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Public Service Commission

May 4, 2009

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Mike Smallridge, Utility Consultant
1645 W. Main Street
Inverness, FL 34450

Re: Docket No. 080668-SU - Staff Assisted Rate Case for Fairmount Utilities, the 2nd, Inc. in Highlands County

Dear Mr. Smallridge:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Fairmount Utilities, The 2nd, Inc.
3625 Valerie Blvd.
Sebring, FL 33870-7814

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7017. In addition, you may contact Shannon Hudson at (850) 413-7021, with any questions.

Sincerely,

A handwritten signature in cursive script that reads "Bart Fletcher".

Bart Fletcher
Public Utilities Supervisor

Enclosures

BF/SH

cc: Division of Economic Regulation (Bulecza-Banks, Hudson, Daniel, Simpson)
Office of General Counsel (Williams)
Division of Commission Clerk and Administrative Services (080668-SU)

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

DATE: April 20, 2009

TO: Cheryl Bulecza-Banks, Bureau Chief, Bureau of Rate Filings

FROM: Shannon J. Hudson, Regulatory Analyst IV *SH*
Robert Simpson, Engineer Specialist II *BS*

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

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

This Staff Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed June 18, 2009 for the June 30, 2009 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Fairmount Utilities, the 2nd Inc. (Fairmount or Utility) was organized in June 1970, to provide wastewater service to Fairmount Mobile Estates and came under the jurisdiction of the Commission February 23, 1984. On June 3, 1987, the Commission granted a transfer of Certificate No. 357-S from Fairmount Utilities to Parmer Utilities through Docket No. 870056-SU, Order No. 17654. Then, on November 5, 1991, by Order No. 25217-A, the Commission approved the transfer of Certificate 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 then.

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 Utilities, the 2nd Inc. in Highlands County satisfactory?

Preliminary Recommendation: Yes. The overall quality of service provided by Fairmont 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 the 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 Office located in Fort Myers. According to DEP, the Utility is current in all of the required chemical analyses has met all required standards for wastewater operation and maintenance, and its 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. Further, there are no outstanding customer complaints on file at the Utility or at the Commission. Therefore, it appears that the quality of the product and the operational condition of the wastewater plant are satisfactory. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the May 20, 2009 customer meeting.

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

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

Staff Analysis: Fairmount's 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 PVC pipes. The wastewater treatment plant is permitted by the DEP at 40,000 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 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 plant flows have decreased due to conservation may also be considered.

Fairmount's 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 useful²³. 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 have not been calibrated in a very long time and the flows are not reliable. 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 two prior rate cases. The Utility has recently had the flow measuring devices recalibrated and staff will be monitoring the flows to determine whether additional adjustments should be made.

² See Order No. 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.

³ 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.

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

Preliminary Recommendation: The appropriate average test year rate base for Fairmount should be \$59,829. (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.

Fairmount has requested pro forma plant additions for the following: \$20,628 for lift stations; \$800 for air leak, \$1,400 for wooden box covers for blowers, \$799 for generator, and \$6,600 for a blower. Staff believes these requested pro forma plant items are reasonable; therefore, staff has increased UPIS by \$30,227 to reflect the pro forma plant additions. Also, staff has decreased UPIS by \$287 to reflect an averaging adjustment. Also, staff has decreased UPIS by \$15,114 to reflect a pro forma averaging adjustment. Staff's net adjustment to UPIS is an increase of \$13,647 for wastewater. Staff's recommended UPIS balance is \$231,251.

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 ended 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 \$2,124 to reflect depreciation calculated per staff. Staff has increased this account by \$806 to reflect accumulated depreciation for the pro forma plant additions. Staff has decreased this account by \$3,661 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation of \$184,729.

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 \$123 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$46 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$2,081.

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 formula, staff recommends a working capital allowance of \$11,984 (based on O&M of \$95,873). Working capital has been increased by \$11,984 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$59,829. 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?

Preliminary Recommendation: The appropriate return on equity is 12.67 percent with a range of 11.67 percent–13.67 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 related 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 not made principal nor interest payments on the loan. Consistent with Commission practice, it has been treated as equity.⁴ The other long-term debt is issued by Heartland Bank and the balance is \$38,236. The appropriate rate of return on equity is 12.01percent using the most recent Commission-approved leverage formula.⁵ Fairmount’s capital structure has been reconciled with staff’s recommended rate base. Staff recommends a return on equity of 12.01 percent with a range of 11.01 percent–13.01 percent resulting in an overall rate of return of 5.50 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

⁴ 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.

⁵ See Order No. PSC-08-0846-PAA-WS, issued December 31, 2008, in Docket No. 080006-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), Florida Statutes.

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

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

Staff Analysis: The Utility recorded total revenues of \$109,724 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?

Preliminary Recommendation: The appropriate amount of operating expenses for Fairmount is \$117,307. (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, customer contact and the overall management of 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 \$38,493.

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 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 auditor 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 review 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, cleaning the retention ponds, and maintenance and mowing. Staff believes this amount is reasonable. Staff recommends contractual services - other for the test year of \$12,574.

Rents – (740) – Fairmount recorded \$2,782 in this account during the test year. The Utility's office is located in a building owned by and is shared by a related party. The square footage occupied by the Utility remains the same as in the last rate case. Therefore, staff has used the amount approved in the last rate case and indexed to current. 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 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 \$371 postage expense, \$309 printing expense, and \$44 for envelopes. The above results in a total rate case expense for filing fee and noticing of \$924 and a four year amortization of \$231. Staff has reduced this account by \$19 to reflect the appropriate amortization. Staff recommends regulatory commission expense for the test year of \$231 (\$250-\$19).

Miscellaneous Expense – (775) – Fairmount recorded \$30,968 in this account for the test year. The Utility including in this account the following: \$9,889 for payroll taxes; \$6,097 for loan payments; \$5,204 for 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 reduce 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. Staff engineer believes this amount is reasonable and the account has been increase 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 \$16,764. Staff’s recommended O&M expenses of \$95,873 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 \$10,454 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 \$91. Staff recommends net depreciation expense of \$10,363 (\$10,454-\$91).

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 only include 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 1120 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 \$117,307. 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?

Preliminary Recommendation: The appropriate revenue requirement is \$122,238 for wastewater. (Hudson)

Staff Analysis: The Utility should be allowed an annual increase of \$13,178 (12.08 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 | \$59,829 |
| Rate of Return | x .0725 |
| Return on Rate Base | <u>\$ 4,338</u> |
| Adjusted O & M expense | 95,873 |
| Depreciation expense (Net) | 10,363 |
| Amortization | \$0 |
| Taxes Other Than Income | 11,664 |
| Income Taxes | <u>\$0</u> |
| Revenue Requirement | \$122,238 |
| Less Test Year Revenues | <u>109,062</u> |
| Annual Increase | <u>\$13,176</u> |
| Percent Increase/(Decrease) | <u><u>12.08%</u></u> |

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

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

Preliminary 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 \$122,238. 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 \$122,238. The recommended rates are shown on Schedule No. 4-A. Approximately 68 percent (or \$82,884) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 32 percent (or \$39,353) represents revenue recovery through the consumption charges. 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?

Preliminary Recommendation: Yes. The Commission should approve pro forma plant additions for the utility. With the pro forma items, Fairmount’s appropriate return on equity should be 12.67 percent with a range of 11.67 percent–13.67 percent. The appropriate overall rate of return is 7.25 percent. The Utility’s revenue requirement should be \$128,650. 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 completed pro forma additions and expense have been verified by staff. 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 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. | Repair Holes in Road (Plant) | <u>5,000</u> | <u>5,000</u> |
| | Total Plant | <u>\$17,800</u> | <u>\$17,800</u> |
| | | | |
| 4. | Retention Pond Cleaning (Expense) | <u>\$4,800</u> | <u>\$4,800</u> |

Staff believes the Utility’s proposed pro forma plant and expense are prudent. The rate base, capital structure and revenue requirement which includes pro forma plant items are shown on Schedules 5, 5-A, 6, 7, 7-A and 7-B. The resulting rates are shown below:

Monthly Wastewater Rates (Phase II)

Residential and General Service Wastewater Rates

| <u>Meter Sizes</u> | <u>Existing Rates</u> | <u>Staff's Recommended Rates with Pro forma</u> |
|----------------------------------------------------------------|-----------------------|-----------------------------------------------------|
| <u>Base Facility Charge</u> | | |
| Meter Sizes | | |
| 5/8" x 3/4" | \$15.91 | \$16.68 |
| 3/4" | \$23.86 | \$25.01 |
| 1" | \$39.78 | \$41.69 |
| 1 1/2" | \$79.54 | \$83.38 |
| 2" | \$127.28 | \$133.41 |
| 3" | \$254.56 | \$266.82 |
| 4" | \$397.76 | \$416.91 |
| 6" | \$795.50 | \$833.82 |
| <u>Gallonge Charge</u> | | |
| Residential per 1,000 Gallons | \$3.32 | \$4.80 |
| General Service per 1,000 Gallons | \$3.98 | \$5.75 |
| <u>Gallonge Charge</u> | | |
| <u>Typical Residential Bills at Various Consumption Levels</u> | | |
| 0 kgal | \$15.91 | \$16.68 |
| 3 kgal | \$25.87 | \$31.08 |
| 5 kgal | \$32.51 | \$40.68 |
| 8 kgal | \$42.47 | \$55.08 |

Based on staff's recommended rates, the Utility would recover approximately 68 percent of the Phase II revenue requirement from the base facility charge, with the remaining 32 percent of the revenue requirement from Phase II being recovered from the gallonge charge. Therefore, for Phase II, Fairmount would recover \$87,482 from the BFC and \$41,168 from the gallonge charge.

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 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.?

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees 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 is \$244 for wastewater. Using Fairmount's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The Utility 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 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?

Preliminary 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 rates collected by the Utility should be 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 collected by the Utility should be 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 \$16,161. 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; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 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.

| 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 | \$ 13,647 | \$ 231,251 |
| 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) | 731 | (184,729) |
| 6. AMORTIZATION OF CIAC | 2,004 | 77 | 2,081 |
| 7. WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>11,984</u> | <u>11,984</u> |
| 8. WASTEWATER RATE BASE | <u>\$ 31,685</u> | <u>\$ 28,144</u> | <u>\$ 59,829</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 pro forma additions | 30,227 |
| 3. To reflect averaging adjustment | (287) |
| 4. To reflect pro forma averaging adjustment | (15,114) |
| Total | <u>\$13,647</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. | (\$2,124) |
| 2. To include pro forma accumulated depreciation | (806) |
| 3. To reflect an averaging adjustment | <u>3,661</u> |
| Total | <u>\$731</u> |
| <u>AMORTIZATION OF CIAC</u> | |
| 1. To reflect accumulated amortization per 25-30.140 F.A.C. | \$123 |
| 2. To reflect an averaging adjustment | <u>(46)</u> |
| Total | <u>\$77</u> |
| <u>WORKING CAPITAL ALLOWANCE</u> | |
| To reflect 1/8 of test year O & M expenses. | <u>\$11,984</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 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% | 12.67% | 0.00% | |
| 5. LONG TERM DEBT | <u>\$39,996</u> | <u>\$1,760</u> | <u>\$41,756</u> | <u>\$18,073</u> | <u>\$59,829</u> | <u>100.00%</u> | <u>7.25%</u> | <u>7.25%</u> | |
| 6. TOTAL | <u>(\$342,139)</u> | <u>\$383,895</u> | <u>\$41,756</u> | <u>\$18,073</u> | <u>\$59,829</u> | <u>100.00%</u> | | <u>7.25%</u> | |
| RANGE OF REASONABLENESS | | | | | | <u>LOW</u> | <u>HIGH</u> | | |
| RETURN ON EQUITY | | | | | | <u>11.67%</u> | <u>13.67%</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 | \$109,794 | (\$732) | \$109,062 | \$13,176 12.08% | \$122,238 |
| OPERATING EXPENSES: | | | | | |
| 2. OPERATION & MAINTENANCE | \$112,637 | (\$16,764) | \$95,873 | \$0 | \$95,873 |
| 3. DEPRECIATION (NET) | 0 | 10,363 | 10,363 | 0 | 10,363 |
| 4. AMORTIZATION | 0 | 0 | 0 | 0 | 0 |
| 5. TAXES OTHER THAN INCOME | 15,290 | (4,219) | 11,071 | 593 | 11,664 |
| 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>(\$10,620)</u> | <u>\$117,307</u> | <u>\$593</u> | <u>\$117,900</u> |
| 8. OPERATING INCOME/(LOSS) | <u>(\$18,133)</u> | | <u>(\$8,245)</u> | | <u>\$4,338</u> |
| 9. WASTEWATER RATE BASE | <u>\$31,685</u> | | <u>\$59,829</u> | | <u>\$59,829</u> |
| 10. RATE OF RETURN | <u>-57.23%</u> | | <u>-13.78%</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 | |
| 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 | \$16,328 |
| b. To reflect the appropriate operations manager 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. Purchased Power (715) | |
| a. To reflect the appropriate purchased power expense | <u>\$347</u> |
| 4. Chemicals (718) | |
| a. To reflect appropriate chemical expense | (<u>\$664</u>) |
| 5. 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> |
| 6. Contractual Services - Billing | |
| a. To reflect the appropriate contractual services billing | <u>\$1,229</u> |
| 7. Contractual Services - Professional | |
| a. To reflect the appropriate accounting services | (<u>\$385</u>) |
| 8. Contractual Services - Testing (735) | |
| a. To reflect the appropriate testing | <u>\$250</u> |
| 9. Contractual Services - Other (736) | |
| a. To reflect expenses reclassified from materials and supplies (Acct. No. 720) | <u>\$10,974</u> |
| 10. Rent (740) | |
| a. To reflect the appropriate office rent | <u>\$427</u> |
| 11. Transportation | |
| a. To reflect the appropriate transportation expense | <u>\$2,718</u> |
| 12. Insurance Expenses (755) | |
| To reflect insurance expense per AF No. 5 | (<u>\$61</u>) |
| 13. Regulatory Expense (665/ 765) | |
| a. To amortize rate case filing fee over 4 years (\$200/4) | (\$200) |
| b. To amortize noticing expense over 4 years | <u>\$181</u> |
| Subtotal | <u>(\$19)</u> |
| 14. Miscellaneous Expense (675/ 775) | |
| a. To reflect the appropriate miscellaneous expense per AF No. 5 | (\$24,051) |
| b. To reflect the appropriate miscellaneous expense per AF No. | (\$2,628) |
| c. To reflect annual retention pond cleaning | \$0 |
| d. To reflect a utility maintenance fee | <u>\$400</u> |
| | <u>(\$26,279)</u> |
| TOTAL OPERATION & MAINTENANCE ADJUSTMENTS | <u>(\$16,764)</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

WASTEWATER

DEPRECIATION EXPENSE

| | |
|-----------------------------------------------------------------------|-----------------|
| 1. To reflect test year depreciation calculated per 25-30.140, F.A.C. | \$10,454 |
| 2. To reflect the appropriate CIAC amortization | (91) |
| Total | <u>\$10,363</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. | | SCHEDULE NO. 3-C | |
|-------------------------------------------------------------|-------------------------|--------------------------|-----------------------|
| TEST YEAR ENDING 09/30/2008 | | DOCKET NO. 080668-SU | |
| ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE | | | |
| | 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 | 10,974 | 12,574 |
| (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 | (19) | 231 |
| (770) BAD DEBT EXPENSE | 0 | 0 | 0 |
| (775) MISCELLANEOUS EXPENSES | <u>30,968</u> | <u>(26,279)</u> | <u>4,689</u> |
| | <u>\$112,637</u> | <u>(\$16,764)</u> | <u>\$95,873</u> |

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

| | UTILITY'S EXISTING RATES | STAFF RECOMMENDED PHASE I - RATES | 4-YEAR RATE REDUCTION |
|--------------------------------------------------------------|-----------------------------------------|--------------------------------------------------|--------------------------------------|
| Residential and General Service | | | |
| Base Facility Charge by Meter Size: | | | |
| 5/8"X3/4" | \$15.91 | \$15.93 | \$0.03 |
| 3/4" | \$23.86 | \$23.89 | \$0.05 |
| 1" | \$39.78 | \$39.82 | \$0.08 |
| 1-1/2" | \$79.54 | \$79.64 | \$0.16 |
| 2" | \$127.28 | \$127.42 | \$0.25 |
| 3" | \$254.56 | \$254.83 | \$0.50 |
| 4" | \$397.76 | \$398.18 | \$0.79 |
| 6" | \$795.50 | \$796.35 | \$1.58 |
| Gallonage Charge | | | |
| Per 1,000 Gallons | | | |
| Residential (6,000 gallon cap) | \$3.32 | \$4.51 | \$0.01 |
| General Service | \$3.98 | \$5.41 | \$0.01 |
| Typical Residential 5/8" x 3/4" Meter Bill Comparison | | | |
| 3,000 Gallons | \$25.18 | \$29.46 | |
| 5,000 Gallons | \$31.64 | \$38.48 | |
| 10,000 Gallons | \$34.87 | \$42.99 | |

| FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 SCHEDULE OF WASTEWATER RATE BASE | | SCHEDULE NO. 5-A DOCKET NO. 080104-SU | | |
|------------------------------------------------------------------------------------------------------|---------------------------|------------------------------------------|-------------------------|--|
| DESCRIPTION | BALANCE PER UTILITY | STAFF ADJUST. TO UTIL. BAL. | BALANCE PER STAFF | |
| 1. UTILITY PLANT IN SERVICE | \$ 217,604 | \$ 22,548 | \$ 240,152 | |
| 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) | 401 | (185,059) | |
| 6. AMORTIZATION OF CIAC | 2,004 | 77 | 2,081 | |
| 7. WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>12,584</u> | <u>12,584</u> | |
| 8. WASTEWATER RATE BASE | <u>\$ 31,685</u> | <u>\$ 37,315</u> | <u>\$ 69,000</u> | |

| FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 ADJUSTMENTS TO RATE BASE | 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 | 48,027 |
| 3. To reflect averaging adjustment | (287) |
| 4. To reflect pro forma averaging adjustment | (24,013) |
| Total | <u>\$22,548</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. | (\$2,124) |
| 2. To include pro forma accumulated depreciation | (1,136) |
| 3. To reflect an averaging adjustment | <u>3,661</u> |
| Total | <u>\$401</u> |
| <u>AMORTIZATION OF CIAC</u> | |
| 1. To reflect accumulated amortization per 25-30.140 F.A.C. | \$123 |
| 2. To reflect an averaging adjustment | <u>(46)</u> |
| Total | <u>\$77</u> |
| <u>WORKING CAPITAL ALLOWANCE</u> | |
| To reflect 1/8 of test year O & M expenses. | <u>\$12,584</u> |

| FAIRMOUNT UTILITIES, THE 2ND INC. TEST YEAR ENDING 09/30/2008 SCHEDULE OF CAPITAL STRUCTURE | | | | | | | 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% | 12.67% | 0.00% | |
| 5. LONG TERM DEBT | <u>\$39,996</u> | <u>\$1,760</u> | <u>\$41,756</u> | <u>\$27,244</u> | <u>\$69,000</u> | <u>100.00%</u> | <u>7.25%</u> | <u>7.25%</u> | |
| 6. TOTAL | <u>(\$342,139)</u> | <u>\$383,895</u> | <u>\$41,756</u> | <u>\$27,244</u> | <u>\$69,000</u> | <u>100.00%</u> | | <u>7.25%</u> | |
| RANGE OF REASONABLENESS | | | | | | <u>LOW</u> | <u>HIGH</u> | | |
| RETURN ON EQUITY | | | | | | <u>11.67%</u> | <u>13.67%</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. 7-A DOCKET NO. 080668-SU | | |
|-------------------------------------------------------------------------------------------------------------|--------------------------|----------------------|------------------------------------------|----------------------------|------------------------|
| | TEST YEAR PER UTILITY | STAFF ADJUSTMENTS | STAFF ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
| 1. OPERATING REVENUES | \$109,794 | (\$732) | \$109,062 | \$19,588 17.96% | \$128,650 |
| OPERATING EXPENSES: | | | | | |
| 2. OPERATION & MAINTENANCE | \$112,637 | (\$11,964) | \$100,673 | \$0 | \$100,673 |
| 3. DEPRECIATION (NET) | 0 | 11,022 | 11,022 | 0 | 11,022 |
| 4. AMORTIZATION | 0 | 0 | 0 | 0 | 0 |
| 5. TAXES OTHER THAN INCOME | 15,290 | (4,219) | 11,071 | 881 | 11,952 |
| 6. INCOME TAXES | 0 | 0 | 0 | 0 | 0 |
| 7. TOTAL OPERATING EXPENSES | \$127,927 | (\$5,161) | \$122,766 | \$881 | \$123,648 |
| 8. OPERATING INCOME/(LOSS) | (\$18,133) | | (\$13,704) | | \$5,003 |
| 9. WASTEWATER RATE BASE | \$31,685 | | \$69,000 | | \$69,000 |
| 10. RATE OF RETURN | -57.23% | | -19.86% | | 7.25% |

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

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

| | | <u>WASTEWATER</u> |
|------------------------------------------------------|------------------------------------------------------------------------------|--------------------------|
| OPERATING REVENUES | | |
| 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 | \$16,328 |
| b. | To reflect the appropriate operations manager 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. | Purchased Power (715) | |
| a. | To reflect the appropriate purchased power expense | <u>\$347</u> |
| 4. | Chemicals (718) | |
| a. | To reflect appropriate chemical expense | (<u>\$664</u>) |
| 5. | 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> |
| 6. | Contractual Services - Billing | |
| a. | To reflect the appropriate contractual services billing | <u>\$1,229</u> |
| 7. | Contractual Services - Professional | |
| a. | To reflect the appropriate accounting services | (<u>\$385</u>) |
| 8. | Contractual Services - Testing (735) | |
| a. | To reflect the appropriate testing | <u>\$250</u> |
| 9. | Contractual Services - Other (736) | |
| a. | To reflect expenses reclassified from materials and supplies (Acct. No. 720) | <u>\$10,974</u> |
| 10. | Rent (740) | |
| a. | To reflect the appropriate office rent | <u>\$427</u> |
| 11. | Transportation | |
| a. | To reflect the appropriate transportation expense | <u>\$2,718</u> |
| 12. | Insurance Expenses (755) | |
| | To reflect insurance expense per AF No. 5 | (<u>\$61</u>) |
| 13. | Regulatory Expense (665/ 765) | |
| a. | To amortize rate case filing fee over 4 years (\$200/4) | (\$200) |
| b. | To amortize noticing expense over 4 years | <u>\$181</u> |
| | Subtotal | <u>(\$19)</u> |
| 14. | Miscellaneous Expense (675/ 775) | |
| a. | To reflect the appropriate miscellaneous expense per AF No. 5 | (\$24,051) |
| b. | To reflect the appropriate miscellaneous expense per AF No. | (\$2,628) |
| c. | To reflect annual retention pond cleaning | \$4,800 |
| d. | To reflect a utility maintenance fee | <u>\$400</u> |
| | | <u>(\$21,479)</u> |
| TOTAL OPERATION & MAINTENANCE ADJUSTMENTS | | <u>(\$11,964)</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. 7-B
DOCKET NO. 080668-SU
Page 2 of 2

WASTEWATER

DEPRECIATION EXPENSE

| | |
|-----------------------------------------------------------------------|-----------------|
| 1. To reflect test year depreciation calculated per 25-30.140, F.A.C. | \$11,114 |
| 2. To reflect the appropriate CIAC amortization | (91) |
| Total | <u>\$11,022</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> |