

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate) DOCKET NO. 940765-WS
Increase in Broward County by) ORDER NO. PSC-95-1399-FOF-WS
Ferncrest Utilities, Inc.) ISSUED: November 15, 1995
_____)

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED WATER AND WASTEWATER 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

Ferncrest Utilities, Inc. (Ferncrest or utility) is a Class B utility that provides water and wastewater service for about 1,547 water and 1,506 wastewater customers in Broward County, Florida. Ferncrest's service territory lies within the South Florida Water Management District. Areas within this district have been classified as Water Resource Caution Areas.

The utility's last rate case was finalized by Order No. 18960, issued March 7, 1988. That Order established rate base and granted a 13.96% rate of return on investment. Ferncrest received indexed rate adjustments from 1989 to 1993.

On October 27, 1994, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. The utility satisfied the minimum filing requirements (MFRs) for a rate increase, and this date was designated the official filing date, pursuant to Section 367.083, Florida Statutes. The utility asked the Commission to process this case under the proposed agency

DOCUMENT NUMBER-DATE
11303 NOV 15 94
FPSC-RECORDS/REPORTING

action (PAA) procedures, pursuant to Section 367.081 (8), Florida Statutes.

For the twelve months ended December 31, 1993, the period used to establish interim rates, Ferncrest's annual revenues were \$372,516 for water service and \$407,877 for wastewater service. Ferncrest requested approval of interim rates to generate annual revenues of \$421,896 for water service and \$529,145 for wastewater service. The utility's proposed interim increases were \$49,380 (12.49%) and \$121,268 (26.54%) for its respective water and wastewater systems. Pursuant to Order No. PSC-95-0040-FOF-WS, issued January 10, 1995, the Commission approved interim rates to generate operating revenues of \$418,169 for water service and \$519,189 for wastewater service. The interim increases were \$38,607 (10.16%) and \$96,534 (22.84%) for the respective water and wastewater divisions.

When Ferncrest filed the original MFRs, it asked for approval of year-end rate base calculations for the projected test year ending December 31, 1994. The utility used 1993 historical costs to predict expected expenses and investment levels in 1994. In the rate base category, Ferncrest predicted that the additions to plant in service would total \$128,000 for water service and \$62,200 for wastewater service. The projected rate base values were \$566,771 and \$673,086 for the respective water and wastewater divisions. The utility's accountant initially assumed that 1994 operating expenses would closely mimic 1993 expenses. The utility reported that its cost of capital would be 13.15% under year-end conditions. Based upon those conditions, Ferncrest requested approval of final rates to yield annual revenues of \$474,148 for water service and \$552,888 for wastewater service. The proposed increases were \$99,086 (26.42%) and \$134,733 (32.22%) for the respective water for wastewater divisions.

During the audit examination, our auditors discovered that the utility's estimate regarding 1994 plant additions omitted actual expenditures through September of 1994. The omitted projects totalled about \$17,000 for the water division and \$63,000 for the wastewater division. The audit report was completed on February 2, 1995. On February 23, 1995, Ferncrest advised us that it would be amending its application to incorporate data that was omitted from the original filing. Ferncrest waived the five-month suspension period for PAA rate proceedings by a letter dated February 23, 1995.

On May 26, 1995, Ferncrest filed revised MFRs to support its request for collection of increased rates. Those schedules included updated information regarding increased investments in

plant and greater operating expenses. Although this data revealed that expenses and investments were both enlarged, Ferncrest did not propose a corresponding increase in rates. Instead, Ferncrest advised us that it would adhere to the rates that were requested in the original filing. As shown in the revised MFRs, Ferncrest adopted most of the adjustments suggested in the February 2, 1995 audit report. Those audit corrections largely involve substitution of actual 1994 construction costs and expenses for the projected data. The revised MFRs, however, include additional features to show that still greater plant construction charges and expenses will be encountered in 1995. Many of these features were not included in the original filing.

QUALITY OF SERVICE

In determining the overall quality of service provided by the utility, our staff engineer evaluated the following three components of utility operations: (1) quality of the utility's product, (2) the operational conditions of the plant and facilities, and (3) the utility's efforts to address customer satisfaction. The engineer reviewed the Broward County Office of Natural Resource Protection's (ONRP) correspondence filed in the MFRs that addresses plant capacity and permits issued by that agency, and correspondence in the Broward County Health Unit's (BCHU) files. Wastewater review is conducted by ONRP, and drinking water is reviewed by the BCHU.

Our staff engineer conducted an on-site inspection of the facilities on June 22, 1995. Both plants appeared to be operating properly. A representative of the ONRP stated that the wastewater plant was meeting treatment standards. A review of the considerable correspondence showed ONRP's files concerning chlorine levels in effluent that is discharged to the lake, but all enforcement actions had been settled. The utility has a variance from ONRP to exceed the standard pH and chlorine levels for effluent discharge until 1999.

A review of BCHU's files revealed numerous inspection reports and resulting letters, suggesting corrective measures that could be undertaken. In 1993, the BCHU urged the utility to install automatic switchover chlorination equipment. This has been accomplished. The BCHU also recommended removal of the old water treatment plant filter. A new water storage tank is now in service.

BCHU notified the utility in August of 1993, and again in July of 1994, about unsatisfactory bacteriological results of its drinking water samples. As required by Rules 17-550.310 and 17-

560.410, Florida Administrative Code, the utility notified its customers concerning this condition and published a notice in the newspaper. If a utility has unsatisfactory test results, as a precautionary measure, a boil water notice is issued which stays in effect until satisfactory test results are found. Other than these two incidents of unsatisfactory samples, the utility is meeting water quality standards.

A customer meeting was conducted on January 19, 1995. Of the nine customers spoke, several referred to chlorine taste in the water, high bill problems, and meter reading problems. Our staff explained that the chlorine taste was probably a concentration of chlorine above the minimum level of 0.2 parts per million. Our staff will follow up the customer's complaints to ensure resolution of the reported problems.

Based on the foregoing, we hereby find that the quality of water service and wastewater collection, treatment, and disposal services are satisfactory.

RATE BASE

Our calculations of the appropriate rate base for this proceeding are attached as Schedules Nos. 1-A and 1-B. The adjustments to the rate base are attached as Schedule No. 1-C. Those adjustments which are self-explanatory or which are essentially mechanical are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Rate Base Values

The utility requested approval of year-end rate base determinations to reflect the full weight of projected additions to plant in service during 1994 and 1995. Many of the improvements are required pursuant to compliance measures set forth by the Department of Environmental Protection and the South Florida Water Management District. The utility requested year-end treatment because the additions are material investments that serve the public interest.

In the absence of the most extraordinary conditions or circumstances, the Commission should apply average investment during the test year in determining rate base. Citizens of Florida v. Hawkins, 356 So. 2d 254 (Fla. 1978). The Court noted in Hawkins that the average rate base method can produce a "distorted picture" if the company is experiencing rapid growth, or "when other factors are forcing investment costs upward without a concomitant increment

in revenues." Id. at 256. The utility believes the magnitude of the investment associated with planned improvements is an extraordinary condition that justifies approval of an end-of-period rate base determination. We agree and find it appropriate to use a year-end rate base.

Ferncrest's proposed addition to water plant for this proceeding totals \$250,688. About 88% of that investment refers to planned improvements that will not be closed to plant in service until 1995. The most significant component in this group is the \$155,856 estimated cost to complete construction of a water storage tank. Viewed from an overall perspective, the requested rate base for water service is about 52% larger than the 1993 balance. The utility's proposed addition to wastewater plant for this proceeding totals \$170,775. About 45% of that investment refers to planned improvements in 1995. Viewed from an overall perspective, the requested rate base for wastewater service is about 19% larger than the 1993 balance.

On a comparative scale, Ferncrest's customer base was actually slightly smaller in 1994 than it was in 1989. Thus, Ferncrest experienced substantial growth in investment while its customer base remained constant. Development resumed in 1995, when the utility began serving a new apartment project (Palm Trace), but Ferncrest has limited growth potential because of its confined service area. We believe the scheduled plant improvements benefit existing customers and potential growth. For this reason, which is discussed in more detail below, used and useful adjustments are proposed with respect to treatment plant facilities. Further, some of the general plant improvements are excluded from our rate base calculation to match those elements with expected customer growth.

When a year-end rate base determination is not accepted, the later a project's completion date, the smaller its consequent impact. Thus, at least 50% of Ferncrest's planned investments would be eliminated under the averaging process. The utility believes that its proposed investments should be fully considered in this proceeding to enable recovery of depreciation and rate of return factors.

Taken together, the planned additions present an extraordinary circumstance that justifies approval of a year-end rate base determination. They represent a substantial investment that serves the public interest. The most significant project in the utility's list of planned additions is the water storage tank, which was completed in 1995. Pursuant to Section 367.081, Florida Statutes, the Commission shall consider those improvements that serve the public interest when completion is expected within two years of the

historical test year. In this case, we find that an average rate base determination would distort the revenue requirement picture, since factors which are increasing the investment in operating plant are not been matched by a concomitant growth in customers. Accordingly, we have used year end rate base values for this rate case.

Used and Useful

In previous rate proceedings, Ferncrest's service area has been recognized as fully built out. Therefore, the plant and lines were considered 100% used and useful. Margin reserve has not been an issue due to the apparent build out of the service area. The plant capacity has not changed over the years, even though many general service customers were lost when I-595 was constructed. A multi-family development, Palm Trace, is now under construction in the utility's service area which casts a different slant on the used and useful calculations.

Water Plant

Palm Trace is expected to have 494 units at full development. The first phase of 270 units, should be completed in late December, 1995, or early January, 1996. The second phase will proceed if marking of the first phase is successful. According to a letter from the BCHU dated October 3, 1994, the utility is authorized to serve all 494 units of this development. Based upon full development of 494 units, with projected demand of 250 gpd/unit, the demand upon the system will be 123,500 gpd. Additional growth beyond this development is not anticipated.

With a water plant capacity of 1.0 mgd, maximum flow of 431,000 gpd, and a fire flow allowance of 120,000 gpd, we would normally conclude that the water plant would be 55% used and useful. However, in light of special conditions appreciable to Ferncrest, including the loss of many of the general service customers due the construction of I-595, we find that the used and useful percentage for the water plant will be 100% when the Palm Trace project reaches full development. Since the Palm Trace development will use 123,500 gpd at build-out, we shall subtract this amount from 1,000,000 gpd (plant capacity). This results in the water plant being 87.65% used and useful. It would be unfair to assign the entire investment to the customers when a portion is reserved for Palm Trace. Based on the foregoing, we conclude that the water plant is 87.65% used and useful.

Based upon 350,000 gallons of available storage, including the new 250,000 gallon tank installed in 1995, considering equalization

volumes, fire flow allowance, and emergency storage, the company's storage capacity remains slightly deficient. Therefore, we find that the storage facilities are 100% used and useful.

Additionally, consistent with previous cases, we find that Ferncrest's transmission and distribution systems are 100% used and useful.

Wastewater Plant

Consistent with the analysis discussed above, and utilizing the same 123,500 gpd demand for Palm Trace, we conclude that the wastewater plant is 79.42% used and useful. This calculation is made by subtracting 123,500 gpd (the demand from Palm Trace at build-out), from 600,000 gpd (plant capacity).

As discussed above, we find it appropriate that Palm Trace should share in the used and useful allocation for the wastewater plant. The collection system remains essentially built. Therefore, we find that the wastewater plant is 100% used and useful.

Post Test Year Plant Improvements

The utility requested test year consideration of \$300,691 worth of plant improvements that will be completed by the end of 1995. This list of improvements includes \$155,856 to erect a water storage tank; \$18,000 to refurbish the wells at the water plant; \$13,600 to refurbish a wastewater tank; \$15,000 to install a new filter for the wastewater system; \$7,500 to refurbish a chorine contact chamber; \$9,566 to refurbish a donated office trailer; \$35,000 to acquire computer equipment, office equipment, and office furniture; and \$12,000 for a new service vehicle. Documentation to support these charges was supplied during the audit investigation.

Some components in Ferncrest's schedule of projects will immediately enhance the quality of service, and we find that their inclusion in the revenue requirement calculation is justified. We believe other projects will improve the quality of service indirectly, and therefore find that their inclusion in the revenue calculation is not warranted. Although some general improvements are probably needed, for example, purchase of computer equipment, billing equipment, and office furniture, inclusion of these components shall not be included in this rate proceeding. Connection of the new apartment complex in 1995 will enhance the utility's ability to afford these improvements in future periods. Further, the depreciation recovery component in the operating

statement affords the company some opportunity to purchase added equipment.

We find it appropriate to eliminate the following components: 1) \$12,000 to purchase a work vehicle; 2) \$5,000 for lab and storage area additions; 3) \$15,504 for computer hardware and software supplies; 4) \$10,720 to purchased postage equipment; and 5) \$9,662 for additional office furniture and equipment. Ferncrest identified other general plant improvements that it intends to accomplish when funds are available, including \$3,905 to replace telephone equipment and \$4,500 to pave the office parking lot. Ferncrest suggested that these improvements could offset items that we might have excluded. However, we find that the recovery opportunity relative to those general improvements shall also be postponed for matching with enhanced revenues in 1995. Finally, we shall remove the \$15,000 projected expenditure for replacement of a filter assembly for the wastewater division. According to the utility's most recent schedule, installation of that equipment may be delayed until after 1995 due to permitting conditions. Previous information indicated that such replacement might not be needed until 1997. Based on these adjustments, we find it appropriate to reduce depreciation expense and accumulated depreciation by \$2,343 for water and \$3,884 for wastewater.

Guideline Depreciation Rates

Our audit inspection included an examination of the utility's depreciation practice for assurance that guideline rates prescribed by Rule 25-30.140, Florida Administrative Code, were employed. Our review showed that guideline rates are used in almost all respects; the exceptions concern vehicles, power equipment, and wastewater collection lines. The guideline rates shall be used for all accounts. Therefore, we shall make the following adjustments to accumulated depreciation and depreciation expense. For the water division, depreciation expense is increased by \$384 and accumulated depreciation is increased by \$2,110. For the wastewater division, depreciation expense is reduced by \$1,515 and accumulated depreciation is reduced by \$20,461.

Furthermore, our auditors detected an error in the utility's revised MFRs with reference to a correction in Order No. 18960. This error concerned adjusting accumulated depreciation to reflect the proper balance. This correction further increases accumulated depreciation for the wastewater division by \$4,228.

Working Capital

Pursuant to Rule 25-30.433(2), Florida Administrative Code, the utility used the formula method (1/8th of operation and maintenance expense) for calculating working capital. Based on the adjusted balances of operation and maintenance expenses, the appropriate working capital amounts are \$38,357 and \$49,039 for the respective water and wastewater divisions.

Test Year Rate Base

Based upon year-end rate base determinations, and our adjustments, the rate base values are \$592,046 and \$687,560 for the respective water and wastewater divisions.

COST OF CAPITAL

Our calculation of the appropriate cost of capital is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Return on Equity

By letter dated November 9, 1994, Ferncrest asked us to use the leverage formula to determine an appropriate return on equity investment, with the understanding that this determination would only affect future earnings. Ferncrest did not request a return on equity in this proceeding because accumulated losses had created a \$3,869,116 deficit condition through December 31, 1994. Our calculated rate of return for Ferncrest (10.68%) likewise omits any current consideration of a return on equity investment.

Although not a disputed issue in this case, we shall establish a return on equity investment for future rate setting purposes. Those future considerations may include setting of interim rates in a subsequent rate case, if equity investment is a factor, or review for possible overearnings. Consistent with the leverage graph approved in Order No. PSC-95-0982-FOF-WS, issued August 10, 1995, the appropriate return on equity is 11.88% whenever equity is less than 40% of the capital investment. The appropriate range for the return on equity is 10.88% to 12.88%.

Capital Structure

The utility's proposed manner of reconciling rate base and the capital structure does not conform to the our practice regarding

pro rata reconciliations. Instead, the utility emphasizes two elements in its capital structure that tend to reduce the cost of capital. The accentuated accounts are customer deposits (\$65,523 at 8% interest) and an intercompany loan that matches the provision for pro forma plant (\$207,000 at prime plus 2%). The utility proposed retaining the full weight of those capital accounts in the final cost of capital determination. Absent that accentuation, the weighted cost of capital would be 13.80% instead of the 13.34% proposed by the utility.

We find it appropriate to use a pro rata reconciliation of rate base and the capital structure. This approach is based on the concept that funds cannot be traced to particular assets. See Order No. 12663, issued October 7, 1983. When a utility borrows additional funds, the acquired cash is considered fungible since it can be applied to many uses. Based on the foregoing, we have reconciled capital structure and rate base on a pro rata basis.

Interest Rate for Customer Deposits

During the test year ended December 31, 1994, the interest rate for customer deposits was 8%. For the purpose of establishing final rates, we find it appropriate to use the 6% interest rate that is currently prescribed for customer deposits according to Rule 25-30.311 (4) (a), Florida Administrative Code.

Interest Rate for Other Debt Obligations

A schedule showing the utility's proposed capital structure, before reconciliation measures, appears on revised Schedule D-2 of the MFRs. The sources of investment capital are limited to customer deposits (\$65,523) and related party loans (\$4,483,180). The related party loans are payable to stockholders, their relatives, and companies they control. Because of accumulated operating losses, any investment in equity capital was long ago dissipated.

Related Party Loans

Payment of interest and principal has been suspended on all related party loans; although interest is accrued, nothing is paid. In some cases, the unpaid interest is simply charged to an "Accrued Interest" account. While some loans permit collection of interest on deferred payments, that practice is usually ignored. However, three notes are deemed material, and accrued interest on those loans is added to the principal balance. Those compounding considerations are discussed below.

One of the related party notes, a \$139,651 Advance from Silver Oaks, is increased by 12% each year to reflect accrued interest. The utility's debt balance also includes a \$922,811 note payable to Canco Enterprises, which is also a related party. This note reflects an accumulation of unpaid interest charges, currently 16% on an annual basis, added to a \$124,430 loan received on December 31, 1981. The utility's largest debt is a \$2,611,981 mortgage payable to various stockholder interests. The utility borrowed \$480,000 from The Dania Bank (later renamed Caribank) in 1981, but this debt was subsequently assigned to shareholders when the utility could not meet payment conditions. The 14% interest rate on this loan is likewise accrued and added to the unpaid principal.

Our analysis of the utility's filing reveals that debt capital in excess of \$4.5 million has been devoted to a combined rate base investment of about \$1.3 million. This immense difference did not simply result from used and useful adjustments or below-the-line corrections. Instead, this condition arose due to incomplete recovery of operating expenses and interest charges that grew progressively larger as interest was compounded. A general rate increase was granted in 1988, but operating losses continued. The outstanding debt was enlarged as additional funds were needed to build new plant facilities, but most of added debt is due to accumulated losses and compounding of interest on the unpaid balance.

Because rate base is substantially smaller than debt capital, operating income from utility service will consequently be less than the actual interest charges. Absent some outside influence, non-recovery of interest charges will continue indefinitely. To illustrate, although the utility requested approval of revenues sufficient to generate operating income of \$107,914, according to its revised filing, the unreconciled interest charges would be about \$624,893 annually. Thus, the requested income only yields about 17% of actual interest charges.

Last Authorized Return

In the utility's last rate case, based upon a test year ended June 30, 1986, we approved a 13.96% return on rate base, which included a 14.26% overall cost for debt capital. In that proceeding, the Office of Public Counsel appeared on behalf of customers, and argued that intercompany loans should be reduced to reflect an interest rate of prime plus 2%. Based upon the record in that proceeding, we determined that most of the disputed loans were borrowed during a period of high interest rates, when equivalent rates would have been charged irrespective of the lender. Order No. 18960 states: "(t)he standard generally applied

in scrutinizing affiliated transactions is whether the transaction is as reasonable or equivalent to the terms the utility would be required to observe in an arms-length transaction."

The combined water and wastewater rate base amount in that Order was \$950,672, while the outstanding debt amount was \$1,233,905. The debts that existed in 1986 still exist; and the current balances are larger because accrued interest is not paid. To the extent a close relationship existed in 1986, when the rate base and debt balances differed by \$300,000, that condition no longer prevails since the difference now exceeds \$3 million.

Intercompany Loans Since 1986

Beginning in 1987, the related parties have executed various agreements with the utility that specify interest rates that vary according to the prime interest rate. Those loan agreements all reflect interest rates that exceed the prime rate by one or two percent. When the \$207,000 loan that offsets the requested provision for pro forma plant is included, the total loan balance since 1986 loans is \$650,737.

Interest Rate Summary

Based on the foregoing, we will adjust the interest rate for all related party notes. As noted, a substantial share of the utility's outstanding debt relates to accumulated operating losses and unpaid interest charges. About 78% of the projected debt balance relates to two loans: a \$2,611,981 related party mortgage (14% interest) and a \$922,811 (16% interest) related party note. Because interest was compounded while losses increased, the original \$604,000 loan grew to \$3.5 million in 1994. Since these two related party loans far exceed the utility's current rate base, their repayment seems unlikely. But since neither interest nor principal is being paid on these loans, the cost of capital is heavily weighted relative to those loans.

Recent loans from related parties have been offered to the utility under variable interest options that change with the prime interest rate. The most recent loans, including the \$207,000 matching provision for pro forma construction projects, reflect an interest rate of prime plus 2%. The corresponding interest rate for this proceeding would be 10.75% based on the current prime rate (8.75%) of interest. While that rate appears attractive given Ferncrest's credit profile, it provides a reasonable benchmark in terms of repayment capacity. We conclude that all related party instruments shall be aggregated for the purpose of establishing a

fair interest rate in this docket, and that a uniform interest rate of prime plus 2% is reasonable.

Cost of Capital

Based upon adjustments discussed previously, we find it appropriate that an overall cost of capital is 10.68%.

NET OPERATING INCOME

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

Rent

The revised MFRs show inclusion of \$6,596 to represent rent received in its wastewater division revenues. The utility actually receives \$750 per month, or \$9,000 per year. Therefore, we find it appropriate to increase test year revenues by \$2,404 to correct this understatement of revenues.

Test Year Operating and Maintenance Expenses

The utility's proposed salary provision for its water and wastewater systems includes a requested 5.5% general pay increase that was effective on January 1, 1995. This adjustment increases water expenses by \$7,176 and wastewater expenses by \$7,176. We find it appropriate to remove the proposed increase. In 1995, the utility will receive additional revenues when the Palm Trace Landings apartment complex is connected. We believe this adjustment to payroll costs will be an offsetting consideration to the additional revenues from this customer. While the proposed wage adjustments, by themselves, do not appear unreasonable, we believe their inclusion in the 1994 test period is inappropriate.

Responding to the audit report, on September 8, 1995, Ferncrest discussed a \$2,100 damage claim received from its insurance carrier. This refund was assigned to a below-the-line revenue account. We believe the reimbursement should have credited to insurance expense to offset the repair cost that was charged to maintenance expense. Accordingly, we find it appropriate to reduce test year expenses by \$1,050 for water and \$1,050 for wastewater.

In 1994, the utility recorded the final entries to fully amortize maintenance charges that were incurred in 1992. Documentation to support those deferred costs was unavailable. For this reason, and because the 1992 deferred costs are now fully amortized, we find it appropriate to remove these amounts: \$226 for the water division and \$1,379 for the wastewater division. In 1994, the utility spent \$15,719 for wastewater plant improvements, and that cost is being amortized over three years. However, we shall not reduce the \$5,240 component since full recovery will not occur until 1996.

Rate Case Expense

The requested rate case expense per the revised MFRs was \$143,000. That amount exceeds the \$90,000 amount shown in the original filing by \$53,000. Afterwards, Ferncrest updated its request to \$150,470. We find it appropriate to disallow all rate case charges that relate to revision the of the MFRs. Assignment of duplication and error correction costs to customers is inappropriate. The requested rate case expense included \$8,000 for engineering costs, but no documentation was produced that such costs were actually incurred. Further, the requested provision did not include the \$3,000 filing fee, but we shall include that payment. As a general proposition regarding evaluation of rate case support, the Court has said: "the Commission enjoys a broad discretion with respect to allowance of rate case expense." Florida Crown Utility Services, Inc. v. Utility Regulatory Board of the City of Jacksonville, 274 So. 2d 597 (Fla. 1st DCA 1973).

After reviewing each expense, we find that \$31,013 of rate case expense relates to the revised MFRs. Therefore, we shall subtract that amount from the updated \$150,470 proposed provision for rate case expense. Based on the foregoing, we find it appropriate to allow rate case expense in the amount of \$119,727. Therefore, we find it appropriate that \$119,727 in rate case expense shall be amortized over four years, for an annual expense of \$29,931.

Property Taxes

Ferncrest's calculation of its revenue requirement for water service includes a \$5,699 provision for added property taxes on plant additions in 1994 and 1995. The requested adjustment for the wastewater division is \$3,882. Each year the utility receives a property tax bill that corresponds to its investment in plant for the previous year. The utility's requested rate base in this proceeding includes actual 1994 additions to plant and projected additions in 1995. We find it appropriate to remove these

projected increases since some charges will not be billed until 1996. Further, we believe that recovery of expected increases in 1995 may be available through growth in operating revenues.

Pursuant to Section 367.081(4)(b), Florida Statutes, a utility may increase its rates to recover greater property taxes 30 days after it notifies the Commission that its ad valorem taxes have changed. A filing fee is not required, and the only added expense would relate to notifying the Commission and the customers that a rate increase is imminent. We further observe that a pass-through rate increase is subject to refund if the utility's return on investment exceeds its last authorized return. In all cases, the estimated tax will differ from the actual charge to the same extent that estimated and actual construction costs differ. Therefore, we find it appropriate to remove the requested provisions for increased property taxes.

Test Year Operating Losses

Based upon the previous adjustments, we find it appropriate that test year operating losses are \$8,582 for the water division and \$55,162 for the wastewater division.

Test Year Revenues

As part of our audit, we calculated revenues for the test year using billing determinants taken from the utility's billing registers for the test year. Based on these items, the appropriate amount of test year revenues is \$371,470 for water and \$420,672 for wastewater.

REVENUE REQUIREMENT

Based upon our review of the utility's application and the adjustments discussed herein, the appropriate annual revenue requirement is an increase of \$75,216 or 20.25% for the water system and \$127,153 or 30.23% for the wastewater system. This will allow Ferncrest to collect revenues of \$446,686 and \$547,825 for the respective water and wastewater systems.

RATES AND CHARGES

The final rates for the water system are designed to produce annual revenues of \$446,686. The final rates for the wastewater systems are designed to produce annual revenues of \$547,825. The utility's rates prior to the filing, the currently approved interim rates, the requested final rates, and approved final rates are shown on Schedules Nos. 4-A and 4-B.

We find it appropriate to allow a 20% differential between the residential and general service wastewater gallonage charges. The purpose of the 20% differential in the wastewater gallonage charge between general service and residential customers recognizes that approximately 20% of the water used by residential customers is used for purposes such as irrigation and is not collected by the wastewater systems.

Miscellaneous Service Charges

As a part of the revenue audit conducted in this rate case, we determined that the utility was collecting miscellaneous service charges that are not in accordance with Staff Advisory Bulletin No. 13 (2nd Revised). Currently, the utility charges \$7.00 for a premises visit and \$14.00 for all initial connections, normal reconnections, and violation reconnections. We find it appropriate to place the utility's miscellaneous service charges in accordance with Staff Advisory Bulletin No. 13 (2nd Revised). The charges shall be: \$10.00 for a premises visit and \$15.00 for all initial connections, normal reconnections, and violation reconnections. Furthermore, the utility shall be allowed to continue charging its approved tariff charge of \$19.00 for all after-hours initial connections, normal reconnections, and violation reconnections.

Effective Date

The approved rates and the miscellaneous service charges approved above shall be effective for service rendered on or after the stamped effective date of the tariff sheets provided the customers have received notice. The utility shall file and have staff's approval of revised tariff sheets and a proposed customer notice letter, pursuant to Rule 25-22.0407(10), Florida Administrative Code, prior to implementing the new rates. The utility shall provide proof of the date notice was given within ten (10) days after the date of notice.

Statutory Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that the rate case expense be apportioned for recovery over the period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989.

The water rates shall be reduced to remove \$15,671 for water and \$15,671 for wastewater as shown on Schedule No. 5. The revenue reductions reflect the annual rate case amounts amortized

(expensed) plus the gross-up for regulatory assessment fees. The utility shall file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and 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 for the reduction in the rates due to the amortized rate case expense.

Refund of Interim Rates

By Order No. PSC-95-0040-FOF-WS, issued January 10, 1995, we suspended the utility's proposed rates and approved interim water rates were approved subject to refund, pursuant to Section 367.082, Florida Statutes. The interim increase resulted in annual revenues of \$418,169 and \$519,189 for the respective water and wastewater systems. This resulted in an increase of \$38,607 or 10.16% and \$96,534 or 22.84% for the water and wastewater systems, respectively.

In this proceeding, the test period for establishment of interim and final rates was the historical twelve months ended December 31, 1994, with some allowance for expected additions to plant in service in 1995. Those construction projects include the water storage tank (\$155,856), and miscellaneous additions to water plant (\$32,500) and wastewater plant. The storage tank was placed in service in May of 1995. Other facilities were added throughout the interim collection period.

Pursuant to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Earlier in our decision, we found that the appropriate rate of return is 10.68%. Our review indicates that the only material expense for final rates that was not an actual cost during the interim collection period would be rate case expense, which charge is recovered prospectively. However, even when this charge is excluded, the final revenue requirement still exceeds the interim increase. Elimination of the revenue effect related to plant additions other than the water storage tank, which was in service for most of the collection period, still indicates the interim rates were not excessive. Based upon our calculations, we find that no interim refund is necessary.

Service Availability Charges

Ferncrest currently collects a \$150 tap-in charge for water service. This tap-in charge is designed to offset the cost associated with constructing individual services from the closest mains of the utility to the point of delivery. Ferncrest does not collect a main extension charge nor does it collect a plant capacity fee. Based upon the utility's projected investments in plant in service at December 31, 1994, after consideration of certain pro forma improvements to be completed in 1995, we find that the ratio of net CIAC to net plant is 33.32% for water and 38.36% for wastewater.

The utility has executed a developer agreement with the developer of Palm Trace Landings, a planned apartment project that may add 494 ERCs to Ferncrest's service population. Two phases are scheduled. According to the utility, the first phase with 270 units is under construction with completion expected in December of 1995. If the first phase is successful, the second phase of 224 units will be built in 1996. Pursuant to the developer agreement, the developer, at its expense, will design, construct, and install water distribution and sewage collection facilities throughout the development. The projected cost for the donated water lines is \$95,793, or the equivalent of \$194 each for 494 potential units. The projected cost of the donated wastewater collection lines, including a lift station, is \$163,738, or the equivalent of \$332 each for 494 potential units. The utility's current CIAC balance is largely the consequence of receipt of donated water and wastewater facilities. Since Ferncrest will be receiving donated on-site facilities, and its usual practice is to require such contributions, we do not find it appropriate to adopt line extension charges in this proceeding.

The utility does not collect any plant capacity charges to offset its investment in treatment plant facilities. After considering the utility's investment in treatment plant facilities, including projected improvements in this proceeding, plant capacity fees shall be adopted for all future connections. For the water division, dividing the investment in treatment and pumping plant facilities among the projected number of customers yields a \$280 approximated cost per customer. For the wastewater division, dividing the investment in treatment facilities and pumping plant equipment among the projected number of customers yields a \$255 approximate cost per customer. The utility's agreement with the Palm Trace Landings developer includes a clause whereby the developer will fund construction of certain improvements that will insure sufficient pumping capacity for fire flow protection for

Palm Trace Landings and existing customers. The projected cost of those improvements is \$105,000.

Our calculations took into account the utility's statement that it will reach build-out after the 494 anticipated future ERCs are connected. This fact shows although there may be more plant capacity available, the utility does not anticipate utilizing its full plant capacity. If, however, the utility's service territory is ever amended, this issue should be revisited. Because of this, the utility never expects to reach a 75% contribution level. If the 494 anticipated future ERCs are made at \$280 for water and \$255 for wastewater, a contribution level of 56.17% and 53.91% of its water and wastewater plant respectively would be achieved. This contribution level is within the guidelines pursuant to Rule 25-30.580, Florida Administrative Code.

Based on the foregoing, we find it appropriate to set plant capacity charges at \$280 per ERC charge for water service. We likewise approve a \$255 per ERC charge for wastewater service. Based upon collection of these amounts together with donation of on-site water and wastewater facilities, the ratio of net CIAC to plant would be 56.17% for water and 53.91% for wastewater. If these fees were not implemented, the corresponding ratios would be 40.17% for water and 42.85% for wastewater.

Also, if the utility files revised tariff sheets within thirty days of the effective date of the order, which are consistent with our vote, staff shall be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

Adjustment of Books

The utility did not adjust its books of account to match the plant and accumulated depreciation balances that were approved by Order No. 18960. Instead, those corrections were included in the utility's filing through adjustments which restate the June 30, 1986, account balances for each of the affected accounts. While this treatment preserves the overall impact of the our rate base determination from case to case, an added degree of difficulty is encountered in subsequent audits. For example, special care is needed to eliminate depreciation entries regarding disallowed plant. Corresponding adjustments are therefore needed to restate accumulated depreciation.

ORDER NO. PSC-95-1399-FOF-WS
DOCKET NO. 940765-WS
PAGE 20

If asset values are disallowed for ratemaking purposes, the utility should account for this disallowance in an appropriate fashion. Accordingly, the utility shall record a journal entry that will reflect all reclassification and elimination adjustments prescribed in this case or any prior docket.

If a protest is not received within 21 days of the issuance of this order, the order will become final. This docket shall be closed at the conclusion of the protest period, if no protest is filed, and upon staff's approval of revised tariff sheets. Further, in the event of no protests, the escrow account shall be released.

ORDERED by the Florida Public Service Commission that Ferncrest Utilities, Inc.'s application for increased water and wastewater rates is approved as set forth in the body of this Order. It is further

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

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

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

ORDERED that the rates approved herein shall be effective for services rendered on or after the stamped effective date of the tariff sheets in accordance with Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that Ferncrest Utilities, Inc. shall provide proof of the date notice was given to the customers within ten (10) days after the date of notice.

ORDERED that prior to its implementation of the rates and charges approved herein, Ferncrest Utilities, Inc. shall submit and have approved a proposed customer notice to its customers of the increased rates and charges and reasons therefor. The notice will be approved upon our staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Ferncrest Utilities, Inc. shall submit and have approved revised tariff sheets. The revised tariff sheets

ORDER NO. PSC-95-1399-FOF-WS
DOCKET NO. 940765-WS
PAGE 21

will be approved upon staff's verification that the sheets are consistent with our decision herein, that the protest period has expired, and that the customer notice is adequate. 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. Ferncrest Utilities, Inc. 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

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

ORDERED that if Ferncrest Utilities, Inc. files revised tariff sheets within thirty days of the effective date of the order, which are consistent with our decision, staff shall be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the service availability charges approved herein shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. It is further

ORDERED that Ferncrest Utilities, Inc. shall record a journal entry that will reflect all reclassification and elimination adjustments prescribed in this case or any prior docket. It is further

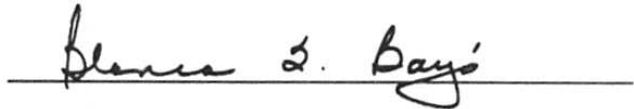
ORDERED that all provisions of this Order are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that if no timely protest is received from a substantially affected person, the escrow accounts shall be released. It is further

ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person, and upon the utility's filing and staff's approval of revised tariff sheets and the customer notice.

ORDER NO. PSC-95-1399-FOF-WS
DOCKET NO. 940765-WS
PAGE 22

By ORDER of the Florida Public Service Commission, this 15th
day of November, 1995.

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)

MSN

Commissioner Johnson dissents without opinion with respect to the
interest rate for other debt obligations.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 6, 1995.

In the absence of such a petition, this order shall become effective on the day 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 this order becomes final and effective on the date described above, any party substantially 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.

FERNCREST UTILITIES, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/94			SCHEDULE NO. 1-A DOCKET NO. 940765-WS			
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 1,111,975	\$ 144,900	\$ 1,256,875	(26,133)	1,230,742	
2 LAND	20,000	0	20,000	0	20,000	
3 NON-USED & USEFUL COMPONENTS	0	0	0	(64,390)	(64,390)	
4 CONSTRUCTION WORK IN PROGRESS	157,030	(156,831)	199	(199)	0	
5 ACCUMULATED DEPRECIATION	(542,670)	120,350	(422,320)	233	(422,087)	
6 CIAC	(444,997)	0	(444,997)	0	(444,997)	
7 AMORTIZATION OF CIAC	237,581	(3,160)	234,421	0	234,421	
8 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0	
9 ADVANCES FOR CONSTRUCTION	0	0	0	0	0	
10 WORKING CAPITAL ALLOWANCE	37,334	2,443	39,777	(1,420)	38,357	
RATE BASE	\$ 576,253	\$ 107,702	\$ 683,955	(91,909)	592,046	

FERNCREST UTILITIES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/94			SCHEDULE NO. 1-B DOCKET NO. 940765-WS		
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 1,843,992 \$	87,279 \$	1,931,271 \$	(41,753)\$	1,889,518
2 LAND	60,000	0	60,000	0	60,000
3 NON-USED & USEFUL COMPONENTS	0	0	0	(66,881)	(66,881)
4 CONSTRUCTION WORK IN PROGRESS	4,507	(4,706)	(199)	199	0
5 ACCUMULATED DEPRECIATION	(800,260)	(60,121)	(860,381)	20,117	(840,264)
6 CIAC	(939,348)	0	(939,348)	0	(939,348)
7 AMORTIZATION OF CIAC	545,725	(10,230)	535,495	0	535,495
8 ACQUISITION ADJUSTMENTS - NET	0	0	0	0	0
9 ADVANCES FOR CONSTRUCTION	0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE	46,351	4,252	50,603	(1,564)	49,039
RATE BASE	\$ 760,967 \$	16,474 \$	777,441 \$	(89,881)\$	687,560
	=====	=====	=====	=====	=====

FERNCREST UTILITIES, INC. ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/94		SCHEDULE NO. 1-C DOCKET NO. 940765-WS PAGE 1 OF 1	
EXPLANATION	WATER	WASTEWATER	
(1) UTILITY PLANT IN SERVICE			
a) Adjustment to remove requested provision for additional service truck	\$ (6,000)	\$ (6,000)	
b) Remove pro forma provision for general office equipment in 1995:			
1) computer hardware and software purchases	(7,752)	(7,752)	
2) postage equipment	(5,360)	(5,360)	
3) additional office furniture	(4,521)	(5,141)	
c) Remove requested provision for installation of filter	0	(15,000)	
d) Remove proposed provisions for conversion of laboratory areas	(2,500)	(2,500)	
	<u>\$ (26,133)</u>	<u>\$ (41,753)</u>	
(2) NON-USED & USEFUL COMPONENTS			
Recommended used and useful adjustments	\$ (64,390)	\$ (66,881)	
(3) CONSTRUCTION WORK IN PROGRESS			
Adjustment to eliminate CWIP classification errors	\$ (199)	\$ 199	
(4) ACCUMULATED DEPRECIATION			
a) Adjustment to remove pro forma depreciation of truck (6 yrs)	\$ 1,000	\$ 1,000	
b) Adjustment to remove pro forma depreciation of general plant (15 yrs)	1,176	1,217	
c) Adjustment to reflect application of guideline rates	(2,110)	20,461	
d) Adjustment to correct depreciation per Audit Exception # 1	0	(4,228)	
e) Adjustment to remove pro forma depreciation of filter assembly (10 yrs)		1,500	
f) Remove proposed provisions for conversion of laboratory areas (15 yrs)	167	167	
	<u>233</u>	<u>20,117</u>	
(5) WORKING CAPITAL			
Adjustment to correspond with test year expenses	\$ (1,420)	\$ (1,564)	

Utility: Ferncrest Utilities, Inc.
 County: Broward
 Docket No. 940765-WS
 Test Year Ended: December 31, 1994

Schedule No. 4-A

RATE SCHEDULE

WATER

Monthly Rates

	Rates Prior to <u>Filing</u>	Commission Approved <u>Interim</u>	Utility Requested <u>Final</u>	Commission Approved <u>Final</u>
<u>Residential and General Service</u>				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$8.94	\$9.90	\$10.44	\$10.20
3/4"	\$13.42	\$14.87	\$15.66	\$15.30
1"	\$22.35	\$24.76	\$26.10	\$25.50
1-1/2"	\$44.70	\$49.52	\$52.20	\$51.00
2"	\$71.53	\$79.25	\$83.52	\$81.60
3"	\$143.06	\$158.50	\$167.04	\$163.20
4"	\$223.53	\$247.65	\$261.00	\$255.00
6"	\$447.06	\$495.30	\$522.00	\$510.00
Gallage Charge, per 1,000 Gallons	\$1.88	\$2.08	\$2.59	\$2.41

Typical Residential Bills

<u>5/8" x 3/4" meter</u>				
3,000 Gallons	\$14.58	\$16.14	\$18.21	\$17.43
5,000 Gallons	\$18.34	\$20.30	\$23.39	\$22.25
10,000 Gallons	\$27.74	\$30.70	\$36.34	\$34.30

Utility: Ferncrest Utilities, Inc.
 County: Broward
 Docket No. 940765-WS
 Test Year Ended: December 31, 1994

Schedule No. 4-B

RATE SCHEDULE

WASTEWATER

Monthly Rates

	<u>Rates Prior to Filing</u>	<u>Commission Approved Interim</u>	<u>Utility Requested Final</u>	<u>Commission Approved Final</u>
--	--------------------------------------	--	--	--

Residential Service

Base Facility Charge: 5/8" x 3/4"	\$9.34	\$11.59	\$12.71	\$12.72
Gallage Charge Per 1,000 gallons (6,000 gallon cap)	\$3.04	\$3.77	\$4.01	\$3.89

General Service

Base Facility Charge:
 Meter Size:

5/8" x 3/4"	\$9.34	\$11.59	\$12.71	\$12.72
3/4"	\$14.01	\$17.38	\$19.07	\$19.08
1"	\$23.35	\$28.97	\$31.78	\$31.80
1-1/2"	\$46.70	\$57.94	\$63.55	\$63.60
2"	\$74.72	\$92.71	\$101.68	\$101.76
3"	\$149.43	\$185.40	\$203.36	\$203.52
4"	\$233.50	\$289.70	\$317.75	\$318.00
6"	\$466.97	\$579.41	\$635.50	\$636.00
Gallage Charge, per 1,000 Gallons	\$3.04	\$3.77	\$4.01	\$4.66

Typical Residential Bills

5/8" x 3/4" meter

3,000 Gallons	\$18.46	\$22.90	\$24.74	\$24.39
5,000 Gallons	\$24.54	\$30.44	\$32.76	\$32.17
10,000 Gallons (Sewer Cap - 6,000 Gallons)	\$27.58	\$34.21	\$36.77	\$36.06

ORDER NO. PSC-95-1399-FOF-WS
DOCKET NO. 940765-WS
PAGE 29

Utility: Ferncrest Utilities, Inc.
County: Broward
Docket No. 940765-WS
Test Year Ended: December 31, 1994

Schedule No. 5-A

RATE SCHEDULE

Schedule of Rate Decrease After Expiration of
Amortization Period for Rate Case Expense

Water

Monthly 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"	\$10.20	\$0.37
3/4"	\$15.30	\$0.56
1"	\$25.50	\$0.93
1-1/2"	\$51.00	\$1.86
2"	\$81.60	\$2.98
3"	\$163.20	\$5.95
4"	\$255.00	\$9.30
6"	\$510.00	\$18.61
Gallonage Charge, per 1,000 gallons	\$2.41	\$0.09

Utility: Ferncrest Utilities, Inc.
 County: Broward
 Docket No. 940765-WS
 Test Year Ended: December 31, 1994

Schedule No. 5-B

RATE SCHEDULE

**Schedule of Rate Decrease After Expiration of
 Amortization Period for Rate Case Expense**

Wastewater

Monthly Rates

<u>Residential Service</u>	<u>Commission Approved Rates</u>	<u>Rate Decrease</u>
Base Facility Charge: 5/8" x 3/4"	\$12.72	\$0.38
Gallorage Charge Per 1,000 gallons (6,000 gallon cap)	\$3.89	\$0.11
 <u>General Service</u>		
Base Facility Charge: Meter Size:		
5/8"x3/4"	\$12.72	\$0.38
3/4"	\$19.08	\$0.56
1"	\$31.80	\$0.94
1-1/2"	\$63.60	\$1.88
2"	\$101.76	\$3.01
3"	\$203.52	\$6.01
4"	\$318.00	\$9.39
6"	\$636.00	\$18.78
Gallorage Charge, per 1,000 gallons	\$4.66	\$0.14

FERNCREST UTILITIES, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/94

SCHEDULE NO. 2
 DOCKET NO. 940765-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$ 785,853	\$ 0	\$ 0	785,853	53.77%	13.86%	7.45%
2 SHORT-TERM DEBT	610,020	0	0	610,020	41.74%	13.24%	5.53%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0	0	0	0.00%	0.00%	0.00%
5 CUSTOMER DEPOSITS	65,523	0	0	65,523	4.48%	8.00%	0.36%
7 DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	\$ <u>1,461,396</u>	\$ 0	\$ 0	<u>1,461,396</u>	<u>100.00%</u>		<u>13.34%</u>
PER COMMISSION							
10 LONG TERM DEBT	\$ 2,826,586	\$ 0	(2,031,433)\$	795,153	62.14%	10.75%	6.68%
11 SHORT-TERM DEBT	1,656,594	0	(1,190,574)	466,020	36.42%	10.75%	3.92%
12 ADVANCES-ASSOCIATED CO	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	0	0	0	0	0.00%	11.88%	0.00%
14 CUSTOMER DEPOSITS	65,523	0	(47,091)	18,432	1.44%	6.00%	0.09%
15 DEFERRED ITC'S	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	\$ <u>4,548,703</u>	\$ 0	(3,269,098)\$	<u>1,279,605</u>	<u>100.00%</u>		<u>10.68%</u>
RANGE OF REASONABLENESS					LOW	HIGH	
RETURN ON EQUITY					<u>10.88%</u>	<u>12.88%</u>	
OVERALL RATE OF RETURN					<u>10.68%</u>	<u>10.68%</u>	

FERNCREST UTILITIES, INC.
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/94

SCHEDULE NO. 3-A
 DOCKET NO. 940765-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 363,419	\$ 110,729	\$ 474,148	\$(102,678)	\$ 371,470	\$ 75,216	446,686
OPERATING EXPENSES:		30.47%				20.25%	
2 OPERATION AND MAINTENANCE	\$ 298,675	\$ 19,540	\$ 318,215	\$(11,361)	\$ 306,854	\$ 0	306,854
3 DEPRECIATION	27,931	4,285	32,216	(4,714)	27,502		27,502
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	45,776	11,762	57,538	(11,842)	45,696	3,385	49,081
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 372,382	\$ 35,587	\$ 407,969	\$ 788,021	\$ 380,052	\$ 3,385	383,437
8 OPERATING INCOME	\$ (8,963)	\$ 75,142	\$ 66,179	\$(890,699)	\$(8,582)	\$ 71,831	63,249
9 RATE BASE	\$ 576,253	\$ 683,955	\$ 592,046		\$ 592,046	\$ 592,046	592,046
RATE OF RETURN	-1.56%	9.68%	-1.45%		10.68%		

FERNCREST UTILITIES, INC.
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED 12/31/94

SCHEDULE NO. 3-B
 DOCKET NO. 940765-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 406,496	\$ 141,329	\$ 547,825	(\$ 127,153)	\$ 420,672	\$ 127,153	\$ 547,825
OPERATING EXPENSES		34.77%				30.23%	
2 OPERATION AND MAINTENANCE	\$ 370,806	\$ 34,021	\$ 404,827	(\$ 12,514)	\$ 392,313	\$ 0	\$ 392,313
3 DEPRECIATION	38,436	6,834	45,270	(9,660)	35,610		35,610
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	44,671	11,322	55,993	(8,082)	47,911	5,722	53,633
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 453,913	\$ 52,177	\$ 506,090	(\$ 30,256)	\$ 475,834	\$ 5,722	\$ 481,556
8 OPERATING INCOME	\$ (47,417)	\$ 89,152	\$ 41,735	(\$ 96,897)	(\$ 55,162)	\$ 121,431	\$ 66,269
9 RATE BASE	\$ 760,967	\$ 777,441	\$ 687,560	\$ 687,560	\$ 687,560	\$ 687,560	\$ 687,560
RATE OF RETURN	-6.23%		5.37%		-8.02%		9.64%

FERNCREST UTILITIES, INC.
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED 12/31/94

SCHEDULE NO. 3-C
DOCKET NO. 940765-WS
PAGE 1 OF 1

EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) Revenue adjustment to agree with COMMISSION's billing analysis	\$ 8,051	\$ 5,176
b) Adjust provision for rental income	0	2,404
c) Adjustment to remove requested rate increase	(110,729)	(134,733)
	<u>\$ (102,678)</u>	<u>\$ (127,153)</u>
(2) OPERATING REVENUES		
a) Adjustment to show reduction to rate case expense	\$ (2,909)	\$ (2,909)
b) Adjustment to remove requested 5.5% pay increase	(7,176)	(7,176)
c) Adjustment to reclassify insurance settlement	(1,050)	(1,050)
d) Remove deferred maintenance costs	(226)	(1,379)
	<u>\$ (11,361)</u>	<u>\$ (12,514)</u>
(3) DEPRECIATION EXPENSE		
a) Adjustment to reflect removal of pro forma plant - truck	(1,000)	(1,000)
b) Adjustment to reflect removal of pro forma plant - general plant	(1,176)	(1,217)
c) Adjustment to reflect removal of pro forma plant - filter assembly		(1,500)
d) Adjustment to reflect removal of pro forma plant - lab facilities	(167)	(167)
e) Used and useful adjustment	(2,755)	(4,261)
f) Adjustment to reflect application of guideline rates	384	(1,515)
	<u>\$ (4,714)</u>	<u>\$ (9,660)</u>
(4) TAXES OTHER THAN INCOME TAXES		
a) Adjustment to remove regulatory assessment fees on requested revenues	\$ (4,621)	\$ (5,722)
b) Adjustment to reflect actual property taxes in 1994	(5,699)	(3,882)
c) Adjustment to show equal allocation of payroll taxes	(1,522)	1,522
	<u>\$ (11,842)</u>	<u>\$ (8,082)</u>
(5) OPERATING REVENUES		
Adjustment to show recommended revenues	<u>\$ 75,216</u>	<u>\$ 127,153</u>
(6) TAXES OTHER THAN INCOME TAXES		
Adjustment to show regulatory assessment fees on increased revenues	<u>\$ 3,385</u>	<u>\$ 5,722</u>