

BEFORE THE PUBLIC SERVICE COMMISSION

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

DOCKET NO. 060254-SU
ORDER NO. PSC-07-0134-PAA-SU
ISSUED: February 16, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING AN INCREASE IN WASTEWATER RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that except for the requirement to make the appropriate adjustments to books for all of the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts and the statutory four-year rate reduction, which are issued as final agency action, the actions discussed herein are 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

Utilities, Inc. (UI) is an Illinois corporation that owns approximately 80 utility subsidiaries throughout 16 states, including 16 water and wastewater utilities within the State of Florida. Currently UI has 10 separate rate case dockets pending before us. Those dockets are:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
060253-WS	Utilities Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities Inc. of Sandalhaven

DOCUMENT NUMBER-DATE

01567 FEB 16 07

FPSC-COMMISSION CLERK

This docket addresses the Application for Rate Increase filed on May 11, 2006, by Mid-County Services, Inc. (Mid-County or utility). Mid-County is a Class A utility providing wastewater service to approximately 2,144 customers in Pinellas County. The utility is located in a region which has been designated by the Southwest Florida Water Management District as a critical use area. Water services and billing are provided by Pinellas County. The utility is a wholly-owned subsidiary of UI. Rates were last established for Mid-County in its 2004 rate proceeding.¹

Mid-County requested that its application be processed using our Proposed Agency Action (PAA) procedure, and requested interim rates. The utility had deficiencies in the minimum filing requirements (MFRs). The deficiencies were corrected and August 22, 2006, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005. On July 18, 2006, we approved interim rates designed to generate annual wastewater revenues of \$1,534,286, an increase of \$142,169 or 10.21%.² Mid-County requested final rates designed to generate annual revenues of \$1,769,847, an increase of \$377,730 or 27.13%.

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-06-0547-PCO-WS, issued June 27, 2006, in this docket.

This Order addresses Mid-County's requested final rates. We have jurisdiction pursuant to Section 367.081, Florida Statutes.

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code, in every water and wastewater rate case, this Commission shall determine the overall quality of service provided by the utility by evaluating the quality of the product, the operating conditions of the plant and facilities, and the utility's attempt to address customer satisfaction.

Quality of Utility's Product

Mid-County's wastewater treatment plant (WWTP) is regulated by the Florida Department of Environmental Protection (DEP). According to a DEP compliance evaluation inspection letter dated February 1, 2006, the DEP inspected the utility's WWTP on January 17, 2006. In the letter, the DEP inspector stated that the utility was found to be out of compliance due to effluent quality issues. According to a DEP enforcement reconnaissance inspection letter dated August 1, 2006, the DEP reinspected the utility's WWTP on July 19, 2006. In that letter, the DEP inspector stated that the utility again was found to be out of compliance due to effluent quality issues. According to the utility's respective response letters dated February 22, 2006, and August 15, 2006, to DEP, the utility took steps to correct the deficiencies and submitted the

¹ Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

² Order No. PSC-06-0653-PCO-SU, issued August 4, 2006, in Docket No. 060254-SU, In re: Application for increase in wastewater rates in Pinellas County by Mid-County Services, Inc.

requested information related to the effluent deficiencies. On November 9, 2006, the DEP issued another warning letter to the utility regarding the effluent quality issues. In the warning letter, the DEP stated that a review of the Discharge Monitoring Reports (DMRs) for the period of January 2005 through September 2006 indicated that the permitted Total Nitrogen, Total Phosphorus, Fecal Coliform and CBOD effluent limits were exceeded in a couple of months. The DEP stated that the warning letter was part of an agency investigation, preliminary to agency action in accordance with Section 120.57(5), Florida Statutes, and requested the utility's cooperation in completing the investigation and resolving the matter.

On December 7, 2006, the utility's representatives met with DEP staff to discuss this issue. According to the utility's response letter dated December 19, 2006, to DEP, written as a follow-up to the meeting, the utility performed an investigation to provide a better explanation of the exceedances regarding the above issues. In its letter, the utility indicated that the effluent limit exceedances were due to past operations and maintenance. The utility stated that some of the exceedances were due, in part, to taking the samples at the wrong sampling point. The utility further stated that the current operations staff has been trained on the proper sampling protocol and have made corrections to their operations. The DEP inspector has stated that the DEP will examine the next several months of data to ensure that the utility is in compliance.

Although the quality of wastewater service does not appear to meet regulatory standards and is not considered satisfactory by the DEP, it appears that the utility has begun to take the necessary steps toward resolving its effluent quality issues. The utility shall complete any and all improvements to the wastewater systems that are necessary to satisfy the standards set by the DEP and shall file a status report within six months from the issuance date of this Order advising this Commission as to whether the DEP compliance issues have been resolved. Our staff will report to us if Mid-County fails to cooperate satisfactorily with the DEP towards a resolution of these issues.

Operational Conditions at the Plant

The condition of the wastewater treatment plant is reflective of the product provided by the utility. The utility's operating permit was issued on February 7, 2006, and will expire on February 6, 2011. The WWTP currently discharges treated effluent to Curlew Creek located adjacent to the facility site.

The DEP issued a warning letter to the utility on March 29, 2005, for very noticeable and persistent odors around and within the Doral Mobile Home Park. The DEP indicated that the utility was in violation of DEP Rules 62-600.400(2)(a) and 62-600.410(6), Florida Administrative Code, and Section 403.161(1)(b), Florida Statutes. The DEP and representatives of the utility met on May 3, 2005, regarding the issue. At that time, the utility agreed to provide a schedule for corrective action within 30 days of the meeting. Subsequently, an odor study was conducted and the utility indicated that an odor control system would be installed and in operation by December 15, 2005. In a DEP enforcement reconnaissance inspection letter dated August 1, 2006, the DEP inspector stated that the utility had installed the odor control system and it appeared to be operating well. Therefore, the issues in the warning letter appeared to be resolved.

However, because the utility violated the above rules, the DEP issued a proposed settlement dated August 23, 2006. According to the proposed settlement, the utility was assessed civil penalties in the amount of \$4,500 in accordance with Section 403.121(4)(b), Florida Statutes. In its response letter to the DEP's proposed settlement dated September 25, 2006, the utility indicated that it was not willing to execute the consent order because when the utility staff met with the DEP on May 3, 2005, concerning the odor issues, the utility agreed to make substantial investment in odor control equipment at the plant head-works. No mention was made at the meeting of any fine in the enforcement process. In the letter, the utility stated that it had gone out of its way to reduce odor generation in the most cost effective manner available, and that it had exhibited a great deal of interest and commitment, both financially and otherwise, in resolving this issue for the benefit of its nearby customers. Therefore, Mid-County concluded that the imposition of a fine of \$4,500 in this instance was inappropriate, unwarranted, unsupported, and nonproductive. Nevertheless, according to a DEP letter dated December 12, 2006, the DEP was in receipt of the utility's check, dated November 30, 2006, for \$4,500 for assessed penalties and costs. DEP further stated that because the utility paid the above amount and completed all conditions of the proposed settlement satisfactorily, the utility has returned to compliance status.

In general, during the engineering field inspection, maintenance at the wastewater plant-site appeared to have been given adequate attention. The wastewater plant equipment has been receiving periodic maintenance and was functioning properly. The plant grounds within the fenced area was well maintained. This engineering inspection revealed that the odor control system was in place and appeared to be operating well.

Although the operational condition of the WWTP was not 100% satisfactory, the DEP inspector believes the utility is cooperating and attempting to improve the operational conditions. Based on the above, we find that the operating condition of wastewater facilities is satisfactory.

Utility's Attempt to Address Customer Satisfaction

An informal customer meeting was held at 6:00 p.m. on October 18, 2006, in the William E. Hale Activity Center Ballroom in Dunedin, Florida. The meeting was open to all customers. Seven persons attended the meeting, which included two utility representatives and two Office of Public Counsel representatives. Three customers offered comments and concerns about the utility. Two came forward with complaints and opinions concerning the rate increase and the operational conditions at the WWTP.

A customer who resides in the Spanish Acre subdivision agreed with the proposed rate increase, but was concerned about the reclaimed water service and water conservation in his neighborhood. He stated that the residents of his neighborhood utilize potable water to irrigate lawns and landscaping, and that the City of Dunedin (City) was willing to accept the reclaimed water from the utility and to pay for the reclaimed water piping and mains. The customer believed the utility should cooperate with the City and consider the reclaimed water program, and stated that this Commission should encourage the utility to establish the reclaimed water system for environmental reasons.

We also received a letter dated October 16, 2006, from Mr. John Scherpf, a resident of Highland Woods Phase II, regarding water conservation and reclaimed water services to his neighborhood. In his letter, Mr. Scherpf stated that the City provides reclaimed water to Highland Woods Phase I and the residents utilize reclaimed water to irrigate their lawns and landscapes. In Phases II and III, residents must utilize potable water to irrigate the lawns. He requested that this Commission encourage the utility to provide reclaimed water services in his neighborhood. Mr. Scherpf stated that the homeowners would more than likely share some of the cost for reclaimed mains and pipes in order to save money on the water bills in the future.

Our staff discussed this matter with DEP. The DEP advised that the utility submitted a WWTP reuse feasibility study in 1998. This report was required to be submitted in conjunction with the application for an operating permit. In the report, the utility estimated the costs for capital improvements for installation of the reuse distribution system and the necessary WWTP upgrades to be approximately \$7.1 million dollars. In addition, the residential reuse available within the service area (343,000 gpd) did not provide adequate disposal capacity for the existing and projected average daily WWTP flow (900,000 gpd). Based on the high capital improvements costs and limited available reuse capacity, the utility believed that residential effluent reuse was not feasible in its service area at that time. Since Mid-County was not located in a Water Use Caution Area, the DEP did not require it to establish the reuse water system at that time. The DEP stated that it will reconsider this issue when the utility renews its permit in 2011.

Based on the above comments from the customers, our staff pursued this issue and investigated further. After several phone conversations and gathering more information, our staff invited representatives of the City, Southwest Florida Water Management District (SWFWMD), DEP, and the utility to discuss this reuse project via teleconference on December 11, 2006. All parties discussed this issue and offered comments. The representative of the City stated the City is willing to accept the reclaimed water from the utility but is not willing to pay for the cost of this project. Although the reuse project may be a good idea and would be beneficial to customers, we agree with the utility that it is not cost effective for the utility to invest in this reuse project at this time.

All things considered, we find that the utility is putting forth a sufficient good faith effort to justify a satisfactory rating concerning its attempts to resolve customer complaints. However, because the utility is not in compliance status regarding the quality of product, we find the utility's overall quality of service to be marginal. The utility shall complete any and all improvements to the WWTP that are necessary to satisfy the standards set by the DEP and shall file a status report within six months from the issuance date of this Order advising this Commission as to whether the DEP compliance issues have been resolved. Our staff will report to us if Mid-County fails to cooperate satisfactorily with the DEP towards a resolution of these issues.

RATE BASE

Uncontested Audit Rate Base Adjustments

Our staff auditors recommended the following adjustments to the 13-month average rate base:

<u>Audit Adjustments</u>	<u>Land</u>	<u>Accumulated Depreciation</u>	<u>Accumulated Amortization of CIAC</u>
Finding No. 1- Adjustment to Land	(\$200)		
Finding No. 7- Adj. to Accum. Depreciation		\$23,111	
Finding No. 8- Adj. to CIAC Amortization			\$4,407
Adjustment Totals	<u>(\$200)</u>	<u>\$23,111</u>	<u>\$4,407</u>

The utility agrees with all of the above audit adjustments. Therefore, land shall be reduced by \$200; accumulated depreciation shall be increased by \$23,111; and accumulated amortization of contributions-in-aid-of-construction (CIAC) shall be increased by \$4,407.

Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) Rate Base Allocations

On MFR Schedule A-3, the utility reflected a WSC net rate base allocation of \$16,581. Our staff performed an affiliate transactions (AT) audit of UI, the parent company of Mid-County and its sister companies. WSC is a subsidiary service company of UI that supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF is a subsidiary of UI that provides administrative support to its sister companies in Florida. As discussed below, we find that several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These include audit adjustments and the use of an equivalent residential connection (ERC)-only methodology for several WSC allocation codes.

Audit Adjustments

In Audit Finding No. 1 of the AT audit, our staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS.³ First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices requested. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the foregoing, we find that the appropriate simple average WSC rate base before any allocation is \$2,122,628. Further, there was no audit finding in the AT audit regarding UIF's rate base. Therefore, we find that the appropriate simple average UIF rate base before any allocation is \$1,113,433, as reflected on UIF's general ledger.

ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS at 23-30, we found that that WSC's method of allocating its common costs based on CEs was unsupported and unreasonable. Further, we ordered UI to use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, our staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following approach: 1) if the operating system has both water and wastewater, the wastewater customer is counted as one and one-half; 2) if the customer is an availability customer only, the customer is counted as one-half; 3) if the water company is a distribution company only, the customer is counted as one-half; and 4) if the wastewater company is a collection company only, the customer is counted as one-half. We find that these additional four factors unnecessarily complicate the allocation process. With this additional methodology, we note that WSC's ERC count will not conform to the ERC count in each Florida subsidiary's annual report filed with this Commission. Further, we find that the use of an ERC-only methodology is consistent with the methodology used by this Commission to set rates for water and wastewater utilities. Accordingly, UI shall use the ERC-only methodology for its allocation codes one, two, three, and five.

Conclusion

Based on the foregoing, the appropriate WSC net rate base allocation for Mid-County is \$27,596. This represents an increase of \$11,015. WSC depreciation expense shall be reduced by \$765. Further, the appropriate UIF rate base allocation for Mid-County is \$80,532. This

³ Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

represents water plant and accumulated depreciation decreases of \$76,124 and \$22,539, respectively. In addition, depreciation expense shall be reduced by \$1,193.

Other Rate Base Adjustments

In Schedule A-3 of its MFRs, the utility requested the inclusion of \$226,971 in pro forma plant additions. Also included was \$5,299 of related accumulated amortization and depreciation expense. In its first data request, our staff asked the utility to provide invoices and signed contracts for the requested pro forma plant. In its response, the utility provided invoices for a number of non-specific projects and two of three specific projects.

After an examination of the company-provided invoices, our staff determined that the total projected costs for the two specific projects were overstated by \$42,741. We also find it appropriate to disallow the projected costs associated with a third specific project, totaling \$18,500 for a lift station upgrade. Net accumulated depreciation and depreciation expense shall also be reduced by \$1,425.

Moreover, based on the MFR dollar amounts and the documentation provided by the utility, we find that all non-specific projects are normal recurring plant additions. If normal recurring plant additions were allowed, a strong argument could be made that CIAC and accumulated amortization of CIAC should also be projected forward another year due to the expected growth, as well as billing determinants and expenses. This would have the effect of changing the approved 2005 historical test year to a projected test year. Because of the utility's assertion in its test year request letter that the 2005 historical test period is representative of a full year of operation and the expected growth for the utility, we find it appropriate to remove these normal recurring plant additions from plant. Therefore, pro forma plant associated with non-specific projects shall be reduced by \$70,719. Associated accumulated depreciation and depreciation expense shall be reduced by \$1,966.

Additionally, the utility indicated in a data request that operations and maintenance expenses (O&M) would be reduced by approximately \$5,000 due to the installation of the Odor Control System. Due to these cost savings, we find it appropriate to reduce O&M by \$5,000.

Overall, pro forma plant additions shall be reduced by \$131,960, accumulated depreciation and depreciation expense shall be reduced by \$3,391, and O&M expense shall be reduced by \$5,000.

Used and Useful Plant

WWTP

Mid-County's wastewater treatment plant is located in the center of the Doral Mobile Home Park (Doral Village) community, which is a master-metered customer. The DEP permitted capacity for the wastewater plant is 900,000 gallons per day (gpd) on an annual average daily flow (AADF) basis. The wastewater treatment plant is an extended-aeration domestic wastewater treatment facility that processes the incoming waste. The activated sludge from the plant is then removed and the effluent is disposed in Curlew Creek.

The utility calculated the WWTP to be 76% used and useful (U&U). However, on Schedule F-6 of the MFRs, the utility stated the WWTP should be considered 100% U&U for the following reasons:

The treated flows in 2005 are 38 MG or 14% less than they were in 2002, the TY of the last case, although the billed wastewater gallons have remained virtually the same. The lack of increase in wastewater billed, in spite of an increase in meter equivalent ERCs is indicative of the redevelopment of mobile home parks in the service area with less dense housing and commercial developments. The substantial reduction in treated flows is the result of (A) the capital investment made by Mid-County in numerous manhole repairs and replacing or relining of mains to reduce infiltration, (B) the dismantling of the poorly maintained mobile home park collection systems and (C) the replacement of those mains in new developments with materials meeting Mid-County's requirements. In the last case setting U&U, Docket No. 030446-SU, the PSC found the WWTP to be 92% U&U. In this case, the PSC should recognize that the U&U would be approaching 100% were it not for the actions of the utility to reduce infiltration as much as practical.

In Schedule F-6 of its revised MFRs dated July 29, 2006, the utility calculated its U&U percentage for the wastewater treatment plant by adding the AADF of 662,537 gpd and a growth allowance of 23,832 gpd, and dividing that total by the plant's DEP permitted capacity of 900,000 gpd AADF. Based on the utility's information and calculation, the excessive inflow and infiltration (I&I) was zero. This resulted in a 76% U&U percentage for the WWTP.

In Schedule F-10 of its MFRs, the utility calculated the linear regression to be -10.9 ERCs. The utility stated that a simple average was used in its growth calculation because the regression result was not statistically significant. This resulted in an average growth of 0.72%. It then multiplied the average growth rate by the test year number of ERCs of 2,736. This resulted in an annual growth of 19.7 ERCs (20 ERCs). The utility further stated that the customer growth is occurring from redevelopment of Travel Towne RV Resort into single family and multi family homes, redevelopment of Skylark Mobile Home Park into a Kohl's Department store and four out parcels, and redevelopment of smaller parcels into light commercial along the US 19 and SR 580 corridors. The utility also stated that there are eight remaining mobile home parks in the service area. Redevelopment of mobile home and RV parks is expected to continue.

In this case, since the regression result is not statistically significant, we agree with the utility's growth calculation of 20 ERCs. Based on the provided data, we have calculated the WWTP to be 76% U&U.

Regarding the utility's request for 100% U&U plant because the number of customers, I&I, and treated flow were reduced since its last rate case, we have reviewed, compared and

analyzed the data in the instant case with the data in the U&U calculation from the last rate case.⁴
The results are as follow:

Rate Case Date	DKT NO.	Average of Customers (ERCs)	Treated Flow (gallon/year)	I & I (gallon/year)	Excessive I&I (gallon/year)
2003	030446-SU	2,909	279,895,000	30,986,840	0
2006	060254-SU	2,736	241,826,000	3,057,050	0
Reduction		173	38,069,000	27,929,790	0
% of Reduction		5.95 %	13.60 %	90.13 %	

Pursuant to Rule 25-30.432, Florida Administrative Code, U&U percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that this Commission will also consider other factors such as the allowance for growth, I&I, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether the flows have decreased due to conservation or a reduction in the number of customers.

The above results show that the utility reduced its customers, treated flows, and I&I by 5.95%, 13.60%, and 90.13% respectively, since its last rate case. On Schedule F-6 of its MFRs, the utility stated that the reduction of the number of customers was a result of redevelopment of mobile home parks in the service area with less dense housing and commercial developments. Moreover, the utility stated that the substantial reduction in treated flows and I&I was the result of the capital investment made by the utility in numerous manhole repairs, replacing or relining of mains, dismantling of the poorly maintained mobile home park collection systems, and the replacement of those mains in new developments with materials meeting Mid-County’s requirements.

In the last rate case, this Commission found the WWTP to be 92% used and useful. In the current rate case, the WWTP is 76% used and useful by calculation. Although we agree with the utility that the WWTP should not be considered 76% used and useful, we disagree with the utility that the WWTP should be considered 100% U&U. We find that the appropriate U&U percentage is 92%, as was allowed in the last rate case, for the following reasons:

- 1) Pursuant to Rule 25-30.432, Florida Administrative Code, the flows have decreased due to a reduction in the number of customers;
- 2) The I&I have decreased substantially as a result of repair and replacing the mains and manholes; and
- 3) The service area is almost built out.

⁴ Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

Wastewater Collection System

In its filing, the utility stated that the collection system should be considered 100% U&U because it was built by various developers who then contributed the assets to the utility. The master feeders and lift stations that serve the system were built by the utility. The utility stated that while there is some limited undeveloped land in the service territory, additional collection mains would have to be constructed before new customers could be added.

A review of the utility's analysis shows that no substantial growth or changes have occurred in its service territory since the last rate case. We note that the collection system was considered 100% U&U in Mid-County's last rate case. Based on the calculation methodology, we find that the wastewater collection system is 100% U&U (See Attachment A, page 2 of 2).

However, in reviewing Schedule A-6 of the MFRs, we find that the utility appears to have transferred a large portion of the balance in Account 380 to Account 354. This transfer occurred in December 2005, the last month of the test year. This transfer has the effect of decreasing the 13-month average balance in Account 380, Treatment and Disposal, while increasing the 13-month average balance in Account 354, Structures and Improvements. In some situations, a transfer of this type would have no effect on rate base, but it does here. In this case, we have continued to apply an 8% non-U&U adjustment to Account 380, as approved in the last rate case. No adjustment was approved in the last rate case for Account 354. Therefore, a transfer from Account 380 to Account 354 in December 2005 has the effect of increasing rate base and the revenue requirement.

Furthermore, Account 380 is the primary account used by the utility for its facilities used in its wastewater treatment operations, while Account 354 is normally used for such items as the utility offices, landscaping, or out-buildings. Account 354 does not usually contain costs for treatment plant. The utility has not justified this transfer. Therefore, we find it appropriate to apply the same 8% non-U&U percentage approved for Account 380 to the amount of plant that was transferred to Account 354.

Overall, we find that the utility's WWTP is 92% U&U. The wastewater collection system, with the exception of Account 354, is 100% U&U, and a portion of plant in Account 354 is 92% U&U. As a result of the above adjustments, net rate base shall be reduced by \$129,094. Corresponding overall adjustments shall also be made to reduce depreciation expense by \$10,087 and property taxes by \$520.

Working Capital

In its MFRs, Mid-County's working capital allowance had a net balance of \$187,795. In Audit Finding No. 2, our audit staff made a number of corrections to the utility's balance. After these corrections, the calculated 13-month average working capital balance was \$88,555 as of December 31, 2005, prior to the adjustments discussed below. The utility's balance of \$187,795 differs from the historical balance because it includes the unamortized rate case balance for the present proceeding and several of the account balances were incorrect. The utility stated in its response to the audit that while it believed no adjustment was necessary, it agreed with the

auditors' December 31, 2005 ending balance calculation of \$88,555. We have reviewed the balance and the utility's adjustments, and as a result of this review, we find it appropriate to make three additional adjustments.

In Audit Finding No. 4, the auditors found that working capital included expenses for wastewater permits for engineering studies and permit renewal fees related to the utility's reuse permit. Costs such as these are considered non-recurring and should be amortized over five years, and should not be totally expensed when incurred. As a result, we find it appropriate to increase the 13-month average working capital by \$13,426.

In addition, the utility did not include any portion of unamortized rate case expense for the present case. As stated in a prior case, "[W]orking capital should be adjusted to reflect the average unamortized balance of approved rate case expense."⁵ We have used the same methodology to calculate the 13-month average unamortized balance as used in the last water rate case for Florida Public Utilities Company.⁶ As a result, we have increased working capital by \$73,492 to reflect the 13-month average unamortized balance of rate case expense.

Finally, as discussed below, the utility incurred expenses for a maintenance project to inspect the interior of its lines in several areas of its territory. The 13-month average of the remaining unamortized portion of \$45,315 shall be included in working capital.

As a result of these changes, the balance of working capital is \$220,788. Thus, working capital is increased by \$32,993.

Rate Base Conclusion

We have calculated Mid-County's rate base using the utility's MFRs, with adjustments as discussed above, as \$2,512,397. Rate base as approved herein is shown on Schedule No. 1 and the adjustments are shown on Schedule No. 1-A.

CAPITAL STRUCTURE

Return On Equity (ROE)

The ROE included in the utility's filing is 11.78%. This return is based on the application of this Commission's leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 39.95%.⁷

⁵ Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc., at 40.

⁶ Order No. PSC-00-248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In Re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company.

⁷ Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

As noted in Audit Finding No. 13, UI's average common equity balance of \$91,510,699 shall be adjusted upward by \$3,093,004 to \$94,603,703. Per its response to the Audit Report, the utility is in agreement with the audit finding. This adjustment increases the equity ratio as a percentage of investor-supplied capital from 39.95% to 40.77%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.77%, the appropriate ROE is 11.46%.⁸ An allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

Weighted Average Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, we hereby approve a weighted average cost of capital of 7.98%. The weighted average cost of capital included in the utility's filing is 8.27%. Schedule No. 2 details our calculations.

The test year per book amounts were taken directly from Mid-County's MFR filing Schedule D-2. We have made specific adjustments to three components in the utility's proposed capital structure. As noted in Audit Finding No. 13, UI's average common equity balance shall be adjusted upward by \$3,093,004. In addition, our staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt. Finally, we have made an adjustment of \$42,953 to increase the balance of deferred income taxes.

In Audit Finding No. 14, our staff auditors noted that the utility did not record its deferred income taxes on a monthly basis, as required by Instruction No. 4, National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA). The auditors recalculated the utility's average deferred tax balance as \$117,008, a decrease of \$4,818. The auditors also believed that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by \$48,996. Further, the auditors discovered that deferred taxes for intangible plant were understated by \$129 for state tax purposes and overstated by \$1,354 for federal tax purposes. In its response to the audit report, the utility agreed with these findings. Accordingly, we find it appropriate to increase the balance of deferred taxes by \$42,953, the net of these amounts.

We have revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.46% is discussed above. In addition, in Audit Finding No. 13, the staff auditors recommended an adjustment to the cost rates for long-term debt and short-term debt. The long-term debt cost rate was reduced from the utility-proposed rate of 6.65% to 6.58%. The short-term debt cost rate was increased from the utility-proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit finding regarding these adjustments.

⁸ Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, we find that the utility's weighted average cost of capital is 7.98%. Schedule No. 2 details our calculations.

NET OPERATING INCOME (NOI)

NOI Adjustments

The audit findings and NOI adjustments are listed in the following table:

<u>Audit Adjustments</u>	<u>O&M Expense</u>	<u>Depreciation Expense</u>	<u>CIAC Amortization Expense</u>	<u>Taxes Other Than Income</u>
Finding No. 4- Adj. to M&S Exp.	(\$12,061)			
Finding No. 5- Adj. to Misc. Exp.	(\$1,238)			
Finding No. 7- Adj. to Deprec. Exp.		\$23,111		
Finding No. 8- Adj. to CIAC Amortization			\$4,407	
Finding No. 9- Adj. to TOTI				(\$7,441)
Adjustment Totals	<u>(\$13,299)</u>	<u>\$23,111</u>	<u>\$4,407</u>	<u>(\$7,441)</u>

The utility agrees with all of the above audit adjustments. Therefore, O&M expense shall be reduced by \$13,299; depreciation expense shall be increased by \$23,111; CIAC amortization expense shall be increased by \$4,407; and taxes other than income shall be reduced by \$7,441.

Allocated WSC and UIF Expenses

In its MFRs, the utility reflected total WSC allocated O&M expenses of \$80,433 and taxes other than income of \$3,239. Mid-County also recorded total UIF allocated O&M expenses of \$7,420. As discussed below, we find that certain adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include the recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS at 82-84. The auditor recommended removal of: 1) insurance premiums for former employee directors' life insurance policies; 2) fiduciary policies protecting directors and officers; and 3) pension funds. The auditor believed these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with these audit adjustments. Based on the foregoing, we find that the appropriate WSC expenses before any allocation are \$7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, the appropriate UIF O&M expenses before any allocation are \$266,650.

As previously discussed, we have determined that UI shall use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Mid-County are \$93,604 and \$4,214, respectively. As such, O&M expenses and taxes other than income shall be increased by \$13,171 and \$975, respectively. Further, the appropriate UIF O&M expenses for Mid-County are \$9,769. As such, O&M expense shall be increased by \$2,349.

Employee Salaries and Benefits

On MFR Schedule B-6, Mid-County reflected historical wastewater salaries and wages and pensions and benefits of \$233,123 and \$53,204, respectively. On MFR Schedule B-15, Mid-County reflected historical payroll taxes of \$22,354.

On MFR Schedule B-3, the utility requested increases in wastewater salaries and wages, pensions and benefits, and payroll taxes of \$34,169, \$6,443, and \$2,344, respectively. The pro forma salaries and wages represent an increase of 14.66%. The pro forma pensions and benefits represent an increase of 12.11%.

In staff's Fifth Data Request to UI in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees. According to the information provided, the historical average salary increases for all Florida employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to 2006, yet the total average salaries from 2005 to 2006 increased

\$74,616. We note, however, that the total requested pro forma salary increases in UI's current docketed rate cases in Florida is \$332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be \$105,776.

From the information provided by UI, we are unable to attribute the respective pro forma salary increases in the UI docketed cases to the 2006 employee changes because there was a net reduction in employees. The utility has the burden of proving that its costs are reasonable.⁹ We find that UI has not met its burden of proof to show how the employee changes from 2005 to 2006 affect the respective rate cases.

In staff's First Data Request for the instant case for Mid-County, the utility was asked to explain why its pro forma salaries and wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, Mid-County explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

With the exception of Docket No. 060285-SU, for Sandalhaven (a negative pro forma salary adjustment of \$573), we find that the requested pro forma salary increases in UI's other respective rate cases are excessive. We note the historical five-year average salary increase of 4.51% is 177 basis points above this Commission's 2006 Price Index of 2.74%. With the exception of Sandalhaven, we find it appropriate to limit pro forma salary increases in all of UI's respective cases to the 4.51% above the 2005 historical salary amounts. We have previously limited pro forma salaries adjustments to a utility's historical average salary increases.¹⁰ Thus, Mid-County's salaries and wages shall be reduced by \$23,657. Accordingly, pensions and benefits shall be reduced by \$6,193 and payroll taxes shall be reduced by \$1,336.

Pro Forma Amortization Expense

In Schedule B-3 of its MFRs, the utility indicated that it would incur \$135,000 in expenses to conduct an I&I study of wastewater lines in several areas of its service territory. This study uses a remote controlled camera to inspect and record the condition of its lines. A study of this type is used to determine the location and severity of any sewer main failures or indications of impending failures so that corrective action can be taken, if necessary. Since this study is not routine maintenance, the utility proposed to amortize this expense over five years at \$27,000 per year.

In response to a data request, the utility provided the invoice associated with the study. It indicated that the total expense was \$50,350. This amount, amortized over five years, is \$10,070, rather than the requested \$27,000. Therefore we find it appropriate to reduce the

⁹ Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

¹⁰ By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.

amortization expense by \$16,930 (\$27,000-\$10,070). The remaining unamortized portion shall be included in working capital, as previously discussed.

Taxes Other Than Income

In its MFRs, the utility indicated that real estate and personal property taxes for existing plant was \$13,401. According to the audit, the utility properly took the available discounts and paid \$12,588. Thus, we have reduced real estate and personal property taxes on present plant by \$813.

The MFRs also indicated that the taxes on the requested pro forma plant would total an additional \$1,409. We have made adjustments to reflect the disallowance of a portion of the taxes on the requested pro forma plant disallowed as previously discussed, and to correct a utility error in the calculation of taxes on pro forma plant. As a result of these adjustments, taxes other than income on pro forma plant shall be reduced by \$525.

Based upon the foregoing, taxes other than income shall be reduced by \$1,338 (\$813 + \$525).

Rate Case Expense

As discussed in detail below, in our determination of rate case expense, we find that adjustments are necessary to reflect the appropriate amount of test year amortization.

Rate Case Expense for Prior Rate Proceeding

On MFR Schedule B-10, the utility combined \$52,557 for prior unamortized rate case expense with its estimated rate case expense of \$161,121 for this docket. This represents a total combined requested amount of \$213,678 with a requested annual amortization amount of \$53,420 (\$213,678/4). Of the \$53,420 proposed amortization expense, the amount associated with the prior rate case is \$13,140 (\$52,557/4). However, Mid-County has not made any MFR adjustment to remove the annual amortization of prior rate case expense from its test year O&M expenses. The appropriate annual amortization of \$18,953 for the prior rate case is already included in test year O&M expenses. The utility's request to reamortize prior rate case expense without an adjustment to remove the annual amortization of the prior case would amount to double recovery of the \$13,140 amount. Further, according to Section 367.0816, Florida Statutes, and Order No. PSC-04-0819-PAA-SU, the utility's rates will be reduced on August 22, 2008. It is our practice to remove the unamortized balance of prior rate cases from the rate case expense for current cases.¹¹ Therefore, the \$52,557 amount shall be removed and O&M expenses shall be reduced by \$13,140.

Rate Case Expense for Current Case

The utility included a \$161,121 estimate in the MFRs for current rate case expense. On November, 27, 2006, the utility submitted a revised estimated rate case expense through

¹¹ Order No. PSC-97-1225-FOF-WU at 17, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

completion of the proposed agency action (PAA) process of \$183,242. The components of the utility's estimated rate case expense are as follow:

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$53,500	\$24,093	\$47,250	\$71,343
Consultant Fees - Seidman	40,000	24,898	5,525	30,423
WS In-House Fees	49,825	16,165	27,514	43,679
Office Temp Fees	0	2,367	17,633	20,000
Travel - WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	839	11,161	12,000
Notices	<u>2,597</u>	<u>689</u>	<u>1,908</u>	<u>2,597</u>
Total R/C Expense	<u>\$161,122</u>	<u>\$69,051</u>	<u>\$114,191</u>	<u>\$183,242</u>

Pursuant to Section 367.081(7), Florida Statutes, this Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Moreover, it is the utility's burden to justify its requested costs.¹² This Commission has broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.¹³ As such, we have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we find that several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on our review of the legal and consulting invoices, a number of hours for correcting deficiencies were removed by the utility. However, we have identified a number of additional hours, including hours for WSC employees, which should also be removed. The amount associated with deficiency corrections (\$250) in Mr. Seidman's invoices was identified by Mr. Seidman, and we agree with this amount. Legal expenses were also identified by Mid-County's counsel when submitted for review, and we agree with the reductions. However, we have identified a number of additional hours for correcting deficiencies or for matters that did not relate to the Mid-County rate case, totaling an additional \$785. We also reviewed the time sheets

¹² Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

¹³ Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied, 529 So. 2d 694 (Fla. 1988).

for WSC employees and identified a number of hours by three employees that were spent on deficiencies or were not related to the Mid-County rate case.

This amounted to \$1,777 for WSC employees. This Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.¹⁴ Accordingly, \$2,812 shall be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the utility's estimated legal fees to complete the rate case. The utility's counsel estimated 150 hours or \$41,250 in fees plus \$6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time associated with each item was provided. The list of tasks provided only a total number of hours and the total cost. Although the descriptions of the items appeared reasonable, we have no basis to determine whether the individual hours estimated were reasonable. We have reviewed the requested legal fees and expenses and find that these estimates reflect an overstatement. As noted above, UI currently has ten rate cases pending before this Commission. In eight of these ten rate cases, the same amount of estimated legal hours to complete was submitted for the estimated processing of each of the cases. Although the estimate to complete did not indicate the period of time it included, we make the assumption it included November 2006 through February 2007. This would allow time for reviewing the staff recommendation, attending the agenda conference, reviewing our PAA order, and submitting the appropriate customer notice and tariffs for approval. The estimate for legal services for eight of the ten rate cases was 150 hours for each rate case. We have analyzed the reasonableness of this estimated time to complete each of these cases. Using the estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have had to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, we are aware of numerous other pending dockets, including the two other remaining UI rate cases and undocketed projects, that are also being handled by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours every day exclusively for these eight rate cases. We do not believe this to be a reasonable assumption.

As noted above, it is the utility's burden to justify its requested costs. We find that 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review the staff recommendation, travel to the agenda conference, and attend to miscellaneous post-PAA matters. This is consistent with hours allowed for completion by this Commission in the 2004 Labrador Utilities, Inc. (Labrador) rate case.¹⁵ This amounts to a reduction in expense of \$30,250.

¹⁴Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

¹⁵ See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

There was no breakdown provided of the \$6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, we have calculated a travel allowance. We find that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage, and one day's lodging is \$414. This was the amount of travel expense allowed for this law firm in the Labrador rate case. We have calculated travel expenses of \$389, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$215), hotel rates from a website (\$109) and a meal allowance (\$65). However, we shall allow a travel expense of \$414 consistent with the 2004 Labrador case. Further, because legal counsel will also represent Alafaya Utilities, Inc., in Docket No. 060256-SU, and Labrador in Docket No. 060262-WS, at this same agenda, we find it appropriate to allocate travel expenses equally between the three rate cases. Therefore, we find that \$138 is the appropriate travel expense for this case.

In addition to travel expense, we have calculated an amount for miscellaneous disbursements. We added the actual and unbilled legal disbursements less the filing fee and divided by eight, which is the number of months represented by the data, then multiplied by two to reflect the time remaining until the agenda conference. Thus, we find that \$2,359 is a reasonable amount for miscellaneous disbursements and disbursements shall be decreased by \$3,503 (\$6,000 - \$138 - \$2,359). Accordingly, rate case expense shall be decreased by \$33,753 (\$30,250 + \$3,503).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 24 hours or \$3,000 plus \$25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda conference. We find that four hours is a reasonable amount of time to prepare for and attend the agenda conference in this docket. This is consistent with the hours allowed for completion by this Commission in the Indiantown Company, Inc. and the 2004 Mid-County rate cases.¹⁶ However, we are aware of only one subsequent data request from OPC regarding U&U percentage. We find that no more than two hours at \$125 per hour is reasonable for that data request. Therefore, rate case expense shall be decreased by \$2,250 (18 hours x \$125).

The fourth adjustment relates to the 624 hours and \$27,514 of estimated costs to complete this case by WSC employees. The utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The utility simply stated that the \$27,514 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. Therefore, we have no basis to determine whether the individual hours estimated were reasonable.

The utility's time sheets show that actual hours worked by WSC employees on Mid-County through October 2006 totaled 358 allowed hours. WSC estimated that it would require an additional 624 hours to complete the case. We have reviewed these requested expenses and find that the estimates reflect an overstatement of the required hours to complete this case. As

¹⁶ See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc. and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

discussed above, it is the utility's burden to justify its requested costs. We note that WSC was allowed 276 hours in Mid-County's last rate case. In this case, WSC has indicated that it will spend a total of 1,028.67 hours to complete this case, and 2,129.98 hours when temporary personnel are added. This is an increase of 671.73% over approved hours in the last Mid-County case. We realize that UI has experienced employee turnover since the last case and currently has ten active rate cases in Florida, which are possible reasons for an increase in hours to process the current case. However, we do not believe that these possible reasons explain the significant increase in hours above the last case.

The audit report for the last case contained ten audit findings, of which the utility disagreed with only two of the findings. The utility subsequently filed three supplemental responses to the audit, either changing an original position or offering clarification to its earlier responses. The present audit report contains 14 audit findings, and the utility disagreed with one. In the last case, we approved seven pro forma projects totaling \$311,983. As previously discussed, we are approving seven pro forma projects in this case totaling \$166,580. As such, we do not believe there are any glaring or foreseeable reasons why the utility would require the total requested actual and estimated hours of 2,129.98 to complete the current case.

Furthermore, in its rate case expense update, the utility simply stated that the estimated hours for WSC employees and the expenses for the Office Temps personnel were related to assistance with data requests and audit facilitation. We have several additional concerns regarding these estimated hours. First, as previously mentioned, there should be no estimated hours related to the audit in this case because the utility has already responded to the audit and those associated hours are reflected in the actual hours. Second, in those cases when rate case expense has not been supported by detailed documentation, this Commission's practice has been to disallow some portion or remove all unsupported amounts.¹⁷ Third, based on the types of questions contained in the staff data requests subsequent to December 1, 2006, we find that with some assistance from its legal counsel, the utility would have been responsible for addressing them, not the Office Temps personnel.

For all of the above reasons, we find that a reasonable and conservative level of hours for WSC employees is a 20% increase above the 276 hours allowed in the last case, which equals 331.2 hours. This represents a reduction of actual hours of 26.68 hours, or \$1,073 for WSC employees. When the actual hours worked of the Office Temps personnel is included, this would increase allowed hours in this case by an additional 95.9 hours, for a total of 427.1 hours, or 54.75% additional hours allowed over hours allowed in the prior case.

Not only has the utility not sufficiently explained what specific duties would be performed to complete this case, WSC has not explained why the instant case requires 1,854 more hours, including 1,005 hours by temporary workers from mid-November 2006 through the

¹⁷ See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. In all of these cases, the entire unsupported amounts were removed.

PAA process, to complete this case compared to the last case. Therefore, we find it appropriate to reduce the allowed WSC employee expense by \$28,586.

The fifth adjustment relates to WSC expenses for Office Temps. The utility did not include this expense in its MFRs. However, in its update, \$20,000 was estimated to assist with data and audit requests. The hours needed to complete data and audit requests were not broken down to estimate the hours needed to complete each item. Therefore, we have no basis to determine whether the individual hours estimated were reasonable, although as previously mentioned, the estimated hours appear to be excessive. The utility indicated that it had incurred \$2,908 in expenses for Office Temps. However, the utility only provided invoices totaling \$2,367, which agreed with the utility's expense re-cap sheet for temporary services through mid-November, 2006. We find that the additional \$17,633 estimated by Mid-County is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, rate case expense shall be decreased by \$17,633.

The sixth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. We find that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense that we allowed for WSC in the Labrador rate case. We have calculated travel expenses of \$507, using the coach airfare for January 23, 2007 (\$229), current rental car rates (\$104), hotel rates from a website (\$109) and a meal allowance (\$65). However, we find it appropriate to approve a travel expense of \$750, consistent with the Labrador case. Further, because WSC will also be present on behalf of Labrador and Alafaya Utilities, Inc., at this same agenda conference, travel expenses shall be allocated between the three utilities. Based upon the foregoing, we find that \$250 is the appropriate travel expense. Accordingly, rate case expense shall be decreased by \$2,950.

The seventh adjustment relates to WSC expenses for Federal Express Corporation (Fed Ex), copies and other miscellaneous costs. In its MFRs, the utility estimated \$12,000 for these items. In support of this expense, the utility provided only \$296 in identifiable costs for Mid-County from Fed Ex invoices for services through October 16, 2006. There was no breakdown or support for the remaining \$11,704. UI has requested and has received authorization from this Commission to keep its books and records outside the state, in Illinois, pursuant to Rule 25-30.110(2)(b), Florida Administrative Code. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. This Commission found the following:

The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently

disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.¹⁸

We find that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data requests, etc., to its law firm located in central Florida. Then these are submitted to the Commission. We do not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and they should bear the related costs. Therefore, rate case expense shall be decreased by \$12,000.

The utility estimated that total costs for postage and notices will total \$2,597. We have calculated that postage costs for three notices will total \$2,251 using a postage bulk rate (3 x 2,200 x .341) of \$2,288. The utility has incurred \$688 in actual printing charges, and has estimated that the remaining charges for printing the customer notice for final rates is (\$380). That is an error. We believe the utility intended the actual and estimated amount to be \$998 (\$689 actual to date + \$309 estimated to complete). We have estimated that total printing costs will be \$882 (\$689 incurred to date + \$194 to complete). Thus, total costs for postage and notices will total \$3,133. Since this exceeds projected expense by \$536, rate case expense shall be increased by \$536 for expenses related to customer notices and mailing.

In summary, the utility's revised total rate case expense shall be decreased by \$77,028 for MFR deficiencies, and unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$84,094. A breakdown of rate case expense is as follows:

	MFR <u>Estimated</u>	Utility Revised <u>Actual & Estimated</u>	Commission <u>Adjustments</u>	<u>Total</u>
Legal and Filing Fees	\$53,500	\$71,343	(\$34,538)	\$36,805
Consultant Fees- Seidman	40,000	30,423	(2,500)	27,923
WSC In-house Fees	49,825	43,681	(30,363)	13,318
Office Temp Fees	0	20,000	(17,633)	2,367
Travel-WSC	3,200	3,200	(2,950)	250
Miscellaneous	12,000	12,000	(12,000)	0
Notices	<u>2,597</u>	<u>2,597</u>	<u>537</u>	<u>3,133</u>
Total Rate Case Expense	<u>\$161,122</u>	<u>\$183,244</u>	<u>(\$99,447)</u>	<u>\$83,796</u>
Annual Amortization	<u>\$40,281</u>	<u>\$45,811</u>	<u>(\$24,862)</u>	<u>\$20,949</u>
Disallowed Yearly Expense				<u>\$19,332</u>

¹⁸ Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.

In its MFRs, the utility requested total rate case expense of \$161,122, which amortized over four years would be \$40,281 ($\$161,122/4$). However, we find that the proper yearly amortization is \$20,949 ($\$83,796/4$). Thus, rate case expense shall be decreased by \$19,332 ($\$40,281 - \$20,949$). The total approved rate case expense shall be amortized over four years pursuant to Section 367.0816, Florida Statutes. This represents an annual amortization of \$20,949 ($\$83,796/4$).

To prevent the double recovery of a portion of the previously approved amortization of prior rate case expense, the utility's adjusted O&M expenses shall be decreased by \$13,140. The appropriate rate case expense for the current docket is \$83,796. This expense shall be recovered over four years for an annual expense of \$20,949, or \$19,332 less than requested. Thus, rate case expense shall be reduced by a total of \$32,472 ($\$13,140 + \$19,332$).

Test Year Operating Income

As shown on the attached Schedule 3-A, after applying the adjustments approved herein, the test year net operating income before any revenue increase is \$32,330. Our adjustments to operating income and expenses are shown on Schedule 3-B.

REVENUE REQUIREMENT

Mid-County requested final rates designed to generate annual revenues of \$1,769,847. This exceeds test year revenues by \$377,730 (27.13%). The originally requested rates also included its requested pro forma plant.

Based upon our findings regarding the underlying rate base, cost of capital, and operating income, and exclusion of pro forma-related adjustments, we hereby approve rates that are designed to generate a revenue requirement of \$1,674,586. These revenues exceed the adjusted test year revenues by \$282,469, or 20.29%. These increases will allow the utility the opportunity to recover its expenses and earn a 7.98% return on its investment in wastewater rate base.

RATES AND RATE STRUCTURE

Wastewater Rates

As noted above, the appropriate revenue requirement is \$1,674,586. After excluding miscellaneous service charges of \$599, the revenues to be recovered through rates are \$1,673,987.

Mid-County's current wastewater rate structure is a base facility charge and gallonage charge with a 20,000 bi-monthly gallonage cap on residential customers. The utility's current rate structure contains a differential in the gallonage charge between residential and general service. This rate differential is designed to recognize that approximately 80% of a residential customer's water usage will not return to the wastewater system, whereas, approximately 96% of multi-family and general service water usage is returned. This wastewater gallonage rate differential is employed by the Commission in wastewater rate settings and is widely recognized

as an industry standard. Based on the above, the gallonage rate differential shall continue to be used in this case, consistent with the differential approved in the last case.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

A comparison of the utility's original and requested rates, the Commission-approved interim and the PAA rates approved herein are shown on Schedule No. 4.

Miscellaneous Service Charges

The miscellaneous service charges currently in effect were approved for Mid-County on November 19, 1991, and have not changed since that date. The approved charges have been the standard charge since at least 1990 -- a period of 16 years. These charges shall be updated to reflect current costs. Mid-County is authorized to increase its wastewater miscellaneous service charges from \$15 to \$21 for normal hours and from \$15 to \$42 for after hours. The prior and approved charges are shown below.

	<u>Prior Charges</u>		<u>Comm. Approved Charges</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	\$15	\$21	\$42
Normal Reconnection	\$15	\$15	\$21	\$42
Violation Reconnection	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Premises Visit	\$10	\$10	\$21	\$42

Miscellaneous service charges have not been updated in over 16 years and costs for fuel and labor have risen substantially since that time. Further, this Commission's price index has increased approximately 60% in that period of time. This Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the costs incurred. By Order No. PSC-96-1320-FOF-WS, involving Southern States Utilities Inc.,¹⁹ this Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications." Currently,

¹⁹ Issued October 30, 1996, in Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

miscellaneous service charges may be indexed if requested in price index applications, pursuant to Rule 25-30.420, Florida Administrative Code. However, few utilities request that their miscellaneous service charges be indexed. We have applied the approved price indices from 1990 through 2005 to Mid-County's \$15 miscellaneous service charge and the result is a charge of \$21. Therefore, we find that a \$21 charge is reasonable and cost based. By Order Nos. PSC-06-0684-PAA-WS,²⁰ and PSC-05-0776-TRF-WS,²¹ this Commission approved a \$20 charge for connections and reconnections during normal hours and a \$40 after hours charge.

In summary, we hereby approve miscellaneous service charges of \$21 and after hours charges of \$42 because the increased charges are cost-based, reasonable, and consistent with fees this Commission has approved for other utilities. The utility shall file a proposed customer notice to reflect these approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by our staff. Within ten days of the date this Order is final, the utility shall be required to provide notice of the tariff changes to all customers. The utility shall provide proof that customers have received notice within ten days after the date the notice was sent.

Interim Rate Refund Not Required

By Order No. PSC-06-0653-PCO-SU, issued August 4, 2006, in this docket, we authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirements are shown below:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Wastewater	\$1,534,286	\$142,169	10.21%

According to Section 367.082, Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the twelve-month period ended December 31, 2005. Mid-County's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate

²⁰ Issued August 8, 2006, in Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

²¹ Issued July 26, 2005, in Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

case expense and the pro forma adjustments were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we have calculated the interim revenue requirement for the interim collection period to be \$1,568,912. The wastewater revenue levels are greater than the interim revenues approved by Order No. PSC-06-0653-PCO-SU. Therefore, no interim refund is required.

STATUTORY FOUR-YEAR RATE REDUCTION

Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is \$21,936. The decreased revenues will result in the rate reduction reflected on Schedule No. 4, attached hereto.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

ADJUSTMENT OF BOOKS FOR ALL APPLICABLE NARUC USOA PRIMARY ACCOUNTS

To ensure that the utility adjusts its books in accordance with our decision herein, Mid-County shall provide proof, within 90 days of the Final Order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Mid-County Services, Inc., for an increase in its wastewater rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that Mid-County Services, Inc., shall complete any and all improvements to the wastewater treatment plant that are necessary to satisfy the standards set by the Department of Environmental Protection and shall file a status report within six months from the issuance date of this Order advising this Commission as to whether the Department of Environmental

Protection compliance issues have been resolved. Our staff will report to us if Mid-County Services, Inc. fails to cooperate satisfactorily with the Department of Environmental Protection towards a resolution of these issues. It is further

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

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

ORDERED that Mid-County Services, Inc. is authorized to charge the new rates and charges as set forth in the body of this Order and the attachments and schedules attached hereto. It is further

ORDERED that the approved rates and charges shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notice is adequate. It is further

ORDERED that Mid-County Services, Inc. shall provide proof of the date notice was given within ten days after the date of the notice. It is further

ORDERED that the approved rates and charges shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. It is further

ORDERED that the rates and charges shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that Mid-County Services, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

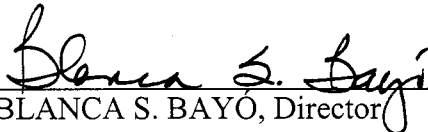
ORDERED that Mid-County Services, Inc. shall file revised tariff sheets to reflect the statutory four-year rate reduction and a proposed customer notice to reflect the Commission-approved lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Mid-County Services, Inc., shall provide proof, within 90 days of the Final Order issued in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. It is further

ORDERED that, except for the requirement to make the appropriate adjustments to its books for all of the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts and the statutory four-year rate reduction which are issued as final agency action, 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" attached hereto. It is further

ORDERED that if the Proposed Agency Action portions of this Order become final, this docket shall be closed upon the issuance of the Consummating Order.

By ORDER of the Florida Public Service Commission this 16th day of February, 2007.



BLANCA S. BAYO, Director
Division of the Commission Clerk
and Administrative 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, our action, except for the requirement to make the appropriate adjustments to books for all of the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts and the statutory four-year rate reduction which are issued as final agency action, 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 March 9, 2007. 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 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.

Mid-County Services, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/05		Schedule No. 1 Docket No. 060254-SU			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$5,413,941	\$243,552	\$5,657,493	(44,821)	\$5,612,672
2 Land and Land Rights	\$18,603	\$0	18,603	(200)	18,403
3 Non-used and Useful Components	\$0	\$0	0	(129,094)	(129,094)
4 Accumulated Depreciation	(1,633,555)	(5,299)	(1,638,854)	(42,259)	(1,681,113)
5 CIAC	(2,977,668)	0	(2,977,668)	0	(2,977,668)
6 Amortization of CIAC	1,444,003	0	1,444,003	4,407	1,448,410
7 CWIP	144,135	(144,135)	0	0	0
10 Working Capital Allowance	\$0	\$187,795	187,795	32,993	220,788
11 Rate Base	<u>\$2,409,459</u>	<u>\$281,913</u>	<u>\$2,691,372</u>	<u>(\$178,975)</u>	<u>\$2,512,397</u>

**Mid-County Services, Inc.
 Adjustments to Rate Base
 Test Year Ending 12/31/05**

**Schedule No. 1-A
 Docket No. 060254-SU**

Explanation	Wastewater
<u>Plant In Service</u>	
1 To reflect appropriate allocated WSC rate base amount.	\$11,015
2 To reflect appropriate allocated UIF rate base amount.	\$76,124
3 To reflect the reduction in unsupported Pro Forma Plant.	<u>(\$131,960)</u>
Total	<u>(\$44,821)</u>
<u>Land</u>	
To reflect adjustment to land (AF 1)	<u>(\$200)</u>
<u>Non-used and Useful</u>	
To reflect net non-used and useful adjustment	<u>(\$129,094)</u>
<u>Accumulated Depreciation</u>	
1 Adjustment to Accumulated Depreciation (AF 7)	(\$23,111)
2 To reflect appropriate allocated UIF rate base amount.	(\$22,539)
3 To reflect the reduction in unsupported Pro Forma Plant.	<u>\$3,391</u>
Total	<u>(\$42,259)</u>
<u>Accumulated Amortization of CIAC</u>	
Adjustment to CIAC Amortization (AF 8)	<u>\$4,407</u>
<u>Working Capital</u>	
To reflect net working capital (AF 2)	<u>\$32,993</u>

Mid-County Services, Inc.
Capital Structure-13 Month Average
Test Year Ending 12/31/05

Schedule No. 2
Docket No. 060254-SU

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$131,532,846)	\$1,492,256	55.45%	6.65%	3.69%	
2 Short-term Debt	4,522,923	0	\$4,522,923	(4,472,186)	\$50,737	1.89%	5.01%	0.09%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	91,510,699	0	\$91,510,699	(90,484,146)	\$1,026,553	38.14%	11.78%	4.49%	
5 Customer Deposits	0	0	\$0	0	\$0	0.00%	6.00%	0.00%	
6 Deferred Income Taxes	121,826	0	\$121,826	0	\$121,826	4.53%	0.00%	0.00%	
10 Total Capital	<u>\$229,180,550</u>	<u>\$0</u>	<u>\$229,180,550</u>	<u>(\$226,489,178)</u>	<u>\$2,691,372</u>	<u>100.00%</u>		<u>8.27%</u>	
Per Commission									
11 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$131,679,203)	\$1,345,899	53.57%	6.58%	3.52%	
12 Short-term Debt	4,522,923	(119,308)	\$4,403,615	(\$4,359,061)	44,554	1.77%	5.14%	0.09%	
13 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
14 Common Equity	91,510,699	3,093,004	\$94,603,703	(\$93,646,538)	957,165	38.10%	11.46%	4.37%	
15 Customer Deposits	0	0	\$0	\$0	0	0.00%	6.00%	0.00%	
16 Deferred Income Taxes	121,826	42,953	\$164,779	\$0	164,779	6.56%	0.00%	0.00%	
20 Total Capital	<u>\$229,180,550</u>	<u>\$3,016,649</u>	<u>\$232,197,199</u>	<u>(\$229,684,802)</u>	<u>\$2,512,397</u>	<u>100.00%</u>		<u>7.98%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>		
OVERALL RATE OF RETURN						<u>7.60%</u>	<u>8.36%</u>		

Mid-County Services, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/05

Schedule No. 3
Docket No. 060254-SU

Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>1,374,712</u>	<u>395,135</u>	<u>1,769,847</u>	<u>(377,730)</u>	<u>1,392,117</u>	<u>282,469</u> 20.29%	<u>1,674,586</u>
Operating Expenses							
2 Operation & Maintenance	1,139,821	125,848	1,265,669	(82,031)	1,183,638	0	1,183,638
3 Depreciation	77,943	10,599	88,542	3,268	91,810	0	91,810
4 Amortization	0	27,000	27,000	0	27,000	0	27,000
5 Taxes Other Than Income	105,210	14,093	119,303	(26,657)	92,646	12,711	105,357
6 Income Taxes	<u>(35,478)</u>	<u>81,158</u>	<u>45,680</u>	<u>(80,987)</u>	<u>(35,307)</u>	<u>101,510</u>	<u>66,203</u>
7 Total Operating Expense	<u>1,287,496</u>	<u>258,698</u>	<u>1,546,194</u>	<u>(186,407)</u>	<u>1,359,787</u>	<u>114,221</u>	<u>1,474,008</u>
8 Operating Income	<u>87,216</u>	<u>136,437</u>	<u>223,653</u>	<u>(191,323)</u>	<u>32,330</u>	<u>168,248</u>	<u>200,579</u>
9 Rate Base	<u>2,409,459</u>		<u>2,691,372</u>		<u>2,512,397</u>		<u>2,512,397</u>
10 Rate of Return	<u>3.62%</u>		<u>8.31%</u>		<u>1.29%</u>		<u>7.98%</u>

Mid-County Services, Inc.
Adjustment to Operating Income
Test Year Ended 12/31/05

Schedule No. 3-A
Docket No. 060254-SU

Explanation	Wastewater
<u>Operating Revenues</u>	
1 Remove requested final revenue increase	<u>(\$377,730)</u>
<u>Operation and Maintenance Expense</u>	
1 Adjustment to Miscellaneous Expense (AF 4)	(\$12,061)
2 Adjustment to Miscellaneous Expense (AF 5)	(\$1,238)
3 Adjustment to reduce chemical expense	(\$5,000)
4 Adjustment to Allocated WSC Expense	\$13,171
5 Adjustment to Allocated UIF Expense.	\$2,349
6 Adjustment to Pro Forma Salaries and Benefits	(\$29,850)
7 To adjust new rate case expense	(\$19,332)
8 To adjust old rate case expense	(\$13,140)
9 To adjust amortization expense for I/I Study	<u>(\$16,930)</u>
Total	<u>(\$82,031)</u>
<u>Depreciation Expense - Net</u>	
1 To reflect appropriate allocated WSC rate base amount.	(\$765)
2 To reflect appropriate allocated UIF rate base amount.	(\$1,193)
3 Adjustment to Depreciation Expense (AF 7)	\$23,111
4 Adjustment to CIAC Amortization (AF 8)	(\$4,407)
5 To reflect the reduction in unsupported Pro Forma Plant.	(\$3,391)
6 To remove net depreciation on non-U&U adjustment above.	<u>(\$10,087)</u>
Total	<u>\$3,268</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above	(\$16,998)
2 Adjustment to Allocated WSC Expense	\$975
3 Adjustment to Taxes other than Income (AF 9)	(\$7,441)
4 Adjustment to existing plant taxes	(\$813)
5 Adjustment to pro forma plant taxes	(\$525)
6 Adjustment to payroll taxes	(\$1,336)
7 To remove property taxes on NU&U	<u>(\$520)</u>
Total	<u>(\$26,657)</u>

Schedule No. 4
 Docket No. 060254-SU

Mid-County Services, Inc.
 Wastewater Bi-Monthly Service Rates
 Test Year Ended 12/31/05

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four-year Rate Reduction
Base Facility Charge All Meter Sizes:					
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$26.90	\$29.65	\$34.20	\$31.60	\$0.41
Gallonge Charge - Per 1,000 gallons (20,000 gallon cap)	\$2.59	\$2.85	\$3.29	\$3.17	\$0.04
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$26.90	\$28.62	\$34.20	\$31.60	\$0.41
1"	\$69.03	\$73.46	\$87.77	\$81.09	\$1.06
1-1/2"	\$155.30	\$165.27	\$197.46	\$182.46	\$2.39
2"	\$276.10	\$293.83	\$351.05	\$324.38	\$4.25
2"-UI	\$276.10	\$293.83	\$351.05	\$324.38	\$4.25
3"	\$621.38	\$697.13	\$790.06	\$730.06	\$9.56
4"	\$1,104.37	\$1,238.99	\$1,404.16	\$1,297.52	\$17.00
6"	\$2,485.17	\$2,788.11	\$3,159.79	\$2,919.83	\$38.25
Gallonge Charge, per 1,000 Gallons	\$3.11	\$3.49	\$3.95	\$3.81	\$0.05
<u>Multi-Residential</u>					
Base Facility Charge by Meter Size:					
Flat Rate	\$59.27	\$63.08	\$62.65	\$62.14	\$0.81
5/8" x 3/4"	\$26.90	\$28.62	\$34.20	\$31.60	\$0.41
1"	\$69.03	\$73.46	\$87.77	\$81.09	\$1.06
1-1/2"	\$155.30	\$165.27	\$197.46	\$182.46	\$2.39
2"	\$276.10	\$293.83	\$351.05	\$324.38	\$4.25
3"	\$621.38	\$697.13	\$790.06	\$730.06	\$9.56
4"	\$1,104.37	\$1,238.99	\$1,404.16	\$1,297.52	\$17.00
6"	\$2,485.17	\$2,788.11	\$3,159.79	\$2,919.83	\$38.25
Gallonge Charge, per 1,000 Gallons	\$3.11	\$3.49	\$3.95	\$4.56	\$0.06
<u>Typical Residential Bills 5/8" x 3/4"</u>					
		<u>Meter</u>			
3,000 Gallons	\$34.67	\$38.20	\$44.07	\$41.11	
5,000 Gallons	\$39.85	\$43.90	\$50.65	\$47.45	
10,000 Gallons	\$52.80	\$58.15	\$67.10	\$63.30	
(Wastewater Bi-Monthly Gallonge Cap - 20,000 Gallons)					

Used and Useful

Mid-County Services, Inc. Docket #: 060254-SU		Attachment A, Page 1 of 2 Test Year Jan 05 - Dec 05		
WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA				
1)		Permitted Capacity of Plant (AADF)	900,000	gallons per day
2)	a)	Average Daily Flow (AADF)	662,537	gallons per day
3)		Growth	23,852	gallons per day
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan 2005 - Dec 2005	2,736	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	19.7	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (3b)x(3c)x[2a\ (3a)]	23,852	gallons per day
4)		Excessive Infiltration or Inflow (I&I)	0	gallons per day
	a)	Total I & I	8,378	gallons per day
	b)	Percent of Excessive	0	
	c)	Reasonable Amount (500 gpd per inch dia. pipe per mile)	154,797	gallons per day
	d)	Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

[Average Daily Flow + Growth – Excessive Amount] / Permitted Capacity of Plant

$$[662,537 + 23,852 - 0] / 900,000 = 76 \% \quad \text{Used \& Useful}$$

Mid-County Services, Inc.		Attachment A, Page 2 of 2		
Docket #: 060254-SU		Test Year Jan 05 - Dec 05		
WASTEWATER COLLECTION SYSTEM – USED AND USEFUL DATA				
1)		Capacity of System (Number of Potential in ERCs)	2,756	ERCs
2)		Test Year Connections (Customers) Average Test Year in ERC	2,736	ERCs
3)		Growth	100	ERCs
	a)	Customer growth in connections for last 5 years including test yea using Regression Analysis	19.7	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	100	ERCs

USED AND USEFUL FORMULA

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