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Public Service Commission

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COMMISSION
CLERK

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

DATE: June 19, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Billingslea, Bulecza-Banks, Fletcher) ^{KB} ^{CRB} ^{BS}
Office of the General Counsel (Jaeger) ^{19A}

RE: Docket No. 080168-WS – Petition for establishment of allowance for funds used during construction (AFUDC) rate for system located in Lake County, effective January 1, 2008, by Southlake Utilities, Inc.

AGENDA: 07/01/08 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080168.RCM.DOC

Case Background

Southlake Utilities, Inc. (Southlake or Utility) is a Class B water and wastewater utility located in the southeast corner of Lake County, Florida. This location is a critical water use caution area as defined by the St. Johns River Water Management District. According to its 2007 annual report, Southlake is currently serving approximately 1,759 residential and 663 general service customers. The Utility reported combined gross revenues of \$1,643,631 with a combined net operating income of \$11,112.

On March 21, 2009, Southlake filed a petition for the establishment of an allowance for funds used during construction (AFUDC) rate. In accordance with Rule 25-30.116(4), Florida

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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Administrative Code (F.A.C.), Southlake has filed Schedules: Schedule A, showing the capital structure, cost rates and weighted average cost of capital that are the basis for the AFUDC rate requested; Schedule B, showing capital structure; and Schedule C, showing the calculation of the 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. The Commission has jurisdiction pursuant to Section 367.121, Florida Statutes.

Discussion of Issues

Issue 1: Should Southlake Utilities, Inc's requested AFUDC rate of 9.04 percent be approved?

Recommendation: No, an annual AFUDC rate of 9.04 percent should not be approved. As reflected on Attachment No. 1, the appropriate AFUDC rate should be 8.98 percent. The appropriate discounted monthly rate should be .71919213 percent. The approved rate should be applicable for eligible construction projects beginning January 1, 2008. (Billingslea, Fletcher, Jaeger)

Staff Analysis: 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. Southlake Utilities calculated the average cost of capital using the 12-month period ended January 1, 2008. The Utility's capital structure is comprised of common equity, long-term debt, customer deposits, and deferred income taxes. According to its petition, Southlake has requested an AFUDC rate of 9.04 percent. The Utility reflects a cost of common equity rate of 9.12 percent based upon the Commission approved 2007 leverage formula. The staff calculations result in a cost rate of 9.07 percent, as shown on Attachment No. 1. This results in a five basis point decrease on the rate of equity.

Staff recommends that an annual AFUDC rate of 8.98 percent and a discounted monthly rate of .71919213 percent be approved, as reflected on Attachment No. 1. Pursuant to Rule 25-30.116(5), F.A.C., the approved rate shall be applicable for eligible construction projects beginning January 1, 2008.

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Issue 2: Should this docket be closed?

Recommendation: Yes. If a protest is not received from a substantially affected person within 21 days of issuance of the Proposed Agency Action Order, a Consummating Order will be issued and the docket should be closed. (Jaeger, Billingslea, Fletcher)

Staff Analysis: Yes. If a protest is not received from a substantially affected person within 21 days of issuance of the Proposed Agency Action Order, a Consummating Order will be issued and the docket should be closed.

Southlake Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/07				Attachment No. 1 Docket No. 0870168-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Ratio	Cost Rate	Weighted Cost
Per Utility						
1 Long-term Debt	\$756,069	(\$756,069)	\$0	0.00%	0.00%	0.00%
2 Short-term Debt	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	6,426,393	756,069	7,182,462	97.20%	9.12%	8.86%
5 Customer Deposits	207,197	0	207,197	2.80%	6.00%	0.17%
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	0.00%	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$7,389,659</u>	<u>\$0</u>	<u>\$7,389,659</u>	<u>100.00%</u>		<u>9.03%</u>
Per Staff						
8 Long-term Debt	\$0	\$0	\$0	0.00%	0.00%	0.00%
9 Short-term Debt	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	7,182,462	0	7,182,462	97.20%	9.07%	8.81%
12 Customer Deposits	207,197	0	207,197	2.80%	6.00%	0.17%
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$7,389,659</u>	<u>\$0</u>	<u>\$7,389,659</u>	<u>100.00%</u>		<u>8.98%</u>
				LOW	HIGH	
				<u>8.07%</u>	<u>10.07%</u>	
				<u>8.01%</u>	<u>9.96%</u>	