BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.	)	DOCKET NO. 960561-SU ORDER NO. PSC-97-0130-FOF-SU ISSUED: February 10, 1997

The following Commissioners participated in the disposition of this matter:

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

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST AND REQUIRING CONFORMITY WITH NARUC SYSTEM OF ACCOUNTS
AND
NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING INCREASE IN RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that our action discussed herein regarding granting increased rates and charges 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

Indian Springs Utilities, Inc. (Indian Springs or utility) is a Class C wastewater utility located in Citrus County. The utility currently serves 55 single family residences, 74 condominiums, a 36 unit apartment complex and a 106 room motel that includes a recently opened family restaurant. In 1995, the utility recorded wastewater operating revenues of $34,303 and operating expenses of $74,950, which resulted in an operating loss of $40,647.

On August 2, 1983, Indian Springs filed its application for a certificate to operate a water utility in Citrus County. By Order No. 13385, issued June 6, 1984, in Docket No. 830375-W, Indian Springs was granted Certificate No. 429-W. On July 24, 1987, NASI, Inc., and Indian Springs filed a joint application for a transfer of NASI's wastewater certificate. By Order No. 18907, issued

February 22, 1988, in Docket No. 870810-SU, the transfer of Certificate No. 136-S from NASI, Inc., to Indian Springs was approved.

On June 29, 1990, Indian Springs filed an application for a staff-assisted rate case. At that time, it was recognized that the water provided by the utility did occasionally have salt water intrusion due to the well's proximity to the Gulf of Mexico. A permanent solution proposed in the rate case involved the utility interconnecting with the City of Crystal River (the City), or installing additional treatment facilities such as reverse osmosis. However, corrections were not required because of the expense involved and the effect it would have had on the rates. By Order No. 24211, issued March 11, 1991, in Docket No. 900604-WS, the utility was granted an increase in its water and wastewater rates.

Subsequent to that staff-assisted rate case, the Citrus County Health Department (CCHD) determined that unacceptable levels of bacteria existed in the utility's water. The CCHD recommended that the utility find another water source. The utility began negotiating with the City to interconnect to the City's water supply. Recognizing the increases in expenses that would result from the interconnection, the utility filed for another staff assisted rate case. However, the utility and the City failed to reach an agreement and the interconnection did not take place. By Order No. PSC-93-1823-FOF-WS, issued December 23, 1993, in Docket No. 920767-WS, the utility was granted an increase in its water and wastewater rates and was ordered to find an alternative water source.

The utility began negotiating again with the City and a sales agreement was reached in March of 1995. Order No. PSC-95-0900-FOF-WU, issued on July 26, 1995, in Docket No. 950215-WU, acknowledged the sale and cancelled the water certificate of Indian Springs.

On May 3, 1996, Indian Springs applied for this staff assisted rate case and has paid the appropriate filing fees. We have selected a historical test year ended June 30, 1996. We have audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. A field investigation of the utility's wastewater plants and the service area has also been conducted. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant and operating costs.

QUALITY OF SERVICE

A customer meeting was held on October 9, 1996, at the Crystal River City Hall in Crystal River, Florida. There were approximately 17 customers who attended the meeting. Of the eight customers who spoke, there were three who brought up quality of service concerns.

One customer was troubled about pavement settling close to a utility manhole located on a street outside his home. He was concerned about the condition of the manhole and questioned if past repairs to a broken line located near the manhole were done correctly. When asked about this situation, the utility responded that the manhole and nearby line are in satisfactory condition, and that the settled pavement is merely the result of soil that has settled since the repairs were made. The utility has agreed to fill in the settled part with asphalt and will inform the Commission upon the project's completion. We believe that the utility is acting appropriately in this situation.

Another customer had noticed a leak and smelled an odor at a street intersection. After the customer meeting, our staff searched for the problem but could not locate it. The customer has since been contacted and agrees that the situation no longer exists.

One customer at the meeting complained that the treatment plant was unsightly. We also received a letter from a customer, complaining of noise and odor emanating from the treatment plant site. Our staff has visited the plant site several times during the course of this rate case and has noticed nothing abnormal for this type of facility. These complaints are about problems that are aesthetic in nature. Such problems occur when residential communities are in close proximity to the treatment facility. No changes are appropriate at this time.

In addition to the above, the utility has recently been cited by the Department of Environmental Protection (DEP) for not operating its effluent disposal percolation ponds as originally permitted. Although vegetation control has been performed on a regular basis by the utility, more maintenance is needed in order for the ponds to function properly. The utility has submitted a maintenance plan which will allow for alternating loading, the annual removal of vegetation, and the revitalization of the pond bottoms. DEP is currently reviewing the utility's proposal. The utility maintains that increased funds are necessary in order to achieve compliance and has requested that the costs of this maintenance program be allowed. The proposed maintenance costs of

$3,282 have been reviewed for reasonableness. We believe that these costs are not a result of deferred maintenance and find it appropriate that they be allowed. The utility appears to be actively cooperating with the DEP. We will continue to monitor this situation. There is no need at this time to require the utility to do more.

In consideration of the nature of customer concerns and the utility's willingness to work towards compliance with DEP, we find that the quality of service provided by the utility is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

Wastewater Treatment Plant

Originally constructed in 1965, with a capacity of 30,000 gallons per day, the wastewater treatment facility in late 1995 was expanded to a capacity of 50,000 gallons per day. This plant is an activated sludge facility made of two dual treatment units made of concrete. Disinfection is achieved through hypochlorination with the treated effluent flowing to two percolation/evaporation basins.

At the time of the engineering investigation, the effluent appearance was good. However, it was noted that the water color content within the aeration treatment units of the recent expansion appeared dark and unaereated. This is usually an indication that the sludge age has exceeded optimal limits, or not enough air is being delivered because of piping restriction problems, inadequate aeration time, or inadequately sized blowers. Complaints about foul odors have been made to the Department of Health and Rehabilitative Services (HRS). The HRS determined that the blowers are of inadequate sizing and do need to be enlarged. It is suspected that the odors are caused by the insufficient air supply system. The utility is in the process of enlarging the blower sizes. Details of the costs of the replacement blowers will be given in the section of this Order addressing adjustments for pro forma improvements.

By Order No. PSC-93-1823-FOF-WS, issued December 23, 1993, in Docket No. 920767-WS, we determined that the wastewater treatment facility was 100% used and useful. However, since that time, the plant's capacity has been expanded. Based on current capacity and average flows for the peak month during the test year, and with 743 gallons per day considered for margin reserve, we find that the wastewater treatment plant is 61% used and useful.

Wastewater Collection Systems

The wastewater collection system is composed of VCP and PVC pipe, with four lift stations located in the service area. At the time of the engineering investigation, two of the lift stations were operating with only one of the two pumps functioning. There appears to have been no problems with back-ups. Presently, the utility is in the process of correcting this problem. Other than the mechanical problems with the two lift stations, the rest of the collection system is operating properly.

The wastewater collection system has a capacity of 222 equivalent residential connections (ERCs). The number of test year connections is 181 ERCs. With 4.5 ERCs added for margin reserve considerations, we find that the wastewater collection system is 84% used and useful.

Test Year Rate Base

The appropriate components of the utility's rate base include depreciable plant in service (including pro forma plant), land, non-used and useful plant, contributions in aid of construction (CIAC), advances for construction, accumulated depreciation (including the effects of pro forma plant), accumulated amortization of CIAC and working capital. All rate base components have been updated through June 30, 1996, to include additions and reclassification. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS)

The utility recorded UPIS of $190,570. UPIS has been decreased by $1,555 to bring the utility's balance to the appropriate amount pursuant to Order No. PSC-93-1823-FOF-WS. UPIS was increased by $900 to reflect a pro forma plant improvement that has been completed. The pro forma plant improvement consists of a 7.5 hp blower unit with 10 hp units that will improve the blower capacity and reduce odor complaints. Averaging adjustments reducing wastewater UPIS by $23,292 were also made. The total

adjustment is a decrease in UPIS by $23,947. Therefore, we find that the total utility plant in service is $166,623.

Land

The utility has not recorded any values on its books. Adjustments of $3,000 were made to reflect the appropriate balances for the wastewater system per Order No. 24211. There have been no changes to the account since the issuance of that Order.

Non-Used & Useful Plant

We have determined the used and useful percentage of each plant account. Applying these non-used and useful percentages, we have made an adjustment to reflect average non-used and useful plant of $46,168. An adjustment was made to reflect average non-used and useful accumulated depreciation of $18,166. The average non-used and useful CIAC is $12,039. We have also made an adjustment to reflect average non-used and useful amortization of CIAC by $6,214. Therefore, we find that the total non-used and useful plant balance is $22,177 for the wastewater system.

CIAC

The utility recorded no CIAC during the test period. CIAC has been increased by $75,241 to bring CIAC to the correct amount approved by Order No. PSC-93-1823-FOF-WS. CIAC has been decreased by $100 to reflect averaging adjustments. An adjustment was made for $1,125 to reflect CIAC associated with margin reserve. This adjustment imputes 50% of the amount of CIAC attributed to margin reserve because the total amount imputed would be collected over the life of the margin reserve period rather than at the beginning of the period. This is a departure from our standard practice. However, we find that the circumstances of this case warrant such a departure. See also, Orders Nos. PSC-96-1320-FOF-WS and PSC-96-1338-FOF-WS issued on October 30, 1996 and November 7, 1996, in Dockets Nos. 950495-WS and 951056-WS, respectively. Based on the foregoing, we find that the appropriate average CIAC balance is $76,266.

Advances For Construction

The utility recorded $33,600 in notes payable from various parties. Our audit discovered that the notes have no debt instrument and no payments of principal or interest have been made. Upon further investigation, it was discovered that in 1987, Indian Springs entered into a sewer agreement with Pelican Cove Development Corporation. The agreement states the following terms:

In as much as Pelican Cove Development Corporation is in need of sewer hook-ups and capacity, Pelican Cove Development Corporation agrees to furnish the money needed to purchase the existing sewer plant from Holidays Inn Hotel, and further to furnish the money necessary for improvement and expansion of the sewer plant.

In return, Indian Springs Utilities, Inc. agrees to operate and maintain the sewer system as a privately owned public utility for the benefit of the surrounding neighborhoods and Pelican Cove Development Corporation. In consideration of Pelican Cove Development Corporation providing the up front money, Indian Springs Utilities, Inc. agrees to furnish Pelican Cove Development Corporation up to a maximum of 100 sewer connections at no additional cost other than the purchase and expansion of the sewer system.

In light of the above agreement, we have recorded these notes as advances for construction. The connections recorded by the utility during this test year were for other customers.

Applying the non-used and useful percentages as determined previously, we have made an adjustment to reflect average used and useful advances for construction of $20,496.

Accumulated Depreciation

The utility's books reflected an accumulated depreciation balance of $77,229. We have calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Using the amounts in Order No. PSC-93-1823-FOF-WS as a starting point, we have decreased accumulated depreciation by $8,830. Averaging adjustments of $2,861 were also made.

Based on the foregoing, we find that the appropriate average accumulated depreciation balance is $65,538.

Amortization of CIAC

Amortization of CIAC has been calculated consistent with our calculation of accumulated depreciation. The utility recorded no amortization of CIAC during the test period. We have made an adjustment of $38,838 to increase the balance to the approved amount pursuant to Order No. PSC-93-1823-FOF-WS. We have reduced amortization of CIAC by $1,378 to reflect averaging adjustments. An adjustment was made for $19 to reflect the amortization of CIAC

associated with margin reserve. We find that the resulting balance of accumulated amortization of CIAC for the system is $37,479.

Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, we used the one-eighth of operation and maintenance expense formula approach for calculating working capital allowance. The utility recorded working capital allowance of $4,993 for the test year. We have made an adjustment of $2,293 to bring the utility's balance to the appropriate amount. Applying that formula, and based on O&M of $58,288, we find that the working capital allowance is $7,286.

Rate Base Summary

Based on the foregoing, we find that the appropriate balance for test year rate base is $29,911.

COST OF CAPITAL

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

Return on Equity

The utility's capital structure reflected an equity balance of $25,058, a short term debt balance of $53,200, and customer deposits of $675. We have made an adjustment of $675 to customer deposits to reflect all deposits returned to customers March 1995.

The utility's return on equity, when based on the leverage graph formula in Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, is 11.21% with a range of 10.21% to 12.21%, and the overall rate of return is 9.71% with a range of 9.39% to 10.03%. We have made pro rata adjustments to reconcile the capital structure downward to match the approved rate base.

NET OPERATING INCOME

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

Test Year Revenues

The utility recorded test year wastewater system revenue of $38,089. A revenue check based on the test year billing analysis reflects test year revenue of $34,099 for the system. We have decreased revenue by $3,990 to reflect the appropriate test year revenue.

OPERATING RATIO METHODOLOGY

By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, we approved the use of the operating ratio methodology for setting rates. The Order also established criteria to determine the use of the operating ratio method and a guideline margin of 10% of operation and maintenance expenses.

There are many factors involved in deciding whether to implement an operating ratio methodology. The following discusses the threshold criteria established in Order No. PSC-96-0357-FOF-WU, and how they apply to Indian Springs:

Whether the utility's operation and maintenance expense exceed rate base

In the instant case, the rate base is substantially lower than the level of operation and maintenance expense. Based on our audit, rate base for the test year was $29,911, while operation and maintenance expenses were $58,288.

Whether the utility is expected to become a Class B in the foreseeable future

According to Chapter 367.0814(7), Florida Statutes, the alternative forms of regulation being considered in this case apply to Class C utilities only. Indian Springs is a Class C utility and the revenue requirement of $74,205 is substantially below the threshold level for Class B status ($150,000 per system). In addition, the historic customer growth rate suggests that Indian Springs will not become a Class B utility in the foreseeable future.

Other Factors

Quality of service and condition of plant

As mentioned previously, the quality of service provided by Indian Springs is considered satisfactory. However, the utility is currently under a DEP citation with regards to the performance of

its percolation ponds. As discussed earlier, the utility has submitted to the DEP a proposal for maintaining the ponds that it believes will improve their performance. However, because the utility operates in an environmentally sensitive area and it is as yet unknown why the ponds are not functioning properly, there is a great deal of uncertainty as to whether or not the utility's plan will solve the problem or whether the DEP will even accept it. It appears likely that the DEP will require additional engineering studies and additional rehabilitation or maintenance of the ponds, the costs of which are not included in this case. Moreover, the utility may ultimately be forced to increase its effluent disposal capacity through expanding existing or constructing additional ponds.

Whether the utility is developer owned

Although the utility owner is a developer, the service territory is not in the early stages of growth and the customer growth rate is very slow. Moreover, due to the utility's poor cash flow and the uncertainty of future regulatory requirements, the developer status does not disqualify the utility from the ORM.

Whether the utility operates treatment facilities or is simply a distribution and/or collection system

Indian Springs operates a wastewater treatment plant and a wastewater collection system.

Rate of Return (Margin)

In Order No. PSC-96-0357-FOF-WU, we determined that a margin of 10% shall be used unless unique circumstances justify the use of a greater or lesser margin. We settled on the 10% margin due to lack of economic guidance on developing an operating ratio method rate of return. We believed that it would be a futile and unwarranted exercise to try to establish a precise return applicable to all small utilities. The important question was not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgement based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the utility to cover its interest expense. Indian Springs' interest expense is approximately $1,000 annually.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to Indian Springs' owners amounts to only $600, which is enough to cover only a 1% variance in O&M expenses. We believe $600 is too little of a cushion given this utility's circumstances.

Third, if the return on rate base method were applied, a normal return would generate such a small level of revenues that in the event we have estimated revenues or expenses incorrectly, the utility could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide Indian Springs only $1,600 in operating income. Deducting interest expense from this total leaves only $600 to cover revenue and expense variances. The following gives an indication of the level of risk facing Indian Springs under the return on rate base approach. If as a result of the rate increase the customers reduce consumption by 10%, only 300 gallons per month, revenues would drop by approximately $3,200. By the same token, an expense variance of only 5% amounts to approximately $2,900.

In conclusion, we believe the above factors show that the utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide the utility adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, we find it appropriate to apply the operating ratio methodology at a margin of 10% of operation and maintenance expenses.

Test Year Operating Expenses

The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense, amortization of CIAC, and taxes other than income taxes.

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

Operation and Maintenance Expenses (O&M)

The utility charged $39,942 to wastewater O&M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

Employees Salaries and Wages

The utility recorded no salaries and wages expense for the bookkeeper in this account. The utility recorded salaries and wages expense in contractual services. We reclassified this expense from contractual service to this account. The bookkeeper was paid $200 a month which resulted in a $2,400 annual salary. Accordingly, this account was increased by $2,400 for annual bookkeeping expense. An officer of the utility will perform maintenance duties with reference to lift station maintenance. Accordingly, a further increase of $9,288 was made to this account to reflect the annual salaries and wages.

Sludge Removal Expense

The utility recorded $2,863 for sludge removal expenses during the test year. The utility hauled approximately 23,500 gallons of sludge for $2,653. Accordingly, we reduced the sludge removal expense amount by $210 for the test year. We find that the appropriate sludge removal expense is $2,653 for the wastewater system.

Purchased Power

The utility recorded $5,543 for purchased power expense during the test year. We increased the expense by $3,172 to reflect the appropriate test year purchased power amount.

Materials and Supplies

The utility recorded $234 for the system during the test year. We have increased this expense by $624 to record test year postage and fax expense. We also increased this account by $211 to record the annual expense for a billing software package ($844/4yrs).

Contractual Services

The utility recorded $15,689 for the system during the test period. Numerous adjustments were made to reflect reclassifications, allowances and disallowances. We find that the appropriate balance is $18,504 for the system.

Rents

The utility recorded $2,400 for rent expense during the test year. We have increased this account by $3,468 to reflect test year expense of $5,868 requested by the utility.

Transportation Expense

The utility did not record transportation expense for the test year. We have increased this account by $1,088 for the transportation expense associated with overseeing plant operations for the test year.

Regulatory Commission Expense

This expense has been decreased by $1,636 to reclassify regulatory assessment fees to taxes other than income. We have reclassified rate case expense of $1,000 from contractual services. An adjustment of $750 was made to record the utility's rate case expense amortized over four years.

Miscellaneous Expenses

The utility charged $4,932 to the wastewater system during the test year. We have decreased this expense by $800 to record DEP licenses expense amortized over five years and $2,324 to record permitting expense amortized over five years. We find that the appropriate balance for the system is $1,808.

O&M Summary

We have made O&M adjustments of $18,346. Based on these adjustments, we find that the test year O&M expenses are $58,288.

Depreciation Expense

The utility did not record depreciation expense during the test period. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances results in depreciation expense of $4,572 for the test year for the system.

Amortization of CIAC

Amortization of CIAC has a negative impact on depreciation expense. Amortization of CIAC has been calculated using the rate prescribed by Rule 25-30.140, Florida Administrative Code. The utility did not record amortization expense for the test year. We

find that the appropriate amount of test year amortization expense is $2,074.

Taxes Other Than Income

The utility recorded taxes other than income of $88. We have adjusted this account by $1,434 to include ad valorem tax for the test year, by $2,729 to reflect taxes on approved salaries, by $1,636 to reclassify regulatory assessment fees from regulatory commission expense and by $102 to reflect regulatory assessment fees for the appropriate test year revenue. We have made a total adjustment of $5,697 to adjust the utility balance to the appropriate balance.

Operating Revenues

Revenues have been adjusted by $40,106 to reflect the increase in revenue required to cover expenses and allow the approved rate of return on investment.

Taxes Other Than Income Taxes

This expense has been increased by $1,805 to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary

The application of our adjustments to the utility's test year operating expenses results in approved operating expenses of $68,376.

REVENUE REQUIREMENT

Based upon our review of the utility's books and records and based upon the adjustments discussed above, we find that the appropriate annual revenue requirement for this utility is $74,205. This revenue requirement represents an annual increase in revenue of $40,106 or 117.62%.

RATES AND CHARGES

Rates and Rate Structure

The preferred rate structure is the base facility and gallonage charge rate structure because it is designed to provide for the equitable sharing by the ratepayers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of the readiness to serve all customers

connected to the system. This ensures that ratepayers pay their share of variable costs of providing service through the consumption or gallonage charge and also their share of the fixed cost of providing service through the base facility charge.

In past rate cases, the base facility and gallonage charge rate structure was not practical for Indian Springs' wastewater customers. There was a large segment of the wastewater customer base who were not customers of Indian Springs' water system. These customers either had their own wells or purchased water from the City. Therefore, consistent with our decisions in Indian Springs' past rate cases, we retained the wastewater system's flat rate structure.

However, as mentioned earlier, by Order No. PSC-95-0900-FOF-WU, we acknowledged the sale and cancellation of the water certification of Indian Springs. The City provides water for Indian Springs' service area. Now the utility is able to obtain through the City meter readings for its wastewater customers. Therefore, we find it appropriate to convert Indian Springs' rates from a flat rate to a base facility charge/gallonage rate structure. Based on the consumption data provided by the City, the average residential consumption is 3,037 gallons per month for the wastewater system. This figure is not indicative of high consumption; therefore, no additional rate structure conservation measures are necessary.

The utility currently provides service to approximately 167 residential and 2 general service customers. Rates have been calculated based on test year customers and consumption levels. Schedules of the utility's existing rates and rate structure and the new rates and rate structure are as follows:

MONTHLY WASTEWATER RATES

Residential and General Service

Monthly Flat Rates:	Current Rates
Residential:	$ 14.30
Multi-Residential:	$ 14.30
Motel:	$ 757.79

Base Facility Charge Meter Sizes:	Approved Rates
5/8" x 3/4"	$ 18.45
1"	46.12
1 1/2"	92.23
2"	147.57
3"	295.15
4"	461.17
6"	922.34

Gallonage Charge Per 1,000 Gallons	
Residential (6,000 gallons max.	$ 2.99
General Service	$ 3.59

A schedule of an average residential customer bill based on existing and the new rates are as follows:

Average bill using approved rates	$ 27.53
Average bill using existing rates	(14.30)
Increase in average bill	$ 13.23

Percentage increase in average bill = 92.52% ($13.23/$14.30)

The new rates are designed to produce revenue of $74,205, using the base facility charge rate structure. These rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided 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 10 days after the date of the notice.

IMPLEMENTATION OF LATE PAYMENT CHARGE

Pursuant to Section 367.091(5), Florida Statutes, a utility may apply to establish, increase, or change a rate or charge other than monthly rates for service or service availability charges. These applications are to be accompanied by a cost justification. The utility has requested that it be allowed to charge a late charge. We find it appropriate to allow the utility to implement a late charge of $3.00. The purpose of this charge is not only to provide an incentive for customers to make timely payments, thereby reducing the number of delinquent accounts, but also to place the

cost burden of processing such delinquent notices and accounts solely upon those who are the cost causers. Cost justification filed with this request shows that the percentage of revenue associated with delinquent bills was $4,035 which is 11% of total revenue for the past year.

In the past, late payment fee requests have been handled on a case-by-case basis. Decisions have been made upon the conditions presented by each individual utility. We have authorized late payment charges for wastewater companies based on demonstration by the company of a service delinquency problem. In Order No. 8157, issued February 2, 1978, in Docket No. 770426-S, a 5% late charge was approved for residential customers of Santa Villa Utilities. Santa Villa is a wastewater-only utility. In Order No. 20779, issued February 20, 1989, in Docket No. 871059-SU, we authorized a 1.5% late charge on all customers of Longwood Utilities, also a wastewater-only utility. We have approved a late charge for wastewater-only operations because of the difficulty in shutting off a customer's wastewater service.

Late charges for both water and wastewater operations have also been approved. In Docket No. 891365-WS, Ortega Utility submitted cost justification for a late charge request of $5.00. We approved a $3.00 late charge. The utility reported that 30% of its customer base was establishing a trend of paying late, and it intended to discourage this practice by charging late payers. In 1992, we approved a $3.00 late payment charge for Palm Coast Utility Corporation, a water and wastewater utility in Flagler County, in Docket No. 920349-WS, and for Ferncrest Utilities, Inc., a water and wastewater utility in Broward County, in Docket No. 920535-WS. In 1993, we also approved a $3.00 late payment charge for Rolling Oaks Utilities, Inc. in Citrus County and for Hydratech Utilities, Inc. in Marion County.

Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, there is no further incentive for either delinquent or late paying customers to pay their bills on time. We believe that the cost causer should pay the additional costs incurred to the utility by late payments, rather than the general body of the utility's rate payers. Therefore, we find that the utility's request to implement a late payment charge of $3.00 shall be approved.

This charge shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code.

SERVICE AVAILABILITY CHARGES

The utility's existing tariff authorizes a wastewater service availability charge of $100. In order to evaluate the utility's service availability charges, we have relied on Rule 25-30.580, Florida Administrative Code, which states in part that:

> (a) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and
>
> (b) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution lines and sewage collection lines.

The wastewater system is at a 39.71% contribution level which is less than the 75% level referenced in the rule. The minimum contribution thresholds have not been met. The customer growth using regression analysis in ERCs for the most recent five years including the test year is 3 ERCs. Therefore, we find it appropiate to increase the utility's service availability charge to allow for a main extension charge of $200 and $300 for a plant capacity charge.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $262 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be

filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

TEMPORARY RATES IN THE EVENT OF PROTEST

This order proposes an increase in wastewater rates. 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 protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein as temporary rates. The rates approved herein shall be collected by the utility subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates and charges upon Commission staff's approval of the security for the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of $27,753. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

1) The letter of credit is irrevocable for the period it is in effect.

2) The letter of credit will be in effect until 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 result of the rate increase shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

BOOKS AND RECORDS

Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

1) Water and Sewer Utilities shall, effective January 1, 1986, maintain its [sic] accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

By Orders Nos. 24211 and PSC-93-1823-FOF-WS, issued March 11, 1991, and December 23, 1993, in Dockets Nos. 900604-WS and 920767-WS, respectively, the utility was ordered to maintain its books and records in conformity with the USOA. However, the utility's books were not maintained in conformity with the USOA, although the utility's annual reports, prepared by a C.P.A., were in conformity with the USOA. Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with or to have willfully violated any lawful rule or order of the Commission.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's failure to maintain its books and records in conformity with the USOA, is an apparent violation of Rule 25-30.115, Florida Administrative Code. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although the utility has failed to maintain its books and records in conformity with the USOA, we do not believe that the violation of Rule 25-30.115, Florida Administrative Code, and Orders Nos. 24211 and PSC-93-1823-FOF-WS rises in these circumstances to the level of warranting initiation of show cause proceedings. The utility's bookkeeper previously had no experience or knowledge of the USOA and was hired after the last Order was issued. Therefore, the bookkeeper was unaware that the utility was in violation of any Commission Order. However, during the course of this staff assisted rate case, the bookkeeper has subsequently been advised of the steps necessary to convert and maintain the utility's records in conformity with the above-referenced rule. We have discussed with the utility's bookkeeper the failure to

maintain the utility's books and records in conformity with USOA and advised the bookkeeper to obtain the information from NARUC on how to maintain its books and records in conformity with 1984 NARUC USOA. The utility has obtained the information from NARUC and has advised us that the bookkeeper is in the process of studying the NARUC system of accounting. The utility will bring its books and records into compliance with the USOA starting January 1997.

Based on the foregoing, Indian Springs shall not be ordered to show cause why it did not comply with Rule 25-30.115, Florida Administrative Code, and Orders Nos. 24211 and PSC-93-1823-FOF-WS requiring the utility to maintain its books and records in conformity with 1984 NARUC USOA. However, the utility is admonished for its failure to comply with the previous orders. The utility shall maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts and is also put on notice that future violations will result in initiation of a show cause proceeding.

CLOSING OF DOCKET

Upon expiration of the protest period, if no timely protest is received from a substantially affected person, this docket shall be closed.

Based on the foregoing, it is

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

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

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

ORDERED that the operating ratio method shall be applied pursuant to Section 367.0814(8), Florida Statutes, and Rule 25-30.456, Florida Administrative Code, to Indian Springs Utilities, Inc. It is further

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

ORDERED that Indian Springs Utilities, Inc.'s rates and charges shall be effective for service rendered on or after the

stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received proper notice. It is further

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

ORDERED that in the event of a protest by any substantially affected person other than the utility, Indian Springs Utilities, Inc. is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Indian Springs Utilities, Inc. first furnishes and has approved by Commission staff, adequate security for any potential refund and a proposed customer notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Indian Springs Utilities, 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 and that any required security has been provided. It is further

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

ORDERED that prior to its implementation of the rates and charges approved herein, Indian Springs Utilities, Inc. shall submit and have approved a bond or letter of credit in the amount of $27,753 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

ORDERED that Indian Springs Utilities, Inc. shall submit monthly reports no later than 20 days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that Indian Springs Utilities, Inc. shall not be ordered to show cause in writing for violation of Rule 25-30.115, Florida Administrative Code, and Orders Nos. 24211 and PSC-93-1823-FOF-WS.

ORDERED that the provisions of this Order regarding our granting increased rates and charges 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 Indian Springs Utilities, Inc. shall maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. It is further

ORDERED that if no timely protest is received from a substantially affected person within twenty-one days of the issuance of this Order, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 10th day of February, 1997.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

BLR

DISSENT

Commissioner J. Terry Deason dissents with opinion:

I respectfully dissent from the decision to grant an operating margin to this company. My concerns regarding this departure from cost-based rate setting are contained in the dissent in Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU In Re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.. Setting aside for the sake of argument the concerns I have about trying to set policy through a Notice of Proposed Agency Action in a staff assisted rate case, the facts of this case depart from the guidelines set out in

the Lake Osborne proposed agency action order. Most importantly, the Lake Osborne decision frowns on the operating ratio concept being applied to companies with a developer affiliation and significant CIAC levels. In my opinion, Commission practice in this area should be to conservatively adhere to these guidelines unless there is a compelling reason to depart. This methodology should be reserved for systems truly in need and whose viability is at issue.

In this case I saw no compelling reason for extending the concept to this utility. Because, for rate setting purposes, we are limited in our ability to take into account certain developer decisions related to land sales contracts (See Deltona Corp. v. Mayo, 354 So. 2d. 510 (Fla. 1977)), we should be very cautious about setting rates considering the cash flow levels that could be a product of development-driven considerations. Likewise, CIAC levels that may represent customer expectations about future rate levels should not be brushed aside without being thoroughly addressed. Here the utility is developer affiliated and the CIAC level is approximately 46%. Absent a demonstration that a significant viability issue exists, I would not extend the Lake Osborne decision to this case.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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 regarding granting increased rates and charges 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 March 3, 1997.

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.

INDIAN SPRINGS UTILITIES, INC.
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 1
DOCKET NO. 960561-SU

	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS	COMM. APPROVED BALANCE
UTILITY PLANT IN SERVICE	$ 190,570	$ (23,947) A	$ 166,623
LAND/NON-DEPRECIABLE ASSETS	3,000	0	3,000
NON-USED & USEFUL PLANT	0	(22,177) B	(22,177)
CIAC	0	(76,266) C	(76,266)
ADVANCES FOR CONSTRUCTION	0	(20,496) D	(20,496)
ACCUMULATED DEPRECIATION	(77,229)	11,691 E	(65,538)
ACCUMULATED AMORTIZATION OF CIAC	0	37,479 F	37,479
WORKING CAPITAL ALLOWANCE	4,993	2,293 G	7,286
WASTEWATER RATE BASE	$ 121,334	$ (91,423)	$ 29,911

INDIAN SPRINGS UTILITIES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 1A
DOCKET NO. 960561-SU

		WASTEWATER
A.	UTILITY PLANT IN SERVICE	
1.	To bring utility balance to Comm. approved plant.	$ (1,555)
2.	To reflect pro forma plant.	900
3.	To reflect averaging adjustment.	(23,292)
		$ (23,947)
B.	NON-USED AND USEFUL PLANT	
1.	Average non-used & useful plant.	$ (46,168)
2.	Average non-used & useful accumulated depreciation.	18,166
3.	Average non-used & useful CIAC.	12,039
4.	Average non-used & useful amortization of CIAC.	(6,214)
		$ (22,177)
C.	CONTRIBUTIONS IN AID OF CONSTRUCTION	
1.	To include CIAC not recorded by utility.	$ (75,241)
2.	To reflect averaging adjustment.	100
3.	To reflect CIAC for margin reserve.	(1,125)
		(76,266)
D.	ADVANCES FOR CONSTRUCTION	
1.	To reflect cash advance for construction.	$ (20,496)
E.	ACCUMULATED DEPRECIATION	
1.	To bring utility balance to Comm. approved amount.	$ 8,830
2.	To reflect averaging adjustment.	2,861
		$ 11,691
F.	ACCUMULATED AMORTIZATION OF CIAC	
1.	To include acc/amort. not recorded by utility.	$ 38,838
2.	To reflect averaging adjustment.	(1,378)
3.	To reflect amort. of CIAC for margin reserve.	19
		$ 37,479
G.	WORKING CAPITAL ALLOWANCE	
1.	To bring utility's balance to Comm. approved amount of 1/8 of operation and maintenace expenses.	$ 2,293

INDIAN SPRINGS UTILITIES, INC.
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 2
DOCKET NO. 960561-SU

	PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.	COMM. RECONC. ADJ.	ADJUSTED COMM. BALANCE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	$ 25,058	$ 0	$ 25,058	(15,481)	9,577	32.02%	11.21%	3.59%
SHORT TERM DEBT	53,200	0	53,200	(32,866)	20,334	67.98%	9.00%	6.12%
CUSTOMER DEPOSITS	675	(675)	0	0	0	0.00%	6.00%	0.00%
TOTAL	$ 78,933	$ (675)	$ 78,258	(48,347)	29,911	100.00%		9.71%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.21%	12.21%
OVERALL RATE OF RETURN	9.39%	10.03%

INDIAN SPRINGS UTILITIES, INC
SCHEDULE OF WASTEWATER OPERATING INCOME
TEST YEAR ENDING JUNE 30, 1996
OPERATING RATIO METHOD

SCHEDULE NO. 3
DOCKET NO. 960561-SU

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY		COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER COMM
OPERATING REVENUES	$ 38,089	$ (3,990)	A	$ 34,099	$ 40,106	F	$ 74,205
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	$ 39,942	$ 18,346	B	$ 58,288	$ 0		$ 58,288
DEPRECIATION	0	4,572	C	4,572	0		4,572
AMORTIZATION	0	(2,074)	D	(2,074)	0		(2,074)
TAXES OTHER THAN INCOME	88	5,697	E	5,785	1,805	G	7,590
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 40,030	$ 26,541		$ 66,571	$ 1,805		$ 68,376
OPERATING MARGIN	$ (1,941)			$ (32,472)			$ 5,829
MARGIN % OF O&M	$ -4.80%			$ -48.77%			$ 10.00%
OPERATING RATIO (TOTAL OPERATING EXP./REVENUES)	$ 105.10%			$ 195.23%			$ 92.14%

INDIAN SPRINGS UTILITIES, INC.
SCHEDULE OF WASTEWATER OPERATING INCOME
RATE BASE METHOD

SCHEDULE NO. 3A
DOCKET NO. 960561-SU

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY		COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER COMM
OPERATING REVENUES	$ 38,089	$ (3,990)	A	$ 34,099	$ 37,043	F	$ 71,142
OPERATING EXPENSES:							
	$ 39,942	$ 18,346	B	$ 58,288	$ 0		$ 58,288
DEPRECIATION	0	4,572	C	4,572	0		4,572
AMORTIZATION	0	(2,074)	D	(2,074)	0		(2,074)
TAXES OTHER THAN INCOME	88	5,697	E	5,785	1,667	G	7,452
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 40,030	$ 26,541		$ 66,571	$ 1,667		$ 68,238
OPERATING INCOME/(LOSS)	$ (1,941)			$ (32,472)			$ 2,904
WASTEWATER RATE BASE	$ 121,334			$ 15,735			$ 29,911
RATE OF RETURN	$ -1.60%			$ -206.37%			$ 9.71%

INDIAN SPRINGS UTILITIES, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3B
DOCKET NO. 960561-SU
PAGE 1 OF 2

		WASTEWATER
A.	**OPERATING REVENUES**	
1.	To adjust utility figure to Comm.'s billing analysis	$ (3,990)
B.	**OPERATION AND MAINTENANCE EXPENSES**	
1.	(701) Salaries and Wages - Clerical	
a.	To record annual salaries and wages for the bookkeeper.	$ 2,400
b.	To record annual salaries and wages for the officer.	9,288
		11,688
2.	(711) Sludge Removal Expense	
a.	To record sludge removal expense for the test year.	$ (210)
3.	(715) Purchased Power	
a.	To record test year purchase power expense.	$ 3,172
4.	(720) Materials and Supplies	
a.	To record test year postage & fax expenses.	$ 624
b.	To record annual expenses for utility billing package.	211
		835
5.	(730) Contractual Services	
a.	To record test year repair and maintenance expense.	$ 2,486
b.	To record test year grounds keeping expense.	3,282
c.	To record sludge analysis expense for the test year.	390
d.	To reclassify bookkeeping expense to acct #701.	(2,400)
e.	To reflect annual bookkeeping expense.	(300)
f.	To record annual contract operator expense.	(2,351)
g.	To record test year laboratory testing expense.	1,200
h.	To reclassify rate case expense to account # 765.	(1,000)
i.	To record annual meter reading expense from the city.	1,200
j.	To record pavement repair expense.	308
		$ 2,815
6.	(740) Rents	
a.	To record test year rent expense.	$ 3,468
7.	(750) Transportation Expense	
a.	To record transportation expense for the test year.	$ 1,088
8.	(765) Regulatory Commission Expense	
a.	To reclassify reg. assessment fee to taxes other than income	$ (1,636)
b.	To reclassify rate case expense from account #730.7.	1,000
c.	To include rate case expense amortized over 4 years.	(750)
		$ (1,386)
9.	(775) Miscellaneous Expense	
a.	To record DEP licenses expense amortized over 5yrs.	$ (800)
b.	To record permittting expense amortized over 5yrs.	(2,324)
		(3,124)
	O & M TOTAL	$ 18,346

INDIAN SPRINGS UTILITIES, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3B
DOCKET NO. 960561-SU
PAGE 2 OF 2

C.	**DEPRECIATION**	
	1. To adjust to Commission approved balance.	$ 4,572
D.	**AMORTIZATION**	
	1. To include Commission approved amortization expense.	$ (2,074)
E.	**TAXES OTHER THAN INCOME**	
	1. To include ad valorem tax.	$ 1,434
	2. To include payroll tax on Commision approved salary.	2,729
	3. To reclassify regulatory assessment fees from account #765.	1,636
	4. To adjust regulatory assessment fees to Comm. test year revenue.	(102)
		$ 5,697
F.	**OPERATING REVENUES**	
	1. To reflect Commision approved revenue increase.	$ 40,106
G.	**TAXES OTHER THAN INCOME**	
	1. To reflect the additional regulatory assessment fee associated with Commission approved revenue requirement.	$ 1,805

INDIAN SPRINGS UTILITIES, INC.
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3C
DOCKET NO. 960561-SU

	TOTAL PER UTIL.	COMM. ADJUST.	TOTAL PER COMM
(701) SALARIES AND WAGES - EMPLOYEES	$ 0	$ 11,688 [1]	$ 11,688
(703) SALARIES AND WAGES - OFFICERS	4,800	0	4,800
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	2,863	(210) [2]	2,653
(715) PURCHASED POWER	5,543	3,172 [3]	8,715
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,845	0	1,845
(720) MATERIALS AND SUPPLIES	234	835 [4]	1,069
(730) CONTRACTUAL SERVICES	15,689	2,815 [5]	18,504
(740) RENTS	2,400	3,468 [6]	5,868
(750) TRANSPORTATION EXPENSE	0	1,088 [7]	1,088
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSE	1,636	(1,386) [8]	250
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	4,932	(3,124) [9]	1,808
	$ 39,942	$ 18,346	$ 58,288

COMMISSION APPROVED RATE REDUCTION SCHEDULE

INDIAN SPRINGS UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 4
DOCKET NO. 960561-SU

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

MONTHLY WASTEWATER RATES

RESIDENTIAL AND GENERAL SERVICE	MONTHLY APPROVED RATES	MONTHLY APPROVED REDUCTION
BASE FACILITY CHARGE: by meter size:		
5/8"X3/4"	$ 18.45	$ 0.07
1"	46.12	0.16
1 1/2"	92.23	0.33
2"	147.57	0.52
3"	295.15	1.04
4"	461.17	1.63
6"	922.34	3.26
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (6,000 gallons max.)	$ 2.99	$ 0.01
GENERAL GALLONAGE CHARGE PER 1,000 GALLONS	$ 3.59	$ 0.01