

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: August 6, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Hudson, Bulecza-Banks, Daniel, Fletcher, Simpson) *SH*
Office of the General Counsel (Brubaker, Williams) *alw JSB*

PD BF
10/2

RE: Docket No. 080668-SU – Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc.

AGENDA: 08/18/09 – Regular Agenda – Proposed Agency Action Except for Issues 10, 12 and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 06/09/10 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080668.RCM.DOC

RECEIVED-FPSC
09 AUG - 6 AM 11: 57
COMMISSION CLERK

DOCUMENT NUMBER-DATE

08097 AUG - 6 09

FPSC-COMMISSION CLERK

Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background	3
1	Quality of Service (Simpson).....	4
2	Used and Useful (Simpson)	5
3	Rate Base (Hudson).....	6
4	Rate of Return (Hudson)	8
5	Test Year Revenue (Hudson).....	9
6	Operating Expenses (Hudson).....	10
7	Revenue Requirement (Hudson).....	14
8	Rates (Hudson).....	15
9	Pro Forma (Hudson).....	16
10	Four-Year Rate Reduction (Hudson)	19
11	Customer Deposit (Hudson).....	20
12	Temporary Rates (Hudson).....	21
13	Proof of Adjustments (Hudson)	23
14	Close Docket (Williams, Hudson)	24
	Schedule 1-A Rate Base.....	25
	Schedule 1-B Adjustments to Rate Base.....	26
	Schedule 2 Capital Structure.....	27
	Schedule 3-A Wastewater Operating Income	28
	Schedule 3-B Adjustments to Operating Income	29
	Schedule 3-C Wastewater Operating Expenses	31
	Schedule 4 Wastewater Rates and Four Year Rate Reduction	32
	Schedule 5-A Rate Base with Pro Forma.....	33
	Schedule 5-B Adjustments to Rate Base with Pro Forma.....	34
	Schedule 6 Capital Structure with Pro Forma.....	35
	Schedule 7-A Wastewater Operating Income with Pro Forma.....	36
	Schedule 7-B Adjustments to Operating Income with Pro Forma.....	37

Case Background

Fairmount Utilities, the 2nd Inc. (Fairmount or Utility) was organized in June 1970, to provide wastewater service to Fairmount Mobile Estates. The Utility came under the Commission's jurisdiction on February 23, 1984. On June 3, 1987, the Commission approved a transfer of Certificate No. 357-S from Fairmount Utilities to Parmer Utilities in Docket No. 870056-SU by Order No. 17654. On November 5, 1991, by Order No. 25217-A, the Commission approved the transfer of Certificate No. 357-S from Parmer Utilities to Fairmount Utilities, the 2nd, Inc. The service area for the Utility is known as Fairmount Mobile Estates. Fairmount has 427 residential (mobile home) customers and 15 general service customers.

The Utility applied for a staff-assisted rate increase on November 12, 2008. The test year for setting rates is the historical average twelve month period ending September 30, 2008. Fairmount's 2007 annual report indicates gross revenues of \$113,961 with a net loss of \$4,663. The Utility's last staff-assisted rate case was in 1996.¹ Fairmount has also taken advantage of three annual indexing rate adjustments since its last rate case.

The Utility has requested pro forma plant additions. Staff believes the additions are reasonable and prudent. However, staff believes the pro forma additions should not be included in plant until completion. Therefore, staff is recommending a two-phase rate approach, whereby Phase II rates can only be implemented once the pro forma plant additions are complete.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.)

¹ See Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for a Staff-Assisted Rate Case in Highlands County by Fairmount Utilities, the 2nd, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Fairmount in Highlands County satisfactory?

Recommendation: Yes. The overall quality of service provided by Fairmount should be considered satisfactory. (Simpson)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service a Utility provides by evaluating the quality of the utility's product, the operational condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The utility's compliance with the Florida Department of Environmental Protection (DEP) regulations and customer comments or complaints received by the Commission are also reviewed.

Fairmount's wastewater treatment plant is regulated by the DEP South District Office located in Fort Myers. According to the DEP, the Utility is current in all of the required chemical analyses, the Utility has met all required standards for wastewater operation and maintenance, and the wastewater effluent quality is considered satisfactory. A field investigation of the Utility's service area was conducted by Commission staff on February 2, 2009. Based on the physical inspection, the general condition of the facilities appears to be adequate. Therefore, it appears that the quality of the product and the operational condition of the wastewater plant are satisfactory.

A customer meeting was held on May 20, 2009, at the Sebring Civic Center in Sebring, Florida. Eight customers attended the meeting and three spoke. A representative from the utility was also present. One of the concerns raised at the meeting was the offensive odor from the plant. Over 60 customers sent a petition to the utility requesting the elimination of the odor problem. In addition, three customers wrote to the Commission complaining about the odor problem at the plant. At staff's request, a DEP staff member visited the plant on May 19, 2009, and reported that an odor problem was not detected at the Fairmount wastewater treatment plant. A representative from the Florida Rural Water Association also visited the plant and concluded that the plant was operating properly and there was no odor problem. Another customer complained about manholes overflowing, especially during rainstorms. The customer said the problem began four years ago, but has occurred periodically since then. The customer was informed that DEP should be contacted if this problem occurs again. The Utility, however, is rebuilding the lift station to improve service reliability. Staff spoke with another customer who was not at the customer meeting but was concerned about the Utility's handling of the inflow problem associated with a manhole adjacent to her driveway. Although the Utility has already repaired the inflow problem, the customer is concerned that the problem could occur again. Staff will be monitoring the progress of the Utility's work regarding the inflow problems.

Staff reviewed the Commission's complaint tracking system and found no complaints. In addition, the DEP indicated that Fairmount is in compliance with the operation and maintenance of the wastewater treatment plant. Staff recommends that the Utility's attempts to address customer concerns are considered satisfactory and that the Utility's overall quality of service is satisfactory.

Issue 2: What are the used and useful percentages of the Utility's wastewater treatment plant and collection system?

Recommendation: Fairmount's wastewater treatment plant and collection system should be considered 100 percent used and useful. (Simpson)

Staff Analysis: The Fairmount Utilities wastewater treatment plant is an extended aeration activated sludge plant with a single lift station located in the service area. The collection system is composed of clay and polyvinyl chloride (PVC) pipes. The wastewater treatment plant is permitted by the DEP at 40,000 gallons per day (gpd) based on the average annual daily flow (AADF). Liquid chlorine disinfection is applied prior to the wastewater effluent flowing into the percolation ponds.

Pursuant to Rule 25-30.432, F.A.C., the used and useful percentage of a wastewater treatment plant is based on the plant flows and a growth allowance less excessive inflow and infiltration divided by the permitted capacity of the plant. Other factors, such as whether the service area is built out and whether the plant flows have decreased due to conservation, may also be considered.

The Fairmount wastewater treatment plant test year AADF was 23,250 gallons per day. There has been very little growth in the Utility's service area and there does not appear to be excessive infiltration or inflow. Based on this information, the wastewater treatment plant appears to be 58.13 percent used and useful. However, in the Utility's two prior rate cases, the wastewater treatment plant and collection system were found to be 100 percent used and useful.² According to information contained in the Utility's annual reports, the wastewater plant flows have steadily decreased for several years. However, according to the Utility, the flow measuring devices had not been calibrated in a very long time and the flows were not reliable. At staff's request, the Utility recently had the flow measuring devices recalibrated. Staff's field investigation of the service area confirmed that the service area is built out, and there are no plans for expansion. Therefore, staff recommends that the wastewater treatment plant and collection system be considered 100 percent used and useful because the service area is built out and the plant and collection system were considered 100 percent used and useful in the two prior rate cases.

² See Order Nos. 21049, issued April 4, 1989, in Docket No. 881108-SU, In re: Application of Parmer Utilities, Inc. for staff-assisted rate case in Highlands County; PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for a staff-assisted rate case in Highlands County by Fairmount Utilities the 2nd, Inc.

Issue 3: What is the appropriate average test year rate base for Fairmount?

Recommendation: The appropriate average test year rate base for Fairmount should be \$45,974. (Hudson)

Staff Analysis: The Utility's rate base was last established in 1996. Staff has selected a test year ended September 30, 2008, for this rate case. Rate base components established in Order No. PSC-96-0860-FOF-SU have been updated through September 30, 2008, using information obtained from staff's audit. A summary of each component and adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded a balance of \$217,604 for UPIS. Staff has decreased UPIS by \$1,179 to reflect the appropriate balance based on additions and retirements since rate base was last established. Also, staff has decreased UPIS by \$287 to reflect an averaging adjustment. Staff's net adjustment to UPIS is an increase of \$1,466. Staff's recommended UPIS balance is \$216,138.

Land: The Utility recorded \$0 for land during the test. In Fairmount's last rate proceeding, the Commission reestablished the value of the Utility's land to be \$1,750. There have been no additions since Fairmount's last rate proceeding. Therefore, staff has increased land by \$1,750 to reflect the appropriate balance.

Non-used and Useful Plant: As discussed in Issue No. 2, Fairmount's wastewater treatment facilities and collection system should be considered 100 percent used and useful. Therefore, a used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC of \$2,463 for the test year ending September 30, 2008. Staff has made an adjustment to increase this account by \$45 to reflect contributions collected in 2005. Based on the adjustment, staff has calculated CIAC to be \$2,508.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of \$185,460 for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has increased this account by \$1,419 to reflect depreciation calculated per staff. Staff has decreased this account by \$2,904 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation of \$183,975.

Amortization of CIAC: The Utility recorded \$2,004 for amortization of CIAC. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been increased by \$106 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$37 to reflect an averaging adjustment. Staff's net adjustments to this account result in amortization of CIAC of \$2,073.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this

Docket No. 080668-SU
Date: August 6, 2009

formula, staff recommends a working capital allowance of \$12,496 (based on O&M of \$99,967). Working capital has been increased by \$12,496 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year average rate base is \$45,974. Rate base is shown on Schedule No. 1-A, and staff's adjustments are shown on Schedule No. 1-B.

Issue 4: What is the appropriate return on equity and overall rate of return for this utility?

Recommendation: The appropriate return on equity is 11.30 percent with a range of 10.30 percent to 12.30 percent. The appropriate overall rate of return is 7.25 percent. (Hudson)

Staff Analysis: Per Audit Finding No. 7, Fairmount's capital structure for the test year consists of two debt issues and negative retained earnings. One debt issue relates to a loan made to Fairmount from one of its officers. As of September 30, 2008, the outstanding balance was \$179,085. The Utility has made neither principal nor interest payments on the loan. Consistent with Commission practice, it has been treated as equity.³ The other long-term debt is issued by Heartland Bank, and the balance is \$38,236 with a cost rate of 7.25%. The appropriate rate of return on equity is 11.30 percent using the most recent Commission-approved leverage formula.⁴ Fairmount's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 11.30 percent with a range of 10.30 percent to 12.30 percent, resulting in an overall rate of return of 7.25 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

³ See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In Re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

⁴ See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In Re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S. The order was consummated by Order No. PSC-09-0502-CO-WS, issued July 15, 2009.

Docket No. 080668-SU
Date: August 6, 2009

Issue 5: What are the appropriate amount of test year revenues?

Recommendation: The appropriate test year revenue for this Utility is \$109,062. (Hudson)

Staff Analysis: The Utility recorded total revenues of \$109,794 for the 12-month period ended September 30, 2008. Staff has calculated revenues based on test year bills and consumption and determined test year revenues are \$109,062. Therefore, staff has decreased test year revenues by \$732 (\$109,794 - \$109,062). Test year revenue is shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 6: What are the appropriate operating expenses?

Recommendation: The appropriate amount of operating expenses for Fairmount is \$117,343. (Hudson)

Staff Analysis: Fairmount recorded operating expenses of \$127,927 during the test year ending September 30, 2008. The test year O&M expenses have been reviewed, and invoices, canceled checks and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages – Employees (701) – Fairmount recorded \$0 in this account during the test year. The Utility has two full time employees, one is the office manager and the other is the operations manager. The office manager's duties include: bookkeeping, billing, and collection; paying vendors; handling customer contacts; and managing the company's day-to-day activities. The operations manager, who is a related party, mainly works on the wastewater plant and does light maintenance work. The salaries for these employees were not paid during the test year. Staff indexed the salaries approved in the last rate case and determined the appropriate salaries to be \$16,328 and \$22,255 for the office manager and operations manager, respectively. Staff recommends salaries and wages-employees for the test year of \$38,583.

Salaries and Wages – Officers (703) – Fairmount recorded \$33,609 in this account during the test year for the salary of its officers. Staff believes that this salary is excessive for a utility of this size. The officer is also the office manager. The Utility provided a list of duties for the officer. Staff believes the duties are consistent with those being performed during the last rate case. Staff has indexed the officer's salary approved in the last rate proceeding. Therefore, staff has reduced this account by \$24,703 (\$33,609-\$8,906). Staff recommends salaries and wages-officers for the test year of \$8,906.

Sludge Removal Expense – (711) – Fairmount recorded \$3,150 in this account during the test year. The staff engineer believes this amount is reasonable. Therefore, staff has made no adjustment to this account. Staff recommends sludge removal expense for the test year of \$3,150.

Purchased Power – (715) – The Utility recorded \$5,786 in this account during the test year. Pursuant to Audit Finding No. 5, staff increased purchased power by \$347 to reflect the actual invoiced purchase power expense during the test year. Staff recommends purchased power expense for the test year of \$6,133.

Chemicals – (718) – The Utility recorded \$8,539 in this account during the test year. Highlands Construction, a related party, provides chlorine and lime to Fairmount. Staff auditors obtained comparable prices from a third party, Pugh Utilities Service, Inc. Staff believes the related party prices are reasonable in comparison to those provided by the third party. However, pursuant to Audit Finding No. 5, staff has made an adjustment to decrease chemicals by \$664 to remove an out-of-period expense. Staff recommends chemical expense for the test year of \$7,875.

Material and Supplies – (720) – The Utility recorded \$19,866 in this account during the test year. Per Audit Finding No. 5, staff has reclassified \$10,974 to reflect contractual services - other expenses recorded as material and supplies. Also, staff has decreased this account by \$8,207 to remove plant additions that are already included in UPIS. Therefore, staff recommends material and supplies for the test year of \$685.

Contractual Services – Billing – (730) – Fairmount did not record any expenses in this account during the test year. The Utility receives water consumption data from the City of Sebring (City) in order to bill its customers. The City charges \$0.25 per customer for the water consumption data. Staff reviewed the invoices provided for the test year and determined the appropriate expense to be \$1,229. Staff recommends contractual services – billing for the test year of \$1,229.

Contractual Services – Professional – (731) – Fairmount recorded \$3,460 in this account during the test year. Pursuant to Audit Finding No. 5, staff decreased contractual services – professional by \$385 to reflect the actual invoiced expense during the test year. Staff believes the invoices are reasonable. Staff recommends contractual services – professional for the test year of \$3,075.

Contractual Services – Testing – (735) – The Utility recorded \$1,500 in this account during the test year. According to the invoices provided by Fairmount, the testing expense should be \$1,750. The staff engineer believes this amount is reasonable. Therefore, staff has increased this account by \$250 to reflect the appropriate testing. Staff recommends contractual services - testing for the test year of \$1,750.

Contractual Services – Other – (736) – The Utility recorded \$1,600 in this account during the test year. Pursuant to Audit Finding No. 5, staff has reclassified \$10,974 from material and supplies. This amount represents expenses for the contract operator, retention pond cleaning, maintenance, and mowing. Also, the cost for the DEP required retention pond spraying has increased. Therefore, staff has increased this account by \$2,661 to reflect a pro forma increase for spraying of the retention pond. Staff recommends contractual services - other for the test year of \$15,235.

Rents – (740) – Fairmount recorded \$2,782 in this account during the test year. The Utility's office is located in a building owned and shared by a related party. The square footage occupied by the Utility remains the same as in the last rate case. Staff has used the amount approved in the last rate case and indexed the amount to arrive at a current expense level. Staff recommends rents for the test year of \$3,209.

Transportation – (750) – Fairmount did not record any transportation expense to this account during the test year. Pursuant to Audit Finding No. 5, the traveling requirements have not significantly changed from the last rate case. Therefore, staff used the approved mileage of 5,226 miles and the current Internal Revenue approved mileage rate to determine an expense of \$2,718. Staff recommends transportation expense for the test year of \$2,718.

Insurance – (755) – Fairmount recorded \$1,127 in this account during the test year. Pursuant to Audit Finding No. 5, staff decreased this account by \$61 to reflect the actual annual insurance expense. Staff recommends insurance expense for the test year of \$1,066.

Regulatory Commission Expense – (765) – The Utility recorded \$250 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Fairmount paid a \$200 rate case filing fee for wastewater. The Utility also paid \$1,000 for a consultant for its rate case. Staff believes this amount is reasonable. Also, Fairmount is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. Staff has estimated noticing expense for wastewater of \$583 postage expense, \$398 printing expense, and \$66 for envelopes. The above results in total rate case expense for the filing fee, consultant and noticing of \$2,248 and a four-year amortization of \$562. Staff has increased this account by \$312 (\$562-\$250) to reflect the appropriate amortization. Staff recommends regulatory commission expense for the test year of \$562.

Bad Debt Expense – (770) – Fairmount recorded \$0 in this account for the test year. As of December 31, 2008, the Utility incurred bad debt expense of \$1,102. Fairmount has indicated that its bad debt expense is the result of property being sold and the final bill has not been paid. Staff believes this amount is reasonable. The Utility does not currently have a tariff charge for customer deposits. Staff is recommending that Fairmount implement a customer deposit which may serve to decrease the amount of bad debt incurred in the future (See Issue No. 11). Therefore, staff recommends bad debt expense for the test year of \$1,102.

Miscellaneous Expense – (775) – Fairmount recorded \$30,968 in this account for the test year. The Utility included in this account the following: \$9,889 for payroll taxes; \$6,097 for loan payments; \$5,204 for regulatory assessment fees (RAFs); \$2,561 for property taxes; and \$300 for licenses and fees. These amounts total \$24,051 and are already recorded in their respective accounts. Pursuant to Audit Finding No. 5, staff has reduced this account by \$2,628 to reflect the appropriate miscellaneous expenses per the invoices provided by the Utility. Fairmount pays an annual blanket maintenance fee of \$400 to the City. The staff engineer believes this amount is reasonable, and the account has been increased to reflect the fee. Staff recommends miscellaneous expense for the test year of \$4,689.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be decreased by \$12,670. Staff's recommended O&M expenses of \$99,967 are shown on Schedule 3-C.

Depreciation Expense (Net of Amortization of CIAC) – The Utility did not record any depreciation expense during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Therefore, staff has increased this account by \$6,379 to reflect test year depreciation expense. Fairmount did not record amortization of CIAC. Staff calculated amortization of CIAC based on composite rates. Staff has increased amortization of CIAC by \$74. Staff recommends net depreciation expense of \$6,305 (\$6,379-\$74).

Taxes Other Than Income (TOTI) – The Utility recorded taxes other than income of \$15,290 for wastewater. Staff has decreased this account by \$3,720 to reflect payroll taxes on staff's recommended salary. Fairmount did not take advantage of the property tax discount for payments made in November. It is Commission practice to include only the lowest property tax amount in expenses so the rate payers do not pay for the Utility's decision to pay late. Staff has decreased this account by \$203 to reflect the appropriate property taxes. Based on staff's calculated test year revenue, Fairmount's RAFs should be \$4,907. The Utility included \$5,204 in this account for RAFs. Therefore, this account should be reduced by \$296 to reflect the appropriate test year RAFs. Staff's net adjustment to this account is a decrease of \$4,219.

Income Tax – Fairmount did not record any income tax expense for the test year. Fairmount is an S corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustments to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$117,343. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$121,223 for wastewater. (Hudson)

Staff Analysis: The Utility should be allowed an annual increase of \$12,161 (11.15 percent) for wastewater. This will allow Fairmount the opportunity to recover its expenses and earn a 7.25 percent return on its investment. The calculation is as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$45,974
Rate of Return	x .0725
Return on Rate Base	<u>\$ 3,333</u>
Adjusted O & M expense	99,967
Depreciation expense (Net)	6,305
Amortization	\$0
Taxes Other Than Income	11,618
Income Taxes	<u>\$0</u>
Revenue Requirement	\$121,223
Less Test Year Revenues	<u>109,062</u>
Annual Increase	<u>\$12,161</u>
Percent Increase/(Decrease)	<u><u>11.15%</u></u>

The recommended revenue requirement is shown on Schedule No. 3-A.

Issue 8: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly wastewater rates are shown on Schedule No. 4-A. Excluding miscellaneous service revenues, the recommended wastewater rates are designed to produce revenues of \$121,223. Fairmount should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Hudson)

Staff Analysis: Excluding miscellaneous service revenues, the recommended wastewater rates are designed to produce revenues of \$121,223. The recommended rates are shown on Schedule No. 4-A. Based on Fairmount's billing data, staff is recommending no change to the Utility's 6,000 gallon cap.

Fairmount should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 9: Should the Commission approve pro forma plant and expenses for the Utility, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and when should the resulting rates be implemented?

Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma plant additions. With the pro forma items, Fairmount's appropriate return on equity should be 11.30 percent with a range of 10.30 to 12.30 percent. The appropriate overall rate of return is 7.25 percent. The Utility's revenue requirement should be \$125,359. Fairmount should complete the pro forma additions within 12 months of the issuance of the consummating order. The Utility should be allowed to implement the resulting rates once the pro forma additions have been completed and verified by staff. However, Fairmount should not implement the revised rates until they have submitted revised tariff sheets reflecting the Commission-approved rates. The rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Fairmount should provide proof of the date notice was given within 10 days after the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma additions, the Utility should immediately notify the Commission. (Hudson)

Staff Analysis: The Utility requested additional pro forma plant and expenses that it intends to complete. The following is a chart summarizing the pro forma, the cost, and staff's recommended treatment:

	<u>Pro forma</u>	<u>Utility Requested</u>	<u>Staff Recommended</u>
1.	Clearing and Repair Fence for Retention Pond (Plant)	\$8,000	\$8,000
2.	Tree Removal Wastewater Plant (Plant)	4,000	4,000
3.	Renovate, Repair and Upgrade Lift Station	15,267	15,267
4.	Pumps	5,361	5,361
5.	Air Leak Repair	800	800
6.	Blower	6,600	6,600
7.	Box Covers for Blowers	1,400	1,400
8.	Generator	799	799
9.	Repair of holes in road from leakage	5,800	5,800
10.	Computer software program	640	640
	Total Plant	<u>\$48,667</u>	<u>\$48,667</u>

Staff believes Fairmount's proposed pro forma plant items are reasonable and prudent because they will allow the Utility to continue providing satisfactory quality of service. With the pro forma items, Fairmount's appropriate return on equity should be 11.30 percent with a range of 10.30 percent–12.30 percent. The appropriate overall rate of return is 7.25 percent. The Utility's revenue requirement should be \$125,359. Fairmount should complete the pro forma additions within 12 months of the issuance of the consummating order. Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. Finally, the revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown below:

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES
Residential and General Service		
Base Facility Charge by Meter Size:		
5/8"X3/4"	\$15.91	\$18.00
3/4"	\$23.86	\$27.00
1"	\$39.78	\$45.00
1-1/2"	\$79.54	\$89.99
2"	\$127.28	\$143.99
3"	\$254.56	\$287.97
4"	\$397.76	\$449.96
6"	\$795.50	\$899.91
Gallonage Charge		
Per 1,000 Gallons		
Residential (6,000 gallon cap)	\$3.32	\$3.62
General Service	\$3.98	\$4.35
Typical Residential 5/8" x 3/4" Meter Bill Comparison		
3,000 Gallons	\$25.60	\$28.86
5,000 Gallons	\$32.06	\$36.10
10,000 Gallons	\$35.29	\$39.72

The Utility should be allowed to implement the above rates once all pro forma plant items and expense have been completed and verified. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. Fairmount should provide proof of the date notice was given within ten days after the date of the notice. If the Utility encounters any unforeseen events that will

Docket No. 080668-SU

Date: August 6, 2009

impede the completion of the pro forma additions, the Utility should immediately notify the Commission.

Issue 10: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Fairmount should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Hudson)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs, which are \$594 for wastewater. Using Fairmount's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases shown on Schedule No. 4.

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

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Issue 11: Should the Utility be authorized to collect customer deposits, and, if so, what are the appropriate charges?

Recommendation: Yes. The Utility should be authorized to collect customer deposits. The appropriate customer deposit should be the recommended charge as specified in the staff analysis. Fairmount should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Hudson)

Staff Analysis: The Utility currently does not have a tariffed charge for customer deposits. The purpose of customer deposits is to establish credit with the utility. Deposits are to be paid by new Utility customers. Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits based on the recommended rates and an average monthly bill for a 2-month period. A schedule of staff's recommended deposits follows:

<u>Meter Size</u>	<u>Staff Recommended Wastewater Deposit</u>
5/8" x 3/4"	\$46.44
All over 5/8" x 3/4"	2 x average bill
General Service	
5/8" x 3/4"	\$46.44
All over 5/8" x 3/4"	2 x average bill

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the Utility should refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. The Utility should pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C.

The Utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Issue 12: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than Fairmount?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Prior to implementation of any temporary rates, Fairmount should provide appropriate security. If the recommended rates are approved on a temporary basis, the Utility should collect rates subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., Fairmount should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Hudson)

Staff Analysis: This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Fairmount, staff recommends that the recommended rates be approved as temporary rates. The recommended rates should be collected by the Utility subject to the refund provisions discussed below.

Fairmount should be authorized to collect the temporary rates upon the staff's approval of the appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$8,126. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

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

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

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

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by Fairmount, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Fairmount should maintain a record of the amount of the bond and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission-approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Fairmount should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Hudson)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, staff recommends that Fairmount provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 14: Should this docket be closed?

Recommendation: No. If no timely protest is received from a substantially affected person upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 12 months from the date of the Consummating Order to allow staff to verify completion of pro forma plant items described in Issue No. 9. Once staff has verified that the pro forma items have been completed, the docket should be closed administratively. (Williams, Hudson)

Staff Analysis: Staff has recommended that the utility complete pro forma items described in Issue No. 9. If no timely protest is received from a substantially affected person upon expiration of the protest period, the PAA Order will become final upon issuance of a Consummating Order. However, this docket should remain open for an additional 12 months from the effective date of the Consummating Order to verify completion of the pro forma items. Once staff has verified that the work has been completed, this docket should be closed administratively.

FAIRMOUNT UTILITIES, THE 2ND INC.
TEST YEAR ENDING 09/30/2008
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 080668-SU

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$ 217,604	\$ (1,466)	\$ 216,138
2. LAND & LAND RIGHTS	0	1,750	1,750
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(2,463)	(45)	(2,508)
5. ACCUMULATED DEPRECIATION	(185,460)	1,485	(183,975)
6. AMORTIZATION OF CIAC	2,004	69	2,073
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>12,496</u>	<u>12,496</u>
8. WASTEWATER RATE BASE	<u>\$ 31,685</u>	<u>\$ 14,289</u>	<u>\$ 45,974</u>

FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 080668-SU
	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect the appropriate plant balance	(\$1,179)
2. To reflect averaging adjustment	(287)
Total	<u>(\$1,466)</u>
<u>LAND AND LAND RIGHTS</u>	
To reflect the appropriate land balance	<u>\$1,750</u>
<u>CIAC</u>	
To reflect the appropriate CIAC balance	<u>(\$45)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect accumulated depreciation per Rule 25-30.0140, F.A.C.	(\$1,419)
2. To reflect an averaging adjustment	<u>2,904</u>
Total	<u>\$1,485</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect accumulated amortization per 25-30.140 F.A.C.	\$106
2. To reflect an averaging adjustment	<u>(37)</u>
Total	<u>\$69</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
To reflect 1/8 of test year O & M expenses.	<u>\$12,496</u>

FAIRMOUNT UTILITIES, THE 2ND INC.
TEST YEAR ENDING 09/30/2008
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 080668-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS					
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	(429,553)	382,135	(47,418)					
3. PAID IN CAPITAL	46,418	0	46,418					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
TOTAL COMMON EQUITY	<u>(\$382,135)</u>	<u>\$382,135</u>	<u>0</u>	0	0	0.00%	11.30%	0.00%
5. TOTAL LONG TERM DEBT	<u>\$39,996</u>	<u>(\$1,760)</u>	<u>\$38,236</u>	<u>\$7,738</u>	<u>\$45,974</u>	100.00%	7.25%	7.25%
6. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.00%	6.00%	<u>0.00%</u>
7. TOTAL	<u>-\$342,139</u>	<u>\$380,375</u>	<u>\$38,236</u>	<u>\$7,738</u>	<u>\$45,974</u>	<u>100.00%</u>		<u>7.25%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</u>	
OVERALL RATE OF RETURN						<u>7.25%</u>	<u>7.25%</u>	

FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 080668-SU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$109,794</u>	<u>(\$732)</u>	<u>\$109,062</u>	<u>\$12,161</u> 11.15%	<u>\$121,223</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$112,637	(\$12,670)	\$99,967	\$0	\$99,967
3. DEPRECIATION (NET)	0	6,305	6,305	0	6,305
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	15,290	(4,219)	11,071	547	11,618
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$127,927</u>	<u>(\$10,584)</u>	<u>\$117,343</u>	<u>\$547</u>	<u>\$117,890</u>
8. OPERATING INCOME/(LOSS)	<u>(\$18,133)</u>		<u>(\$8,281)</u>		<u>\$3,333</u>
9. WASTEWATER RATE BASE	<u>\$31,685</u>		<u>\$45,974</u>		<u>\$45,974</u>
10. RATE OF RETURN	<u>-57.23%</u>		<u>-18.01%</u>		<u>7.25%</u>

FAIRMOUNT UTILITIES, THE 2ND INC.
TEST YEAR ENDING 09/30/2008
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B
DOCKET NO. 080668-SU
Page 1 of 2

WASTEWATER

OPERATING REVENUES

- | | | |
|----|--|----------------|
| 1. | To reflect the appropriate test year revenue | <u>(\$732)</u> |
|----|--|----------------|

OPERATION AND MAINTENANCE EXPENSES

- | | | |
|-----|--|-------------------|
| 1. | Salaries & Wages - Employees (701) | |
| a. | To reflect the appropriate office manager's salary | \$16,328 |
| b. | To reflect the appropriate operations manager's salary | <u>22,255</u> |
| | Subtotal | <u>\$38,583</u> |
| 2. | Salaries & Wages - Officers (703) | |
| a. | To reflect the appropriate salary & wages- officers | <u>(\$24,703)</u> |
| 3. | Employee Pension and Benefits (704) | |
| a. | To reflect the appropriate employee pension and benefits | <u>\$0</u> |
| 4. | Sludge Removal Expense (711) | |
| a. | To reflect the appropriate sludge removal expense | <u>\$0</u> |
| 5. | Purchased Power (715) | |
| a. | To reflect the appropriate purchased power expense | <u>\$347</u> |
| 6. | Chemicals (718) | |
| a. | To reflect appropriate chemical expense | <u>(\$664)</u> |
| 7. | Material and Supplies (720) | |
| a. | To reclassify expenses to contractual services - other (Acct No. 736) | (\$10,974) |
| b. | To remove plant additions included in UPIS | <u>(8,207)</u> |
| | Subtotal | <u>(\$19,181)</u> |
| 8. | Contractual Services - Billing | |
| a. | To reflect the appropriate contractual services billing | <u>\$1,229</u> |
| 9. | Contractual Services - Professional | |
| a. | To reflect the appropriate accounting services | <u>(\$385)</u> |
| 10. | Contractual Services - Testing (735) | |
| a. | To reflect the appropriate testing | <u>\$250</u> |
| 11. | Contractual Services - Other (736) | |
| a. | To reflect expenses reclassified from materials and supplies (Acct. No. 720) | \$10,974 |
| b. | To reflect pro forma increase for retention pond cleaning | <u>2,661</u> |
| | Subtotal | <u>\$13,635</u> |
| 12. | Rent (740) | |
| a. | To reflect the appropriate office rent | <u>\$427</u> |
| 13. | Transportation | |
| a. | To reflect the appropriate transportation expense | <u>\$2,718</u> |
| 14. | Insurance Expenses (755) | |
| a. | To reflect insurance expense per AF No. 5 | <u>(\$61)</u> |

(O & M EXPENSES CONTINUED ON NEXT PAGE)

FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 ADJUSTMENTS TO OPERATING INCOME	Schedule No. 3-B DOCKET NO. 080668-SU Page 2 of 2
15. Regulatory Expense (665/ 765)	
a. To reflect the appropriate rate case expense	<u>\$312</u>
16. Bad Debt Expense	
a. To reflect the appropriate bad debt expense	<u>\$1,102</u>
17. Miscellaneous Expense (675/ 775)	
a. To remove expenses already included in its respective acct. per AF No. 5	(\$24,051)
b. To reflect the appropriate miscellaneous expense per AF No. 5	(2,628)
c. To reflect a utility maintenance fee	400
	<u>(\$26,279)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$12,670)</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$6,379
2. To reflect the appropriate CIAC amortization	(74)
Total	<u>\$6,305</u>
TAXES OTHER THAN INCOME	
1. To reflect the appropriate payroll taxes	(\$3,720)
2. To reflect the appropriate property taxes	(203)
3. To reflect the appropriate test year RAFs	(296)
Total	<u>(\$4,219)</u>

FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 080668-SU	
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$38,583	\$38,583
(703) SALARIES AND WAGES - OFFICERS	33,609	(24,703)	8,906
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	3,150	0	3,150
(715) PURCHASED POWER	5,786	347	6,133
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	8,539	(664)	7,875
(720) MATERIALS AND SUPPLIES	19,866	(19,181)	685
(730) CONTRACTUAL SERVICES - BILLING	0	1,229	1,229
(731) CONTRACTUAL SERVICES - PROFESSIONAL	3,460	(385)	3,075
(735) CONTRACTUAL SERVICES - TESTING	1,500	250	1,750
(736) CONTRACTUAL SERVICES - OTHER	1,600	13,635	15,235
(740) RENTS	2,782	427	3,209
(750) TRANSPORTATION EXPENSE	0	2,718	2,718
(755) INSURANCE EXPENSE	1,127	(61)	1,066
(765) REGULATORY COMMISSION EXPENSES	250	312	562
(770) BAD DEBT EXPENSE	0	1,102	1,102
(775) MISCELLANEOUS EXPENSES	<u>30,968</u>	<u>(26,279)</u>	<u>4,689</u>
	<u>\$112,637</u>	<u>(\$12,670)</u>	<u>\$99,967</u>

FAIRMOUNT UTILITIES, THE 2ND INC.
TEST YEAR ENDING 09/30/2008
MONTHLY WASTEWATER RATES

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
Residential and General Service			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$15.91	\$17.39	\$0.09
3/4"	\$23.86	\$26.09	\$0.13
1"	\$39.78	\$43.48	\$0.21
1-1/2"	\$79.54	\$86.95	\$0.43
2"	\$127.28	\$139.12	\$0.68
3"	\$254.56	\$278.24	\$1.36
4"	\$397.76	\$434.76	\$2.13
6"	\$795.50	\$869.51	\$4.26
Gallonge Charge			
Per 1,000 Gallons			
Residential (6,000 gallon cap)	\$3.32	\$3.51	\$0.02
General Service	\$3.98	\$4.21	\$0.02
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	\$25.60	\$27.92	
5,000 Gallons	\$32.06	\$34.94	
10,000 Gallons	\$35.29	\$38.45	

FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 SCHEDULE OF WASTEWATER RATE BASE (With Pro Forma)		SCHEDULE NO. 5-A DOCKET NO. 080668-SU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$ 217,604	\$ 22,867	\$ 240,471
2. LAND & LAND RIGHTS	0	1,750	1,750
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(2,463)	(\$45)	(2,508)
5. ACCUMULATED DEPRECIATION	(185,460)	296	(185,164)
6. AMORTIZATION OF CIAC	2,004	69	2,073
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>12,496</u>	<u>12,496</u>
8. WASTEWATER RATE BASE	<u>\$ 31,685</u>	<u>\$ 37,433</u>	<u>\$ 69,118</u>

FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 ADJUSTMENTS TO RATE BASE (With Pro Forma)	SCHEDULE NO. 5-B DOCKET NO. 080668-SU
	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect the appropriate plant balance	(\$1,179)
2. To reflect pro forma additions	48,667
3. To reflect averaging adjustment	(287)
4. To reflect pro forma averaging adjustment	<u>(24,334)</u>
Total	<u>\$22,867</u>
<u>LAND AND LAND RIGHTS</u>	
To reflect the appropriate land balance per AF 3	<u>\$1,750</u>
<u>CIAC</u>	
To reflect the appropriate CIAC balance	<u>(\$45)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect accumulated depreciation per Rule 25-30.0140, F.A.C.	(\$1,419)
2. To include pro forma accumulated depreciation	(1,189)
3. To reflect an averaging adjustment	<u>2,904</u>
Total	<u>\$296</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect accumulated amortization per 25-30.140 F.A.C.	\$106
2. To reflect an averaging adjustment	<u>(37)</u>
Total	<u>\$69</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$12,496</u>

FAIRMOUNT UTILITIES, THE 2ND INC.
TEST YEAR ENDING 09/30/2008
SCHEDULE OF CAPITAL STRUCTURE (With Pro Forma)

SCHEDULE NO. 6
DOCKET NO. 080668-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	(429,553)	382,135	(47,418)					
3. PAID IN CAPITAL	46,418	0	46,418					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
TOTAL COMMON EQUITY	<u>(\$382,135)</u>	<u>\$382,135</u>	<u>0</u>	0	0	0.00%	11.30%	0.00%
5. LONG TERM DEBT	\$39,996	(\$1,760)	\$38,236	\$30,882	\$69,118	100.00%	7.25%	7.25%
TOTAL LONG TERM DEBT	<u>\$39,996</u>	<u>(\$1,760)</u>	<u>\$38,236</u>	<u>\$30,882</u>	<u>\$69,118</u>	100.00%		
6. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
7. TOTAL	<u>-\$342,139</u>	<u>\$380,375</u>	<u>\$38,236</u>	<u>\$30,882</u>	<u>\$69,118</u>	<u>100.00%</u>		<u>7.25%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>10.30%</u>	<u>12.30%</u>	
OVERALL RATE OF RETURN						<u>7.25%</u>	<u>7.25%</u>	

FAIRMOUNT UTILITIES, THE 2ND INC.			SCHEDULE NO. 7-A		
TEST YEAR ENDING 09/30/2008			DOCKET NO. 080668-SU		
SCHEDULE OF WASTEWATER OPERATING INCOME (With Pro Forma)					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$109,794</u>	<u>(\$732)</u>	<u>\$109,062</u>	<u>\$16,297</u> 14.94%	<u>\$125,359</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$112,637	(\$12,670)	\$99,967	\$0	\$99,967
3. DEPRECIATION (NET)	0	8,577	8,577	0	8,577
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	15,290	(4,219)	11,071	733	11,804
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$127,927</u>	<u>(\$8,312)</u>	<u>\$119,615</u>	<u>\$733</u>	<u>\$120,348</u>
8. OPERATING INCOME/(LOSS)	<u>(\$18,133)</u>		<u>(\$10,553)</u>		<u>\$5,011</u>
9. WASTEWATER RATE BASE	<u>\$31,685</u>		<u>\$69,118</u>		<u>\$69,118</u>
10. RATE OF RETURN	<u>-57.23%</u>		<u>-15.27%</u>		<u>7.25%</u>

FAIRMOUNT UTILITIES, THE 2ND INC.
TEST YEAR ENDING 09/30/2008
ADJUSTMENTS TO OPERATING INCOME (With Pro Forma)

Schedule No. 7-B
 DOCKET NO. 080668-SU
 Page 1 of 2

WASTEWATER

OPERATING REVENUES

- | | | |
|----|--|----------------|
| 1. | To reflect the appropriate test year revenue | <u>(\$732)</u> |
|----|--|----------------|

OPERATION AND MAINTENANCE EXPENSES

- | | | |
|-----|--|-------------------|
| 1. | Salaries & Wages - Employees (701) | |
| a. | To reflect the appropriate office manager's salary | \$16,328 |
| b. | To reflect the appropriate operations manager's salary | <u>22,255</u> |
| | Subtotal | <u>\$38,583</u> |
| 2. | Salaries & Wages - Officers (703) | |
| a. | To reflect the appropriate salary & wages- officers | <u>(\$24,703)</u> |
| 3. | Employee Pension and Benefits (704) | |
| a. | To reflect the appropriate employee pension and benefits | <u>\$0</u> |
| 4. | Sludge Removal Expense (711) | |
| a. | To reflect the appropriate sludge removal expense | <u>\$0</u> |
| 5. | Purchased Power (715) | |
| a. | To reflect the appropriate purchased power expense | <u>\$347</u> |
| 6. | Chemicals (718) | |
| a. | To reflect appropriate chemical expense | <u>(\$664)</u> |
| 7. | Material and Supplies (720) | |
| a. | To reclassify expenses to contractual services - other (Acct No. 736) | (\$10,974) |
| b. | To remove plant additions include in UPIS | <u>(8,207)</u> |
| | Subtotal | <u>(\$19,181)</u> |
| 8. | Contractual Services - Billing | |
| a. | To reflect the appropriate contractual services billing | <u>\$1,229</u> |
| 9. | Contractual Services - Professional | |
| a. | To reflect the appropriate accounting services | <u>(\$385)</u> |
| 10. | Contractual Services - Testing (735) | |
| a. | To reflect the appropriate testing | <u>\$250</u> |
| 11. | Contractual Services - Other (736) | |
| a. | To reflect expenses reclassified from materials and supplies (Acct. No. 720) | \$10,974 |
| b. | To reflect pro forma increase for retention pond cleaning | <u>2,661</u> |
| | Subtotal | <u>\$13,635</u> |
| 12. | Rent (740) | |
| a. | To reflect the appropriate office rent | <u>\$427</u> |
| 13. | Transportation | |
| a. | To reflect the appropriate transportation expense | <u>\$2,718</u> |
| 14. | Insurance Expenses (755) | |
| a. | To reflect insurance expense per AF No. 5 | <u>(\$61)</u> |

(O & M EXPENSES CONTINUED ON NEXT PAGE)

FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 ADJUSTMENTS TO OPERATING INCOME (With Pro Forma)	Schedule No. 7-B DOCKET NO. 080668-SU Page 2 of 2
15. Regulatory Expense (665/ 765)	
a. To reflect the appropriate rate case expense	<u>\$312</u>
16. Bad Debt Expense	
a. To reflect the appropriate bad debt expense	<u>\$1,102</u>
17. Miscellaneous Expense (675/ 775)	
a. To remove expenses already included in its respective acct. per AF No. 5	(\$24,051)
b. To reflect the appropriate miscellaneous expense per AF No. 5	(2,628)
c. To reflect a utility maintenance fee	<u>400</u>
	<u>(\$26,279)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$12,670)</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$8,651
2. To reflect the appropriate CIAC amortization	<u>(74)</u>
Total	<u>\$8,577</u>
TAXES OTHER THAN INCOME	
1. To reflect the appropriate payroll taxes	(\$3,720)
2. To reflect the appropriate property taxes	(203)
3. To reflect the appropriate test year RAFs	<u>(296)</u>
Total	<u>(\$4,219)</u>