

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase in Pinellas County by
Mid-County Services, Inc.

DOCKET NO. 971065-SU
ORDER NO. PSC-97-1608-PCO-SU
ISSUED: December 22, 1997

The following Commissioners participated in the disposition of this matter:

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

ORDER SUSPENDING PROPOSED RATES AND
APPROVING INTERIM RATES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Mid-County Services, Inc. (Mid-County or utility), a wholly owned subsidiary of Utilities, Inc., of Northbrook, Illinois, is a Class B utility, located in Pinellas County, Florida. Mid-County provides wastewater service to customers located in Dunedin, Florida. The utility is located in a region which has been designated by the South Florida Water Management District (SFWMD) as a critical use area. As of December 31, 1996, the utility served approximately 6,143 residential customers, general service and multi-family dwellings.

The utility's last rate case, Docket No. 921293-SU, was filed on April 1, 1993, culminating in Order No. PSC-93-1713-FOF-SU, issued November 30, 1993. Service availability charges for this utility were set in Order No. PSC-94-1042-FOF-SU, issued on August 24, 1994. Flat rates for unmetered service, a new class of service, were approved by Order No. PSC-95-0359-FOF-SU, issued on March 14, 1995. The 1996 Price Index and Ad Valorem Pass-Through was approved effective September 29, 1996.

On September 4, 1997, the utility filed the instant application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes, and

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requested that the Commission process this case under the proposed agency action (PAA) procedure. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on October 14, 1997, the utility satisfied the MFRs and this date was designated as the official filing date. The test year for interim and final purposes is the historical twelve-month period ended December 31, 1996.

SUSPENSION OF RATES

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

We have reviewed the filing and have considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We conclude that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination will include on-site investigations by Commission staff accountants, engineers, and rate analysts. Based on the foregoing, we find that it is appropriate to suspend the utility's proposed rate increase.

INTERIM RATES

As reflected in its MFRs, Mid-County requests interim rates designed to generate annual revenues of \$1,219,230. This represents a revenue increase of \$305,637 (33.45%). The requested test year for interim is the historical year ended December 31, 1996. The utility filed rate base, cost of capital, and operating statements to support its requested water and wastewater increase.

We have reviewed the utility's interim request, as well as the prior rate proceeding orders, and we have made adjustments as discussed below.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1. The utility has filed an average rate base for the calendar year ending December 31, 1996.

We have reviewed the utility's filing as required by Section 367.082(5)(b)(1), Florida Statutes, which provides that the achieved rate of return shall be calculated by applying appropriate adjustments consistent with those which were used in the utility's most recent individual rate proceeding and by annualizing any rate changes occurring during such period. The utility appears to have adjusted this rate base consistent with their last rate case. We have reviewed the filed rate base and shall make no additional adjustments.

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. The major adjustments are discussed below.

Mid-County filed the average capital structure for the year ending December 31, 1996. Since Mid-County does not issue its own debt, the debt and equity components of the parent company, Utilities, Inc., were allocated to Mid-County's equity capital and the resulting components were reconciled to the filed rate base. Based upon these components, amounts, and cost rates associated with the capital structure for the interim test year, we find it appropriate to approve a weighted average cost of capital of 9.22%.

In arriving at the approved overall rate of return with respect to Mid-County's request for interim rate relief, we have made one adjustment to the utility's filing. Specifically, we have substituted a cost of equity of 9.97%, which is the low end of the cost of equity established in Order No. PSC-93-1713-FOF-SU, Docket No. 921293-SU, the utility's previous rate case. The utility had used a cost rate based on the current leverage formula. Section 367.082(2)(a), Florida Statutes, requires that "[i]n a proceeding for an interim increase in rates, the commission shall authorize, within 60 days of the filing for such relief, the collection of rates sufficient to earn the minimum of the range of rate of return

calculated in accordance with subparagraph (5)(b)2." Our adjustment brings the filing in compliance with the law.

The net effect of this change is a slight reduction in the overall cost of capital from the 9.34% requested rate of return to the approved rate of 9.22%.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3-A, and our adjustments are itemized on Schedule No. 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 Operating Revenues

Section 367.082(5)(b)(1), Florida Statutes, states that the achieved rate of return is calculated by applying appropriate adjustments and annualizing any rate changes occurring during the interim test year. For purposes of the interim application, Mid-County chose the test year ending December 31, 1996. On September 25, 1996, the utility received a price index. It appears that Mid-County did annualize revenues associated with this price index. We have reviewed this adjustment and we find it is appropriate to make no further adjustments to test year revenue.

Test Year Net Operating Income

The utility has filed operating expenses, depreciation, amortization and taxes for the calendar year ending December 31, 1996. The utility appears to have adjusted these amounts consistent with their last rate case. We have reviewed the filed operating expenses, depreciation, amortization and taxes and find it appropriate to make no additional adjustments.

Based on the adjustments made above, we have determined that the appropriate test year operating income is a loss of \$14,873.

REVENUE REQUIREMENT

We have calculated the interim revenue requirements using the actual operating expenses for the year ended December 31, 1996, as adjusted by the utility and a 9.22% overall rate of return on a 13-

month average rate base. As a result, our approved revenue requirement is \$1,177,602 as shown on attached Schedule No. 3A and 3B. This represents an interim increase in annual wastewater revenues of \$264,009 or 28.90%. Therefore, we find it appropriate to approve interim rates which will allow the utility to generate \$264,009 in additional annual wastewater revenue as set forth below.

INTERIM RATES

We find it appropriate that interim service rates for Mid-County shall be designed to allow the utility the opportunity to generate additional annual operating revenues of \$264,009, an increase of 28.90%. When miscellaneous service revenues are excluded, the increase to the remaining rates is 28.94%, which shall be applied as an across-the-board increase to these rates.

This percentage increase is normally applied to the rates in place at the end of the interim test year. Section 367.0816, Florida Statutes, requires that rate case expense be recovered over a period of four years and that the rates of the utility be reduced immediately at the conclusion of the four years by the amount of rate case expense previously included in the rates. The four-year amortization period of rate case expense granted to Mid-County in Order No. PSC-93-1713-FOF-SU will expire on January 6, 1998. We find it appropriate that this rate decrease and the interim rate increase be combined to preclude the utility from filing two sets of tariffs and customer notices within days of each other. The customer notice shall inform the customers, not only of the interim increase, but also of the statutory decrease and the combined effect of the two. These tariffs shall be effective on or before January 6, 1998.

The rates in effect on December 31, 1996, were first reduced by the amounts specified in Order No. PSC-93-1713-FOF-SU in accordance with Section 367.0816, Florida Statutes. We then applied the interim percentage increase, excluding miscellaneous service revenue, to these reduced rates. The interim rates shall be implemented for service rendered on or after the stamped approval date on the tariff sheets provided customers have received notice. The revised tariff sheets shall be submitted in sufficient time to be approved and allow us to verify that the tariffs are consistent with our decision herein, that the proposed notice to the customers of the approved increase is adequate, and that the required security discussed below has been filed on or before

January 6, 1998. The utility shall provide proof of the date notice was given within 10 days after the date of notice.

The utility's prior, current, proposed interim, and proposed final rates, current less the statutory decrease, and the approved interim rates are shown on Schedule No. 4.

SECURITY FOR REFUND

Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. The utility has indicated in its filing that it will place the excess of interim rates over previously authorized rates under a corporate undertaking, subject to refund with interest, within sixty (60) days of its filing. Based on our review of Mid-County's financial data, we find that Mid-County is unable to qualify for a corporate undertaking on its own.

We have reviewed the financial data of Utilities, Inc., Mid-County's parent company. Utilities, Inc.'s records indicate that it has sufficient liquidity, ownership equity, profitability, and interest coverage. Therefore, we find it appropriate to authorize Utilities, Inc. to provide a corporate undertaking to guarantee the corporate undertaking of its subsidiary, Mid-County, for the interim rate revenues in the amount of \$135,000. We have calculated the potential refunds of wastewater revenues and interest collected under interim conditions to be \$135,000. This amount is based on an estimated six months of revenue being collected from the approved interim rates over the previously authorized rates shown on Schedule 4.

The corporate undertaking shall state that it will be released or terminated upon subsequent Order of the Commission addressing overearning or requiring a refund. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

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

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the final rates and schedules proposed by Mid-County Services, Inc. are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the request for an interim increase in wastewater rates by Mid-County Services, Inc. is hereby granted to the extent 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 schedules attached hereto are incorporated herein by reference. It is further

ORDERED that the approved interim rates shall become effective for service rendered on or after the stamped approval date on the tariff sheets, provided customers have received notice. It is further

ORDERED that the difference between the interim rates granted herein and Mid-County Services, Inc.'s previously authorized rates shall be collected subject to refund, with interest. It is further

ORDERED that Mid-County Services, Inc. shall provide a corporate undertaking guaranteed by Utilities, Inc., in the amount of \$135,000 as guarantee of any potential refund of wastewater revenues collected under interim conditions. It is further

ORDERED that prior to the implementation of the interim rates approved herein, Mid-County Services, Inc. shall file and have approved tariff pages revised in accordance with the provisions of this Order, appropriate security for the refund, a proposed customer notice, and proof that the customers have received notice of the rate increase. It is further

ORDERED that the tariff sheets will be stamped approved upon verification that they are consistent with our decision herein, that the proposed customer notice is adequate, and that the appropriate security is provided. It is further

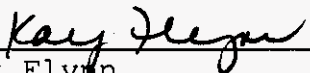
ORDERED that during the time the interim rates are in effect, Mid-County Services, Inc. shall file a report by the twentieth day

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of each month indicating the monthly and total revenue collected subject to refund, pursuant to Rule 25-30.360(6), Florida Administrative Code.

By ORDER of the Florida Public Service Commission this 22nd day of December, 1997.

BLANCA S. BAYÓ, Director
Division of Records and Reporting



Kay Flynn
Chief, Bureau of Records

(S E A L)

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is intermediate in nature, may request 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 wastewater utility. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final nor reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

MID-COUNTY SERVICES, INC.
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 1
 DOCKET 971065-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION APPROVED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$3,880,925	(\$131,742)	\$3,749,183	\$0	\$3,749,183
2 LAND	\$18,403	\$0	\$18,403	\$0	\$18,403
3 NON-USED & USEFUL COMPONENT	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$1,004,622)	\$15,570	(\$989,052)	\$0	(\$989,052)
5 CIAC	(\$2,174,889)	\$0	(\$2,174,889)	\$0	(\$2,174,889)
6 AMORTIZATION OF CIAC	\$777,284	\$2,696	\$779,980	\$0	\$779,980
7 ACQUISITION ADJUSTMENTS - NET	\$0	\$0	\$0	\$0	\$0
8 ADVANCES FOR CONSTRUCTION	\$0	\$0	\$0	\$0	\$0
9 UNFUNDED POST-RETIRE. BENEFIT	\$0	\$0	\$0	\$0	\$0
10 CONSTRUCTION WORK IN PROGRE	\$0	\$0	\$0	\$0	\$0
11 WORKING CAPITAL ALLOWANCE	\$103,144	\$0	\$103,144	\$0	\$103,144
12 OTHER	\$0	\$58,787	\$58,787	\$0	\$58,787
RATE BASE	\$1,600,245	(\$54,689)	\$1,545,556	\$0	\$1,545,556

MID-COUNTY SERVICES, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 2
 DOCKET 971065-SU

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DESCRIPTION	TOTAL CAPITAL	ADJUSTMENTS SPECIFIC	PRO RATA	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
UTILITY 1996 - 13-MONTH AVERAGE								
1 LONG TERM DEBT	\$0	\$0	\$772,480	\$772,480	49.98%	9.18%	4.59%	
2 SHORT-TERM DEBT	\$0	\$0	\$23,783	\$23,783	1.54%	9.74%	0.15%	
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	\$1,633,121	\$0	(\$937,729)	\$695,392	44.99%	10.23%	4.60%	
5 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	8.00%	0.00%	
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
7 DEFERRED ITC'S-ZERO COST	\$53,901	\$0	\$0	\$53,901	3.49%	0.00%	0.00%	
8 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
9 TOTAL CAPITAL	<u>\$1,687,022</u>	<u>\$0</u>	<u>(\$141,466)</u>	<u>\$1,545,556</u>	<u>100.00%</u>		<u>9.34%</u>	
COMMISSION APPROVED 1996 - 13-MONTH AVERAGE								
10 LONG TERM DEBT	\$772,480	\$0	\$0	\$772,480	49.98%	9.18%	4.59%	
11 SHORT-TERM DEBT	\$23,783	\$0	\$0	\$23,783	1.54%	9.74%	0.15%	
12 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
13 COMMON EQUITY	\$695,392	\$0	\$0	\$695,392	44.99%	9.97%	4.49%	
14 CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	0.00%	8.00%	0.00%	
15 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
16 DEFERRED ITC'S-ZERO COST	\$53,901	\$0	\$0	\$53,901	3.49%	0.00%	0.00%	
17 OTHER	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
18 TOTAL CAPITAL	<u>\$1,545,556</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,545,556</u>	<u>100.00%</u>		<u>9.22%</u>	
					LOW	MID	HIGH	
					RETURN ON EQUITY AUTHORIZED IN ORDER NO. PSC-93-1713-FOF-SU	9.97%	10.97%	11.97%
					OVERALL RATE OF RETURN	9.22%	9.22%	10.12%

MID-COUNTY SERVICES, INC.
 STATEMENT OF WASTEWATER OPERATIONS
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 3-A
 DOCKET 971065-SU

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DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION APPROVED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$883,000	\$336,230	\$1,219,230	(\$305,637)	\$913,593	\$264,009 28.90%	\$1,177,602
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$825,155	\$0	\$825,155	\$0	\$825,155		\$825,155
3 DEPRECIATION	\$63,126	(\$1,581)	\$61,545	\$0	\$61,545		\$61,545
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0		\$0
5 TAXES OTHER THAN INCOME	\$92,989	\$15,687	\$108,676	(\$13,754)	\$94,922	\$11,880	\$106,803
6 INCOME TAXES	(\$64,608)	\$144,164	\$79,556	(\$132,712)	(\$53,156)	\$94,695	\$41,539
7 TOTAL OPERATING EXPENSES	\$916,662	\$158,270	\$1,074,932	(\$146,466)	\$928,466	\$106,575	\$1,035,041
8 OPERATING INCOME	(\$33,662)	\$177,960	\$144,298	(\$159,171)	(\$14,873)	\$157,434	\$142,561
9 RATE BASE	\$1,600,245		\$1,545,556		\$1,545,556		\$1,545,556
10 RATE OF RETURN	-2.10%		9.34%		-0.96%		9.22%

**MID-COUNTY SERVICES, INC.
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDED 12/31/96**

**SCHEDULE NO. 3-B
 DOCKET 971065-SU
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EXPLANATION	WASTEWATER
OPERATING REVENUES	
Remove requested final revenue increase	<u>(\$305,637)</u>
OPERATION & MAINTENANCE EXPENSE	
	\$0
DEPRECIATION EXPENSE-NET	
	\$0
AMORTIZATION EXPENSE	
	\$0
TAXES OTHER THAN INCOME	
RAFs on revenue adjustments above	<u>(\$13,754)</u>
INCOME TAXES	
To adjust to test year net operating income tax expense	<u>(\$132,712)</u>
ADJUSTMENTS FOR REVENUE INCREASE (DECREASE):	
OPERATING REVENUES	\$264,009
TAXES OTHER THAN INCOME TAXES	11,880
INCOME TAXES	<u>94,695</u>
	<u>\$157,434</u>

MID-COUNTY SERVICES, INC.
 SCHEDULE OF WASTEWATER RATES
 TEST YEAR ENDED 12/31/96

SCHEDULE NO. 4
 DOCKET 971065-SU

Class	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Statutory Four-Year Reduction	Commission Approved Interim
BI-MONTHLY RATES					
Residential and Multi-Family					
Base Facility Charge: 5/8" x 3/4"	\$28.80	\$38.45	\$38.66	\$28.68	\$36.98
Gallage Charge, per 1,000 Gallons	\$1.51	\$2.02	\$2.03	\$1.50	\$1.93
Sewer Cap, per 1,000 Gallons	20	20	20	20	20
General Service					
Base Facility Charge: Meter Size:					
5/8" x 3/4"	\$28.80	\$38.45	\$38.66	\$28.68	\$36.98
1"	\$72.01	\$96.12	\$96.65	\$71.69	\$92.44
1-1/2"	\$144.02	\$192.24	\$193.30	\$143.38	\$184.87
2"	\$230.44	\$307.59	\$309.29	\$229.40	\$295.79
3"	\$460.89	\$615.18	\$618.57	\$458.81	\$591.59
4"	\$720.13	\$961.22	\$966.52	\$716.71	\$924.13
6"	\$1,440.28	\$1,922.45	\$1,933.03	\$1,433.80	\$1,848.74
Gallage Charge, per 1,000 Gallons	\$1.81	\$2.42	\$2.43	\$1.80	\$2.32
Flat Rates					
	\$50.67	\$67.64	\$68.01	\$50.44	\$65.04
	\$1,595.45	\$2,129.93	\$2,141.57	\$1,588.27	\$2,047.92
Typical Residential Bills					
5/8" x 3/4" meter					
3,000 Gallons	\$33.33	\$44.51	\$44.74	\$33.18	\$42.77
5,000 Gallons	\$36.35	\$48.55	\$48.80	\$36.18	\$46.63
10,000 Gallons	\$43.90	\$58.65	\$58.93	\$43.68	\$56.28
20,000 Gallons	\$59.00	\$78.85	\$79.20	\$58.68	\$75.58
Sewer Cap, per 10,000 Gallons	20	20	20	20	20