

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for staff-) DOCKET NO. 960517-WU
assisted rate case in Highlands) ORDER NO. PSC-96-1389-FOF-WU
County by Heartland Utilities,) ISSUED: November 19, 1996
Inc.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING RATES AND 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

Highlands County Commission transferred jurisdiction of its water and wastewater utilities to this Commission on September 7, 1982. Sebring Country Estates Water Company (SCEWC) has been operating in Highlands County since 1964. By Order No. 12846, issued January 5, 1984, SCEWC was issued Certificate No. 420-W.

By Order No. 18592, issued December 23, 1987, the Commission required SCEWC to show cause why it should not be fined for violations of Section 367.111, Florida Statutes, related to a delinquent annual report and quality of service violations. In Docket No. 871308-WU, a hearing was held regarding the show cause order. As a result of this hearing, the utility was fined \$103,000. The utility was ordered to submit a legal description of

DOCUMENT NUMBER-DATE
12334 NOV 19 96
-FPSC-RECORDS/REPORTING

territory served and to respond to quality of service deficiencies. The utility's response failed to address the show cause provisions of the order and a proposed settlement agreement was rejected. As a result, Certificate No. 420-WU was revoked.

During the pendency of Docket No. 871308-WU, Heartland Utilities, Inc. (Heartland or the utility) and SCEWC applied for a transfer of Certificate No. 420-W from SCEWC to Heartland. The request for transfer was approved by Order No. 22043, issued October 10, 1989.

Heartland purchased both SCEWC and DeSoto City Water system for \$115,000. After satisfying outstanding mortgages, taxes, regulatory assessment fees, late payment penalties, customer deposit reimbursements, and SCEWC creditors, Heartland had no resources left for the settlement of fines owed to the Commission. By Order No. 23312, issued August 7, 1990, the outstanding fine owed to the Commission was declared uncollectible and the docket was closed.

Heartland filed for a staff assisted rate case in 1990. By Order No. 23592, issued October 9, 1990, a rate base was established and compensatory rates were granted. During the years of 1991, 1992, 1993, 1994 and 1995, the utility made successful application of price index rate adjustments.

On April 22, 1996, the utility filed its most recent application with this Commission for a staff assisted rate case. Heartland is a Class C water utility in Highlands County. The utility serves 643 customers, of which 605 are residential customers and the remaining 38 are general service customers. We have selected a historical test year ending December 31, 1995. The utility's 1995 annual report reflected unaudited water operating revenues of \$191,513 resulting in an operating income of \$42,062. The utility is within the Southwest Florida Water Management District (SWFWMD). The District has been notified of the pending rate case, and it has indicated that the utility is currently within prescribed consumption levels.

In preparation for this report, the utility's records have been audited for compliance with Commission rules and orders, and all components necessary for rate setting have been determined. Our staff engineer has also conducted a field investigation of the utility's water treatment and distribution systems along with the service area. A review of the utility's operation expenses, maps, files, and rate application was also done to obtain information about the systems and operating costs. A customer meeting was held in the service area on September 10, 1996.

QUALITY OF SERVICE

The overall quality of service provided by the utility is derived from the evaluation of three separate components of water utility operations: (1) quality of utility's product, (2) operational conditions at the plant facilities, and (3) customer satisfaction.

Quality of Utility's Product

The Department of Environmental Protection (DEP) requires an extensive number of chemical analyses to be performed on each water system under their jurisdiction. These tests are scheduled to occur in quarterly, bi-annual, annual, and thirty-six month intervals to complete three (3), three-year cycles over a nine (9) year time period. The utility is up to date with all of its testing requirements, and all test results (including lead and copper) are satisfactory.

The DEP has on file (for Sebring Country Estates) an RTW analysis (Rothburg, Tambourini & Windson), which is an evaluation of the corrosive nature of treated water. This report is based on samples drawn during the first quarter of 1995 and was conducted by the Florida Rural Water Association. The results were satisfactory, and it was concluded that the water at Sebring Country Estates is not corrosive. By all indications, the water provided by Heartland meets or exceeds all the standards for safe drinking water.

Operational Condition of the Utility's Plant or Facilities

Operational conditions of both plants were found to be satisfactory. Both plants were enclosed by a fence to secure the plant from the public. Each pump house was freshly painted, and the grounds were well manicured. All components of each plant appeared well maintained. Spare parts for emergency repairs were properly stored and easily accessible. Both plants had an auxiliary generator with an automatic switch-over in case of a power outage. During the inspection at each plant, the power was shut down to verify the automatic engagement of the switch-over relays. Each generator started automatically and continued to run for several minutes to simulate emergency conditions. Each plant was found to be clean, functioning properly, and well maintained.

Both water treatment plants are under the jurisdiction of the SWFWMD, are in the Highlands Ridge Water Use Caution Area (WUCA), and should be subject to conservation rates. The Sebring Country Estates plant has been issued Consumptive Use Permit (CUP) Number

205882.02, issued April 21, 1994, which expires on April 21, 2004. This permit limits water consumption to an annual average day of 103,700 gallons with a peak of 139,000 maximum average gallons per day. This limitation is constant and set for the duration of the CUP. The DeSoto City plant has been issued Consumptive Use Permit Number 207938.01, issued December 16, 1991, which expires on December 16, 2001. This permit limits water consumption to an annual average day of 150,000 gallons with a peak of 192,000 maximum average gallons per day. This limitation is also constant and set for the duration of the CUP.

Customer Satisfaction

A customer meeting was held on the evening of September 10, 1996 at the Sebring Country Estates Clubhouse in Sebring, Florida. The utility serves two separate subdivisions known as Sebring Country Estates and DeSoto City. Out of a customer base of 643, approximately ten customers were in attendance at this meeting. All the customers at this informal hearing were residents of Sebring Country Estates. There were four customers that voiced opinions concerning poor quality of service provided by the utility. These customers complained that the water is dirty, smells of too much chlorine and eats away at faucets and pipes. There were also complaints of frequent outages and poor water pressure.

An investigation into the concerns voiced by the four customers was conducted to determine the severity of the issues and what could be done to correct any problems. As noted above, all test results for the required chemical parameters were satisfactory. These test results are the primary indicators of the quality of the utility's product served to its customers. For both Sebring Country Estates and DeSoto City, these tests indicate that the utility meets all parameters for potable water.

It is believed that the concerns over dirty water, excessive chlorine levels and the pipes is related to the hydrogen sulfide content in the raw water. The raw water at both plants contains quantities of hydrogen sulfide which is primarily treated by aeration. While the water treatment plant at DeSoto City is equipped with an aeration unit, the plant at Sebring Country Estates is not. To install an aeration/ground storage/high service pumping unit at the Sebring Country Estates plant, the utility would have to invest about \$300,000. An investment of this size appears cost prohibitive for Heartland, especially for an upgrade that has not been mandated by any governing agency.

Hydrogen sulfide is an organic compound categorized as a secondary, non-hazardous, element commonly found in Florida groundwater. For systems that contain hydrogen sulfide, problems that arise are difficult to address because they typically are localized to the customer's home and are likely related to the condition of the customer's own plumbing. Usually, the problem is found in hot water heaters and hot water lines which are an ideal environment for this organic compound. Under these conditions, the sulfate ion (SO_4) is biochemically reduced to sulfide (S^-), gaining oxygen, which may act as an electron acceptor during normal metabolism. This means that a dark sediment sometimes settles in unused pipes and faucets, and occasionally, metal pipes are oxidized.

When levels of hydrogen sulfide exist, but are such that the DEP does not require advanced treatment, the operator will elevate chlorine (disinfectant) levels to kill the bacteria associated with the compound. This is the current method of treatment used at the plant serving Sebring Country Estates. It is suspected that this method is the reason for the concerns over too much chlorine.

Some customers are more sensitive than others to chlorine levels. A customer with a very acute sense of smell can detect chlorine levels as low as 0.4 ppm. The minimum free chlorine residual as required by the DEP in accordance with Rule 62-555.350(1), Florida Administrative Code, is 0.2 ppm throughout the distribution system, at all times. For this utility to maintain the required level of disinfection, it has historically had to maintain a minimum level between 1.5 ppm and 2.0 ppm at the plant site. The latest sanitary survey of the plant serving Sebring Country Estates occurred on September 19, 1996. During the inspection, the free chlorine residual at the plant was a 2.0 ppm. The free chlorine residual at the remote tap (RT) was 0.9 ppm which is a very good level of disinfection. The DEP also requires a utility to purge the system with disinfectant anytime a line break or repair occurs that exposes the inside of a main. There is no regulatory ceiling on the maximum level a utility can dose its system. Even so, Heartland's current dosing practices are considered satisfactory and not excessive.

In addition to chlorine treatment, a flushing program should be part of routine maintenance. Flushing rids the system of hydrogen sulfide concentrations that tend to settle in dead-end or slow moving areas of the distribution system. Flushing will also assist in a more consistent level of disinfection. The utility's operator normally flushes once a month. The utility owner submitted for our consideration a more aggressive flushing program that targets 20 site specific areas and increases the program from

once per month to twice per month. This flushing program will add an additional six hours to the operator's duties and will cost the utility an additional \$100 per month. We believe this is the most economical solution to the customers' concerns. In the future, Heartland will have its operator and owner follow the new flushing program.

The utility owner met with the one customer that voiced concern about low water pressure. A pressure gauge was installed at the customer's home for several days where periodic readings were taken. The pressure did not go below 40 PSI. This was supported by the latest sanitary survey which found the pressure at the plant to be 54 PSI. The system at the RT was 42 PSI which is well above the required minimum of 20 PSI required by Rule 62-555.320(7), Florida Administrative Code.

The utility submitted a list of all of the water outages that have occurred in 1996. There were five occurrences from January 1996 to August 1996. All of these outages were caused by non-scheduled breaks in the lines, two of which had the appearance of vandalism. Non-scheduled outages due to line breaks are considered emergency outages whereby the utility is required by Rule 25-30.250(1), Florida Administrative Code, to "reestablish service with the shortest delay consistent with the safety of its customers and the general public." No citations have been issued by the DEP for failure to reestablish service. Sebring Country Estates has been operating in Highlands County since 1964, making a good portion of the distribution system greater than thirty years old. Line breaks are more common with the older systems. According to the records provided by the utility, the line breaks were repaired without excessive delays and the outages were reasonable for each situation.

In summary, it is obvious that the utility has a raw water supply that is less than perfect. However, the chemical composition of the treated water at Sebring Country Estates has not dictated that the utility be required to install additional equipment. Absent a regulatory mandate to upgrade the plant, we believe the cost would be prohibitive at this time. The utility has put forth a good faith effort to increase its flushing program to remedy the problem on a going forward basis. The utility also appears to be responsive to customer concerns. The utility's disinfection program is not considered excessive. The utility has met all of the necessary requirements at both plants, and the water provided

by Heartland meets or exceeds the standards for safe drinking water. All comments and questions from the customers were investigated. Therefore, in consideration of the facts stated earlier, 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 Plant

Water Treatment Plant

During the last rate case, the used and useful analyses for the two treatment plants were calculated separately with no consideration for fire protection. The used and useful percentages during the last rate case for DeSoto City and Sebring Country Estates were 40% and 36%, respectively. For this rate case, the utility's useful plant was calculated as a composite of the two water plants based on a gallon per day methodology. The approved formula approach was applied to both plants with the plant capacity being that rated by the DEP. The maximum daily flow (highest five day average) occurred at Sebring Country Estates on May 27-31, 1995. The daily recorded flows from DeSoto City, for the same days, were used in comparison with the total capacity of both plants. Fire protection is provided in the DeSoto City system and was considered as a reserve volume in the calculation. Also considered was excessive unaccounted for water. The result of this calculation is 98.48 percent used and useful. It is believed that no less of a plant could serve the existing number of customers in either of the subdivisions. Therefore, we find that all water treatment plant accounts are 100% used and useful.

Water Distribution System

During the last rate case, the used and useful calculation for the distribution system serving DeSoto City system was 100% and 68% for the Sebring Country Estates system. Our engineer noted on the calculation sheet, "growth in the area appears to be unplanned in nature, especially in the older sections of the system." Due to unstructured growth of this system, capacity is considered unknown.

Also, some of the piping materials which make up this system are considered questionable. Since the last rate case, the utility has replaced some lines with larger mains and has extended other lines into new areas which currently serve one or two customers. Heavy citrus farming in this area hampers residential growth which makes the determination of potential customer growth difficult. During this rate case, an in depth study of potential customers was conducted. In accordance with our study, we believe that the combined systems have the potential to serve 2,132 ERCs and currently serve a total of 697 ERCs. While engineering plans of DeSoto City show a total of 1,927 platted lots, the actual capacity of home sites is 1,110 lots, which is estimated to be 1,110 ERCs. The plans of Sebring Country Estates show a total of 575 potential home sites, which is estimated to be 575 ERCs. By all appearances, about 10% of the utility's territory is along major federal and state highways and is zoned commercial. It is estimated that the 169 potential sites that are zoned commercial are equivalent to 447 ERCs. By formula calculation, both distribution systems serving the customers of Heartland Utilities are considered to be 34.2% used and useful, with the exception of Meter & Meter Installations (Account No. 334) which are installed upon customer demand and are considered 100% used and useful.

Test Year Rate Base

The appropriate components of the utility rate base include depreciable plant in service, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and the working capital allowance. Plant, depreciation, and CIAC balances were determined through our staff audit. Further adjustments are necessary to reflect test year changes and pro forma plant. A discussion of each component follows:

Plant-in-Service

We have made adjustments to utility reported amounts of water plant to reflect the amount approved in Order No. 23592, (\$52,138), to reclassify plant-in-service from contractual service expense of \$40,762, to reclassify meters from materials expense of \$2,343, to reclassify a rebuilt generator from miscellaneous expense of \$960, to reclassify real property to the land account of (\$9,850), to adjust \$1,920 for replacement meters (40 meters at a cost of \$48 per meter), to adjust pro forma the purchase of a computer for \$2,000, and lastly, to adjust a corresponding averaging in the amount of (\$23,992). These adjustments result in a net decrease in water plant-in-service of (\$37,995). Based on the foregoing, we find that water plant-in-service totals \$1,013,692.

Land

The utility has land holdings valued at \$9,850. We have reclassified this amount from the plant-in-service account.

Non-Used and Useful Plant

Based on our used and useful percentages (see Attachment A), we find that the water treatment plant is 100% used and useful. We further find that the distribution system and services is 34.20% used and useful. Based on 65.80% nonused and useful for these accounts, we have made a decrease of \$85,376 to rate base.

Contributions in Aid of Construction

The CIAC level has been adjusted to reflect contributions made by the DEP were incorrectly taken into utility revenue in the amount of (\$60,399) (\$57,545 in 1995-see revenue adjustment; \$2,854 in 1994), to correct the utility reported amount to the amount permitted in Order 23592 in the amount of (\$64,045), to reflect the net CIAC related to the nonused and useful plant adjustment in the amount of \$61,470, and lastly, to impute CIAC against the margin reserve used in the calculation of used and useful plant in service in the amount of (\$32,000). Based on these adjustments, we find that the appropriate CIAC balance is a negative \$889,355.

Accumulated Depreciation

We have calculated accumulated depreciation using Rule 25-30.140, Florida Administrative Code. The accumulated depreciation balances have been adjusted by \$14,713 to reflect the amount permitted in Order No. 23592, by (\$20,076) to reflect prescribed depreciation rates, by (\$66) for depreciation related to the meter change-out program, and lastly, by (\$69) for depreciation related to the pro forma purchase of a computer. Based on these adjustments, we find that the accumulated depreciation balance is a negative \$350,817.

Debit Deferred Taxes

In the past three years, the utility has received \$109,898 from DEP to connect customers with contaminated wells to the water system. We have determined a debit deferred tax balance associated with these contributions of \$12,169. Based on amortization of \$3,818 through the test period of this rate case, the net debit deferred tax balance is \$8,351. We find it appropriate to allow \$8,351 in rate base for debit deferred taxes.

Accumulated Amortization

We calculated accumulated amortization of CIAC using the prescribed rates contained in Rule 25-30.140, Florida Administrative Code. Based on these rates, we have adjusted the utility filing by (\$5,323) to correct the utility reported amount to the amount permitted in Order 23592, by \$30,751 to true the account to the prescribed level of amortization, and lastly, by \$1,234 for amortization of the CIAC imputed against the margin reserve. We find that the appropriate balance of accumulated amortization of CIAC is \$420,733.

Working Capital Allowance

Consistent with Rule 25-30.433, Florida Administrative Code, the one-eighth of operation and maintenance (O&M) expense formula approach shall be used to calculate the working capital allowance. Applying this formula, we find that the appropriate balance is \$12,148 (based on O&M expense of \$97,180) for the working capital allowance.

Rate Base Summary

We find that the appropriate balance of rate base is \$139,226.

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. The major adjustments are discussed below.

Return on Equity

Based on our audit, the utility's capital structure includes long-term debt, at an interest rate of 9%, equity, and customer deposits. Using the current leverage formula approved under Docket No. 960006-WS, Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, the rate of return on common equity is 11.88%. Applying the weighted average method to the total capital structure yields an overall rate of return of 8.94%. The company's debt and equity have been adjusted to match our allowance of rate base.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedules Nos. 3-A and 3-B. 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 Revenue

The water system recorded revenues of \$191,513 for the water system during 1995. A review of the test year billing analysis indicated that an adjustment was necessary to decrease annual revenues by \$57,545. The source of this adjustment is a correction for CIAC that was received from the DEP and incorrectly credited to utility income for the test period. We have also adjusted income by \$244 so that the test year totals agree with the figures reported by the utility in the billing analysis. Therefore, we find that the appropriate test year operating revenue for the water system is \$134,212.

Test Year Operating Expense

The utility recorded operating expense of \$149,451 for the water system during the test year. The components of this expense include operation and maintenance expense (O&M), depreciation expense, CIAC amortization expense, taxes other than income taxes, and income taxes.

The utility's test year operating expenses have been traced to supporting invoices. Adjustments have been made to reflect unrecorded test year expenses and to reflect our approved allowances for plant operations.

Operation and Maintenance Expenses (O&M)

The utility charged \$118,744 of operation and maintenance expense to the water system during 1995. A summary of adjustments that were made to the utility's recorded expenses follows:

Salaries and Wages - Employees

The utility recorded \$17,220 of salaries and wages for employees during the test year. These salaries are paid to two employees, one who was paid \$15,900 for answering the phones, billings, and bookkeeping. The remainder, \$1,320, was paid for utility maintenance services and meter reading. We concur with the

utility request that the bookkeeper/receptionist salary should be increased from \$7.64 per hour (\$15,900 / 2080 hours per year) to \$8.71 per hour to reflect industry standards for this position. To effect this change, we have made an adjustment of \$2,237 to salaries and wages for employees. We find that the appropriate salaries and wages for employees is \$19,457.

Salaries and Wages - Officers

During the test year, no expense was recorded for salaries and wages for officers. The utility has requested that the owner and his wife be paid \$2,000 per month, or \$24,000 per year, for management services. According to a contract for services that was included in the staff audit, the following services are to be performed by the officers of the utility: complete required regulatory reports; supervise system operator and other utility employees; conduct daily check of both water plants to insure proper operation and to take chlorine residual samples at the plant and remote tap; conduct daily reading from generators; replace meter boxes and lids; perform additional flushing of lines; double check meter readings and resolve customer disputes regarding water bills; run meter accuracy checks as requested; assist contractor in detecting and repairing line breaks; locate water lines for other underground utility contractors (phone, electric and gas); replace 40 meters and 15 curb stops annually; provide standby service 24 hours per day and provide bookkeeping and report preparation (monthly reports to DEP and SWFWMD).

When compared to the level of expense for like-sized utilities, we believe that total compensation for employees of \$55,237 (\$24,000 for officers, \$18,137 for full time bookkeeper/receptionist, \$11,780 for a system operator, and \$1,320 for a part-time employee meter reader) is reasonable. Therefore, we find the appropriate amount of salaries and wages for officers expense is \$24,000.

Purchased Power

The utility recorded \$7,736 in purchased power expense during the test year. We have reduced this amount by \$262 for amounts actually spent during the test year. The utility recorded \$610 in expense for the purchase of fuel for power production and we believe this to be a reasonable amount. We find the appropriate amount of purchased power expense is \$7,474 and fuel expense is \$610.

Chemicals

The utility recorded chemical expense of \$765. We have trued this amount to our approved expense level of \$1,807. The utility treats its water with gas chlorine purchased in 150 pound cylinders. Each cylinder costs \$69.50. Sebring Country Estates uses ten 150 pound cylinders per year (10 X \$69.50 = \$695/yr). DeSoto City uses sixteen 150 pound cylinders per year (16 X \$69.50 = \$1,112/yr). Based on this analysis, we find it appropriate to allow a total of \$1,807 per year for chemicals purchased. Therefore, we find chemical expense totals \$1,807.

Materials and Supplies

The utility recorded materials and supplies expense of \$2,865 for the test year. We have reduced this amount by \$2,343 to reclassify meters to plant in service. We find that materials and supplies expense for the water system totals \$522.

Contractual Services

The utility recorded contractual service expense of \$59,077. This expense is composed of \$56,225 for contractual services and \$2,852 for testing expense. We have made adjustments to reclassify (\$40,762) of expense related to mains and services to plant in service, to adjust testing expense by \$1,086 to agree this account to our approved level, to reclassify rental expense of (\$4,200) to the proper account, and lastly, to adjust contractual services for \$517 for maintenance expense that was not recorded during the test year.

Based on these audit adjustments, a total of (\$43,359), we find that the total water contractual services expense is \$11,780 and DEP required testing expense is \$3,938. For additional detail about these adjustments, see Schedule 3-C.

Rents

The utility included \$450 of rent expense in its application. This amount represents the annual cost of storing utility records. This amount has been increased by \$4,200 (\$350 rent per month-\$4,200 per year) to account for the reclassification from contractual services of office rent expense for the test year. We find that the total rental allowance is \$4,650.

Transportation Expenses

The utility included transportation expense for the test year of \$5,948. Based on a review of the size of the service area and the audit findings, we find no adjustment necessary.

Insurance Expense

The utility included \$10,980 for insurance expense during the test year. The insurance expense included the following: commercial liability coverage of \$7,255, health insurance of \$2,892, automobile insurance of \$758 and miscellaneous insurance coverage of \$75. We find it necessary to reduce the liability coverage by \$4,694 to correct this amount to the current level of \$2,561 per year. We find the total of insurance expense is \$6,286.

Regulatory Commission Expense

The utility recorded no regulatory commission (rate case) expense in the test year. We have made an adjustment of \$250 to include an amortized portion of the instant rate case filing fee (\$1,000 amortized over four years). We find that the total for regulatory commission (rate case) expense is \$250.

Miscellaneous Expense

The utility recorded \$13,093 in miscellaneous expense during the test year. We have adjusted this expense by (\$960) to reflect a reclassification of the expense incurred to rebuild a generator to plant in service, an adjustment of (\$151) to eliminate a non-utility related expenditure and lastly, an adjustment of (\$1,524) to reduce phone expense to an allowance of \$150 per month. The balance of \$10,458 for miscellaneous expense can be broken down as follows: telephone expense of \$1,800 (\$40 per month for a local line, \$55 per month for an after-hours answering service and \$55 towards mobile phone service), postage expense of \$2,326, office supply expense of \$3,690, miscellaneous repairs and maintenance of \$1,737 and other expense of \$905. We find the total of miscellaneous expense is \$10,458.

Operation and Maintenance Expenses (O&M) Summary

We have made total reductions to O&M of \$21,564. Based on these adjustments, we find that the total operation and maintenance expense is \$97,180. Operation and maintenance expenses are shown on Schedule No. 3-C.

Depreciation Expense

We have made an adjustment of \$3,580 to agree the utility expense level with the National Association of Regulatory Utility Commissioners (NARUC) approved rates for depreciation. We have also made an adjustment of (\$351) for the net depreciation expense associated with nonused and useful plant, an adjustment of \$33 to reflect the depreciation expense related to the meter change-out program, and lastly, an adjustment of \$34 for depreciation on the pro forma addition of a computer. Based on these adjustments, we find the total depreciation expense for the test period is \$37,094.

Amortization of CIAC

We have made an adjustment of \$5,784 to agree the utility amortization expense to the level prescribed in the NARUC approved rates. Therefore, we find that the total amortization expense is \$30,460.

Taxes Other Than Income Tax

The utility recorded \$13,646 of taxes other than income in the test year. Taxes other than income tax are composed as follows: regulatory assessment fees of \$5,685, licenses and taxes of \$5,489 (chief among these taxes are various property tax assessments totaling \$4,380), payroll taxes of \$1,609, and lastly, permits of \$863. We adjusted this account by \$1,084 to account for an increase in the current property tax assessment, \$2,256 for payroll taxes associated with our adjustment to officers' salaries, and lastly, \$171 for the payroll taxes associated with the increase in employee salary expense. We have made total adjustments of \$3,511 to taxes other than income, prior to any adjustment for a rate increase. We, therefore, find that the balance in this account, prior to any increase, is \$17,157.

Operating Revenue

Revenues have been adjusted by \$7,481 to reflect the increase in revenue required to cover utility expense and to allow the approved rate of return on investment.

Taxes Other Than Income Tax

This expense has been increased by \$337 to reflect the regulatory assessment fee of 4.5% on our approved increase in revenue.

Operating Expense Summary

The application of our adjustments to the utility's test year operating expenses results in approved operating expense of \$129,247 for the water system.

REVENUE REQUIREMENT

Based on the utility's books and records and the adjustments made herein, we find that the appropriate annual revenue requirement for the water system is \$141,693. This represents an annual increase in revenue of \$7,481 (5.57%) for the water system. This revenue requirement will allow the utility an opportunity to recover its expenses and earn a 8.94% return on investment. The revenue requirement and resulting annual increase is shown on Schedule No. 3-A.

RATES AND CHARGES

During the test year, Heartland provided water service to approximately 605 residential customers and 38 general service customers. We have a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes that a joint cooperative effort is necessary to implement an effective, state wide water conservation policy. While water usage at this utility is within reasonable levels, we believe that rates determined by meter size and usage (no allowance for gallonage in the base facility charge) will continue to encourage continued conservation by utility customers.

We have calculated a base facility and gallonage charge for water customers based on test year data. The base facility and gallonage charge rate structure is the preferred rate structure because it is designed to provide for the equitable sharing by the ratepayers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of the costs of providing service (through the consumption or gallonage charge) and also pay their share of the fixed costs of providing service (through the base facility charge).

Approximately 45% (or \$63,599) of the water revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on the number of factored ERCs. The remaining 55% (or

\$78,094) of the water revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period.

Schedules of the utility's existing rates and our approved rates are as follows:

<u>WATER RATES</u>		
<u>GENERAL SERVICE AND RESIDENTIAL SERVICE</u>		
	<u>Base Facility Charge</u>	
Meter Size	Existing Rate	Commission Approved Rate
5/8" x 3/4"	\$ 6.86	\$ 7.45
3/4"	10.31	11.17
1"	17.17	18.62
1-1/2"	34.32	37.25
2"	54.90	59.60
3"	109.80	119.20
4"	171.54	186.24
6"	343.13	372.49
Gallonge Charge Per 1,000 gallons	\$ 1.63	\$ 1.68

Using the 605 test year 5/8" x 3/4" metered residential water customers with an average water use of 5,180 gallons per month, an average residential water bill comparison would be as follows:

	Average Bill Using Existing <u>Rates</u>	Average Bill Using Approved <u>Rates</u>	<u>Percent Increase</u>
Base Facility Charge	\$ 6.86	\$ 7.45	
Gallonge Charge	<u>8.44</u>	<u>8.72</u>	
Total	\$15.30	\$16.17	5.69%

EFFECTIVE DATE

The rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates may not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. The tariff sheets shall be

approved upon staff's verification that the tariffs are consistent with our decision herein, that the customer notice is adequate, and that any required security has been provided.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on or after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date on the tariffs.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. This amount is \$262. The reduction in revenues will result in the rates shown on Schedule No. 4-A.

The utility shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also be required to file a proposed customer notice 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.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This order contains an increase in water rates for Heartland. A timely protest may delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein on a temporary basis, subject to refund, provided the utility first furnishes and has approved by staff, adequate security for a potential refund, and a copy of the proposed customer notice and revised tariff sheets. The security shall be

in the form of a bond or letter of credit in the amount of \$5,182. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates. There is no further action required in this docket. Therefore, upon expiration of the protest period, if a timely protest is not received from a substantially affected person, this docket shall be closed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the provisions of this Order except for the granting of temporary rates in the event of a protest, are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the Notice of Further Proceedings or Judicial Review attached hereto. It is further

ORDERED that Heartland Utilities, Inc.'s application for increased water rates is hereby 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

ORDER NO. PSC-96-1389-FOF-WU
DOCKET NO. 960517-WU
PAGE 21

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Heartland Utilities, Inc. is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Heartland Utilities, Inc's rates and charges shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received proper notice. It is further

ORDERED that Heartland Utilities, Inc. shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Heartland Utilities, Inc. shall submit and have approved a bond or letter of credit in the amount of \$5,182. Alternatively, Heartland Utilities, Inc. may establish an escrow agreement as a guarantee of any potential refund of revenues collected on a temporary basis. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, Heartland Utilities, Inc. is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Heartland Utilities Inc. has furnished 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, prior to its implementation of the rates and charges approved herein, Heartland Utilities, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein, that the protest period has expired, that the customer notice is adequate and that the required security has been provided. It is further

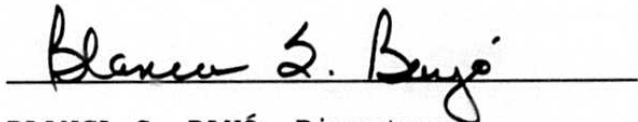
ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDER NO. PSC-96-1389-FOF-WU
DOCKET NO. 960517-WU
PAGE 22

ORDERED that Heartland Utilities, Inc. shall submit monthly reports as set forth in the body of this Order. It is further

ORDERED that if no timely protest is received from a substantially affected person, this docket shall be closed administratively ten months from the date of this Order, upon the utility's filing and staff's approval of revised tariff sheets and the customer notice, and upon staff's verification of the utility's implementation of the flushing program.

By ORDER of the Florida Public Service Commission, this 19th day of November, 1996.

A handwritten signature in cursive script, reading "Blanca S. Bayó", is written over a horizontal line.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

BLR/DCW

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 action regarding Heartland Utilities, Inc.'s approved rates and charges with the exception of the temporary rates is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 10, 1996. 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.

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 wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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

ATTACHMENT A

WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 960517-WU Utility HEARTLAND UTILITIES, INC.
(Integrated System)

- 1) Capacity of Plant = 416,000 GPD
- 2) Maximum Daily Flow (Peak Month May 1995) = 271,400 GPD
- 3) Average Daily Flow = 94,080 GPD
- 4) Fire Flow Capacity = 120,000 GPD
- 5) Margin Reserve (not to exceed 20% of Average GPM):
 - a) Average number of customers = 697
 - b) Average Customer Growth in ERC's
for most Recent 5 Years = 32
 - c) Construction Time for
Additional Capacity = 2.0
- 6) Excessive Unaccounted for Water = 6,652 GPM
 - a) Total Amount 23,286 GPM = 14.0 % of Av. GMP Flow
 - b) Reasonable Amount 16,634 GPM = 10.0 % of Av. GMP Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{2 + 4 + 5 - 6}{1} \right] = \underline{98.48} \% \text{ Used and Useful}$$

No less of a plant could serve the existing customers, the U & U is considered to be 100%

ATTACHMENT A

WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 960517-WU Utility HEARTLAND UTILITIES, INC.

- 1) Capacity 2,132 ERC's (Number of potential customers without expansion)
- 2) Average number of TEST YEAR Connections 697 ERC's day
- 3) Margin Reserve (Not to exceed 20% of present ERC's)
 - a) Average yearly customer growth in ERC's for most recent 5 Years 32
 - b) Construction Time for Additional Capacity 2

(a) x (b) = 64 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{34.20} \% \text{ Used and Useful}$$

HEARTLAND UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1995
SCHEDULE OF WATER RATE BASE
C:\123\SARC\HEART\HEART1.WK4

SCHEDULE NO. 1
DOCKET NO. 960517-WU

	<u>BALANCE PER UTILITY 12/31/1995</u>	<u>COMMISSION ADJ. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	\$1,051,687	(\$37,995) A	\$1,013,692
LAND/NON-DEPRECIABLE ASSETS	0	9,850 B	9,850
PLANT HELD FOR FUTURE USE	0	0	0
NON-USED AND USEFUL PLANT	0	(85,376) C	(85,376)
CWIP	0	0	0
CIAC	(794,381)	(94,974) D	(889,355)
ACCUMULATED DEPRECIATION	(345,319)	(5,498) E	(350,817)
DEBIT DEFERRED TAXES	0	8,351 F	8,351
AMORTIZATION OF CIAC	394,071	26,662 G	420,733
WORKING CAPITAL ALLOWANCE	0	12,148 H	12,148
WATER RATE BASE	\$306,058	(\$166,832)	\$139,226

HEARTLAND UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1995
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-A
 DOCKET NO. 960517-WU

	WATER	WASTE- WATER
A. UTILITY PLANT IN SERVICE		
1. To adjust per Commission Order 23592 (AJE 2)	\$ (52,138)	\$ 0
2. To reclass. pis from contractual services (AJE 3)	40,762	0
3. To reclassify pis (meters) from materials expense (AJE 6)	2,343	0
4. To reclassify pis from misc. expense (AJE 7)	960	0
5. To reclass value of land	(9,850)	0
6. To adj. pis for meter change out program	1,920	0
7. To adjust for pro forma addition of a computer	2,000	0
8. Reflect averaging adjustment	(23,992)	0
9.	0	0
	<u>\$ (37,995)</u>	<u>\$ 0</u>
B. LAND		
1. To reclass value of land	\$ 9,850	\$ 0
2.	0	0
	<u>\$ 9,850</u>	<u>\$ 0</u>
C. NON-USED AND USEFUL PLANT		
1. To reflect net non-used and useful plant	\$ (85,376)	\$ 0
D. CIAC		
1. To book CIAC from DEP (AJE 1)	\$ (60,399)	\$ 0
2. Adj. per Order 23592 (AJE 2)	(64,045)	0
3. To reflect net non-used and useful net CIAC	61,470	0
4. To reflect imputation of CIAC against margin reserve	(32,000)	0
	<u>\$ (94,974)</u>	<u>\$ 0</u>
E. ACCUMULATED DEPRECIATION		
1. Adj. per Order 23592 (AJE 2)	\$ 14,713	\$ 0
2. To adjust to NARUC approved levels	(20,076)	0
3. To adj. for depr. related to meter change out program	(66)	0
4. To adj. acc. depr. for pro forma addition of a computer	(69)	0
5.	0	0
	<u>\$ (5,498)</u>	<u>\$ 0</u>
F. DEBIT DEFERRED TAXES		
1. To reflect debit deferred taxes on DEP CIAC contributions	\$ 8,351	\$ 0
2.	0	0
	<u>\$ 8,351</u>	<u>\$ 0</u>
G. AMORTIZATION OF CIAC		
1. Adj. per Order 23592 (AJE 2)	\$ (5,323)	\$ 0
2. To adjust to NARUC approved levels	30,751	0
3. To adj. amort. of imputation of CIAC on margin reserve	1,234	0
4.	0	0
	<u>\$ 26,662</u>	<u>\$ 0</u>
H. WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses	\$ 12,148	\$ 0

HEARTLAND UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 960517-WU

	PER UTL. 12/31/1995	COMM. ADJ. TO UTIL. BAL.	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
LONG-TERM DEBT	\$ 287,456	\$ (157,051)	\$ 130,405	93.66%	9.00%	8.43%
LONG-TERM DEBT	3,408	(1,862)	1,546	1.11%	9.00%	0.10%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
EQUITY	5,008	(2,736)	2,272	1.63%	11.88%	0.19%
PREFERRED STOCK	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	5,003	0	5,003	3.59%	6.00%	0.22%
TOTAL	\$ 300,875	\$ (161,649)	\$ 139,226	100.00%		8.94%
RATE BASE			139,226			

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RANGE FOR RETURN ON EQUITY	10.88%	12.88%
RANGE FOR OVERALL RATE OF RETURN	8.92%	8.96%

HEARTLAND UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
 DOCKET NO. 960517-WU

	TEST YEAR PER UTILITY 12/31/95	COMM. ADJ. TO UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER COMM.
OPERATING REVENUES	\$ 191,513	\$ (57,301)	\$ 134,212	\$ 7,481 E 5.57%	\$ 141,693
OPERATING EXPENSES					
OPERATION AND MAINTENANCE	118,744	(21,564) A	97,180	0	97,180
DEPRECIATION	33,798	3,296 B	37,094	0	37,094
AMORTIZATION	(24,676)	(5,784) C	(30,460)	0	(30,460)
TAXES OTHER THAN INCOME	13,646	3,511 D	17,157	337 F	17,494
INCOME TAXES	7,939	0	7,939	0	7,939
TOTAL OPERATING EXPENSES	\$ 149,451	\$ (20,541)	\$ 128,910	\$ 337	\$ 129,247
OPERATING INCOME / (LOSS)	\$ 42,062		\$ 5,302		\$ 12,446
WATER RATE BASE	\$ 306,058		\$ 139,226		\$ 139,226
RATE OF RETURN	13.74%		3.81%		8.94%

HEARTLAND UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1995
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B (Sheet 1 of 2)
DOCKET NO. 960517-WU

<u>REVENUE</u>	<u>WATER</u>	<u>WASTE- WATER</u>
a. To adjust out CIAC recorded as income (AJE 1)	\$ (57,545)	\$ 0
b. To annualize income to current rates	244	0
	<u>\$ (57,301)</u>	<u>\$ 0</u>
A. OPERATION AND MAINTENANCE EXPENSES		
<u>1. Salaries and Wages (Employees)</u>		
a. To adj. receptionist/bookkeeper salary to \$8.72/hour	\$ 2,237	\$ 0
<u>2. Salaries and Wages (Officers)</u>		
a. Allowance for mgmt. services (\$2,000 per mo.)	\$ 24,000	\$ 0
<u>3. Sludge Removal Expense</u>		
a. N/A-water only SARC	\$ 0	\$ 0
b.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
<u>4. Purchased Water</u>		
a. N/A	\$ 0	\$ 0
b.	0	0
c.	0	0
d.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
<u>5. Purchased Power</u>		
a. To correct purchased power expense (AJE 9)	\$ (262)	\$ 0
b.	0	0
c.	0	0
d.	0	0
	<u>\$ (262)</u>	<u>\$ 0</u>
<u>6. Chemicals</u>		
a. To adj. to levels prescribed by staff engineer	\$ 1,042	\$ 0
b.	0	0
	<u>\$ 1,042</u>	<u>\$ 0</u>
<u>7. Materials and Supplies</u>		
a. To reclassify meters to plant in service (AJE 6)	\$ (2,343)	\$ 0
	<u>\$ (2,343)</u>	<u>\$ 0</u>
<u>8. Contractual Services</u>		
a. To reclassify pis (meters and services) (AJE 3)	\$ (40,762)	\$ 0
b. To adj. testing exp. to levels prescribed by staff engineer	1,086	0
c. To reclassify contractual services to rent	(4,200)	0
d. To record unrecorded maintenance expense	517	0
e.	0	0
	<u>\$ (43,359)</u>	<u>\$ 0</u>
<u>9. Rents</u>		
a. To reclassify rent from contractual services	\$ 4,200	\$ 0
b.	0	0
c.	0	0
	<u>\$ 4,200</u>	<u>\$ 0</u>
<u>10. Transportation Expenses</u>		
a.	\$ 0	\$ 0
b.	0	0
c.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
<u>11. Insurance Expense</u>		
a. To adj. liability coverage per current rates	\$ (4,694)	\$ 0
b.	0	0
c.	0	0
d.	0	0
e.	0	0
	<u>\$ (4,694)</u>	<u>\$ 0</u>

HEARTLAND UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1995
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B (Sheet 2 of 2)
DOCKET NO. 960517-WU

	<u>WATER</u>	<u>WASTE- WATER</u>
12. Regulatory Commission Expense		
a. To include filing fee exp. amortized over 4 years	\$ 250	\$ 0
b.	0	0
c.	0	0
	<u>\$ 250</u>	<u>\$ 0</u>
13. Miscellaneous Expenses		
a. To reclass pis (AJE 7)	\$ (960)	\$ 0
b. To adjust out non-regulatory expense (AJE 10)	(151)	0
c. To reduce phone expense	(1,524)	0
d.	0	0
e.	0	0
f.	0	0
g.	0	0
h.	0	0
i.	0	0
j.	0	0
k.	0	0
	<u>\$ (2,635)</u>	<u>\$ 0</u>
14. Unclassified disbursements		
a.	\$ 0	\$ 0
b.	0	0
c.	0	0
d.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
TOTAL O & M ADJUSTMENTS	<u>\$ (21,564)</u>	<u>\$ 0</u>
B. DEPRECIATION EXPENSE		
1. To adj. depr. expense per NARUC rates (PSC 4)	\$ 3,580	\$ 0
2. To reflect non-used and useful depreciation expense	(351)	0
3. To reflect test year depr. on meter change out program	33	0
4. To reflect test year depr. on pro forma computer	34	0
5.	0	0
	<u>\$ 3,296</u>	<u>\$ 0</u>
C. AMORTIZATION EXPENSE		
1. To adj. amortization per NARUC rates (PSC 4)	\$ (5,784)	\$ 0
D. TAXES OTHER THAN INCOME TAX		
1. To adj. property taxes to current assessment	\$ 1,084	\$ 0
2. To adj. payroll taxes for increase in officers salaries	2,256	0
3. To adj. payroll taxes for increase in employee wages	171	0
4.	0	0
5.	0	0
6.	0	0
7.	0	0
	<u>\$ 3,511</u>	<u>\$ 0</u>
E. OPERATING REVENUES		
1. To reflect increase in revenue	\$ 7,481	\$ 0
F. TAXES OTHER THAN INCOME		
1. To reflect additional regulatory assessment fee associated with approved revenue requirement	\$ 337	\$ 0

HEARTLAND UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1995
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 960517-WU

	<u>TOTAL PER UTIL.</u>	<u>COMM. ADJUST.</u>		<u>TOTAL PER COMM.</u>
(601) SALARIES AND WAGES - EMPLOYEES	\$ 17,220	\$ 2,237	[1]	19,457
(603) SALARIES AND WAGES - OFFICERS	0	24,000	[2]	24,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	0	0	[4]	0
(615) PURCHASED POWER	7,736	(262)	[5]	7,474
(616) FUEL FOR POWER PRODUCTION	610	0		610
(618) CHEMICALS	765	1,042	[6]	1,807
(620) MATERIALS AND SUPPLIES	2,865	(2,343)	[7]	522
(630) CONTRACTUAL SERVICES	56,225	(44,445)	[8]	11,780
DEP REQUIRED TESTING	2,852	1,086		3,938
(640) RENTS	450	4,200	[9]	4,650
(650) TRANSPORTATION EXPENSE	5,948	0	[10]	5,948
(655) INSURANCE EXPENSE	10,980	(4,694)	[11]	6,286
(655) REGULATORY COMMISSION EXPENSE	0	250	[12]	250
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	13,093	(2,635)	[13]	10,458
UNCLASSIFIED DISBURSEMENTS	0	0	[14]	0
	<u>\$ 118,744</u>	<u>\$ (21,564)</u>		<u>\$ 97,180</u>

COMMISSION APPROVED RATE REDUCTION SCHEDULE

HEARTLAND UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1995
CALCULATION OF RATE REDUCTION AMOUNT

SCHEDULE NO. 4-A
DOCKET NO. 960517-WU

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS
RATE BASE CALCULATION

MONTHLY WATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>COMMISSION APPROVED RATES</u>	<u>RATE DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 7.45	0.01
3/4"	11.17	0.02
1"	18.62	0.03
1-1/2"	37.25	0.07
2"	59.60	0.11
3"	119.20	0.22
4"	186.24	0.34
6"	372.49	0.69
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.68	0.00