

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of PARMER)	DOCKET NO. 881108-SU
UTILITIES, INC. for staff-assisted)	ORDER NO. 21049
rate case in Highlands County.)	ISSUED: 4-14-89

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

FINAL ORDER SETTING TEMPORARY RATE
IN EVENT OF PROTEST
 AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER SETTING 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 formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code. By this Order, the Commission also authorizes temporary rates in the event that a person other than this utility files a protest to the Proposed Agency Action.

BACKGROUND

Highlands County came under our jurisdiction on September 7, 1982. Parmer Utilities, Inc. (Parmer or the utility) provides sewer service to 402 residential customers and 3 general service customers in Highlands County, Florida. The utility was organized in June, 1970, under the name Fairmount Utilities, Inc., and the principal customer of the utility was Fairmount Mobile Estates, a mobile home park. In Docket No. 830050-S, we issued sewer Certificate No. 357-S authorizing the utility to provide sewer service to the park. On June 3, 1987, under Docket No. 870056-SU (Order No. 17654), we authorized the transfer of Certificate No. 357-S from Fairmount Utilities, Inc. to Parmer Utilities, Inc. On August 23, 1988, Parmer applied for a staff-assisted rate case, the first rate case application since it came under our jurisdiction.

The utility is owned by Dr. Carl Arant, Sr., and is operated under contract with a certified operator, Mr. Tom DeVane.

QUALITY OF SERVICE

We consider several factors when evaluating a utility's quality of service provided to its customers. Among these are:
 1) Whether the utility's customers are satisfied with the

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utility service they are receiving; 2) Whether the utility is operating within the prescribed Department of Environmental Regulation (DER) standards; and 3) Whether the utility is being operated and maintained properly, and has the capacity to provide adequate utility service to its customers.

To determine customer satisfaction, our Staff interviewed several of the utility's customers in the service area. Staff also conducted a customer meeting on February 9, 1989, at Sebring, Florida, to receive testimony from Parmer's customers about the quality of service they are receiving and to answer questions on other issues to the extent possible. Approximately 150 people attended this meeting. Several people testified about past odor and/or noise problems, however, the customers stated that the problems had been resolved and the overall quality of service was satisfactory presently.

To determine whether the utility had been operating within DER standards, we contacted the DER who informed us that the utility had not been timely filing certain environmental reports with the agency. Specifically, Parmer has not been properly maintaining its daily operational logs, nor timely filing its monthly operating reports. Also, the utility had not submitted its yearly sludge report as required by law.

Our Staff engineer conducted a field inspection of the utility's facilities on November 13, 1988, to determine whether such facilities were being operated and maintained properly. The inspection report noted that the upkeep of the utility's plant site and lift station was satisfactory; the percolation ponds were clear of overgrowth; the plant site was fenced and secure; and the sewage treatment plant was generally operating satisfactorily and appeared to be receiving adequate maintenance. However, the report also noted certain deficiencies which should be rectified. These deficiencies include a backup blower at the sewage treatment plant which was inoperable; no emergency telephone number was posted at either the plant site or lift station; no operational logs were available at the plant site or lift station; and there was no accurate means of determining the efficiency of the utility's power equipment.

Based on the foregoing, we find that the quality of service being provided by Parmer Utilities, Inc. to be marginal and in need of improvement. To this end, the utility shall, within 90 days from the date of this Order, accomplish the following: 1) Take the necessary steps to bring its operation into compliance with existing DER regulations; and, 2) Correct the above-noted deficiencies in the utility's equipment and facilities.

RATE BASE

Our calculations of Parmer's rate base are reflected on Schedule No. 1, with our adjustments shown on Schedule No. 1-A. Those adjustments which are mechanical in nature, or which are self-explanatory, are shown on those schedules without further explanation in the text of this Order. The remaining adjustments are discussed below.

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Water Source For Sewage Treatment Plant

An audit of the utility's books disclosed that water service for the operation of the utility's sewage treatment facility is being provided by a residential customer in exchange for monthly sewer service at no charge, with amounts in excess of sewer charges being reimbursed to the customer. We were informed by the utility that it could obtain its own water service directly from Sebring Utilities Commission for a tap fee of \$590. In calculating an appropriate rate base for Parmer, we included this amount as a pro forma plant cost item. We find that Parmer should discontinue its present arrangement for obtaining water and obtain its own water service for its sewage treatment plant, and hereby direct that it do so.

Used and Useful

Parmer's sewage treatment plant has a capacity of 40,000 gallons per day (GPD), operating in the extended aeration mode, to serve 427 connections. This capacity allows approximately 94 GPD per connection. Minimum engineering guidelines for mobile homes call for 150 GPD per connection, therefore, we find that Parmer's sewage treatment plant is 100% used and useful.

The service area of Parmer has a plotted capacity of 429 connections, including 2 general service connections. The utility informs us that 427 out of the 429 connections are active customers. Thus, we find that Parmer's sewage collection system is 100% used and useful.

The utility owns the land on which its sewage treatment plant is located. The utility had the land recorded on its books at a value of \$6,700. In Docket No. 870056-SU (Order No. 17654), we established the value of the land at \$1,750. This figure was derived from the utility's 1986 federal income tax return, and its 1986 Annual Report. We find that the utility's books should be adjusted to reflect the \$1,750 value of its land.

Contributions-In-Aid-Of-Construction (CIAC)

We have not previously approved CIAC charges for Parmer. Our audit of the utility disclosed that it had charged a customer, Norman T. Meyer, a \$1,950 sewer connection fee based on an agreement between the customer and Parmer's predecessor, Fairmount Utilities, Inc. (Fairmount). We inadvertently failed to address this unauthorized collection of CIAC by Parmer's predecessor at the time of the transfer of the certificate from Fairmount to Parmer, even though such agreement was attached to the transfer application which we received on January 15, 1987. We find that it would be unreasonable to penalize Parmer for its predecessor's unauthorized collection of CIAC, nevertheless, we hereby direct that the \$1,950 shall be reflected on Parmer's books as CIAC.

Our audit also disclosed that in December, 1987, the utility purchased a new pump motor for \$513 and erroneously recorded this amount as an expense item, instead of properly

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recognizing it as CIAC under plant capital.

Based on the above, we find that Parmer's CIAC account should be increased by \$2,463, and the thirteen-month average of \$2,305 shall be reflected on the utility's books as CIAC.

Working Capital

The balance sheet method of calculating working capital allowance is preferred by this Commission, and using this method, our audit disclosed that Parmer had a negative balance in its working capital account.

In instances such as this, where a utility has a negative balance in its working capital account, we have historically adjusted its working capital account to zero in calculating an appropriate rate base for the utility. We find that our past practice is justified in the present proceeding, and hereby direct that Parmer's working capital account be adjusted to zero in deriving an appropriate rate base for the utility.

Rate Base

Based upon the calculations and adjustments made above, we find that the utility's sewer rate base is \$84,583.

COST OF CAPITAL

Our calculation of Parmer's overall cost of capital is reflected on Schedule No. 2 attached hereto.

By Order No. 19718, issued July 26, 1988, this Commission established a leverage formula to be used in calculating equity returns for water and sewer utilities. In this same Order, we established the return on common equity at 14.35% for those utilities with percentages of common equity less than 40%. Our audit determined that the utility's capital structure consists of 91.27% long-term debt at a cost of 10.43%, and its percentage of common equity is 8.73%. Thus, since Parmer's percentage of common equity is 8.73%, we find that Parmer's appropriate rate of return on common equity is 14.35% based on the leverage formula. In applying the appropriate weight and rate to each of the capital components, we find that the overall projected rate of return of 10.77% to be reasonable, and is approved.

NET OPERATING INCOME

Parmer's operating revenues and expenses are reflected on Schedule No. 3, and our adjustments thereto are reflected on Schedule No. 3-A. Those adjustments which are essentially mechanical in nature, or which are self-explanatory, are shown on those schedules without further explanation in the text of this Order. The remaining adjustments are discussed below.

Sewer Service Charges to Vacant Lot Owners

Parmer's existing sewer rate was established under Docket No. 830050-SU, by Order No. 13021, issued February 23, 1984.

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The question of sewer service charges to vacant lot owners was not addressed in those proceedings. During the test year, Parmer charged 22 vacant lot owners a sewer service charge of \$8.20 per month. The practice of charging such a charge to vacant lot owners was begun by Parmer's predecessor in 1977. Initially, a provision for a sewer charge of \$4.50 per month was included in the sales contract for the sale of all mobile home lots within the park. Over the years, this charge has increased to the point where this charge has reached the test year charge of \$8.20 per month.

We find that since the utility was never authorized to charge sewer service charges to the owners of vacant lots, the utility shall stop collecting these charges immediately. We further find that since total revenue collected has not been recognized as CIAC and we are not establishing service availability charges, we will not require the utility to refund to the vacant lot owners.

Test Year Revenues

During the test year, the utility provided sewer service to 402 active residential customers. As discussed above, the utility also charged the owners of 22 vacant lots \$8.20 per month for sewer service. Since we have determined these charges to be inappropriate, we find that the utility's test year revenues should be reduced by \$2,165. (22 vacant lots X \$8.20 monthly charge X 12 months) The \$2,165 shall be accounted for on the utility's books as "non-utility revenue".

Also during the test year, the utility charged two general service customers for sewer service pursuant to a "Utilities Service Agreement" which had not been approved by us. We find that while the revenues collected during the test year under these agreements may be considered test year revenues, the rates established by such agreements may not be collected by the utility, effective with the billing cycle immediately following the date on which this proposed Agency Action becomes final.

We further find that a test year revenue of \$40,613 as shown on Schedules No. 3 and 3-A attached hereto is reasonable and is approved.

Operation and Maintenance Expense

We audited the utility's operation and maintenance expense account to determine whether expenses credited to such account were properly applied and were reasonably incurred. To this end, we compared invoices to cancelled checks, and checked other records of the utility for accuracy and reasonableness. Our audit disclosed that the following adjustments are needed:

Salaries and Wages Account - The utility had allocated \$15,000 on its books as salary expense for Mrs. Muriel Arant for services provided to the utility. The audit disclosed that Mrs. Arant actually spends about 24 hours per week conducting utility business and is paid \$7.21 per hour. Thus, this account should be reduced by \$6,000 to reflect the proper allocation for Mrs. Arant's salary.

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Sludge Removal Account - This account should be increased by \$79 to reflect reclassification.

Purchased Power Account - This account should be decreased by \$119 to reflect reclassification.

Chemicals Account - This account should be increased by \$327 to reflect reclassification.

Materials and Supplies Account - This account should be increased by \$75 to reflect reclassification.

Contractual Services Account - This account should be decreased by \$842 and \$500 to reflect reclassification, and a non-recurring expense, respectively. Also, this account should be increased by \$233 to accurately reflect the anticipated expense for the contractual services of the utility's certified operator. The amount in this account should be \$3,000 after these adjustments.

Regulatory Commission Expense Account - This account allocation of \$150 should be increased by \$1,300 to reflect documented rate case expenses of \$5,800 amortized over 4 years. The amount in this account should be \$1,450 after these adjustments.

Miscellaneous Expense Account - This account should be increased by a net amount of \$445 to reflect an allowance for annual repair and maintenance in the amount of \$1,000 and to reflect a \$127 increase and \$160 decrease as a result of reclassification.

We find that the above adjustments are necessary and reasonable, and thus, are approved.

REVENUE REQUIREMENT

In order to allow Farmer the opportunity to earn a return of 10.77% on its investment, we find that the appropriate revenue requirement is \$59,370, calculated as follows:

Adjusted Rate Base	\$ 84,583
Rate of Return	x .1077
Return on Investment	\$ 9,110
Adjusted Operating Expense	\$ 41,790
Depreciation Expense	\$ 4,440
Taxes Other Than Income	\$ 4,030
REVENUE REQUIREMENT	<u>\$ 59,370</u>

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RATE AND RATE STRUCTURE

Prior to the present rate case proceeding, the utility had a flat-rate structure. Ordinarily, we require the redesign of such rate structures to a base facility charge rate structure so that a customer's bill reflects his or her individual usage. However, in the present instance, the utility only provides sewer service to its customers, with water service being provided by the Sebring Utilities Commission. To require the utility to adopt a base facility charge rate structure would cause additional administrative costs in that the utility would have to obtain individual monthly water billings from Sebring, and then in turn, calculate each customer's sewer bill based on each customer's water consumption. Further, at the February 9, 1989 customer meeting, the customers overwhelmingly voiced their choice of a flat-rate structure. Upon consideration, we find it is reasonable and appropriate for the utility to continue its flat-rate billing structure.

We find that the following rate, which utilizes the flat-rate billing structure, is just, reasonable, and compensatory. The revised rate is designed to allow Parmer the opportunity to earn a 10.77% return on its investment. Parmer's present rate and the revised rate are set forth below for comparison:

MONTHLY SEWER RATE

RESIDENTIAL AND GENERAL SERVICE

	<u>PRESENT RATE</u>	<u>NEW APPROVED RATE</u>
FLAT RATE	\$ 8.20	\$ 12.22

The above new rate shall be effective for service rendered on or after our receipt and approval of the utility's revised tariff sheets.

SERVICE AVAILABILITY CHARGES

As previously discussed, the utility had not recorded any CIAC on its books since we issued its certificate in 1984, nor have we approved any such charges subsequently. Service availability charges are designed to permit a utility to recover from individual customers their fair share of the utility's costs of constructing the sewage collection system. Since the utility's service area has been "built-out" for an extended period of time and the utility has no immediate plans for expansion, we will not authorize the collection of a service availability charge from any of the utility's customers.

MISCELLANEOUS SERVICE CHARGES

Currently, the utility has no provision in its tariff for miscellaneous service charges. These charges provide a means by which a utility may recover the costs of providing miscellaneous services from those customers who generate a need for such services. By allowing these charges, the costs of

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providing these services are not borne by the general body of ratepayers. We, therefore, approve the following miscellaneous service charges:

<u>Miscellaneous Service</u>	<u>Miscellaneous Service Charge</u>
Initial Connection	\$15.00
Normal Reconnection	15.00
Violation Reconnection	Actual Cost
Premises Visit	10.00

For clarity, we have defined the above miscellaneous services as follows:

Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.

Normal Reconnection: This charge is to be levied for transfer of service to a new location, or reconnection of service subsequent to a customer-requested disconnection.

Violation Reconnection: This charge is to be levied prior to reconnection following disconnection of service for cause pursuant to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment. (Actual Cost is limited to direct labor and equipment rental.)

Premises Visit Charge (in lieu of Disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

EFFECTIVE DATE FOR REVISED RATE AND CHARGES

The revised monthly sewer rate shall be effective upon our receipt and approval of the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariffs are consistent with the Commission's decision; that the proposed customer notice is adequate; and, that the required security has been provided. The miscellaneous service charges approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff pages.

In the event that this Order becomes final, Parmer shall notify each affected customer of the increased rate and approved miscellaneous service charges and explain the reasons for such rate increase and approved charges. The form of this notice shall be submitted to the Commission for prior approval.

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TEMPORARY RATE

This Order proposes an increase in the utility's sewer rate. A timely protest could delay what may be a justified rate increase, pending a formal hearing and the issuance of a Final Order. Accordingly, in the event of a timely protest filed by anyone other than the utility, we hereby authorize the utility to collect the rate proposed herein, subject to refund, provided that the utility furnishes adequate security for any potential refund subsequently ordered. The security should be in the form of a bond or letter of credit in the amount of \$36,509, or an escrow agreement. If the latter alternative is chosen, all revenues collected under the rate increase will be subject to escrow. Any withdrawals of funds from this escrow account shall be subject to the prior approval of this Commission through the Director of Records and Reporting. Should any refund ultimately be required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. Parmer shall keep an accurate account of all monies collected pursuant to the rate increase and shall submit a report, no later than the twentieth day of each month in which the interim rate is in effect; showing the amount of revenue collected as a result of the interim rate and the amount that would have been collected under the old rate. The interim rate portion of this Order is not issued as proposed agency action.

In the event that there is no protest to this Order, a consummating order will be issued indicating that the proposed agency action has become final and effective. However, this docket will remain open until staff verification of the utility's compliance with the requirements set forth in the Quality of Service portion of this Order.

Based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Parmer Utilities, Inc. for a staff-assisted rate case is granted, as set out in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, except for the setting of a temporary rate, shall become final unless an appropriate petition, in the form prescribed by Florida Administrative Code Rule 25-22.036, is received by the Director, Division of Records and Reporting, at his office, located at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on May 5, 1989. It is further

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

ORDERED that all matters contained herein or attached hereto, whether in the form of discourse or schedules are, by reference, specifically incorporated herein. It is further

ORDERED that, the utility shall file revised tariff sheets and the proposed customer notice discussed in the body of this Order. It is further

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ORDERED that, in the event that this Order becomes final, the utility shall implement the revised sewer rate and charges set forth and approved herein. The approved rate and charges shall be effective for services rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that, in the event this Order becomes final, the utility shall notify each affected customer of the increased sewer rate and approved miscellaneous service charges and explain the reasons for such increased rate and approved charges. The form of this notice shall be submitted to this Commission for its prior approval. It is further

ORDERED that in the event a substantially affected person other than the utility protests this proposed agency action, the utility may implement the revised monthly service rate, subject to its providing sufficient security in the event a refund may be required, as set forth in the body of this Order. This portion of the Order is not issued as proposed agency action. It is further

ORDERED that after May 5, 1989, this Commission shall issue either a notice of further proceedings or an Order acknowledging that the provisions of this Order have become final if all conditions have been satisfied. It is further

ORDERED that this docket shall remain open for ninety (90) days from the effective date of this Order to allow monitoring by the staff engineer of recommended improvements associated with quality of service. Upon staff's verification of completion of the ordered improvements, this docket shall be closed. However, if these improvements have not been completed within 90 days from the effective date of this Order, staff will present its findings and recommendations to the Commission for further disposition.

By ORDER of the Florida Public Service Commission, this 14th day of APRIL, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
JRF

by: Kay Hegan
Chief, Bureau of Records

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

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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 stated in the body of this Order, the actions proposed herein, except for the granting of temporary rates in the event any person other than the utility files a protest to the proposed agency action, is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this Order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on May 5, 1989. In the absence of such a petition, this Order shall become effective May 6, 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 the relevant portion of this Order becomes final and effective on May 6, 1989, any party adversely affected may request judicial review by the First District Court of Appeal 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 reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this Order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this Order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

PARMER UTILITIES, INC.
 SCHEDULE OF SEWER RATE BASE
 TEST YEAR ENDED AUGUST 31, 1988

SCHEDULE NO. 1
 DOCKET NO. 881108-SU

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 249,775 A	\$ (105,906)	\$ 143,869
LAND/NON-DEPRECIABLE ASSETS	6,700 B	(4,950)	1,750
PLANT HELD FOR FUTURE USE	0 C	0	0
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	0 D	(2,305)	(2,305)
ACCUMULATED DEPRECIATION	0 E	(58,844)	(58,844)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	0 F	113	113
WORKING CAPITAL ALLOWANCE	0 G	0	0
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SEWER RATE BASE	\$ 256,475	\$ (171,892)	\$ 84,583
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PARMER UTILITIES, INC.
SCHEDULE OF ADJUSTMENT TO RATE BASE
SCHEDULE NO. 1-A

	<u>SEWER</u>
A. <u>UTILITY PLANT IN SERVICE</u>	
1. To reflect balance per Order No. 17654 in Docket No. 870056-SU and plant additions through 8/31/88	(\$106,491)
2. To reflect reclassification of plant capital.	513
3. To reflect retirement of motor.	(215)
4. To reflect proforma plant for water tap in charge.	590
5. To reflect 13-month average adjustment	(303)
	<u>(\$105,906)</u>
B. <u>LAND</u>	
To reflect balance per Order No. 17654 in Docket No. 870056-SU	<u>(\$4,950)</u>
D. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)</u>	
To reflect 13-month average.	<u>(\$2,305)</u>
E. <u>ACCUMULATED DEPRECIATION</u>	
1. To reflect balance per Order No. 17654 in Docket No. 870056-SU and accumulated depreciation through 8/31/88.	(\$61,038)
2. To reflect 13-month average adjustment.	2,194
	<u>(58,844)</u>
F. <u>AMORTIZATION OF CIAC</u>	
To reflect 13-month average.	<u>\$ 113</u>

PARMER UTILITIES, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED AUGUST 31, 1988

SCHEDULE NO.2
 DOCKET NO.881108-SU

	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
	-----	-----	-----	-----	-----	-----
LONG-TERM DEBT	\$ 261,229	\$ (184,030)	\$ 77,199	91.27%	10.43%	9.52%
SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
PREFERRED EQUITY	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	25,000	(17,616)	7,384	8.73%	14.35%	1.25%
INVESTMENT TAX CREDITS	0	0	0	0.00%	0.00%	0.00%
DEFERRED TAXES	0	0	0	0.00%	0.00%	0.00%
OTHER	0	0	0	0.00%	0.00%	0.00%
	-----	-----	-----	-----	-----	-----
TOTAL	\$ 286,229	\$ (201,646)	\$ 84,583	100.00%		10.77%
	-----	-----	-----	-----	-----	-----
RANGE OF REASONABLENESS	LOW	HIGH				
	-----	-----				
RETURN ON EQUITY	13.35%	15.35%				
OVERALL RATE OF RETURN	10.68%	10.86%				

FARMER UTILITIES, INC.
 SCHEDULE OF SEWER OPERATING INCOME
 TEST YEAR ENDED AUGUST 31, 1988

SCHEDULE NO.3
 DOCKET NO.881108-SU

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	COMM. ADJUST. TEST YEAR	COMM. ADJUST. FOR INCREASE	BALANCE PER COMM.
OPERATING REVENUES	\$ 42,778 A	\$ (2,165)	\$ 40,613 F	\$ 18,757	\$ 59,370
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	46,662 B	(4,872)	41,790	0	41,790
DEPRECIATION	0 C	4,440	4,440	0	4,440
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	3,019 D	542	3,561 G	469	4,030
INCOME TAXES	0 E	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 49,681	\$ 110	\$ 49,791	\$ 469	\$ 50,260
OPERATING INCOME/(LOSS)	\$ (6,903)	\$ (2,275)	\$ (9,178)	\$ 18,288	\$ 9,110
SEWER RATE BASE	\$ 256,475		\$ 84,583		\$ 84,583

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PARMER UTILITIES, INC.
 SCHEDULE OF ADJUSTMENT TO OPERATING INCOME
 SCHEDULE NO. 3-A

	<u>SEWER</u>
A. <u>OPERATING REVENUES</u>	
To remove non-utility revenue.	<u>(\$2,165)</u>
B. <u>OPERATING EXPENSE</u>	
1. To adjust salary based on number of hours spent contractual utility business.	(\$6,000)
2. To reflect reclassification from Account No. 730.	79
3. To reflect reclassification to Account No. 775.	(119)
4. To reflect reclassification from Account No. 730.	242
5. To reflect reclassification from Account No. 775.	100
6. To remove a non-recurring expense.	(500)
7. To reflect reclassification to plant capital.	(513)
8. To reflect reclassification to Account No. 716.	(242)
9. To reflect reclassification to Account No. 711.	(79)
10. To reflect staff's recommended annual sludge analysis allowance.	130

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SCHEDULE NO. 3-A
Continued

	<u>SEWER</u>
11. To reflect reclassification to Account No. 775.	(8)
12. To reflect adjustment to operators salary.	233
13. To adjust rate case expense amortized over four years.	1,300
14. To reflect reclassification to Account No. 720.	(75)
15. To reflect reclassification from Account No. 715.	119
16. To reflect reclassification from Account No. 730.	8
17. To reflect reclassification to Account No. 711.	(85)
18. To reflect adjustment to recommended allowance for repairs and maintenance.	478
	<u>(\$4,872)</u>
C. <u>DEPRECIATION</u>	
To reflect test year Depreciation expense amortization of CIAC.	<u>\$ 4,440</u>
D. <u>TAXES OTHER THAN INCOME</u>	
1. To adjust regulatory assessment fee to 2.5% of test year revenue.	(\$66)
2. To reflect additional payroll taxes on recommended salaries.	630
	<u>\$ 564</u>

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SCHEDULE NO. 3-A
Continued

SEWER

E. OPERATING REVENUES

To reflect increase in revenues
required to meet expenses and allow
rate of return on investment.

\$18,757)

F. TAXES OTHER THAN INCOME

To reflect additional regulatory
assessment fee on increase in revenue.

\$ 469

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PARMER UTILITIES, INC.
 ANALYSIS OF SEWER O & M EXPENSES
 TEST YEAR ENDED AUGUST 31, 1988

ACCOUNT TITLE	BALANCE PER UTIL.	COMM. ADJUST.	COMM. BALANCE
SALARIES AND WAGES - EMPLOYEES	\$ 15,000	\$ (6,000)	\$ 9,000
SALARIES AND WAGES - OFFICERS	12,000	0	12,000
PENSIONS AND BENEFITS	0	0	0
PURCHASED SEWAGE TREATMENT	0	0	0
SLUDGE REMOVAL EXPENSE	0	79	79
PURCHASED POWER	4,080	(119)	3,961
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	91	327	418
MATERIALS AND SUPPLIES	0	75	75
CONTRACTUAL SERVICES	9,477	(979)	8,498
RENT	4,800	0	4,800
TRANSPORTATION EXPENSE	0	0	0
INSURANCE EXPENSE	509	0	509
REGULATORY COMMISSION EXPENSES	150	1,300	1,450
BAD DEBT EXPENSE	0	0	0
MISCELLANEOUS EXPENSES	555	445	1,000
TOTAL	\$ 46,662	\$ (4,872)	\$ 41,790

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