



Public Service Commission

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DATE: MAY 30, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: *DM* DIVISION OF ECONOMIC REGULATION (FLETCHER, GREENE,
MERCHANT, D. DRAPER) *DM* OFFICE OF THE GENERAL COUNSEL (HARRIS) *DM* *ALM*

RE: DOCKET NO. 011073-WS - APPLICATION FOR RATE INCREASE IN
BROWARD COUNTY BY FERNCREST UTILITIES, INC.
COUNTY: BROWARD

AGENDA: JUNE 11, 2002 - REGULAR AGENDA - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: 60-DAY SUSPENSION DATE: JUNE 11, 2002

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\011073.RCM

CASE BACKGROUND

Ferncrest Utilities, Inc. (Ferncrest or utility) is a Class B utility providing water and wastewater service for approximately 1,407 water and 1,351 wastewater customers in Broward County. Ferncrest's service territory is located within a Water Resource Caution Area within the South Florida Water Management District. For the year ended December 31, 2001, the utility reported water operating revenues of \$508,282 and a net operating loss of \$68,115. Wastewater operating revenues were \$643,843, with a net operating loss of \$33,164.

On January 11, 2002, the utility filed an application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes. By letter dated January 31, 2002, staff informed Ferncrest of numerous minimum filing requirement (MFR) deficiencies and instructed the utility to

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correct these deficiencies no later than March 1, 2002. On February 14, 2002, Ferncrest corrected most of the deficiencies. However, the utility's MFRs remained deficient with respect to information regarding its related party transactions, pursuant to Rule 25-30.436(4)(h), Florida Administrative Code. On April 1, 2002, Ferncrest satisfied the MFRs, and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. The utility has requested that the Commission process its case under proposed agency action (PAA) procedures, pursuant to Section 367.081(8), Florida Statutes.

The utility's last rate case was finalized by Order No. PSC-95-1399-FOF-WS, issued November 15, 1995, in Docket No. 940765-WS. In that order, rate base was set for the December 31, 1994, test year and an overall rate of return of 10.68% was approved. The utility has implemented price index rate increases every year since the last rate case. Ferncrest has also received four pass-through rate adjustments since the last rate case.

The utility requested that the test year for both interim and final purposes in this current proceeding be based on the year ended December 31, 2000. The utility received a 2000 price index effective June 15, 2001, and a 2001 price index effective November 3, 2001.

Ferncrest has requested interim revenues of \$642,976 for water and \$754,569 for wastewater. This represents an increase of \$93,750 for water and \$35,460 for wastewater, or 17.07% and 4.93%, respectively. The final requested revenues are \$666,640 for water and \$772,433 for wastewater. This represents an increase of \$103,350 for water and \$38,900 for wastewater, or 18.35% and 5.30%, respectively.

By letter dated May 8, 2002, Ferncrest waived the sixty-day statutory deadline until June 11, 2002 for the Commission to suspend the utility's final requested rates and to address interim rates. This recommendation addresses the suspension of Ferncrest's requested final rates and the appropriate interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the utility's proposed final rates be suspended?

RECOMMENDATION: Yes. Ferncrest's proposed final water and wastewater rates should be suspended. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (FLETCHER, HARRIS)

STAFF ANALYSIS: Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty days after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. Staff believes that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional or corroborative data. Based on the foregoing, staff recommends that it is appropriate to suspend the utility's proposed final rate increase.

The docket should remain open pending the Commission's final action on the utility's requested rate increase.

ISSUE 2: What is the appropriate interim test year?

RECOMMENDATION: The simple average test year ended December 31, 2001, is the appropriate test year for interim purposes. (FLETCHER)

STAFF ANALYSIS: The utility filed rate base, cost of capital, and operating statements to support its interim and final requested water and wastewater increases for the December 31, 2000, test year. The utility's cost of capital consists of related party debt and customer deposits, with no equity. The cost rate for the debt is the prime rate of interest plus 2%. The simple average prime rate for the year ended December 31, 2000 was 9%. The simple average prime rate for the year ended December 31, 2001 was 7.25%, which represents a reduction of 175 basis points from the 2000 simple average prime rate.

Pursuant to Section 367.082(5)(b), Florida Statutes, the achieved and required rate of return shall be calculated using the most recent 12-month period. Based on the substantial change in the prime rate, staff believes that the 2000 test year is inappropriate to use for interim purposes. The simple average test year ended December 31, 2001 is more recent and reflects current cost of capital with matching components of rate base and income. Based on the above, staff recommends that the simple average test year ended December 31, 2001, is the appropriate test year for interim purposes.

ISSUE 3: Should an interim revenue increase be approved?

RECOMMENDATION: Yes. On an interim basis, the utility should be authorized to collect annual water and wastewater revenues as indicated below: (FLETCHER, GREENE)

	<u>Revenues</u>	<u>\$ Increase</u>	<u>% Increase</u>
Water	\$599,644	\$70,341	13.29%
Wastewater	\$687,003	\$12,734	1.89%

STAFF ANALYSIS: Section 367.082(5)(b)(1), Florida Statutes, requires the Commission to consider appropriate adjustments consistent with those which were used in the most recent individual rate proceeding of the utility. Staff has reviewed the utility's interim request, as well as the prior rate proceeding order, and we recommend adjustments as discussed below. We have attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts.

Staff has utilized the utility's 2001 annual report to calculate the simple average 2001 test year balances for rate base and capital structure, and to calculate test year operating income. For the rate base and operating income schedules, staff has included two columns to adjust the utility's 2000 interim balances to the utility's 2001 annual report balances. For the cost of capital schedule, staff has first reflected the utility's requested 2000 required rate of return and then beneath reflected staff's calculated 2001 return.

RATE BASE

Staff believes two adjustments are necessary to rate base for interim purposes. According to MFR Schedules A-1 and A-2, the utility reflected a non-used and useful component of \$22,063 for water and \$32,439 for wastewater. This was based on a non-used and useful percentage of 7.2% for its water treatment plant and 12% for its wastewater treatment plant. The utility reflected that the water distribution and wastewater collection systems were both 100% used and useful.

In its 2001 annual report, Ferncrest did not reflect non-used and useful components for either of its systems. Using the

utility's non-used and useful percentages applied to the average 2001 account balances, staff calculated non-used and useful components to be \$17,865 for water and \$29,531 for wastewater. Staff has reviewed the utility's used and useful calculation and believes that they are consistent with the last rate proceeding. However, staff believes that the utility's used and useful amounts should be adjusted to reflect the 2001 rate base components. Based on staff's calculations, the corresponding non-used and useful depreciation expense should be \$1,622 for water and \$2,410 for wastewater.

Staff's second adjustment to rate base relates to working capital. Rule 25-30.433(2), Florida Administrative Code, states that working capital for "Class B and C utilities shall be calculated using the formula method (one-eighth of operation and maintenance expenses." As a result of staff's recommended operation and maintenance (O&M) adjustments that are discussed below, staff recommends that 2001 working capital should be decreased by \$1,592 for water and by \$4,395 for wastewater.

Based on our adjustments above, staff believes that the 2001 simple average water and wastewater rate bases should be \$669,146 and \$689,329, respectively. The rate base schedules are numbered 1-A for water and 1-B for wastewater, with adjustments reflected on 1-C.

COST OF CAPITAL

As stated earlier, staff has updated the utility's capital structure to reflect 2001 cost of capital components and cost rates. In the last rate case, the Commission found that the cost rate of the utility's related party short-term and long-term debt would be equal to prime plus two percent. The simple average prime for the period ended December 31, 2001, was 7.25%. Since staff is recommending to use a December 31, 2001 interim test year, we believe it is appropriate to use the simple average prime rate during the 2001. As such, staff recommends that the appropriate cost rate for related party debt is 9.25%.

Further, in its MFRs, the utility reflected a cost rate of 6.50% for customer deposits. Staff recommends that the appropriate cost rate for customer deposits is 6%, pursuant to Rule 25-30.311(4) (a), Florida Administrative Code.

The utility reflected an interim cost of capital of 11.23% on MFR Schedule D-1. In its net operating income schedules in the MFRs, the utility has requested revenue increases based on a cost of capital of 9.55% for water and 9.54% for wastewater. In its petition, Ferncrest stated that the reason it is requesting a lower rate of return for interim purposes is to insure that no refunds will be required when final rates are set. However, using the simple average cost rates and balances for the test year ended December 31, 2001, staff's calculated cost of capital is 9.23%, which is shown on Schedule No. 2.

NET OPERATING INCOME

Based on our review, staff believes that the utility's 2001 test year water and wastewater revenues are understated. Staff also believes test year O&M expenses have been understated for water and overstated for wastewater. The following is staff's analysis regarding the appropriate test year net operating income.

Operating Revenues

In its 2001 annual report, Ferncrest reflected miscellaneous service revenues of \$6,796 for water and \$3,012 for wastewater, which represents a total utility miscellaneous service revenues of \$9,808. According to revised MFR Schedule E-5 for the year ended December 31, 2001, staff notes that the utility reflected total utility miscellaneous service revenues of \$30,756. Upon staff's review of the MFRs in the last rate case, Ferncrest had \$34,354 in miscellaneous service revenues which were allocated equally among water and wastewater. The current total from revised MFR Schedule E-5 is very similar to the amount incurred in the last rate case. Thus, staff believes the current net operating income schedules do not reflect the correct amount of miscellaneous service revenues. Staff recommends that test year miscellaneous service revenues should be increased by \$8,582 for water and \$12,366 for wastewater. This results in miscellaneous service revenues of \$15,378 for both water and wastewater.

Section 367.082(5)(b)(1), Florida Statutes, states that the achieved rate of return is calculated by applying appropriate adjustments and annualizing any rate changes occurring during the interim test year. Ferncrest implemented a 2000 index on June 15, 2001 and implemented a 2001 price index on November 3, 2001. In accordance with Section 367.082(5)(b)(1), Florida Statutes, staff

recommends that appropriate annualized revenue adjustments are \$12,518 for water and \$18,060 for wastewater, based on the rates in effect at December 31, 2001 (staff's recommended interim test year).

O&M Expenses

According to its 2001 annual report, the utility reflected bad debt expense of (\$42) for water and \$22,218 for wastewater. Upon staff's review of the MFRs in the last rate case, Ferncrest allocated its bad debt expenses equally among water and wastewater. Consistent with the utility's last rate case, staff recommends that O&M expenses should be increased by \$11,130 for water and decreased by \$11,088 for wastewater to reflect the appropriate allocation of bad debt expense.

Further, as reflected on MFR Schedule B-3, Ferncrest reduced O&M expenses by \$23,868 for water and wastewater in order to remove salary, truck, and uniform expenses associated with Mr. Fredic Edmondson. Based on discussions with the utility, Ferncrest stated that these interim adjustments to reduce O&M expenses by \$23,868 for water and wastewater are also appropriate for the 2001 test year for interim purposes. As such, staff has incorporated those adjustments in its interim analysis.

Net Operating Income

Based on the above adjustments, staff recommends that the appropriate test year operating income amounts, before any revenue increase, are (\$33,605) and \$33,259 for water and wastewater, respectively. The operating income schedules are numbered 3-A for water, 3-B for wastewater and 3-C for adjustments.

REVENUE REQUIREMENT

Staff calculated the interim revenue requirements using staff's adjusted operating revenues, expenses, and rate of return on our adjusted rate base for the year ended December 31, 2001. This results in a recommended revenue requirement of \$629,147 for water and \$706,048 for wastewater, which represents an increase of \$99,843 (18.86%) for water and \$31,779 (4.71%) for wastewater.

Based on our analysis, staff's interim revenue increase as applied across the board to the rates in effect at December 31, 2001 generated rates which are in excess of the utility's interim and final requested rates. There are several reasons for this occurrence. First, Ferncrest applied a lower percentage increase to its rates than reflected by its revenue requirement calculation. Second, two price index adjustments were implemented in 2001. Thus, the utility's increase was applied to 2000 year-end rates. As a result of updating the test year, staff's interim rate increases were applied to rates in effect as of December 31, 2001. Third, the utility lost 70 customers during its historical 2001 calendar year which lowered the annualized revenues to be spread over the remaining customers. All of these circumstances contributed to greater staff calculated rates than those requested by the utility.

Staff believes it is inappropriate to increase the utility's rates above those requested because the utility has only provided customers notice that its rates would be increased to the level it requested. Further, it is the utility's burden to propose rates and support those rates that it has filed.

Using the utility's requested interim rates, staff has backed into a revenue requirement of \$599,644 for water \$687,003 for wastewater, as shown on attached Schedules Nos. 3-A and 3-B. This represents a revenue increase of \$70,341 (13.29%) and \$12,734 (1.89%) for water and wastewater, respectively. Using these amounts, staff has calculated a rate of return of 5.02% for water and 6.59% for wastewater. Staff notes that Ferncrest stated in its application that if rates were approved that generate less than a fair return it would not cause the utility's service to suffer for the limited time interim rates would be in effect. Therefore, staff believes it is appropriate to allow the utility to implement its requested interim rates.

ISSUE 4: What are the appropriate interim water and wastewater rates?

RECOMMENDATION: Ferncrest's requested interim rates are appropriate which represent interim rate increases of 13.69% for water and 1.95% for wastewater. The approved rates should 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 utility should provide proof to staff of the date notice was given within 10 days after the date of notice. (FLETCHER, GREENE)

STAFF ANALYSIS: Staff recommends that Ferncrest's requested interim rates are appropriate. These rates will allow the utility the opportunity to generate additional annual operating revenues of \$70,341 for water and \$12,734 for wastewater. This results in revenue increases of 13.29% for water and 1.89% for wastewater. In order to determine the rate increase percentages, miscellaneous service and other revenues should be deducted from test year revenue before the percentage increase is calculated. When miscellaneous service revenues are excluded, the increase to the interim test year rates is 13.69% for water and 1.95% for wastewater.

The interim rates should 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 customers have received notice. The revised tariff sheets should be submitted with sufficient time for staff to verify that the tariffs are consistent with the Commission's decision, that the proposed notice to the customers is adequate, and that the required security discussed in Issue 5 has been filed. Staff should be permitted to administratively approve the tariff sheets upon verification of the above. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice.

The utility's current rates, its proposed interim rates, and staff's recommended interim rates are shown on Schedules Nos. 4-A and 4-B.

ISSUE 5: What is the appropriate security to guarantee the interim increase?

RECOMMENDATION: The utility should be required to open an escrow account, file a surety bond, or secure a letter of credit to guarantee any potential refund of revenues collected under interim conditions. If the utility chooses to open an escrow account, it should deposit 13.69% of water interim revenues and 1.95% of wastewater interim revenues collected each month. The surety bond or letter of credit should be in the amount of \$48,712. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (FLETCHER, GREENE, D. DRAPER)

STAFF ANALYSIS: Pursuant to Section 367.082, Florida Statutes, revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 3, the total annual interim increase is \$83,075; or \$70,341 for the water system and \$12,734 for the wastewater system on an annual basis. Staff has calculated the potential refunds of water and wastewater revenues and interest collected, in accordance with Rule 25-30.360, Florida Administrative Code, under interim conditions to be \$48,712. This amount is based on an estimated seven months of revenue being collected from the recommended interim rates over the previously authorized rates shown on Schedules Nos. 4-A and 4-B.

The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The 1998, 1999, and 2000 annual reports were used to determine the financial condition of Ferncrest. The utility has had minimal liquidity and negative equity for this three-year period. In addition, Ferncrest also reported negative income and minimal interest coverage for the same period. Based upon this analysis, staff recommends that Ferncrest cannot support a corporate undertaking in the amount of \$48,712. Therefore, staff recommends that the utility provide a letter of credit, bond, or escrow agreement to guarantee the funds collected subject to refund. Further, staff notes that this brief financial

analysis is only appropriate for deciding if the utility can support a corporate undertaking in the amount proposed.

If the security provided is an escrow account, said account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement should state the following: that the account is established at the direction of this Commission for the purpose set forth above; that no withdrawals of funds shall occur without the prior approval of the Commission through the Director of the Division of Commission Clerk and Administrative Services; that the account shall be interest bearing; that information concerning that escrow account shall be available from the institution to the Commission or its representative at all times; that the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt; and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla 3d, DCA 1972), escrow accounts are not subject to garnishments.

If the utility chooses to open an escrow account, the utility should deposit 13.69% of water interim revenues and 1.95% of wastewater revenues into the escrow account each month for possible refund. The escrow agreement should also state the following: that if a refund to the customers is required, all interest earned on the escrow account shall be distributed to the customers; and if a refund to the customers is not required, the interest earned on the escrow account shall revert to the utility.

If the security provided is a surety bond or a letter of credit, said instrument should be in the amount of \$48,712. If the utility chooses a bond as security, the bond should state that it will be released or should terminate only upon subsequent order of the Commission. If the utility chooses to provide a letter of credit as security, the letter of credit should state that it is irrevocable for the period it is in effect and that it will be in effect until a final Commission order is rendered releasing the funds to the utility or requiring a refund.

Irrespective of the type of security provided, the utility should keep an accurate and detailed account of all monies it receives. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th day of each

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month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

FERNCREST UTILITIES, INC.						SCHEDULE NO. 1-A	
SCHEDULE OF WATER RATE BASE - SIMPLE AVERAGE						DOCKET NO. 011073-WS	
DESCRIPTION	2000 TEST YEAR PER UTILITY	2000 UTILITY ADJUST- MENTS	2000 ADJUSTED TEST YEAR PER UTILITY	2001 ADJUST- MENTS	2001 ANNUAL REPORT BALANCES	STAFF INTERIM ADJUST- MENTS	STAFF INTERIM ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,681,279	\$0	\$1,681,279	\$7,738	\$1,689,017	\$0	\$1,689,017
2 LAND & LAND RIGHTS	20,000	0	20,000	0	20,000	0	20,000
3 NON-USED & USEFUL COMPONENTS	0	(22,063)	(22,063)	22,063	0	(17,865)	(17,865)
4 ACCUMULATED DEPRECIATION	(864,960)	0	(864,960)	(64,344)	(929,304)	0	(929,304)
5 CIAC	(507,718)	0	(507,718)	(350)	(508,068)	0	(508,068)
6 AMORTIZATION OF CIAC	336,749	0	336,749	19,481	356,230	0	356,230
7 WORKING CAPITAL ALLOWANCE	<u>64,148</u>	<u>(4,257)</u>	<u>59,891</u>	<u>837</u>	<u>60,728</u>	<u>(1,592)</u>	<u>59,136</u>
8 RATE BASE	<u>\$729,498</u>	<u>(\$26,320)</u>	<u>\$703,178</u>	<u>(\$14,575)</u>	<u>\$688,603</u>	<u>(\$19,457)</u>	<u>\$669,146</u>

FERNCREST UTILITIES, INC.						SCHEDULE NO. 1-B	
SCHEDULE OF WASTEWATER RATE BASE - SIMPLE AVERAGE						DOCKET NO. 011073-WS	
DESCRIPTION	2000 TEST YEAR PER UTILITY	2000 UTILITY ADJUST- MENTS	2000 ADJUSTED TEST YEAR PER UTILITY	2001 ADJUST- MENTS	2001 ANNUAL REPORT BALANCES	STAFF INTERIM ADJUST- MENTS	STAFF INTERIM ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$2,064,580	\$0	\$2,064,580	\$19,842	\$2,084,422	\$0	\$2,084,422
2 LAND	60,000	0	60,000	0	60,000	0	60,000
3 NON-USED & USEFUL COMPONENTS	0	(32,439)	(32,439)	32,439	0	(29,531)	(29,531)
4 ACCUMULATED DEPRECIATION	(1,208,284)	0	(1,208,284)	(73,044)	(1,281,328)	0	(1,281,328)
5 CIAC	(1,004,959)	0	(1,004,959)	0	(1,004,959)	0	(1,004,959)
6 AMORTIZATION OF CIAC	756,951	0	756,951	34,318	791,269	0	791,269
7 WORKING CAPITAL ALLOWANCE	<u>75,608</u>	<u>(1,886)</u>	<u>73,722</u>	<u>129</u>	<u>73,851</u>	<u>(4,395)</u>	<u>69,456</u>
8 RATE BASE	<u>\$743,896</u>	<u>(\$34,325)</u>	<u>\$709,571</u>	<u>\$13,684</u>	<u>\$723,255</u>	<u>(\$33,926)</u>	<u>\$689,329</u>

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FERNCREST UTILITIES, INC.		SCHED. NO. 1-C	
ADJUSTMENTS TO RATE BASE - SIMPLE AVERAGE		DOCKET 011073-WS	
EXPLANATION	WATER	WASTEWATER	
<u>NON-USED AND USEFUL</u>			
To reflect the appropriate non-used and useful adjustment.	<u>(\$17,865)</u>	<u>(\$29,531)</u>	
<u>WORKING CAPITAL</u>			
To reflect the appropriate working capital.	<u>(\$1,592)</u>	<u>(\$4,395)</u>	

FERNCREST UTILITIES, INC.						SCHEDULE NO. 2	
CAPITAL STRUCTURE - SIMPLE AVERAGE						DOCKET 011073-WS	
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 2000							
1 LONG TERM DEBT	\$5,224,757	\$0	(\$4,125,808)	\$1,090,784	77.21%	11.26%	8.69%
2 SHORT-TERM DEBT	1,490,406	0	(1,176,606)	311,087	22.02%	11.30%	2.49%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	0	0	0	0	0.00%	10.88%	0.00%
5 CUSTOMER DEPOSITS	<u>51,924</u>	<u>0</u>	<u>(40,466)</u>	<u>10,878</u>	<u>0.77%</u>	6.50%	<u>0.04%</u>
6 TOTAL CAPITAL	<u>\$6,767,087</u>	<u>\$0</u>	<u>(\$5,302,414)</u>	<u>\$1,412,749</u>	<u>100.00%</u>		<u>11.23%</u>
PER STAFF 2001							
7 LONG TERM DEBT	\$5,695,228	\$0	(\$4,626,005)	\$1,069,223	78.71%	9.25%	7.28%
8 SHORT-TERM DEBT	1,490,406	0	(1,210,597)	279,809	20.60%	9.25%	1.91%
9 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
10 COMMON EQUITY	0	0	0	0	0.00%	10.88%	0.00%
11 CUSTOMER DEPOSITS	<u>50,302</u>	<u>0</u>	<u>(40,858)</u>	<u>9,444</u>	<u>0.70%</u>	6.00%	<u>0.04%</u>
12 TOTAL CAPITAL	<u>\$7,235,936</u>	<u>\$0</u>	<u>(\$5,877,460)</u>	<u>\$1,358,476</u>	<u>100.00%</u>		<u>9.23%</u>
					LOW	HIGH	
RETURN ON EQUITY					<u>10.88%</u>	<u>12.88%</u>	
OVERALL RATE OF RETURN					<u>9.23%</u>	<u>9.23%</u>	

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FERNCREST UTILITIES, INC.									
STATEMENT OF WATER OPERATIONS									
TEST YEAR ENDED 12/31/01									
SCHEDULE NO. 3-A									
DOCKET NO. 011073-WS									
DESCRIPTION	2000 TEST YEAR PER UTILITY	2000 UTILITY ADJUST- MENTS	2000 ADJUSTED TEST YEAR PER UTILITY	2001 ADJUST- MENTS	2001 ANNUAL REPORT BALANCES	STAFF INTERIM ADJUST- MENTS	STAFF INTERIM ADJUSTED TEST YEAR	STAFF INTERIM REVENUE INCREASE	STAFF INTERIM REVENUE REQUIREMENT
1 OPERATING REVENUES	\$542,282	\$100,694	\$642,976	(\$134,772)	\$508,204	\$21,100	\$529,304	\$70,341 13.29%	\$599,644
OPERATING EXPENSES:									
2 OPERATION & MAINTENANCE	\$512,478	(\$33,354)	\$479,124	6,702	\$485,826	(\$12,738)	\$473,088		\$473,088
3 DEPRECIATION	46,056	(1,623)	44,433	(765)	43,668	(1,622)	42,046		42,046
4 AMORTIZATION	0	0	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	48,075	4,219	52,294	(5,469)	46,825	949	47,774	3,165	50,940
6 INCOME TAXES	0	0	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$606,609	(\$30,758)	\$575,851	(\$134,304)	\$576,319	(\$13,410)	\$562,909	\$3,165	\$566,074
8 OPERATING INCOME	(\$64,327)	\$131,452	\$67,125	(\$468)	(\$68,115)	\$34,510	(\$33,605)	\$67,175	\$33,570
9 RATE BASE	\$729,498		\$703,178				\$669,146		\$669,146
10 RATE OF RETURN	(8.82%)		9.55%				(5.02%)		5.02%

FERNCREST UTILITIES, INC.		SCHEDULE NO. 3-B							
STATEMENT OF WASTEWATER OPERATIONS		DOCKET NO. 011073-WS							
TEST YEAR ENDED 12/31/01									
DESCRIPTION	2000 TEST YEAR PER UTILITY	2000 UTILITY ADJUST- MENTS	2000 ADJUSTED TEST YEAR PER UTILITY	2001 ADJUST- MENTS	2001 ANNUAL REPORT BALANCES	STAFF INTERIM ADJUST- MENTS	STAFF INTERIM ADJUSTED TEST YEAR	STAFF INTERIM REVENUE INCREASE	STAFF INTERIM REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$683,771</u>	<u>\$70,798</u>	<u>\$754,569</u>	<u>(\$110,726)</u>	<u>\$643,843</u>	<u>\$30,426</u>	<u>\$674,269</u>	<u>\$12,734</u> 1.89%	<u>\$687,003</u>
OPERATING EXPENSES:									
2 OPERATION & MAINTENANCE	\$604,157	(\$14,382)	\$589,775	\$832	\$590,607	(\$34,956)	\$555,651		\$555,651
3 DEPRECIATION	43,934	(2,971)	40,963	(7,447)	33,516	(2,410)	31,106		31,106
4 AMORTIZATION	707	0	707	(707)	0	0	0		0
5 TAXES OTHER THAN INCOME	53,835	1,596	55,431	(2,547)	52,884	1,369	54,253	573	54,826
6 INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 TOTAL OPERATING EXPENSES	<u>\$702,633</u>	<u>(\$15,757)</u>	<u>\$686,876</u>	<u>(\$9,869)</u>	<u>\$677,007</u>	<u>(\$35,997)</u>	<u>\$641,010</u>	<u>\$573</u>	<u>\$641,583</u>
8 OPERATING INCOME	<u>(\$18,862)</u>	<u>\$86,555</u>	<u>\$67,693</u>	<u>(\$100,857)</u>	<u>(\$33,164)</u>	<u>\$66,423</u>	<u>\$33,259</u>	<u>\$12,161</u>	<u>\$45,420</u>
9 RATE BASE	<u>\$743,896</u>		<u>\$709,571</u>				<u>\$689,329</u>		<u>\$689,329</u>
10 RATE OF RETURN	<u>-2.54%</u>		<u>9.54%</u>				<u>4.82%</u>		<u>6.59%</u>

FERNCREST UTILITIES, INC. ADJUSTMENTS TO OPERATING INCOME TEST YEAR ENDED 12/31/01		SCHEDULE NO. 3-C DOCKET NO. 011073-WS	
EXPLANATION	WATER	WASTEWATER	
<u>OPERATING REVENUES</u>			
1 To reflect the appropriate amount of miscellaneous revenues.	\$8,582	\$12,366	
2 To reflect the appropriate annualized revenues.	<u>12,518</u>	<u>18,060</u>	
Total	<u>\$21,100</u>	<u>\$30,426</u>	
<u>OPERATING EXPENSES</u>			
1 To allocate bad debt expense between water and wastewater.	\$11,130	(\$11,088)	
2 To reflect the utility's interim O&M adjustments.	<u>(23,868)</u>	<u>(23,868)</u>	
Total	<u>(\$12,738)</u>	<u>(\$34,956)</u>	
<u>DEPRECIATION EXPENSE</u>			
To reflect the appropriate non-used & useful depreciation adjustment.	<u>(\$1,622)</u>	<u>(\$2,410)</u>	
<u>TAXES OTHER THAN INCOME</u>			
RAFs on revenue adjustments above.	<u>\$949</u>	<u>\$1,369</u>	

FERNCREST UTILITIES, INC.		SCHEDULE NO. 4-A	
WATER MONTHLY SERVICE RATES		DOCKET NO. 011073-WS	
	Rates in Effect from 11/3/01 to Present (1)	Utility Requested Interim	Staff Recomm. Interim
<u>Residential and General Service</u>			
Base Facility Charge:			
Meter Size:			
5/8" x 3/4"	\$11.00	\$12.47	\$12.47
3/4"	\$16.51	\$19.32	\$19.32
"	\$27.59	\$31.16	\$31.16
-1/2"	\$54.98	\$62.31	\$62.31
1/2"	\$87.99	\$99.72	\$99.72
3/4"	\$175.96	\$199.43	\$199.43
1"	\$274.92	\$321.66	\$321.66
1 1/2"	\$549.80	\$623.12	\$623.12
3 Gallonage Charge, per 1,000 Gallons	\$2.58	\$2.94	\$2.94
<u>Typical Residential Bills</u>			
5/8" x 3/4"			
Meter Size			
3,000 Gallons	\$18.74	\$21.29	\$21.29
5,000 Gallons	\$23.90	\$27.17	\$27.17
10,000 Gallons	\$36.80	\$41.87	\$41.87
NOTES:			
1) Rates reflect the implementation of 2001 Price Index Adjustment.			

FERNCREST UTILITIES, INC.		SCHEDULE NO. 4-B	
WASTEWATER MONTHLY SERVICE RATES		DOCKET NO. 011073-WS	
	Rates in	Utility	Staff
	Effect from	Requested	Recomm.
	11/3/01	Interim	Interim
	to Present (1)		
Residential Service			
Base Facility Charge:			
Meter Size:			
5/8" x 3/4"	\$13.71	\$13.98	\$13.98
3/4"	\$20.58	\$21.59	\$21.59
1"	\$34.30	\$34.96	\$34.96
1-1/2"	\$68.61	\$69.92	\$69.92
2"	\$109.73	\$111.84	\$111.84
3"	\$219.49	\$223.70	\$223.70
4"	\$342.95	\$359.88	\$359.88
6"	\$685.88	\$699.06	\$699.06
Gallonge Charge - Per 1,000			
gallons (6,000 gallon cap)	\$4.21	\$4.29	\$4.29
General Service			
Base Facility Charge:			
Meter Size:			
5/8" x 3/4"	\$13.71	\$13.98	\$13.98
3/4:	\$20.58	\$21.59	\$21.59
1"	\$34.30	\$34.96	\$34.96
1-1/2"	\$68.61	\$69.92	\$69.92
2"	\$109.73	\$111.84	\$111.84
3"	\$219.49	\$223.70	\$223.70
4"	\$342.95	\$359.88	\$359.88
6"	\$685.88	\$699.06	\$699.06
Gallonge Charge, per 1,000 Gallons			
	\$5.03	\$5.13	\$5.13
Typical Residential Bills			
5/8" x 3/4"			
Meter Size			
3,000 Gallons	\$26.34	\$26.85	\$26.85
5,000 Gallons	\$34.76	\$35.43	\$35.43
10,000 Gallons	\$38.97	\$39.72	\$39.72
(Wastewater Gallonge Cap - 6,000 Gallons)			
NOTES:			
(1) Rates reflect the implementation of 2001 Price Index Adjustment.			