

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 1, 2007

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Joyce, Rendell) *Joyce Rendell*
Office of the General Counsel (Jaeger) *Jaeger*

RE: Docket No. 060819-WS – Petition for establishment of allowance for funds used during construction (AFUDC) rate in Alachua, Brevard, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties, by Aqua Utilities Florida, Inc.

AGENDA: 03/13/07 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Pending

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: This item should be placed immediately after Docket No. 060693-WS

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060819.RCM.DOC

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FEB 28 AM 10:06
COMMISSION CLERK

Case Background

Aqua Utilities Florida, Inc. (Aqua or utility) is a wholly owned subsidiary of Aqua Utilities, Inc., formerly AquaSource Utility, Inc. Aqua Utilities, Inc., a Texas corporation, is a wholly owned subsidiary of Aqua America Inc. Aqua America Inc., directly or indirectly through subsidiaries, owns and operates water and wastewater systems in thirteen states. In Florida, Aqua furnishes regulated water and wastewater service in Alachua, Brevard, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties.

DOCUMENT NUMBER-DATE

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On September 25, 2006, Aqua's six regulated Florida subsidiaries filed a joint application for acknowledgement of corporate reorganization and approval of name change. By Order No. PSC-06-0973-FOF-WS, issued November 22, 2006, in Docket No. 060643-WS, the Commission approved Aqua's corporate reorganization and request for name change, effective the date of the order. Per that order, all applicants are owned and operated under the name Aqua Utilities Florida, Inc. Attachment A shows the organizational structure before the reorganization and Attachment B shows the organizational structure after the reorganization.

On December 21, 2006, Aqua filed the instant petition, requesting a uniform AFUDC rate. In accordance with Rule 25-30.116(4), Florida Administrative Code (F.A.C.), Aqua filed the following schedules: (a) a schedule showing the capital structure, cost rates and weighted average cost of capital that are the basis for the AFUDC rate requested; (b) a schedule showing capital structure; and, (c) a schedule showing the calculation of the monthly AFUDC rate using the methodology set out in Rule 25-30.116(4), F.A.C. As proposed, the uniform rate would be effective for eligible projects as of October 13, 2006, forward.

Further, by letter dated October 19, 2006, Aqua filed a petition for establishment of an AFUDC rate for each of the six separate Aqua America-owned entities. As proposed, the AFUDC rates would apply to eligible projects for the period January 1, 2006 through October 12, 2006. The recommendation for that petition is being handled in Docket No. 060693-WS.

This recommendation addresses the establishment of a uniform AFUDC rate for Aqua. The Commission has jurisdiction pursuant to Section 367.121, Florida Statutes.

Discussion of Issues

Issue 1: What is the appropriate AFUDC rate for Aqua Utilities Florida, Inc.?

Recommendation: The appropriate AFUDC rate for Aqua is 7.90%, with a discounted monthly rate of 0.635634 and should be effective for eligible projects as of October 13, 2006. (Joyce)

Staff Analysis: Rule 25-30.116 provides that Construction Work in Progress (CWIP) that is not included in rate base may accrue AFUDC. Rule 25-30.116(2)(a), F.A.C., provides that an AFUDC rate shall be determined using the utility's most recent 12-month average embedded cost of capital. Aqua's average cost of capital was calculated using the 12-month period ended September 30, 2006. Rule 25-30.116(5), F.A.C., states that the new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission. Therefore, the approved rates should be applicable for eligible construction projects beginning October 13, 2006.

Projects may be included in CWIP and accrue AFUDC if the projects involve gross additions to plant in excess of \$5,000 and are expected to be completed in excess of sixty days after commencement of construction or were originally expected to be completed in sixty days or less but are not ready for service after sixty days.

Aqua's application includes a calculation to discount the simple interest rate of each AFUDC rate to reflect the effects of compounding monthly. Staff has reviewed this calculation and determined that the utility incorrectly used the formula. As such, staff has recalculated the monthly discounted rates to reflect the appropriate effects of compounding monthly.

Therefore, staff recommends a uniform AFUDC rate of 7.90%. The appropriate discounted monthly rate should be 0.635634. This rate should be effective for eligible projects as of October 13, 2006.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If no timely protest from a substantially affected person on the Commission approved AFUDC rate is received within 21 days of the issuance of the PAA Order, the PAA Order on the AFUDC rate will become final upon issuance of a Consummating Order, and the docket should be closed. (Joyce, Jaeger)

Staff Analysis: If no timely protest from a substantially affected person on the Commission approved AFUDC rate is received within 21 days of the issuance of the PAA Order, the PAA Order on the AFUDC rate will become final upon issuance of a Consummating Order, and the docket should be closed.