

MEMORANDUM

RECEIVED

November 19, 1997

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FPSC Records/Reporting

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (VACCARO) *W*
RE: DOCKET NO. 961475-SU - APPLICATION FOR LIMITED PROCEEDING
INCREASE IN WASTEWATER RATES BY FOREST HILLS UTILITIES,
INC. IN PASCO COUNTY.

PSC-97-1458-FOF-SU

Attached is an ORDER TO SHOW CAUSE AND NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING APPLICATION FOR LIMITED PROCEEDING, APPROVING INCREASED WASTEWATER RATES PURSUANT TO LIMITED PROCEEDING, REQUIRING REFUND OF EMERGENCY, TEMPORARY RATES, ESTABLISHING MAIN EXTENSION CHARGE AND APPROVING ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) RATE, to be issued in the above-referenced docket.

(Number of pages in order - 36)

TV/der

Attachment

cc: Division of Water and Wastewater (Groom, Austin, Munroe)

I:961475OR.TV

Attachments Not On-line

*1 Cert.
marked*

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for limited proceeding increase in wastewater rates by Forest Hills Utilities, Inc. in Pasco County.

DOCKET NO. 961475-SU
ORDER NO. PSC-97-1454-FOF-SU
ISSUED: November 19, 1997

The following Commissioners participated in the disposition of this matter:

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

ORDER TO SHOW CAUSE
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING APPLICATION FOR LIMITED PROCEEDING, APPROVING
INCREASED WASTEWATER RATES PURSUANT TO LIMITED PROCEEDING,
REQUIRING REFUND OF EMERGENCY, TEMPORARY RATES, ESTABLISHING MAIN
EXTENSION CHARGE AND APPROVING ALLOWANCE FOR FUNDS USED DURING
CONSTRUCTION (AFUDC) RATE

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein, except for ordering Forest Hills Utilities, Inc. to show cause, 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

Forest Hills Utilities, Inc. (Forest Hills or utility) is a Class B utility that provides water and wastewater service in Pasco County. Forest Hills serves approximately 2,200 water and 1,100 wastewater customers. The wastewater system had revenues totaling \$210,688 in 1995. The utility serves an area that has been designated by the Southwest Florida Water Management District as a water use caution area.

DOCUMENT NUMBER-DATE

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FPSC-REGURDS/REPORTING

LIMITED PROCEEDING

On December 12, 1996, Forest Hills filed an application, pursuant to Section 367.0822, Florida Statutes, for a limited proceeding to increase its wastewater rates. This increase in wastewater rates is based upon the Florida Department of Environmental Protection's (DEP) required interconnection of Forest Hills' wastewater system to Pasco County's wastewater treatment facilities and the resulting increase in cost of sewage operations.

In recent years, problems with the utility's sewage treatment facilities had grown to a point to require discussions with DEP to find solutions to allow continued wastewater treatment services. On February 12, 1993, Forest Hills entered into a stipulated settlement agreement with DEP. Under the terms of the stipulated settlement agreement, the parties agreed that Forest Hills could choose one of two possible solutions to comply with DEP requirements: (1) renovate and/or "reconstruct" the "existing" treatment plant which may include construction of an entirely new plant; or (2) connect the utility to an outside regional, county or municipal system and terminate the operation of the existing wastewater treatment plant. Both parties agreed that connection to an outside county or municipal system was the preferred solution and that it must be completed by 182 weeks from the February 12, 1993 agreement date, which was approximately June, 1996.

In mid 1994, Forest Hills learned that Pasco County was planning an extension of its US-19 force main to a point contiguous to Forest Hills' service area. Therefore, Forest Hills opened negotiations for a bulk wastewater agreement with Pasco County. Prior to these negotiations, Forest Hills and the City of Tarpon Springs negotiated a draft bulk service agreement. However, the agreement was rejected by the Tarpon Springs City Council.

In April, 1995, Forest Hills signed a bulk wastewater treatment service agreement with Pasco County, which was approved by the County Commission on April 4, 1995. Under the terms of the 25 year agreement, Pasco County would extend its force main and build a master pump station. Forest Hills would construct a force main from its system to the master pump station and reimburse the County for its pro rata share of costs, in the amount of \$100,000. The County would treat up to .225 million gallons per day based on annual average daily flow. Forest Hills would also pay for the

cost and installation of a flow meter. The utility would pay the County's bulk rate, which is currently \$3.23 per 1,000 gallons.

In mid November, 1996, Pasco County and Forest Hills completed their facilities for this interconnection. The utility states that because of the discrepancy between the cost of purchased sewage treatment and the utility's existing rates, Forest Hills could not afford to go forward with the interconnection without emergency rates being granted. By Order No. PSC-97-0207-FOF-SU, issued February 21, 1997, we authorized the implementation of emergency rates subject to refund.

On March 12, 1997, a customer meeting was held at the Forest Hills Civic Association, Inc. There were approximately 300 customers in attendance, of which 17 spoke as witnesses. Mainly, the customers expressed their concerns about the emergency increase. A few had concerns about customer deposit refunds. These concerns are addressed in this Order.

We initially considered the utility's request for this limited proceeding during the September 9, 1997, Agenda Conference. However, we deferred this matter, in part, to allow the utility additional time to provide refund reports on customer deposits, as discussed in the show cause portion of this Order.

INTERCONNECTION

Our decision is based on a careful review of all data provided, including information from Forest Hills, Lloveras, Baur, and Stephens Engineers, Tarpon Springs, DEP, Pasco County and H₂O Utility Services. The need for the interconnection resulted from Forest Hills' wastewater treatment plant (WWTP) flows exceeding the capacity of the percolation ponds to dispose effluent. Because of the high water table in both the plant and nearby effluent disposal area, any overflows of effluent had a direct negative environmental impact on the surrounding canals and waterways. On April 14, 1984, DEP issued a warning to the utility regarding "unpermitted discharges." Because the utility plant occupied a small property inside a "built out" service area, its viable options were limited.

To enhance percolation of excessive effluent, the utility initially proposed to add a "french drain" (a sand-lined berm) to its percolation ponds. In October, 1985, DEP issued a consent order disapproving this solution, and indicating the only

acceptable solutions were a plant renovation or interconnection to another utility.

Forest Hills began investigating an interconnect with the City of Tarpon Springs. Negotiations on this possibility proceeded for approximately seven years. Although the additional revenues appealed to Tarpon Springs, the Tarpon Springs plant did not have the capacity to serve the additional customers resulting from the interconnect. In addition, Forest Hills was outside the Tarpon Springs' designated service area.

In August, 1990, a Petition for Enforcement and Complaint was filed by DEP against both Forest Hills and the utility president and general manager, Robert L. Dreher, individually. This petition was amended in October, 1991, and in November, 1991, DEP denied Forest Hills' operating permit, which had expired in August, 1991. Under the terms of the amended agreement, Forest Hills could operate temporarily under the terms of its 1986 permit, with renewal pending.

In January, 1993, Forest Hills and DEP reached a stipulated settlement agreement, and an order approving the agreement was issued by DEP on February 12, 1993. Under the terms of this agreement, the utility was given 188 weeks (3.6 years) to renovate the wastewater facility or 182 weeks (3.5 years) to interconnect to a regional county or municipal system with sufficient capacity to handle its wastewater flows. In addition, Forest Hills was fined \$10,000 under DEP's "Pollution Recovery Fund" and an additional \$25,000 to be due at the conclusion of the plant renovation or interconnection.

In June, 1993, the engineering firm of Lloveras, Baur and Stephens provided a time line for plant renovation and an alternate interconnection with Tarpon Springs. It was becoming apparent that interconnection was the most prudent choice, because the Forest Hills plant was surrounded by a golf course, which in turn was a built out area, and there were no adequate parcels of land available for plant expansion and new percolation ponds. It was only after exhausting all other solutions that Forest Hills agreed to pursue interconnection. Negotiations with Tarpon Springs were ended, and an agreement was reached with Pasco County in April, 1995. While interconnection would result in higher rates, those rates would be lower than rates that would have resulted from a plant renovation.

Lloveras, Baur and Stephens provided a letter indicating that the estimated cost of plant improvements to meet Class I

reliability was 1.6 million dollars, excluding the purchase of land, which would also be needed for additional percolation ponds. Current information indicates that the cost to interconnect with Pasco County was substantially less, at approximately \$175,000, including the cost of removal of the abandoned sewer plant.

It is clear, in retrospect, that this interconnect was inevitable. It took several years for the utility to come to this conclusion and complete the project. We note that the rate payers had the benefit of a lower rate for this period of time. In addition, DEP officials are of the opinion that the environmental impact of the effluent overflows should reverse now that the plant is offline.

We note that the utility's problem was not actual plant operation, but effluent disposal. The amount of plant effluent flows exceeded the capacity that could be handled by the percolation ponds. This was a direct effect of the size of the percolation ponds, not the maintenance of the ponds. The utility initially attempted to solve this problem with modifications to existing percolation ponds which were unacceptable to DEP. The final solution was to interconnect with Pasco County at a cost of approximately 1/10 that which would have been required to expand and modify the existing plant.

We find that the interconnection of Forest Hills wastewater collection system to the Pasco County wastewater treatment system and the abandonment of the Forest Hills treatment plant and percolation ponds was the most prudent and cost effective solution to its problem. Therefore, it is appropriate that Forest Hills recover the costs through its rates.

RATE BASE

Plant-In-Service

In its initial filing, the utility estimated that it will cost an additional \$217,720 to interconnect with Pasco County. However, the utility has indicated through its responses to data requests that the actual cost of this interconnection was \$204,721. The additional cost is for the installation of the wastewater force main, magnetic flow meter, pumping equipment and associated labor, equipment and engineering.

The utility obtained two bids from unaffiliated companies regarding the cost of the force main, flow meter and pumping equipment installation. The utility ultimately decided to use related party labor and equipment and to utilize the service of H₂O Utility Services for oversight. The utility indicates that the overall cost of the facilities, when contracted through the related party labor and use of related party equipment, was substantially less than what the utility would have incurred had it used outside contracts.

After further review of the actual invoices supplied by the utility, we find that the utility did interconnect with Pasco County at a cost below the two unaffiliated bids. In addition, the utility provided sufficient justification for all non-related and related costs associated with the interconnection, except for the adjustments discussed below.

The utility calculated the total cost of the interconnect to be \$204,721. However, our review of the invoices provided by the utility shows that the total is only \$204,435, or \$286 less than the utility's total.

Also, we note that we allowed recovery of \$1,200 in the utility's last rate case for rent of a backhoe. In Docket No. 810176-WS, the audit work papers, which we approved, included a line item of \$1,200 for rent on a backhoe. Therefore, we removed \$1,200 from the total backhoe rental cost of the project in this docket.

We also removed \$282.87 from the actual cost of the force main installation. This amount was paid to Hertz Equipment Rental Company for a backhoe delivered to Croft Mobile Homes. The utility has not justified its reason to have the backhoe delivered to Croft Mobile Homes.

Reducing the utility's amount by the above, we find that the appropriate amount of additional plant needed for the utility to interconnect with Pasco County is \$202,952, as shown on Schedule No. 2B.

Land

The utility indicates that it does not own the land associated with the WWTP and that there are no transferable land rights. The utility states that the land and land rights are owned by Robert L. and Diane Dreher, individually. In addition, the utility anticipates no sale or development plans for this land, since it is low-lying and undevelopable. Furthermore, the utility states that

the land has never been included in the current rates for the utility. The utility further states that it is charged rent in the amount of \$8,000 per year for the use of this land. However, in the utility's application, the land and land rights account is reduced by \$500 for the loss on abandonment associated with the wastewater plant being retired. This requested retirement is contrary to the utility's statement.

After reviewing the audit work papers from the utility's last rate case, we find that the wastewater treatment site was included in rates in the amount of \$500. In Docket No. 810176-WS, we included a line item of \$500 for land associated with this wastewater treatment site. Therefore, we find it appropriate to remove this amount from rates. In addition, because this land was included in rates, the utility shall report to this Commission any future sale, foreclosure, or any transaction involving transfer of ownership of the abandoned land and any proposed rate reduction resulting therefrom within 60 days of such occurrence. Although the utility believes that this land is low-lying and undevelopable, it is located near a golf course; therefore, a market value does exist for this site. Therefore, the utility shall inform this Commission of any future sale, regardless of the amount.

In addition, the utility included \$7,200 in rates for the lease of the wastewater treatment site. In Docket No. 810176-WS, we included a line item of \$7,200 for the lease of the wastewater treatment site. We shall discuss this item later in this Order.

Contributions In Aid of Construction (CIAC) and
Accumulated Amortization of CIAC

In its filing, the utility did not retire any CIAC with the retirement of the WWTP treatment plant. The utility, in its response to a data request, indicated that it had, as of December 31, 1996, \$410,732 of wastewater CIAC and \$192,254 of wastewater accumulated amortization of CIAC. Thus, the utility's net wastewater CIAC was \$218,478.

In its tariffs, Forest Hills has a \$300 service availability charge. Our staff asked the utility to explain the minimum connection fee of \$300. The utility, in its response, indicated that the connection fee of \$300 relates to the cost to connect new service to its existing collection system. The utility stated that the connection fee does not relate to a charge for plant capacity.

We conducted extensive research to determine whether or not the connection fee was actually a plant capacity charge. This

research consisted of reviewing microfilm of dockets dating back to 1973. We found one order that made reference to the \$300 charge. In Order No. 10721, issued April 19, 1982, in Docket No. 810176-WS, we found that the \$300 was for a wastewater plant capacity charge. With respect to service availability, the order reads as follows:

The utility's current plant capacity charges are \$150 and \$300 per ERC for water and sewer, respectively. The collection of these charges and other aspects of the utility's CIAC policy falls within the guidelines of our recent study on the combined water and sewer service basis. We, therefore, are proposing no change in this proceeding.

Although, the utility's tariff classifies this charge as a connection fee, it is included on a tariff sheet with the heading, Main Extension Policy. Since tariffs are filed in accordance with what is prescribed in an order, the order controls. Service availability tariffs were not filed in conjunction with Order No. 10721. However, it clearly states that we did not propose any change to the utility's current plant capacity charges. Based on the foregoing, we find that the \$300 is a wastewater plant capacity charge. The utility has collected CIAC relating to the wastewater facilities which are now being taken off-line. Therefore, we find it appropriate that the utility retire the CIAC associated with such facilities.

In determining the appropriate amount of CIAC to retire, we have limited it to an amount equal to the wastewater facilities being retired, which is \$121,673. In determining the amount of accumulated amortization of CIAC to retire, we initially took the ratio of CIAC being retired to total CIAC and applied this percentage to the total accumulated amortization of CIAC. This calculation yielded an amount of \$56,942 to be retired. However, if \$56,942 of accumulated amortization of CIAC was retired, it would appear that the CIAC was being amortized at a greater rate than the plant was being depreciated. Therefore, we have limited the retirement of accumulated amortization of CIAC to the same amount of accumulated depreciation related to the wastewater facilities being retired, which is \$50,707.

Based on the foregoing we find it appropriate to retire \$121,673 of CIAC and \$50,707 of Accumulated Amortization of CIAC, the amounts associated with the WWTP. Our adjustments are reflected on Schedule No. 3.

Loss Associated With the Retirement of The WWTP

As a result of the interconnection with Pasco County, the utility's wastewater plant is no longer needed and, consequently, must be removed. The utility's original estimated cost for removal of the wastewater plant was \$90,382 with no salvage value. We received an updated plant salvage value of \$8,675 from H₂O Utility Services, Incorporated. H₂O is a utility engineering/management service employed by Forest Hills in management and consulting capacity. In addition, H₂O provided an updated plant removal cost of \$64,465. This cost consisted of \$32,465 actual cost to date and \$32,000 in projected expenses to complete the plant removal. After a review of the project status, the updated cost (\$64,465), less the updated salvage (\$8,675), yields a reasonable cost for the plant removal cost of \$55,790.

Amortization Period and Annual Amortization Amount for
the Abandonment of the WWTP

Pursuant to Rule 25-30.433(9), Florida Administrative Code, the amortization period for forced abandonment or the prudent retirement, in accordance with the NARUC Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and CIAC plus any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement.

The utility requested an amortization period of 9 years. The utility's calculation does not reflect the retirement of the CIAC related to the retirement of the wastewater treatment facilities. Because we retired the CIAC related to the wastewater treatment facilities, our calculation, as reflected on Schedule No. 3, yielded zero for the denominator, when using the aforementioned formula. However, pursuant to Rule 25-30.433, Florida Administrative Code, this formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrates a more appropriate amortization period. In this instance, the formula is not appropriate because it is not possible to divide by zero.

The concept inherent in this rule is to allow the utility to remain whole, as if the retirement had not taken place. Therefore, it is appropriate for the utility to earn a return on the net loss. We calculated a total net loss on abandonment of \$55,790. As discussed later in this Order, the utility's approved rate of return is 8.78%. The result of applying the rate of return to the

net loss is an annual return of \$4,897. Dividing the net loss by the annual return on loss amount, results in an 11 year amortization period. We find that 11 years is appropriate. Dividing the net loss by the 11-year amortization period yields an appropriate annual amortization amount of \$5,072.

NET OPERATING INCOME

Operation and Maintenance Expenses

The utility has proposed in its filing to reduce expenses by \$79,597, as shown on Schedule No. 2A. This reduction is associated with salaries and wages, sludge removal expense, purchased power, chemicals, materials and supplies, and contract services that will no longer be needed, since the utility will be interconnected with Pasco County. The utility has also proposed to increase expenses by \$257,738 for the purchased sewage treatment from Pasco County. Therefore, the utility's proposed net effect of these two adjustments is an increase in expenses of \$178,141.

However, our review of Forest Hills' expenses shows that the following adjustments are appropriate.

Land Rental for WWTP

As discussed earlier in this Order, the utility has indicated that it does not own the land associated with the WWTP, and that there are no transferable land rights for that site. The utility states that the land and land rights are owned by Robert L. and Diane Dreher, individually. Furthermore, the utility states the land has never been included in the current rates for the utility, even though the application includes a retirement of this land. The utility further states that it is currently charged rent in the amount of \$8,000 per year for the use of this land.

After reviewing the audit work papers from the utility's last rate case, we find that \$7,200 was included in rates for the lease of the wastewater treatment site. In Docket No. 810176-WS, we included a pro forma adjustment of \$7,200 for the additional cost associated with the lease on the wastewater site. Therefore, we find it appropriate to reduce expenses by \$7,200.

Salaries and Wages

The utility indicates in its filing that it anticipates a reduction of \$10,286 to salaries and wages and a corresponding reduction of \$787 to payroll taxes. The utility states that three areas of salaries and wages have been reduced based upon the

anticipated elimination of the wastewater treatment facilities, as follow:

	<u>Salary Reduction</u>	<u>Reduction in Payroll Taxes</u>
Plant and Lift Station Maintenance	\$ 5,227	\$ 400
Maintenance Helper	\$ 4,205	\$ 322
Casual Labor	<u>\$ 854</u>	<u>\$ 65</u>
Total	<u>\$10,286</u>	<u>\$ 787</u>

We agree with these adjustments. In addition, we find it appropriate to reduce Mr. Dreher's salary of \$19,000 by 50 percent to reflect the reduction in responsibilities associated with the WWTP being non-operational. Mr. Dreher is responsible for overseeing all utility functions on a daily basis. We also find it appropriate to make a corresponding reduction of \$727 to payroll taxes associated with his salary reduction.

The utility also provides street light and garbage services, which are contracted out to Florida Power Corporation and BFI Waste Systems. The utility indicates that it serves primarily as a customer contact regarding these services. The utility estimates that the time spent on these matters is approximately 2 hours a month for the billing clerk and one-quarter hour a month for the bookkeeper. The billing clerk is responsible for adding or deleting garbage customers from the billing and calling the garbage company should it miss picking up a customer's garbage. In addition, the billing clerk is responsible for calling in any street lights that are reported burned out. The office manager is responsible for paying the bills to Florida Power and BFI each month. Given these responsibilities, we find that the utility's estimate of time allocated to perform these responsibilities is low. Further, according to the utility's 1996 annual report, the utility collected revenues in the amount of \$200,935 for these services. Of this, \$75,629 was recorded as accounts receivable as of December 31, 1996. We recognize that the amount of time spent on customer relations and collection of non-utility revenues can be time consuming; therefore, we find it appropriate to reduce the billing clerk's salary and the office manager's salary by one third for time associated with the garbage and street light services. We also recognize that the utility will collect approximately \$400,000

in wastewater revenue while collecting approximately \$200,000, or one third of its total revenue collected, in non-utility revenue. Therefore, we find it appropriate to reduce the administrative salaries by one third to reflect time spent on non-utility functions. The reductions to administrative salaries and payroll taxes total \$5,902 and \$452, respectively. Based on the foregoing, we find that a total reduction of \$25,695 to salaries and wages and a corresponding reduction to payroll taxes of \$1,966 is appropriate.

Estimated Purchased Sewer Cost

In its filing, the utility indicates that, based on the 12 months ending July 31, 1996, it estimates that 79,795,000 wastewater gallons will be billed by Pasco County on a going-forward basis for treatment at \$3.23 per 1,000 gallons. Therefore, the utility is proposing to increase its expenses by \$257,738. The utility simply totaled the number of gallons treated by its wastewater plant during those months and multiplied this by the current Pasco County bulk wastewater rate.

Based on the 12 months ending December 31, 1996, we find that the amount of wastewater that will be charged by Pasco County for future treatment is 74,320,000 gallons. This amount incorporates the most recent flow data for the months of August through December of 1996, submitted by the utility. Therefore, based on our calculation of projected gallons expected to be treated by Pasco County, we find it appropriate to reduce the utility's estimate of expenses associated with purchased wastewater by \$17,684. Given the utility did not make any regression adjustment, in the abundance of caution, we find this adjustment appropriate, because the possibility of a slight regression of consumption may exist. Therefore, we find that the appropriate amount by which the utility shall increase its expenses associated with purchased sewage treatment is \$240,054.

Recovery of Fines

The utility states that incurred DEP fines, to the extent they were in the best interests of the customers, should be recovered through rates. However, pursuant to the Uniform System of Accounts, penalties and fines for violation of statutes pertaining to regulation shall be assigned to Account 426, Miscellaneous Non-utility Expenses, which is a below-the-line expense. Therefore, we

find that all fines shall be the sole responsibility of the owner/shareholders of the utility, and not included in rates.

Rate Case Expense

On June 13, 1997, the utility's counsel requested by letter that rate case expense be considered and recovered in this proceeding. This request was submitted more than six months after the initial application was filed. This amount represents \$27,144 of legal expenses charged by counsel and \$17,880 of accounting expenses charged by the utility's accounting firm.

Due to the timing of this request, we do not find it appropriate to grant rate case expense. We have not had sufficient time to fully examine these expenses. In addition, we have concerns regarding utility counsel's request and question why the request came so late in this case. According to the utility's counsel, it was an oversight by both the utility and counsel. We do not believe that the utility's ratepayers should bear the cost of added legal and accounting expenses which we have not had the opportunity to sufficiently analyze. In addition, we believe that we would send the wrong signal to other utilities if we were to approve Forest Hills' delayed request for rate case expense. Therefore, Forest Hills' request for rate case expense is hereby denied.

Summary

Based on the foregoing, the utility's wastewater expenses have been reduced by \$102,206 for reductions associated with salaries and wages, land rental, sludge removal expense, purchased power, chemicals, materials and supplies, and contract services. In addition, the utility's expenses have been increased by \$240,054 for purchased sewage treatment from Pasco County. The net effect is an increase in expenses of \$137,848, as shown on Schedule No. 2A.

Return on Equity (ROE)

In this limited proceeding, the utility has requested that an overall rate of return of 9.60% be used to determine the increased revenues. This was based on its current costs as of June 30, 1996, debt and customer deposits and a 10.50% ROE. Our review of the utility's 1996 annual report revealed that several adjustments were necessary to properly reflect Forest Hills' cost of capital for

this wastewater limited proceeding and on a going-forward basis for the total utility.

Based on the utility's 1996 Annual Report, its achieved overall rate of return (ROR) for the water and wastewater systems were 9.25% and -5.74%, respectively, with a combined ROR of 0.70%. We have not audited the components of the capital structure used to calculate the ROE in this proceeding. However, we do not believe that any further investigation into potential overearnings for either system is warranted at this time. Based on our analysis, the utility's water system is earning within our newly authorized ROE, and the wastewater system is earning a negative ROR.

Based on the foregoing we have reduced Forest Hills' ROE to 9.25%, consistent with the current Water and Wastewater leverage graph, as shown on Schedule No. 4. The approved ROE shall be effective as of the date this Order becomes final. The approved ROE shall be applied to any future proceedings of this utility, including, but not limited to, price indexes, interim rates, and over earnings.

COST OF CAPITAL

In a data request dated April 11, 1997, the utility was asked to provide justification as to why it should continue carrying its long-term debt at a cost of 12%. The utility indicated that the interest rate had changed to 8% on June 1, 1995. Therefore, we find it appropriate to reduce the cost of debt to 8%. Consistent with our decision regarding Forest Hills' ROE, we find that the appropriate overall cost of capital is 8.78%, with a range of 7.95% to 9.61%, as shown on Schedule No. 4.

REVENUE REQUIREMENT

Forest Hills' requested final rates are designed to generate annual revenues of \$445,436 for wastewater. The requested revenues exceed current revenues by \$226,514 (103.47%) for the wastewater operations. However, based upon our findings set forth herein, we find that the revenue requirement is only \$394,967 for wastewater operations. This represents an increase over current revenues of \$176,045 or 80.41% for the wastewater operations.

RATES AND RATE STRUCTURE

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Based on the above, we hereby approve rates for the utility which are designed to produce annual revenues of \$394,967 for wastewater service, which is an increase of \$176,045 or 80.41%.

The utility proposed that the final rates be increased by an equal percentage basis for the additional revenue associated with the interconnection. However, we find that it would be more appropriate to set the rates whereby the utility collects \$3.23 per 1,000 gallons, which is the amount Pasco County will charge the utility for purchased sewage treatment. The remaining revenue shall be collected through the base facility charge in accordance with the AWWA standards for meter equivalents. We believe that our approved rate structure will be more appropriate, because it will help prevent the utility from overearning during low consumption years and will minimize risk during high consumption years by allowing the utility to meet its obligation to the county.

The utility shall be required to file revised tariff sheets consistent with our decision herein. Further, a proposed customer notice reflecting the appropriate rates shall be filed pursuant to Rule 25-22.0407(10), Florida Administrative Code. The approved 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.

A comparison of the utility's prior wastewater rates, our approved emergency rates, utility's requested final rates, and our approved final rates is shown on Schedule No. 5.

REFUND OF EMERGENCY, TEMPORARY RATES

By Order No. PSC-97-0207-FOF-SU, issued on February 21, 1997, the utility was authorized to implement emergency, temporary rates, subject to refund. The approved emergency rates generated additional revenues of \$226,514, or a 103.47% increase.

The emergency, temporary rates were granted pending further amplification and explanation provided in this request. We have granted additional revenue, necessary for the interconnection to Pasco County, in the amount of \$176,045, or an 80.41% increase. This increase is less than the additional revenues granted for the

emergency, temporary rates. Therefore, the utility shall be required to refund 22.28% of wastewater revenue collected through emergency, temporary rates.

The refund shall be made within 90 days with interest in accordance with Rule 25-30.360 (4), Florida Administrative Code. The utility shall file refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

SHOW CAUSE

As a result of the review of the utility's 1993 annual report, it was determined that the utility had a substantially high level of customer deposits. This raised a concern about the utility's refund policies regarding deposits. Having reviewed Forest Hill's customer deposit practices, we find that the utility has violated a statute and several Commission rules. Our discussion of the applicable statute and rules is set forth below.

Rule 25-30.311(5), Florida Administrative Code & Section 367.09 (3), Florida Statutes

On October 13, 1994, our staff sent a letter to the utility asking for information regarding its deposit refund policies which would allow staff to verify whether it was in compliance with Rule 25-30.311(5), Florida Administrative Code. Rule 25-30.311(5), Florida Administrative Code, states:

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposits

Because staff had not received any information from the utility, a follow-up letter was sent on November 22, 1994. On February 17, 1995, staff received a letter from utility counsel, Mr. Deterding, on behalf of the utility. The letter stated that the owner had been sick and the matter had apparently "slipped through the cracks." The letter indicated that the company would research the customer deposits and provide staff with a report within three weeks. On April 4, 1995, staff received a letter from the utility

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indicating that the research was taking longer than expected and that it would provide a report within two weeks.

On April 21, 1995, the utility provided the requested customer deposit information. The utility indicated that, as of the date of the letter, it had 641 deposits held longer than the 23-month maximum under the provisions of Rule 25-30.311(5), Florida Administrative Code. Of the 641, 614 were for the minimum deposit under Forest Hills' tariff of \$25. The remaining 27 were \$75 deposits collected from renters. The collection of the \$75 deposit from renters was to minimize the losses from uncollectible accounts from that class of customers. However, the collection of the additional deposit was not authorized under the utility's existing tariff. Pursuant to Section 367.091(3), Florida Statutes, a utility may only impose and collect those charges contained in its Commission-approved tariffs.

The utility's tariff authorized it to collect a deposit for water and wastewater service equal to the greater of \$25 or three times the minimum bill. The maximum deposit the utility could collect under its tariff was \$37.38. The utility proposed a refund with interest of the excess collected over its maximum from the renters who were not eligible, at that time, for a full deposit refund. However, the utility had not yet calculated the exact amount of the refund for the excess deposits collected from renters. The utility indicated that it would provide that information within two weeks. The utility calculated a refund of \$17,375 with an additional \$1,603 of interest for customer deposits collected at \$25, which were held over the 23-month maximum under the provision of Rule 25-30.311, Florida Administrative Code.

By letter dated April 26, 1995, our staff indicated their agreement with this refund proposal. The letter indicated that the utility could begin the refund as soon as staff received the information regarding the amount of partial refunds due to the renters because of the over-collection that was not authorized in the utility's tariff. On June 7, 1995, the utility sent a letter to staff with the final figures for both the \$25 and the \$75 deposit refunds. In the June 7, 1995 letter, the utility calculated the following deposits for refund, as of May 31, 1995,

under the provisions of Rule 25-30.311, Florida Administrative Code:

730 deposits at \$25.....	\$18,250
135 deposits at \$75.....	<u>\$10,125</u>
Total deposits eligible for refund.....	<u>\$28,375</u>

The amount of interest to be paid on these deposits was \$2,122.45. The utility proposed to make the appropriate refunds with interest by granting credits to the customers within 90 days of staff approving the refund methodology. On June 12, 1995, staff sent the utility a letter approving its refund plan and requiring the utility to make the necessary refunds within 90 days. Therefore, the refunds should have been completed by September 11, 1995. Staff also requested that the utility submit refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code.

In this limited proceeding filing, the utility indicated it had \$103,935 of customer deposits as of July 31, 1996. In the utility's 1993 annual report, which initiated staff's investigation of the customer deposits, the utility reported \$80,150 of customer deposits. The utility reported \$90,795 of customer deposits in its 1994 annual report. For the 1995 annual report, the utility reported \$99,866 of customer deposits. As stated previously, the utility indicated that, as of May 31, 1995, it had \$28,375 of customer deposits requiring refund. The fact that the 1995 customer deposit balance was higher than the 1994 customer deposit balance, raises a question as to whether or not the refunds were completed. Based on the utility's 1995 annual report, the number of customers increased by 28 for water and one for wastewater. If the refunds were made, the customer deposit balance should have been lower in 1995, considering the relatively small increase in customers in 1995.

The utility did not provide the refund reports previously requested by staff pursuant to Rule 25-30.360(7), Florida Administrative Code. Therefore, we decided to address the customer deposits as an issue in this limited proceeding. In a data request dated March 21, 1997, staff once again requested that the utility file a final refund report pursuant to Rule 25-30.360(7), Florida Administrative Code, in regard to the refund that should have been completed September 11, 1995. The utility indicated in its responses, dated April 11, 1997, that refund reports related to customer deposit are excluded from Rule 25-30.360, Florida

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Administrative Code. However, the utility assured staff that it has made \$19,793 of customer deposits and continues to refund deposits monthly.

At the September 9, 1997 Agenda Conference, the utility's counsel indicated that the utility could provide refund reports for the customer deposits. Therefore, we deferred our ruling in this matter to allow the utility to provide the customer deposit refund reports. By letter dated September 16, 1997, staff sent a letter to the utility to confirm the format of the refund report. Staff requested that the utility send two separate reports. Staff asked that the first report correlate to the refund plan approved by staff by letter dated June 12, 1995. For the second report, staff requested that it correlate to the period of June 1, 1995 through August 31, 1997. The reports were to be filed no later than September 22, 1997.

On September 19, 1997, by telephone, the utility's counsel indicated that the refund report for the refund plan would not correlate to the customer deposit amounts provided to staff in June of 1995. The refund report would reflect a refund amount less than what was initially indicated. First, the utility realized that some refunds, though higher than authorized (renters), had not been retained for a full two years; therefore, some of those customers were not entitled to the full amount of the refund agreed to.

Secondly, the utility indicated that the total customer deposit amounts erroneously included the deposits for garbage collection and street lights. The utility's counsel further explained that the utility has been erroneously including the garbage collection and street light deposits along with the customer deposits for water and wastewater service in its annual reports. The garbage and street light service is a non-regulated service; therefore, it should be recorded separately from the customer deposit for water and wastewater service. The utility's counsel explained that this is the error that has been causing the customer deposit ratio to be high. Also, the utility's counsel indicated that the customer deposit receipt does not make a distinction between the deposit for water and wastewater service and the deposit for garbage collection and street light service.

Staff received the refund reports from the utility on September 23, 1997 along with a letter. The letter expounded on staff's conversation with the utility's counsel in regards to the deposit receipts and the garbage collection and street light

service. The letter also explained the data provided in the refund report. Based upon our review of the reports, it appears that the utility has made the refunds. However, upon extensive review of the refund reports, we have determined that the utility did not make the refunds to those customers within the agreed upon 90-day period. For instance, one customer paid a deposit on July 1, 1971. This deposit was not refunded until April 28, 1997, which was 20 months after September 11, 1995, the date the utility should have completed the refund plan. Another deposit was paid on August 1, 1974, and was not refunded until May 30, 1997. This refund was made 21 months after the date the utility was to complete its agreed upon refund plan. This appears to constitute a willful violation of Rule 25-30.311(5), Florida Administrative Code.

Rules 25-30.115 & 25-30.311(3), Florida Administrative Code

Pursuant to Rule 25-30.115, Florida Administrative Code, water and wastewater utilities shall, effective January 1, 1986, maintain their accounts and records in conformity with the 1984 Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners. The Accounting Instruction #12 of the Uniform System of Accounts for Class B utilities states:

If a utility also operates other utility departments, such as electric, wastewater, gas, etc., it shall keep such accounts for the other departments as may be prescribed by proper authority and in the absence of prescribed accounts, it shall keep such accounts as are proper or necessary to reflect the results of operating each other department.

The utility's commingling of the water and wastewater service deposits and the garbage collection and street light service deposits appears to constitute a willful violation of Rule 25-30.115, Florida Administrative Code. As a result of the commingling of deposits, the utility also appears to have willfully violated Rule 25-30.311(3), Florida Administrative Code, which requires that the utility keep a record of each transaction concerning such deposits. As discussed earlier, one receipt is given for water and wastewater service, garbage collection, and street light service. A customer would be unable to determine how much of the deposit was for each service. As a result of the utility's commingling of these deposits on its books, we find that the utility has not kept a record of each transaction concerning deposits.

Show Cause

Section 367.161(1), Florida Statutes, authorizes us 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 provision of Chapter 367, Florida Statutes, or any lawful rule or order of this 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 comply with Chapter 367, Florida Statutes, and Chapter 25-30, Florida Administrative Code would meet the standard for a "willful violation." 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., this 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 "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. At 6.

The utility was given sufficient time to comply with Rule 25-30.311(5), Florida Administrative Code. In 1995, our staff requested that the utility explain why its customer deposit ratio was so high. As a result, the utility determined it had deposits that were held longer than 23 months that needed refunding. Based upon our review, the utility has held some deposits for over 25 years. The utility did provide the amount of the refund and agreed to refund the deposits within 90 days. However, the refunds were not completed within the agreed upon 90 days, with some deposits being held for at least an additional year. Therefore, we find that the utility's actions constitute a willful violation of the rule. As stated earlier, pursuant to Section 367.091(3), Florida Statutes, a utility may only impose and collect those rates and charges, in the amounts specified in its Commission approved tariff. The utility collected deposits from renters in excess of its approved charge, in willful violation of the aforementioned statute. It has also commingled garbage collection and street light deposits with water and wastewater deposits in willful violation of Rules 25-30.115 and 25-30.311(3), Florida Administrative Code.

Based on the foregoing, we find it appropriate to order the utility to show cause, in writing within twenty days, why it should not be fined \$15,000 for violation of the following: Section 367.091(3), Florida Statutes; Rules 25-30.311(3)&(5) Florida Administrative Code; and Rule 25-30.115, Florida Administrative Code.

Forest Hills Utilities, Inc.'s response shall contain specific allegations of fact and law. This opportunity to file a written response shall constitute Forest Hills' opportunity to be heard prior to a final determination of noncompliance or assessment of penalty. A failure to file a timely written response shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing. Should Forest Hills file a timely written response that raises material questions of fact and request a hearing pursuant to Section 120.569, Florida Statutes, further proceedings shall be scheduled before a final determination on this matter is made. If the utility fails to respond within 20 days of the issuance of this Order, the \$15,000 fine shall be imposed without further action of this Commission. If Forest Hills fails to respond to reasonable collection efforts of this Commission, the fine shall be deemed uncollectible, and this matter shall be referred to the Comptroller's Office for further collection efforts based on our finding that, under the aforesaid circumstances, further collection efforts would not be cost effective. Reasonable collection efforts shall consist of two certified letters requesting payment. If, however, the utility responds to the show cause by remitting the fine imposed by us, no further action is required and this amount shall be remitted to the Comptroller's Office for deposit in the State General Revenue Fund pursuant to Section 367.161, Florida Statutes.

SERVICE AVAILABILITY

In a data request dated February 7, 1997, the utility was asked to explain the minimum connection fee of \$300 and the monthly fee of \$4.50. It was also asked to justify why it should continue these charges once the wastewater facilities were interconnected to Pasco County. The utility, in its response dated March 10, 1997, indicated that the \$4.50 monthly fee relates to the flat residential rate approved in its original tariff in 1975. The utility stated that the flat residential rate was superseded by a base facility charge rate and gallonage charge rate in 1982. Therefore, because the monthly fee of \$4.50 is no longer applicable, it is appropriate to eliminate it from the tariff.

As discussed earlier in this Order, the utility indicated that the connection fee of \$300 relates to the cost to connect new service to its existing collection system. The utility stated that the connection fee does not relate to a charge for plant capacity. We have found that the existing \$300 is a wastewater plant capacity charge as discussed earlier. Because the utility is interconnecting to Pasco County for wastewater treatment and disposal, the plant capacity charge is no longer applicable. However, as discussed below, we have analyzed the utility's wastewater CIAC level to determine whether or not the utility's plant capacity charge should be revised to a main extension charge.

We used the utility's 1996 Annual Report to analyze the CIAC level after the retirement of the WWTP, related CIAC and the addition of the interconnecting mains. Based on this calculation, using our approved plant retirement and plant addition amounts, the utility's level of CIAC would be 24.24%. The utility's percentage of net sewage collection system to net plant would be 45.77%. As a result of the retirement of the WWTP, related CIAC and the addition of the interconnecting mains, the utility's level of CIAC would be lower than what is prescribed in Rule 25-30.580 (1)(b), Florida Administrative Code. Pursuant to Rule 25-30.580(1)(b), Florida Administrative Code, 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 and sewage collection systems. Because the utility's CIAC level would be lower than minimum, as prescribed by rule, we find it appropriate that the \$300 plant capacity fee be revised to reflect a \$300 main extension charge. The \$300 main extension charge will allow the utility to increase its CIAC level to at least the minimum required by rule. Also, this will help to ensure that future customers pay their pro-rata share of the cost of the interconnect.

The utility shall be required to file a revised tariff sheet within 10 days of the effective date of this Order, which is consistent with our decision herein. Upon timely receipt and staff's verification that the tariffs are consistent with the Commission's decision, staff shall be given administrative authority to approve the revised tariff sheet. If no protest is filed and the revised tariff sheet is approved, the charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheet pursuant to Rule 25-30.475(2), Florida Administrative Code.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

Forest Hills does not currently have an approved AFUDC rate, nor did it request approval of such a rate in this proceeding. Rule 25-30.116(5), Florida Statutes, states that no utility may charge or change its AFUDC rate without prior Commission approval. Further, Rule 25-30.116(7) states that the Commission on its own motion may initiate a proceeding to revise a utility's AFUDC. According to the utility's 1996 annual report, the utility does not currently capitalize AFUDC. Because we have updated the utility's cost of capital for current costs in this proceeding, we find it appropriate to authorize an AFUDC charge, in the event that the utility will need to charge AFUDC in the future. The incremental costs of approving an AFUDC rate in this docket are very minimal compared to the cost of a separate future filing for approval of an AFUDC rate.

As discussed earlier in this Order, we have established the utility's cost of capital at 8.78%. Consistent with Rule 25-30.116(2) and (3), Florida Administrative Code, the annual AFUDC rate would also be 8.78%, with a monthly discounted rate of 0.731230%. Further, Rule 25-30.116(5), Florida Administrative Code, states that the AFUDC rate should be effective the month following the end of the period used to establish the rate. Because the test year ended June 30, 1996 was used to determine the cost of capital, the AFUDC rate shall be effective July 1, 1996. Schedule No. 4 sets forth our approved cost of capital and resulting annual AFUDC rate.

CLOSING OF DOCKET

If the utility timely responds to the show cause portion of this Order, we will address the disposition of the show cause proceeding at a later time, and this docket shall remain open. However, in the event the utility remits the fine or if this matter is referred to the Comptroller's office and a timely protest to the proposed agency action portion of the order is not received from a substantially affected person by the end of the protest period, this docket shall remain open until our staff receives the refund reports for the customer deposits, staff verifies that the utility has completed the required refunds and the utility files and staff approves the revised tariff sheets. Once all these requirements have been completed, this docket shall be closed administratively.

Based on the foregoing, it is

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ORDERED by the Florida Public Service Commission that Forest Hills Utilities, Inc.'s application for a limited proceeding increase in wastewater rates is hereby approved. It is further

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

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

ORDERED that Forest Hills Utilities, Inc. shall report to the Commission any future sale, foreclosure, or any transaction involving transfer of ownership of the abandoned land associated with the wastewater treatment plant and any proposed rate reduction resulting therefrom within 60 days of such occurrence. It is further

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

ORDERED that prior to the implementation of the rates approved herein, Forest Hills Utilities, Inc. shall submit a proposed customer notice explaining the rates and reasons therefor. It is further

ORDERED that Forest Hills Utilities, Inc. shall provide proof of the date that notice was given within 10 days after the notice was made. It is further

ORDERED that, prior to the implementation of the rates and charges approved herein, Forest Hills Utilities, Inc. shall submit and have approved, revised tariff sheets. The revised tariff sheets shall be approved upon our staff's verification that they are consistent with this Order. Forest Hills Utilities, Inc. shall file its revised tariff sheet for its main extension charge within 10 days of the date of this Order. It is further

ORDERED that Forest Hills Utilities, Inc. shall make refunds of 22.8% of wastewater revenues granted for the emergency temporary rates, with interest, as set forth herein. It is further

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ORDERED that Forest Hills Utilities, Inc. shall submit a refund report pursuant to Rule 25-30.360(7), Florida Administrative Code, and must treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that Forest Hills Utilities, Inc. shall show cause in writing within twenty days of the issuance of this Order why it should not be fined \$15,000 for failing to comply with Rules 25-30.311(3) and (5), and 25-30.115, Florida Administrative Code, and Section 367.091(3), Florida Statutes. It is further

ORDERED that Forest Hills Utilities, Inc.'s written response must contain specific allegations of fact and law. It is further

ORDERED that Forest Hills Utilities, Inc.'s opportunity to file a written response shall constitute its opportunity to be heard prior to a final determination of noncompliance and assessment of penalty by this Commission. It is further

ORDERED that failure to file a timely written response shall constitute an admission of the facts alleged in the body of this order and a waiver of the right to a hearing. It is further

ORDERED that, in the event that Forest Hills Utilities, Inc. files a written response that raises material questions of fact and requests a hearing pursuant to Section 120.569, Florida Statutes, further proceedings will be scheduled before a final determination on this matter is made. It is further

ORDERED that if the utility fails to respond within 20 days of the issuance of this Order, the fine of \$15,000 shall be imposed without further action of this Commission. It is further

ORDERED that if Forest Hills Utilities, Inc. fails to respond to reasonable collection efforts by the Commission, the fine shall be deemed uncollectible and shall be referred to the Comptroller's Office for further collection efforts. It is further

ORDERED that if Forest Hills Utilities, Inc. timely responds to the show cause portion of this Order, this docket shall remain open pending disposition of the show cause proceeding. However, in the event the utility remits the fine or if this matter is referred to the Comptroller's office and timely protest to the proposed agency action portion of this order is not received from a substantially affected person within 21 days of the issuance of

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this Order, this docket shall remain open until Commission staff verifies that the utility has completed the required refunds and the utility files and staff approves the revised tariff sheets. Once all these requirements have been completed, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 19th day of November, 1997.



BLANCA S. BAYO, Director
Division of Records and Reporting

(S E A L)

TV

DISSENT

Commissioner Joe A. Garcia dissents to the show cause portion of this Order without opinion.

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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The actions proposed herein, except for ordering Forest Hills Utilities, Inc. to show cause, is preliminary in nature and will not become effective or final, except as provided by Rule 25-

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22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 10, 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 the proposed agency action portion of 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. This notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

The show cause portion of this order is preliminary procedural or intermediate in nature. 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 25-22.037(1), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850, by the close of business on December 9, 1997.

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Failure to respond within the time set forth above shall constitute an admission of all facts and a waiver of the right to a hearing pursuant to Rule 25-22.037(3), Florida Administrative Code, and a default pursuant to Rule 25-22.037(4), Florida Administrative Code. Such default shall be effective on the day subsequent to the above date.

If an adversely affected person fails to respond to the show cause portion of this order within the time prescribed above, that party may request judicial review by the Florida Supreme Court in the case of any 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.

Forest Hills Utilities, Inc.
Docket No. 961475-SU

Schedule No. 1

**Additional Revenue Requirement for
 Pasco County Force Main Tie-in and
Purchased Sewage Costs**

	Utility Proposed Increase in Cost	Commission Approved Increase in Cost
Operation & Maintenance Expense:	\$178,141	\$137,848
Net Depreciation and Amortization:	\$4,156	\$6,697
Taxes other than Income:	\$2,418	\$771
Amortization of Plant Abandonment Costs:	<u>\$17,928</u>	<u>\$5,579</u>
Total Additional Operating Expenses:	\$202,643	\$150,895
Rate of Return:	\$13,678	\$17,228
Total Additional Expense and Return:	\$216,321	\$168,123
Divide by RAF Expansion Factor:	<u>0.955</u>	<u>0.955</u>
Grand Total of Additional Revenue Requirement:	\$226,514	\$176,045
Divide by Annualized Revenue:	\$218,922	\$218,922
Percentage Increase in Revenue and Rates:	103.47%	80.41%

Forest Hills Utilities, Inc.
 Docket No. 961475-SU

Schedule No. 2A

**Change in Operations &
 Maintenance Expense**

	Actual Year End 07/31/96	Utility's Proposed Proforma Adjustments	Commission Approved Proforma Adjustments
Land			
Land Rent	\$8,000		(\$7,200)
Salaries & Wages			
Plant and Lift Station Maintenance	\$5,227	(\$5,227)	(\$5,227)
Maintenance Helper	\$4,205	(\$4,205)	(\$4,205)
Casual Labor	\$854	(\$854)	(\$854)
President/General Manager	\$19,000		(\$9,500)
Office Manager/Bookkeeper*	\$9,903		(\$3,268)
Billing Clerk*	\$8,003		(\$2,641)
<i>* based on 1996 year-end salaries</i>			
Total Salaries & Wages	\$47,191	(\$10,286)	(\$25,695)
Purchased Sewage Treatment			
Pasco County (Projected)		\$257,738	\$240,054
<i>* staff's recommended adjustment is based on year-end 1996</i>			
Sludge Removal Expense			
Hauling/Disposal	\$20,165	(\$20,165)	(\$20,165)
Purchased Power			
Sewer Plant	\$19,120	(\$19,120)	(\$19,120)
Chemicals			
Treatment Plant	\$13,109	(\$13,109)	(\$13,109)
Materials & Supplies			
Plant Structures	\$486	(\$486)	(\$486)
Rapidrain Pump	\$1,063	(\$1,063)	(\$1,063)
Rapidrain Blowers	\$1,578	(\$1,578)	(\$1,578)
Plant Equipment	\$1,790	(\$1,790)	(\$1,790)
Contract Services			
Sewer Operations	\$12,000	(\$12,000)	(\$12,000)
Total	\$163,694	\$178,141	\$137,848

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Forest Hills Utilities, Inc.
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Schedule No. 2B

Additional Plant Costs

	Utility's Proposed Cost	Commission Approved Cost
Collection Sewers - Force		
Pasco County Costs	\$100,000	\$100,000
Flora Ave. Main	\$69,755	\$57,203
Labor & Equipment	\$13,060	\$11,860
Engineering Allocated	\$13,234	\$13,234
Flow Meter		
Cost of Meter	\$12,000	\$10,984
Engineering Allocated	\$869	\$869
Pumping Equipment		
Rebuild Lift Station	\$8,208	\$8,208
Engineering Allocated	\$594	\$594
Total Costs	<u>\$217,720</u>	<u>\$202,952</u>

Forest Hills Utilities, Inc.
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Schedule No. 2C

Schedule of Depreciation Expense

	Cost of Facilities	Depreciation Rate	Depreciation Expense
Cost of New Force Main	\$202,952	3.30%	\$6,697
Cost of Retired Plant	(\$121,673)	2.50%	(\$3,042)
Total	<u>\$81,279</u>		<u>\$3,656</u>

Schedule of Amortization Expense

CIAC Associated with Retirement	\$121,673	2.50%	\$3,042
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Schedule of Taxes Other than Income

Tangible Property Taxes

Cost of Force Main, Meter and Lift Station	\$202,952
One Year Depreciation	(\$6,697)
Net Book Value of Property Retired	(\$70,966)
Net Increase in Taxable Property	\$125,289
Current Pasco County Mileage Rate	<u>0.021841</u>
Total Increase in Taxes other than Income	<u>\$2,736</u>

Payroll Taxes

Reduction in Salaries	(\$25,695)
FICA Rate	<u>0.0765</u>
Total Reduction in Payroll Taxes	<u>(\$1,966)</u>

Total Increase in Taxes other than Income \$771

Required Rate of Return on Net Invested Plant

Required Rate of Return

Cost of Force Main, Meter and Lift Station	\$202,952
One Year Depreciation	(\$6,697)
Total	<u>\$196,255</u>

Cost of Plant Retired	\$121,673
Less: Accum. Depreciation	(\$50,707)
Contributions-in-Aid-of-Construction	(\$121,673)
Accumulated Amortization of CIAC	<u>\$50,707</u>
Total	<u>\$0</u>

Net Additional Investment	\$196,255
Rate of Return	<u>8.78%</u>
Additional Rate of Return	<u>\$17,228</u>

Forest Hills Utilities, Inc.
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Schedule No. 3

Annual Amortization Period Calculation

*Calculation of Amortization Period Pursuant to Rule 25-30.433(9),
 Florida Administrative Code*

Original Cost	\$121,673		
Accumulated Depreciation (less)	(\$50,707)	Cost incurred	\$64,465
Contribution-in-aid-of construction (less)	(\$121,673)	Salvage value	\$8,675
Accumulated CIAC (add)	\$50,707	Net cost incurred	\$55,790
Net Costs Incurred (add)	\$55,790		
NET LOSS	\$55,790		
		Annual Depr. Exp.	\$3,029
Annual Depreciation (net of amortization of CIAC)	\$0	Amort. of CIAC	(\$3,029)
Return on Net Plant that would have been incl. in rate base	\$0		\$0
ANN. DEPR. PLUS RETURN ON NET PLANT	\$0		
		Net Plant	\$0
		Rate of Return	8.78%
			\$0
NET LOSS	\$55,790		
ANN. DEPR. PLUS RETURN ON NET PLANT	\$0		
Amortization Period	ERR		

Net Loss		Rate of	Annual Return
\$55,790	X	Return	on Loss
		8.78%	\$4,897

Amortization Period			
Net Loss	\$55,790		
Divided by Annual Return on Loss	\$4,897		
Years	11	Commission Approved Amortization Period	
Net Loss/ Amortization Period	\$5,072	Commission Approved Annual Amortization	

FOREST HILLS UTILITIES, INC.
CAPITAL STRUCTURE
TEST YEAR ENDED 06/30/96

SCHEDULE NO. 4
DOCKET 961475-SU

ORDER NO. PSC-97-1458-FOF-SU
DOCKET NO. 961475-SU
PAGE 35

PER UTILITY 6/30/96 - YEAR-END

1 LONG TERM DEBT	\$30,000	\$0	\$0	\$30,000	4.95%	8.00%	0.40%
2 SHORT-TERM DEBT	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$471,551	\$0	\$0	\$471,551	77.88%	10.50%	8.18%
5 CUSTOMER DEPOSITS	\$103,935	\$0	\$0	\$103,935	17.17%	6.00%	1.03%
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
9 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	<u>\$905,486</u>	\$0	\$0	<u>\$905,486</u>	100.00%		<u>9.60%</u>

PER COMMISSION 6/30/96 - YEAR-END

11 LONG TERM DEBT	\$30,000	\$0	(\$2,296)	\$27,704	3.77%	8.00%	0.30%
12 SHORT-TERM DEBT	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
13 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
14 COMMON EQUITY	\$471,551	\$190,520	(\$50,680)	\$611,391	83.17%	9.25%	7.89%
15 CUSTOMER DEPOSITS	\$103,935	\$0	(\$7,956)	\$95,979	13.08%	6.00%	0.78%
16 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
19 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	<u>\$905,486</u>	<u>\$190,520</u>	<u>(\$60,932)</u>	<u>\$735,074</u>	100.00%		<u>8.78%</u>

LOW HIGH

RETURN ON EQUITY 8.25% 10.25%

OVERALL RATE OF RETURN 7.95% 9.61%

Forest Hills Utilities, Inc.
Docket No. 961475-SU

Schedule No. 5

Wastewater Rate Schedule

Monthly Rates

	Rates Prior to Filing	Emergency Rates Approved	Commission Approved Final
Residential			
Base Facility Charge:			
All Meter Sizes:	\$9.24	\$18.80	\$12.05
Gallage Charge, per 1,000 Gallons (Wastewater Cap - 10,000 Gallons)	\$1.29	\$2.62	\$3.23
Commercial			
Base Facility Charge:			
Meter Size:			
5/8" x 3/4"	\$9.24	\$18.80	\$12.05
1"	\$23.09	\$46.98	\$30.13
1-1/2"	\$45.83	\$93.25	\$60.25
2"	\$73.91	\$150.38	\$96.40
3"	\$147.81	\$300.75	\$192.80
4"	\$230.93	\$469.87	\$301.25
6"	\$461.92	\$939.87	\$602.50
Gallage Charge, per 1,000 Gallons	\$1.29	\$2.62	\$3.23

Typical Residential Bills

5/8" Meter			
3,000 Gallons	\$13.11	\$26.66	\$21.74
5,000 Gallons	\$15.69	\$31.90	\$28.20
10,000 Gallons (Maximum) (Wastewater Cap - 10,000 Gallons)	\$22.14	\$45.00	\$44.35