

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of RADNOR/PLANTATION CORPORATION d/b/a PLANTATION UTILITIES for an increase in sewer rates in Martin County.)	DOCKET NO. 880654-SU
)	
)	ORDER NO. 21415
)	
)	ISSUED: 6-20-89

The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, CHAIRMAN
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION

ORDER SETTING FINAL RATES AND
 ESTABLISHING MISCELLANEOUS SERVICE CHARGES
 AND SERVICE AVAILABILITY CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and 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.

BACKGROUND

On December 30, 1988, Radnor/Plantation Corporation d/b/a Plantation Utilities (Radnor or the utility) filed an application for increased rates for its sewer system in Martin County. The application, as filed, met the minimum filing requirements and the official filing date was established as December 30, 1988.

Radnor states that the revenues derived from the rates that were established by Order No. 9507 are not adequate for its provision of sewer service to the public and to provide a return for the utility which will attract capital or insure its credit-worthiness. Also, the utility has recently expanded its sewer plant to a capacity of 300,000 gallons per day (gpd) from 200,000 gpd and improved the quality of plant effluent pursuant to Department of Environmental Regulation (DER) requirements applicable to spray irrigation.

By Order No. 19702, we acknowledged the utility's price index application in Docket No. 880859-WS, effective August 22, 1988. Also, in Docket No. 850054-WS, the utility underwent a name change from Indian River Plantation Company to its present name, which we approved by Order No. 14630, issued July 25, 1985.

The test year for this docket is the 12-month period ended December 31, 1988. The utility has requested final revenues

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which would produce an increase over 1988 test year revenues of \$147,968, or 93%. The utility requested an interim revenue increase of \$131,938, or 83%. We suspended the utility's proposed rates and set interim rates by Order No. 20822, issued February 28, 1989. We also set interim service availability charges in that Order. We last considered this utility's rates in Docket No. 791033-WS, which resulted in our issuance of Order No. 9507 on August 28, 1980.

QUALITY OF SERVICE

Our consideration of the utility's quality of service is based upon several factors which include a review of the utility's compliance with environmental and regulatory rules and regulations, and a review of the level of customer satisfaction. We also conducted an engineering investigation. Our review revealed that there were no outstanding complaints on file for this utility with the Public Service Commission. Furthermore, this utility currently has no notices of violation nor any outstanding citations at DER's Southeast Florida District.

Our primary method of determining the level of customer satisfaction is by conducting a customer meeting at which customers are invited to give testimony regarding the quality of service provided by the utility and to make any comments or complaints they desire. In this case, we held a customer meeting in the service area on March 13, 1989, which was attended by approximately 70 customers. Twenty customers gave testimony. The customers who testified were mainly concerned about the magnitude of the increase. In addition, several speakers expressed concerns about who should pay for the expansion and system upgrading, how the rates should be structured, seasonal occupancy, the impact of the hotel and recreational area expansions on current customers and the appropriate allocation of costs. One speaker expressed concern over whether the flows utilized for the test year were accurate indicators of the plant flows to be considered in our development of the appropriate rates. One customer expressed concern over the prospect of the utility furnishing free effluent to the golf course. Although there were no comments made regarding the quality of sewer service provided by the utility, two customers remarked about the quality of water. It should be noted, however, that this rate proceeding applies only to wastewater rates.

According to DER, the processing of the 0.1 million gpd expansion construction permit required that improvements be made to the wastewater treatment plant. Filtration was required by Rule 17-6.040(4)(q), Florida Administrative Code, to provide reasonable assurance that the effluent would contain no greater than 5 milligrams per liter (mg/l) total suspended solids (TSS) as required for spray irrigation on areas with public access. The lining of the effluent ponds was required because of the proximity of the ponds to the Indian River. Otherwise, the ponds would have been required to be 500 feet from the hydraulic or vegetative jurisdictional connection to the river, which was not practical or feasible.

Based upon our consideration of the foregoing, we find the quality of service provided by Radnor to be satisfactory.

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RATE BASE

The utility has requested a used and useful percentage of 62.8% for its wastewater treatment plant. This calculation is based on the design criteria used by DER when it approved the construction and operating permit of this treatment plant, along with an allowance for margin reserve of 23,142 gpd. When calculating used and useful for wastewater treatment plants, we generally consider the average flow for the maximum month plus margin reserve as compared to the rated capacity of the treatment plant. However, accurate test year meter readings were not available for either water or wastewater flows. Therefore, a used and useful determination based on metered flows would not yield an accurate evaluation of the customer demands placed on this system. Because accurate meter readings were not available for the test year, we find the method used by the utility in calculating the used and useful percentage for the wastewater treatment plant to be reasonable.

The utility requested a used and useful of 100% for its wastewater collection system. This calculation was based on the fact that the utility extends lines to new projects only as they are developed. There are no undeveloped lots to which lines have been extended. Therefore, the existing collection facilities relate only to existing customers. Therefore, we find the utility's request for a 100% used and useful determination for the wastewater collection system reasonable.

Based on the foregoing, we find Radnor's requested used and useful percentages of 62.8% and 100% to be appropriate for the wastewater treatment plant and the wastewater collection system, respectively.

Margin reserve recognizes capacity that the utility must have in reserve, beyond that which is demanded by the test year customers, to enable new customers to connect during the next one to one-and-a-half years without new plant expansion occurring. The utility is required to provide service in its service area when a customer is ready to tie-in to the system pursuant to Section 367.111, Florida Statutes.

A margin reserve of 23,142 gpd was calculated by the utility for the wastewater treatment plant. In determining this amount of margin reserve, the utility used a method consistent with our policy. In order to determine its margin reserve, the utility calculated the average yearly growth rate in ERCs for the most recent five-year period. This rate was then multiplied by the construction time necessary to add treatment plant capacity, one-and-a-half years. The ratio of the existing customer demand to the average number of ERCs for the test year was multiplied by the product of the average yearly growth rate and the construction time necessary to add new treatment plant, thus establishing a margin reserve of 23,142 gpd. We find the utility's method of calculating margin reserve to be appropriate and hereby allow a margin reserve of 23,142 gpd.

It has been our policy that when we allow a margin reserve in rate base, the expected customer contributions over the same period must also be included. The imputation of contributions-in-aid-of-construction (CIAC) should not, however,

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reduce rate base further than if no margin reserve were allowed. The margin reserve allowed includes 57 equivalent residential connections (ERCs). The average growth in ERCs for the test year was 38. This amount multiplied by a year and a half for construction time for additional capacity, results in 57 ERCs for the margin reserve. We have also found a service availability charge of \$1,000 for the utility to be appropriate. This amount multiplied by the 57 ERCs results in imputed CIAC of \$57,000 for the margin reserve. The additional plant investment allowed in rate base as a result of the margin reserve is \$59,555. We, therefore, find that rate base must be adjusted by \$57,000 to reflect imputation of CIAC for the margin reserve. In addition, we find that accumulated amortization of CIAC must be adjusted by \$3,335 to reflect the associated accumulated amortization using the utility's composite depreciation rate of 3.90%. Also, the amortization expense should be adjusted by \$2,223 to reflect the test year amortization expense.

The utility reflected a 13-month average balance of plant in service of \$992,264 for the test year. We believe that several adjustments should be made to the utility's reported balance. The utility's calculation of the 13-month average balance of plant in service is based on nine months of actual data and four months of projected data. Since historical data was needed to set interim rates, on January 24, 1989, the utility provided actual data for the last four months of the test year. Based on this information, we find it appropriate to increase plant in service by \$830 to reflect the actual plant balance at December 31, 1988.

The utility capitalized interest during the construction of its sewage treatment plant. The amount of the allowance for funds used during construction (AFUDC) included in plant in service was \$31,046. The utility did not have an approved AFUDC rate at the time the interest was capitalized, although the utility subsequently filed for an approved AFUDC rate in Docket No. 881506-WS. The rate used by the utility was 7.92%, the average cost of debt for the period of construction. The rate we approved in Docket No. 881506-WS, based on the utility's capital structure for the 12-month period ended July 31, 1988, was 8.21%. However, since the utility did not timely file for an approved AFUDC rate, we reduced the approved rate by 100 basis points to 7.21%, as a penalty for not timely filing as required by Rule 25-30.116, Florida Administrative Code. Therefore, we allowed the utility to implement an AFUDC rate of 7.21% for construction projects for the period of August 11, 1986, the effective date of Rule 25-30.116, Florida Administrative Code, to July 31, 1988, the end of the test year used to establish the AFUDC rate, and 8.21% on all qualifying construction projects commenced on or after August 1, 1988. Further, the proper application of AFUDC prior to the effective date of the Rule was to be determined through rate case proceedings. The construction period for the wastewater treatment plant was from September, 1985, to January, 1988. Since the average interest rate on the utility's debt for the period prior to August 11, 1986, was 7.92%, we find the approved rate of 7.21% for construction projects from August 11, 1986, to July 31, 1988, to be reasonable for the period of construction prior to August 11, 1986. We have, therefore, recalculated the AFUDC for the period of construction based on the approved rate of 7.21%. As a result,

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the allowable AFUDC is \$25,243, and plant in service has been reduced by \$5,803 to reflect this amount.

While constructing the new plant facilities, the utility retired a generator. However, no retirement was ever recorded on its books. The generator was purchased in 1976 at a cost of \$10,000. We have, therefore, reduced plant in service by \$10,000 to reflect the retirement of the generator.

As a result of the foregoing adjustments, we find that plant in service must be reduced by \$14,973, and that the 13-month average balance of utility plant in service is \$977,291 for the period ended December 31, 1988. As a result of these adjustments, non-used and useful plant in service has been recalculated to be \$266,573. The amount of non-used and useful plant in service calculated by the utility prior to our plant adjustments was \$273,035. Therefore, we find that the utility's balance must be adjusted by \$6,462 to reflect our adjustments, as set forth above.

The utility reflected a 13-month average balance of accumulated depreciation of \$92,886 for the test year. We believe that several adjustments should be made to the balance reported by the utility. We have reduced accumulated depreciation by \$104 to reflect the actual balance at December 31, 1988, instead of the projected balance as reported by the utility.

The utility's calculation of accumulated depreciation for Account 354, Structure and Improvements, reflected accumulated depreciation of \$398 in May of the test year. The appropriate balance should have been \$4,116. As a result of this error, the 13-month average balance of accumulated depreciation was understated by \$2,270 for the test year. We have, therefore, adjusted accumulated depreciation by \$2,270 to reflect the correct amount.

We have reduced accumulated depreciation by \$3,001 to remove the depreciation associated with the retired generator. Accumulated depreciation for the generator was calculated from 1976 through 1988 based on the composite depreciation rate of 2.5% approved in the utility's last rate case in Docket No. 791033-WS. This was also the depreciation rate recognized in the utility's transfer proceeding in Docket No. 850054-WS.

Finally, we have reduced accumulated depreciation by \$197 to reflect test year depreciation calculated based on our guideline depreciation rates in Rule 25-30.140, Florida Administrative Code.

As a result of our foregoing adjustments, we find the appropriate balance of accumulated depreciation to be \$91,854 for the test year ended December 31, 1988.

The utility requested that the formula approach be used to calculate the working capital allowance. The utility stated that, although the utility has its own division balance sheet, utility cash, receivables, and payables are reflected in the accounts of the parent for efficiency and cost savings. As a result, the current assets and liabilities shown on the utility's

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balance sheet do not properly reflect the working capital needed. Since the balance sheet method produced a negative working capital allowance of \$751,063, the utility used the formula approach to calculate a working capital allowance of \$50,055.

It is our policy to use the balance sheet method because it allows a more precise determination of the amount of capital a utility is actually employing in its day-to-day operations. We do not believe that the utility's inability to determine a specific working capital allowance for the utility division necessarily justifies using the formula approach, which will always produce a working capital allowance. A utility needs funds to operate, but these funds may be provided by cost-free liabilities and the utility may not maintain an excess of current funds to justify a working capital allowance.

In this particular case, utility cash, receivables, and payables are reflected in the accounts of the parent. All utility cash receipts are received by the parent and debited to an intercompany payable account which was established when the assets of the utility were purchased. All utility expenditures are made by the parent and credited to this account. No interest is charged on the outstanding balance which includes the original amount credited to this account when the assets were purchased, plus the net cash investment to furnish day to day utility operations. Since no interest is charged on the outstanding balance, it appears that funds to operate the utility are provided cost-free from the parent, and that the utility does not maintain an excess of current funds to justify a working capital allowance in rate base. We, therefore, find that the appropriate working capital allowance for this utility is zero.

Based on a 13-month average and all of our adjustments as set forth above, we find that Radnor's sewer rate base was \$730,289, as of December 31, 1988. The schedule of sewer rate base is attached as Schedule No. 1-A. Our adjustments to the sewer rate base is Schedule No. 1-B.

COST OF CAPITAL

The company has used the capital structure of the utility division in calculating the rate of return in this case. The capital structure requested by the utility consisted of 54.55% debt at a cost of 8.41%, 43.33% equity at 14.07%, and .02% investment tax credits and 2.10% deferred taxes at zero cost. Based on this capital structure, the utility requested a rate of return of 10.69%.

Plantation Utilities is an operating division of Radnor/Plantation Corporation. The utility has no outside investor capital of its own; financing is provided by the parent, Radnor/Plantation Corporation. As a result, the debt reflected in the utility's capital structure represents funds allocated to the utility for plant construction from the proceeds of a \$20,000,000 line of credit obtained by Radnor/Plantation Corporation. It is our policy to use the capital structure of the entity that attracts investor capital from any arms-length transaction. The appropriate capital structure is found at the

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first level that receives investor funds from arms-length sources. Since Plantation Utilities does not attract outside capital of its own, but receives its debt financing from Radnor/Plantation Corporation, which is the source of outside funding, we find it appropriate to use the capital structure of Radnor/Plantation Corporation to determine the utility's cost of capital in this proceeding.

The utility argues that its capital structure should be used because it has its own balance sheet and would probably be able to borrow funds from third parties on its own, if it were a separate entity. The utility stated that it did not believe the capital structure of Radnor/Plantation Corporation to be appropriate because it has no equity and cannot borrow funds without a guarantee from its parent, Radnor Corporation. The utility argues that if this Commission determines that the utility's capital structure should not be used, then the appropriate capital structure would be found at Radnor Corporation. We take note that Radnor/Plantation Corporation has no equity. However, we believe that the capital structure of Radnor/Plantation Corporation should be used because it is the first level that attracts funding from outside sources. Also, since the utility receives its debt financing from Radnor/Plantation Corporation, we believe the cost of debt for Radnor/Plantation represents the true cost of capital for this utility.

The capital structure for Radnor/Plantation Corporation is 100% debt. Based on this capital structure, we have determined the weighted average cost of debt to be 9.68%. Accordingly, the appropriate overall rate of return is 9.68%. The schedule of capital structure is attached as Schedule No. 2-A, and our adjustments to the capital structure are detailed on Schedule 2-B.

NET OPERATING INCOME

The utility reflected annualized revenues of \$159,120 for the test year. This amount was based on projected usage for the test year. We have adjusted test year revenues to reflect actual usage. When actual test year usage of \$39,511,852 is used at the \$3.94 per 1000 gallon wastewater rate approved in Order No. 19702, issued July 22, 1988, the annualized revenues for the test year are \$155,677. We have, therefore, adjusted the test year revenues by \$3,443 to reflect annualized revenues based on actual test year usage.

Operation and Maintenance Expenses

The utility reflected operation and maintenance expenses totalling \$115,746 for the test year. We believe that several adjustments should be made to the utility's reported balance as follows. The operation and maintenance expenses reported by the utility were based on eight months of actual data and four months of projected data. Since historical data was needed to set interim rates, on January 24, 1989, the utility provided actual data for the last four months of the test year. Our audit of the utility's books and records indicated that operation and maintenance expenses for the test year totalled \$108,007. We have, therefore, adjusted the test year operation and maintenance

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expenses by \$7,739 to reflect the actual balance at the end of the test year.

Based on our audit, the test year electric expense was determined to be \$16,287. The actual expense reported by the utility was \$15,552. Therefore, the audited balance was \$735 higher than that reported by the utility. The utility made a proforma adjustment of \$150 to the electric expense to remove an out-of-period amount. As a result of this adjustment, the test year electric expense reported by the utility was \$15,402. Because our audit indicated that the actual test year expense was \$16,287, we find it appropriate to adjust electric expense by \$885 to reflect the actual test year amount.

The utility reported a projected test year expense of \$6,627 for Contractual Services-Accounting. Since this amount related to the sale of the utility, a proforma adjustment of \$6,627 was made to exclude this amount from test year expenses. Further, a proforma adjustment of \$1,200 was made to this account to estimate recurring outside accounting expense for annual reports, index adjustment and other routine accounting matters. As a result of these adjustments, a net adjustment of \$5,427 was made. Our audit indicated that the actual test year expense for Contractual Services-Accounting was \$4,856. The actual test year expense of \$4,856 less the \$1,200 proforma adjustment for recurring accounting expenses requires an adjustment of \$3,656, which is less than the adjustment of \$5,427 made by the utility based on the projected amount. We have, therefore, made an adjustment of \$1,771 to reflect the appropriate test year amount.

The utility made a proforma adjustment to salaries for \$5,141 to annualize salaries at the end of the test year. This adjustment assumed that the operators worked 40 hours per week. Our review of the employee time reports indicated that hourly employees worked approximately 34-35 hours per week. Based on these hours, we find the payroll expense to be \$36,922 for the test year. The utility reflected a test year expense of \$37,839. The utility's annualized payroll expense totalled \$42,980, resulting in an increase to payroll expense of \$5,141. As a result of this adjustment, the actual payroll expense was overstated by \$6,058, the difference between our audited balance and the utility's annualized balance. However, although the utility's payroll expense is overstated by \$6,058, we find it appropriate to remove only the utility's proforma adjustment of \$5,141 because the actual payroll expense may vary due to the fluctuation of hours worked between 34-35 hours per week.

The utility made a proforma adjustment of \$19,931 to reflect the utility's portion of an annual insurance premium purchased by the consolidated group, allocated to the wastewater division based on plant costs. This adjustment was made based on an estimated expense. The actual insurance expense allocated to the utility was \$16,165. The allocated portion for the wastewater system based on plant costs is \$7,494. We, therefore, find it appropriate to reduce insurance expense by \$12,437 to reflect the actual insurance expense allocated to the wastewater system.

The utility's original filing reflected a projected sludge removal expense of \$7,419. Additional information filed by the utility indicates that the actual sludge removal expense for the

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test year was \$5,567. We have, therefore, decreased the projected expense by \$1,852 to reflect the actual test year expense. In order to reflect costs associated with maintaining the sludge drying beds, which were not included in the actual test year expense, the utility provided additional cost information. Based on this additional information, and the fact that the wastewater treatment demand is highly seasonal, we have used an estimated cost for sludge removal of \$6,140 in our calculations instead of the actual test year expense of \$5,567. We believe that this additional information reflects a more accurate account of the costs associated with sludge removal and, therefore, we find these estimated costs to be more appropriate than the actual costs originally provided by the utility.

The utility reflected an estimated rate case expense of \$62,400, amortized over four years, resulting in an annual amortization expense of \$15,600. We received an updated rate case expense summary from the utility which indicated that the actual rate case expense incurred to date was \$66,477. It was estimated that an additional expense of \$3,987 would be incurred through the proposed agency action (PAA) process, for a total requested rate case expense of \$70,464. This amount, amortized over four years, results in an annual amortization expense of \$17,616. The utility provided invoices to support its requested amounts. We have reviewed the invoices submitted and find that they support the amount requested by the utility. We, therefore, find it appropriate to allow rate case expense of \$70,464, amortized over four years, and that the annual amortization expense of \$15,600 reflected by the utility shall be increased by \$2,016 to reflect the approved amortization expense of \$17,616.

As a result of our foregoing adjustments, we find that Radnor's operation and maintenance expenses must be decreased by \$20,072, and that the appropriate test year operation and maintenance expenses are \$130,769.

Depreciation Expense

The utility reflected annualized depreciation expense of \$28,394 calculated based on our guideline rates in Rule 25-30.140, Florida Administrative Code. Our recalculation of depreciation expense based on guideline rates and our adjusted plant balance totalled \$28,197. Amortization of CIAC on the CIAC imputed for the margin reserve totalled \$2,223. As a result, we find that the net depreciation expense for the test year is \$25,974.

The utility reflected test year taxes other than income of \$20,320. We believe that several adjustments should be made to the amount reported by the utility as follows. The taxes other than income reported by the utility were based on projected amounts. We adjusted the utility's reported amount by \$2,812 to reflect the actual test year expense. Further, we reduced the test year expense by \$3,183 to remove out-of-test-period real estate and personal property taxes. Also, property taxes were reduced by \$1,740 to remove the portion related to non-used and useful plant in service. Payroll taxes were reduced by \$400 to remove the utility's proforma payroll tax adjustment associated with the proforma adjustment to payroll expense which we

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disallowed earlier. Finally, we have reduced gross receipts taxes by \$86 to reflect the appropriate amount of gross receipts taxes associated with the annualized test year revenues, and we have reduced gross receipts taxes by \$3,699 to remove the gross receipts taxes associated with the utility's requested revenue increase.

As a result of our foregoing adjustments, we find the appropriate taxes other than income taxes to be \$16,562.

We find that no income tax expense is appropriate for the utility. This is because the utility's capital structure is 100% debt and, as a result, the utility has no equity return. Therefore, no income tax expense is appropriate.

Based on our foregoing adjustments, we find that Radnor has a test year net operating loss of \$15,050. The operating statement is attached as Schedule No. 3-A and our adjustments to the operating statement are reflected on Schedule No. 3-B.

REVENUE REQUIREMENT

Based on our adjustments, we find the utility's annual revenue requirement to be \$243,997. These revenues are designed to give the utility an opportunity to recover its test year operating expenses and a 9.68% return on rate base.

RATES AND CHARGES

The rates currently charged by the utility are based only on a charge per 1,000 gallons of metered water. The utility has requested to change its rates to conform with our policy of using a base facility charge rate design. The permanent rates requested by the utility are designed to produce annual wastewater revenues of \$307,088. The requested revenues represent an increase of \$154,366 (93%) for sewer.

It is our policy to use the base facility charge structure for setting rates because of its ability to track costs and to give the customers some control over their wastewater bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge. Therefore, we find it appropriate to authorize the utility to charge the rates shown on Schedule No. 4-A. That schedule also presents a comparison of the utility's original, interim, and proposed rates. These approved final rates are structured using the base facility charge rate structure and are designed to allow the utility the opportunity to produce \$243,997 in annual revenues.

The approved rates for wastewater service include a base charge for all residential customers regardless of meter size with a cap of 6,000 gallons of usage per month on which the gallonage charge may be billed. There is no wastewater gallonage cap for general service customer billing. The differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a

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residential customer's water usage will not be returned to the wastewater system.

The approved rates will be effective for meter readings on or after 30 days from the effective date of this Order if no protest is timely filed. The utility shall file and obtain our approval of revised tariff sheets and a proposed customer notice letter, pursuant to Rule 25-22.0406(9), Florida Administrative Code, prior to implementing the new rates. Since the final revenue requirement exceeds interim, no refund is necessary and the corporate undertaking may be released.

MISCELLANEOUS SERVICE CHARGES

Rule 25-30.345, Florida Administrative Code, permits utilities to assess charges for miscellaneous services. The principal purpose of such is to provide a means by which the utility can recover its costs of providing miscellaneous services from those customers who require the services. Thus, costs are more closely borne by the cost causer rather than the general body of ratepayers. Second Revised Staff Advisory Bulletin (SAB) No. 13 encourages utilities to establish charges for the following miscellaneous services:

INITIAL CONNECTION - This charge would be levied for service initiation at a location where service did not previously exist.

NORMAL RECONNECTION - This charge would 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.

VIOLATION RECONNECTION - This charge would be levied prior to reconnection for 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.

PREMISES VISIT CHARGE (IN LIEU OF DISCONNECTION) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The utility proposed charges for wastewater only, since this docket addresses only wastewater. However, we believe that there is no reason to not also set the charges for water. The utility proposed wastewater charges with a \$15 charge for a violation reconnection. However, in the case of a wastewater-only violation disconnection, the actual capping of the lateral from the premises would cost considerably more than the proposed \$15 charge. Therefore, we find it appropriate to authorize the utility to assess a charge based on actual costs in the event that only wastewater is discontinued by capping the lateral. The following table shows the utility proposed charges and our approved charges. The utility has no miscellaneous service charges at the present time.

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	<u>WATER</u>		<u>WASTEWATER</u>	
	<u>Utility Request</u>	<u>Commission-Approved</u>	<u>Utility Request</u>	<u>Commission-Approved</u>
Initial Connection	- - -	\$15	\$15	\$15
Normal Reconnection	- - -	\$15	\$15	\$15
Violation Reconnection	- - -	\$15	\$15	Actual Cost
Premises Visit	- - -	\$10	\$10	\$10

When both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions. If a utility must disconnect service to a wastewater-only customer, actual costs incurred may be recovered from customer before service is restored.

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

SERVICE AVAILABILITY CHARGES

The utility does not have, nor has it requested, any type of service availability policy. The utility recently increased the capacity of its wastewater system from 200,000 gpd to 300,000 gpd. The expansion was completed to provide capacity for an additional 440 multifamily units. Because this expansion was already completed, we set interim service availability charges of \$1,000 per unit in Order No. 20822, issued on February 28, 1989. We found it appropriate to establish the interim charge so that the utility's opportunity to collect CIAC during the pendency of this proceeding would not be lost.

The expansion noted above included rebuilding and increasing the treatment plant's capacity, rebuilding the percolation ponds and improving the utility's effluent to conform with DER spray irrigation specifications by filtration. The utility's capital investment in these improvements was \$697,963. We used \$631,000 for interim purposes as a preliminary figure. Subsequent discovery indicated that the utility's capital outlay was actually \$66,963 more, for a total of \$697,963. We have also found that the developer costs off the collection system and those costs are not booked to utility plant in service. The NARUC Uniform System of Accounts requires that all utility plant be placed on the books of the utility as either investment or contributions, as appropriate.

Our development of service availability charges for the utility employs the \$697,963 gross plant investment for the expansion necessary to add 440 multiple family units, and to

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improve the effluent pursuant to DER directives for spray irrigation. We believe that while all of the investment may not be for growth, most of it is and should be borne by future customers, including the amount needed to comply with DER spray effluent specifications. We are not able to delineate which costs relate to expansion and which relate to simple improvements. Since the developer will be paying the service availability costs and passing them on to investors, the cost of improving the effluent will be borne by the developer and eventually future customers. Although it has been our policy to interpret our Rule 25-30.580, Florida Administrative Code, to require that net CIAC to net plant-in-service should fall near 75%, in this case the level of net CIAC to net plant-in-service will be somewhat less than 75% because some of the plant on the books has no CIAC associated with it. Improvements during future years after build-out will further reduce the net CIAC level because those improvements will enter into rate base and be recovered through depreciation and earn a return on investment, i.e., will not be recovered through payments by future customers for service availability. The model assumes that the 440 units will be on-line by the end of 1993, a four year period.

We find it appropriate that the interim service availability charge of \$1,000 per unit be made a permanent charge. Since the charge is the same as for interim, no refund is required for service availability charges. The utility's service availability policy shall be submitted for our approval within 60 days of the effective date of this Order.

The utility has been providing effluent to the golf course, a related party through the parent organization, for a number of years. Disposal of effluent through spray irrigation was determined to be the most cost effective and beneficial to wastewater customers and the environment, as well as to the golf course. No charge has ever been levied for effluent sent to the golf course nor has the utility requested approval of a charge.

The golf course owns and operates all of the pumping and related equipment and pays for the cost of pumping and maintenance of all spray irrigation from the holding pond to the eventual spraying of the golf course. None of the capital costs are included in the rate base to the wastewater customers. In addition, the utility owns and operates two artesian wells which are used to supplement the level in the golf course holding ponds during arid conditions or when plant flows are low. The golf course does not use, nor has it ever needed, any type of raw or potable water from sources other than the artesian wells. The cost of the artesian wells is minimal, and the pumping expenses are essentially non-existent due to natural artesian flows.

The service availability charges of \$1,000 per unit are designed to recover approximately 75% of the cost of the expansion including the filtering of the effluent in order to make it suitable for compliance with the DER standards. We have, on occasion, seen fit to require a charge for effluent because of its benefit to the recipient as well as cost

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avoidance of other forms of irrigation media such as potable water. In Docket No. 870743-SU, in a proceeding regarding Marco Island Utilities, Inc., we established a rate for effluent to be used for spray irrigation. However, in this case the utility has a very low cost alternative and will recover the capital costs through cash CIAC from the developer. That situation did not exist in the Marco Island case to the extent it does in this case. Therefore, we find it appropriate that Radnor levy no charge for the use of its effluent for spray irrigation by the golf course.

If a protest is not received within 21 days of the issuance of this Order, it will become final and effective. The docket may be closed upon our approval of the utility's revised tariff sheets, an appropriate customer notice, and the utility's revised tariffs reflecting the service availability policy approved herein. At that time, the utility's corporate undertaking may be released.

Based on the foregoing, it is, therefore

ORDERED by the Florida Public Service Commission that the application of Radnor/Plantation Corporation d/b/a Plantation Utilities for a wastewater rate increase in Martin County is hereby approved to the extent set forth in the body of this Order. It is further

ORDERED that each of the specific findings herein is approved in every respect. It is further

ORDERED that all matters contained herein and/or attached hereto, whether in the form of discourse or schedules, are by this reference, specifically made integral parts of this Order. 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 25-22.036, 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 close of business on July 10, 1989. It is further

ORDERED that the utility shall implement new rates and charges which are designed to increase wastewater revenues by \$88,320 for total annual wastewater revenues of \$243,997. It is further

ORDERED that the final service rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. It is further

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

ORDERED that the service availability charges approved herein shall be effective for connections made on or after the

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stamped approved date on the revised tariff sheets. It is further

ORDERED that in the event this Order becomes final, the utility shall notify each customer of the rates and charges authorized herein and explain the reasons for these rate changes. The form of such notice and explanation shall be submitted to the Commission for its prior approval. It is further

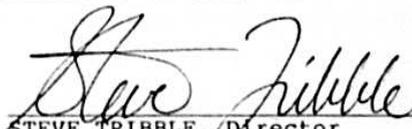
ORDERED that, if this Order becomes final, the rates and charges approved herein shall not become effective until revised tariff sheets have been filed with and approved by this Commission. It is further

ORDERED that, after July 11, 1989, this Commission shall issue either a notice of further proceedings or an order acknowledging that the provisions of this Order have become final. It is further

ORDERED that, in the event no protest is timely received, and this Order becomes effective and final, the utility may be released from its corporate undertaking. It is further

ORDERED that, in the event no protest is timely received, and upon the utility's filing of revised tariff sheets and our approval of them, this docket shall be closed.

By ORDER of the Florida Public Service Commission
this 20th day of JUNE, 1989.



STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

SFS

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

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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 July 11, 1989. In the absence of such a petition, this Order shall become effective July 12, 1989, 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 this Order becomes final and effective on July 12, 1989, 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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PLANTATION UTILITIES
 SCHEDULE OF SEWER RATE BASE
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 1-A
 DOCKET NO. 880654-SU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 992,264	\$ 0	\$ 992,264	\$(14,973)	\$ 977,291
2					
3 LAND	165,090	0	165,090	0	165,090
4					
5 NON-USED & USEFUL COMPONENTS	(273,035)	0	(273,035)	6,462	(266,573)
6					
7 C.W.I.P.	0	0	0	0	0
8					
9 C.I.A.C.	0	0	0	(57,000)	(57,000)
10					
11 ACCUMULATED DEPRECIATION	(84,209)	(8,577)	(92,886)	1,032	(91,854)
12					
13 AMORTIZATION OF C.I.A.C.	0	0	0	3,335	3,335
14					
15 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
16					
17 WORKING CAPITAL ALLOWANCE	0	50,055	50,055	(50,055)	0
18					
19 RATE BASE	\$ 800,110	\$ 41,378	\$ 841,488	\$(111,199)	\$ 730,289
20					

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PLANTATION UTILITIES
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 1-8
 PAGE 1 OF 2
 DOCKET NO. 880654-SU

EXPLANATION	SEWER
-----	-----
1 1) UTILITY PLANT IN SERVICE	
2 -----	
3 A. To reflect the recalculation of AFUDC	\$ (5,803)
4 based on the utility's approved AFUDC	
5 rate.	
6	
7 B. To remove the retired generator from	(10,000)
8 plant in service.	
9	
10 C. To reflect the 13-month average	830
11 balance of plant based on actual plant	
12 data for the test year.	-----
13	
14 TOTAL	\$ (14,973)
15	-----
16	
17 2) NON-USED & USEFUL COMPONENTS	
18 -----	
19 A. To reflect non-used and useful plant	\$ 6,462
20 based on staff's adjusted plant balance.	-----
21	
22 3) ACCUMULATED DEPRECIATION	
23 -----	
24 A. To reflect the appropriate balance for	\$ (2,270)
25 Account No. 354, Structures and Improv.	
26	
27 B. To remove accumulated depreciation on the	3,001
28 retired generator.	
29	
30 C. To reflect the 13-month average balance	104
31 of accumulated depreciation based on	
32 actual plant balances for the test year.	
33	
34 D. To reflect annualized depreciation for	197
35 the test year.	-----
36	
37 TOTAL	\$ 1,032
38	-----
39	
40	
41	

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PLANTATION UTILITIES
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 1-B
 PAGE 2 OF 2
 DOCKET NO. 880654-SU

EXPLANATION -----	SEWER -----
1 4) CONTRIBUTIONS IN AID OF CONSTRUCTION	
2 -----	
3 A. To reflect imputation of CIAC for the	\$ (57,000)
4 margin reserve.	-----
5	
6	
7 5) ACCUMULATED AMORTIZATION OF CIAC	
8 -----	
9 A. To reflect amortization of CIAC imputed	\$ 3,335
10 for the margin reserve.	-----
11	
12	
13 6) WORKING CAPITAL ALLOWANCE	
14 -----	
15 A. To reflect the working capital allowance	\$ (50,055)
16 as zero.	-----
17	
18	
19	
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PLANTATION UTILITIES
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/88

SCHEDULE NO. 2-A
DOCKET NO. 880654-SU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
1 FIDELITY BANK #1	\$ 7,717,911	32.26%	8.41%	2.71%	\$ (7,482,320)	\$ 235,591	32.26%	8.41%	2.71%
2									
3 FIDELITY BANK #2	10,700,577	44.73%	10.25%	4.58%	(10,373,919)	326,658	44.73%	10.25%	4.58%
4									
5 RADNOR CORP. #1	2,121,153	8.87%	10.50%	0.93%	(2,056,376)	64,777	8.87%	10.50%	0.93%
6									
7 RADNOR CORP. #2	1,366,544	5.71%	12.50%	0.71%	(1,324,845)	41,699	5.71%	12.50%	0.71%
8									
9 RADNOR CORP. #3	1,036,398	4.33%	8.50%	0.37%	(1,004,776)	31,622	4.33%	8.50%	0.37%
10									
11 INDIAN RIVER PLANTATION	981,858	4.10%	9.00%	0.37%	(951,916)	29,942	4.10%	9.00%	0.37%
12									
13									
14 TOTAL CAPITAL	\$ 23,924,441	100.00%		9.68%	\$ (23,194,152)	\$ 730,289	100.00%		9.68%
15	*****	*****		*****	*****	*****	*****		*****

PLANTATION UTILITIES
 ADJUSTMENTS TO CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 2-B
 DOCKET NO. 880654-SU

DESCRIPTION	13-MONTH AVG. BALANCE AT 12/31/88	ADJUST FOR ERROR	PRO RATA RECONCILE	NET ADJUSTMENT
1 FIDELITY BANK #1	\$ 448,579	\$ 0	\$ (7,930,899)	\$ (7,482,320)
2				
3 FIDELITY BANK #2	2,290,085	0	(12,664,004)	(10,373,919)
4				
5 RADNOR CORP. #1	7,768	0	(2,064,144)	(2,056,376)
6				
7 RADNOR CORP. #2	219,046	0	(1,543,891)	(1,324,845)
8				
9 RADNOR CORP. #3	621,044	0	(1,625,820)	(1,004,776)
10				
11 INDIAN RIVER PLANTATION	196,372	0	(1,148,288)	(951,916)
12				
13				
14 TOTAL CAPITAL	\$ 3,782,894	\$ 0	\$ (26,977,046)	\$ (23,194,152)
15				

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PLANTATION UTILITIES
STATEMENT OF SEWER OPERATIONS
TEST YEAR ENDED 12/31/88

SCHEDULE NO. 3-A
DOCKET NO. 880654-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 152,722	\$ 154,366	\$ 307,088	\$ (151,411)	\$ 155,677	\$ 88,320	\$ 243,997
2							
3 OPERATING EXPENSES							
4							
5 OPERATION AND MAINTENANCE	\$ 115,746	\$ 35,095	\$ 150,841	\$ (20,072)	\$ 130,769	\$ 0	\$ 130,769
6							
7 DEPRECIATION	28,123	271	28,394	(197)	28,197	0	28,197
8							
9 AMORTIZATION	0	0	0	(2,223)	(2,223)	0	(2,223)
10							
11 TAXES OTHER THAN INCOME	26,055	(5,735)	20,320	(6,336)	13,984	2,578	16,562
12							
13 INCOME TAXES	(25,008)	42,586	17,578	(17,578)	0	0	0
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 144,916	\$ 72,217	\$ 217,133	\$ (46,406)	\$ 170,727	\$ 2,578	\$ 173,305
17							
18							
19 OPERATING INCOME	\$ 7,806	\$ 82,149	\$ 89,955	\$ (105,005)	\$ (15,050)	\$ 85,742	\$ 70,692
20							
21							
22 RATE BASE	\$ 800,110		\$ 841,488		\$ 730,289		\$ 730,289
23							
24							
25 RATE OF RETURN	0.98%		10.69%		-2.06%		9.68%
26							

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PLANTATION UTILITIES
 ADJUSTMENTS TO OPERATING STATEMENT
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 3-B
 PAGE 1 of 2
 DOCKET NO. 880654-SU

EXPLANATION -----	SEWER -----
1 1) OPERATING REVENUES	
2 -----	
3 A. To remove the utility's requested	\$ (147,968)
4 revenue increase.	
5	
6 B. To reflect actual test year revenues.	(11,888)
7	
8 C. To reflect annualized test year revenues.	8,445
9	-----
10 TOTAL	\$ (151,411)
11	-----
12	
13 2) OPERATION & MAINTENANCES EXPENSES	
14 -----	
15 A. To reflect actual test year O&M expenses.	\$ (7,739)
16	
17 B. To reflect the test year electric expense	885
18 as verified by staff.	
19	
20 C. To correct the utility's proforma adjustment	1,771
21 to contractual services - accounting based	
22 on staff's audited balance.	
23	
24 D. to remove the utility's proforma salary adj.	(5,141)
25	
26 E. To reflect the actual test year allocation	(12,437)
27 of insurance expense to the sewer system.	
28	
29 F. To reflect the sludge hauling expense as	573
30 determined by the staff engineer.	
31	
32 G. To reflect amortization of rate case expense	2,016
33 of \$70,464 over four years.	-----
34	
35 TOTAL	\$ (20,072)
36	-----
37	
38 3) DEPRECIATION EXPENSE	
39 -----	
40 A. To reflect the annualized test year expense.	\$ (197)
41	-----
42 4) AMORTIZATION OF CIAC	
43 -----	
44 A. To reflect amortization of CIAC imputed for	\$ (2,223)
45 the margin reserve.	-----
46	
47	
48	

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PLANTATION UTILITIES, INC.
 ADJUSTMENTS TO OPERATING STATEMENT
 TEST YEAR ENDED 12/31/88

SCHEDULE NO. 3-B
 PAGE 2 OF 2
 DOCKET NO. 880654-SU

EXPLANATION -----	SEWER -----
1 5) TAXES OTHER THAN INCOME	
2 -----	
3 A. To reflect actual test year taxes	\$ 2,812
4 other than income taxes.	
5	
6 B. To remove gross receipts taxes on the	(3,699)
7 utility's requested revenue increase.	
8	
9 C. To remove the utility's proforma adjustment	(440)
10 to payroll taxes.	
11	
12 D. To remove out of period real estate and	(3,183)
13 personal property taxes.	
14	
15 E. To reflect gross receipts taxes on	(86)
16 annualized test year revenues.	
17	
18 F. To reflect non-used and useful property	(1,740)
19 taxes.	-----
20	
21 TOTAL	\$ (6,336)
22	-----
23	
24 6) INCOME TAXES	
25 -----	
26 A. To remove the utility's requested income	\$ (17,578)
27 tax expense.	-----
28	
29 7) REVENUE REQUIREMENT	
30 -----	
31 A. To reflect the recommended revenue increase.	\$ 88,320
32	-----
33	
34 8) TAXES OTHER THAN INCOME	
35 -----	
36 A. To reflect gross receipts taxes associated	\$ 2,578
37 with the recommended revenue increase.	-----

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Schedule No. 4-A
Docket No. 880654-SU

RATE SCHEDULE

Schedule of Current, Interim, Requested and Approved Rates

Monthly Rates

	Current	Interim	Utility Requested	Comm. Approved
	-----	-----	-----	-----
<u>Residential</u>				
Base Facility Charge:				
Meter Size:				
All Meter Sizes	\$0.00	\$0.00	\$18.64	\$10.00
Gallonage Charge per 1,000 G. (Maximum 6,000 G.)	\$3.94	\$6.18	\$4.44	\$4.01
<u>General Service</u>				
Base Facility Charge:				
Meter Size:				
5/8"x3/4"	\$0.00	\$0.00	\$18.64	\$10.00
1"	\$0.00	\$0.00	\$46.60	\$25.00
1-1/2"	\$0.00	\$0.00	\$93.20	\$50.00
2"	\$0.00	\$0.00	\$149.12	\$80.00
3"	\$0.00	\$0.00	\$298.24	\$160.00
4"	\$0.00	\$0.00	\$466.00	\$300.00
6"	\$0.00	\$0.00	\$932.00	\$625.00
Gallonage Charge per 1,000 G.	\$3.94	\$6.18	\$4.44	\$4.84
<u>Multi-Family Dwellings</u>				
Base Facility Charge:				
Per Unit:	\$0.00	\$0.00	\$12.49	\$0.00
Gallonage Charge per 1,000 G.	\$3.94	\$7.21	\$4.44	\$0.00