilities, Inc. shall increase the corporate undertaking approved in Order No. PSC-03-0380-PCO-SU by \$15,580, resulting in a total amount of \$581,960 required as a guarantee of any potential refund of revenues collected under interim conditions. It is further

ORDER NO. PSC-03-1330-PCO-SU
DOCKET NO. 020408-SU
PAGE 4

ORDERED that the utility shall continue to provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. It is further

ORDERED that in no instance shall maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 21st Day of November, 2003.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

AEV

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.