

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: JANUARY 20, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF WATER AND WASTEWATER (B. DAVIS, ^{MD} MERCHANT) *PSM*
DIVISION OF LEGAL SERVICES (BRUBAKER) *JB MS*

RE: DOCKET NO. 991693-WU - PETITION FOR APPROVAL OF ALLOWANCE-
FOR-FUNDS-USED-DURING-CONSTRUCTION (AFUDC) RATE IN MARION
COUNTY BY SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC. *AM*

AGENDA: 02/01/2000 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\991693.RCM

CASE BACKGROUND

Sunshine Utilities of Central Florida, Inc. (Sunshine or the utility) filed a petition for the approval of an Allowance For Funds Used During Construction (AFUDC) Rate on November 9, 1999. This request is in connection with the utility's proposed construction of a regional water plant. On December 23, 1999, Sunshine requested recovery of the increased costs associated with this proposed construction in a limited proceeding, Docket No. 992015-WU. Sunshine had no previously approved AFUDC rate. In accordance with Rule 25-30.116(4), Florida Administrative Code, Sunshine has filed 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 adjustments including the unadjusted capital structure, reconciling adjustments and adjusted capital structure that are the basis for the AFUDC rate requested; and C, a schedule showing the calculation of the monthly AFUDC rate using the methodology set out in Rule 25-30.116(4). The schedules were

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revised by the utility on December 10, 1999. This recommendation addresses the petition as revised.

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DISCUSSION OF ISSUES

ISSUE 1: Should the requested annual AFUDC rate for Sunshine be approved?

RECOMMENDATION: No, the requested annual AFUDC rate for Sunshine should be approved at 6.50%, in accordance with Rule 25-30.116, Florida Administrative Code, effective October 1, 1999, with a discounted monthly AFUDC rate of .541505%. [B. DAVIS]

STAFF ANALYSIS: Sunshine does not have an approved AFUDC (AFUDC) rate. In connection with the construction of Sunshine's regional water plant, Sunshine has petitioned the Commission for approval of an AFUDC rate. The calculations submitted were based on Sunshine's September 30, 1999, capital structure, the most current available, and incorporated the recently approved loan from the Department of Environmental Protection Drinking Water State Revolving Fund to finance the regional water plant. The utility's calculations reflect an annual AFUDC rate of 6.52%.

Staff has reviewed the calculations submitted by Sunshine and does not agree with the utility's calculation of the cost of equity capital as derived from the current leverage formula as found in Order No. PSC-99-1224-PAA-WS, issued June 21, 1999, which was consummated by Order No. PSC-99-1382-CO-WS issued July 19, 1999. The utility used all sources of capital to determine the equity ratio used in the formula. Order No. PSC-99-1224-PAA-WS has not changed the definition of the equity ratio to be used in the formula. As shown on Attachment 1, page 3 of 7 of that order, the "Equity Ratio = Common Equity / (Common Equity + Preferred Equity + Long Term Debt + Short Term Debt)." Using only those components as defined in the Order, staff calculates the cost of equity to be 10.00%. The resulting weighted cost of capital that staff calculated is 6.50%. Staff recommends that a rate of 6.50% be approved and a discounted monthly rate of .541505% be applied to Sunshine's qualified construction projects beginning on October 1, 1999. Staff realizes that this rate is dependent upon Commission approval of the construction projects and resulting debt submitted in Docket No. 992015-WU. Staff will revisit this rate in that Docket.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. This docket should be closed upon issuance of a consummating order if there are no protests filed within 21 days from the date of the proposed agency action order by a person whose substantial interests are affected. [BRUBAKER]

STAFF ANALYSIS: This docket was opened to establish an annual AFUDC rate for Sunshine based on the current capital structure and costs. If the Commission approves staff's recommendation, no further action is necessary. This docket should be closed upon issuance of a consummating order if there are no protests filed within 21 days from the date of the proposed agency action order by a person whose substantial interests are affected.

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SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
12 MO. AVERAGE CAPITAL STRUCTURE
TEST YEAR ENDED NOVEMBER 30, 1999

SCHEDULE NO. A
DOCKET NO. 991693-WU

DESCRIPTION	AVERAGE CAPITAL	RATIO	COST RATE	WEIGHTED COST
1 LONG TERM DEBT				
2 SUN BANK LOAN	\$24,659	1.82%	8.25%	0.15%
3 ISUZU TRUCK LOAN	24,587	1.81%	9.00%	0.16%
4 DEP LOAN A	2,734	0.20%	3.10%	0.01%
5 DEP LOAN B	<u>711,796</u>	<u>52.40%</u>	<u>3.63%</u>	<u>1.90%</u>
6 TOTAL LONG TERM DEBT	\$763,776	56.22%	3.95%	2.22%
7 COMMON EQUITY	560,821	41.28%	10.00%	4.13%
8 CUSTOMER DEPOSITS	33,855	2.49%	6.00%	0.15%
9 OTHER	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
10 TOTAL CAPITAL	<u>\$1,358,452</u>	<u>100.00%</u>		<u>6.50%</u>
		LOW	HIGH	
		<u>9.00%</u>	<u>11.00%</u>	
		<u>6.09%</u>	<u>6.91%</u>	

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SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
ADJUSTMENTS TO CAPITAL
TEST YEAR ENDED NOVEMBER 30, 1999

SCHEDULE B
DOCKET NO. 991693-WU

DESCRIPTION	Sun Bank	Long Term Debt			Total Long Term Debt	Common Equity	Customer Deposits	Other	TOTAL
		Isuzu	DEP A	DEP B					
1 Capital per Books	<u>\$24,659</u>	<u>\$24,587</u>	<u>\$2,734</u>	<u>\$0</u>	<u>\$51,980</u>	<u>\$560,821</u>	<u>\$33,855</u>	<u>\$0</u>	<u>\$646,656</u>
3 Adjustments									
4 a Pro Forma DEP Loan	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$711,796</u>	<u>\$711,796</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$711,796</u>
5 Adjusted Capital	<u>\$24,659</u>	<u>\$24,587</u>	<u>\$2,734</u>	<u>\$711,796</u>	<u>\$763,776</u>	<u>\$560,821</u>	<u>\$33,855</u>	<u>\$0</u>	<u>\$1,358,452</u>

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SUNSHINE UTILITIES OF CENTRAL FLORIDA, INC.
CALCULATION OF AFUDC RATE **SCHEDULE NO. C**
TEST YEAR ENDED NOVEMBER 30, 1999 **DOCKET NO. 991693-WU**

FORMULA $M = [(1 + (A/100))^{1/12} - 1] \times 100$

WHERE: M = Discounted Monthly AFUDC Rate

A = Annual AFUDC Rate = 6.50%

APPLICATION: A / 100 0.00065000

 1 + A/100 1.00065000

 1/12 power 1.00005415

 -1 0.00005415

 x 100 0.00541505

 M = 0.541505%