

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for) DOCKET NO. 920466-SU
approval of allowance for funds) ORDER NO. PSC-92-0862-FOF-SU
used during construction by) ISSUED: 08/25/92
NORTH FORT MYERS UTILITY, INC.)
in Lee County)
_____)

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
BETTY EASLEY
J. TERRY DEASON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION

ORDER APPROVING ALLOWANCE FOR FUNDS
USED DURING CONSTRUCTION

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein are preliminary in nature, and as such, will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

North Fort Myers Utility, Inc. (NFMU or utility) is a Class B utility operating in Lee County, Florida. As of December 31, 1991, the utility provided wastewater service to 2,033 customers.

On May 18, 1992, NFMU filed an application for approval of an allowance for funds used during construction (AFUDC) rate. The application was in compliance with the filing requirements of Rule 25-30.116, Florida Administrative Code, and May 18, 1992, was established as the official date of filing.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION RATE

NFMU has requested approval of a 10.39 percent AFUDC rate. In its application, the utility proposed cost rates and a twelve-month average capital structure as of March 31, 1992. Schedule No. 1, attached hereto and incorporated herein, reflects the calculation

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of the utility's requested AFUDC rate of 10.39 percent, as well as this Commission's approved AFUDC rate.

In support of its application, NFMU outlined its long-term debt. Specific items of its debt consisted of notes payable to and advances from the utility's parent, with cost rates associated with this debt of 12 and 15 percent respectively. We note that NFMU has never requested a rate increase before this Commission. Also, the utility currently has a negative balance for common equity and has reflected a zero balance of equity for the AFUDC calculation.

We believe that the cost of long-term debt reflected by the utility is unreasonable given the current prime rate of interest, and given the fact that its cost of debt from other non-related parties is lower than that to its parent. We find that a more reasonable basis would be to set the cost rate as the prime rate of interest plus two hundred basis points. Such a cost rate is commonly used for water and wastewater utilities which obtain debt through an arms-length transaction with a non-related party. Since the prime rate of interest as of July 15, 1992, is 6.0 percent, we believe that it is appropriate to use a cost rate of 8.0 percent for the related party debt. Schedule No. 2, attached hereto and incorporated herein, contains the utility's requested cost of long-term debt and this Commission's approved cost of long-term debt.

Based on the foregoing, we find that it is appropriate to deny NFMU its requested AFUDC rate of 10.39 percent, and we hereby approve an annual AFUDC rate of 8.40 percent, with a discounted monthly rate of 0.699907 percent. We find that the above AFUDC rates are reasonable and hereby approve them for the NFMU wastewater system in Lee County.

EFFECTIVE DATE

Rule 25-30.116(5), Florida Administrative Code, states that the effective date for a new AFUDC rate will be the month following the end of the 12-month period used to establish the rate. Since the period used for the calculation for both of the above rates was the year ended March 31, 1992, the effective date should be April 1, 1992. This rate may not be retroactively applied.

It is, therefore,

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ORDERED by the Florida Public Service Commission that the provisions of this Order are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that the application for an allowance for funds used during construction rate by North Fort Myers Utility, Inc. for its wastewater system in Lee County is hereby granted as set forth in the body of this Order. It is further

ORDERED that the allowance for funds used during construction rate approved herein shall be effective for eligible construction projects as of April 1, 1992, and shall not be retroactively applied. It is further

ORDERED that in the event no timely protest to this Order is received, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 25th day of August, 1992.



STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 15, 1992.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

NORTH FORT MYERS UTILITY, INC.
 CALCULATION OF AFUDC RATE
 TEST YEAR ENDED MARCH 31, 1992

SCHEDULE NO. 1
 DOCKET NO. 920466-SU

DESCRIPTION	12-MONTH AVERAGE	WEIGHT	UTILITY REQUESTED COST RATE	UTILITY WEIGHTED COST	COMMISSION COST RATE	COMMISSION WEIGHTED COST
1 LONG TERM DEBT	\$ 11,196,106	96.51%	10.74%	10.37%	8.69%	8.39%
2 CUSTOMER DEPOSITS	23,840	0.21%	8.00%	0.02%	8.00%	0.02%
3 COMMON EQUITY (a) (b)	0	0.00%	0.00%	0.00%	0.00%	0.00%
4 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0.00%	0.00%
5 ACCUM. DEFERRED INCOME TAXES	381,039	3.28%	0.00%	0.00%	0.00%	0.00%
6 TOTAL CAPITAL	\$ 11,600,985	100.00%		10.39%		8.40%
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DISCOUNTED MONTHLY AFUDC RATE				0.865421%		0.699907%
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Formula:
$$M = \left[\left(1 + \frac{A}{100} \right)^{1/12} - 1 \right] \times 100$$

Where: M = discounted monthly AFUDC rate.
 A = annual AFUDC rate.

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NORTH FORT MYERS UTILITY, INC.
 CALCULATION OF WEIGHTED COST OF DEBT
 TEST YEAR ENDED MARCH 31, 1992

SCHEDULE NO. 2
 DOCKET NO. 920466-SU

DESCRIPTION	12-MONTH AVERAGE	WEIGHT	UTILITY REQUESTED COST RATE	UTILITY WEIGHTED COST	COMMISSION COST RATE	COMMISSION WEIGHTED COST
1 NP - OLD BRIDGE PARK (PARENT)	\$ 250,000	2.23%	15.00%	0.33%	8.00% (1)	0.18%
2 ADVANCES FROM PARENT	2,890,760	25.82%	15.00%	3.87%	8.00% (1)	2.07%
3 NP - BANC FLORIDA (IRB)	7,743,957	69.17%	9.00%	6.22%	9.00%	6.22%
4 LINE OF CREDIT - BANC FLORIDA	61,389	0.55%	7.50%	0.04%	7.50%	0.04%
5 NP - PARENT	250,000	2.23%	12.00%	0.27%	8.00% (1)	0.18%
8 TOTAL CAPITAL	\$ 11,196,106	100.00%		10.74%		8.69%

NOTE: Recommended cost rate for related party debt was calculated by prime plus 2%.
 The prime rate of interest as of July 15, 1992 was 6%.