

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Bay  
County by Bayside Utility Services, Inc.

DOCKET NO. 030444-WS  
ORDER NO. PSC-04-0414-PCO-WS  
ISSUED: April 22, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman  
J. TERRY DEASON  
LILA A. JABER  
RUDOLPH "RUDY" BRADLEY  
CHARLES M. DAVIDSON

ORDER SUSPENDING PROPOSED RATES AND  
GRANTING INTERIM RATE INCREASE SUBJECT TO REFUND

BY THE COMMISSION:

I. BACKGROUND

Bayside Utility Services, Inc. (Bayside or utility) is a class B water and wastewater utility currently serving approximately 283 residential customers and 4 general service customers. Bayside is a reseller utility purchasing water and wastewater service from the City of Panama City Beach and, as such, is considered non-jurisdictional by the Northwest Florida Water Management District. The utility has been providing wastewater service since 1973.

By Order No. PSC-98-1269-FOF-WS, issued September 24, 1998, in Docket No. 971401-WS, this Commission approved a rate increase based on a historical test year ended December 31, 1997. By Order No. PSC-99-1818-PAA-WS, issued September 20, 1999, in Docket No. 981403-WS, this Commission approved the certificate transfer to Bayside Utility Services, Inc.

On November 17, 2003, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on February 17, 2004, the utility satisfied the MFRs and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. This utility has requested that we process this case using the Proposed Agency Action (PAA) procedure.

The test year for interim and final purposes is the historical test year ended December 31, 2002. Bayside has requested interim water and wastewater revenues of \$120,894 and \$153,427, respectively. The interim revenue request represents an increase of \$55,000 (or 83.47%) for water and \$60,814 (or 65.66%) for wastewater. The utility has requested final water and

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wastewater revenues of \$147,563 and \$174,060, respectively. This represents an increase of \$81,669 (or 123.94%) for water and \$81,447 (or 87.94%) for wastewater.

The sixty-day statutory deadline for us to suspend the utility's requested final rates is April 17, 2004. This Order addresses the suspension of Bayside's final rates and approval of the appropriate interim rate increase. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

## II. 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 this Commission votes to withhold consent of implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) we have not acted upon the requested rate increase; or (2) if our 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 find 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 staff accountants and engineers. Based on the foregoing, we find that it is appropriate to suspend the utility's proposed rate increase.

## III. INTERIM RATES

In its MFRs, Bayside requested interim rates designed to generate annual revenues of \$120,894 and \$153,427 for water and wastewater, respectively. This represents a revenue increase of \$55,000 (or 83.47%) for water and \$60,814 (or 65.66%) for wastewater. The utility has filed rate base, cost of capital, and operating statements to support its requested water and wastewater increases.

Pursuant to Section 367.082(5)(b)1., Florida Statutes, the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding. We have reviewed the utility's interim request, as well as Order No. PSC-98-1269-FOF-WS, in which we last established rate base, and find that adjustments are required as discussed below. We have attached accounting schedules to illustrate our calculation of the appropriate rate base, capital structure, and test year operating income amounts. The rate base schedules are labeled as Nos. 1-A and 1-B, with adjustments shown on No. 1-C. The capital structure schedule is No. 2, and the operating income schedules for water and wastewater, respectively, are labeled as Nos. 3-A and 3-B, with the adjustments shown on No. 3-C.

### A. Rate Base

Based on analysis of the MFRs and our past orders, we find that the following adjustments to the utility's rate base are necessary.

#### 1. Plant in Service

In its MFRs, Bayside removed the balance of a negative acquisition adjustment from rate base. By Order No. PSC-99-1818-PAA-WS, pps. 5-7, this Commission declined to recognize the negative acquisition above-the-line. In its MFRs, the utility reflected acquisition costs of \$39,040 and \$18,798 for water and wastewater, respectively, as organization and franchise plant. To be consistent with the utility's adjustment to remove the negative acquisition adjustment, these acquisition costs shall also be removed. As such, plant shall be reduced by \$39,040 for water and \$18,798 for wastewater. Corresponding adjustments shall be made to reduce accumulated depreciation by \$2,076 for water and \$1,382 for wastewater. Also, corresponding adjustments shall be made to reduce depreciation expense by \$984 for water and \$514 for wastewater.

#### 2. Working Capital

The utility used the formula approach (1/8 of operation and maintenance (O&M) expenses) to calculate working capital. Based on adjustments to O&M expenses discussed later in this Order, working capital shall be reduced by \$760 for water and \$615 for wastewater.

Based on the above adjustments, Bayside's interim rate base is \$83,788 for water and \$224,879 for wastewater.

### B. Cost of Capital

In its MFRs, Bayside used a simple average capital structure, which consisted of allocated investor sources of capital from Utilities, Inc. (the utility's parent company) and actual customer deposits and a negative balance of accumulated deferred income taxes for Bayside. Bayside used a return on equity (ROE) of 11.77%, which reflects the mid-point of the Commission's 2003 leverage formula. This formula was established by Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, in Docket No. 030006-WS. The utility's requested interim cost of capital was 9.21%.

A review of the utility's requested cost of capital shows that two adjustments are appropriate. First, pursuant to Section 367.082(2)(a), Florida Statutes, Bayside should have used the minimum of the range of its last authorized ROE. According to Order No. PSC-98-1269-FOF-WS, p. 11, the minimum of the utility's last authorized ROE was 9.46%. As such, the appropriate ROE for interim purposes is 9.46%.

The second adjustment to cost of capital relates to the inclusion of Bayside's balance of deferred taxes as a negative number. As reflected in its MFRs, the utility has a simple average

credit balance of \$7,305 for deferred taxes. Thus, the deferred taxes shall be reflected as a positive \$7,305 balance in the cost of capital calculation.

Based on the above, the overall cost of capital for interim purposes is 7.87%.

### C. Net Operating Income

Section 367.082(5)(b)1., Florida Statutes, states that the achieved rate of return is calculated by applying adjustments consistent with the utility's last rate proceeding and annualizing any rate changes occurring during the interim test year. Although we have no adjustments to the utility's annualized revenues, we do have several adjustments to operating expenses.

#### 1. Operating Expenses

First, the utility made several adjustments to O&M expenses for salaries and other allocated costs. These adjustments are pro forma in nature and are not appropriate on an interim basis. Thus, O&M expenses shall be reduced by \$2,486 for water and \$2,649 for wastewater. Corresponding adjustments shall also be made to remove the utility's pro forma adjustment for payroll taxes of \$53 for both water and wastewater.

Second, in its MFRs, Bayside reflected unaccounted water of 14.13% and purchased water expense of \$48,112. In Bayside's last rate case, this Commission reduced purchased water expense due to an unacceptable level of unaccounted for water in excess of 10%. See Order No. PSC-98-1269-FOF-WS, pps. 13-14. Consistent with the utility's last rate case, we find that 4.13% of Bayside's purchased water expense shall be removed for interim purposes. This results in a \$1,987 reduction to purchased water expense.

Third, the utility included \$214 of rate case expense for both water and wastewater. Since the utility's last rate proceeding was more than four years ago, no rate case expense shall be included in the test year O&M expenses. As such, O&M expenses shall be reduced by \$214 for both water and wastewater.

Last, Bayside recorded bad debt expense of \$2,219 for water and \$3,112 for wastewater. In its last rate proceeding, this Commission removed excessive bad debt expenses and found that the appropriate bad debt expenses were \$745 for both water and wastewater. See Order No. PSC-98-1269-FOF-WS, p. 18. The allowed bad debt expenses represented 1.25% and 1.14% of the Commission adjusted test year water and wastewater revenues, respectively. To be consistent, interim bad debt expenses shall be based on the same ratios allowed in the last rate case. Using those ratios, the bad debt expense is calculated to be \$823 for water and \$1,054 for wastewater. As a result, bad debt expenses shall be reduced by \$1,396 for water and \$2,058 for wastewater.

2. Net Operating Income

Based on these adjustments, the appropriate test year operating income, before any revenue increase, is a loss of \$18,744 for water and a loss of \$12,755 for wastewater.

D. Revenue Requirement

Based on the above, we find that the interim revenue requirement is \$108,441 for water and \$143,758 for wastewater. This represents an interim increase in annual revenues of \$42,547 (or 64.57%) for water and \$51,145 (or 55.22%) for wastewater. This will allow the utility the opportunity to recover its operating expenses and earn a 7.87% return on its rate base.

E. Interim Rates

To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues must be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>	<u>Wastewater</u>
1 Total Test Year Revenues	\$65,894	\$92,613
2 Less: Miscellaneous Revenues	<u>955</u>	<u>1,342</u>
3 Test Year Revenues from Service Rates	\$64,939	\$91,271
4 Revenue Increase	<u>\$42,547</u>	<u>\$51,145</u>
5 % Service Rate Increase (Line 4/Line 3)	<u>65.52%</u>	<u>56.04%</u>

These rate increases of 65.52% for water and 56.04% for wastewater shall be applied as an across the board increase to the service rates in effect as of December 31, 2002. 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 will be approved upon our staff's verification that the tariff sheets are consistent with our decision, that the proposed notice to the customers is adequate, and that the required security discussed below is filed. The utility shall provide proof of the date notice was given within 10 days after the date of notice.

The utility's current, proposed interim, and proposed final rates, and our approved interim rates are shown on Schedules Nos. 4-A and 4-B.

IV. 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 requested a corporate undertaking to secure any interim increase granted. Based on an estimated six months of interim revenue being collected, the potential refund of water and wastewater revenues is \$46,964.

UI currently is guaranteeing a total of \$704,180 with a corporate undertaking on behalf of its Florida subsidiaries. The same day as our decision here, we also approved an additional corporate undertaking of \$58,758 for another interim increase for another UI subsidiary -- Mid-County Services, Inc., in Docket No. 030446-SU. These incremental corporate guarantees raise UI's total guarantee to a cumulative amount of \$809,902.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Bayside is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. As such, our staff reviewed the financial statements of the parent company from 2000 to 2002 to determine the financial condition of UI. This review shows that UI has experienced a significant decline in net income and interest coverage from 2000 to 2002. The primary reason for this reversal has been merger-related charges of \$9.8 million in 2001 and \$9.9 million in 2002. UI states that merger related costs have been fully recovered and there will be no additional charges levied by the parent. Absent these merger-related charges, UI's financial performance would show a 3-year trend of stable equity capitalization, interest coverage, and profitability. Based upon this analysis, we find that a cumulative amount of \$809,902 (\$46,964 for Bayside) is acceptable contingent upon receipt of the written guarantee of UI and written confirmation of its oral attestation that UI does not have any outstanding guarantees on behalf of its utilities in other states.

The corporate undertaking shall state that it will be released or terminated upon subsequent order of the Commission addressing any refund requirements. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the final rates and schedules proposed by Bayside Utility 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 water and wastewater rates by Bayside Utility 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 by reference incorporated herein. It is further

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

ORDERED that Bayside Utility Services, Inc. shall provide our staff with revised tariff sheets consistent with this Order, a proposed customer notice, and appropriate security. It is further

ORDERED that the revised tariff sheets shall be approved upon our staff's verification that the tariff sheets are consistent with our decision, that the proposed notice to the customers is adequate, and that the required security has been filed. It is further

ORDERED that the approved rates shall become effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that Bayside Utility Services, Inc. shall provide proof to our staff of the date notice was given within 10 days after the date of notice. It is further

ORDERED that the rates shall not be implemented until the required security has been filed. It is further

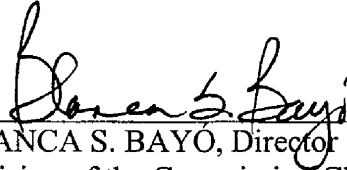
ORDERED that Utilities, Inc. shall file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of wastewater revenues collected under interim conditions, and also a written confirmation of its oral attestation that it does not have any outstanding guarantees on behalf of its utilities in other states. It is further

ORDERED that the corporate undertaking shall state that it will be released or terminated only upon subsequent order of this Commission addressing any refund requirements. It is further

ORDERED that pursuant to Rule 25-30.360(6), Florida Administrative Code, Bayside Utility Services, Inc. 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. It is further

ORDERED that this docket shall remain open pending our final action on the utility's requested rate increase.

By ORDER of the Florida Public Service Commission this 22nd day of April, 2004.



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

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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 non-final in nature, may request (1) reconsideration within 15 days pursuant to 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. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or 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.



BAYSIDE UTILITY SERVICES, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/02			SCHEDULE NO. 1-A		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$235,308	\$0	\$235,308	(\$39,040)	\$196,268
2 LAND & LAND RIGHTS	0	0	0	0	0
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(113,161)	0	(113,161)	2,076	(111,085)
5 CIAC	(52,911)	0	(52,911)	0	(52,911)
6 AMORTIZATION OF CIAC	40,503	0	40,503	0	40,503
7 ACQUISITION ADJUSTMENT	(8,656)	8,656	0	0	0
8 WORKING CAPITAL ALLOWANCE	0	11,773	11,773	(760)	11,013
9 RATE BASE	<u>\$101,083</u>	<u>\$20,429</u>	<u>\$121,512</u>	<u>(\$37,724)</u>	<u>\$83,788</u>

BAYSIDE UTILITY SERVICES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/02				SCHEDULE NO. 1-B		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$382,444	\$0	\$382,444	(\$18,798)	\$363,646	
2 LAND	0	0	0	0	0	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(152,932)	0	(152,932)	1,382	(151,550)	
5 CIAC	0	0	0	0	0	
6 AMORTIZATION OF CIAC	0	0	0	0	0	
7 ACQUISITION ADJUSTMENT	(29,367)	29,367	0	0	0	
8 WORKING CAPITAL ALLOWANCE	0	<u>13,398</u>	<u>13,398</u>	(615)	<u>12,783</u>	
9 RATE BASE	<u>\$200,145</u>	<u>\$42,765</u>	<u>\$242,910</u>	<u>(\$18,031)</u>	<u>\$224,879</u>	

BAYSIDE UTILITY SERVICES, INC.		SCHED. NO. 1-C	
ADJUSTMENTS TO RATE BASE			
TEST YEAR ENDED 12/31/02			
EXPLANATION	WATER	WASTEWATER	
<b><u>PLANT IN SERVICE</u></b>			
To remove acquisition related costs.	<u>(\$39,040)</u>	<u>(\$18,798)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
To remove depreciation related to acquisition costs.	<u>\$2,076</u>	<u>\$1,382</u>	
<b><u>WORKING CAPITAL</u></b>			
To reduce to 1/8 of approved O&M expense.	<u>(\$760)</u>	<u>(\$615)</u>	

BAYSIDE UTILITY SERVICES, INC.						SCHEDULE NO. 2			
CAPITAL STRUCTURE									
TEST YEAR ENDED 12/31/02									
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	SUBTOTAL ADJUSTED CAPITAL	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
<b>PER UTILITY 2002 -SIMPLE AVERAGE</b>									
1 LONG TERM DEBT	\$94,090,081	\$0	\$94,090,081	(\$93,903,228)	\$186,853	51.27%	7.56%	3.88%	
2 SHORT-TERM DEBT	11,824,500	0	11,824,500	(11,801,035)	23,465	6.44%	3.93%	0.25%	
3 PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	77,021,455	0	77,021,455	(76,868,530)	152,925	41.96%	11.77%	4.94%	
5 CUSTOMER DEPOSITS	8,484	0	8,484	0	8,484	2.33%	6.00%	0.14%	
6 DEFERRED INCOME TAXES	(7,305)	0	(7,305)	0	(7,305)	(2.00%)	0.00%	(0.00%)	
7 <b>TOTAL CAPITAL</b>	<u>\$182,937,215</u>	<u>\$0</u>	<u>\$182,937,215</u>	<u>(\$182,572,793)</u>	<u>\$364,422</u>	<u>100.00%</u>		<u>9.21%</u>	
<b>PER COMMISSION 2002 - SIMPLE AVERAGE</b>									
8 LONG TERM DEBT	\$94,090,081	\$0	\$94,090,081	(\$93,939,444)	\$150,637	48.80%	7.56%	3.69%	
9 SHORT-TERM DEBT	11,824,500	0	11,824,500	(11,805,569)	18,931	6.13%	3.93%	0.24%	
10 PREFERRED STOCK	0	0	0	-0	0	0.00%	0.00%	0.00%	
11 COMMON EQUITY	77,021,455	0	77,021,455	(76,898,145)	123,310	39.95%	9.46%	3.78%	
12 CUSTOMER DEPOSITS	8,484	0	8,484	0	8,484	2.75%	6.00%	0.16%	
13 DEFERRED INCOME TAXES	(7,305)	<u>14,610</u>	<u>7,305</u>	0	<u>7,305</u>	<u>2.37%</u>	0.00%	<u>0.00%</u>	
14 <b>TOTAL CAPITAL</b>	<u>\$182,937,215</u>	<u>\$14,610</u>	<u>\$182,951,825</u>	<u>(\$182,643,159)</u>	<u>\$308,666</u>	<u>100.00%</u>		<u>7.87%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>9.46%</u>	<u>11.46%</u>		
OVERALL RATE OF RETURN						<u>7.87%</u>	<u>8.67%</u>		

BAYSIDE UTILITY SERVICES, INC.						SCHEDULE NO. 3-A	
STATEMENT OF WATER OPERATIONS							
TEST YEAR ENDED 12/31/02							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$64,713</u>	<u>\$56,181</u>	<u>\$120,894</u>	<u>(\$55,000)</u>	<u>\$65,894</u>	<u>\$42,547</u> 64.57%	<u>\$108,441</u>
<b>OPERATING EXPENSES:</b>							
2 OPERATION & MAINTENANCE	<u>\$91,698</u>	<u>\$2,486</u>	<u>94,184</u>	<u>(6,083)</u>	<u>88,101</u>		<u>88,101</u>
3 DEPRECIATION	<u>5,985</u>	<u>0</u>	<u>5,985</u>	<u>(984)</u>	<u>5,001</u>		<u>5,001</u>
4 AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
5 TAXES OTHER THAN INCOME	<u>4,719</u>	<u>2,641</u>	<u>7,360</u>	<u>(2,528)</u>	<u>4,832</u>	<u>1,915</u>	<u>6,747</u>
6 INCOME TAXES	<u>(14,723)</u>	<u>16,893</u>	<u>2,170</u>	<u>(15,466)</u>	<u>(13,296)</u>	<u>15,290</u>	<u>1,994</u>
7 TOTAL OPERATING EXPENSES	<u>87,679</u>	<u>22,020</u>	<u>109,699</u>	<u>(25,061)</u>	<u>84,638</u>	<u>17,205</u>	<u>101,843</u>
8 OPERATING INCOME	<u>(\$22,966)</u>	<u>\$34,161</u>	<u>\$11,195</u>	<u>(\$29,939)</u>	<u>(\$18,744)</u>	<u>\$25,342</u>	<u>\$6,598</u>
9 RATE BASE	<u>\$101,083</u>		<u>\$121,512</u>		<u>\$83,788</u>		<u>\$83,788</u>
10 RATE OF RETURN	<u>(22.72%)</u>		<u>9.21%</u>		<u>(22.37%)</u>		<u>7.87%</u>

BAYSIDE UTILITY SERVICES, INC. STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/02						SCHEDULE NO. 3-B	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$90,721</u>	<u>\$62,706</u>	<u>\$153,427</u>	<u>(\$60,814)</u>	<u>\$92,613</u>	<u>\$51,145</u> 55.22%	<u>\$143,758</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	<u>\$104,533</u>	<u>\$2,650</u>	<u>\$107,183</u>	<u>(\$4,921)</u>	<u>\$102,262</u>		<u>\$102,262</u>
3 DEPRECIATION	<u>10,559</u>	<u>0</u>	<u>10,559</u>	<u>(514)</u>	<u>10,045</u>		<u>10,045</u>
4 AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
5 TAXES OTHER THAN INCOME	<u>5,920</u>	<u>2,959</u>	<u>8,879</u>	<u>(2,790)</u>	<u>6,089</u>	<u>2,302</u>	<u>8,391</u>
6 INCOME TAXES	<u>(12,203)</u>	<u>16,631</u>	<u>4,428</u>	<u>(17,456)</u>	<u>(13,028)</u>	<u>18,380</u>	<u>5,351</u>
7 TOTAL OPERATING EXPENSES	<u>108,809</u>	<u>22,240</u>	<u>131,049</u>	<u>(25,681)</u>	<u>105,368</u>	<u>20,681</u>	<u>126,049</u>
8 OPERATING INCOME	<u>(\$18,088)</u>	<u>\$40,466</u>	<u>\$22,378</u>	<u>(\$35,133)</u>	<u>(\$12,755)</u>	<u>\$30,461</u>	<u>\$17,708</u>
9 RATE BASE	<u>\$200,145</u>		<u>\$242,910</u>		<u>\$224,879</u>		<u>\$224,879</u>
10 RATE OF RETURN	<u>(9.04%)</u>		<u>9.21%</u>		<u>(5.67%)</u>		<u>7.87%</u>

BAYSIDE UTILITY SERVICES, INC.		SCHED. NO. 3-C	
ADJUSTMENTS TO OPERATING INCOME			
TEST YEAR ENDED 12/31/02			
EXPLANATION	WATER	WASTEWATER	
<b><u>OPERATING REVENUES</u></b>			
To remove requested interim revenue increase.	<u>(\$55,000)</u>	<u>(\$60,814)</u>	
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>			
1 To remove pro forma O&M expenses.	(\$2,486)	(\$2,649)	
2 To reflect an unaccounted for water to purchased water.	(1,987)		
3 To remove amortization of historical rate case expense.	(214)	(214)	
4 To reflect the appropriate bad debt expense.	<u>(1,396)</u>	<u>(2,058)</u>	
Total	<u>(\$6,083)</u>	<u>(\$4,921)</u>	
<b><u>DEPRECIATION EXPENSE-NET</u></b>			
To remove depreciation related acquisition related costs.	<u>(\$984)</u>	<u>(\$514)</u>	
<b><u>TAXES OTHER THAN INCOME</u></b>			
1 To remove RAFs on revenue adjustments above.	(\$2,475)	(\$2,737)	
2 To remove pro forma payroll taxes.	<u>(53)</u>	<u>(53)</u>	
Total	<u>(\$2,528)</u>	<u>(\$2,790)</u>	
<b><u>INCOME TAXES</u></b>			
To adjust to test year income tax expense	<u>(\$15,466)</u>	<u>(\$17,456)</u>	

BAYSIDE UTILITY SERVICES, INC.				SCHEDULE NO. 4-A
WATER MONTHLY SERVICE RATES				
TEST YEAR ENDED 12/31/02				
	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Commn Approved Interim
<b><u>Residential Service</u></b>				
Base Facility Charge:				
5/8" x 3/4"	\$13.25	\$24.47	\$29.91	\$21.93
3/4"	\$19.86	\$36.68	\$44.84	\$32.87
1"	\$33.13	\$61.19	\$74.80	\$54.84
Gallonge Charge (per 1,000 gallons)	\$2.11	\$3.90	\$4.76	\$3.49
<b><u>General Service</u></b>				
Base Facility Charge:				
5/8" x 3/4"	\$13.25	\$24.47	\$29.91	\$21.93
3/4"	\$19.86	\$36.68	\$44.84	\$32.87
1"	\$33.13	\$61.19	\$74.80	\$54.84
1-1/2"	\$66.25	\$122.36	\$149.57	\$109.66
2"	\$105.99	\$195.76	\$239.29	\$175.43
3"	\$211.99	\$391.53	\$478.59	\$350.88
4"	\$331.22	\$611.74	\$747.77	\$548.23
6"	\$662.43	\$1,223.47	\$1,495.52	\$1,096.44
Gallonge Charge, per 1,000 Gallons	\$2.11	\$3.90	\$4.76	\$3.49
5/8" x 3/4" Meter		<b><u>Typical Residential Bills</u></b>		
3,000 Gallons	\$19.58	\$36.17	\$44.19	\$32.40
5,000 Gallons	\$23.80	\$43.97	\$53.71	\$39.38
10,000 Gallons	\$34.35	\$63.47	\$77.51	\$56.83



<b>BAYSIDE UTILITY SERVICES, INC.</b>		<b>SCHEDULE NO. 4-B</b>		
<b>WASTEWATER MONTHLY SERVICE RATES</b>				
<b>TEST YEAR ENDED 12/31/02</b>				
	<b>Rates Prior to Filing</b>	<b>Utility Requested Interim</b>	<b>Utility Requested Final</b>	<b>Comm Approved Interim</b>
<b><u>Residential Service</u></b>				
Base Facility Charge:				
All meter sizes	\$16.91	\$28.18	\$32.00	\$26.39
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)				
	\$4.18	\$6.97	\$7.91	\$6.52
<b><u>General Service</u></b>				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$16.91	\$28.18	\$32.00	\$26.39
3/4"	\$25.38	\$42.29	\$48.03	\$39.60
1"	\$42.29	\$70.47	\$80.03	\$65.99
1-1/2"	\$84.56	\$140.90	\$160.02	\$131.94
2"	\$135.31	\$225.47	\$256.06	\$211.13
3"	\$272.81	\$454.58	\$516.26	\$425.68
4"	\$422.84	\$704.58	\$800.17	\$659.78
6"	\$845.70	\$1,409.19	\$1,600.37	\$1,319.60
Gallage Charge, per 1,000 Gallons	\$5.00	\$8.33	\$9.46	\$7.80
<b><u>5/8" x 3/4" Meter</u></b>		<b><u>Typical Residential Bills</u></b>		
3,000 Gallons	\$29.45	\$49.09	\$55.73	\$45.95
5,000 Gallons	\$37.81	\$63.03	\$71.55	\$58.99
10,000 Gallons	\$41.99	\$70.00	\$79.46	\$65.51
(Wastewater Gallage Cap - 6,000 Gallons)				