

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of  
overearnings for Morningside  
Utilities, Inc. in Osceola  
County.

DOCKET NO. 020045-WU  
ORDER NO. PSC-02-0486-PAA-WU  
ISSUED: April 8, 2002

The following Commissioners participated in the disposition of  
this matter:

LILA A. JABER, Chairman  
J. TERRY DEASON  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI  
RUDOLPH "RUDY" BRADLEY

ORDER GRANTING TEMPORARY RATES HELD SUBJECT TO REFUND  
IN THE EVENT OF PROTEST  
AND  
NOTICE OF PROPOSED AGENCY ACTION  
ORDER ESTABLISHING RATE BASE, FINDING OVEREARNINGS,  
AND REDUCING RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except the granting of temporary rates held subject to refund in the event of a protest, is preliminary in nature and 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.

BACKGROUND

Morningside Utility, Inc., (Morningside or utility) is a Class C water utility located in Osceola County. The utility provides water service to approximately 218 residential customers who utilize septic tanks for waste disposal. This Commission acquired jurisdiction over Osceola County on October 12, 1959. Although the

DOCUMENT NUMBER-DATE

03908 APR-88

FPSC-COMMISSION CLERK

ORDER NO. PSC-02-0486-PAA-WU  
DOCKET NO. 020045-WU  
PAGE 2

utility was established in 1983 by Schoolfield Properties, we were unaware of its existence until 1997.

On May 28, 1997, the utility filed its application for an original certificate pursuant to Section 367.045, Florida Statutes. The utility was granted operating Certificate No. 595-W, pursuant to Order No. PSC-97-1211-FOF-WU, issued October 7, 1997, in Docket No. 970636-WU. Mr. George DeVillers purchased the utility in 1988 from Schoolfield Properties.

On March 30, 1998, Morningside applied for a staff-assisted rate case pursuant to Section 367.0814, Florida Statutes. By Order No. PSC-98-1585-FOF-WU, issued November 25, 1998, in Docket No. 980445-WU, the Commission approved rate base, expenses, and rates for this utility.

On February 27, 1999, Mr. George DeVillers transferred majority organizational control of the utility to the present owner, Mr. Gary K. Turner. By Order No. PSC-99-1753-FOF-WU, issued September 7, 1999, in Docket No. 990248-WU, this Commission granted the transfer of majority organizational control.

A review of the utility's 2000 annual report showed possible overearnings. Therefore, an investigation of possible overearnings was initiated and a staff audit of the utility's records was performed. We selected an historical test year ending December 31, 2000.

Based on our findings and analysis as set forth in the Order, the utility is overearning. Therefore, revenues shall be decreased by an annual amount of \$14,664 (14.40%). The utility's test year revenue is \$101,854, and test year operating expenses are \$82,483. This results in an operating income of \$19,371 for the test year.

We have jurisdiction pursuant to Section 367.081, Florida Statutes.

#### QUALITY OF SERVICE

The utility records for the test year were utilized to calculate the percentage of plant that is used and useful in the public service. Currently, the utility and the Department of

Environmental Protection's (DEP) records indicate that the system is operating properly.

#### RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is shown on Schedule No. 1-A, and our adjustments are itemized on Schedule No. 1-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.

#### Used and Useful Adjustments

##### Water Treatment System

The water treatment plant has a firm reliable capacity of 0.189 million gallons per day (mgd) and the minimum size of this plant was mandated by DEP. Generally, this Commission's practice has been to determine the used and useful percentage by adding the growth allowance and the fire flow requirement to the five maximum days average flow and subtracting any excess unaccounted for water which produces the flows that are then divided by the plant capacity. In accordance with the formula method for calculating used and useful, this water treatment plant would be considered 73% used and useful. However, this utility has extenuating circumstances, in that it is surrounded on all four sides of its service area by the service areas of other utilities. Because the utility is surrounded on all four sides, eliminating the opportunity for future growth, we find that it is not appropriate to apply the standard method of calculating used and useful.

In Order No. PSC-98-1585-FOF-WU, the utility's last rate proceeding, this Commission found that implementing the standard formula method of calculating used and useful was not applicable for this utility. We reasoned as follows:

A strict used and useful calculation based on actual flow data and rated capacity would result in the water treatment plant being considered 17% used and useful. However, because of the small size of this utility and

limits to potential growth, we find it appropriate that an alternate method of calculating used and useful based on current customers versus customers in the service area at built out be used. Using this method results in the water treatment plant being 80% used and useful.

Upon applying this alternate method of calculation previously approved by this Commission, and because the service area is surrounded on all four sides by the service areas of other utilities, we find that the water treatment plant is 100% used and useful.

#### Water Distribution System

The utility's customer base is residential, and in this case lots are equal to equivalent residential customers (ERCs). Currently, this water distribution system has the potential to physically serve an estimated 230 ERCs (one ERCs = one connection). We find it appropriate to implement the standard ERC to ERC formula method of calculating used and useful.

In Order No. PSC-98-1585-FOF-WU, this Commission acknowledged that the distribution system was built out, and therefore approved a used and useful percentage of 100%. At that time, the system was considered built out with 175 connections, although physically the distribution system could handle 188 connections at total built out. On March 3, 1999, Morningside applied to this Commission for an amendment to extend its territory boundaries. By Order No. PSC-99-1810-FOF-WU, issued September 20, 1999, in Docket No. 990247-WU, we granted the application to include additional territory, and 42 new lots were added to the utility's service territory.

Currently, all 230 available connections are occupied with mobile homes that are connected to the main distribution system. Hence, this system remains 100% used and useful. In addition, the utility's surrounded service area restricts further growth.

#### Summary

Based on the above and most recent data, we find that the water treatment plant and the distribution system are 100% used and useful. Our used and useful calculations are shown on Attachment A.

Test Year Rate Base

The utility's rate base was last established in Order No. PSC-98-1585-FOF-WU. We have selected a test year ended December 31, 2000, for this rate case. Rate base components, established in Order No. PSC-98-1585-FOF-WU, have been updated through December 31, 2000, using information obtained from our staff audit and engineering reports. A discussion of each rate base component follows:

Utility Plant-in-Service (UPIS)

The utility recorded UPIS of \$142,718 for the test year ended December 31, 2000.

According to Audit Exception No. 2, the utility did not reconcile its UPIS account balances to amounts approved in Order No. PSC-98-1585-FOF-WU. Therefore, we have made an adjustment to increase UPIS by \$20,526 to reconcile UPIS to the Commission approved UPIS balance for the year ended November 25, 1998.

Audit Exception No. 2 also noted that the utility did not record several items of plant. These items were purchased and installed for use before the test year end and shall be included in the test year UPIS balance. Therefore, we have increased UPIS for unrecorded plant as follows:

<u>Account</u>	<u>Description</u>	<u>Amount</u>
307	Switch	\$135
320	Regulator, Chlorinator, and Valve	\$1,029
334	Meter	<u>\$496</u>
	Total	\$1,660

Audit Exception No. 2 further noted that the utility incorrectly capitalized telephone and cellular phone service during the test year. Because telephone service is an expense item, it shall not be capitalized. Therefore, we have reclassified \$458 from UPIS to miscellaneous expense Account No. 675. We have also decreased UPIS by \$2,593 to reflect an averaging adjustment.

The utility provided us with two items of plant that were placed in service after the test year. The first item was the installation of a chlorine vacuum monitor (\$716), which was required by DEP. The utility also replaced a well pump that was struck by lightning (\$4,000). Therefore, we have made an adjustment to increase UPIS by \$4,716 (\$716 + \$4,000) for pro forma plant additions. We have also decreased UPIS by \$2,358 to reflect an averaging adjustment on pro forma plant.

Based upon the foregoing, we find that the appropriate UPIS balance for Morningside is \$164,211.

Contributions-in-Aid-of-Construction (CIAC)

The utility recorded CIAC of \$0 for the test year ended December 31, 2000.

According to Audit Exception No. 3, the utility did not reconcile its CIAC balance to the CIAC balance approved in Order No. PSC-98-1585-FOF-WU. We have made the CIAC reconciliation by increasing CIAC by \$109,800. This increase reconciles the CIAC balance with the CIAC balance approved in Order No. PSC-98-1585-FOF-WU.

According to Audit Exception No. 4, the utility incorrectly recorded service availability charges as revenues. Service availability charges are considered contributions to plant and shall therefore be recorded as CIAC. We have increased CIAC by \$7,095 to reclassify service availability charges from the revenue account. Audit Exception No. 3 also noted that the utility did not record service availability charges associated with new customer connections since the utility's last rate case. Therefore, we have increased CIAC by \$25,715 to include the CIAC that should have been recorded based on the utility's service availability charges. We have also decreased CIAC by \$4,515 to reflect an averaging adjustment.

Based upon the foregoing, the utility's CIAC balance is \$138,095.

Accumulated Depreciation

The utility recorded a balance for accumulated depreciation of \$81,088 for the test year.

We have recalculated accumulated depreciation based on the depreciation rates provided by Rule 25-30.140, Florida Administrative Code. We have increased accumulated depreciation by \$2,004 to reconcile test year accumulated depreciation to the amount we have calculated for accumulated depreciation as prescribed by Rule 25-30.140, Florida Administrative Code. We have also decreased accumulated depreciation by \$4,313 to reflect an averaging adjustment.

Based upon the foregoing, accumulated depreciation for Morningside is \$138,095.

Amortization of CIAC

The utility did not record an amount in this account for the test year. According to Audit Exception No. 3, the utility did not reconcile its amortization of CIAC balance to the amortization of CIAC balance approved in Order No. PSC-98-1585-FOF-WU. Therefore, we have increased CIAC amortization by \$43,214 to reconcile it with the amortization of CIAC balance approved in Order No. PSC-98-1585-FOF-WU.

We have recalculated amortization of CIAC based on composite depreciation rates. We have increased CIAC amortization by \$17,989 to reflect our calculated amortization. We then decreased CIAC amortization by \$3,582 to reflect an averaging adjustment.

Based upon the foregoing, Morningside's approved CIAC amortization balance is \$57,621.

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), Florida Administrative Code, we shall use the one-eighth of the Operations and Maintenance (O&M) expense formula approach for calculating

working capital allowance. Applying that formula, we approve a working capital allowance of \$9,145 (based on O&M of \$73,162). We have increased working capital allowance by \$9,145 to include one-eighth of our approved O&M expenses.

#### Summary

Based on the foregoing, our adjustments to the utility's rate base results in an approved rate base of \$52,103.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is shown 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.

According to our staff audit, the utility recorded the following items in capital structure: common stock of \$500; retained earnings of \$2,063; paid-in-capital of \$85,197; total long term debt of \$183,181; and customer deposits of \$5,742.

The utility's \$183,181 of long term debt consists of three debt instruments. According to Audit Exception No. 8, the balances recorded by the utility did not reflect the actual balances per the debt agreements as of December 31, 2000. Therefore, we have reduced total long-term debt by \$8,871 to reflect the actual balances per the debt agreements. The weighted average cost of total long-term debt is 9.91%.

Using the current leverage formula approved by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, the appropriate rate of return on equity for all capital structures with an equity ratio of less than 40% is 11.34%. Since the utility's capital structure is 32.77% equity, the rate of return on equity is 11.34% with a range of 10.34% - 12.34%.

The utility's capital structure has been reconciled with rate base as approved herein. We approve a return on equity for Morningside of 11.34% with a range of 10.34% - 12.34%, and an overall rate of return of 10.30%.



NET OPERATING INCOME

Our calculation of net operating income is shown 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 that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Operating Revenues

The utility recorded \$108,520 for its operating revenue for the test year. According to Audit Exception No. 4, the utility improperly recorded service availability charges in this account during the test year. As previously noted, service availability charges are considered contributions to plant and shall be recorded as CIAC. Therefore, we have reclassified \$7,095 (including meter installation fees of \$665 and system capacity charges of \$6,430) from the revenue account to CIAC.

We have recalculated revenues based on the billing analysis and the tariffed rates in effect at the end of the test year. This recalculation results in a test year revenue increase of \$429 made to annualize test year revenues per the utility's tariffed rates and information contained in the billing analysis. Based on the above adjustments, the approved test year revenue for Morningside is \$101,854.

Test Year Operating Expenses

The utility recorded operating expenses of \$77,891 during the test year. We have compared the expenses approved in the utility's last rate case with the expenses recorded or requested for the test year. We have identified three accounts (601, 603, and 675) in which there was a substantial increase in expense or requested expense since the last rate case. By letter dated September 27, 2001, our staff requested that the utility justify the increase in expenses. The utility provided its explanations for the increased expenses by letter dated October 23, 2001.

The utility provided the auditor with access to all invoices, canceled checks, and other utility records to verify its O&M and

taxes other than income expense for the 12-month period ended December 31, 2000. Using the documents provided by the utility, we have determined the appropriate operating expenses for the test year and a breakdown of expenses by account class. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

The utility charged \$68,632 to O&M during the test year. Our calculation of the appropriate O&M expenses, including our adjustments, is shown on Schedule No. 3-C. 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.

Salaries and Wages-Employees (601) and Salaries and Wages-Officers (603)

The utility recorded \$823 for salaried employees and \$30,660 for salaried officers during the test year. In Audit Disclosure No. 2, the utility requested pro forma expenses of \$18,720 for the president, \$20,800 for the vice president, and \$6,240 for a casual laborer. We have compared the duties of the president and the vice president with the duties described in the utility's last rate case. The duties of the president were identical to the duties described for the salaried employee in the last rate case and the duties of the vice president were identical to the duties described for the salaried officer in the last rate case. Therefore, we find that the appropriate amount for salaries and wages is the amount approved in the last rate case adjusted for inflation.

By letter dated September 27, 2001, our staff requested that the utility justify in writing the reasons for its requested increase beyond the salaries approved in the last rate case. The utility's response cited the change in ownership to be the primary reason for the increase. The utility stated that the new owners were different people with different skills and dedication to the utility and customers. We do not find it reasonable to base an increase in salaries merely on a change in ownership.

It is our intent to approve expenses that are sufficient to operate the utility on a going-forward basis. We believe that if the duties are performed properly, then good customer service will follow. The utility points to increased customer satisfaction since the new owners obtained the utility, and we commend the new owners for their efforts to increase customer service. Nevertheless, we find that the previous Commission-approved balance for salaries is sufficient to meet the customer service needs.

The utility also requested \$6,240 for a casual laborer. The utility incurred \$4,908 during the test year for maintenance expenses that would fall under the duties of a casual laborer. The casual laborer is a related party (the owner's son). It is our practice to view related party transactions at arms length. However, the utility contracted these repairs out rather than hire a casual laborer. Because the utility was able to do so for less than the requested amount for a casual laborer, we have not increased this account for the requested casual laborer.

Based upon the foregoing, we find it appropriate to approve an amount for salaries and wages employees and salaries and wages officers that is equal to the balances approved in the utility's last rate case adjusted for inflation. To that end, we have increased Account No. 601 (Salaries and Wages-Employees) by \$31,297 and decreased Account No. 603 (Salaries and Wages-Officer) by \$26,847 to reflect Salaries and Wages-Employees expense of \$32,120 and Salaries and Wages-Officers expense of \$3,813, which are the previously-approved Commission balances adjusted for inflation.

Purchased Power Expense (615)

The utility recorded \$2,864 in this account for the test year. According to Audit Exception No. 5, the utility recorded an out-of-period electric bill of \$236. Because this expense was incurred outside of the test year, it shall be removed from test year expenses. Therefore, we have decreased purchased power expense by \$236 to remove the out-of-period electric bill.

Materials and Supplies (620)

The utility recorded \$3,171 in this account for the test year. The utility provided us with a breakdown of miscellaneous expenses.

This breakdown included \$1,045 for postage and billing supplies. Postage and billing supplies shall be recorded in Account No. 620 (Materials and Supplies). Therefore, we have increased Account No. 620 (Materials and Supplies) by \$1,045 to reclassify billing supplies from Account No. 675 (Miscellaneous Expense) to the Materials and Supplies account.

Contracted Services-Professional (631)

The utility recorded \$4,925 in this account for the test year. In the utility's last rate case, this Commission approved an allowance of \$1,300 to set up the utility's books in order to conform with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). We also required that this expense be amortized over five years. Because the five-year period has not passed, we have increased Contracted Services-Professional by \$260 ( $\$1,300 \div 5$  years) to reflect the NARUC set-up cost approved in the last rate case.

Contractual Services Other (636)

The utility did not record an amount in this account for the test year. According to Audit Disclosure No. 1, the utility did not record unpaid invoices in the amount of \$4,908 for casual labor. Although the utility did not pay the invoices during the test year, the expenses related to the casual laborer were incurred by the utility during the test year. Under accrual accounting, expenses are recognized when incurred. Therefore, we have increased this account by \$4,908 to include the unpaid invoices incurred during the test year.

Rents (640)

The utility did not record an amount in this account during the test year. The utility does have an office and this Commission approved \$1,200 for rent in the utility's last rate case. Therefore, we have increased this account by \$1,231 to reflect office rent approved in the last rate case, adjusted for inflation.

Insurance Expense (655)

The utility recorded \$5,609 in this account during the test year. We have annualized the insurance expense based on the policies contained in the audit work papers. We have decreased this account by \$1,164 to reflect annualized insurance expenses based on the insurance policies contained in the audit work papers.

Regulatory Commission Expense (655)

The utility did not record an amount in this account during the test year. In the utility's last rate case, this Commission approved rate case expense of \$1,788 to be amortized over four years. Because the four-year period has not expired, we find it appropriate to increase regulatory commission expense by \$447 ( $\$1,788 \div 4$  years) to include the previously-approved rate case expense.

Bad Debt Expense (670)

The utility recorded \$445 in this account for the test year. The utility provided us with a breakdown of miscellaneous expenses. This breakdown included an additional \$445 for bad debt expense. Therefore, we have made an adjustment to increase bad debt expense by \$445 to reclassify bad debt expense from Account No. 675 (Miscellaneous Expense) to the bad debt expense account.

Miscellaneous Expense (675)

The utility recorded \$12,296 for this expense during the test year. Our staff requested justification for the increase in miscellaneous expense from \$3,892 approved in the last rate case. The utility responded in a letter dated October 23, 2001, citing to expenses not classified correctly by the auditor and an increase in communication expense. The utility provided us with a breakdown of miscellaneous expenses. We have made adjustments to reclassify \$1,045 to Account No. 620, Materials and Supplies, and \$445 to Account No. 670, Bad Debt Expense. These items are further discussed above.

The utility recorded \$600 for an employee's IRA in this account during the test year. The NARUC USOA states that employee

pensions and benefits shall include all accruals under pension plans to which the utility has irrevocably committed such funds and payments for employee accident, sickness, hospital and death benefits or insurance therefor. It also includes expenses for medical, educational, or recreational activities of employees. In Order No. PSC-99-1883-PAA-SU, issued September 21, 1999, in Docket No. 980242-SU, this Commission found that an IRA does not fall into the category of an employee pension and benefit under the NARUC USOA. Therefore, we have made an adjustment to decrease miscellaneous expense by \$600 to remove the IRA contribution consistent with past Commission practice.

The utility recorded \$5,646 for communication expense, which included \$3,855 for Nextel cell phone bills, \$1,602 for the office phone, and \$189 for a pager. Further, according to Audit Exception No. 2, the utility recorded \$458 (\$373 cell phone, \$85 office phone) of communications expense in the UPIS account. Telephone service is an expense item and shall not be capitalized. Therefore, we have made an adjustment to increase miscellaneous expense by \$458 to reclassify communication expense from UPIS to the Miscellaneous Expense account. We find that the cellular and office phone expenses are excessive. The utility uses Nextel cell phones with the two-way digital communication. The utility uses two Nextel phones to take advantage of the two-way digital communication feature. We searched the Nextel website for service plans and found that a service plan with 500 minutes was approximately \$40 per month. We also find that an appropriate amount for local office phone service would be between \$30 and \$40 per month. We find that a monthly allowance of \$140 is an appropriate amount for communication services. This would allow for the two Nextel phones, the office phone, and estimated taxes that are not listed under the Nextel plan. Therefore, we have decreased miscellaneous expense by \$4,235 allowing annual communication service for the office and cell phone of \$1,680 (\$140 x 12 months).

We also decreased miscellaneous expense by \$85 to remove entertainment expense. We further decreased miscellaneous expense by \$704 to remove returned checks and by \$200 to remove penalties assessed by the IRS. Based on the above adjustments, we approve a Miscellaneous Expense of \$5,440 for Morningside.

O&M Summary

The total approved O&M adjustment is an increase of \$4,530. We approve a O&M expense of \$73,162 for Morningside.

Depreciation Expense

The utility did not record depreciation expense for the test year. We have calculated depreciation expense using the rates prescribed by Rule 25-30.140, Florida Administrative Code. We have increased depreciation expense by \$8,819 to reflect our calculated depreciation expense. We have also calculated test year amortization of CIAC, using composite rates. We have decreased depreciation expense by \$7,435 to reflect our approved amortization of CIAC. Amortization of CIAC has a negative impact on depreciation expense. Our approved net depreciation expense is \$1,384.

Taxes Other Than Income

The utility recorded \$9,259 in this account for the test year. We have increased regulatory assessment fees (RAFs) by \$440 based on the test year revenue approved herein. According to Audit Exception No. 6, the utility recorded \$1,762 in out-of-period taxes. Because these taxes were incurred outside of the test year, they shall be removed from test year expenses. We have therefore decreased this account by \$1,762 to remove out-of-period taxes.

Income Tax

Because the utility is a Sub-chapter S corporation, the utility pays no income taxes.

Operating Revenues

We have decreased revenues by \$14,664 to reflect the decrease in revenue requirement discussed later in this Order.

Taxes Other Than Income

We have decreased taxes other than income to reflect RAFs of 4.5% on the decrease in revenues as discussed above.

Operating Expenses Summary

The result of our adjustments to the audited test year operating expenses is an operating expense of \$81,823.

REVENUE REQUIREMENT

We find it necessary to decrease the utility's revenues by an annual amount of \$14,664 (14.40%) in order to allow the utility the opportunity to recover its expenses and earn a 10.30% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$52,103
Rate of Return	x .1030
Return on Rate of Return	<u>\$5,367</u>
Adjusted O & M expense	\$73,162
Depreciation expense (Net)	\$1,384
Amortization	\$0
Taxes Other Than Income	\$7,277
Income Taxes	\$0
Revenue Requirement	<u>\$87,190</u>
Adjusted Test Year Revenues	<u>\$101,854</u>
Percent Increase/(Decrease)	<u>(14.40)%</u>

RETURN ON EQUITY

Morningside's return on equity was set by this Commission in Order No. PSC-98-1585-FOF-WU, at 8.89%. We set rates in that Order that were designed to recover expenses and the authorized return on rate base. However, since rates were last established, the utility has grown by approximately 35 customers (19%). This growth was not anticipated in the last rate case and therefore was not accounted for in rates. We also calculated a repression adjustment for this



utility; however, the average customer use has remained virtually unchanged since the last rate case. Further, we approved a late payment charge in the last rate case for this utility. The late payment charge, along with other miscellaneous service charges, accounts for \$5,685 of the utility's test year revenues. This volume of miscellaneous service charge revenue was also not anticipated in the utility's last rate case.

Our adjusted test year figures show water revenues of \$101,854 with operating expenses of \$82,483 resulting in water operating income of \$19,371, which amounts to a 93.38% rate of return on equity. By this Order, we have established a new return on equity for this utility of 11.34%, based on the leverage formula approved in Order No. PSC-01-2514-FOF-WS. We hereby find that \$14,664 of the utility's water revenue exceeds the utility's approved 11.34% return on equity, and that the utility is overearning by this amount.

#### REDUCTION IN RATES AND CHARGES

During the test year, the utility provided service to approximately 218 residential customers. As previously discussed, the appropriate revenue requirement is \$87,190. The utility recorded \$5,685 of miscellaneous service charge revenues. However, miscellaneous service charge revenues are used to reduce revenue requirement recovered through rates. We have designed rates to cover \$81,505, which is the total revenue requirement less miscellaneous service charges.

The utility currently has a base facility and gallonage charge rate structure. In Order No. PSC-98-1585-FOF-WU (the utility's last rate case), we found that under the utility's current rate structure, the total average consumption per bill was 6,840 gallons, which is below the 10,000 gallon threshold that determines whether a more aggressive conservation-oriented rate structure is appropriate. According to the billing analysis, test year average consumption per bill was 6,942 gallons. We also found that although the utility had not implemented a conservation program, it appeared that its customers were voluntarily making efforts to conserve water because the water consumption for this utility was low.

Moreover, we found that the current rate structure promotes conservation and is designed to provide equitable sharing by the rate payers of both the fixed and variable costs for providing service. The base facility charge is based on the concept of readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of the fixed costs for providing service through the base facility charge, and also pay their share of the variable costs of providing service through the consumption or gallonage charge.

We find it appropriate to calculate rates based on the rate structure approved in Order No. PSC-98-1585-FOF-WU, adjusted for the decrease in revenue requirement. Schedules of the utility's current rates and our approved rates are as follow:

MONTHLY RATES - WATER

RESIDENTIAL AND GENERAL SERVICE

	<u>Existing Rates</u>	<u>Commission Approved Rates</u>
<u>Base Facility Charge</u>		
<u>Meter Sizes</u>		
5/8" x 3/4"	\$15.47	\$13.11
1"	\$38.68	\$32.78
1 1/2"	\$77.37	\$65.57
2"	\$123.79	\$104.91
3"	\$247.58	\$209.83
4"	\$386.84	\$327.85
6"	\$773.69	\$655.71
 <u>Gallonage Charge</u>		
Per 1,000 Gallons	\$3.12	\$2.64

The approved decrease in revenue requirements is \$14,664 or approximately 14.40%. The service rates approved for the utility are designed to produce revenues of \$81,505, excluding miscellaneous service charge revenues. Because miscellaneous service charge revenue is cost based, we find it appropriate to reduce the \$14,664 of revenue requirement through service rates. Applying the \$14,664 revenue requirement decrease to service

revenues results in an actual decrease of 15.25% (\$14,664/\$81,505) to service revenues.

Approximately 7% (\$5,685) of the revenue requirement is recovered through miscellaneous service charges and approximately 39% (\$33,955) of the revenue requirement is recovered through the recommended base facility charge (BFC). The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 54% (\$47,550) are revenues collected through the consumption charge based on the number of gallons consumed.

These rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with our decision and that the customer notice is adequate. Morningside shall provide proof of the date notice was given within ten days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

#### DISCONTINUANCE OF SYSTEM CAPACITY CHARGE

Rule 25-30.580, Florida Administrative Code, sets contribution guidelines as follows:

- (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and
- (2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of

such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

The utility is currently 97% contributed. Based on the guidelines in Rule 25-30.580, Florida Administrative Code, the utility is over-contributed.

The utility currently has a \$600 tariffed system capacity charge. Collection of the system capacity charge is recorded as CIAC and reduces the rate base or utility investment. We believe that a contribution level higher than 75% reduces the invested interest of the owner and could lead to possible abandonments. We also find that continued collection of the system capacity charge has exacerbated, and will continue to exacerbate, the utility's current overearnings.

For the foregoing reasons, we find it appropriate to discontinue the utility's system capacity charge.

#### TEMPORARY RATES IN THE EVENT OF PROTEST

The test year revenues of \$101,854 and operating expenses of \$82,483 approved herein results in water operating income of \$19,371, which reflects a 93.38% rate of return on equity. By this Order, we have decreased the utility's annual service revenue by \$14,664 (15.25%), which will provide the utility an opportunity to earn an overall rate of return of 10.30%. In the event of a protest of the proposed agency action taken herein, the utility shall be allowed to continue collecting existing rates as temporary rates. However, in order to protect utility customers from potential overearnings, the utility shall hold \$14,664 (15.25%) of annual service revenues subject to refund.

#### Security for Temporary Rates

Pursuant to Section 367.082, Florida Statutes, when revenues are held subject to refund, the utility is authorized to continue collecting the previously authorized rates. The amount of potential overearnings in the water system is \$14,664 on an annual basis. Assuming an eight-month time frame to complete the hearing process, the potential refund amount would be \$9,776. Interest,

calculated in accordance with Rule 25-30.360, Florida Administrative Code, is \$140, bringing the total \$9,916, which shall be collected under guarantee, subject to refund with interest.

The security shall be in the form of a bond or letter of credit in the amount of \$9,916. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

If the utility chooses a letter of credit as security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until the final Commission order is rendered, and the amount of refund, if any, is determined.

If security is provided through an escrow agreement, the utility shall escrow 15.25% of its monthly revenues and the following conditions shall be part of the escrow agreement:

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

In no instance shall the maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Also, by no later than the twentieth day of each month, the utility shall file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Morningside Utilities, Inc., shall reduce its rates and charges as set forth in the body of this Order. It is further

ORDERED that Morningside Utilities, Inc.'s, System Capacity Charges are hereby discontinued. 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

ORDER NO. PSC-02-0486-PAA-WU  
DOCKET NO. 020045-WU  
PAGE 23

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

ORDERED that prior to the implementation of the rates and charges approved herein, Morningside Utilities, Inc., shall submit and have approved revised tariff sheets. The revised tariff sheets will be approved upon our staff's verification that they are consistent with our decision herein, and that the customer notice is adequate. It is further

ORDERED that the rates and charges approved herein shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. It is further

ORDERED that Morningside Utilities, Inc., shall provide proof of the date notice was given within ten days after the date of the notice. It is further

ORDERED that if the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date. It is further

ORDERED that the provisions of this Order issued as proposed agency action shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that, in the event of a protest, Morningside Utilities, Inc., is authorized to continue collecting its previously authorized rates on a temporary basis, subject to refund

ORDER NO. PSC-02-0486-PAA-WU  
DOCKET NO. 020045-WU  
PAGE 24

with interest in accordance with Rule 25-30.360, Florida Statutes, provided that the utility first furnishes and has approved by Commission staff, adequate security for any potential refund, as set forth in the body of this Order. It is further

ORDERED that in no instance shall the maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. It is further

ORDERED that, in the event of a protest and implementation of temporary rates, by no later than the twentieth day of each month, Morningside Utilities, Inc., shall file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund. It is further

ORDERED that if no timely protest is received to the proposed agency action issues upon expiration of the protest period, this Order will become final and effective upon the issuance of a Consummating Order and the docket shall be closed.

By ORDER of the Florida Public Service Commission this 8th day of April, 2002.

BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records and Hearing  
Services

( S E A L )

RG



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.

As identified in the body of this order, the action discussed herein, except the granting of temporary rates held subject to refund in the event of a protest, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 29, 2002. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating 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.

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 the Commission Clerk and Administrative Services 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 wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative

ORDER NO. PSC-02-0486-PAA-WU

DOCKET NO. 020045-WU

PAGE 26

Services 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.

**WATER TREATMENT PLANT - USED AND USEFUL DATA**

Docket No. 020045-WU - MORNINGSIDE UTILITIES, INC.

- |    |   |         |                 |
|----|---|---------|-----------------|
| 1) | <b>Firm Reliable Capacity of Plant</b>              | 189,000 | gallons per day |
| 2) | <b>Average of 5 Highest Days From Maximum Month</b> | 137,800 | gallons per day |
| 3) | <b>Average Daily Flow</b>                           | 51,378  | gallons per day |
| 4) | <b>Fire Flow Capacity</b>                           | N/A     | gallons per day |
| 5) | <b>Growth</b>                                       | 0       | gallons per day |
|    | a) Test year Customers in ERCs:                     |         |                 |
|    |   | Begin   | 230             |
|    |   | End     | 230             |
|    |   | Average | 230             |
|    | (Use average number of customers)                   |         |                 |
|    | b) Customer Growth in ERCs                          | 0       | ERCs            |
|    | c) Statutory Growth Period                          | 5       | Years           |
|    | (b)x(c)x [3\ (a)] = gallons per day for growth      |         |                 |
| 6) | <b>Excessive Unaccounted for Water</b>              |         | gallons per day |
|    | a) Total Unaccounted for Water                      |         | gallons per day |
|    | Percent of Average Daily Flow                       |         |                 |
|    | b) Reasonable Amount                                |         | gallons per day |
|    | (10% of average Daily Flow)                         |         |                 |
|    | c) Excessive Amount                                 |         | gallons per day |

**USED AND USEFUL FORMULA**

$$[(2)+(4)+(5)-(6)]/(1) = *73\% \text{ Used and Useful}$$

\*Note: This percentage is a result of using the standard formula, which in this case is not applicable.

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 020045-WU; MORNINGSIDE UTILITIES, INC.**

- |  |     |             |
|--|-----|-------------|
| 1) <b>Capacity of System</b> (Number of Potential Customers, ERCs or Lots Without Expansion)     | 230 | connections |
| 2) <b>Test year connections</b>  |     |             |
| a) Beginning of Test Year  | 230 | connections |
| b) End of Test Year  | 230 | connections |
| c) Average Test Year   | 230 | connections |
| 3) <b>Growth</b>   | 230 | connections |
| a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 0   | connections |
| b) Statutory Growth Period   | 5   | Years       |
| (a)x(b) = 0 connections allowed for growth   |     |             |

**USED AND USEFUL FORMULA**

$$[(2)+(3)]/(1) = 100\% \text{ Used and Useful}$$

MORNINGSIDE UTILITIES, INC. TEST YEAR ENDING 12/31/00 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 020045-WU	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$142,718	\$21,493	\$164,211
2. LAND & LAND RIGHTS	38,000	\$0	\$38,000
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	0	(\$138,095)	(\$138,095)
5. ACCUMULATED DEPRECIATION	(81,088)	\$2,309	(\$78,779)
6. AMORTIZATION OF CIAC	0	\$57,621	\$57,621
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>\$9,145</u>	<u>\$9,145</u>
8. WATER RATE BASE	<u>\$99,630</u>	<u>(\$47,527)</u>	<u>\$52,103</u>

**MORNINGSIDE UTILITIES, INC.  
 TEST YEAR ENDING 12/31/00  
 ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-B  
 DOCKET NO. 020045-WU**

**WATER**

**UTILITY PLANT IN SERVICE**

1. Adjust to plant balance per Order PSC-98-1585-FOF-WU	\$20,526
2. Increase Act. 307 for switch	135
3. Increase Act. 320 for Regulator, Valve, and Chlorinator	1,029
4. Increase Act. 334 for Meter	496
5. Reclassify Miscellaneous Expense	(458)
6. Averaging Adjustment	(2,593)
7. ProForma plant	4,716
8. ProForma Avg. Adj.	<u>(2,358)</u>
<b>Total</b>	<b><u>\$21,493</u></b>

**CIAC**

1. To reflect Order No. PSC-98-1585-FOF-WU	(\$109,800)
2. To reclassify from Revenue	(7,095)
3. To reflect unrecorded CIAC	(25,715)
4. Averaging Adjustment	4,515
<b>Total</b>	<b><u>(\$138,095)</u></b>

**ACCUMULATED DEPRECIATION**

1. To reflect test year depreciation calculated per 25-30.140 FAC.	(\$2,004)
2. Averaging Adjustment	4,313
<b>Total</b>	<b><u>\$2,309</u></b>

**AMORTIZATION OF CIAC**

1. Adjust to balance per Commission Order No. 15124.	\$43,214
2. To reflect accumulated amortization per 25-30.140 FAC.	17,989
3. Averaging Adjustment	(3,582)
<b>Total</b>	<b><u>\$57,621</u></b>

**WORKING CAPITAL ALLOWANCE**

1. To reflect 1/8 of test year O & M expenses.	<u>\$9,145</u>
--	----------------

MORNINGSIDE UTILITIES, INC. TEST YEAR ENDING 12/31/00 SCHEDULE OF CAPITAL STRUCTURE			SCHEDULE NO. 2 DOCKET NO. 020045-WU					
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$500	\$0	\$500					
2. RETAINED EARNINGS	2,063	0	2,063					
3. PAID IN CAPITAL	85,197	0	85,197					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$87,760	\$0	87,760	(70,686)	17,074	32.77%	11.34%	3.72%
6. LONG TERM DEBT		0	0	0	0	0.00%	0.00%	0.00%
GEORGE DEVILLERS	145,452	(5,024)	140,428	(113,108)	27,320	52.44%	10.00%	5.24%
FORD CREDIT	7,420	(110)	7,310	(5,888)	1,422	2.73%	11.50%	0.31%
GARY TURNER	<u>30,309</u>	<u>(3,737)</u>	<u>26,572</u>	<u>(21,402)</u>	<u>5,170</u>	<u>9.92%</u>	9.00%	0.89%
TOTAL LONG TERM DEBT	183,181	(8,871)	174,310	(140,398)	33,912	65.09%		
7. CUSTOMER DEPOSITS	<u>5,742</u>	<u>0</u>	<u>5,742</u>	<u>(4,625)</u>	<u>1,117</u>	<u>2.14%</u>	6.00%	<u>0.13%</u>
8. TOTAL	<u>\$276,683</u>	<u>(\$8,871)</u>	<u>\$267,812</u>	<u>(\$215,709)</u>	<u>\$52,103</u>	<u>100.00%</u>		<u>10.30%</u>
RANGE OF REASONABLENESS RETURN ON EQUITY OVERALL RATE OF RETURN						<u>LOW</u> 10.34% 9.97%	<u>HIGH</u> 12.34% 10.62%	

MORNINGSIDE UTILITIES, INC. TEST YEAR ENDING 12/31/00 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 020045-WU		
	TEST YEAR PER UTILITY	ADJUST. PER UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR DECREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$108,520</u>	<u>(\$6,666)</u>	<u>\$101,854</u>	(\$14,664) -14.40%	<u>\$87,190</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	68,632	4,530	73,162	0	73,162
3. DEPRECIATION (NET)	0	1,384	1,384	0	1,384
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	9,259	(1,322)	7,937	(660)	7,277
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$77,891</u>	<u>\$4,592</u>	<u>\$82,483</u>	(\$660)	<u>\$81,823</u>
8. OPERATING INCOME/(LOSS)	<u>\$30,629</u>		<u>\$19,371</u>		<u>\$5,367</u>
9. WATER RATE BASE	<u>\$99,630</u>		<u>\$52,103</u>		<u>\$52,103</u>
10. RATE OF RETURN	<u>30.74%</u>		<u>37.18%</u>		<u>10.30%</u>
11. RETURN ON EQUITY	<u>73.74%</u>		<u>93.38%</u>		<u>11.36%</u>



**MORNINGSIDE UTILITIES, INC.  
 TEST YEAR ENDING 12/31/00  
 ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B  
 DOCKET NO. 020045-WU  
 PAGE 1 OF 2**

	<u>WATER</u>
<b>OPERATING REVENUES</b>	
1. Reclassify service availability charges to CIAC	(\$7,095)
2. Annualize Revenue	<u>429</u>
Subtotal	<u>(\$6,666)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Salaries and Wages - Employees (601)	
a. Reflect Salaries from previous Order adjusted for inflation	<u>\$31,297</u>
2. Salaries and Wages - Officers (603)	
a. Reflect Officers Salaries from previous Order adjusted for inflation	<u>(\$26,847)</u>
3. Purchased Power (615)	
a. Removal of out-of-period power bill	<u>(\$236)</u>
4. Materials and Supplies (620)	
a. Reclassify for Billing supplies	<u>\$1,045</u>
5. Contractual Services - Professional (632)	
a. To reflect Amortization of NARUC setup	<u>\$260</u>
6. Contractual Services - Other (636)	
a. Increase for unpaid invoices	<u>\$4,908</u>
7. Rents (640)	
a. To reflect rent of previous order	<u>\$1,231</u>
8. Insurance Expenses (655)	
a. To reflect annualized monthly payment	<u>(\$1,164)</u>
9. Regulatory Commission Expense (665)	
a. To reflect Amortization of Rate Case Expense	<u>\$447</u>
10. Bad debt Expense (670)	
a. Increase per Audit Exception No. 5	
b. Reclassify from Acct. 675 (Misc. exp.)	<u>445</u>
Total	<u>\$445</u>
11. Miscellaneous Expense (675)	
a. Remove IRA contributions	(600)
b. Reclassify to Acct. 620	(1,045)
c. Reclassify to Acct. 670	(445)
d. Reclassify from plant for telephone expense	458
e. Removal of excessive telephone billing	(4,235)
f. To remove Entertainment Expense	(\$85)
g. Remove expense for returned checks	(704)
h. Remove IRS penalty	(200)
Total	<u>(\$6,856)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>\$4,530</u>

**MORNINGSIDE UTILITIES, INC.  
TEST YEAR ENDING 12/31/00  
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B  
DOCKET NO. 020045-WU  
PAGE 2 OF 2**

	<u>WATER</u>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect test year depreciation calculated per 25-30.140, FAC.	\$8,819
3. Test year amortization of CIAC.	<u>(7,435)</u>
<b>Total</b>	<u>\$1,384</u>
<b>TAXES OTHER THAN INCOME</b>	
1. To include regulatory assessment fees on annualized revenue.	\$440
2. Removal of out-of-period taxes	<u>(1,762)</u>
<b>Total</b>	<u>(\$1,322)</u>

MORNINGSIDE UTILITIES, INC. TEST YEAR ENDING 12/31/00 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 020045-WU		
	TOTAL PER UTILITY	COMM. ADJUST.		TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	823	31,297	[1]	32,120
(603) SALARIES AND WAGES - OFFICERS	30,660	(26,847)	[2]	3,813
(604) PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	2,864	(236)	[3]	2,628
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	1,754	0		1,754
(620) MATERIALS AND SUPPLIES	3,171	1,045	[4]	4,216
(630) CONTRACTUAL SERVICES - BILLING	0	0		0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,925	260	[5]	5,185
(635) CONTRACTUAL SERVICES - TESTING	1,835	0		1,835
(636) CONTRACTUAL SERVICES - OTHER	0	4,908	[6]	4,908
(640) RENT	0	1,231	[7]	1,231
(650) TRANSPORTATION EXPENSE	4,250	0		4,250
(655) INSURANCE EXPENSE	5,609	(1,164)	[8]	4,445
(665) REGULATORY COMMISSION EXPENSE	0	447	[9]	447
(670) BAD DEBT EXPENSE	445	445	[10]	890
(675) MISCELLANEOUS EXPENSES	<u>12,296</u>	<u>(6,856)</u>	[11]	<u>5,440</u>
	68,632	4,530		73,162

**APPROVED RATE REDUCTION SCHEDULE**

MORNINGSIDE UTILITIES, INC.  
 TEST YEAR ENDING 12/31/00

SCHEDULE NO. 4  
 DOCKET NO.  
 020045-WU

**CALCULATION OF RATE REDUCTION AMOUNT**

**MONTHLY WATER RATES**

<b>RESIDENTIAL SERVICE</b>		<b><u>CURRENT RATES</u></b>	<b><u>APPROVED RATES</u></b>
<b>BASE FACILITY CHARGE:</b>			
<b>Meter Size:</b>			
5/8"X3/4"	\$	15.47	13.11
1"		38.68	32.78
1-1/2"		77.37	65.57
2"		123.79	104.91
3"		247.58	209.83
4"		386.84	327.85
6"		773.69	655.71
 <b>RESIDENTIAL GALLONAGE CHARGE</b>			
<b>PER 1,000 GALLONS</b>	\$	3.12	2.64