

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of Bonita)
 Center Treatment Plant, Inc.)
 for a staff-assisted rate case)
 in Lee County.)

DOCKET NO. 891386-SU
 ORDER NO. 23661
 ISSUED: 10-24-90

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 FRANK S. MESSERSMITH

FINAL ORDER GRANTING TEMPORARY RATES
IN EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein, except the granting of increased rates on a temporary basis in the event of a protest, 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

Bonita Center Treatment Plant, Inc., (Bonita Center or the utility) is a Class "C" wastewater utility that serves the Bonita Plaza Shopping Center (Bonita Plaza) in Bonita Springs, Lee County, Florida. Bonita Center is owned by MLR Holdings, Inc., of Royal Palm Beach, Florida. Diversified Companies, Inc., which is also a subsidiary of MLR Holdings, is the operating company for both Bonita Plaza and Bonita Center.

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During construction of its treatment facility in 1986, the utility sought recognition of exempt status as a nonprofit organization. In November 1986, pursuant to the then-existing procedure, our Staff sent the utility a letter indicating that the wastewater system was exempt from regulation in accordance with Section 367.022(7), Florida Statutes. However, in early 1989, we received a complaint from one of Bonita Plaza's tenants regarding his bill. During a field investigation, we discovered that Bonita Center never properly formed the nonprofit organization which had been the condition of its exempt status. The Commission informed the utility that it would have to obtain a certificate, and by Order No. 22301, issued December 12, 1989, the Commission granted original Certificate No. 458-S to Bonita Center Treatment Plant, Inc.

On December 28, 1989, we received the utility's application for a staff-assisted rate case. We selected a test year ending December 31, 1989. During that period, the utility recorded \$26,750 in cash-basis revenues and reported a net operating loss of \$41,251. The utility's served 52 commercial customers at the end of the test year.

A customer meeting was held in the utility's service area to allow customers the opportunity to provide quality of service testimony and ask questions about the rate case generally. The concerns raised by the customers are addressed in the body of this Order.

QUALITY OF SERVICE

The customer meeting was held on June 26, 1990, at the Ernie's of Bonita Restaurant in the Bonita Plaza. Eight of the eleven customers who attended the meeting spoke. Two utility representatives were present.

None of the customers voiced a quality of service complaint. We have no unresolved customer complaints against the utility on file, and the utility has no unresolved complaints on file. The Florida Department of Environmental Regulation (DER) has no outstanding citations or corrective orders against the utility, and Bonita Center has recently obtained a DER operating permit.

We conducted a field investigation of the utility's treatment facilities. While some potential deficiencies resulting from the

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organic nature of the influent were noted, all aspects of the utility's plant appeared to be operating properly. In consideration of the above, we find that the utility's quality of service is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

The treatment plant is a 66,000 gallons per day (gpd) concrete structure that uses the extended aeration form of treatment. The collection system is primarily comprised of 14 manholes, 3,764 linear feet of 8 inch PVC gravity lines and two lift stations. An intermediate lift station is centrally located behind the shopping plaza, and the master lift station is located adjacent to the plant.

Apparently, the plant has a considerable amount of excess capacity; the plant's average flows are 30,000 gpd and its rated capacity is 66,000 gpd. However, the wastewater produced by the utility's customers is industrial/commercial in nature rather than domestic. Normal domestic wastewater is expected to have an inflow biochemical oxygen demand (BOD) of approximately 200 milligrams per liter (mg/l). The utility's average BOD for the last quarter of the test year indicated an influent BOD level of 552 mg/l, or 176% percent higher than that of normal domestic wastewater. If we assume that Bonita Center's wastewater is similar to normal domestic wastewater in other respects, we can compute Bonita Center's treatment population equivalent by converting its daily weight of BOD to the daily per capita BOD of domestic wastewater. Given a 0.17 pound or 77 gallon daily per capita BOD for domestic wastewater, Bonita Center, which releases 0.03 million gallons per day (mgd) of wastewater containing 552 mg/l of five day BOD, treats a population equivalent of 812 persons. Bonita Center, then, treats the equivalent of approximately 65,000 gpd of domestic wastewater.

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In consideration of the above calculations, we find that the treatment plant is 100% used and useful.

The collection system is designed to serve Bonita Plaza and a limited number of businesses adjacent to the plaza. The capacity of the collection system is 57 ERCs. Since there were 52 customers served by the utility at the end of the test year, the five remaining vacancies limit the level of margin reserve which might be considered to approximately 15 ERCs. Therefore, in consideration of the foregoing, we find that the collection system is 100% used and useful.

Plant-in-Service

Plant construction was completed in April, 1988. The utility was granted its original certificate in December, 1989. The balance of depreciable plant recorded on the utility's books at the end of the test year was \$297,742. This amount was based on estimates of the utility's share of construction costs, rather than on actual invoiced amounts. The utility provided us with all invoices pertaining to construction of the treatment facility. These invoices totaled \$280,711, so we have decreased plant by \$17,031 to reflect the proper, invoice-supported balance.

Depreciable plant-in-service is 100% used and useful, so a nonused and useful adjustment is unnecessary. In addition, an averaging adjustment is unnecessary, as no additions were made to plant during the test year. We find that the appropriate average value of used and useful depreciable plant-in-service to include in rate base is \$280,711.

Accumulated Depreciation

When a utility files for a rate case for the first time, we must question what depreciation rate(s) and accrued reserve are applicable for determining the utility's historic rate base position. Bonita Center recorded \$4,962 in accumulated depreciation at the beginning of the test year and accrued an additional \$17,368 during the test year.

Staff Advisory Bulletin (SAB) No. 17 (First Revision) entitled "Depreciation Rules for Water and Sewer Utilities" addresses itself to this problem. It states that the depreciation expenses recorded by the utility have resulted in the utility's current accumulated

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reserve position, whether or not the expenses were approved by some other governmental body. This recorded position should be used as the starting point for the test year, and the test year expenses should be calculated using the depreciation rates pursuant to Rule 25.30-140, Florida Administrative Code.

As recorded by the utility, the test year beginning balance of accumulated depreciation is \$4,962. When we apply the prescribed depreciation rates to our year-end balances for the various plant accounts, test year depreciation expense is \$12,944. Our calculation is as follows:

<u>NARUC Account No.</u>	<u>Account Balance</u>	<u>Depreciation Rates per F.A.C.</u>	<u>Test Year Depreciation Expense</u>
354	\$ 26,495	0.037	\$ 980
360	1,058	0.037	39
361	81,411	0.025	2,035
370	59,897	0.040	2,396
380	111,850	0.067	<u>7,494</u>
			<u>\$12,944</u>

At the end of the test year, the resulting balance in the accumulated depreciation account is \$17,906. Since depreciable plant-in-service is considered 100% used and useful, a nonused and useful adjustment is unnecessary. We have made an averaging adjustment of \$6,472 to reduce the end of the period balance. Therefore, we find that the appropriate average value of used and useful accumulated depreciation to include in rate base is \$11,434.

Contributions-in-Aid-of-Construction (CIAC)

As discussed earlier, Bonita Center was not regulated by this Commission during the construction of the wastewater treatment facility. As a result, none of the plant associated with the collection system was donated to the utility. We have reviewed supporting documentation regarding donations and have determined that the utility had not previously and is not currently collecting any CIAC.

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The utility has agreed to our imputation of the entire collection system as CIAC. The utility's collection system is comprised of the following accounts:

<u>NARUC</u> <u>Account No.</u>	<u>Description</u>	<u>Account</u> <u>Balance</u>
360	Collection Sewers (Force)	\$ 1,058
361	Collection Sewers (Gravity)	81,411
370	Receiving Wells	<u>59,897</u>
		<u>\$142,366</u>

If we treat the collection system as donated, approximately 51% of the utility's net plant-in-service would be CIAC. This percentage falls below the maximum CIAC percentage set forth in Rule 25-30.580, Florida Administrative Code, but above the minimum. In consideration of the above, we will reduce plant-in-service by \$142,366 to reflect the imputation of the collection system as CIAC.

Accumulated Amortization of CIAC

As stated above, the value of imputed CIAC represents the utility's entire collection system. Rule 25-30.140, Florida Administrative Code, addresses the appropriate method for calculating depreciation and amortization of utility plant and CIAC. It states in part that where adequate records separating CIAC from utility investments are maintained by account, depreciation rates shall be applied separately to both the contributed and noncontributed plant.

We have applied the prescribed amortization rates to our calculated pre-test year balances of various CIAC accounts. We then adjusted the resulting balances by an eight-twelfths factor to reflect the plant's being in service for the last eight months of 1988. Therefore, we find that the test year's beginning balance of imputed CIAC is \$2,980.

We next apply the prescribed amortization rates to the calculated year-end balances of the various CIAC accounts to arrive at a test year amortization expense of \$4,470.

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The accumulated amortization balance account at the end of the test period is \$7,450. Since plant-in-service is 100% used and useful, a nonused and useful adjustment is unnecessary. We have made an averaging adjustment of (\$2,235) to the end of the period balance. Therefore, in consideration of the above, we find that the average amount of used and useful accumulated amortization of CIAC included in rate base is \$5,215.

Land

The Center of Bonita Springs, Inc., borrowed \$18.2 million from Confederation Life Insurance Company to purchase the tract upon which the plaza and the treatment plant are located and to build the plaza and the plant. The utility argues that \$139,168 should be allowed for land in rate base. It arrived at this figure by allocating a portion of The Center of Bonita Springs, Inc.'s purchase price to the utility--the cost of the whole tract multiplied by the 38,024 square feet of land associated with the plant. However, we find that since the utility does not own the land, the appropriate value of land to include in the utility's rate base is \$0.

Lease

The utility has a lease agreement with Center of Bonita Springs, Inc., for the land upon which the plant is located. The lease, which has a ninety-nine year term, contains the following provisions: it supersedes all previous leases and amendments, it specifies that the land is dedicated to the public use as a utility, and it states that where any term of the lease conflicts with any rules, regulations or Orders of this Commission or with state law, the latter will control. In addition, the lease contains no provisions or conditions for unilateral termination. Therefore, we find that this lease is in conformity with Commission policy in that it provides adequate protection for the customers.

Working Capital

In accordance with Rule 25-30.443, Florida Administrative Code, we have used the one-eighth of operation and maintenance expense formula method to calculate the utility's working capital requirements. As is discussed in a later section of this Order, \$38,912 is the appropriate amount for the utility's operation and maintenance expenses. Therefore, applying the formula method, we

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find that the appropriate amount of working capital to include in rate base is \$4,864.

Test Year Rate Base

The components of the utility's test year rate base are as follows: depreciable plant-in-service, CIAC, accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. Based on our decisions relating to these components, we find that the utility's test year rate base is \$136,990.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order.

Return on Equity

The utility's books reflect a negative retained earnings balance of \$54,011 for the end of the test year. In instances of a utility's books reflecting negative equity, it is our policy to adjust the negative equity balance to zero so that the negative component is not reflected in the utility's capital structure. Having made this adjustment, we find that the utility has no equity in its capital structure. The return on equity will, therefore, also be zero.

Overall Rate of Return

According to its books, the utility's capital structure consists of only two components: a \$298,057 intercompany loan and a negative equity balance of \$54,011. As stated earlier, we have adjusted the negative equity balance to zero. In addition, we know of no explicit cost rate for the intercompany loan from The Center of Bonita Springs, Inc.

We have therefore selected an assumed cost rate of 10.20% to be applied to this component of the capital structure. We have derived the 10.20% rate from Moody's "Baa" bond rating for the month ending August, 1990. "Baa" is the lowest investment grade. We find that the yield on "Baa" rated bonds is a reasonable

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estimate of the cost of debt if the utility had acquired the funding from an outside source. In consideration of the above, we find that the utility's overall rate of return is 10.20%.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, with our adjustments itemized on Schedule No. 3-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Revenues

The utility recorded cash-basis revenues of \$26,750 during the test year. We have reviewed the utility's revenues calculation in order to convert the revenues to accrual basis revenues. We have determined that had the utility used the accrual basis for recording revenues it would have recorded \$30,112 during the test year. We have therefore increased revenues by \$3,362.

Operation & Maintenance Expense (O & M)

We have reviewed the utility's expense accounts for proper amounts, periods, and classifications and made adjustments to reclassify certain expenses and to reflect certain allowances necessary for plant operation. A summary of our adjustments follows.

The utility does not maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts (USOA). By Rule 25-30.115, Florida Administrative Code, we require utilities to maintain their books and records in conformity with NARUC USOA. Therefore, the utility will henceforth maintain its books and records in conformity with NARUC USOA.

In order to calculate the appropriate level of operating expenses, we first had to determine what the utility would have charged to the various expense accounts had USOA been used. References to amounts charged to particular expense accounts in the following analysis represent the expenses which would have been charged had USOA been used. We compared and matched each category of expense from the utility's trial balance to those listed in its

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1989 Annual Report. We then examined the recategorized amounts to determine the nature, reasonableness, and timing of the expenses. Based upon this examination, we arrived at the appropriate amount for each operation and maintenance expense item. Our calculations and adjustments made to each of the expense accounts follow.

1) Salaries and Wages--Employees. The utility charged \$12,000 to salaries during the test period. However, the utility does not actually have any employees on its payroll. Employees of Diversified Companies, Inc., the operating company for the utility and Bonita Plaza, perform whatever work the utility requires. We have therefore decreased this expense by \$12,000 to reflect its reclassification to contractual services. The resulting balance in the salaries account is \$0.

2) Salaries and Wages--Officers. The utility did not record any expenses in this account during the test period. Since the utility has no employees on its payroll, we will make no adjustments to this account, so the balance remains \$0.

3) Employee Pensions and Benefits. Bonita Center charged \$1,728 to this account during the test period. However, since the utility has no employees, we have reduced this account by \$1,728 and leave it with a \$0 balance.

4) Sludge Removal Expense. The utility charged \$3,915 to this account during the test period. Upon review of the related invoices, we see that an invoice for \$450 was paid twice. We find that the remaining balance in the account is reasonable. Accordingly, we have decreased this account by \$450 and leave it with a balance of \$3,465.

5) Purchased Power. The utility charged \$6,940 to this account during the test period. This amount is greater than expected from a plant of this size and type. However, the plant is located in a low-noise mandated area. Consequently, special noise reduction devices had to be attached to the blowers, which increased the plant's purchased power consumption.

Also, the lift station located behind the shopping plaza uses a common meter with the parking lot lighting system. The utility, however, has paid no portion of the purchased power associated with that lift station. We find that 17,000 KWH per year (or \$1,363) is

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a reasonable allocation for the lift station's portion of the expense, and have therefore increased the account by \$1,363.

Finally, the audit of test year cash disbursements revealed \$1,012 in expenses that were incurred but not paid during the test year. Consequently, we have decreased the account by that amount. Therefore, given the above, we allow the utility purchased power expense in the amount of \$9,315 (\$6,940 + \$1,363 + \$1,012).

6) Chemicals. The utility recorded no expenses in this account during the test period. During our field investigation, we discovered that the chemicals purchased during the test period were not invoiced separately, but were included on invoices for plant operator services. After a detailed review of the invoices, we calculated that the utility spent \$1,682 on chemicals during the test period. Since we find that this amount is reasonable, we approve chemicals expense of \$1,682.

7) Materials and Supplies. The utility recorded no expenses in this account during the test period. Various materials and supply items totaling \$752 were included on the plant operator's services invoices. We have therefore increased the materials and supplies account by \$752 to reflect the reclassification of this amount to materials and supplies.

8) Contractual Services. The utility charged \$11,492 to this account during the test period. However, as discussed above, several categories of expenses were not invoiced separately but were included on the plant operator's service invoices. We have therefore decreased this account by \$1,682 to remove chemicals expense and by \$752 to remove materials and supplies expense.

As discussed previously, the utility misclassified \$12,000 of contractual services in salaries and wages. Even so, this amount is not a true reflection of the actual expense incurred during the test period because time records were not kept by Diversified's employees. Instead, the employees merely estimated the amount of time devoted to the utility during the course of a month. Eight different Diversified employees spent time on utility matters during the test year. We multiplied each employee's annual salary by the corresponding ratio of annual utility-related hours to total annual working hours. Based on these calculations, we find that the

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utility should have recorded \$18,614 in the contractual services account during the test year, so we have increased the expenses by \$6,614.

We also examined the duties of and the hourly wages and annual allocations of utility-related hours for each employee. In order to determine the reasonableness of the utility-related portion of Diversified's employees' salaries, we compared each employee's hourly wage to the standard hourly wage of employees who perform comparable duties for other utilities in Florida. Based upon this analysis, we have decreased contractual services by \$12,990 so as to disallow that portion of the expense which we consider unreasonable.

Our audit revealed that the utility classified the expense for its grounds maintenance personnel, who are also employees of Diversified Companies, as a miscellaneous expense. We find that the salaries of these employees are reasonable, and we have therefore increased contractual services by \$598 to reflect reclassification of this expense. The utility also misclassified another \$675 of contractual services expense as miscellaneous expense. As we find that this charge is reasonable, we have increased contractual services by \$675 to reflect its reclassification.

The plant operator charges \$496.50 per month for basic service plus an additional labor charge for plant repairs and maintenance. The plant operator charged the utility \$6,447 during the test period, which we find reasonable and which we approve.

Based on the foregoing, we have made an additional adjustment of (\$2,611) to contractual services, and we find that the proper amount of contractual services for this utility is \$13,344.

9) Rents. The rent for the full ninety-nine year term of the lease between Bonita Center and Bonita Plaza is \$3,564,000, or annual payments of \$36,000. We think that the amount of the rent is unreasonable. As stated earlier, the portion of the land purchase price paid by The Center of Bonita Springs, Inc., which the utility would have us allocate to it was \$139,168. We think that the highest annual lease payment which we would even consider is \$14,195, which we have arrived at by multiplying \$139,168 by 10.20%, the utility's allowed rate of return. However, we believe that this ceiling is also unreasonable. The land under lease is

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less than one acre, and the lease is between related parties. We find that \$750 per month, or \$9,000 per year, constitutes a fair and reasonable annual lease payment. Therefore, we have decreased the annual lease payments by \$27,000 to reflect the lease payment which the utility will be allowed to recover.

10) Insurance Expense. The utility charged \$563 to this account during the test period. We have examined this expense and find it to be reasonable.

11) Regulatory Commission Expense. The utility recorded no expense in this account during the test period. However, our audit of test year cash disbursements revealed that the \$150 filing fee for the instant staff-assisted case was recorded as a miscellaneous expense. We have reduced miscellaneous expense by \$150 to reflect the proper classification of the filing fee as a regulatory commission expense. In addition, since it is Commission policy to amortize regulatory commission expenses over a four year period, we have reduced this expense by \$112 to remove the unamortized portion of the expense. Therefore, we find that regulatory commission expense is \$38.

12) Miscellaneous Expense. The utility charged \$6,159 to this account during the test period. We have made numerous reductions to this account to remove misclassified items: \$598 to remove grounds maintenance expense, \$675 to remove contractual services expense, and \$150 to remove regulatory commission expense. In addition, we have made two adjustments to remove disallowed expenses. We decreased the expense by \$268 to remove the cost associated with preparing Diversified's consolidated tax return, and we decreased the expense by \$3,900 to reflect disallowance of charges for accounting services provided by Diversified Companies, as we think that this cost is already recovered in contractual services. Finally, since a certain amount of water is necessary to periodically wash down the plant, we have made a pro forma adjustment of \$185 to reflect recovery of this expense. In consideration of the above, we find that miscellaneous expense is \$753.

Therefore, in consideration of the above adjustments, we find that the appropriate amount of operating and maintenance expense is \$38,912. Our calculation of operating and maintenance expense is contained on Schedule 3-B.

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Depreciation Expense

In an earlier section of this Order, we calculated that the utility's test year depreciation expense was \$12,944. We therefore find that the appropriate amount of test year depreciation expense is \$12,944.

Amortization Expense

In an earlier section of this Order, we calculated that the utility's test year amortization expense was \$4,470. We therefore find that the appropriate amount of test year amortization expense is \$4,470.

Taxes Other Than Income

Taxes other than income taxes includes property taxes, payroll taxes, and regulatory assessment fees. Since the utility does not own the land on which the treatment facility is located, property taxes associated with the land must be excluded from this account. Wages and salaries expense is \$0; therefore, the amount of payroll-related taxes is also \$0. We calculated regulate assessment fees to be \$2,891. Based upon the above, we find that the appropriate amount of taxes other than income taxes for this utility is \$2,891.

Income Tax

As the utility has a negative retained earnings balance in the equity portion of its capital structure, we find that income tax expense is \$0.

Operating Income (Loss)

Base on our adjustments and decisions herein, we find that the test year operating loss is \$18,629.

REVENUE REQUIREMENT

Based upon the utility's books and records and the adjustments discussed above, we find that the appropriate annual revenue requirement is \$64,250. This revenue requirement represents an annual increase in revenue of \$34,138, or 113.37%. This revenue

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requirement will allow the utility to recover its expenses and allow it an opportunity to earn a 10.20% return on its investment.

RATES AND CHARGES

The utility's current rate structure is based solely on customer consumption, that is, the customer pays only a per 1,000 gallons consumption charge per month. The disadvantage of this rate structure is that while each customer pays for what he/she uses, none of the customers pay an equitable share of the fixed costs of providing service upon demand. Thus, we will change the existing rate structure and implement the base facility charge rate structure (BFC).

The BFC rate structure is our preferred rate structure, because it allows the utility to track costs and allows the customers to have some control over their bills. The customer pays for his or her pro rata share of the costs necessary to provide utility service through the base facility charge and pays for his or her usage through the gallonage charge.

We find that the rates set forth below are fair, just, reasonable, and not unfairly discriminatory. These rates have been designed to allow Bonita Center to recover its operating expenses of \$50,277 and earn a 10.20% return on its investment. The utility's existing rates and those approved herein are set forth below for the purpose of comparison.

MONTHLY RATES

General Service

Base Facility Charge Meter Sizes:	<u>Current Rate</u>	<u>Approved Rate</u>
5/8" x 3/4"	N/A	\$ 29.01
3/4"	N/A	43.52
1"	N/A	72.53
1 1/2"	N/A	145.05
2"	N/A	232.09
3"	N/A	464.17

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	<u>Current Rate</u>	<u>Approved Rate</u>
Base Facility Charge		
Meter Sizes:		
4"	N/A	725.27
6"	N/A	1,450.54
<u>Consumption Charge</u>		
Per 1,000 Gallons	\$ 4.00	4.00

These rates shall be effective for meter readings taken on or after thirty days after the stamped approval date on the revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the tariffs are consistent without decision herein, that the proposed customer notice is adequate, and upon expiration of the protest period.

At the informal customer meeting, several customers expressed dissatisfaction with the proposed BFC rate structure. The several customers complained that the BFC severely penalizes the customers with low consumption. The Center of Bonita Merchants Association, which represented the majority of tenants in the shopping plaza, proposed that we eliminate the BFC in favor of the current rate structure. We agree that the BFC will have a greater relative impact on the customers with low consumption. However, the utility must be able to serve all customers upon demand, not just the customers with high consumption. The fixed costs of providing service upon demand must be borne by all customers. The BFC rate structure ensures that each customer pays his or her equitable share of both the variable and fixed costs of providing service.

Finally, the utility's customer base increased over 60% during the test year. At the end of the test period, the utility was serving 52 customers out of 57 potential ERCs. We typically set rates based on the annualized number of average factored ERCs and average gallons of consumption during the test period. However, during test periods of high customer growth, it is our practice to calculate rates based on annualized end of test year customers and consumption. Therefore, we have used annualized end of test year results to calculate the above rates.

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Service Availability

The utility's current tariff contains no provision for service availability charges. In designing service availability charges, we must consider the guidelines set forth in Rule 25-30.580, Florida Administrative Code, which states:

- 1) A utility's service availability policy shall be designed in accordance with the following guidelines:
 - (a) The maximum amount of contributions-in-aid-of-construction, 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 designed capacity; and
 - (b) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

We have already imputed the collection system, which represents approximately 51% of the utility's net plant-in-service as CIAC. The utility's service area is built-out. As discussed earlier, the 15 ERCs margin reserve for the collection system is greater than the five actual remaining potential connections. The utility's collection system, then, is operating at its designed capacity. Therefore, in consideration of the above, we will not change the utility's service availability policy; the utility is not authorized to collect service availability charges.

Miscellaneous Service Charges

Bonita Center does not currently have miscellaneous service charges. Based upon our analysis of the labor and materials required for these services, we find that the following miscellaneous service charges are reasonable and consistent with Rule 25-30.345, Florida Administrative Code:

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Type of Service

Initial Connection	\$15
Normal Reconnection	\$15
Violation Reconnection	Actual Cost
Premises Visit	\$10

The following is a description of each service:

- 1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.
- 2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.
- 3) Violation Reconnection: This charge is to be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), F.A.C., including a delinquency in bill payment.
- 4) Premises Visit (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The approved charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred, rather than on the entire ratepaying body. A tariff sheet containing a charge for a wastewater-only violation reconnection will not be approved unless the utility also files a breakdown of the actual components, the corresponding unit costs, and the typical man hours required for the discontinuance and subsequent reinstatement of

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service. The charges will be effective for service rendered on or after the stamped approval date on the revised tariff sheets.

RATES IN THE EVENT OF PROTEST

This Order proposes an increase in wastewater rates. A timely protest could delay what may be a justified rate increase, pending a formal hearing and final order in this case, resulting in an unrecoverable loss of revenue to the utility.

Accordingly, in the event that a timely protest is filed by anyone other than the utility, we hereby authorize the utility to collect the service rates approved herein, on a temporary basis, subject to refund, provided that it furnishes security for such a potential refund. The security should either be a bond or letter or credit in the amount of \$23,985 or the utility may establish another escrow account with an independent financial institution pursuant to a written agreement. Any withdrawals of funds from this escrow account are subject to the prior approval of this Commission through the Director of the Division of Records and Reporting.

The utility must keep an accurate account, in detail of all monies received by said increase, specifying by whom and on whose behalf such amounts were paid. The utility shall also file a report, no later than the twentieth day of each month that the temporary rates are in effect, showing the amount of revenues collected as a result of the temporary rates and the amount of revenues that would have been collected under the prior rates. Should a refund be required, the refund would be with interest, pursuant to Rule 25-30.360, Florida Administrative Code.

The utility is authorized to implement the temporary rates only after providing the above discussed security and Staff's approval of the revised tariff sheets and customer notice.

RATES AFTER AMORTIZATION RATE CASE EXPENSE

The only rate case expense incurred by the utility is its \$150 filing fee. Pursuant to Section 367.0816, Florida Statutes, the appropriate recovery period for this expense is four years, after which time the utility's rates should be reduced by \$150. The

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effect of this rate reduction is an approximate \$0.02 reduction in the utility's base facility charge for a 5/8 inch x 3/4 inch meter; the gallonage charge will not change. This reduction will result in the following rates:

MONTHLY RATES

General Service

<u>Base Facility Charge</u>	<u>Approved Rate</u>	<u>Rates After the Recovery of Rate Case Expenses</u>
Meter Sizes:		
5/8" x 3/4"	\$ 29.01	\$ 28.99
3/4"	43.52	43.48
1"	72.53	72.47
1 1/2"	145.05	144.93
2"	232.09	231.89
3"	464.17	463.65
4"	725.27	724.65
6"	1,450.54	1,449.50

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall file a proposed customer letter setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Bonita Center Treatment Plant, Inc., for an increase in its wastewater rates in Lee County is approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

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ORDERED that all matters contained in the body of this Order and in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the provisions of this Order issued as proposed agency action 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 Bonita Center Treatment Plant, Inc., is authorized to charge the new rates and charges set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days after the stamped approval date on the revised tariff pages. It is further

ORDERED that the miscellaneous service charges approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that Bonita Center Treatment Plant, Inc., shall maintain its books and records in conformance with the NARUC Uniform System of Accounts as it is required to do by Rule 25-30.115, Florida Administrative Code. It is further

ORDERED that prior to its implementation of the rates approved herein, Bonita Center Treatment Plant, Inc., shall submit and have approved revised tariff pages and a proposed notice to its customers of the increased rates and charges and the reasons therefor. The revised tariff pages will be approved upon Staff's verification that they are consistent with our decision herein and that the protest period has expired. The proposed customer notice will be approved upon Staff's determination of its adequacy. It is further

ORDERED that in the event of a protest by any substantially affected person other than Bonita Center Treatment Plant, Inc., the utility is authorized to collect the rates approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Bonita Center

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Treatment Plant, Inc., has provided satisfactory security for any potential refund and provided that it has submitted and Staff has approved revised tariff pages and a proposed customer notice. It is further

ORDERED that after the expiration of the protest period, this Commission will issue either a notice of further proceedings or an order closing this docket.

By ORDER of the Florida Public Service Commission, this 24th
of OCTOBER, 1990.



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.

As identified in the body of this order, our actions, other than the granting of temporary rates in event of a protest, are 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 11/14/90. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

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 the relevant portion of 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 sewer 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.

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Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer 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 after the issuance 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.

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BONITA CENTER TREATMENT PLANT, INC.
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 TEST YEAR ENDED DECEMBER 31, 1989

SCHEDULE NO. 1
 WASTEWATER RATE BASE

Account Title =====	Balance per Utility =====	Commission Adjustments to Utility Balance =====	Balance per Commission =====
Depreciable Plant in Service	\$297,742	(\$17,031) A	\$280,711
Land/Nondepreciable Assets	0	0	0
Contributions in Aid of Construction	0	(142,366) B	(142,366)
Accumulated Depreciation	(22,330)	10,896 C	(11,434)
Accumulated Amortization of CIAC	0	5,215 D	5,215
Working Capital Allowance	0	4,864 E	4,864
RATE BASE	----- \$275,412 =====	----- (\$138,422) =====	----- \$136,990 =====

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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 1A
 ADJUSTMENTS TO WASTEWATER
 RATE BASE

A. DEPRECIABLE PLANT IN SERVICE:	

1. Adjustment that results in Commission's approved balance	(\$17,031) =====
B. CONTRIBUTIONS IN AID OF CONSTRUCTION:	

1. Adjustment that results in Commission's approved balance	(\$142,366) =====
C. ACCUMULATED DEPRECIATION:	

1. Adjustment that results in Commission's approved balance	\$4,424
2. Test year averaging adjustment	6,472 -----
	\$10,896 =====
D. ACCUMULATED AMORTIZATION OF CIAC:	

1. Adjustment to reflect Commission's determination of the pre-test year balance	\$2,980
2. Adjustment to reflect test year amortization of CIAC	4,470
3. Test year averaging adjustment	(2,235) -----
	\$5,215 =====
E. WORKING CAPITAL ALLOWANCE:	

1. Adjustment that results in Commission's approved allowance (Based on one eighth of O&M expenses: \$38,912/8)	\$4,864 =====

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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 2
 COST OF CAPITAL

Per Utility =====	Balance Per Utility =====	Commission Adjustments to Utility Balance =====	Balance per Commission =====	Percent of Total =====	Cost =====	Weighted Cost =====
Intercompany Loan	\$298,057	\$0	\$298,057	100.00%	10.20%	10.20%
Retained Earnings	(54,011)	54,011	0	0.00%	13.51%	0.00%
	-----	-----	-----	-----		-----
TOTAL	\$244,046	\$54,011	\$298,057	100.00%		10.20%
						=====

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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 3
 WASTEWATER OPERATING INCOME

	Balance Per Utility =====	Commission Adjustments to Utility Balance =====		Test Year Balance per Commission =====	Commission Adjustments for Increase =====		Balance per Commission =====
Operating Revenues	\$26,750	\$3,362	A	\$30,112	\$34,138	F	\$64,250
Operating Expenses:							

Operation and Maintenance	\$42,797	(\$3,885)	B	\$38,912	\$0		\$38,912
Depreciation	17,368	(4,424)	C	12,944	0		12,944
Amortization	0	(4,470)	D	(4,470)	0		(4,470)
Taxes Other Than Income	7,836	(6,481)	E	1,355	1,536	G	2,891
Income Taxes	0	0		0	0		0

Total Operating Expenses	\$68,001	(\$19,260)		\$48,741	\$1,536		\$50,277

Operating Income (Loss)	(\$41,251)	\$22,622		(\$18,629)	\$32,602		\$13,973

Rate Base	\$275,411			\$136,990			\$136,990

Rate of Return	-14.98%			-13.60%			10.20%
=====							

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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 3A
 ADJUSTMENTS TO NET
 OPERATING INCOME
 PAGE 1 OF 4

A. OPERATING REVENUES:

1.	Adjustment that results in Commission's approved balance based on the accrual method	\$3,362 *****
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B. OPERATING EXPENSES:

1.	Remove contractual services expense that was misclassified as salaries and wages - employees expense	(\$12,000) *****
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2.	Remove payroll-related taxes other than income that was misclassified as pensions and benefits; no payroll taxes will be allowed since contractual services expense was misclassified as salaries and wages expense	(\$1,728) *****
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3.	Remove expense related to invoice that was paid twice	(\$450) *****
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4a.	Add expense to reflect Commission's approval of a reasonable allocation of purchased power associated with lift station #1 that has not been paid for by the utility	\$1,363
-----	--	---------

4b.	Add unrecorded test year expenses	1,012

		\$2,375 *****

5.	Add chemicals expense that was misclassified as contractual services expense	\$1,682 *****
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6.	Add materials and supplies expense that was misclassified as contractual services	\$752 *****
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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 3A
ADJUSTMENTS TO NET
OPERATING INCOME
PAGE 2 OF 4

7a. Remove chemicals expense that was misclassified as contractual services	(\$1,682)
7b. Remove materials and supplies expense that was misclassified as contractual service expense	(752)
7c. Add contractual services expense that was misclassified as salaries and wages - employees expense	12,000
7d. Adjustment to reflect additional amount of wages-related contractual services expense that should have been recorded during the test year	6,614
7e. Adjustment to disallow unreasonable portion of wages expense	(12,990)
7f. Add contractual services expense that was misclassified as miscellaneous expense	598
7g. Add contractual services expense that was misclassified as miscellaneous expense	675
7h. Adjustment that results in Commission's approved test year balance	(2,611)

	\$1,852

8. Add Commission's approved annual allowance for land lease payments	\$9,000

9a. Add filing fee expense associated with regulatory commission expense that was misclassified as miscellaneous expense	\$150
9b. Remove unamortized portion of regulatory commission expense	(112)

	\$38

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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 3A
 ADJUSTMENTS TO NET
 OPERATING INCOME
 PAGE 3 OF 4

10a. Remove grounds maintenance expense (contractual services expense) that was misclassified as miscellaneous expense	(598)
10b. Remove contractual services expense that was misclassified as miscellaneous expense	(675)
10c. Remove regulatory commission expense that was misclassified as miscellaneous expense	(150)
10d. Disallow expense associated with preparation of the consolidated tax return	(268)
10e. Disallow accounting services because the expense is already reflected in contractual services expense	(3,900)
10f. Add proforma adjustment based on Commission's approval of the water cost associated with periodically washing down the treatment facility	185 ----- (\$5,406) -----
TOTAL Operating Expense Adjustments	(\$3,885) -----

C. DEPRECIATION EXPENSE:

1. Adjustment that results in Commission's approved balance based on the application of Staff Advisory Bulletin No. 17 and the depreciation rates prescribed in Rule 25-30.140, F.A.C.	(\$4,424) -----
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D. AMORTIZATION EXPENSE:

1. Adjustment that results in Commission's approved balance based on the application of Staff Advisory Bulletin No. 17 and the depreciation rates prescribed in Rule 25-30.140, F.A.C.	(\$4,470) -----
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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 3A
 ADJUSTMENTS TO NET
 OPERATING INCOME
 PAGE 4 OF 4

E. TAXES OTHER THAN INCOME:

1a. Remove real estate taxes associated with land not included in rate base	(\$7,167)
1b. Adjustment that results in Commission's approved test year balance	686

	(\$6,481)

F. OPERATING REVENUES:

1. Adjustment to reflect Commission's approval of the increase in revenue that is required for the Utility to recover its expenses as well as earn its approved overall rate of return	\$34,138

G. TAXES OTHER THAN INCOME:

1. Adjustment to reflect Commission's allowance of the increase in regulatory assessment fees associated with Commission's approved increase in operating revenues	\$1,536

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BONITA CENTER TREATMENT PLANT, INC.
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SCHEDULE NO. 3B
DETAIL OF OPERATION AND
MAINTENANCE EXPENSES

---- Account ---- No. Description --- -----	Balance per Utility -----	Commission Adjustments -----		Balance per Commission -----
701 Salaries and Wages - Employees	\$12,000	(\$12,000)	1	\$0
703 Salaries and Wages - Officers	0	0		0
704 Employee Pensions and Benefits	1,728	(1,728)	2	0
710 Purchased Sewage Treatment	0	0		0
711 Sludge Removal Expense	3,915	(450)	3	3,465
715 Purchased Power	6,940	2,375	4	9,315
716 Fuel for Power Production	0	0		0
718 Chemicals	0	1,682	5	1,682
720 Materials and Supplies	0	752	6	752
730 Contractual Services	11,492	1,852	7	13,344
740 Rents	0	9,000	8	9,000
750 Transportation Expenses	0	0		0
755 Insurance Expense	563	0		563
765 Regulatory Commission Expense	0	38	9	38
770 Bad Debt Expense	0	0		0
775 Miscellaneous Expenses	6,159	(5,406)	10	753
TOTAL OPERATION AND MAINTENANCE EXPENSES	\$42,797	(\$3,885)		\$38,912