

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a staff-)	DOCKET NO.:	900132-WU
assisted rate case in Highlands)	ORDER NO.	23592
County by HEARTLAND UTILITIES, INC.)	ISSUED:	10-09-90
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The following Commissioners participated in the disposition of this matter:

MICHAEL McK. WILSON, Chairman
 GERALD L. GUNTER
 THOMAS M. BEARD
 BETTY EASLEY
 FRANK S. MESSERSMITH

FINAL ORDER GRANTING TEMPORARY RATES
IN EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the actions discussed herein, except the granting of increased rates on a temporary basis in the event of a protest, are preliminary in nature, and as such, will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

CASE BACKGROUND

Heartland Utilities, Inc., (Heartland or utility) is a class "C" utility located in Highlands County. The utility was originally organized under the name Sebring Country Estates Water Company. Highlands County came under the jurisdiction of the Florida Public Service Commission on September 7, 1982. By Order No. 12846, issued January 5, 1984, the Commission granted Sebring Country Estates Water Company Certificate No. 420-W and grandfathered its existing rates and charges. On September 22, 1989, Heartland purchased the utility. By Order No. 22043, issued October 10, 1989, Docket No. 880459-WU, the Commission approved the transfer of Certificate No. 420-W to Heartland.

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Heartland provided water service to approximately 512 customers during the test year. The utility consists of two independent water systems, "DeSoto" and "Sebring."

On February 19, 1990, Heartland applied for the present staff-assisted rate case. Its request for staff-assistance was granted by letter dated March 26, 1990. Records prior to September 22, 1989, were not available, and the current owner's records provide data only from September 22, 1989, through March 31, 1990. We, therefore, have selected a projected test year ending September 30, 1990, to allow a full twelve months of operation in setting rates. In processing this case, we audited the utility's available books and records, conducted a field investigation of the utility's service areas and water treatment facilities, reviewed the utility's operation and maintenance records, and performed an original cost study, as rate base had not been established under the certificate transfer docket.

A customer meeting was held in the utility's service area to allow customers to provide quality of service testimony and ask questions about the rate case generally. The concerns raised by the customers are addressed in the body of this Order.

QUALITY OF SERVICE

The customer meeting was held on August 2, 1990, at the Sebring Country Estates clubhouse in Sebring, Florida. There were approximately forty-three customers in attendance. Thirty-six of the customers were served by the utility's Sebring system, and eight were served by the utility's DeSoto City system. Pressure and hydrogen sulfide odor were the most-discussed service problems.

Several customers of the Sebring system commented that their pressure was poor. However, pressure at the Sebring system should improve with the installation of a new hydropneumatic tank. The original tank had deteriorated to the point that it could not function properly and was nearing complete failure. At the time of the customer meeting, the utility was in the process of preparing for the new tank and had constructed the support saddles for the tank to rest upon. After the customer meeting, the utility informed us that the new tank was installed and functioning. The overall pressure on the system was increased approximately eight pounds per square inch, so the Sebring system should now be fully capable of providing adequate pressure. As a follow-up measure,

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our Staff contacted by telephone those customers who had expressed concerns about pressure. All but one of the customers were reached, and those that were reached noted an improvement in pressure.

Two customers testified about hydrogen sulfide odor. It is not clear if they currently have this problem or if it had occurred prior to the change in ownership in the fall of 1989. Mr. Short, Heartland's president, who was present at the meeting, indicated that he was unaware of any odor problem. He said that he had not had a complaint about hydrogen sulfide in six months. He explained that hydrogen sulfide should no longer be a problem at either of the systems: at the DeSoto system the aeration process should take care if the problem and at the Sebring system a new gas chlorination system oxidizes the hydrogen sulfide at the plant. Mr. Short explained that hydrogen sulfide will regenerate in a hot water heater if the heater is not used for a period of time. If a customer had a problem, Mr. Short concluded, the customer should let the utility know.

Although hydrogen sulfide gas is clearly evident in the untreated water, we have been unable to identify any noticeable amount in the treated product. In fact, when a customer was asked about hydrogen sulfide after the customer meeting, he said that he has noticed no hydrogen sulfide odor at all.

A customer testified about dirt in the water. It is possible to get some dirt in the water when the system is down for repairs. The problem would probably be eliminated when the new hydropneumatic tank is on line and the pressure is improved. Mr. Short indicated that the dirt problem could also be related to hydrogen sulfide's being regenerated in hot water heaters. Nonetheless, dirt in the water does not appear to be a wide-spread problem. When recently asked about the dirt problem after the customer meeting, the customer indicated that the problem occurred occasionally and that it now appears to have been cleared up.

Two customers testified that there was too much chlorine in the water. One customer said that if the lines were looped, the problem would be solved. It is our understanding that as the utility replaces bad lines, the problem should improve. In addition, since the utility is required to have certain chlorine residual levels at the furthest points of the system, those who live closer to the water treatment plant may notice a chlorine

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odor. The other customer who testified about chlorine apparently is in this situation. She lives close to the treatment plant; she stated that she cannot drink the water because of the chlorine. The utility is aware of her problem, and is working to control the levels of chlorine used within the system.

After the customer meeting, the customers who commented on chlorine level were asked if they have noted any improvements. The first customer, who is served by the Sebring system, said that the chlorine problem seems to be taken care of. The second customer, who is served by the DeSoto system, said that she has either gotten used to it or it has improved. At any rate, the problem has not been as noticeable as before.

Another customer lives by an abandoned plant site in the DeSoto system and wanted to know if the area was going to be cleaned up. Mr. Short indicated that he was not sure if the utility owned the site and that he would contact the county engineer to see what could be done.

Another customer wanted to know if the Commission ever checked water meters. He was told that the utility was in the process of replacing non-working meters and that a customer can make a request to have the utility check the meter.

One customer was concerned about "down time," and wanted to know if the back-up well was adequate. Mr. Short indicated that a well driller was always on call and that down time would be minimal. Although the rated capacity for the back-up well is less than that of the primary well, we believe that it will provide an adequate temporary water supply until the main well is repaired. As the system grows, a third well will have to be installed, but the utility currently has no plans for a third well.

One customer complimented the utility for giving notices for planned outages. Another customer said that the water tasted good and that when she had a problem with clothes being ruined in the wash, the utility was very courteous to her. Another customer said that when she called the utility about a leaking meter, they came out quickly to correct the problem.

Although some problems were raised at the customer meeting, it appears that the majority of the customers attending the meeting approved of the quality of service provided by the utility. While

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one customer said that there was not much difference in quality from the utility's new ownership, other customers noticed improvements. We believe that much improvement has been made since ownership of the utility changed hands. Heartland appears to be working diligently to provide the best possible service and should be commended for correcting the numerous service problems that had once existed. All problems noted at the customer meeting have been properly addressed. Therefore, based upon the above discussion, we find that the utility's quality of service is satisfactory.

RATE BASE

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

Used and Useful

The water treatment plant that serves the Sebring Country Estates subdivision has a total plant capacity of 324,000 gallons per day. Using the maximum flow which occurred on January 18, 1990, plus a 5,325 gallons per day margin reserve accounting for customer growth, we find that the treatment plant is 36% used-and-useful.

The water treatment plant that serves the DeSoto City area has a total plant capacity of 270,000 gallons per day. Using the maximum flow which occurred on January 18, 1990, plus a 6,675 gallons per day margin reserve accounting for customer growth, we find that the treatment plant is 40% used-and-useful.

The Sebring system can serve approximately 485 equivalent residential connections (ERCs). Considering 313 connections for the test year, plus 15 connections for the margin reserve, we find that the water distribution system for the Sebring system is 68% used-and-useful.

The DeSoto City system's, connection capacity is unknown because of unstructured growth. In consideration of the unplanned nature of growth in the area, especially in the older sections of

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the system, and the questionable piping used within the system, we find that the water distribution system for the DeSoto system is 100% used-and-useful.

Land

The utility owns the land on which the water treatment plants for both systems are located. Plant valuation as determined by our original cost study is \$9,850: \$850 for the DeSoto system and \$9,000 for the Sebring system. During the test year, the utility recorded land valuation of \$37,600 on its books. That amount includes a \$25,000 allocation attributable to the utility's purchase, \$11,000 allocation for the cost of dismantling an elevated storage tower and tank, and a \$1,600 allocation for plant improvement.

We have made several adjustments to the utility's land account. The account has been decreased by \$1,600 to reflect the reclassification of plant improvement to Account No. 304. We have also decreased land by \$11,000. The Uniform System of Accounts Instruction No. 4(B) states that accumulated depreciation on utility plant-in-service shall be charged with the costs of removal of retired plant net of salvage value. The utility has stated and we have verified that the storage tower and tank have no salvage value; therefore, the \$11,000 decrease is warranted, and we have concurrently charged \$11,000 to accumulated depreciation. Finally, land has been decreased by \$15,150 to reflect the land value determined by our original cost study. The total net adjustment for this account is (\$27,750).

Working Capital

Using the one-eighth of operation and maintenance expense formula to calculate working capital, we find that the appropriate working capital allowance is \$8,425.

Contributions-in-Aid-of-Construction

On September 22, 1989, Heartland purchased the utility for \$115,000. Order No. 22043, issued October 10, 1989, approved the transfer of Certificate No. 420-W. Rate base at time of transfer was not established. Since original cost records for plant prior to September 22, 1989, were not available, the Order stated that rate base would be established at a later date. Accordingly, we

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have completed an original cost study so that we may establish rate base in this docket.

The original cost study established contributions-in-aid-of-construction (CIAC) of \$618,012 as of September 22, 1989. This amount includes plant contributed by the State of Florida and other parties in the amount of \$370,012, as well as imputed CIAC of \$248,000. The imputation figure is calculated by multiplying the number of customers by the existing minimum connection charge of \$500 per connection, which was approved by Order No. 12846, issued January 5, 1984.

Records from the utility's prior owner reflecting the amount of CIAC collected through the date of purchase are not available. The utility has recorded on its books plant including land in the amount of \$115,000 as of September, 1989. Since the amount of CIAC imputed was based on the minimum connection charge and since there are no documents available to establish CIAC collected prior to September, 1989, an additional adjustment should be made for CIAC collected above the minimum charge. We have increased CIAC by \$56,915 because doing so recognizes additional CIAC and reconciles plant with the utility's investment, the \$115,000 purchase price.

In consideration of the above, we find that the appropriate amount of CIAC as of September 22, 1989, is \$674,927 (\$618,012 + \$56,915).

Organizational Costs

As defined by Uniform System of Accounts, organizational costs include all fees paid to federal and state governments for the privilege of incorporation and expenditures incident to organizing the corporation, partnership, or other enterprise and putting it into readiness to do business. Commission practice is to include organizational costs in rate base in original certificate cases. When Order No. 12846, issued January 5, 1984, Docket No. 830322-W, granted Sebring Country Estates Water Company Certificate No. 420-W and grandfathered its existing rates and charges, rate base was not established, so organizational costs were not addressed.

When Heartland purchased the utility, substantial improvements were necessary. The utility incurred legal and surveying costs associated with obtaining the utility and approval of the transfer. It recorded those costs as being organizational costs. For the

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test period ending March 31, 1990, the utility recorded organizational costs of \$12,632, net of amortization. We have increased this recorded amount by \$1,944 to reflect total organizational costs and have included amortization in the accumulated total. Also, in Account No. 331, the utility recorded a legal expense of \$1,370 associated with the certificate transfer. This amount should be reclassified as an organizational expense, so we have increased organizational expense by \$1,370.

Although it is not Commission practice to allow a utility to recover organizational costs resulting from a transfer, we find that the unusual circumstances of this case warrant recovery of these costs. Accordingly, we find that organizational costs in the amount of \$15,946 should be allowed in rate base.

Test Year Rate Base

As stated in the case background, rate base has never been established for this utility. A full six months of data from September, 1989, through March, 1990, is contained in our audit, and we have projected a test year ending September 30, 1990.

The utility's plant accounts through September, 1989, have been established by the original cost study. All plant additions since September, 1989, have been traced from the utility's general ledger and classified to the appropriate accounts. The utility has requested an allowance for pro forma plant improvements. We have reviewed the improvements and will allow \$25,500 of pro forma plant improvements; however, the utility must complete these improvements within 60 days of the date of this Order. We have updated plant through September 30, 1990, to include additions, pro forma plant, and retirements. In consideration of the above, we find that the appropriate test year average plant is thus \$833,903.

We have imputed plant-held-for-future-use based on the appropriate used-and-useful percentage. We find that average plant-held-for-future-use is (\$62,384), which is net of accumulated depreciation, CIAC, and amortization of CIAC.

As stated earlier, we have updated CIAC through September, 1990, and have increased CIAC by \$56,915. CIAC for margin reserve is calculated by multiplying the number of equivalent residential connections for both water systems by the existing service availability charge. CIAC for margin reserve, then, is \$15,000.

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We find that the average test year CIAC is (\$698,974).

In accordance with Rule 25.30.140(2), Florida Administrative Code, we have updated through September, 1990, the accumulated depreciation and amortization of CIAC determined by the original cost study. We find that the average test year accumulated depreciation is (\$177,969) and that the average test year amortization of CIAC is \$263,491.

In consideration of the adjustments discussed above, we find that the average test year rate base of this utility is \$176,342.

COST OF CAPITAL

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

Although the utility is in a negative equity position we consider the equity portion of its capital structure to be zero, as is our practice. It follows that if the utility has no equity, the return on equity must be zero.

The utility's capital structure includes 95.96% debt at a cost of 11.00% and 4.04% customer deposits at a cost of 8.00%. To calculate the overall rate of return, we use the utility's present capital structure and the rate base calculated herein. We find that the utility's overall rate of return is 10.88%.

NET OPERATING INCOME

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

Test Year Revenues

The utility recorded revenues of \$40,914 for the period October, 1989, through March, 1990. This amount includes \$3,500 in

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tap-in charges, a \$188 meter installation charge, and \$1,241 in miscellaneous service charges. We have reclassified the \$3,500 tap-in charges to CIAC. Although the utility previously reclassified the \$188 meter installation charge, it did not adjust revenue accordingly, as we now have. Also, costs associated with initiating or terminating connections through miscellaneous service charges are not to be considered part of a utility's operating cost. We have, therefore, removed \$1,241 of miscellaneous service charges from revenue. In sum, we have decreased revenues collected from October, 1989, through March 31, 1990, by \$4,929.

Since the utility has recorded only one-half a year's revenue, we have imputed revenues for the period of April, 1990, through September, 1990, which is the end of the projected test year. Our calculation is based on existing rates and customers plus customer growth and average gallonage consumption. For the period April, 1990, through September, 1990, imputed revenues are \$38,474. In consideration of the above, we find that the test year revenues for the utility are \$74,459.

Operating & Maintenance Expense (O & M)

We have reviewed the utility's expense accounts for proper amounts, periods, and classifications and made adjustments to reclassify certain expenses and to reflect certain allowances necessary for plant operation. Also, since only six months of utility data was available, we have made adjustments to annualize the operational expenses. A summary of our adjustments follows.

Employee Pensions and Benefits

The utility recorded \$448 on its books for life insurance for the utility's president. This expense is a non-utility operating expense according to the Uniform Systems of Accounts. Therefore, we have removed \$448.

Purchased Power

We have increased the utility's recorded purchased power expense by \$2,762 to allow an annual allowance of \$6,192.

Chemicals

The utility has recorded \$380 for chemical expense, which

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includes \$120 for sample testing performed by Short Utility Service (SUS), a related company. We have decreased chemical expense by \$120 to reflect the reclassification of testing to Account No. 630. We have also increased this expense by \$1,300 to allow an annual chemical allowance of \$1,560. The total net adjustment for chemicals is \$1,180.

Materials and Supplies

The utility has recorded \$2,558 for materials and supplies, which includes \$378 for telephone expense and \$270 for a twenty-four hour answering service. We have decreased the total by \$648 to reflect the reclassification of the telephone and answering service expenses to Account No. 675.

Contractual Services

The utility has recorded \$25,583 for operating contractual labor. Contract labor is provided by SUS, which handles both administrative services and routine operation and maintenance for the water treatment facilities. SUS currently charges \$3,600 per month for its standard service plus \$60 per month for bacteriological analysis. SUS's total annual charge comes to \$43,920. We have increased contractual services by \$120 to reflect the reclassification of the sample testing expense from Account No. 618. To properly reflect the annual allowance for operating contractual labor, we have increased contractual services by \$18,217.

Dan Dorrell provides bookkeeping services and prepares tax returns and Public Service Commission reports for the utility. He charges \$375 per month, \$4,500 annually. The utility recorded \$2,250 on its books for this service. We have increased contractual services by \$2,250 to allow the utility \$4,500 annually for the expense.

The utility recorded \$630 paid to Deyoung & Associates for engineering services incurred in determining the value of the water systems. This expense is a non-utility expense, and we have therefore decreased contractual services by \$630.

The utility paid \$228 to Wiggins & Villacorta for various legal services. This expense is non-recurring, and we have therefore decreased contractual services by \$228. We have also

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decreased contractual services by \$97 to remove a non-recurring expense incurred for garbage removal.

We have decreased contractual services by \$100 to reflect the reclassification of an engineering expense associated with plant to plant.

Finally, the Department of Environmental Regulation requires primary and secondary chemical analysis every three years. The expense for these analyses will be \$1,505 for each system. Amortized over a three year period, an annual expense of \$1,003 is appropriate. We have therefore increased contractual services by \$1,003.

The total net adjustment for contractual services is a \$20,535 increase.

Insurance Expense

The utility recorded \$228 for life insurance for the utility's president. This expense is a non-utility expense, and we have therefore decreased insurance expense by \$228. We have increased insurance expense by \$676 to recognize the cost of annual liability insurance on both water systems. The total net adjustment for this expense is \$448.

Regulatory Commission Expense

The utility recorded \$46 for regulatory assessment fees. We have decreased this expense by \$46 to reflect the reclassification of this amount to Taxes Other Than Income. Since the utility paid a \$900 filing fee for this staff-assisted rate case, we have increased this expense by \$225 to allow the utility to recover this rate case expense over a four year period. The total net adjustment for this expense is \$179.

Miscellaneous Expense

The utility recorded \$552 for painting. This expense should be amortized over five years, and we have therefore decreased this expense by \$442 to allow the utility only one-fifth of the \$552.

We have also decreased miscellaneous expense by \$4,571 and \$291 to reflect a reclassification to plant and to remove a

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non-recurring expense, respectively.

The utility has replaced over 30 non-working meters and intends to replace meters at the rate of 30 per year until all meters are working properly. We have increased miscellaneous expense by \$3,000 to allow the annual cost of meter replacement.

We have also increased miscellaneous expense by \$648 to reflect the reclassification of telephone service and answering service expense from Account No. 620. The utility's recorded expense for telephone service represents approximately nine months of service with the average phone bill being \$35 a month. We have increased miscellaneous expense by \$42 to reflect an annual allowance of \$420. The utility's recorded expense for the twenty-four-hour answering service represents six months of service at \$45 per month. We have increased miscellaneous expense by \$270 to reflect an annual allowance of \$540.

The utility's recorded miscellaneous expense included \$1,005 for computer billing software. Since the utility contracts for billing services from Short Utility Services, we consider this expense to be a non-utility operating expense and have therefore decreased miscellaneous expense by \$1,005.

Also, we have decreased miscellaneous expense by \$188 to remove contributed plant that the utility has already included in its plant account.

The total net adjustment for miscellaneous expense is (\$2,537).

Revenue Requirement

Based upon the utility's books and records and the adjustments discussed above, we find that the appropriate annual revenue requirement is \$98,706. This revenue requirement represents an annual increase in revenue of \$24,247 (32.56%). This revenue requirement will allow the utility to recover its expenses and allow it an opportunity to earn a 10.88% return on its investment.

RATES

The utility currently uses a rate structure with a minimum

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monthly charge and a per thousand gallon charge for usage over 5,000 gallons. We have altered the utility's rate structure to the base facility/gallage charge structure. Under the base facility/gallage charge structure, each customer pays for his or her pro rata share of the costs necessary to provide utility service and pays for his or her own water usage. This structure allows the customer some control over his or her bills and allows the utility to track costs.

The approved rates below have been calculated based on actual and projected test year bills and gallage consumption. We find that the approved rates are fair, just, and reasonable and are not unfairly discriminatory. The utility's existing rates and those approved herein are set forth below.

WATER
Monthly Rates

RESIDENTIAL AND GENERAL SERVICE
Existing Rates

First 5,000 gallons	\$9.00
All over 5,000 gallons	.80 per 1,000 gallons

MULTI-RESIDENTIAL SERVICE

First 5,000 gallons	\$9.00
All over 5,000 gallons	.80 per 1,000 gallons
Plus \$3.00 per rental unit	

COMMISSION APPROVED
Monthly Rates

RESIDENTIAL, MULTI-RESIDENTIAL AND GENERAL SERVICE

<u>Base Facility Charge</u>	<u>Approved</u>
<u>Meter Size</u>	
5/8 x 3/4"	\$ 6.23
3/4"	9.35
1"	15.58
1 1/2"	31.15
2"	49.84
3"	99.68

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<u>Base Facility Charge</u>	<u>Approved</u>
<u>Meter Size</u>	
4"	155.73
6"	311.50
 <u>Gallonage Charge</u>	
Per 1,000 gallons	\$ 1.48

These rates shall be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon Staff's verification that the tariffs are consistent with our decision herein, that the proposed customer notice is adequate, and upon expiration of the protest period.

SERVICE AVAILABILITY CHARGES

When Certificate No. 420-W was transferred to Heartland, the Commission approved the existing service availability charges. These charges are comprised of a \$500 connection fee, which covers initiation of service and meter installation, and the actual cost for extending or replacing lines. The utility is currently 60.45% contributed. Given the utility's historical growth, the current plant will be fully depreciated long before full build-out. Therefore, we find that the existing service availability charges will remain in effect.

MISCELLANEOUS SERVICE CHARGES

The utility currently has miscellaneous service charges. However, we find that the existing charges should be modified to reflect the appropriate value of labor and materials required for these services. We find that the approved miscellaneous service charges below are reasonable and are consistent with Rule 25-30.345, Florida Administrative Code. The existing and approved charges are as follows:

<u>Type of Service</u>	<u>Existing</u>	<u>Approved</u>
Initial Connection	\$12	\$15
Normal Reconnection	\$12	\$15
Violation Reconnection	\$15	\$15
Premises Visit	-0-	\$10

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For clarification a description of each service for which there is a charge follows.

Initial Connection - This charge would be levied for service initiation at a location where service did not exist previously.

Normal Connection - This charge would be levied for transfer of service to a new customer account at a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge (in lieu of Disconnection) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectable bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The miscellaneous service charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with our decision herein, that the proposed customer notice is adequate, and upon expiration of the protest period.

TEMPORARY RATES IN EVENT OF PROTEST

This Order proposes an increase in water rates. A timely protest of this Order could delay what might be a justified rate increase, pending a formal hearing and a final order in this case, resulting in an unrecoverable loss of revenue to the utility. Accordingly, in the event of a timely protest by anyone other than the utility, we hereby authorize the utility to collect the service rates approved herein, on a temporary basis, subject to refund, provided that it furnishes security for such a potential refund. The security should be a bond or a letter of credit in the amount of \$17,036 or an escrow agreement with an independent financial institution pursuant to a written agreement. Any withdrawal of funds from this escrow account are subject to the prior approval of

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this Commission through the Director of the Division of Records and Reporting.

The utility must keep an accurate account, in detail of all monies received by said increase, specifying by whom and on whose behalf such amounts were paid. The utility shall also file a report, no later than the twentieth day of each month that the temporary rates are in effect, showing the amount of revenues collected as a result of the temporary rates and the amount of revenues that would have been collected under the prior rates. Should a refund be required, the refund would be with interest, pursuant to Rule 25-30.360, Florida Administrative Code.

The utility would be authorized to implement the temporary rates only after providing the above discussed security and Staff's approval of the revised tariff sheets and customer notice.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Heartland Utilities, Inc., for an increase in its water rates in Highlands County is approved as set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the body of this Order and in the schedules attached hereto are by reference incorporated herein. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final, unless an appropriate petition in the form provided by Rule 25-22, Florida Administrative Code, is received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that the utility is authorized to charge the new rates and charges set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for meter readings taken on or after thirty (30) days after the stamped

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approval date on the revised tariff pages. It is further

ORDERED that the miscellaneous service charges approved herein shall be effective for services rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that prior to its implementation of the rates approved herein, Heartland Utilities, Inc., shall submit and have approved a proposed notice to its customers of the increased rates and charges and the reasons therefor. It is further

ORDERED that prior to its implementation of the rates approved herein, Heartland Utilities, Inc., shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein and that the protest period has expired. It is further

ORDERED that the docket shall remain open for 90 days after the date of this Order to allow Staff to monitor and verify the completion of plant improvements discussed herein. The docket may be closed administratively if said improvements are completed.

ORDERED that in the event of a protest by any substantially affected person other than the utility, Heartland Utilities, Inc., is authorized to collect the rates approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Heartland Utilities, Inc., has provided satisfactory security for any potential refund and provided that it has submitted and Staff has approved revised tariff pages and a proposed customer notice. It is further

By ORDER of the Florida Public Service Commission, this 9th
day of OCTOBER, 1990.



STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions, other than the granting of temporary rates in event of a protest by any substantially affected person, are preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on October 30, 1990. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the

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case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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SCHEDULE NO. 1
 PAGE 1 OF 1

Account Title -----	Balance per Utility -----	Comm. Adjustments to Utility Balance -----	Balance per Comm. -----
Depreciable Plant in Service	\$149,155	\$684,748 A	\$833,903
Land/Nondepreciable Assets	37,600	(27,750) B	9,850
Plant Held for Future Use	0	(62,384) C	(62,384)
Contributions in Aid of Construction	(7,931)	(691,043) D	(698,974)
Accumulated Depreciation	(2,163)	(175,806) E	(177,969)
Amortization of CIAC	0	263,491 F	263,491
Working Capital Allowance	0	8,425 G	8,425
RATE BASE	----- \$176,661 -----	----- (\$319) -----	----- \$176,342 -----

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SCHEDULE 1-A
PAGE 1 OF 3

HEARTLAND UTILITIES, INC
SCHEDULE OF ADJUSTMENTS TO RATE BASE
SCHEDULE NO. 1-A

A. UTILITY PLANT IN SERVICE

Water

1. To adjust plant to total as determined by the original cost study at 9/89	\$690,077
2. To adjust organization costs to actual amount.	1,944
3. To remove a non-utility operating expense.	(1,150)
4. To reflect retirement of meters.	(1,050)
5. To reflect retirement of storage tanks.	(4,669)
6. To reflect proforma plant amount for sidewalks and sod for both systems, \$2,000 each.	4,000
7. To reflect proforma plant amount for distribution reservoir and standpipes for the Sebring System.	20,000
8. To reflect proforma plant amount for 500 feet 2" pipe at the DeSoto System.	1,500
9. To reflect reclassification from operation and maintenance expense.	4,571
10. To reflect reclassification from land.	1,600
11. To reflect additional amount for donated line.	104
12. To reflect test year average adjustment.	<u>(32,179)</u>
	<u>\$684,748</u>

HEARTLAND UTILITIES, INC
SCHEDULE OF ADJUSTMENTS TO RATE BASE
SCHEDULE NO. 1-A

	<u>Water</u>
B. <u>LAND</u>	
1. To remove a dismantling cost associated with an elevated storage tower and tank.	\$(11,000)
2. To reflect reclassification to Account No. 304.	(1,600)
3. To adjust land value to amount as determined in the original cost study @ 9/89.	<u>(15,150)</u>
	<u>\$(27,750)</u>
C. <u>PLANT HELD FOR FUTURE USE</u>	
To reflect average plant held for future use net of accumulated depreciation, CIAC an Amortization of CIAC.	<u>\$(62,384)</u>
D. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)</u>	
1. To adjust CIAC total as determined by the original cost study @ 9/89.	(610,081)
2. To reflect staff's recommended adjustment to CIAC.	(56,915)
3. To reflect CIAC additions through September 30, 1990.	(11,893)
4. To reflect staff's recommended additional adjustment to CIAC as addressed in Issue No. 5	(56,915)
5. To reflect CIAC associated with margin reserve (30 x \$500)	(15,000)
6. To reflect test year average adjustment.	<u>2,846</u>
	<u>\$(691,043)</u>

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SCHEDULE 1-A
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HEARTLAND UTILITIES, INC
SCHEDULE OF ADJUSTMENTS TO RATE BASE
SCHEDULE NO. 1-A

<u>E. ACCUMULATED DEPRECIATION</u>	<u>Water</u>
1. To adjust accumulated depreciation through September 22, 1989 as determined by the original cost study.	(170,484)
2. To reflect additions to accumulated depreciation through September 30, 1990.	(27,318)
3. To reflect retirement of meters.	1,050
4. To reflect dismantling cost for an elevated storage tower and tank.	11,000
5. To reflect retirement of tank.	4,669
6. To reflect test year average adjustment.	<u>5,299</u>
	<u>\$(177,969)</u>
<u>F. AMORTIZATION OF C.I.A.C.</u>	
1. To adjust amortization of CIAC through September 22, 1990 as determined by the original cost study.	\$195,992
2. To reflect addition to amortization of CIAC through September 30, 1990.	21,168
3. To reflect amortization on staff's recommended adjustment to CIAC.	56,915
4. To reflect test year average adjustment.	<u>(10,584)</u>
	<u>\$263,491</u>
<u>G. WORKING CAPITAL ALLOWANCE</u>	
To reflect one-eighth of operation and maintenance expense.	<u>\$ 8,425</u>

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SCHEDULE NO. 2
 PAGE 1 OF 1

COST OF CAPITAL

Per Utility -----	Balance Per Utility -----	Comm. Adjustments to Utility Balance -----	Balance per Comm. -----	Percent of Total -----	Cost -----	Weighted Cost -----
LONG TERM DEBT	\$176,422	(\$7,209)	\$169,213	95.96%	11.00%	10.56%
COMMON EQUITY	(16,595)	16,595	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	7129	0	7129	4.04%	8.00%	0.32%
TOTAL	----- \$166,956 -----	----- \$9,386 -----	----- \$176,342 -----	----- 100.00% -----	----- 19.00% -----	----- 10.88% -----

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SCHEDULE NO. 3
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OPERATING INCOME

	Balance Per Utility *****	Comm. Adjustments to Utility Balance *****		Test Year Balance per Comm. *****	Comm. Adjustments for Increase *****	Balance per Comm. *****
Operating Revenues	\$40,914	\$33,545	A	\$74,459	\$24,247	G \$98,706
Operating Expenses:						

Operation and Maintenance	\$45,930	\$21,471	B	\$67,401	\$0	\$67,401
Depreciation	2,102	25,261	C	27,363	0	27,363
Amortization(CIAC)	0	(21,168)	D	(21,168)	0	(21,168)
Taxes Other Than Income	1,975	2,858	E	4,833	1,091	H 5,924
Income Taxes	0	0	F	0	0	0

Total Operating Expenses	\$50,007	\$28,422		\$78,429	\$1,091	\$79,520

Operating Income (Loss)	(\$9,093)	\$5,123		(\$3,970)	\$23,156	\$19,186
Rate Base	\$176,661			\$176,342		\$176,342
Rate of Return	-5.15%			-2.25%		10.88%

HEARTLAND UTILITIES, INC.
SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME
SCHEDULE NO. 3-A

<u>A. OPERATING REVENUES</u>	<u>Water</u>
1. To reflect reclassification to CIAC.	\$ (3,500)
2. To remove connection charge.	(188)
3. To remove miscellaneous revenue	(1,241)
4. To reflect projected revenue through September 30, 1990.	<u>38,474</u>
	<u>\$ 33,545</u>
<u>B. OPERATION AND MAINTENANCE EXPENSE</u>	
1. To remove non-utility expense.	(448)
2. To reflect annual purchased power expense as determined by the staff engineer.	2,762
3. To reflect annual chemical expense as determined by the staff engineer.	1,300
4. To reflect reclassification to Account No. 630.	(120)
5. To reflect reclassification to Account No. 675.	(648)
6. To reflect annual labor contractual service.	18,217
7. To reflect reclassification.	120
8. To remove a non-recurring expense.	(97)
9. To reflect annual contractual bookkeeping services.	2,250
10. To remove a non-utility expense.	(630)
11. To remove a non-recurring expense.	(228)
12. To reflect reclassification to plant.	(100)

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SCHEDULE 3-A
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HEARTLAND UTILITIES, INC.
 SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME
 SCHEDULE NO. 3-A

	<u>Water</u>
13. To reflect an annual allowance for primary and secondary chemical analysis as determined by the staff engineer.	\$ 1,003
14. To remove a non-utility expense.	(228)
15. To reflect annual amount for liability insurance.	676
16. To reflect reclassification.	(46)
17. To reflect rate case expense amortized over four years.	225
18. To reflect expense for painting amortized over five years.	(442)
19. To reflect reclassification to plant.	(4,571)
20. To remove a non-recurring expense.	(291)
21. To reflect an annual meter replacement expense as determined by the staff engineer.	3,000
22. To reflect reclassification from Account No. 620.	648
23. To reflect annual allowance for telephone service.	42
24. To reflect annual allowance for twenty four hour answering service.	270
25. To remove non-utility expense.	(1,005)
26. To remove expense that already included in plant.	(188)
	<u>\$(21,471)</u>

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HEARTLAND UTILITIES, INC.
 SCHEDULE OF ADJUSTMENTS TO OPERATING INCOME
 SCHEDULE NO. 3-A

Water

C. DEPRECIATION EXPENSE

To reflect staff's calculation
 of depreciation expense for the
 test year ended September 30, 1990.

\$27,363

D. AMORTIZATION OF CIAC

To reflect staff's calculation of
 amortization of CIAC for the test
 year ended September 30, 1990.

(\$21,168)

E. TAXES OTHER THAN INCOME

To adjust regulatory assessment
 fee at 4.5% of test year revenue.

\$ 2,858

G. OPERATING EXPENSE

To reflect increase in revenue
 required to cover expenses and
 allow recommended rate of return.

\$24,247

H. TAXES OTHER THAN INCOME

To adjust regulatory assessment
 fee at 4.5% on increase in revenue.

\$ 1,091

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SCHEDULE 3-B
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HEARTLAND UTILITIES, INC.
 ANALYSIS OF WATER O & M EXPENSES

ACCOUNT TITLE	BALANCE PER UTIL.	COMM. ADJUST.	FINAL BALANCE
SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
SALARIES AND WAGES - OFFICERS	0	0	0
PENSIONS AND BENEFITS	448	(448)	0
PURCHASED WATER	0	0	0
PURCHASED POWER	3,430	2,762	6,192
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	380	1,180	1,560
MATERIALS AND SUPPLIES	2,558	(648)	1,910
CONTRACTUAL SERVICES	28,888	20,535	49,423
RENTS	0	0	0
TRANSPORTATION EXPENSES	0	0	0
INSURANCE EXPENSE	2,605	448	3,053
REGULATORY COMMISSION EXPENSES	46	179	225
BAD DEBT EXPENSE	0	0	0
MISCELLANEOUS EXPENSES	7,575	(2,537)	5,038
TOTAL	\$ 45,930	\$ 21,471	\$ 67,401