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: November 7, 2007

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Brady, Redemann)
Office of the General Counsel (Fleming)

RE: Docket No. 060726-WS – Application for certificates to provide water and wastewater service in Glades County and water service in Highlands County by Silver Lake Utilities, Inc.
Counties: Glades, Highlands

AGENDA: 11/20/07 – Regular Agenda – Proposed Agency Action for Issues 1 through 4 -- Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060726.RCM.DOC

Case Background

On November 3, 2006, Silver Lake Utilities, Inc. (Silver Lake or applicant) filed an application for an original water certificate in Highlands and Glades Counties and an original wastewater certificate in Glades County. The service territory, which consists of approximately 350,000 acres, is located in the South Florida Water Management District, part of which is considered a water supply problem area.

The service territory is almost exclusively owned by Lykes Bros. Inc. (LBI). For over 60 years, LBI has used the property for cattle ranching; citrus, timber, and sugar cane production;

employee housing; and recreation facilities. According to the application, LBI's ranching and farming operations will continue, with expansion of those activities anticipated. Currently LBI is providing water service throughout its land holdings without compensation. Upon the establishment of rates and charges, Silver Lake intends to lease LBI's existing well sites and begin providing water service to the existing customers for compensation. Wastewater service for the existing customers will continue to be by septic system.

In addition to serving LBI's existing customers, the applicant intends to lease land from LBI in southern Glades County upon which it will construct the treatment facilities necessary to provide central water and wastewater service to LBI's proposed Muse Village development as well as to the existing West Glades School campus. Muse Village is a proposed residential development that will consist of approximately 7,000 residential units and 150,000 square feet of office and retail space constructed over 3,000 to 4,000 acres. Development is expected to begin in 2008 and reach full build-out within 15 to 20 years. As the need arises, the applicant also anticipates leasing additional well sites from LBI from which it will provide bulk raw and treated water services to customers upon request.

By Order No. PSC-07-0717-FOF-WS, issued September 4, 2007, in this docket, the Commission granted Silver Lake Certificate Nos. 636-W and 546-S to serve its requested territory in Highlands and Glades Counties. This recommendation addresses Silver Lake's application for initial rates, service availability policy and charges, customer deposits, miscellaneous service charges, and an allowance for funds used during construction (AFUDC). The Commission has jurisdiction pursuant to Sections 367.031, 367.045, 367.091, and 367.101, Florida Statutes.

Discussion of Issues

Issue 1: Should the utility's proposed initial water, wastewater, and reuse rates and return on investment be approved?

Recommendation: Yes. The utility's proposed water, wastewater, and reuse rates, as shown on Schedules 2 through 5, should be approved. Silver Lake should charge the approved rates until authorized to change them by this Commission in a subsequent proceeding. The rates should be effective for services rendered 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 12.01% with a range of plus or minus 100 basis points should be approved. (Brady, Redemann)

Staff Analysis: The utility initially requested separate rates for the existing and the proposed Muse Village development water systems because it appeared that the cost to serve existing customers was significantly lower than the cost to serve proposed customers. However, as a result of staff's review and discussions with the utility consultants, adjustments related to plant held for future use were made to the utility's proposed revenue requirement such that the cost to serve existing and proposed water customers does not appear to differ materially. On October 23, 2007, the utility filed revised uniform rates for water service throughout its territory. In addition to water service, the utility is proposing initial rates for wastewater, reuse, bulk raw water, and bulk treated water service.

In establishing initial rates and charges for a new utility, it has been Commission practice to set rates so that the utility will have an opportunity to recover its operating expenses and earn a fair return on its investment when approximately 80% of its projected customers are being served. The utility's proposed rates are based on projected rate base, cost of capital, operating and maintenance expenses, and customer growth. The majority of the water and wastewater facilities are intended to be constructed in three phases over 15 to 20 years. Proposed rates are based on the projected design costs for Phases I & II, which are intended to be constructed in the first 8 years. Adjustments were made to reflect plant constructed during Phases I and II that will be used for Phase III. The bulk raw and treated water facilities will only be constructed when there is a firm contract for at least 500,000 gallons per day (GPD) for bulk raw water and 350,000 GPD for bulk treated water. As a consequence, proposed bulk rates are based on the projected design cost for facilities at those respective capacities. The utility estimated average usage per equivalent residential connection (ERC) of 250 GPD for all of its water and wastewater services based on estimated demand and availability of irrigation services.

The utility's proposed contributions-in-aid-of-construction (CIAC) are based on the guidelines in Rules 25-30.570 and 25-30.580, Florida Administrative Code (F.A.C.). The projected accumulated depreciation and amortization of CIAC balances are calculated using the guidelines for average service lives as set forth in Rule 25-30.140, F.A.C. The utility's proposed working capital allowances are based on one-eighth of operating and maintenance expenses for the respective systems.

The utility's methodologies for its cost projections and the resulting proposed rates are consistent with methodologies normally used by the Commission in setting initial rates. The following analysis describes the utility's proposed rate bases, cost of capital, returns on

investment, revenue requirements, and rates for water, wastewater, bulk raw water, and bulk treated water services.

Rate Base

The utility's proposed and staff's recommended rate bases, revenue requirements, and rates for the water, wastewater, bulk raw water, and bulk treated water systems appear on Schedules 2 through 5. The rate base schedules are for informational purposes to establish initial rates and are not intended to formally establish rate base. This is consistent with Commission practice in original certificate applications.

Water System. The utility's projected Utility Plant In Service (UPIS) cost for the water system at Phase II capacity is $28,223,042 for facilities intended to serve 1,868 ERCs. The facilities include the wells and equipment for pumping, treatment, and power generation along with supply mains and transmission and distribution lines. The water will be treated using a reverse osmosis system with the brine concentrate disposed of by deep well injection. The injection well and other major system components are sized to provide water treatment and brine disposal for all three phases of development. Because of engineering considerations, these components will be constructed in the first two phases. Therefore, the utility included an adjustment of $5,841,502 for water capacity allocated to Phase III costs.

The utility proposed an accumulated depreciation balance of ($7,028,575), a CIAC balance of ($13,812,500) based on contributed lines and a plant capacity charge of $2,200 per ERC, an accumulated amortization of CIAC balance of $2,171,519, and a working capital allowance of $51,336. Therefore, the utility's proposed rate base for the water system is $3,763,320, as shown on Schedule 2.

Wastewater System. The utility's proposed UPIS cost for the wastewater system at Phase II capacity is $43,800,086 for facilities intended to serve 2,462 ERCs. The costs include the facilities for wastewater treatment, disposal, power generation, pumping, and collection. The deep injection well, described above, will also be used for disposing of excess wastewater effluent; therefore, the cost for the injection well has been allocated between the water and wastewater UPIS where the customers are anticipated to be the same. Because of engineering considerations, the injection well and other major system components will be constructed in the first two phases. Therefore, the utility included an adjustment of $4,523,641 for wastewater capacity allocated to Phase III costs.

The utility proposed an accumulated depreciation balance of ($17,364,650), a CIAC balance of ($24,474,976) based on contributed lines and a plant capacity charge of $1,500 per ERC, an accumulated amortization of CIAC balance of $6,859,747, and a working capital allowance of $46,972. Therefore, the utility's proposed rate base for the wastewater system is $4,343,538, as shown on Schedule 3.

Bulk Raw Water System. The utility's proposed UPIS cost for a bulk raw water system is $2,335,651. The costs are based on a capacity of 500,000 GPD (2,000 ERCs), which is the minimum amount required for a contract, and include wells, supply mains, and power generation and pumping equipment. Costs for transmission and distribution mains are not included because

the utility expects to construct raw bulk wells as close as practicable to the request for service and require the customer to install the lines. The utility proposed an accumulated depreciation balance of ($78,752), a CIAC balance of ($1,750,000) based on a plant capacity charge of $875 per ERC, an accumulated amortization of CIAC balance of $59,325, and a working capital allowance of $11,897. Therefore, the utility's proposed rate base for a bulk raw water system is $578,121, as shown on Schedule 4.

Bulk Treated Water System. The utility's proposed UPIS cost for the bulk treated water system is $12,334,994. The costs are based on a capacity of 350,000 GPD (1,400 ERCs), which is the minimum amount required for contract. The facilities include the wells, water treatment equipment, power generation and pumping equipment, and transmission and distribution mains. As with the water system, bulk water treatment will be by reverse osmosis with concentrate disposal by deep well injection. Because of engineering considerations, the cost for the injection well and other major system components will be incurred when the first contract for bulk treated water service is obtained. Therefore, the utility included an adjustment of $5,113,794 for capacity allocated to future wells.

The utility proposed an accumulated depreciation balance of ($463,396), a CIAC balance of ($5,250,000) based on a plant capacity charge of $3,750 per ERC, an accumulated amortization of CIAC balance of $197,400, and a working capital allowance of $39,481. Therefore, the utility's proposed rate base for the bulk treated water system is $1,744,685, as shown on Schedule 5.

Summary of Rate Base. Based upon an analysis of the utility's cost data, staff recommends that the utility's proposed rate base balances of $3,763,320 for the water system, $4,343,538 for the wastewater system, $578,121 for the bulk raw water system, and $1,744,685 for the bulk treated water system are reasonable and should be approved. The schedules of rate base, as shown on Schedules 2 through 5, are for informational purposes to establish initial rates and are not intended to formally establish rate base.

Cost of Capital

As required by Rule 25-30.033(1)(w), F.A.C., the application contains a schedule of the utility's projected capital structure, including the methods of financing the construction and operation of the utility. The utility's projected capital structure, as shown on Schedule 1, consists of 40% equity and 60% debt. Equity contributions will be made by LBI to finance the operations of the utility in the initial years of development. The utility's proposed cost of equity of 12.01% is consistent with the Commission's current leverage formula.[1] The utility's proposed debt is anticipated to be financed at 9.25%, based on the prime rate at the time the application was filed plus 100 basis points.

Staff recommends that an overall cost of capital for calculating Silver Lake's return on investment of 10.35% is reasonable based on a capital structure consisting of 40% equity and

[1] Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

60% debt, a cost of equity of 12.01%, and a cost of debt of 9.25%. Staff further recommends that the Commission set the utility's authorized return on equity at 12.01% with a range of plus or minus 100 basis points.

Return on Investment

The utility's proposed returns on investment are $389,504 for the water system, $449,556 for the wastewater system, $59,836 for the bulk raw water system, and $180,575 for the bulk treated water system. Staff recommends that the utility's proposed returns on investment, as shown on Schedules 2 through 5, are appropriate and should be included in the projected revenue requirements.

Revenue Requirement

The utility's proposed revenue requirements are based on proposed rate base, cost of capital, operating and maintenance (O&M) expenses, and customer growth. Included in O&M expenses are operating costs such as salaries and benefits, lease costs, chemicals, purchased power, insurance, contractual services, rents, and transportation. Taxes other than income include projected regulatory assessment fees of 4.5% of gross revenues, tangible personal property tax at a millage rate of 2.07230%, and payroll taxes.

Water System. The utility's proposed revenue requirement for the water system of $1,228,884 includes $410,689 for O&M, $363,369 for depreciation, ($324,213) for amortization of CIAC, $389,535 for taxes other than income, and a net operating income of $389,504. Staff recommends that the proposed revenue requirement for the water system of $1,228,884 is reasonable and should be used to set initial rates for water service.

Wastewater System. The utility's proposed revenue requirement of $1,735,080 includes $375,772 for O&M, $1,046,885 for depreciation, ($678,320) for amortization of CIAC, $541,187 for taxes other than income, and a net operating income of $449,556. Staff recommends that the proposed revenue requirement for the wastewater system of $1,735,080 is reasonable and should be used to set initial rates for wastewater service.

Bulk Raw Water System. The utility's proposed revenue requirement of $232,652 includes $95,176 for O&M, $78,752 for depreciation, ($59,325) for amortization of CIAC, $58,213 for taxes other than income, and a net operating income of $59,836. Staff recommends that the proposed revenue requirement for the bulk raw water system of $232,652 is reasonable and should be used to set initial rates for bulk raw water service.

Bulk Treated Water System. The utility's proposed revenue requirement of $733,854 includes $315,849 for O&M, $250,321 for depreciation, ($197,400) for amortization of CIAC, $184,509 for taxes other than income, and a net operating income of $180,575. Staff recommends that the total revenue requirement for the bulk raw water system of $733,854 is reasonable and should be used to set initial rates for bulk treated water service.

Rates

The utility's proposed water and wastewater rates, as shown on Schedules 2 through 5, include a base facility charge (BFC) and gallonage charge. The Commission has historically considered the BFC and gallonage charge to be an effective conservation rate structure. In addition, the utility proposed an inclining block rate for residential water customers. The utility also proposed a reuse rate.

Water System. The utility's proposed rates for the water system are shown on Schedule 2. The base facility charge reflects approximately 35% of the revenue requirements. In order to encourage additional water conservation, the utility proposed a two-tiered gallonage charge for residential customers. The first tier includes 0 to 5,000 gallons of usage per month. The second tier includes all usage over 5,000 gallons per month and is approximately 170% of the first tier charge. Staff recommends that the water rate structure is reasonable and should be approved

Wastewater System. The utility's proposed rates for the wastewater system are shown on Schedule 3. The utility's proposed wastewater rate structure for residential and general service customers are reasonable and should be approved.

The wastewater system includes the facilities to treat wastewater effluent to reuse quality. However, the utility does not intend to sell reuse directly to its customers. Instead, LBI intends to form a separate corporation to construct the wells and lines to provide irrigation service to the Muse Village development. When wastewater collection is sufficient to retrofit the utility's wastewater plant with reuse facilities, LBI intends to purchase the reuse effluent from the utility to blend with irrigation water. LBI will construct, own, and maintain the lines needed to transport reuse from the wastewater treatment plant to LBI's irrigation system.

The utility proposed reuse rate of $0.25 per 1,000 gallons of reuse is expected to generate revenues from LBI of $25,696 per year once LBI begins purchasing the reuse. The projected reuse revenues were used to offset the proposed wastewater rates. Staff recommends that the utility's proposed reuse rate is reasonable and consistent with recent Commission decisions.[2]

Bulk Raw and Treated Water Systems. The utility's proposed rates for the bulk raw and treated water systems are shown on Schedules 4 and 5. The rates are based on a required take or pay quantity of water of 500,000 GPD for bulk raw water service and 350,000 GPD for bulk treated water service. Take or pay requires that the customer take a minimum amount of water or be charged as though it did. This concept is not unusual for bulk service providers. It should be noted that, pursuant to Section 367.022(12), Florida Statutes, the sale for resale of bulk water to a governmental authority or to certificated utility is exempt from Commission regulation. However, the sale of bulk water to an end-use customer is not exempt.

[2] Order No. PSC-07-0139-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In RE: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.

Conclusion

Based on staff's analysis of the utility's proposed rates, staff recommends that the rates and rate structures for water, wastewater, reuse, bulk raw water, and bulk treated water, as shown on Schedules 2 through 5, are reasonable and should be approved for Silver Lake Utilities, Inc. Silver Lake should be required to charge these rates until authorized to change them by this Commission in a subsequent proceeding. The rates should be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. A return on equity of 12.01% with a range of plus or minus 100 basis points should be approved.

Issue 2: Should the utility's requested service availability policy and charges be approved?

Recommendation: Yes. The utility's proposed service availability policy and charges are consistent with the guidelines in Rule 25-30.580, F.A.C., and should be approved. Silver Lake should charge the approved charges until authorized to change them by this Commission in a subsequent proceeding. The charges should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. (Brady, Redemann)

Staff Analysis: Pursuant to Section 367.101, Florida Statutes, the Commission shall set just and reasonable charges and conditions for service availability. Rule 25-30.580(1)(a), F.A.C., provides a guideline that the maximum amount of 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 design capacity. The maximum guideline is intended to ensure that the utility has a significant investment in its systems. Rule 25-30.580(1)(b), F.A.C., provides a guideline that the minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the utility's water transmission and distribution systems and the wastewater collection system.

The utility's proposed water and wastewater service availability policy requires a plant capacity charge for all new connections and donated on-site and off-site water distribution and wastewater collection lines in the planned development. If the developer or contractor wishes the utility to construct the lines, the utility has proposed a main extension charge to be used in lieu of donated lines. The policy also provides for refundable advances should the utility require oversized facilities to be constructed to serve other areas of development.

The utility's proposed service availability charges are shown on Schedule 6. The utility requested approval of plant capacity charges of $2,200.00 and $1,500.00 per ERC for water and wastewater, respectively, for new connections in the planned development. The utility also requested main extension charges for water and wastewater of $4,406.00 and $6,595.00 per ERC, respectively, that would be collected in the event lines were not donated for a particular lot. The proposed service availability policy and charges are expected to result in contribution levels of 75.84% and 80.40% for water and wastewater, respectively, at the design capacity of Phase II. While these contribution levels exceed the 75% guideline in the rule, staff recommends that the amounts are reasonable. As previously noted in Issue 1, a majority of the major plant items will be constructed in Phases I and II. However, additional plant will be invested for Phase III, which will affect the overall contribution level at design capacity.

For bulk water, the utility requested approval of plant capacity charges of $875.00 and $3,750.00 per ERC for raw and treated water, respectively. These charges represent projected contributions levels of 74.97% and 74.83% for bulk raw and bulk treated water, respectively.

The utility proposed a water meter installation charge of $300.00 for a 5/8" x 3/4" Electronic Radio Transmitter (ERT) meter. ERT meters emit radio signals which can be read by a repeater-transmitter. As a result, the meters can be read remotely from the street without requiring access to a customer's property and the data can be downloaded directly to a computer for billing. In addition, the automated readings make it possible to read customer meters on the

same day each month. The Commission has previously determined that the additional cost for the ERT capability is justified by the added speed, accuracy, and reliability of the meter readings.[3] All meters sizes other than 5/8" x 3/4" will be at actual cost. Existing customers will be not be charged for meters.

Staff recommends that Silver Lake's proposed service availability policy and charges shown on Schedule 6 are consistent with Rule 25-30.580, F.A.C., and should be approved. Silver Lake should charge the approved charges until authorized to change them by this Commission in a subsequent proceeding. The approved charges should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C.

[3] Order No. PSC-03-1474-TRF-WU, issued December 31, 2003, in Docket No. 030956-WU, In Re: Application for approval of revised service availability charges to increase meter installation fees in Osceola County by O&S Water Company, Inc.

Issue 3: Should the utility's request for initial customer deposits, miscellaneous service charges, and a late fee be approved?

Recommendation: Yes. The utility's request for initial customer deposits, miscellaneous service charges, and a late fee should be approved. The deposits and charges should be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. (Brady, Redemann)

Staff Analysis: The utility requested customer deposits, miscellaneous service charges, and a late fee pursuant to Section 367.091, Florida Statutes. This statute authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

Initial Customer Deposits

The utility requested initial customer deposits for 5/8" x 3/4" meters of $76.00 for water service and $93.00 for wastewater service. These proposed deposits are based on two times the projected average monthly use of 5,000 gallons of water. Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits, including a provision that the deposit may not exceed two times the average monthly bill.

As its justification for customer deposits, Silver Lake indicated that, if utilities do not collect adequate deposits to recover the cost of providing service, the result would be an increase in its bad debt expense. Ultimately, bad debt expense is included in the utility's revenue requirement and, therefore, included in the cost of service charged to the general body of ratepayers. Silver Lake also notes that collecting customer deposits is consistent with one of the fundamental principles of rate making – ensuring that the cost of providing service is recovered from the cost-causer.

Staff recommends that the utility's proposed initial customer deposits shown on Schedule 7 for 5/8" x 3/4" meters of $76.00 for water service and $93.00 wastewater service are consistent with Commission rules and should be approved.

Miscellaneous Service Charges

The utility request for miscellaneous service charges, including a late payment fee, was accompanied by its reason for requesting the charges as well as the cost justification required by Section 367.091, Florida Statutes. The utility's proposed miscellaneous service charges and late payment charge, as discussed below, are also shown on Schedule 7. Pursuant to Rule 25-30.460, F.A.C., all water and wastewater utilities may apply for miscellaneous service charges. These charges include initial connections, normal reconnections, violation reconnections, and premises visit charges.

Since the utility is not yet constructed, it has no actual costs. As with initial rates and charges and service availability charges, the utility's proposed costs are based on projections. These projections are based on engineering estimates for the proposed system design and consulting estimates for proposed operating costs. The utility will only be charging

miscellaneous service charges when a specific customer requests the service or is responsible for the service. The utility's justification for the miscellaneous service charges is to place the burden of these charges on the cost-causer rather than the general body of rate payers.

The utility stated that the proposed miscellaneous service charges are based on hourly rates of $27.50 per hour during regular business hours and $41.24 per hour after business hours. The utility added no other administrative costs to its cost justification. The proposed miscellaneous service charges appear reasonable based on 3/4 of an hour during regular business hours and 1 full hour after business hours to perform these services. It is reasonable to assume that more time will be needed after hours than during regular business hours when employees are already in the field. Staff would note that the utility's service territory consists of approximately 350,000 acres. Therefore, staff recommends that the utility's proposed standard miscellaneous service charges are reasonable and should be approved.

Cost Basis for Miscellaneous Service Charges

Cost during Business Hours (3/4 Hour)	Proposed Charge	Cost after Business Hours (1 Hour)	Proposed Charge
$20.63	$20.00	$41.25	$40.00

In addition to the standard miscellaneous service charges, the utility proposed a $5.00 late fee. The utility indicated that the justification for a late fee is two-fold. First, to encourage current and future customers to pay their bills on time. Second, if the payment is not made on time, to ensure that the cost associated with late payment is not passed onto customers who do pay on time. The cost basis provided by the utility is that it takes approximately 15 minutes of employee labor to research, review, and verify that payment has not been received and the costs of stationary and postage to print and mail the bill. These costs are consistent with prior Commission decisions.[4] Staff, therefore, recommends that the utility's proposed late fee of $5.00 is reasonable and should be approved.

Cost Basis for $5.00 Late Payment Fee

$ 3.75	Labor – 1/4 Hour
$ .41	Postage
$ .84	Cost of envelope, paper, and printing
$5.00	

Conclusion

Staff recommends that Silver Lake's proposed initial customer deposits, miscellaneous service charges, and late fee, shown on Schedule 7, are consistent with Commission rules and

[4] Order No. PSC-06-0775-PAA-WU, issued September 18, 2006, in Docket No. 060139-WU, In Re: Application for certificate to operate water utility in Lake County by Colina Bay Water Company, LLC

should be approved. The deposits and charges should be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C.

Issue 4: Should an Allowance for Funds Used During Construction (AFUDC) rate be approved for Silver Lake Utilities, Inc.?

Recommendation: Yes. An annual AFUDC rate of 10.35% and a discounted monthly rate of 0.862091 should be approved. The approved rate should be applicable for eligible construction projects beginning on or after September 4, 2007. (Brady)

Staff Analysis: Silver Lake has requested that the Commission establish an AFUDC rate for future construction. Rule 25-30.033, F.A.C., authorizes utilities obtaining initial certificates to accrue AFUDC for projects found eligible pursuant to Rule 25-30.116(1), F.A.C. The rule specifies that the AFUDC rate be determined to be the utility's projected weighted cost of capital in its application for original certificates and initial rates and charges. To ensure that the annual AFUDC rate charged by the utility does not exceed the authorized level, the rule requires that a discounted monthly AFUDC rate be calculated in accordance with Rule 25-30.116(3), F.A.C. Finally, so that the AFUDC rate can apply to the initial construction of the utility facilities, the rule specifies that the date the utility is authorized to begin accruing AFUDC is the date the utility's certificate of authorization is issued.

As discussed in Issue 1 and shown on Schedule 1, the utility's projected weighted cost of capital is 10.35%, making that the utility's authorized annual AFUDC rate. Based on the annual AFUDC rate and Rule 25-30.116(1), F.A.C., the utility's discounted monthly AFUDC rate is 0.862091%. The utility's certificates of authorization for water and wastewater service were issued on September 4, 2007, pursuant to Order No. PSC-07-0717-FOF-WS. Accordingly, staff recommends that an annual AFUDC rate of 10.35% and a discounted monthly rate of 0.862091 be approved for the utility's eligible construction projects beginning on or after September 4, 2007.

Issue 5: Should this docket be closed?

Recommendation: No. If no protest to the proposed agency action issues is filed by a substantially affected person within 21 days of the date of the order, a consummating order should be issued. However, the docket should remain open to allow the utility to file the executed and recorded copies of the long-term leases required by Order No. PSC-07-0717-FOF-WS. The docket should be closed administratively upon receipt of the executed and recorded copy of the long-term leases. (Fleming)

Staff Analysis: If no protest to the proposed agency action issues is filed by a substantially affected person within 21 days of the date of the order, a consummating order should be issued. However, the docket should remain open to allow the utility to file the executed and recorded copy of the long-term leases required by Order No. PSC-07-0717-FOF-WS. The docket should be closed administratively upon receipt of the executed and recorded copies of the long-term leases.

SILVER LAKE UTILITIES, INC.

COST OF CAPITAL SCHEDULE

Description	Utility Capital	Weight	Cost Rate	Weighted Cost
Common Equity	$ 4,241,832	40.0%	12.01%	4.80%
Debt	$ 6,362,748	60.0%	9.25%	5.55%
Total	$10,604,580	100.0%		10.35%

Range of Reasonableness	High	Low
Common Equity	13.01%	11.01%

SILVER LAKE UTILITIES, INC.

WATER SYSTEM

DESCRIPTION	UTILITY PROPOSED & STAFF RECOMMENDED
Water Rate Base	
Utility Plant in Service	$ 28,223,042
Capacity Allocated to Future Phase Costs	(5,841,502)
Accumulated Depreciation	(7,028,575)
Contributions in Aid of Construction (CIAC)	(13,812,500)
Accumulated Amortization of CIAC	2,171,519
Working Capital Allowance	51,336
Water Rate Base	$ 3,763,320
Revenue Requirement	
Operating Revenue	$ 1,228,884
Operating and Maintenance Expense	410,689
Depreciation Expense	363,369
Amortization of CIAC Expense	(324,213)
Taxes Other Than Income	389,535
Total Operating Expense	839,380
Net Operating Income (Loss)	$ 389,504
Water Rate Base	$ 3,763,320
Rate of Return	10.35%

Monthly Service Rates – Residential and General Service

Base Facility Charge	
5/8" x 3/4"	$ 19.05
1"	$ 47.63
1.5"	$ 95.25
2"	$ 152.40
3"	$ 304.80
4"	$ 476.25
6"	$ 952.50
Residential Charge per 1,000 gallons	
0 to 5,000 gallons	$ 3.79
Over 5,000 gallons	$ 6.46
General Service Charge per 1,000 gallons	$ 3.79

Typical Residential Bills

5,000 gallons	$ 38.00
7,500 gallons	$ 54.15
10,000 gallons	$ 70.30

SILVER LAKE UTILITIES, INC.

WASTEWATER SYSTEM

DESCRIPTION	UTILITY PROPOSED & STAFF RECOMMENDED
Wastewater Rate Base	
Utility Plant in Service	$ 43,800,086
Capacity Allocated to Future Phase Costs	(4,523,641)
Accumulated Depreciation	(17,364,650)
Contributions in Aid of Construction (CIAC)	(24,474,976)
Accumulated Amortization of CIAC	6,859,747
Working Capital Allowance	46,972
Wastewater Rate Base	$ 4,343,538
Revenue Requirement	
Operating Revenue	$ 1,735,080
Operating and Maintenance Expense	375,772
Depreciation Expense	1,046,885
Amortization of CIAC Expense	(678,320)
Taxes Other Than Income	541,187
Total Operating Expense	1,285,524
Net Operating Income (Loss)	$ 449,556
Wastewater Rate Base	$ 4,343,538
Rate of Return	10.35%
Monthly Service Rates -- Residential	
Base Facility Charge – all meter sizes	$ 25.56
Charge per 1,000 gallons	
10,000 gallon cap	$ 4.21
Typical Residential Bills	
5,000 gallons	$ 46.61
7,500 gallons	$ 57.14
10,000 gallons	$ 67.66
Monthly Service Rates – General Service	
5/8" x 3/4"	$ 25.56
1"	$ 63.90
1.5"	$ 127.80
2"	$ 204.48
3"	$ 408.96
4"	$ 639.00
6"	$ 1,278.00
Charge per 1,000 gallons	$ 4.94

SILVER LAKE UTILITIES, INC.

BULK RAW WATER SYSTEM

DESCRIPTION	UTILITY PROPOSED & STAFF RECOMMENDED
Bulk Raw Water Rate Base	
Utility Plant in Service	$ 2,335,651
Accumulated Depreciation	(78,752)
Contributions in Aid of Construction (CIAC)	(1,750,000)
Accumulated Amortization of CIAC	59,325
Working Capital Allowance	11,897
Bulk Raw Water Rate Base	$ 578,121
Revenue Requirement	
Operating Revenue	$ 232,652
Operating and Maintenance Expense	95,176
Depreciation Expense	78,752
Amortization of CIAC Expense	(59,325)
Taxes Other Than Income	58,136
Total Operating Expense	172,816
Net Operating Income (Loss)	$ 59,836
Bulk Raw Water Rate Base	$ 578,121
Rate of Return	10.35%
Monthly Service Rates	
Base Facility Charge (2,000 ERCs)	$ 5,500.00
Charge per 1,000 gallons	$ 0.91
Minimum Take or Pay Charge (500,000 GPD)	$ 19,150.00

SILVER LAKE UTILITIES, INC.

BULK TREATED WATER SYSTEM

DESCRIPTION	UTILITY PROPOSED & STAFF RECOMMENDED
Bulk Treated Water Rate Base	
Utility Plant in Service	$ 12,334,994
Excess Capacity	(5,113,794)
Accumulated Depreciation	(463,396)
Contributions in Aid of Construction (CIAC)	(5,250,000)
Accumulated Amortization of CIAC	197,400
Working Capital Allowance	39,481
Bulk Treated Water Rate Base	$ 1,744,685
Revenue Requirement	
Operating Revenue	$ 733,854
Operating and Maintenance Expense	315,849
Depreciation Expense	250,321
Amortization of CIAC Expense	(197,400)
Taxes Other Than Income	184,509
Total Operating Expense	553,279
Net Operating Income (Loss)	$ 180,575
Bulk Treated Water Rate Base	$ 1,744,685
Rate of Return	10.35%
Monthly Service Rates	
Fixed Base Facility Charge (1,400 ERCs)	$ 21,532.00
Charge per 1,000 gallons	$ 3.72
Minimum Take or Pay Charge (350,000 GPD)	$ 60,592.00

SILVER LAKE UTILITIES, INC.

SERVICE AVAILABILITY CHARGES

DESCRIPTION	UTILITY PROPOSED & STAFF RECOMMENDED
Water System (ERC = 250 GPD)	
Plant Capacity Charge (per ERC)	$ 2,200.00
Plant Capacity Charge (per gallon)	$ 8.80
Main Extension Charge (per ERC)	$ 4,406.00
Main Extension Charge (per gallon)	$ 17.62
Meter Installation Charge – 5/8" x 3/4"	$ 300.00
Meter Installation Charge – over 5/8" x 3/4"	Actual Cost
Wastewater System (ERC = 250 GPD)	
Plant Capacity Charge (per ERC)	$ 1,500.00
Plant Capacity Charge (per gallon)	$ 6.00
Main Extension Charge (per ERC)	$ 6,595.00
Main Extension Charge (per gallon)	$ 26.38
Bulk Raw Water System (ERC = 250 GPD)	
Plant Capacity Charge (per ERC)	$ 875.00
Plant Capacity Charge (per gallon)	$ 3.50
Minimum Plant Capacity Charge (2,000 ERCs)	$ 1,750,000
Bulk Treated Water System (ERC = 250 GPD)	
Plant Capacity Charge (per ERC)	$ 3,750.00
Plant Capacity Charge (per gallon)	$ 15.00
Minimum Plant Capacity Charge (1,400 ERCs)	$ 5,250,000

SILVER LAKE UTILITIES, INC.

INITIAL CUSTOMER DEPOSITS

DESCRIPTION	UTILITY PROPOSED & STAFF RECOMMENDED
Residential Service	
Water	$ 76.00
Wastewater	$ 93.00
General Service	
All meter sizes	Two times estimated average bill

MISCELLANEOUS SERVICE CHARGES

DESCRIPTION	NORMAL HOURS	AFTER HOURS
Water Service		
Initial Connection	$ 20.00	Not Applicable
Normal Reconnection	$ 20.00	$ 40.00
Violation Reconnection	$ 20.00	$ 40.00
Premises Visit Charge	$ 20.00	$ 40.00
Late Payment Charge	$ 5.00	Not Applicable
Wastewater Service		
Initial Connection	$ 20.00	Not Applicable
Normal Reconnection	$ 20.00	$ 40.00
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit Charge	$ 20.00	$ 40.00
Late Payment Charge	$ 5.00	Not Applicable