

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for a rate)	DOCKET NO. 900757-SU
increase in Collier County by)	ORDER NO. 24737
NAPLES SEWER COMPANY d/b/a)	ISSUED: 7/1/91
NAPLES INDUSTRIAL PARK, LTD.)	
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The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman
 J. TERRY DEASON
 BETTY EASLEY
 GERALD L. GUNTER
 MICHAEL McK. WILSON

ORDER SUSPENDING PROPOSED WASTEWATER RATES AND
 GRANTING INTERIM RATE INCREASE SUBJECT TO REFUND

BY THE COMMISSION:

CASE BACKGROUND

Naples Sewer Company (NSC or utility) is a class "C" wastewater utility providing service to an industrial park in Naples, Florida, since 1974. Upon granting NSC a grandfather certificate in 1986, we approved its then-existing rates. The instant proceeding represents the first rate case requested by the utility from this Commission.

NSC filed its application for increased rates on February 27, 1991. However, the information filed did not meet the minimum filing requirements (MFRs) established in our rules. After being informed of the deficiencies, the utility submitted revisions to its filing on April 23, 1991. The utility's filing was accepted as complete on April 23, 1991, and that date was established as the official date of filing for this proceeding.

The test year upon which final rates will be based is the projected twelve-month period ended December 31, 1991; the projected period is based upon the historical year ended December 31, 1990. The test year upon which interim rates will be based is the historical twelve-month period ended December 31, 1990.

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NSC has asked that its request for rate relief be considered at a formal administrative hearing, and not be processed either through the proposed agency action procedure provided for in Section 367.081(8), Florida Statutes, or the staff-assisted rate case procedure provided for in Section 367.0814, Florida Statutes. Accordingly, a formal administrative hearing is scheduled for this case on September 5, 1991.

SUSPENSION OF PROPOSED RATES

NSC has requested final wastewater rates designed to generate \$292,079 in annual revenues, revenues which are 334% higher than its base year revenues. The utility states that its requested final rates would be sufficient for it to recover its expenses and earn a 12.12% rate of return on rate base.

Pursuant to Section 367.081(6), Florida Statutes, the utility may implement its proposed rates within sixty (60) days of the official date of filing unless this Commission acts to withhold consent to those rates. We have reviewed the filing containing the proposed rates, the additional revenues sought, and the supporting data. Upon consideration of the foregoing, we find it reasonable and necessary to require further explanation, amplification, and corroboration of the utility's rate application. Therefore, pursuant to Section 367.081(6), Florida Statutes, we hereby suspend the utility's proposed rates.

INTERIM RATES

NSC has requested interim wastewater rates designed to generate \$181,202 in annual revenues. These revenues exceed interim test year revenues by \$113,872, an increase of 169%. We find that the utility has made a prima facie showing of entitlement to an interim wastewater revenue increase of \$76,316, as discussed further below.

Our calculations of the appropriate rate base, capital structure, and net operating income (NOI) are contained the schedules attached to this Order, which are by reference incorporated herein. Rate base and our adjustments thereto are shown on Schedules Nos. 1-A and 1-B, respectively. Capital structure and adjustments are reflected on Schedules Nos. 2-A and 2-B, respectively. NOI and adjustments are reflected on Schedules

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Nos. 3-A and 3-B, respectively. 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.

Rate Base

We have removed from rate base land which was retired by the utility in 1990. Although the land was retired, its average balance remained in the utility's rate base calculation. Since this land is no longer in service, we have reduced rate base by \$15,936.

We have increased non-used and useful plant by \$90,616 in order to remove from rate base an unsupported portion of the capacity claimed by the utility to be used and useful. According to the 1990 interim test year Department of Environmental Regulation (DER) monthly operating reports which are included in the MFRs, the average daily flow for the peak month of 1990 was 26,806 gallons per day (gpd). The treatment plant's capacity is 55,000 gpd; yet, the utility claims to be 100% used and useful. The discrepancy between the 100% used and useful figure claimed by the utility and the 48.7% figure which we have calculated is the result of the utility's assertion that DER has required it to reserve an extra 28,000 gpd of excess capacity. However, since the utility has not provided any documentation from DER which would justify an allowance for excess capacity, we have adjusted treatment plant used and useful to remove it for interim purposes.

The utility did not amortize the \$4,900 in contributions-in-aid-of-construction (CIAC) shown in its MFRs. We have therefore increased accumulated amortization of CIAC by \$77 and increased test year amortization of CIAC by \$154.

The utility used the one-eighth of operation and maintenance (O&M) expenses formula method to calculate working capital. Since we have made a reduction to O&M expenses below, we must also adjust working capital. We have therefore reduced working capital by \$1,624.

Based on the above adjustments, we find that rate base for interim purposes is \$407,227.

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Cost of Capital

We have made several adjustments to the utility's cost of capital calculation. First, we have reduced the cost of long-term debt. The utility provided no support in its MFRs for its stated long-term debt rate of 14.98%. As is our practice, we have calculated the long-term debt rate by dividing the interim year interest expense by the outstanding debt balance, less unamortized issuance costs. Accordingly, we find that the proper cost rate for long-term debt is 12.34%.

We have also adjusted the rate of return on common equity shown in the MFRs. Since this is the utility's first rate case before this Commission, we have used the current leverage formula to determine the cost rate for common equity. In its calculation, the utility used the leverage formula set forth in Order No. 23318, issued on August 7, 1990. That leverage formula has been superseded by the one established in Order No. 24246, effective April 9, 1991. Using the minimum of the range established in this formula, as is required by the statute, we find that the last authorized rate of return on equity for interim purposes, should be 10.58%. As a result of this adjustment, the utility's required rate of return for interim purposes is 10.97%.

Net Operating Income

We reduced O & M expense by \$12,998 to remove legal expenses which we believe to be excessive for a class "C" utility with 84 customers. The \$12,998 in legal fees reported by the utility did not relate to rate case expense for the instant case. For interim purposes, we have removed these expenses pending further review in our determination of the final revenue requirement.

We reduced depreciation expense by \$5,780 to remove depreciation associated with non-used and useful plant. Also, as stated earlier, we have increased test year amortization of CIAC by \$154.

Revenue Requirement

Based upon the foregoing, we find it appropriate to increase the utility's annual revenue requirement by \$76,316, or 113.35%, on

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an interim basis. The annual revenue requirement is therefore \$143,646.

Rates

One unusual element of this filing is that the utility currently bills its customers a flat rate per toilet unit. The rate structure proposed in the MFRs for both interim and final rates is the same which is currently employed. For the purpose of establishing interim rates, we have used the utility's current rate structure.

The utility's current rates, proposed interim rates, and our approved interim rates are shown below. The approved interim rates, which we find to be fair, just and reasonable, will give NSC the opportunity to earn the revenue requirement determined above.

Naples Sewer Company

Schedule of Rates

Sewer

General Service

	<u>Utility Present Rates</u>	<u>Utility Proposed Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Commission Approved Interim Rates</u>
Flat Rate Per Toilet				
Unit Per Month	\$17.00	\$44.41	\$71.59	\$36.27

Note:

Utility serves approximately 84 General Service customers (located in an industrial park) who in turn have approximately 330 toilet units.

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The interim rates shall be effective for bills rendered on or after thirty days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon our staff's verification that the tariffs are consistent with our decision herein, that the proposed notice to the customers of the approved interim increase is adequate, and that the required security has been filed.

Security For Interim Rates

In accordance with Section 367.082(2)(a), Florida Statutes, a utility must provide security for a potential refund of interim rates when this Commission grants it an interim increase. We do not believe that the utility, standing alone, has the financial strength to support a corporate undertaking in the amount of \$65,000 as security for a potential refund. The utility's owner submitted a personal financial statement in an attempt to show that he could guarantee the utility's corporate undertaking. However, we believe that a corporate undertaking co-signed by the utility's owner is not acceptable because the financial statement submitted was unaudited and the owner's income and net worth are exceedingly dependent on the soft real estate market in South Florida.

Therefore, we require that the utility file a bond or letter of credit in the amount of \$65,000, or escrow \$6,750 a month for each month that the interim revenues are collected.

If the security provided is an escrow account, said account shall be established between the utility and 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 escrow account is established by the direction of this Commission for the purpose set forth above. Pursuant to Consentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

The utility must keep an accurate and detailed account of all monies received as a result of its implementing the temporary rates, specifying by whom or on whose behalf such amounts were paid. Pursuant to Rule 25-30.360(7), Florida Administrative Code, by the twentieth day of the month for each month that the temporary rates are in effect, the utility shall file a report showing the

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amount of revenues collected pursuant to the implementation of the temporary rates and the amount of revenues that would have been collected under the prior rates.

It is, therefore,

ORDERED by the Florida Public Service Commission that the rates and schedules proposed by Naples Sewer Company for increased wastewater rates are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the request for an interim increase in water rates by Naples Sewer Company is hereby granted in part, as set forth in the body of this Order. It is further

ORDERED that the difference between the interim rates granted herein and Naples Sewer Company's previously authorized rates shall be collected subject to refund. It is further

ORDERED that Naples Sewer Company shall provide a bond or letter of credit in the amount of \$65,000 or shall escrow \$6,750 a month for each month that the interim revenues are collected as guarantee for any potential refund of interim wastewater revenues. It is further

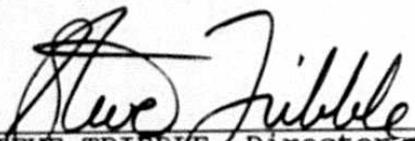
ORDERED that during the time that interim rates are in effect, Naples Sewer Company shall file by the twentieth (20th) day of each month a report indicating the monthly and total revenues collected subject to refund. It is further

ORDERED that prior to its implementation of the interim rates approved herein, Naples Sewer Company shall file and have approved tariff pages revised in accordance with the provisions of the Order and a proposed customer notice of the increased rates and the reasons therefor. It is further

ORDERED that the rates approved herein shall become effective for bills rendered on or after thirty days from the stamped approval date on the revised tariff sheets. The tariff sheets will be stamped approved upon verification that they are consistent with our decision as reflected herein, that the proposed customer notice is adequate, and that the appropriate security has been provided.

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By ORDER of the Florida Public Service Commission, this
1st day of July, 1991.



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.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: 1) reconsideration within 10 days pursuant to Rule 25-22.038(2), Florida Administrative Code, if issued by a Prehearing Officer; 2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or 3) 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. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

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NAPLES SEWER COMPANY
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 1-A
DOCKET NO. 900757-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 713,538	\$ 0	\$ 713,538	\$ 0	\$ 713,538
2 LAND	15,936	0	15,936	(15,936)	0
3 NON-USED & USEFUL COMPONENTS	0	0	0	(90,616)	(90,616)
4 ACCUMULATED DEPRECIATION	(220,109)	0	(220,109)	0	(220,109)
5 ACQUISITION ADJUSTMENT -NET	0	0	0	0	0
6 CIAC	(4,900)	0	(4,900)	0	(4,900)
7 AMORTIZATION OF CIAC	0	0	0	77	77
8 DEBIT DEFERRED INCOME TAXES	0	0	0	0	0
9 WORKING CAPITAL ALLOWANCE	10,861	0	10,861	(1,624)	9,237
RATE BASE	\$ 515,326	\$ 0	\$ 515,326	(108,099)	\$ 407,227

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NAPLES SEWER COMPANY
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 1-B
 PAGE 1 OF 1
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EXPLANATION	WASTEWATER
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(1) LAND	

To remove retired land.	(15,936)

(2) NON-USED & USEFUL COMPONENTS	

To reduce plant by non-used & useful percentage.	(90,616)

(3) AMORTIZATION OF CIAC	

To amortize CIAC.	77

(3) WORKING CAPITAL ALLOWANCE	

To reflect the allowance for working capital as 1/8 of O&M expenses.	(1,624)

NAPLES SEWER COMPANY
 CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 2-A
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DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION
1 LONG TERM DEBT	\$ 115,355	22.38%	14.98%	3.35%	\$ (24,198)\$	91,157	22.38%	12.34%	2.76%
2 SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
3 ADVANCES FROM PARENT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
5 COMMON EQUITY	399,971	77.62%	10.89%	8.45%	(83,901)	316,070	77.62%	10.58%	8.21%
6 INVESTMENT TAX CREDITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
7 DEFERRED TAXES	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
8 TOTAL CAPITAL	\$ 515,326	100.00%		11.81%	\$ (108,099)\$	407,227	100.00%		10.97%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.58%	12.58%
OVERALL RATE OF RETURN	10.97%	12.53%

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NAPLES SEWER COMPANY
 ADJUSTMENTS TO CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 2-B
 DOCKET NO. 900757-SU

DESCRIPTION	SPECIFIC ADJUSTMENT (EXPLAIN)	SPECIFIC ADJUSTMENT (EXPLAIN)	PRO RATA RECONCILE	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 0	\$ 0	(24,198)\$	(24,198)
2 SHORT TERM DEBT	0		0	0
3 CUSTOMER DEPOSITS	0		0	0
4 PREFERRED STOCK	0		0	0
5 COMMON EQUITY	0	0	(83,901)	(83,901)
6 INVESTMENT TAX CREDITS	0		0	0
7 DEFERRED INCOME TAXES	0		0	0
8 TOTAL CAPITAL	\$ 0	\$ 0	(108,099)\$	(108,099)

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NAPLES SEWER COMPANY
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-A
 DOCKET NO. 900757-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 67,330	\$ 113,872	\$ 181,202	\$ (113,872)	\$ 67,330	\$ 76,316	\$ 143,646
OPERATING EXPENSES						113.35%	
2 OPERATION AND MAINTENANCE	\$ 86,891	\$ 0	\$ 86,891	\$ (12,998)	\$ 73,893	\$	\$ 73,893
3 DEPRECIATION	25,008	0	25,008	(5,934)	19,074		19,074
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	3,319	5,124	8,443	(5,124)	3,319	2,671	5,990
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 115,218	\$ 5,124	\$ 120,342	\$ (24,056)	\$ 96,286	\$ 2,671	\$ 98,957
8 OPERATING INCOME	\$ (47,888)	\$ 108,748	\$ 60,860	\$ (89,816)	\$ (28,956)	\$ 73,645	\$ 44,689
9 RATE BASE	\$ 515,326		\$ 515,326		\$ 407,227		\$ 407,227
RATE OF RETURN	-9.29%		11.81%		-7.11%		10.97%

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NAPLES SEWER COMPANY
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED DECEMBER 31, 1990

SCHEDULE NO. 3-B
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EXPLANATION	WASTEWATER
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(1) OPERATING REVENUES	

To remove the utility's test year revenue request.	(113,872)

(2) OPERATION AND MAINTENANCE	

To remove excessive legal expenses.	(12,998)

(3) DEPRECIATION	

A. To remove depreciation expense for non-used and useful.	(5,780)
B. To amortize CIAC.	(154)

Total	(5,934)

(4) TAXES OTHER THAN INCOME	

To remove RAFs on the requested revenue increase.	(5,124)

(5) OPERATING REVENUES	

To reflect the revenue requirement.	76,316

(6) TAXES OTHER THAN INCOME	

To reflect RAFs on the revenue increase.	2,671
