

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: October 20, 2005

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

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

RE: Docket No. 050588-WU – Petition by County-Wide Utility Co., Inc. for establishment of approved allowance-for-funds-used-during-construction (AFUDC) rate in Marion County.

AGENDA: 11/01/05 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050588.RCM.DOC

Case Background

County-Wide Utility Co., Inc. (County-Wide or Company) is a Class C water utility providing service to 480 customers in Marion County. On September 6, 2005, County-Wide filed a petition for establishment of an Allowance-for-Funds-Used-During-Construction (AFUDC) rate. County-Wide seeks approval of an AFUDC rate in order to accurately accrue and recover its costs of providing service. AFUDC is an accounting entry designed to permit a utility to recover the cost associated with financing eligible construction activities. AFUDC is not a tariffed rate or charge.

Docket No. 050588-WU

Date: October 20, 2005

In accordance with Rule 25-30.116(4), Florida Administrative Code (F.A.C.), County-Wide has 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 monthly AFUDC rate using the methodology set out in Rule 25-30.116(4), F.A.C.

This recommendation addresses the establishment of an AFUDC rate for County-Wide. The Commission has jurisdiction pursuant to Section 367.121, Florida Statutes.

Discussion of Issues

Issue 1: What is the appropriate AFUDC rate for County-Wide Utility Co., Inc.?

Recommendation: The appropriate AFUDC rate for County-Wide is 8.26%. The discounted monthly rate should be 0.663572%. (Joyce)

Staff Analysis: County-Wide requested an AFUDC rate of 8.26%. The rate was calculated in accordance with Rule 25-30.116, F.A.C. Rule 25-30.116(2)(a), FAC, provides that an AFUDC rate shall be determined using the utility's most recent 12-month average embedded cost of capital. County-Wide calculated the average cost of capital using the 12-month period ended June 30, 2005.

The requested AFUDC rate reflects the installation of an interconnection with the City of Ocala to its well site. The Company is requesting an AFUDC rate which will include the cost of the money borrowed to fund this project. County-Wide's calculation and capital structure have been reviewed by staff. County-Wide has never had an AFUDC rate approved by the Commission. Approving the requested rate will allow County-Wide to recover the cost associated with financing the installation of the interconnection with the City of Ocala.

County-Wide's Schedule C shows the formula to discount the simple interest rate of 8.26% to reflect the effects of compounding monthly. The monthly compounding rate to achieve an annual AFUDC rate of 8.26% is 0.663572.

Staff has reviewed County-Wide's calculations and recommends that the requested AFUDC rate and monthly discounted rate be approved.

Docket No. 050588-WU

Date: October 20, 2005

Issue 2: Should County-Wide's requested effective date of January 1, 2005, for establishment of its AFUDC rate be approved?

Recommendation: No. The approved rate should be applicable for eligible construction projects beginning July 1, 2005. (Joyce)

Staff Analysis: In its petition, County-Wide requests that the approved rate be effective January 1, 2005. Rule 25-30.116(5), F.A.C., states that "(t)he 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." County-Wide used the 12-month period ended June 30, 2005, to establish its requested rate, and provided no explanation as to why it believes that the Commission should authorize an effective date earlier than the date specified by Rule 25-30.116(5), FAC. Accordingly, staff recommends that the new AFUDC rate should be effective for qualified construction projects beginning July 1, 2005.

Docket No. 050588-WU

Date: October 20, 2005

Issue 3: Should this docket be closed?

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