

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Staff-) DOCKET NO. 950967-SU
Assisted Rate Case in Highlands) ORDER NO. PSC-96-0860-FOF-SU
County by Fairmount Utilities,) ISSUED: July 2, 1996
the 2nd, Inc.)
_____)

The following Commissioners participated in the disposition of this matter:

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

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION ORDER
GRANTING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein, regarding our granting of increased rates and charges and requiring completion of pro forma plant improvements within six months from the issuance date of this order, are 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

Fairmount Utilities was organized in June, 1970, to provide wastewater service to Fairmount Mobile Estates. The utility came under our jurisdiction on February 23, 1984. We granted a transfer of Certificate No. 357-S from Fairmount Utilities to Parmer Utilities by Order No. 17654, issued June 3, 1987, in Docket No. 870056-SU. Then, on November 5, 1991, by Order No. 25217-A, we approved the transfer of the Certificate from Parmer Utilities to Fairmount Utilities, the 2nd, Inc. (Fairmount). The service area for Fairmount is known as Fairmount Mobile Estates. Fairmount has 426 flat rate residential (mobile home) customers and 3 general service customers.

DOCUMENT NUMBER-DATE

07076 JUL-29

FPSC-RECORDS/REPORTING

By Order No. 21049, issued April 4, 1989, in Docket No. 881108-SU, we approved an increase in rates for Fairmount through a staff-assisted rate case. The utility has also been granted three annual indexing rate adjustments since that rate increase.

The utility applied for this staff-assisted rate increase on August 16, 1995. We find it appropriate to apply an historical test year ending December 31, 1995, for this rate case. Based on our audit, the utility recorded test year revenues of \$67,982, and operating expenses of \$57,710, resulting in a net operating income of \$10,272.

QUALITY OF SERVICE

A customer meeting was held on the evening of April 3, 1996, at the City of Sebring Civic Center on 335 W. Center Street in Sebring, Florida. Over 100 customers attended the meeting. Eighteen customers stated their concerns about the utility's quality of service. Their primary concerns were the disorganized manner in which the utility is run, the excessive odors from the plant, the lack of maintenance, and the unsightly appearance of the plant. One customer was also concerned that a sludge hauling truck could be seen going to and from the plant on various occasions.

Fairmount has responded to some of the concerns raised by the customers and has addressed other problems at the facility.

Chlorine

The latest compliance inspection of the wastewater treatment plant was performed by the Department of Environmental Protection (DEP) on December 13, 1995. The compliance inspection report for Fairmount's wastewater treatment plant noted several deficiencies.

The utility has submitted an application to the DEP for a construction permit to correct plant-in-service problems. The permit application, which includes an upgrade for the digester and the use of the old digester to increase retention for chlorine contact, is being reviewed by the DEP.

Maintenance

Maintenance has been neglected at the Fairmount wastewater plant. The fence is in disrepair and plant equipment needs preventative maintenance. The utility has already started ground preparation for the installation of a new digester which has made the plant site appear even less attractive. The utility has, however, requested certain pro forma allowances be included in this

rate case. This will allow the utility sufficient rate base to make necessary plant improvements. We approve the utility's request for a pro forma allowance to replace the fence. A new fence will improve the appearance of the plant site. Also, the utility demonstrated a sincere intent to take care of its maintenance and appearance problems by submitting an application to the DEP for a construction permit.

Odors

Once the utility has made the upgrades necessary to correct deficiencies cited in its last compliance inspection report, the odor problem at Fairmount should be corrected. Fairmount has already begun ground preparation for the new digester.

Sludge Removal

As far as the customer's concern about a sludge truck coming and going at the plant, such activity is part of the normal process of wastewater treatment. The activated sludge process involves the cultivation of zoogeal bacteria and other organisms in the presence of dissolved oxygen. When these organisms die, they become accumulated solids that are separated from wastewater during the treatment process. The resulting solid waste is sludge. This is a normal by-product of the activated sludge process and all wastewater plants must routinely remove waste sludge as part of their regular maintenance programs. Environmental standards enforced by the DEP will allow an operator to discharge sludge from the plant only under the strictest regulatory standards. For a utility the size of Fairmount, the most economical option is to have the sludge removed by a sludge hauling service. Sludge hauling services are licensed and permitted to dispose of sludge in a manner that is safe and free of health hazards to the general public. We include a sufficient allowance for sludge hauling services in this rate case.

Office Organization

Additional customer concerns were centered around the disorganized manner in which the office is run and the difficulty in contacting a utility representative during emergencies. Customers testified that the utility's office is chaotic and not run in a professional manner.

The utility's record keeping practices are, in fact, very poor. The office has limited space for working and storage. In addition, the lack of space has been made worse during the last few

months because the utility took files from storage to make them readily available for our review.

After our investigation of the utility office, the utility did, however, remove a table from the office and replace it with an extra file cabinet. The utility also consented to placing a beeper number on the monthly bills to allow customers to contact utility personnel during emergencies.

All things considered, the utility's quality of service is found to be unsatisfactory, at this time. However, after the utility has completed the plant upgrades in accordance with its forthcoming construction permit and made pro forma improvements, the quality of service will be satisfactory. Thus, the quality of service provided by Fairmount will be considered satisfactory after Fairmount completes pro forma plant improvements within 180 days of the issuance of this Order.

RATE BASE

Our calculation of the appropriate rate base is set forth on attached Schedule No. 1. Our adjustments are on Schedule No. 1A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are explained below.

Used and Useful Plant

Wastewater Treatment Plant

The rated capacity of the wastewater treatment plant is 40,000 gallons per day (gpd) operating in the extended aeration mode of treatment. The approved formula, used as a point of reference for useful plant, indicates the plant is 73.58 % used and useful. During the last rate case, we found that the plant was 100% used and useful.

Since the utility serves mostly mobile homes, it is likely that less water will be consumed than with regular residences. Considering that the guidelines for construction of facilities dictate that 258 gallons of wastewater per mobile home be provided, the utility is over 100% used and useful. We find that the wastewater treatment plant is 100% used and useful.

Collection System

The collection system serves the mobile home park and three general service customers. The collection system within the mobile home park is built to its maximum capacity to serve the park at full occupancy. The approved formula, used as a reference point for useful plant, indicates that the plant is 116% used and useful. Thus, we find that the wastewater collection system is 100% used and useful.

Test Year Rate Base

The appropriate rate base components for Fairmount are depreciable plant in service, land, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. By Order No. 21049, we established the individual rate base component balances at August 31, 1988. We used the amounts set forth in that Order as a beginning for updating the rate base components. Additional adjustments were necessary to reflect test year changes. A discussion of each component follows.

Depreciable Plant in Service

The utility recorded a plant in service balance of \$282,183 at the end of the test year. We made the following adjustments to decrease that balance by \$75,246: 1) reconciled utility beginning balance with Order No. 21049 for a decrease of \$138,011; 2) reflected plant additions and improvements from August 31, 1988 through December 31, 1994 totaling \$30,229; 3) recorded pro forma plant for an increase of \$35,036; and 4) reflected average test year plant for a decrease of \$2,500.

Pro forma plant consists of: a computer system for \$1,455; the DEP required 15,000 gallon digester for \$18,881; improved and updated lift stations at \$3,900; improved piping for percolation ponds at \$7,000; telephone alarms at the lift stations for \$400; chlorine tank for \$200; chain fence at \$2,500; and metal piping for \$700. The computer and the software are shared by both Fairmount and Sebring Ridge Utilities, Inc. (Sebring Ridge); consequently, we have allocated 30% of the cost to Fairmount and the remaining 70% to Sebring Ridge per the engineer. Thus, we find the total utility plant in service is \$206,937.

Land

The utility recorded a land balance of \$6,700. We determined, however, in the last staff assisted rate case, that the land

balance should be \$1,750. The utility has not purchased additional land since the last rate case. Therefore, we removed \$4,950 from the utility's balance to reflect the land balance set forth in Order No. 21049. We find the appropriate land balance is \$1,750.

Contributions in Aid of Construction (CIAC)

The utility recorded test year CIAC of \$1,950. We increased CIAC by \$513 to reconcile the utility's recorded amounts with the amounts approved by Order No. 21049. Since that Order, there have not been any additions to CIAC. Thus, we did not need to make an averaging adjustment. We find the appropriate CIAC balance is \$2,463.

Accumulated Depreciation

The utility recorded \$26,924 in accumulated depreciation. By Order No. 21049, we established accumulated depreciation of \$61,039 at August 31, 1988. We calculated accumulated depreciation using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. We made increasing adjustments of \$34,115 to reconcile the utility's balance with Order No. 21049. The adjustments made were \$43,065 to add accumulated depreciation since the last staff assisted rate case, and \$2,104 to reflect depreciation on pro forma plant. To reflect average test year accumulated depreciation, we also made an aggregate decreasing adjustment of \$3,767. Based on these adjustments, we find the appropriate accumulated depreciation balance for Fairmount is \$102,441.

Amortization of CIAC

The utility recorded amortization of CIAC at \$179. Order No. 21049 established amortization of CIAC at \$277. We therefore added \$98 to the utility's balance. Also, in order to show test year amortization of CIAC, the balance was increased by \$627. We then made a reduction of \$54, to reflect an average test year. Thus, we find the appropriate amortization of CIAC is \$850.

Amortization of Organization Costs

The utility recorded negative \$310 to reflect amortization of organization costs. These costs were not allowed in the prior rate case. We therefore removed this negative amount.

Working Capital Allowance

Pursuant to Rule 25-30.443, Florida Administrative Code, we find it appropriate to use the one-eighth of operation and maintenance expense formula for calculating working capital allowance. Applying that formula, we find the correct working capital allowance is \$9,484.

Applying the aforementioned adjustments, we find the appropriate balance of Fairmount's test year rate base is \$114,117.

COST OF CAPITAL

Our calculation of the appropriate cost of capital and our adjustments are contained in Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without discussion in the body of this Order. Major adjustments are discussed below.

The utility's capital structure consists of three, long-term debts from First Union: one for \$110,031 with an interest rate of 8.00%, one for \$50,000 with an interest rate of 11.25%, and one for \$11,039 with an interest rate of 10.57%. The capital structure also includes a \$16,512 note payable to Sebring Ridge with an interest rate of 10.00%, a \$45,199 note payable to Roger Miller with an interest rate of 10.00%, an \$11,000 short-term debt with an interest rate of 10.47%, and common equity of \$61,474. Using the current leverage formula approved in Order No. PSC-95-0982-FOF-WS, issued on August 10, 1995, in Docket No. 950006-WS, we find the correct rate of return on common equity is 11.88%, with a range of 10.88% - 12.88%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.90% with a range of 9.70% to 10.10%. We made adjustments to reconcile the capital structure with the appropriate rate base.

NET OPERATING INCOME

Our calculation of net operating income for the utility is contained on attached Schedules Nos. 3 and 3A. Adjustments which are self-explanatory or which are essentially mechanical in nature are reflected only in the schedules. We discuss the major adjustments below.

Test Year Revenues

The utility reported test year revenues of \$67,982. Based on the billing analysis, and a revenue check performed using the utility's most recent rates in effect, we found that the appropriate test year revenues are \$65,752. We, therefore, made an adjustment to reduce the utility's balance by \$2,230 to reflect the correct test year revenues. Thus, we find the appropriate test year revenues are \$65,752.

Test Year Loss

We have determined that the test year revenues are \$65,752, and the corresponding test year operating expenses are \$97,917. This results in an operating loss of \$30,209.

Test Year Operating Expense

The utility recorded operating expenses of \$57,710. The components of these expenses include operation and maintenance expenses, depreciation expense (net of related amortization of CIAC), amortization, and taxes other than income.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and to allow for plant operations. Our analysis of these expenses is contained on Schedule No. 3B.

The utility charged \$47,957 in operating and maintenance expense (O & M) during the test year. A summary of adjustments that we made to the utility's recorded expenses are as follows:

1) Salaries and Wages - The utility recorded a salaries and wages expense of \$3,898 during the test year. The utility requested salary expenses for a full-time operations manager, bookkeeper, secretary, and maintenance person. We found the requested hours excessive for a utility of this size. Consequently, we made adjustments to reflect the hours necessary to operate a system of this size and customer base. The adjustments are as follows: a) part-time bookkeeper for 10 hours a week at \$10.44 an hour equalling an annual salary of \$5,429; b) part-time secretary for 12 hours a week at \$10.87 an hour equalling an annual salary of \$6,783; c) part-time maintenance person for 3 hours a week at \$8.00 an hour equalling an annual salary of \$1,248; d) part-time operations manager for 15 hours a week at \$21.34 an hour equalling an annual salary of \$16,645. We therefore find the appropriate Salaries and Wages expense is \$30,105.

2) Salaries and Wages for Officers and Directors - The utility recorded \$27,000 for officers' salaries and wages expense during the test year. We find this salary excessive for a utility of this size and for the duties performed. Consequently, that amount was reduced by \$20,339. We have made similar adjustments in staff assisted rate cases with other utilities of comparable size and customer base to Fairmount. We find the appropriate Salaries and Wages expense for the officers is \$6,661.

3) Sludge Removal - The utility recorded \$245 for annual sludge removal expense. We increased that amount by \$1,915 to reflect actual annual sludge removal expense. The appropriate sludge removal expense is \$2,160.

4) Purchased Power - The utility recorded \$4,974 in purchased power. We added \$337 to reflect annualized purchased power expenses. We find the appropriate purchased power expense is \$5,311.

5) Chemicals - The utility recorded \$760 for chemical expense. We increased that amount by \$380 to reflect annualized chemicals expense. The appropriate chemicals expense is \$1,140.

6) Materials and Supplies - The utility recorded a materials and supplies expense of \$1,802 for the test year. We made adjustments to increase the costs for materials and supplies to reflect the annualized costs of postage, the utility's P. O. Box, meter reading information from the city and supplies for a total increase of \$668. We find the appropriate materials and supplies expense is \$2,470.

7) Contractual Services - The utility recorded contractual services expenses of \$6,078. We increased contractual services by a total of \$11,437 to reflect, on an annual basis, the following expenses: a) maintenance and repair expenses in the amount of \$1,198; b) DEP required mowing and upkeep of the pond berms, lift stations, and sewer plant which equals \$2,250; c) sludge analysis expenses in the amount of \$88; d) the expense of accounting services and the cost to reconcile the utility's books with our prior Orders, as well as with NARUC requirements, amortized over 4 years, for an annual expense of \$675; e) contract operator expense equalling \$2,712; and f) DEP required cleaning of the retention ponds twice a year which equals \$1,600.

We also made an adjustment to contractual service expenses to reflect annual DEP testing expense. The appropriate annual amount for DEP testing is \$1,917. A schedule of Commission approved DEP water testing expenses follows:

<u>Description</u>	<u>Annualized Cost</u>
CBOB/TSS (influent & effluent)	\$ 1,200
Fecal Coliform	300
Total Nitrogen	65
Molydenium	52
Sludge Analysis	<u>300</u>
Test Year Total	<u>\$ 1,917</u>

Total adjustments to contractual services are \$12,152. We find the appropriate contractual services expenses total is \$17,515.

8) Rent Expense - The utility did not record anything for test year rent expense. We have, however, found that the utility is bound by a current lease agreement. An adjustment of \$2,400 was made to reflect the annual rent expense. We find the appropriate rent expense is \$2,400.

9) Transportation Expense - The utility did not record anything for transportation expenses. However, since the utility is in a remote spot, we will allow the utility a transportation expense of \$.29 per mile. This mileage includes travel to and from town for conducting utility business, as well as for surveying the plant. Fairmount and Sebring Ridge are sister utilities, and, as a result, there is an overlap of travel. We will, therefore, allow the utilities a combined annual mileage of 17,420 miles. We allocate thirty percent of the mileage to Fairmount, which equals 5,226 miles, for a total expense of \$1,515. Thus, we find the appropriate transportation expense for Fairmount is \$1,515.

10) Insurance Expense - The utility recorded \$524 for insurance expenses. We increased this balance by \$909 to reflect the annual insurance expense on the operations manager. Therefore, the appropriate insurance expense is \$1,433.

11) Regulatory Commission Expense - The utility recorded \$2,676 for regulatory commission expense. We made the following adjustments to that amount: a) removed unsupported rate case expense of \$676; and b) reflected actual rate case expense of \$2,000, amortized over four years, for a reduction of \$1,500. Thus, the appropriate amount for regulatory commission expense is \$500.

12) Miscellaneous Expense - The utility did not record anything for test year miscellaneous expenses. We therefore added \$4,664 for miscellaneous expenses, to reflect the costs of a Wastewater Treatment Plant (WWTP) operation permit, a Highlands County Right-of-Way permit, annual banking fees, and a DEP-required call forwarding alarm system for the lift stations.

We increased the O & M expenses by \$27,917 and find that the appropriate O & M expenses are \$75,874.

Depreciation Expense (Net of Amortization of CIAC)

We calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. We decreased the amount recorded by the utility by \$192 to properly reflect test year depreciation expense on plant. We also made a \$2,104 adjustment to reflect depreciation expense on pro forma plant. Applying the composite depreciation rates to CIAC, we further decreased the amount by \$108 to reflect test year amortization. Thus, we find the appropriate test year depreciation expense net of CIAC is \$9,104.

Amortization Expense: We removed \$85 which the utility had included as amortization expense for unsupported organization costs.

Taxes Other Than Income Taxes: The utility recorded test year Taxes Other than Income Taxes of \$2,368. We increased that amount by \$707 to reflect 1995 Ad Valorem taxes. We also added \$2,891 for regulatory assessment fees on test year annualized revenues, and added \$5,017 for payroll taxes on employees. We find the appropriate amount for test year Taxes Other Than Income is \$10,983.

Applying the discussed adjustments, we find the appropriate operating expenses for Fairmount are \$97,917.

REVENUE REQUIREMENT

We find that the appropriate annual revenue for Fairmount is \$109,214. This is an increase in revenue of \$43,462 or 66.10%. This increase will give the utility an opportunity to recover its expenses and earn a 9.90% return on its investment. The revenue requirement and resulting annual increase are shown on Schedule No. 3.

RATES AND CHARGES

Fairmount's customer base consists of approximately 426 mobile home and 3 general service wastewater customers billed on a flat rate basis. The utility currently bills its residential customers based on the number of lots each mobile home occupies. A specific concern addressed at the April 3, 1996, customer meeting was the prospect of establishing vacation rates. Over fifty percent of Fairmount's customers are seasonal and believe that not only were the recommended flat rates high, but the rates did not take into consideration zero consumption during a customer's absence. Although Fairmount is not the water service provider for these customers, the utility can obtain customers' monthly water consumption from the city. The utility shall therefore charge metered rates to its customers on a per meter basis. The city has agreed to provide the water consumption information for Fairmount's wastewater customers at a cost of \$.25 per customer per month. We have made an allowance for this cost in operating expenses.

We calculated rates based on test year revenues and annual number of bills and gallonage consumption. The approved rates will be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within ten days after the date of the notice. The utility's current rates and our approved metered rates are as follows.

RESIDENTIAL AND GENERAL SERVICE MONTHLY RATES

EXISTING RATES

<u>Monthly Flat Charge</u>	
Residential	\$12.51
General Service	\$12.51

RESIDENTIAL AND GENERAL SERVICE MONTHLY RATES

Metered Rates

Commission Approved Rates

Residential Service

5/8 x 3/4"	\$ 14.92
3/4"	22.38
1"	37.30
1 1/2"	74.60
2"	119.36
3"	238.71
4"	372.99
6"	745.98
Gallonage Charge (Per 1,000 gallons - Capped at 6,000 gallons)	\$ 3.11

General Service

5/8 x 3/4"	\$ 14.92
3/4"	22.38
1"	37.30
1 1/2"	74.60
2"	119.36
3"	238.71
4"	372.99
6"	745.98
Gallonage Charge (Per 1,000 gallons)	\$ 3.73

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge may be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. Revenues shall be reduced by a total of \$523.56 annually to reflect the removal of rate case expense for regulatory assessment fees which is being amortized over a four year period. The effect of the revenue reduction results in rate decreases as shown on Schedule No. 4.

The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense.

TEMPORARY RATES IN THE EVENT OF A PROTEST

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

The security for the potential refund shall be in the form of a bond or letter of credit in the amount of \$30,018. The utility may, as an alternative, elect to establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase

shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than twenty days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

BOOKS AND RECORDS

Based on our audit, the utility's books and records have not been maintained in compliance with 1984 NARUC USOA. Rule 25-30.115, Florida Administrative Code, requires jurisdictional utilities to maintain their books and records in a manner conforming with NARUC USOA. The utility's tax accountant estimated that the cost of reconciling the utility's books with this Order and with the NARUC USOA would be \$2,700. We have included this expense, amortized over four years, in the operation and maintenance expenses. Allowing this expense for accounting services provides the utility with the expertise to convert and maintain its books and records in conformance with NARUC USOA. Therefore, the utility shall be required to maintain its books and records in conformance with NARUC USOA. The utility shall also be required to submit a statement from its accountant by March 31, 1997, along with its 1996 annual report, stating that its books conform with NARUC USOA.

Upon expiration of the protest period, if no timely protest is received from a substantially affected person, this docket shall remain open for an additional six months from the issuance date of the Order to allow the utility time to complete pro forma plant additions and to allow a Commission staff engineer time to verify the pro forma plant additions have been completed. When the utility has complied with this Order in all respects, this docket shall be closed administratively.

Based on the foregoing, it is therefore

ORDERED by the Florida Public Service Commission that Fairmount Utilities, the 2nd, Inc.'s application for increased wastewater rates is approved as set forth in the body of this Order. It is further

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

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

ORDERED that Fairmount Utilities, the 2nd, Inc., is authorized to charge the new rates and charges set forth in the body of this Order. It is further

ORDERED that Fairmount Utilities, the 2nd, Inc.'s, rates and charges shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475, Florida Administrative Code, provided the customers have received proper notice. It is further

ORDERED that Fairmount Utilities, the 2nd, Inc., shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Fairmount Utilities, the 2nd, Inc., shall submit and have approved a bond or letter of credit in the amount of \$30,018, or an escrow agreement as a guarantee of any potential refund of revenues collected on a temporary basis. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, Fairmount Utilities, the 2nd, Inc., is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Fairmount Utilities, the 2nd, Inc., has furnished satisfactory security for any potential refund and provided that is has submitted and our staff has approved revised tariff pages and a proposed customer notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Fairmount Utilities, the 2nd, Inc., shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our staff's verification that the pages 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. The utility shall file revised tariff sheets

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no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

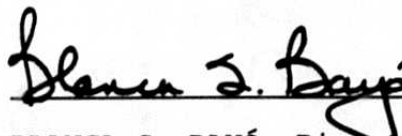
ORDERED that Fairmount Utilities, the 2nd, Inc., shall submit monthly reports as set forth in the body of this Order. It is further

ORDERED that the utility shall maintain its books and records in conformance with the 1984 NARUC Uniform System of Accounts. The utility shall submit a statement from its accountant by March 31, 1997, along with its 1996 annual report, stating that Fairmount Utilities, the 2nd, Inc.'s books conform with the NARUC Uniform System of Accounts. It is further

ORDERED that the provisions of this Order, except for the granting of temporary rates in the event of protest and the requirement to maintain the utility's books in conformance with the NARUC Uniform System of Accounts, are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22:029, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that, upon expiration of the protest period, if no timely protest is received from a substantially affected person, this docket shall be closed administratively six months from the issuance date of this Order, upon the utility's filing and our staff's approval of the revised tariff sheets and the customer notice, and upon our staff's verification of the completion of pro forma plant improvements.

By ORDER of the Florida Public Service Commission, this 2nd day of July, 1996.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)
BC

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 actions proposed herein, except for our granting of temporary rates and our requirement that the utility maintain its books and records in accordance with the NARUC Uniform System of Accounts, are 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 July 23, 1996.

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.

FAIRMOUNT UTILITIES THE 2nd, INC.
TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 1
DOCKET NO. 950967-SU

SCHEDULE OF WASTEWATER RATE BASE

COMPONENT	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$ 282,183	\$ (75,246)	\$ 206,937
2. LAND/NON-DEPRECIABLE ASSETS	6,700	(4,950)	1,750
4. NON-USED AND USEFUL PLANT			0
5. ACQUISITION ADJUSTMENT		0	0
6. CONTRIBUTIONS IN AID OF CONSTRUCTION	(1,950)	(513)	(2,463)
7. ACCUMULATED DEPRECIATION	(26,924)	(75,517)	(102,441)
8. AMORTIZATION OF CIAC	179	671	850
9. AMORTIZATION OF ORG. COST	(310)	310	0
10. WORKING CAPITAL ALLOWANCE		9,484	9,484
WASTEWATER RATE BASE	\$ 259,878	\$ (145,761)	\$ 114,117

FAIRMOUNT UTILITIES THE 2nd, INC.
TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 1A
DOCKET NO. 950967-SU

ADJUSTMENTS TO RATE BASE

EXPLANATION	WASTEWATER
A. UTILITY PLANT IN SERVICE	
1. To reconcile utility beginning balance with Order #21049	(138,011)
2. Polishing Pond Improvements (acct. 362)	3,275
3. Blowers (acct. 380)	3,614
4. Treatment & Disposal - Pump (acct. 380)	1,619
5. Treatment & Disposal - Surge Tank (acct. 380)	21,400
6. Unrecorded Plant (acct. 380)	750
7. Retirement of plant (acct. 380)	(825)
8. Treatment & Disposal - Chemical Feed Pump (acct. 380)	252
9. Fence (acct. 354)	144
10 Pro forma plant	35,036
11 Averaging Adjustment	
Plant	(72)
Pro forma plant	(2,428)
	<u>\$ (75,246)</u>
B. LAND	
1. To reflect land per Order #21049	<u>\$ (4,950)</u>
C. CIAC	
1. To reflect CIAC per Order #21049	<u>\$ (513)</u>
D. ACCUMULATED DEPRECIATION	
1. To reconcile utility balance with Order #21049	(34,115)
2. To add accumulated depreciation since 8/31/88	(43,065)
3. To reflect depreciation on pro forma plant	(2,104)
To reflect averaging adjustment	
Plant	3,554
Pro forma plant	213
	<u>\$ (75,517)</u>
E. AMORTIZATION OF CIAC	
1. To reflect amortization of CIAC per Order #21049	98
2. To add amortization since 8/31/88	627
3. To reflect averaging adjustment	(54)
	<u>\$ 671</u>
F. AMORTIZATION OF ORGANIZATION COSTS	
1. To remove unauthorized costs	<u>\$ 310</u>
G. WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses	<u>\$ 9,484</u>

FAIRMOUNT UTILITIES THE 2nd, INC.
 TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 2
 DOCKET NO. 950967-SU

SCHEDULE OF CAPITAL STRUCTURE

DESCRIPTION	PER UTILITY	COMMISSION ADJUSTMENTS	BALANCE PER COMMISSION	% OF TOTAL	COST	WEIGHTED COST
First Union	\$ 110,031	\$ (68,897)	\$ 41,134	36.05%	8.00%	2.88%
First Union	50,000	\$ (31,308)	\$ 18,692	16.38%	11.25%	1.84%
N/P- Sebring Ridge Utilities	16,512	(10,339)	6,173	5.41%	10.00%	0.54%
N/P - Roger E. Miller	45,199	(28,302)	16,897	14.81%	10.00%	1.48%
EQUITY	61,474	(38,492)	22,982	20.14%	11.88%	2.39%
Short Term Debt	11,000	(6,888)	4,112	3.60%	10.47%	0.38%
First Union	<u>11,039</u>	<u>(6,912)</u>	<u>4,127</u>	<u>3.62%</u>	10.57%	<u>0.38%</u>
TOTAL	\$ 305,255	\$ (191,138)	\$ 114,117	100.00%		9.90%

RANGE OF REASONABLENESS

	LOW	HIGH
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	9.70%	10.10%

FAIRMOUNT UTILITIES THE 2nd, INC.
 TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 3
 DOCKET NO. 950967-SU

SCHEDULE OF WASTEWATER OPERATING INCOME

DESCRIPTIONS	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
OPERATING REVENUES	\$ 67,982	\$ (2,230)	65,752	\$ 43,462	\$ 109,214
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 47,957	27,917	75,874		75,874
DEPRECIATION (NET)	7,300	1,804	9,104		9,104
AMORTIZATION	85	(85)	0		0
TAXES OTHER THAN INCOME	2,368	8,615	10,983	1,956	12,939
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 57,710	\$ 38,251	\$ 95,961	\$ 1,956	\$ 97,917
OPERATING INCOME/(LOSS)	\$ 10,272		\$ (30,209)		\$ 11,298
WATER RATE BASE	\$ 259,878		\$ 114,117		\$ 114,117
RATE OF RETURN	3.95%		-26.47%		9.90%

FAIRMOUNT UTILITIES THE 2nd, INC.
TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 3A (Sheet 1 of 2)
DOCKET NO. 950967-SU

ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WASTEWATER
A. OPERATING REVENUES	
1. To reflect annualized revenues	\$ <u>(2,230)</u>
B. OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages	
a. To reflect annual salaries and wages	
Book Keeper (part time)	\$ 1,531
Secretary (part time)*†	6,783
Maintenance Person	1,248
Operations Manager	<u>16,645</u>
	<u>\$ 26,207</u>
2. Salaries and Wages - Officers	
a. To reflect annual salaries and wages of Officer	\$ <u>(20,339)</u>
3. Sludge Removal	
a. Adjustment per engineer to reflect annual sludge removal expense	\$ <u>1,915</u>
4. Purchased Power	
a. Adjustment per engineer to reflect annual purchased power expense	\$ <u>338</u>
5. Chemicals	
a. Adjustment per engineer to reflect annual Chemical expense	\$ <u>380</u>
6. Materials & Supplies	
a. Adjustment to reflect cost of postage, P. O. Box, and supplies	\$ <u>668</u>
7. Contractual Services	
a. To reflect annual maintenance & Repair	1,198
b. DEP required regular mowing of pond berms, lift station, and sewer plant	2,250
c. To reflect annual sludge analysis expense per engineer	88
d. To reflect accounting services provided to (reconcile utility books with Commission orders, set books in compliance with NARUC, prepare Federal, Tangible, and Intangible tax returns, and consult on Commission related issues.	1,671
e. To reflect annual Contract Operator expense per engineer	2,712
f. To reflect annual testing expense per engineer	1,917
g. DEP required retention pond twice a year	<u>1,600</u>
	<u>\$ 11,436</u>

FAIRMOUNT UTILITIES THE 2nd, INC.
 TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 3A (Sheet 2 of 2)
 DOCKET NO. 950967-SU

ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WASTEWATER
8. <u>Rents</u>	
a. To reflect annualized rent expense	\$ <u>2,400</u>
9. <u>Transportation Expense</u>	
a. To reflect annualized transportation expense	\$ <u>1,515</u>
10 <u>Insurance Expense</u>	
a. To reflect annualized insurance expence on the operations manager	\$ <u>909</u>
11 <u>Regulatory Commission Expense</u>	
a. To remove unsupported Reg. Commission Exp.	(676)
b. To properly reflect Reg. Commission Exp. amortized over 4 years	<u>(1,750)</u>
	\$ <u>(2,426)</u>
12 <u>Miscellaneous Expense</u>	
a. To reflect cost of wastewater permit amortized over 5 years	650
b. To reflect annual cost of right of way permit	400
c. To reflect annual cost for telephone and emergency cellular phone service	996
d. To reflect annualized cost of meter readings from City of Sebring	1,278
e. To reflect annual bank charges, DEP call alarm, and miscellaneous expenses	<u>1,340</u>
	\$ <u>4,664</u>
TOTAL O & M EXPENSE ADJUSTMENTS	\$ 27,667
C. DEPRECIATION EXPENSE (NET)	
1. To properly reflect test year depreciation expense	(192)
2. To reflect depreciation expense on pro forma plant	2,104
3. To properly reflect test year CIAC amortization expense	<u>(108)</u>
	\$ <u>1,804</u>
D. AMORTIZATION EXPENSE	
1. To remove unsupported amortization expense on org. cost.	\$ <u>(85)</u>
E. TAXES OTHER THAN INCOME	
1. Adjustment to reflect 1995 Ad Valorem Taxes	707
2. Adjustment to reflect RAF on test year revenues	2,891
3. To reflect Payroll taxes on requested employees	<u>5,017</u>
	\$ <u>8,615</u>
F. OPERATING REVENUES	
1. To reflect increase in revenues per revenue requirement	\$ <u>43,462</u>
G. TAXES OTHER THAN INCOME	
1. To reflect RAF on increased revenues	\$ <u>1,956</u>

FAIRMOUNT UTILITIES THE 2nd, INC.
TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 3B
DOCKET NO. 950967-SU

ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

DESCRIPTION	TOTAL PER UTIL.	COMMISSION ADJUST.	TOTAL PER COMMISSION
(701) SALARIES AND WAGES - EMPLOYEES	\$ 3,898	\$ 26,207	\$ 30,105
(703) SALARIES AND WAGES - OFFICERS	27,000	(20,339)	6,661
(704) EMPLOYEE PENSIONS AND BENEFITS			0
(710) PURCHASED SEWAGE TREATMENT			0
(711) SLUDGE REMOVAL EXPENSE	245	1,915	2,160
(715) PURCHASED POWER	4,974	337	5,311
(716) FUEL FOR POWER PRODUCTION			0
(718) CHEMICALS	760	380	1,140
(720) MATERIALS AND SUPPLIES	1,802	668	2,470
(730) CONTRACTUAL SERVICES	6,078	11,437	17,515
(740) RENTS	0	2,400	2,400
(750) TRANSPORTATION EXPENSE	0	1,515	1,515
(755) INSURANCE EXPENSE	524	909	1,433
(765) REGULATORY COMMISSION EXPENSES	2,676	(2,176)	500
(770) BAD DEBT EXPENSE			
(775) MISCELLANEOUS EXPENSES	0	4,664	4,664
UNCLASSIFIED DISBURSEMENTS			0
	\$ 47,957	\$ 27,917	\$ 75,874

RATE REDUCTION SCHEDULE

FAIRMOUNT UTILITIES THE 2nd, INC.
TEST YEAR ENDING DECEMBER 31, 1994

SCHEDULE NO. - 4
DOCKET NO. 950967-SU

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

RESIDENTIAL & GENERAL SERVICE	COMMISSION APPROVED RATES	COMMISSION APPROVED REDUCTION
BASE FACILITY CHARGE:		
Meter Size		
5/8" X 3/4"	\$ 14.92	0.07
3/4"	22.38	0.11
1"	37.30	0.18
1 1/2"	74.60	0.36
2"	119.36	0.57
3"	238.71	1.14
4"	372.99	1.79
6"	745.98	3.58
RESIDENTIAL GALLONAGE CHARGE	\$ 3.11	0.01
PER 1,000 GALLONS		
GENERAL SERVICE	3.73	0.02