BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.	DOCKET NO. 971065-SU ORDER NO. PSC-98-0524-FOF-SU ISSUED: April 16, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Mid-County Services, Inc. (Mid-County or utility), a wholly-owned subsidiary of Utilities, Inc., of Northbrook, Illinois, is a Class B utility, located in Pinellas County, Florida. Mid-County provides wastewater service to customers located in Dunedin, Florida. The utility is located in a region which has been designated by the South Florida Water Management District (SFWMD) as a critical use area. As of December 31, 1996, the utility served approximately 1,327 residential customers, 108 general service, 69 multi-family dwellings and 3 flat rate customers. Water service and billing is provided by Pinellas County.

The utility's last rate case, Docket No. 921293-SU, was filed on April 1, 1993, culminating in Proposed Agency Action (PAA) Order No. PSC-93-1713-FOF-SU, issued November 30, 1993. On December 20, 1993, a developer, Suntech Homes, Inc., timely filed a Petition on Proposed Agency Action, and requested a hearing pursuant to Section

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120.57, Florida Statutes. The developer's protest was limited to the issue of service availability charges. Final rates and service availability charges for this utility were set in Order No. PSC-94-1042-FOF-SU, issued on August 24, 1994. Flat rates for unmetered service, a new class of service, were approved by Order No. PSC-95-0359-FOF-SU, issued on March 14, 1995, in Docket No. 941263-SU. The 1996 price index and ad valorem pass-through rate increase was approved effective September 29, 1996.

On September 4, 1997, the utility filed the instant application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes, and requested that the Commission process this case under the PAA procedure. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on October 14, 1997, the utility satisfied the MFRs and this date was designated as the official filing date. The test year for interim and final purposes is the historical twelve-month period ended December 31, 1996. The current rate case is driven by increased expenses.

Mid-County requested interim wastewater rates designed to generate annual operating revenues of $1,219,230. Those revenues exceeded test year revenues by $305,637 or 33.45 percent. By Order No. PSC-97-1608-PCO-SU, issued December 22, 1997, the Commission approved annual operating revenues of $1,177,602 on an interim basis, subject to refund. These revenues exceed test year revenues by $264,009 or 28.90 percent.

QUALITY OF SERVICE

In accordance with Rule 25-30.433(1), Florida Administrative Code, our evaluation of the overall quality of service provided by a wastewater utility is derived from the evaluation of three separate components of wastewater utility operations:

(1) Quality of the Utility's Product;
(2) Operational Condition of the Utility's Plant or Facilities; and
(3) Customer Satisfaction

Quality of Utility's Product

In order to assess the overall quality of service provided by the utility, the quality of the product must be evaluated. This evaluation consists of a review of the utility's current compliance with Florida Department of Environmental Protection (FDEP) wastewater standards. Since Mid-County is a wastewater only utility, we will address the wastewater portion of the quality of service requirements.

The primary concern of a wastewater utility is the quality of the effluent discharged from the plant. Plant effluent has specific limitations which are dependent on the point of discharge. For example, the limitations imposed on surface water discharges (lakes and rivers) would be more stringent than discharges to percolation ponds.

We have reviewed compliance with the FDEP standards. Mid-County is currently in compliance with all FDEP standards and regulations concerning collection and treatment. Based on this information, we find the quality of the utility's product to be satisfactory.

Operational Condition of the Utility's Plant or Facilities

The operational conditions of the utility's treatment and collection systems must also be evaluated to determine the overall quality of service provided by the utility. Evaluation of these systems includes a review of the utility's compliance with FDEP standards of operation as well as an analysis of proper system design. Wastewater treatment plants and collection systems are reviewed for compliance with permit standards, minimum operator requirements and lift station location and reliability among other standards.

As discussed above, Mid-County is currently in compliance with all FDEP standards and regulations. Based on this information, we find the operational condition of the utility's plant and facilities to be satisfactory.

Customer Satisfaction

The final component of the overall quality of service which must be assessed is the level of customer satisfaction which results from the utility's relations with its customers. A qualitative evaluation of these relations includes a review of proper notification requirements between the utility and its customers as well as a review of action taken by the utility regarding customer complaints. For example, utility policies are reviewed in order to insure that customers have been properly notified of scheduled service interruptions.

As part of the PAA process, a customer meeting was held in Dunedin, Florida, on January 13, 1998. Of the fewer than 20 customers attending, 10 testified. They were all opposed to the size of the increase in rates requested by the utility. With the exception of an odor problem at one manhole, there were no complaints regarding service. The odor problem was being addressed by the complainant and the utility.

Based on this information, we find the level of customer satisfaction, and the overall quality of service provided by the utility, to be satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the utility is depicted on Schedule No. 1-A and the adjustments to rate base are attached as Schedule 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Flow Data for Used and Useful Calculations

In order to secure an operating permit for a wastewater treatment plant in the State of Florida, FDEP requires utilities to file, "Wastewater Application Form 2A, For A Domestic Wastewater Facility Permit." In Section 2 (Treatment Facility Description), page 2A-6, section 4 (Basis of Design Flow), utilities must choose one of four options:

1) Annual Average Daily Flow (AADF)
2) Maximum Monthly Average Daily Flow
3) Three Month Average Daily Flow
4) Other

The design flow for the permit is entirely the decision of the utility by the choice of one the above options. The choice made by the utility to permit the plant should be the basis for the flow data from the MFRs which we use in used and useful calculations. In other words, the numerator and denominator in the used and useful equation should utilize the same factors. Use of the same factors, top and bottom, in an equation, where possible, assures a more accurate result whether it is feet, inches, or flows. If the plant is permitted on an annual average daily flow basis, which is then used as the denominator, mathematical logic dictates that, for the most accurate result, the numerator should match and be the annual average daily flow figure as filed with the MFRs.

We have reviewed the FDEP operating permit for Mid-County's wastewater treatment plant. This plant permit was issued in April, 1994, replacing an earlier permit under which the capacity was limited by FDEP to .8 million gallons per day (MGD). The current permit, number DO52-242275, on page 2 of 6, states the plant capacity flow is ".90 mgd. ann. avg." We believe that when the permit shows the flow upon which the capacity is based, such as annual average daily flow or maximum month average daily flow, that flow basis should be used for used and useful calculations. Historically, we have turned to the most recent FDEP operating permit to obtain the basis of design in order to calculate used and useful percentages.

We find that the appropriate flow data to use is the flow upon which the FDEP operating permit is based. The newer FDEP operating permits contain the most recent and accurate information describing the flows upon which capacity is based. We find it appropriate to continue utilizing the FDEP permit as the means of determining the flow data. When such information is not available, the average daily flow in the maximum month should be used. In this case, the utility selected AADF as the basis of flow for its permit. Therefore, as indicated by the FDEP permit, we find that the AADF shall be the basis of flow to use in the numerator and denominator of the used and useful calculations.

Margin Reserve

The purpose of a margin reserve allowance is to permit a utility to expand prudently beyond its current demands to enable it to meet reasonable projected short-term growth. It is our practice to grant a reasonable margin reserve when necessary.

In its filing in the instant docket, the utility requested a margin reserve of 20%. As stated in its MFRs, this request was based on a prior staff-proposed Rule 25-30.432(5)(a), Florida Administrative Code. The proposed rule was addressed in a staff recommendation filed on February 22, 1993 in Docket No. 911082-WS. That docket involved proposed revisions to various PSC rules affecting regulation of the water and wastewater industry. Staff's proposed Rule 25-30.432 also addressed the calculation of margin reserve, and provided that a margin reserve allowance of 20% of the permitted or actual ERC capacity, whichever is greater, shall be used. Staff's proposed Rule 25-30.432 was withdrawn prior to the issuance of Order No. PSC-93-1663-FOF-WS, issued on November 15, 1993, whereby the Commission provided notice of adopting rules pursuant to Section 120.54, Florida Statutes.

We have calculated a margin reserve allowance by using the linear regression method to analyze past growth. We chose linear regression, in lieu of the annual average of the preceding years method used by the utility, to project future growth. The statistical linear regression method quantifies the relationship between growth and time and more reliably reflects positive or negative trends in growth than the simple averaging method of calculation. By tracking this relationship over several periods of observation, a straight line can be established to reasonably predict growth by projecting out along the same path. Additional years can be added for further projections with reasonable confidence in the results. We have approved the linear regression method of calculating future growth in previous Commission dockets. See Order No. PSC-97-1544-FOF-WS, issued December 9, 1997, Request by Gulf Utility Company to increase rates in Lee County.

Growth analysis of the years 1993 through 1996 using the linear regression method reveals an annual growth projection in Mid-County's service area of 73 equivalent residential connections (ERCs). Although the utility requested a 20% margin reserve, it provided no justification other than a proposed administrative rule, as discussed above, nor did the utility provide justification for a time period longer than 18 months. We have consistently found that where no justification for a longer construction period is provided, 18 months will be approved for treatment plant. Based on the foregoing information, we hereby approve an 18-month construction time period.

Accordingly, the margin reserve is calculated as follows: we multiplied 73 ERCs by 1.5 years, which equals 109.5 ERCs. We then multiplied the 109.5 ERCs by 244.97 gallons per day (GPD) per single family, which equals 26,825 GPD in margin reserve. Based on these calculations, we hereby approve a margin reserve of 26,825 GPD, which equals 3% of the utility's flow capacity.

Used and Useful

We find the wastewater treatment plant to be 83.09 percent used and useful. The wastewater collection and effluent disposal systems are both 100 percent used and useful. Our calculations and findings are detailed below.

Wastewater Treatment Plant

In its filing, the utility requested a used and useful percentage of 112%. This results from using the maximum month daily flows and adding a requested 20% margin reserve allowance.

In PAA Order No. PSC-93-1713-FOF-SU, issued November 30, 1993 in Docket No. 921293-SU (the previous Mid-County rate case), the utility was granted a used and useful percentage of 97%. That figure was the result of a lower permitted capacity, .8MGD, and in that calculation, we used the maximum month average daily flow as the numerator of the equation, which was the accepted method of calculation at that time. That order was protested by Suntech Homes, Inc., due to associated service availability charges.

Subsequently, in Final Order No. PSC-94-1042-FOF-SU, issued August 24, 1994, the parties stipulated a used and useful percentage of 88%. Plant capacity was stipulated at .9MGD, due to the plant having been repermitted by FDEP at a higher capacity in April 1994, between the issue dates of the PAA order in November 1993 and the final order in August 1994. The reason for the repermit process was that the plant had been operating under a FDEP consent order limiting flows due to violations regarding effluent standards. The plant discharges effluent into Curlew Creek, which flows into the Gulf of Mexico. The utility was required to upgrade the plant to meet strict FDEP standards for effluent flowing into such waters.

The new permit, No. DO52-242275, clearly states, on page 2 of 6, that plant capacity is, ".90 mgd ann. avg." Since this plant has been repermitted, and the utility chose the AADF method for permitting, as discussed previously, we find that the used and useful percentage shall be calculated using the same flow data requested by the utility and permitted by the FDEP. The AADF for this plant is 720,956 GPD. Attachment A shows our calculations for the approved used and useful percentage, using the AADF (line 2), plus the approved margin reserve of 26,825 GPD, divided by the permitted capacity of .9 MGD (line 1). Since there is no excessive infiltration (line 4), that number in the equation is zero.

The approved used and useful percentage (83.09%) in this case is lower than the 88% approved in the preceding case, due to the use of the AADF flow requested by the utility in its permit. Also, the formula used in the preceding case was the result of a stipulation, as indicated above.

Based upon the foregoing, we hereby approve a used and useful percentage of 83.09% for Mid-County Services, Inc. for its wastewater treatment plant. Based on this percentage, non-used and useful plant is $385,896. The associated non-used accumulated depreciation and depreciation expense are $98,009 and $11,358, respectively, and non-used and useful property taxes are $2,866.

Wastewater Collection and Effluent Disposal Systems

The collection and effluent disposal systems were inspected during an on-site evaluation in October, 1997. As stated previously, this is a wastewater-only utility. Billing information must be obtained from Pinellas County water utility. Also, many customers are master-metered. Consequently, it is virtually impossible to get an accurate count of the actual number of people creating sewage for this system. Effluent disposal consists of a chlorine contact chamber, associated pumping equipment and a disposal pipe to Curlew Creek.

The utility requested percentages of 103.85% and 112% used and useful for the collection and effluent disposal systems respectively. Utility calculations are presented on MFR Schedule F-6, page 81, of the MFRs. The utility's request, as stated on MFR Schedule F-6, is based on a proposed Rule 25-30.432, Florida Administrative Code. As discussed previously, this rule was from a set of staff-proposed rule revisions, and was never adopted by the Commission. In the last rate case for this utility, in Order No. PCS-93-1713-FOF-SU, we granted a collection system used and useful percentage of 82.5%, plus a 5% margin reserve allowance for projected growth. This percentage was granted after a period of negative growth and a temporary connection moratorium due to a FDEP consent order. A study of the growth in Mid-County's service area since Order No. PSC-93-1713-FOF-SU was issued indicates a 21.8% increase in customers between March 31, 1994 and December 31, 1996. This is an annual increase of 7.94%. A review of the annual reports filed by Mid-County with this Commission indicates no additional lines have been added to the collection system since 1992. The utility has several pockets of undeveloped land within its service area. The utility also has reserve plant capacity. While there is growth potential, additional collection system must be added before many new customers can be added. Therefore this system shall be considered to be 100% used and useful. As previously stated, the utility requested a used and useful percentage of 103.85%. We have never approved more than 100% used and useful for any utility.

The effluent disposal system was not addressed as a separate component in Order No. PCS-93-1713-FOF-SU. However, since the utility listed it as a separate item in this case, and requested a percentage over 100%, we shall address this item. As mentioned above, the effluent disposal system consists of a chlorine contact chamber, associated pumping equipment and a disposal pipe to Curlew Creek. This system is the smallest possible to handle the existing load consequently shall be considered 100% used and useful.

Based on the information, we find that the collection system and effluent disposal system are 100% used and useful with no margin reserve.

Imputation of CIAC on the Margin Reserve

The margin reserve reflects the utility's obligation to serve existing and potential customers, and it invests in central plant to meet this service obligation. If margin reserve is included in the used and useful calculations, then to achieve proper matching, an amount of CIAC equivalent to the number of equivalent residential connections (ERCs) represented by the margin reserve should be reflected in rate base. When determining the amount of imputed CIAC, we use the existing or new capacity charges, since this is a forward looking adjustment. We have also found that the amount of CIAC recognized in rate base should be no greater that the amount of net plant included in the margin reserve. Our decision herein to impute CIAC on the margin reserve is consistent with previous Commission decisions. See Order No. 20434, issued on December 8, 1988 in Docket No. 871134-WS; Order No. 20272, issued on November 7, 1988 in Docket No. 880308-SU; Order No. 24735, issued on July 1, 1991 in Docket No. 900718-WU; and Order No. PSC-93-0301-FOF-WS, issued on February 25, 1993 in Docket No. 911188-WS.

Based upon the foregoing, we find it appropriate to include an imputation of CIAC on the margin reserve. In the wastewater facilities this equates to $135,220, based on the 109 ERCs included in the margin reserve (1.5 years) times the current $1,235 plant capacity charge.

In the most recent rate proceedings of other water and wastewater utilities, we have decided to impute only 50% of the CIAC estimated to be collected during the margin reserve period. This decision is based on the premise that all of the CIAC related to the margin reserve will not be collected at the beginning of the period, but evenly over the three-year period. See Order No. PSC-97-0388-FOF-WS, issued on April 7, 1997; Order No. PSC-96-1320-FOF-WS, issued on October 30, 1996; and Order No. PSC-96-1338-FOF-WS, issued on November 7, 1996. Fifty percent of the gross CIAC for the wastewater system, stated above, is $67,610. Since net plant included in the margin reserve is only $50,733, the amount of CIAC recognized in rate base should be no greater. For the wastewater system, we find it is appropriate to impute additional CIAC of $50,733. Adjustments shall also be made to increase accumulated amortization of CIAC by $943 and decrease test year amortization expense by $1,887.

Plant in Service

Our adjustments to plant in service for the utility are discussed below.

Deferred Charges from Water Service Corporation

The utility included $2,205 in its MFRs as part of plant in service under the caption Water Service Corporation, which is an allocation of plant in service from Water Service Corporation (WSC). WSC is the subsidiary of Utilities, Inc., the parent corporation, which provides the common services for the subsidiary utilities. The $2,205 was included in WSC Account No. 186-43, Deferred Charges - Employees Finder Fees, and is being amortized over a three-year period, which shows it as a deferred debit, a working capital item, rather than plant in service. Because Rule 25-30.433(2), Florida Administrative Code, requires Mid-County to use the one-eighth of operation and maintenance expenses for the working capital allowance, the $2,205 is disallowed as part of plant in service that is allocated from the parent company through WSC. To include this amount in rate base would be double counting, because the amortization expense portion of the deferred charges of

$1,841 is properly included in operation and maintenance expenses, Account Number 735, Contractual Services-Other.

Capitalized Legal Expenses and Acquisition Costs

In Audit Exceptions 8 and 9, the staff auditors found that the utility capitalized $16,644 in legal expenses for the test year. These expenditures were related to litigation with the Natural Resources Defense Council. The utility did not respond to this audit exception. Order No. PSC-93-1713-FOF-SU, issued November 30, 1993 in the last rate case, disallowed costs of this nature, stating that:

> The utility incurred high legal costs in defense of claims made by the Natural Resources Defense Council. According to the utility, the Natural Resources Defense Council had threatened punitive litigation if the environmental problems were not remedied immediately. Further, the utility explained that it had incurred additional costs in obtaining approval of the transfer due to some administrative problems it inherited from the prior owner.

We viewed these costs as acquisition costs. Mid-County also capitalized $1,812 in acquisition costs for the test year. These costs were for travel and executive labor costs. By Order No. PSC-93-1713-FOF-SU, we disallowed acquisition costs for ratemaking purposes, further stating:

> Mid-County was acquired by a total stock purchase. In a sale of stock, the balance sheet of the utility is unaffected and as a result, no acquisition adjustment exists. The transfer of majority organizational control was acknowledged by Order No. 25257.... We believe that the costs incurred for a transfer should not be capitalized and should be recorded as below the line costs of the shareholder. If a utility were purchased and resold several times, capitalizing acquisition costs would result in the rate base being artificially inflated above the original cost of the assets.

We find that the utility shall remove these charges from its books in order to comply with Order No. PSC-93-1713-FOF-SU. Therefore, utility plant in service shall be reduced by $5,762, the average amount of the $16,644, to remove the legal costs, and by

$311, the average amount of the $1,812 in acquisition costs, to comply with the above Order. The total of these adjustments to plant in service is $6,073. The associated accumulated depreciation of $89 and depreciation expense of $178 shall also be removed.

Discounts Not Taken

In Audit Exception 11, the staff auditors found that the utility charged $8,601 to utility plant in service for the test year. Of that amount, $3,138 are for discounts not taken on small parts, first class airfare, and insufficient supporting documentation for entries made on the utility's books. The utility did not respond to this audit exception.

The utility was unable to provide appropriate documentation for the entries it made on its books. The utility also did not avail itself of the discount opportunities presented to it. The ratepayers should not have to pay for the utility's decision not to take advantage of the discounts offered. The shareholders of the utility shall bear that cost as well as the cost for first class airfare.

We therefore find it appropriate that utility plant in service be reduced by $1,700, the average amount of the $3,138, to remove the entries from rate base. The associated accumulated depreciation of $29 and depreciation expense of $87 shall also be removed.

Retirements since Last Rate Case

In Audit Exception 13, the staff auditors found that the utility failed to record several retirements totaling $4,242 between the last rate case and the test year. The utility did not respond to this audit exception.

We find that utility plant in service shall be reduced by $4,242 to remove the retired plant. The associated accumulated depreciation of $4,242 and depreciation expense of $165 shall also be removed.

Construction Work in Progress

The utility recorded $296,659 in construction work in progress (CWIP) for the test year. Charges for 1997 are included in the above amount. The utility included $4,500 for a charge booked twice in the 1997 amounts. We have reviewed the invoices for the projects in question. The work involved the Curlew Road, US 19 and Belcher Road extension project, and was required by the widening and improvement of US 19 and Belcher Road. These projects were not utility-elective projects and are legitimate pro forma costs. We therefore find it appropriate to reduce construction work in progress by $4,500 to remove the recording error. For purposes of this rate case, we shall also reclassify the remainder of this CWIP of $292,159 as plant in service. The utility has already included depreciation on these items as a pro forma adjustment, so no further adjustment is necessary except for the accumulated depreciation associated with the $4,500 error in the amount of $75 and depreciation expense of $150 which shall be removed.

Allowance for Test Year Working Capital

The utility has properly filed an allowance for working capital as one-eighth of its filed operation and maintenance expenses. We have approved several adjustments to operation and maintenance expenses which are reflected in the calculation of the allowance for working capital. The adjustments reduce the allowance for working capital by $16,901.

Test Year Rate Base

Based on the utility's filed average rate base and our approved adjustments, we find it appropriate to approve an average rate base of $1,299,756 for the wastewater system. This represents a reduction of $368,864, as compared to the utility's requested rate base.

COST OF CAPITAL

Schedule No. 2 shows the capital structure requested by the utility and our calculation of the appropriate cost of capital. The approved capital structure shows the utility's adjustments under the specific adjustments column. Our pro rata adjustments reconcile the utility's capital structure to the approved rate base. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Capital Structure

Mid-County is a wholly-owned subsidiary of Utilities, Inc. The utility used the debt and equity ratios of its parent's capital structure in its MFRs to calculate its requested cost of capital. We believe that it is reasonable to use the capital structure of the parent, because Mid-County's capital structure is 100% equity and no debt is issued at the subsidiary level. This is consistent with the treatment in all other Florida-regulated Utilities, Inc. subsidiaries and Mid-County’s last rate case. Further, Mid-County has neither deferred taxes nor customer deposits.

Rate of Return on Equity

The utility’s filing requests a return on equity of 10.22% using the leverage formula. Our review of the capital structure, adjusted to reflect staff’s proposed adjustments to rate base, shows the following percentages: 50.13% long term debt, 1.54% short-term debt, 45.13% common equity and 3.20% deferred investment tax credits, as shown on Schedule No. 2. Based on these percentages, the equity ratio for the utility is 46.62%. Using the current leverage formula approved in Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, the appropriate return on equity is 10.16%. Therefore we find that, consistent with Commission practice, the appropriate range for the return on equity is 9.16% to 11.16%.

Overall Rate of Return

The approved overall rate of return is based on application of Commission practice and is derived as shown on Schedule No. 2. Based on our findings on previous issues, the appropriate overall rate of return shall be determined using the parent company's capital structure with investment tax credits specifically reflected for Mid-County and the parent's ratio of debt and equity each reconciled to the utility's rate base on a pro rata basis. This results in an overall rate of return of 9.34%, with a range of 8.89% to 9.79%.

NET OPERATING INCOME

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

Late Fees

In Audit Exception 5, the staff auditors found that the utility recorded $100 in fees for late payments in Account No. 718, Chemicals Expense. In Orders No. 13161, issued April 2, 1984, and PSC-96-1083-FOF-SU, issued August 22, 1996, the Commission disallowed fees for late payments. Therefore, the $100 late fee shall be removed from the Chemicals Expense account.

Prior Period Expenses

Also in Audit Exception 5, the staff auditors found that the utility recorded $1,945 to Account No. 718, Chemicals Expense and $396 to Account No. 720, Materials and Supplies during 1996. In addition, the parent company, Utilities, Inc., allocated $43 to Mid-County Account No. 775, Miscellaneous Expense. The invoices for these expenses reflect a 1995 purchase date. Therefore, the prior period expenses amounting to $2,384 shall be removed from test year expenses.

Misclassifications

In Audit Exception 2, the staff auditors found that the utility recorded an allocation from the parent company of $3,983 for 1996 Insurance Expense, Account No. 759. Included in insurance expense are costs for life insurance policies for officers and key employees in which Utilities, Inc. is the beneficiary. Also included in insurance expense are costs for fiduciary policies protecting directors, officers, and pension funds. The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), Class B, defines Account No. 426 Miscellaneous Nonutility Expense as:

> This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are...
>
> 7. Life insurance on officers and employees where utility is beneficiary...

The purpose of these policies is to protect the utility and they do not demonstrate a clear benefit to the ratepayers.

Therefore, the utility shall reclassify $3,983 from account 426, Insurance-Other to Account 759, Miscellaneous Nonutility Expense.

In Audit Exception 5, the staff auditors found that the utility booked an $800 repair to Mid-County Account No. 720, Materials and Supplies during 1996. The invoice states that the repair is to the emergency lift station on the Pebble Creek Country Club system, another subsidiary of Utilities, Inc., and should have been paid by the country club. We find that the utility shall reclassify the $800 to Account 759, Miscellaneous Nonutility Expense.

In Audit Exception 1, the staff auditors found that the utility recorded $121,267 for sludge removal in Account No. 720, Materials and Supplies for 1996. The NARUC USOA directs that sludge removal should be recorded in Account No. 711, Sludge Removal Expense. We therefore find that the utility shall reclassify the $121,267 from Account No. 720, Materials and Supplies to Account No. 711, Sludge Removal Expense.

In Audit Exception 5, the staff auditors found that the utility recorded Sales & Use Taxes of $755 to Account No. 720, Materials and Supplies during the test year. The NARUC USOA classifies "...all other taxes assessed by federal, state, county, municipal, or other local governmental authorities, except income taxes" to Account No. 408, Taxes Other than Income.

The utility shall make the reductions and reclassifications as scheduled below:

Acct. No. 718 Chemicals Expense	
Late fees	$(100)
1995 expenses recorded in 1996	(1,945)
Total reduction to Chemicals	$(2,045)
Acct. No. 720 Materials and Supplies	
Should be recorded to Pebble Creek Utilities	$(800)
1995 expenses recorded in 1996	(396)
Misclassified Sales & Use Tax	(755)
Total reduction to Materials & Supplies	$(1,951)
Acct. No. 775 Miscellaneous Expense	
1995 expenses recorded in 1996	$(43)
Acct. 759 Insurance-Other	
Life Insurance	$(3,983)
Total Adjustment to Operating Expenses	$(8,022)
Acct. No. 408 Taxes Other Than Income	
Increase Sales & Use Taxes	$755

Allocations from the Parent Company

Utilities, Inc., the parent company, through its subsidiary Water Service Corporation (WSC), allocates common costs, including billing costs to all its subsidiary utilities, including Mid-County. One of the primary allocation factors used by WSC is what WSC refers to as a customer equivalent. A customer equivalent is any household or entity that receives water or wastewater service. This definition of customer equivalent is used in the allocations that depend on relative utility size and is applied uniformly and consistently throughout all jurisdictions in which Utilities, Inc. has subsidiary utilities. The customer equivalent goes behind the meter and attempts to count the total number of dwelling units that the utility serves. An example would be that a master-metered apartment complex with one meter would generate as many customer equivalents as there are apartments in the complex.

The use of some kind of customer measurement is appropriate and commonly used when the size of the utility drives the demand for services from the parent. Normally, this Commission has seen equivalent residential connections, customers factored based on their usage, or factored bills, applying the American Waterworks Association (AWWA) factor for the meter size to the number of bills issued to that size meter, used to indicate relative utility size.

Rule 25-30.210(1), Florida Administrative Code, defines a customer as:

> any person, firm, association, corporation, governmental agency, or similar organization who has an agreement to receive service from the utility.

Prior to 1995, Mid-County was receiving allocations for the costs of billing services from WSC even though Pinellas County provides all the water service for Mid-County customers, does all the billing and charges Mid-County directly. Therefore, Mid-County does not receive billing services from WSC and it is improper to have those costs allocated to Mid-County resulting in double counting the billing costs. To compensate for this double charge, WSC reduced Mid-County's customer equivalents by one third when making cost allocations. Realizing that this was an arbitrary amount, in 1995 WSC eliminated all allocations of billing expense to Mid-County and used Mid-County's customer equivalents at full value for other allocations. Although we might have expected this to be a break-even change, trading the billing costs for a greater share in the other common costs, the allocations to Mid-County increased dramatically, one of the major reasons that Mid-County filed the present case.

Upon review of the MFRs, we were concerned with the large increase in operating and maintenance expenses since the last rate case, as shown on MFR Schedule B-8, the benchmark analysis. This schedule compares the operation and maintenance expenses allowed in the last rate case with those requested in the current case. Allowances are made for customer growth and inflation. The majority of the increases above customer growth and inflation are from the WSC allocations, in particular those allocations based on customer equivalents. For instance, office salaries and wages increased by 1652.2% and miscellaneous expenses increased by 1327.5%. Customer growth during this period only accounted for a

10.9% increase. The difference in these allocated costs is very close to the requested revenue increase.

At the customer meeting, the customers' main concern surrounded the large increase in operation and maintenance expenses. Further, the last rate case was four years ago and Mid-County was granted a 52.69% increase. The requested rates in the current case represent a 34% increase with no corresponding change in service.

In the other Utilities, Inc. Florida systems, using customer equivalents does not differ much from the standard measuring units. Mid-County, however, has several master-metered apartment complexes and mobile home parks as customers. As an example, an apartment complex with 354 dwelling units, served by a six-inch master-meter, would be 354 customer equivalents. Using standard meter ratings, this customer would be equivalent to only 50 single family dwellings. The average Mid-County single family residence consumed 16,408 gallons of water per billing period. The average multi-residential customer with a six-inch meter consumed 1,740,888 gallons of water per billing period, the equivalent of 106 single family residences, not 354 as the customer equivalent would indicate. By counting apartments as one full customer, the utility's number of customers equivalents for Mid-County is greatly inflated and indicates that the Mid-County operation is much larger than it is, and as such, appears to require more services from the parent than it actually does.

Using Utilities, Inc.'s customer equivalent calculation, Mid-County has 6,112 wastewater customer equivalents for allocation purposes. In Mid-County's last rate case, the utility reported 1,237 customers. The bills issued show that Mid-County had an average of 1,507 customers for the test year. The factored or weighted bills, applying the AWWA factor for the meter size to the number of bills issued to that size meter, only show 2,255 equivalent customers, about a third of the customer equivalents.

We have determined the single family residence (SFR) gallons per day usage of Mid-County by dividing the total SFR gallons of wastewater treated, as shown on revised MFR Schedule F-10, by the number of SFR customers, also shown on revised MFR Schedule F-10. The SFR gallons per day for this utility is 245 GPD. Dividing the average daily flows of 720,000 GPD by 245 yields 2,943 equivalent residential connections for the average number of customers. This analysis was used previously in this Order to determine the used and useful portion of the treatment plant. This engineering analysis also gives some support to the utility's claim that the water meters are somewhat undersized in that this analysis of actual flows shows 31% more equivalent residential connections than does the AWWA standard.

The wastewater customer equivalents is 4,637 for Alafaya Utilities, Inc. and 1,812 for Utilities, Inc. of Longwood, both Utilities, Inc. subsidiaries. Mid-County, at 6,112 customer equivalents, is absorbing one and one-third more of the common costs as Alafaya and three and one-third more than Longwood. The 1996 Annual Report shows that Alafaya treated 295,535,000 gallons of wastewater which is one and one-eighth more than the 263,870,000 gallons treated by Mid-County. Longwood shows 151,133,000 gallons treated which is only one and three-quarters less than Mid-County. Based on the volume treated as an indicator of plant size and, therefore, demand on common services, Alafaya should have absorbed one and one-eighth more of the common costs as Mid-County, not one and one-third less, and Longwood should have absorbed one and three-quarters less of the common costs, not three and one-third less. This greatly inflates Mid-County's apparent use of the common services.

Utilities, Inc., in a reply to our concerns about this calculation, noted that the customer equivalent allocation system has been in place for 32 years and has been found reasonable in Illinois and North Carolina as well as at least five rate cases here in Florida, including Mid-County's last rate case. In the Florida cases, we note that the allocation method itself was not an issue and has not been litigated. The expenses of Mid-County, Docket No. 921293-SU, Utilities, Inc. of Florida, Docket Nos. 910020-WS, 930826-WS, 940917-WS, Miles Grant, Docket No. 891017-WS, Lake Placid, Docket No. 951027-WS, and Lake Utility Services, Docket No. 960444-WU were examined by the Commission and found to be reasonable and no further action was taken. The problem in this case appears to be the multi-family units and other master-metered customers. Most of the other Florida customers of the Utilities, Inc., systems are predominantly single family dwellings and commercial customers and the expense allocation problem, for all practical purposes, did not exist. It is only on inspection of a utility with a customer base as diverse as Mid-County that the problem shows up. Utilities, Inc. could compensate by reducing the weighting of the master-metered customers to approximate the demand they have on the system and give a more reasonable approximation of Mid-County's size and, therefore, its demand on common services.

The utility further notes that Mid-County has responsibility for maintenance of lines behind the meter on the customers' premises, contrary to the normal situation of the utility's responsibility ending at the meter. If this is a problem as far as assigning costs, it should be handled through maintenance fees charged to the property owner/customer or a revision of the base facility charge. We believe that this has little to do with the demand for common services.

Based upon the foregoing, we hereby reject the utility's use of customer equivalents as an appropriate allocation basis for distribution of common costs to Mid-County, although it produces reasonable allocations elsewhere. We have recalculated those cost allocations which use customer equivalents based on equivalent residential connections, which is based on the actual amounts treated by Mid-County. This is closer to the distribution of the base facility charge in the rate design in both the last rate case and the current rate case. Recalculated using equivalent residential connections, we find that allocated operation and maintenance expenses shall be reduced by $96,821, allocated depreciation expense shall be reduced by $11,063 and allocated payroll taxes generated by the allocated salaries shall be reduced by $1,832 for a total reduction in expense of $109,717.

Rate Case Expense

The utility included a $47,706 estimate for current rate case expense. They also requested $78,510 for unamortized rate case expense from the prior rate case on revised MFR Schedule B-10. This resulted in $37,241 in annual amortization of rate case expense on MFR Schedule B-6.

As part of our analysis, we requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. The revised estimated rate case expense through completion of the Proposed Agency Action (PAA) process is $53,406. The components of the estimated rate case expenses as filed on revised MFR Schedule B-10 and the updated amounts are as follows:

	MFR	REVISED ESTIMATE		
	ESTIMATED	ACTUAL	ESTIMATED	TOTAL
Filing Fee	$ 3,500	$ 3,500	$ 0	$ 3,500
Legal	15,000	6,765	4,370	11,135
Postage, Printing	9,706	6,806	0	6,806
Travel	3,200	0	3,200	3,200
MFR Preparation, Filing	16,300	27,725	1,040	28,765
Current Rate Case Expense	$ 47,706	$ 44,796	$8,610	$ 53,406
Unamortized Prior Rate Case Expense	78,510	78,510	0	78,510
Total Rate Case Expense Requested	$126,216	$123,306	$8,610	$131,916
Annual Amortization	$ 31,241			$ 32,979

We have examined the requested actual expenses, supporting documentation and estimated expenses as listed above for the current rate case and found them to be prudent except for travel expense of $3,200. This amount was not supported by the utility and appears to be the costs of the staff auditors' travel to Illinois. Rule 25-30.110(c)(1), Florida Administrative Code, states that:

> Any utility that keeps its records outside the state shall reimburse the Commission for the reasonable travel expense incurred by each Commission representative during any review of the out-of-state records of the utility or its affiliates. Reasonable travel expenses are those travel expenses that are equivalent to travel expenses paid by the Commission in the ordinary course of its business.

We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, Order No. 20066, issued September 26, 1988 and Order No. PSC-93-1713-FOF-SU, issued November 30, 1993, Mid-County's last rate case. Based on the foregoing, we find that current rate case expense of $50,206 shall be allowed.

In PAA Order No. PSC-93-1713-FOF-SU, issued November 30, 1993 in Docket No. 921293-SU, the utility was allowed $54,873 as rate case expense after adjustment to remove the staff auditors' travel expenses and some printing costs. On December 20, 1993, a developer, Suntech Homes, Inc., timely filed a Petition on Proposed Agency Action, wherein it requested a hearing pursuant to Section 120.57, Florida Statutes. The developer's protest was limited to the service availability charges. As stipulations in the final order establishing revenues and rates, Order No. PSC-94-1042-FOF-SU, issued August 24, 1994, Mid-County accepted the Commission's decisions in the PAA order, with some modifications to the used and useful adjustment, a deletion of some salary adjustments and a revision of rate case expense to $110,000. The final rates are the same as those shown in the PAA order. Order No. PSC-94-1042-FOF-SU further stated:

> Mid-County will have the right, in its next rate case to present evidence as to the total amount of rate case expense incurred in this proceeding and the prudency thereof. Any such rate case expense in excess of $110,000 which is found by the Commission to be prudent shall be recoverable through rates at that time;

The total amount of rate case expense for Docket No. 921293-SU, as audited by staff, was $162,854. The accumulated amortization as of December 31, 1996 was $84,344, leaving a balance of unamortized rate case expense from Docket No. 921293-SU of $78,510. This $78,510 additional rate case expense from Docket No. 921293-SU is being requested by the utility as an addition to the current rate case expense according to the terms of the stipulation which allows recovery of prudent rate case expense over $110,000 in the current case. We calculate the amount of unrecovered rate case expense to be $52,854, which is the total amount of $162,854 less $110,000. Of this amount, $8,101 was not allowed by Order No. PSC-94-1042-FOF-SU, leaving a balance to be recovered in this case of $44,753. We have reviewed the charges and they relate to the fees for the engineering consultant and attorney incurred for litigating the service availability issues at hearing.

Based on the foregoing, we find $94,959 is the appropriate total rate case expense. This is the current rate case expense of $50,206 plus additional rate case expense from Docket No. 921293-SU of $44,753. We find that these amounts are appropriate for setting rates.

Pursuant to Section 367.0816, Florida Statutes, the approved rate case expense shall be amortized over four years at $23,740 per year. Based on the above, we find that test year expenses shall be reduced by $7,501. This is the difference between the $23,740 we have approved and the $31,241 included as expense on MFR Schedule B-6.

Summary of Test Year Operating Income

As shown on attached Schedule No. 3-A, after applying our adjustments discussed above, net operating income for the test year is $76,294.

REVENUE REQUIREMENT

Based upon our review of the utility's books and records and the adjustments made herein, we find that the appropriate annual revenue requirement for Mid-County is $989,757 for the wastewater system. This is an increase of $76,164 or 8.34 percent. This will allow the utility the opportunity to recover its expenses and earn a 9.34% return on its investment in rate base.

RATES

A comparison of the utility's original rates, interim rates, requested rates, and final approved rates is shown on Schedule No. 4. Our specific findings as to the utility's rates are set forth below.

Appropriate Rates and Residential Wastewater Gallonage Cap

The permanent wastewater rates requested by the utility are designed to produce annual operating revenues of $1,225,899. The requested revenues represent an increase of $312,306 (34.18%) for wastewater based on the test year ending December 31, 1996. Water service is provided by Pinellas County.

We find that the final rates approved for the utility shall be designed to produce annual operating revenues of $988,373, which is the $989,757 revenue requirement as approved by this Order, less $1,384 in miscellaneous revenue, using the base facility rate design with bi-monthly billing. The utility's rates prior to this filing are based on this base facility rate design, including a base facility and gallonage charge, with a 20,000 gallon cap for residential customers. There is no cap for general service customers. Rates are billed bi-monthly. Neither the utility nor the Commission recommends any change in this general methodology.

Pursuant to Rule 25-30.437, Florida Administrative Code, in proposing rates, the utility shall use the base facility and usage charge rate structure unless an alternative source is supported by the utility. The base facility charge structure for setting rates is appropriate because of its ability to track costs and to give the customers some control over their water and wastewater bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

The final approved rates include a base charge for all residential customers regardless of meter size with a cap of 20,000 gallons of usage bi-monthly on which the gallonage charge may be billed. There is no cap on usage for general service bills. The differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system.

The utility's proposed rates are based on the existing rate structure and were increased pro rata by the percent of the revenue increase requested. This procedure was used in the last rate case. We have recalculated the rates using the same basic methodology as before, but have used the current billing and usage information provided in this case, as is customarily done in rate cases. This will decrease the base facility charge and increase the gallonage charge. As noted previously, the master-metered customers are actually using more water than expected based on their meter size. The increase in the gallonage charge will increase the bi-monthly bills to these high use customers. The lower-use customers will experience a minimal increase. In our opinion, this will better match the customers' bills with the demand that they put on the system.

The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. The revised tariff sheets shall be approved upon verification that the tariff is consistent with our decision herein, that the protest period has expired, and the proposed customer notice is adequate.

Statutory Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately at the end of four years by the amount of rate case expense previously included in the rates. This statute applies to all rate cases filed on or after October 1, 1989.

Consistent with Section 367.0816, Florida Statutes, Mid-County's wastewater rates shall be reduced by $24,858 as shown on Schedule No. 5. The revenue reduction reflects the annual rate case amount amortized (expensed) of $23,740 plus the gross-up for taxes.

The utility shall file tariffs no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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 the reduction in the rates due to the amortized rate case expense.

Refund of Interim Rates

On December 22, 1997, the Commission issued Order No. PSC-97-1608-PCO-SU, approving an interim increase for the wastewater system as shown below:

	Revenues	Dollar Increase	Percent Increase
Wastewater	$ 1,177,611	$ 264,009	28.90%

We approved this increase subject to refund in the event that excessive earnings were determined later.

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 shall be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding the test period for establishment of interim rates and the test period for the establishment of final rates was the twelve months ended December 31, 1996. The approved interim rates did not include any provisions for pro forma consideration of increased operating expenses or pro forma plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

In establishing the proper refund amount, we have calculated an adjusted final revenue requirement for the interim period using the same data used to establish final rates, but excluding the pro forma provision for rate case expense and pro forma plant increases. These pro forma changes were excluded because they were not actual expenses during the interim collection period. We do not believe any other adjustments are necessary. Therefore, we computed the comparable revenue requirement using the approved cost of capital including the return on equity that, by statute, is the prescribed return to be used to test for excessive earnings during the interim collection period. The approved adjusted revenue requirement is $925,021 for the wastewater system.

Based on the difference in the two, this represents an annual reduction of $252,581. Based upon the foregoing, the utility shall refund 21.45% of the wastewater service revenues collected under interim rates. In addition to the above, the refunds shall be made with interest as required by Rule 25-30.360(4), Florida Administrative Code. The escrow amounts shall be closed upon our verification of the refund.

BOOKS AND RECORDS

Rule 25-30.115, Florida Administrative Code, states that wastewater utilities shall maintain its accounts and records in conformity with the 1994 NARUC Uniform Systems of Accounts. Rule 25-30.450, Florida Administrative Code, requires that the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. This rule further indicates that documents supporting a rate filing must be organized in a systematic and rational manner so as to enable

Commission personnel to verify the schedules in an expedient manner and minimum amount of time.

MFR Schedule No. 8 indicates several adjustments to the books and records to show the adjustments recognized by the Commission in Mid-County's last rate case. It has been four years since the last rate case, which should have been sufficient time for the utility to adjust its books and records according to the Commission's decision. Through the course of the field audit, the staff auditor had to examine these adjustments and compare them to the last rate order which did not enable Commission personnel to verify the schedules in an expedient manner and with the minimum amount of time. Given the statutory time requirement for a rate case, the staff auditors had to make tremendous efforts to review prior Commission orders, review the original documentation and examine the ledgers to recalculate and recreate the correct balances for these adjustments.

The utility also did not use an average balance when calculating the capitalized interest. Rule 25-30.116, 3(b), directs that "The monthly AFUDC rate, carried out to six decimal places, shall be applied to the average monthly balance of eligible CWIP that is not included in rate base." Although this did not produce a material difference in this case, the utility is herein put on notice that shall comply with Commission rules in the future.

Utilities, Inc., the parent company of Mid-County, owns a number of water and wastewater utilities under the Commission's jurisdiction, in addition to those in other states. WSC, also a subsidiary of Utilities, Inc., maintains the books and records for all of Utilities, Inc.'s subsidiaries. In the three most recent rate cases filed by Utilities, Inc.'s subsidiaries in Florida, Lake Placid Utilities, Inc., Lake Utility Services and Utilities, Inc. of Florida, we found that the books and records were not in compliance with the NARUC Uniform System of Accounts. See Order No. PSC-95-0574-FOF-WS, issued on May 9, 1995 in Docket No. 951027-WS; Order No. PSC-97-0531-FOF-WU, issued on May 9, 1997 in Docket No. 960444-WU; and Order No. PSC-96-0910-FOF-WS, issued on July 15, 1996 in Docket No. 940917-WS, respectively. Compliance with the NARUC Uniform System of Accounts and the above stated Commission rule continues to be a problem for many of Utilities, Inc.'s subsidiaries. In Mid-County's last rate case, Docket No. 931293-SU, we found that:

> Based on the disclosures in the audit, we are not convinced that the books and records were totally in compliance with Rule 25-30.115, Florida Administrative Code. The utility is considered a Class A utility based on the combined revenue of systems owned by Utilities, Inc. Therefore, we believe the utility, as a whole, should consistently follow all rules regulating Class A utilities, which includes Rule 25-30.115, Florida Administrative Code.
>
> Based on the foregoing, we find that Mid-County shall comply with Rule 25-30.115, Florida Administrative Code, and maintain its books and records in accordance with NARUC. This includes having readily available supporting documents for all plant additions, and having each work order supported by attached invoices documenting detailed labor charges by individual.

The staff audit did not disclose problems with the work order system as was found in Docket No. 921293-SU and we believe that Mid-County is in substantial compliance with the NARUC Uniform System of Accounts and that the current problems are relatively minor compared to the scope of problems addressed in the above orders. Correcting these minor errors should not be as large an undertaking as the prior corrections and we find that it is reasonable to allow the utility another opportunity to bring its books into compliance first before we initiate enforcement proceedings. We believe that a six-month period is a reasonable amount of time for Mid-County to bring its records into compliance. Therefore, we find that Mid-County shall be given six months from the issuance date of this Order to bring its books and records into compliance with the NARUC USOA. The utility shall be on notice that, if, at the end of six months, Mid-County fails to be in substantial compliance, a show cause proceeding will be initiated.

CLOSURE OF DOCKET

If a protest is not received within 21 days of the issuance of this PAA Order, the Order will become final and the docket shall be closed administratively upon the utility's filing and our approval of revised tariff sheets, verification of the refund, and proof of notice. The utility's corporate undertaking may be released upon our verification that the refund has been completed.

Based on the foregoing, it is

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED by the Florida Public Service Commission that the application by Mid-County Services, Inc. for an increase in rates for wastewater service is hereby approved. It is further

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

ORDERED that all matters contained herein, whether set forth in the body of this Order or schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that the increased rates approved herein shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets, in accordance with Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that, prior to the implementation of the rates approved herein, Mid-County Services, Inc. shall submit a proposed customer notice explaining the increased rates and charges and the reasons therefor. It is further

ORDERED that Mid-county Services, Inc. shall provide proof of the date the notice was given within 10 days after the date notice was made. It is further

ORDERED that, prior to the implementation of the rates approved herein, Mid-County Services, Inc. shall submit, and have approved, revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that they are consistent with this Commission's decision and that the proposed customer notice is adequate. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period. Mid-County Services, Inc. shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDERED that Mid-County Services, Inc. shall, in accordance with Rule 25-30.360(4), Florida Administrative Code, refund with interest the excess revenue collected as a result of its implementing rates pursuant to Section 367.081(6), Florida Statutes. It is further

ORDERED that the escrow amounts shall be closed upon staff's verification of the refund. It is further

ORDERED that Mid-County Services, Inc. shall establish and maintain its books and records in accordance with the NARUC Uniform System of Accounts for a Class B wastewater utility. It is further

ORDERED that this docket shall be closed administratively upon the approval of revised tariff sheets, verification of the refund, and upon expiration of the protest period, if no protest is filed by a substantially affected person.

By ORDER of the Florida Public Service Commission this 16th day of April, 1998.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 7, 1998.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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

SCHEDULE NO. 1-A
DOCKET NO. 971065-SU

	DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1	UTILITY PLANT IN SERVICE	$3,880,925	($131,742)	$3,749,183	$280,144	$4,029,327
2	LAND	$18,403	($18,403)	$0	$0	$0
3	NON-USED & USEFUL COMPONENTS	$0	$0	$0	($337,678)	($337,678)
4	ACCUMULATED DEPRECIATION	($1,004,622)	$10,754	($993,868)	$4,434	($989,434)
5	CIAC	($2,174,889)	$0	($2,174,889)	$0	($2,174,889)
6	AMORTIZATION OF CIAC	$777,284	$2,697	$779,981	$0	$779,981
7	ACQUISITION ADJUSTMENTS - NET	$0	$0	$0	$0	$0
8	ADVANCES FOR CONSTRUCTION	$0	$0	$0	$0	$0
9	UNFUNDED POST-RETIRE. BENEFITS	$0	$0	$0	$0	$0
10	CONSTRUCTION WORK IN PROGRESS	$0	$148,330	$148,330	($296,659)	($148,329)
11	WORKING CAPITAL ALLOWANCE	$103,144	($2,048)	$101,096	($16,901)	$84,195
12	OTHER - WATER SERVICE CORP.	$0	$58,787	$58,787	($2,205)	$56,582
	RATE BASE	$1,600,245	$68,375	$1,668,620	($368,864)	$1,299,756

MID-COUNTY SERVICES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/96

SCHEDULE NO. 1-B
DOCKET 971065-SU

	EXPLANATION	WASTEWATER
	PLANT IN SERVICE	
1	Capitalized Expenses	($6,073)
2	Discounts Not Taken	(1,700)
3	Retirements	(4,242)
4	CWIP	292,159
	Total	$280,144
	LAND	
		$0
	NON-USED AND USEFUL	
1	Non-Used & Useful Treatment Plant Facility (Issue	($385,896)
2	Non-Used & Useful Treatment Plant Accumulated Depreciation	98,009
3	Imputed CIAC	(50,733)
4	Imputed Accumulated Amortization of CIAC	943
	Total	($337,678)
	ACCUMULATED DEPRECIATION	
1	Capitalized Expenses	89
2	Discounts Not Taken	29
3	Retirements	4,242
4	CWIP	5
	Total	$4,434
	CIAC	
		$0
	ACCUMULATED AMORTIZATION OF CIAC	
		$0
	CONSTRUCTION WORK IN PROGRESS	
	CWIP	($296,659)
	WORKING CAPITAL	
	Working Capital	($16,901)
	OTHER - WATER SERVICE CORPORATION	
	Deferred Charges	($2,205)

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

SCHEDULE NO. 2
DOCKET 971065-SU

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENT (EXPLAIN)	PRO RATA ADJUSTMENT	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY 1996 - 13-MONTH AVERAGE							
1 LONG TERM DEBT	$0	$0	$845,741	$845,741	50.13%	9.18%	4.60%
2 SHORT-TERM DEBT	$0	$0	$26,038	$26,038	1.54%	9.74%	0.15%
3 PREFERRED STOCK	$0	$0	$0	$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	$1,633,121	$0	($871,779)	$761,342	45.13%	10.22%	4.62%
5 CUSTOMER DEPOSITS	$0	$0	$0	$0	0.00%	6.00%	0.00%
6 DEFERRED INCOME TAXES	$0	$0	$0	$0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	$53,901	$0	$0	$53,901	3.20%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	$0	$0	$0	$0	0.00%	0.00%	0.00%
9 OTHER	$0	$0	$0	$0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	$1,687,022	$0	$0	$1,687,022	100.00%		9.37%
PER COMMISSION 1996 - 13-MONTH AVERAGE							
11 LONG TERM DEBT	$0	$845,741	($194,145)	$651,596	50.13%	9.18%	4.60%
12 SHORT-TERM DEBT	$0	$26,038	($5,977)	$20,061	1.54%	9.74%	0.15%
13 PREFERRED STOCK	$0	$0	$0	$0	0.00%	0.00%	0.00%
14 COMMON EQUITY	$1,633,121	($871,779)	($174,770)	$586,572	45.13%	10.16%	4.59%
15 CUSTOMER DEPOSITS	$0	$0	$0	$0	0.00%	6.00%	0.00%
16 DEFERRED INCOME TAXES	$0	$0	$0	$0	0.00%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	$53,901	$0	($12,373)	$41,528	3.20%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	$0	$0	$0	$0	0.00%	0.00%	0.00%
19 OTHER	$0	$0	$0	$0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	$1,687,022	$0	($387,266)	$1,299,756	100.00%		9.34%
					LOW	HIGH	
			RETURN ON EQUITY		9.16%	11.16%	
			OVERALL RATE OF		8.89%	9.79%	

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

SCHEDULE NO. 3-A
DOCKET 971065-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	$883,000	$342,899	$1,225,899	($312,306)	$913,593	$76,164 8.34%	$989,757
	OPERATING EXPENSES							
2	OPERATION AND MAINTENANCE	$825,155	($16,385)	$808,770	($112,344)	$696,426		$696,426
3	DEPRECIATION	$63,126	$3,236	$66,362	($24,858)	$41,504		$41,504
4	AMORTIZATION	$0	$0	$0	$0	$0		$0
5	TAXES OTHER THAN INCOME	$92,989	$15,988	$108,977	($17,997)	$90,980	$3,427	$94,407
6	INCOME TAXES	($64,608)	$148,302	$83,694	($75,304)	$8,390	$27,371	$35,760
7	TOTAL OPERATING EXPENSES	$916,662	$151,141	$1,067,803	($230,504)	$837,299	$30,798	$868,097
8	OPERATING INCOME	($33,662)	$191,758	$158,096	($81,802)	$76,294	$45,366	$121,660
9	RATE BASE	$1,600,245		$1,668,620		$1,302,614		$1,302,614
10	RATE OF RETURN	-2.10%		9.47%		5.86%		9.34%

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

SCHEDULE NO. 3-B
DOCKET 971065-SU

	EXPLANATION	WASTEWATER
	OPERATING REVENUES	
	Remove requested final revenue increase	($312,306)
	OPERATION & MAINTENANCE EXPENSE	
1	Late Fees, Prior Period & Misclassifications	($8,022)
2	WSC Allocations	(96,821)
3	Rate Case Expense	(7,501)
	Total	($112,344)
	DEPRECIATION EXPENSE-NET	
1	Non-Used and Useful Depreciation	($11,358)
2	Imputed CIAC Amortization	(1,887)
3	Allocations	(11,063)
4	Capitalized Expenses	(178)
5	Discounts Not Taken	(57)
6	Retirements	(165)
7	CWIP	(150)
	Total	($24,858)
	AMORTIZATION EXPENSE	
		$0
	TAXES OTHER THAN INCOME	
1	RAFs on revenue adjustments above	($14,054)
2	Non-Used and Useful Property Tax	(2,866)
3	Audit Adjustments	755
4	Allocations	(1,832)
	Total	($17,997)
	INCOME TAXES	
	Adjust to test year income tax expense	($75,304)

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

SCHEDULE NO. 4
DOCKET 971065-SU
PAGE 1 OF 1

Class	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Recommended Final
		BI-MONTHLY RATES		
Residential				
Base Facility Charge:				
All meter sizes	$28.80	$36.98	$38.66	$29.31
Gallonage Charge - Per 1,000 gallons (20,000 gallon cap)	$1.51	$1.93	$2.03	$1.60
General Service and Multi-Family				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	$28.80	$36.98	$38.66	$29.31
1"	$72.01	$92.44	$96.65	$73.27
1-1/2"	$144.02	$184.87	$193.30	$146.54
2"	$230.44	$295.79	$309.29	$234.46
3"	$460.89	$591.59	$618.57	$468.92
4"	$720.13	$924.13	$966.52	$732.69
6"	$1,440.28	$1,848.74	$1,933.03	$1,465.39
Gallonage Charge, per 1,000 Gallons	$1.81	$2.32	$2.43	$1.92
Flat Rate				
Residential	$50.67	$65.04	$68.01	$55.54
Mobile Home Park	$1,595.45	$2,047.92	$2,141.57	$978.52
		Typical Residential Bi-Monthly Bills		
5/8" x 3/4" meter				
3,000 Gallons	$33.33	$42.77	$44.74	$34.10
5,000 Gallons	$36.35	$46.63	$48.80	$37.30
10,000 Gallons	$43.90	$56.28	$58.93	$45.30

(Wastewater Gallonage Cap - 20,000 Gallons)

MID-COUNTY SERVICES, INC.
SCHEDULE OF RATE DECREASE AFTER EXPIRATION OF
AMORTIZATION PERIOD FOR RATE CASE EXPENSE
TEST YEAR ENDED 12/31/96

SCHEDULE NO. 5
DOCKET 971065-SU

Class	Recommended Final Rates	Decrease	Recommended Decrease
	BI-MONTHLY RATES		
Residential			
Base Facility Charge:			
All meter sizes	$29.31	($1.76)	$27.55
Gallonage Charge - Per 1,000 gallons (20,000 gallon cap)	$1.60	$0.00	$1.60
General Service and Multi-Family			
Base Facility Charge:			
Meter Size:			
5/8" x 3/4"	$29.31	($1.76)	$27.55
1"	$73.27	($4.39)	$68.88
1-1/2"	$146.54	($8.78)	$137.76
2"	$234.46	($14.04)	$220.42
3"	$468.92	($28.08)	$440.84
4"	$732.69	($43.88)	$688.82
6"	$1,465.39	($87.75)	$1,377.64
Gallonage Charge, per 1,000 Gallons	$1.92	$0.00	$1.92
Flat Rate			
Residential	$55.54	($1.75)	$53.79
Mobile Home Park	$978.52	($14.04)	$964.48