

FLORIDA PUBLIC SERVICE COMMISSION
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TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (B. DAVIS, FUCHS) *PWM*
DIVISION OF LEGAL SERVICES (BRUBAKER) *JB* *YH* *of* *off* *(m)*

RE: DOCKET NO. 971065-SU - MID-COUNTY SERVICES, INC. -
APPLICATION FOR A RATE INCREASE IN PINELLAS COUNTY BY
MID-COUNTY SERVICES, INC.
COUNTY: PINELLAS

AGENDA: 3/10/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
PARTIES MAY PARTICIPATE

CRITICAL DATES: 5-MONTH EFFECTIVE DATE: MARCH 14, 1998

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\971065SU.RCM
R:\PSC\WAW\123\971065SU.WK4

DOCUMENT NUMBER-DATE

02675 FEB 26 88

FPSC-RECORDS/REPORTING

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

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As part of the PAA process, a customer meeting was held on January 13, 1998, at the Knights of Columbus Hall at 1251 San Christopher Drive, Dunedin, Florida. This recommendation addresses Mid-County's final rate request.

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DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Mid-County Services, Inc., to its customers satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Mid-County Services, Inc., to its customers, is satisfactory. (FUCHS)

STAFF ANALYSIS: Staff's recommendation on 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 Services, Inc. is a wastewater only utility, staff 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.

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.

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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.

Mid-County is a wastewater only utility. Customers purchase water from Pinellas County. Staff reviewed compliance with the Florida Department of Environmental Protection standards. Mid-County Services, Inc., is currently in compliance with all FDEP standards and regulations concerning collection and treatment.

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.

Staff recommends the Commission find the quality of service provided by Mid-County Services, Inc., to its customers, to be satisfactory.

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ISSUE 2: What is the appropriate flow data to use for calculating used and useful for wastewater treatment plant and effluent disposal?

RECOMMENDATION: 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. When such information is not available, the average daily flow in the maximum month should be used. For this case, as indicated by the FDEP permit, annual average daily flow (AADF), should be used for calculating used and useful. (FUCHS)

STAFF ANALYSIS: 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
- 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 MFR's used by staff in used and useful calculations. In other words, staff believes the numerator and denominator numbers, 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 MFR's.

Staff has reviewed the FDEP operating permit for the wastewater treatment plant of Mid-County Services, Inc. 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 D052-242275, on page 2 of 6, states the plant capacity flow is, ".90 mgd. ann. avg...." Staff believes 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

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calculations. Historically, staff has turned to the most recent FDEP operating permit to obtain the basis of design in order to calculate used and useful percentages.

Staff recommends the Commission approve continuing this means of determining that the appropriate flow data to use is the flow upon which the FDEP operating permit is based. Staff further recommends that when such information is not available, the average daily flow in the maximum month, contained in the monthly operating reports submitted to the FDEP, should be used. For this case, the utility selected AADF as the basis of flow for its permit. Therefore, staff recommends the AADF should be the basis of flow to use in the numerator and denominator of the used and useful calculations.

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ISSUE 3: Should the utility be granted a margin reserve?

RECOMMENDATION: Yes. The utility should be granted a margin reserve of 26,825 gallons per day (GPD) equaling 3% of its treatment plant flow capacity, based on the linear regression method of calculating growth and an eighteen-month construction period. (FUCHS)

STAFF ANALYSIS: 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 this Commission's 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 MFR's, this request was based on proposed Rule 25-30.432(5)(a), Florida Administrative Code. The referenced rule is in a set of proposed rule revisions proposed but not voted upon or enacted by the Commission.

Staff has calculated a margin reserve allowance by using the linear regression analysis method of past growth. Staff 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. The linear regression method of calculating future growth has been used by staff and approved by the Commission in past dockets, such as Docket No. 960329-WS, Order No. PSC-97-1544-FOF-WS, 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 (ERC's). Although the utility requested a 20% margin reserve, they provided no justification other than a proposed administrative rule, nor did they provide justification for a time period longer than 18 months. The Commission has consistently found that where no justification for a longer construction period is provided, 18 months will be approved for treatment plant. Therefore, staff is recommending an 18-month construction time period.

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The margin reserve calculation is shown on line 4 of Attachment A. As shown, 73 ERC's multiplied by 1.5 years equals 109.5 ERC's. Dividing line 2 by line 3(a) ($720956/2943$) equals 244.97 GPD/SFR. 109.5 multiplied by 244.97 equals 26,824 GPD. The formula used in attachment A rounded the single family usage to 245 GPD/SFR producing 26,825 GPD.

Based on these calculations, staff recommends the Commission grant the utility a margin reserve of 26,825 GPD which equals 3% of its flow capacity.

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ISSUE 4: What is the appropriate used and useful percentage of the wastewater treatment facility?

RECOMMENDATION: The wastewater treatment plant should be considered to be 83.09% used and useful. (FUCHS)

STAFF ANALYSIS: The utility, in its filing, 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 Issue 3, staff recommended a margin reserve of 3% equaling 26,825 GPD.

In PAA Order No. PSC-93-1713-FOF-SU, issued November 30, 1993, issued in Docket No. 921293-SU, the previous Mid-County rate case, the company was granted a used and useful percentage of 97%. That figure was the result of a lower permitted capacity, .8MGD, and, in that calculation, staff 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 re-permitted 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 re-permit process was 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 the strict standards of FDEP for effluent flowing into such waters. Again, the flow used in the numerator was the maximum month average daily flow, which was the accepted method of calculation at that time.

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 re-permitted, and the company chose the annual average daily flow (AADF) method for permitting, as discussed in Issue 2, staff recommends that the used and useful percentage should 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 staff's calculations for the recommended used and useful percentage, using the AADF (line 2), plus the staff recommended 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.

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The recommended used and useful (83.09%) in this case is lower than in the 88% recommended in the preceding case, due to the use of the AADF flow requested by the utility in its permit. Also, the final formula used in the preceding case was the result of a stipulation, as indicated above. The staff recommendation and discussion of the appropriate flows to use in used and useful calculations for this case is in Issue 2.

Staff recommends the Commission 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 should be \$385,823. The associated non-used accumulated depreciation and depreciation expense should be \$97,990 and \$11,356, respectively, and non-used and useful property taxes should be \$2,866.

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ISSUE 5: What is the appropriate used and useful percentage of the wastewater collection system and effluent disposal system?

RECOMMENDATION: Staff recommends the collection system and effluent disposal system should be considered 100% used and useful with no margin reserve. (FUCHS)

STAFF ANALYSIS: Staff inspected the collection and effluent disposal systems during the on site evaluation in October, 1997. As stated in Issue 1, 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 103.85% and 112% used and useful for the collection and effluent disposal systems respectively. Utility calculations are presented on Schedule F-6, page 81, of the MFR's. The utility's request, as stated on Schedule F-6, is based on proposed Rule 25-30.432, Florida Administrative Code. This rule is in a set of proposed rule revisions set forth by staff that, to date, have not been adopted by the Commission. In the last rate case for this utility, in Order No. PCS-93-1713-FOF-SU, the Commission 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. This utility has several pockets of undeveloped land within its service area. The utility also has reserve plant capacity as indicated in Issue 4. While there is growth potential, additional collection system must be added before many new customers can be added. Therefore this system should be considered to be 100% used and useful. As previously stated, the utility requested a used and useful percentage of 103.85%. Staff has never recommended, nor has the Commission ever 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

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percentage over 100%, staff is required to address this item and offer a recommendation to the Commission. 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 should be considered 100% used and useful.

Staff recommends the collection system and effluent disposal system be considered 100% used and useful with no margin reserve.

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WASTEWATER TREATMENT PLANT USED AND USEFUL CALCULATION
 MID-COUNTY SERVICES, INC.

	% USED AND USEFUL =	$\frac{(2+3-4)}{1}$	=	83.09	%
(1)	Capacity of plant w/lgst clarifier out (AADF)			900,000	GPD
(2)	Annual Average Daily Flow			720,000	GPD
(3)	Margin Reserve (not to exceed 20% of present ERC's)				
	(a) Average number of customers in ERCs	2,943			
	(b) Average yearly customer growth in ERCs for most recent 4 years (calc. By regression analysis)	73			
	(c) Construction time for additional capacity (in months)	18			
	Margin Reserve =	$3bx(3c/12)x((2)/3a)$	=	26,825	GPD
(4)	Excessive Infiltration			0	GPD
	(a) Total Amount	8,200	GPD	1.00	% of Daily Flow
	(b) Reasonable amount	90,000	GPD	10.00	% of Daily Flow

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ISSUE 6: Should the Commission include an imputation of Contributions in Aid of Construction (CIAC) on the margin reserve?

RECOMMENDATION: Yes. The Commission should include an imputation of CIAC as a matching provision to the margin reserve calculation. However, as an averaging method, only 50% of the imputed CIAC should be recognized since the imputed amount will be collected over the life of the margin reserve period rather than all at the beginning of the period. In addition, the imputation should be limited to the amount of net plant included in the margin reserve. Accordingly, wastewater CIAC should be increased by \$50,733. Corresponding adjustments should also be made to increase wastewater accumulated amortization of CIAC by \$943 and decrease test year amortization expense by \$1,887. (B. DAVIS)

STAFF ANALYSIS: 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, the Commission should use the existing or new capacity charges, since this is a forward looking adjustment. The Commission has also found that the amount of CIAC recognized in rate base should be no greater than the amount of net plant included in the margin reserve. The imputation of CIAC on the margin reserve has been a longstanding policy of this Commission as found in 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.

In conclusion, staff recommends that the Commission should continue to apply its current practice of imputing 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, the Commission has decided to impute only 50% of the CIAC estimated to be collected during the margin reserve period. This policy is based on the premise that all of the CIAC related to the margin reserve will not be collected on day-one 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-

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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, staff recommends that it is appropriate to impute additional CIAC of \$50,733. Adjustments should also be made to increase accumulated amortization of CIAC by \$943 and decrease test year amortization expense by \$1,887.

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ISSUE 7: Should deferred charges from Water Service Corporation be allowed in plant in service?

RECOMMENDATION: Deferred charges in the amount of \$2,205 that is allocated from the parent company should be disallowed as part of plant in service. (B. DAVIS)

STAFF ANALYSIS: 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. Since 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 (Issue 13), the above \$2,205 should be 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 since the amortization expense portion of the deferred charges, which is \$1,841, is properly included in operation and maintenance expenses, Account Number 735, Contractual Services-Other.

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ISSUE 8: Should capitalized legal expenses and capitalized acquisition costs be allowed in rate base?

RECOMMENDATION: No, capitalized legal expenses in the amount of \$16,644 and capitalized acquisition costs in the amount of \$1,812 should be removed from plant in service. This results in an average reduction to plant of \$6,073. The corresponding adjustments to accumulated depreciation and depreciation expense should be \$89 and \$178, respectively. (B. DAVIS)

STAFF ANALYSIS: 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. 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.

The Commission 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. Order No. PSC-93-1713-FOF-SU, issued November 30, 1993 in the last rate case disallowed acquisition costs for rate making 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.

The utility did not respond to this audit exception.

The utility should remove these charges from its books in order to comply with the above Order. Therefore, staff recommends

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that utility plant in service 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 should also be removed.

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ISSUE 9: Should discounts not taken be allowed in rate base?

RECOMMENDATION: No, discounts not taken in the average amount of \$1,700 should be removed from plant in service. (B. DAVIS)

STAFF ANALYSIS: 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 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 should bear that cost as well as the cost for first class airfare.

The utility did not respond to this audit exception.

Staff recommends 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 should also be removed.

ISSUE 10: Should retirements since the last rate case be recognized in rate base?

RECOMMENDATION: Yes, additional retirements in the amount of \$4,242 should be removed from plant in service. (B. DAVIS)

STAFF ANALYSIS: 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.

Staff recommends that utility plant in service be reduced by \$4,242 to remove the retired plant. The associated accumulated depreciation of \$4,242 and depreciation expense of \$165 should also be removed.

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ISSUE 11: Should construction work in progress (CWIP) be corrected for errors and should pro forma plant additions be shown as utility plant in service?

RECOMMENDATION: Yes, CWIP should be reduced by \$4,500 and \$292,159 of pro forma plant additions should be reclassified in rate base and shown as utility plant in service. (B. DAVIS)

STAFF ANALYSIS: The utility recorded \$296,659 in 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. Engineering staff has reviewed the invoices for the projects in question. The work, which involved the Curlew Road, US 19 and Belcher Road extension project, was required by the widening and improvement of US 19 and Belcher Road. These projects were not utility elective projects and, in staff's opinion are legitimate pro forma costs. Staff recommends that the Commission reduce construction work in progress by \$4,500 to remove the recording error. For purposes of this rate case, the Commission should 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 should be removed.

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ISSUE 12: What is the appropriate allowance for working capital for the test year?

RECOMMENDATION: The appropriate allowance for working capital for the test year is \$84,195 as updated with staff's proposed adjustments to operation and maintenance expenses. (B. DAVIS)

STAFF ANALYSIS: The utility has properly filed an allowance for working capital as one eighth of its filed operation and maintenance expenses. In Issues 19 - 21, staff has proposed several adjustments to operation and maintenance expenses which should be reflected in the calculation of the allowance for working capital. The adjustments reduce the allowance for working capital by \$16,901.

ISSUE 13: What is the appropriate test year rate base?

RECOMMENDATION: The appropriate wastewater rate base for the test year ended December 31, 1996 is \$1,299,756. (B. DAVIS)

STAFF ANALYSIS: Based on the utility's filed average rate base and staff's proposed adjustments, we recommend 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. The rate base schedule is attached as Schedule 1-A and the adjustments to rate base are attached as Schedule 1-B.

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CAPITAL STRUCTURE

ISSUE 14: What is the appropriate capital structure for rate making purposes?

RECOMMENDATION: The capital structure of Utilities, Inc., which is Mid-County's parent, should be used for rate making purposes. (B. DAVIS)

STAFF ANALYSIS: 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. Staff believes that it is reasonable to use the capital structure of the parent since 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. Attached Schedule No. 2 shows the capital structure requested by the utility and that which is recommended by staff. Staff's capital structure shows the utility's adjustments under the specific adjustments column. Staff's pro rata adjustments reconcile the utility's capital structure to staff's recommended rate base.

ISSUE 15: What is the appropriate rate of return on equity?

RECOMMENDATION: Using the current leverage formula, the rate of return on equity should be 10.16%, with a range of 9.16% to 11.16%. (B. DAVIS)

STAFF ANALYSIS: The utility's filing requests a return on equity of 10.22% using the leverage formula. Staff's 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 should be 10.16%. Therefore staff recommends that, consistent with Commission practice, the appropriate range for the return on equity should be 9.16% to 11.16%.

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ISSUE 16: What is the appropriate overall rate of return?

RECOMMENDATION: The appropriate overall rate of return should be 9.34%, with a range of 8.89% to 9.79%. (B. DAVIS)

STAFF ANALYSIS: The staff's recommended overall rate of return is based on application of Commission practice and is derived as shown on Schedule No. 2. Based on staff's recommendations in the previous issues, the appropriate overall rate of return should 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%.

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NET OPERATING INCOME

ISSUE 17: Should adjustments be made for late fees, out of period expenses and misclassifications as recommended in the staff audit?

RECOMMENDATION: Yes, operation and maintenance expenses should be reduced by \$8,022 and taxes other than income should be increased by \$755 to remove late fees, prior period expenses and to correct misclassifications. (B. DAVIS)

STAFF ANALYSIS: 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. The \$100 late fee should be removed from expense.

Prior Period 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. These prior period expenses amounting to \$2,384 should 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 NARUC 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 do not demonstrate a clear benefit to the ratepayers. The utility should reclassify \$3,983 from account 426, Insurance-Other to Account 759, Miscellaneous Nonutility Expense.

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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. Staff recommends reclassifying 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 Uniform System of Accounts (USOA) directs that sludge removal should be recorded in Account No. 711, Sludge Removal Expense. Staff recommends that the utility should 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.

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

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

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ISSUE 18: Are the allocations from Utilities, Inc. a reasonable distribution of the cost of the services provided to Mid-County?

RECOMMENDATION: No, the allocation methods employed by Utilities, Inc. at the time of this filing overstate costs to Mid-County. Operation and maintenance expenses should be reduced by \$119,685, depreciation expense should be reduced by \$13,747 and taxes other than income should be reduced by \$2,293. (B. DAVIS)

STAFF ANALYSIS: 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

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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 staff would expect 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, staff was 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.

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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. 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, therefore, 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 two and one quarter more than the 130,627,000 gallons treated by Mid-County. Longwood shows 151,133,000 gallons treated. Based on the volume treated as an indicator of plant size and, therefore, demand on common services, Alafaya should have absorbed two and one-quarter the costs as Mid-County, not one and one-third less, and Longwood should have absorbed slightly more of the 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 staff's 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, staff notes 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 staff and found to be reasonable and no further action was taken. The problem appears to staff 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.

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As an example, staff has compared the allocation of salaries from the Florida office, showing the allocation by customer equivalents and by gallons of wastewater treated, as follows:

<u>Subsidiary</u>	<u>Customer Equiv.</u>	<u>Percent of Total</u>	<u>Gross Salaries</u>	<u>Gallons Treated (000)</u>	<u>Percent of Total</u>	<u>Gross Salaries</u>	
Alafaya	4,637	18.41%	\$35,010	295,535	32.13%	\$61,103	\$26,094
Lake Placid	313	1.24%	\$2,363	9,078	0.99%	\$1,877	\$(486)
Lake Utility	1,108	4.40%	\$8,363	0	0.00%	\$0	\$(8,363)
Longwood	1,812	7.19%	\$13,681	151,133	16.43%	\$31,247	\$17,567
Mid-County	6,112	24.26%	\$46,146	130,627	14.40%	\$27,008	\$(19,138)
Miles Grant	1,806	7.17%	\$13,635	43,795	4.76%	\$9,055	\$(4,581)
Tierra Verde	1,986	7.88%	\$14,994	139,063	15.12%	\$28,752	\$13,757
UIFL	6,294	24.98%	\$47,520	102,603	11.15%	\$21,214	\$(26,306)
Wedgfield	<u>1,124</u>	<u>4.46%</u>	<u>\$8,486</u>	<u>48,103</u>	<u>5.23%</u>	<u>\$9,946</u>	<u>\$1,459</u>
Total	<u>25,182</u>	<u>100.00%</u>	<u>\$181,835</u>	<u>817,334</u>	<u>100.00%</u>	<u>\$181,835</u>	

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. Staff believes that this has little to do with the demand for common services.

Staff recommends that the Commission 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. Staff recommends recalculating those cost allocations which use customer equivalents based on factored (weighted) bills, which is consistent with the distribution of the base facility charge in the rate design in both the last rate case and the current rate case. As recalculated by staff, allocated operation and maintenance expenses should be reduced by \$119,685, allocated depreciation expense should be reduced by \$13,747 and allocated payroll taxes generated by the allocated salaries should be reduced by \$2,293 for a total reduction in expense of \$135,724.

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ISSUE 19: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate rate case expense for this docket is \$50,206. In accordance with the provisions of Order No. PSC-94-1042-FOF-SU, the utility should be allowed to recover \$44,753 in rate case expense from the previous case. This is a total of \$94,959 in rate case expense to be recovered over four years for an annual expense of \$23,740. (B. DAVIS)

STAFF ANALYSIS: 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, staff 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:

	<u>MFR</u>		<u>REVISED ESTIMATE</u>	
	<u>ESTIMATED</u>	<u>ACTUAL</u>	<u>ESTIMATED</u>	<u>TOTAL</u>
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	<u>16,300</u>	<u>27,725</u>	<u>1,040</u>	<u>28,765</u>
Current Rate Case Expense	\$ 47,706	\$ 44,796	\$8,610	\$ 53,406
Unamortized Prior Rate Case Expense	<u>78,510</u>	<u>78,510</u>	<u>0</u>	<u>78,510</u>
Total Rate Case Expense	<u>\$126,216</u>	<u>\$123,306</u>	<u>\$8,610</u>	<u>\$131,916</u>
Annual Amortization	<u>\$ 31,241</u>			<u>\$ 32,979</u>

The revised total rate case expense requested in this docket is \$128,715, which is an annual expense of \$32,979 for four years. Staff has examined the requested actual expenses, supporting

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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.

The Commission has 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.

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 proposed agency action order, made modifications to the used and useful adjustment, delete some salary adjustments and increase 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 prudence 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

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\$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. Staff calculates 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. Staff has reviewed the charges and they relate to the fees for the engineering consultant and attorney incurred for litigating the service availability issues at hearing. Staff believes that the remaining \$25,656 has already been recovered by the utility in 1997.

Staff recommends \$94,959 as the appropriate 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. Staff believes that these amounts are appropriate for setting rates. A breakdown of the recommended allowance of rate case expense is as follows:

	<u>ACTUAL</u>	<u>ESTIMATED</u>	<u>TOTAL</u>
Filing Fee	\$ 3,500	\$ 0	\$ 3,500
Legal	6,765	4,370	11,135
Postage, Printing	6,806		6,806
Travel	0	0	0
MFR Preparation, Filing	<u>27,725</u>	<u>1,040</u>	<u>28,765</u>
Total Current Expense	\$ 44,796	\$ 5,410	50,206
Unrecovered Prior Case Expense	<u>44,753</u>	<u>0</u>	<u>44,753</u>
Total Expense	<u>\$ 89,549</u>	<u>\$ 5,410</u>	<u>\$ 94,959</u>
Annual Amortization			<u>\$ 23,740</u>

The recommended allowable rate case expense is to be amortized over four years at \$23,740 per year. Based on the above, staff recommends that test year expenses should be reduced by \$7,501. This is the difference between the \$23,740 recommended by staff and the \$31,241 included as expense on MFR Schedule B-6.

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ISSUE 20: What is the appropriate net operating income for the test year?

RECOMMENDATION: The appropriate net operating for the test year is \$92,464 as shown of attached Schedule No. 3-A. (B. DAVIS)

STAFF ANALYSIS: As shown on attached Schedule No. 3-A, after applying staff's adjustments from Issue Nos. 17 - 19, net operating income for the test year is \$92,464. Staff's adjustments to the filed operating income are listed on attached Schedule No. 3-B.

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REVENUE REQUIREMENT

ISSUE 21: What is the total revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved: (B. DAVIS)

	<u>TOTAL</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT</u>
Wastewater	\$ 962,162	\$ 48,569	5.32%

STAFF ANALYSIS: The revenue required as a result of staff's analysis is \$962,162 for the wastewater system as shown on attached Schedule 3-A. This will allow the utility the opportunity to recover its expenses and earn a 9.34% return on its investment in rate base.

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RATES

ISSUE 22: What are the appropriate wastewater rates?

RECOMMENDATION: The recommended wastewater rates should be designed to produce annual operating revenues of \$960,778, the \$962,162 revenue requirement less \$1,384 in miscellaneous revenue, using the base facility charge rate structure. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets. The revised tariff sheets should be approved upon staff's verification that the tariff is consistent with the Commission's decision, that the protest period has expired, and the proposed customer notice is adequate.
(B. DAVIS)

STAFF ANALYSIS: 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.

Staff recommends that the final rates approved for the utility should be designed to produce annual operating revenues of \$960,778, which is the \$962,162 revenue requirement as recommended in Issue 21 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 staff recommend any change in this general methodology.

Pursuant to Rule 25-30.437, Florida Administrative Code, in proposing rates, the utility should use the base facility and usage charge rate structure unless an alternative source is supported by the applicant. The base facility charge structure for setting rates 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 recommended 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

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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. Staff has recalculated the rates using the same basic methodology as before, but has 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 in Issue 18, 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 rate decrease. In staff's opinion, this will better match the customers' bills with the demand that they put on the system.

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

The comparison of the utility's original rates, interim rates, requested rates, and staff's recommended rates is shown on Schedule No. 4.

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ISSUE 23: What is the appropriate amount of rate reduction in four years as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: As reflected on Schedule No. 5, the wastewater rates should be reduced by \$24,858 at the expiration of the four-year period in compliance with Section 367.0816, Florida Statutes. (B. DAVIS)

STAFF ANALYSIS: 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.

The wastewater rates should 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 should be required to file tariffs no later than one month prior to the actual date of the required rate reduction. The utility also should be required to 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.

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ISSUE 24: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

RECOMMENDATION: The final revenue requirement should be adjusted for items not representative of the period interim rates were in effect. The adjusted final revenue requirement should then be compared with the interim revenue requirement to determine whether a refund is necessary. The utility should refund 23.79% of the wastewater service revenues collected under interim rates. The refunds should be made, including interest, as required by Rule 25-30.360(4), Florida Administrative Code. (B. DAVIS)

STAFF ANALYSIS: On August 10, 1993, the Commission issued Order No. PSC-93-1175-FOF-WU approving an interim increase for the wastewater system as shown below:

	<u>Revenues</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Wastewater	\$ 1,177,611	\$ 264,009	28.90%

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

According to Section 367.082, Florida Statutes, any refund should 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. 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, staff has 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

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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 recommended 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 recommended adjusted revenue requirement is \$897,405 for the wastewater system.

Based on the difference in the two, this represents an annual reduction of \$280,197. The utility should be required to refund 23.79% of the wastewater service revenues collected under interim rates. In addition to the above, the refunds should be made with interest as required by Rule 25-30.360(4), Florida Administrative Code. The escrow amounts should be closed upon verification of the refund by staff.

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OTHER ISSUES

ISSUE 25: Are the utility's books and records in compliance with Rule 25-30.115 and Rule 25-30.450, Florida Administrative Code?

RECOMMENDATION: No. Mid-County's books and records are not in compliance with the above mentioned rules. Mid-County should be given six months from the issuance date of this order to bring its books and records into compliance with the NARUC Uniform System of Accounts. At that time, staff will perform compliance audits. The utility should be put on notice that if substantial compliance is not evident at that time, a show cause proceeding will be initiated. (B. DAVIS)

STAFF ANALYSIS: The Commission has very specific rules regarding utilities' books and records and provisions relating to the burden of proof for audit purposes. 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 their 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 company 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

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produce a material difference in this case, the utility should 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, the Commission 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: 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, the Commission 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 staff believes 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 staff believes that it is

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reasonable to allow the utility another opportunity to bring its books into compliance first before we initiate enforcement proceedings. Staff believes that a six-month period is a reasonable amount of time for Mid-County to bring its records into compliance. Therefore, staff recommends that Mid-County be given six months from the issuance date of the order to bring its books and records into compliance with the NARUC USOA. The utility should be put on notice that, if, at the end of six months, Mid-County fails to be in substantial compliance, show cause will be initiated

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ISSUE 26: Should the docket be closed?

RECOMMENDATION: Yes, in the event a timely protest is not filed, the docket should be closed upon the utility's filing and staff's approval of revised tariff sheets and verification that the utility has completed the required refund. The utility's corporate undertaking may be released upon staff's verification that the refund has been completed. (BRUBAKER, B. DAVIS)

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

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

SCHEDULE NO. 1-A
 DOCKET 971065-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF 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 (Issue 8)	(\$6,073)
2 Discounts Not Taken (Issue 9)	(1,700)
3 Retirements (Issue 10)	(4,242)
4 CWIP (Issue 11)	<u>292,159</u>
Total	<u>\$280,144</u>
LAND	
	<u>\$0</u>
NON-USED AND USEFUL	
1 Non-Used and Useful Treatment Plant Facility (Issue 4)	(\$385,896)
2 Non-Used and Useful Treatment Plant Facility Accumulated Depreciation (Issue 4)	98,009
3 Imputed CIAC (Issue 6)	(50,733)
4 Imputed Accumulated Amortization of CIAC (Issue 6)	<u>943</u>
Total	<u>(\$337,678)</u>
ACCUMULATED DEPRECIATION	
1 Capitalized Expenses (Issue 8)	89
2 Discounts Not Taken (Issue 9)	29
3 Retirements (Issue 10)	4,242
4 CWIP (Issue 11)	<u>75</u>
Total	<u>\$4,434</u>
CIAC	
	<u>\$0</u>
ACCUM. AMORT. OF CIAC	
	<u>\$0</u>
CONSTRUCTION WORK IN PROGRESS	
CWIP (Issue 11)	<u>(\$296,659)</u>
WORKING CAPITAL	
Working Capital (Issue 13)	<u>(\$16,901)</u>
OTHER - WATER SERVICE CORPORATION	
Deferred Charges (Issue 7)	<u>(\$2,205)</u>

MID-COUNTY SERVICES, INC.
 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	WEIGHTE 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	<u>\$1,687,022</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,687,022</u>	<u>100.00%</u>		<u>9.37%</u>
PER STAFF 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	<u>\$1,687,022</u>	<u>\$0</u>	<u>(\$387,266)</u>	<u>\$1,299,756</u>	<u>100.00%</u>		<u>9.34%</u>
					LOW	HIGH	
					RETURN ON EQUITY	9.16%	11.16%
					OVERALL RATE OF RETUR	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	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$883,000	\$342,899	\$1,225,899	(\$312,306)	\$913,593	\$48,569 5.32%	\$962,162
OPERATING EXPENSES							
2 OPERATION AND MAINTENANCE	\$825,155	(\$16,385)	\$808,770	(\$135,208)	\$673,562		\$673,562
3 DEPRECIATION	\$63,126	\$3,236	\$66,362	(\$27,541)	\$38,821		\$38,821
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0		\$0
5 TAXES OTHER THAN INCOME	\$92,989	\$15,988	\$108,977	(\$18,458)	\$90,519	\$2,186	\$92,705
6 INCOME TAXES	(\$64,608)	\$148,302	\$83,694	(\$65,467)	\$18,227	\$17,454	\$35,681
7 TOTAL OPERATING EXPENSES	\$916,662	\$151,141	\$1,067,803	(\$246,674)	\$821,129	\$19,640	\$840,769
8 OPERATING INCOME	(\$33,662)	\$191,758	\$158,096	(\$65,632)	\$92,464	\$28,929	\$121,393
9 RATE BASE	\$1,600,245		\$1,668,820		\$1,299,756		\$1,299,756
10 RATE OF RETURN	-2.10%		9.47%		7.11%		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 (Issue 17)	(\$8,022)
2 WSC Allocations (Issue 18)	(119,685)
3 Rate Case Expense (Issue 19)	(7,501)
Total	(\$135,208)
DEPRECIATION EXPENSE-NET	
1 Non-Used and Useful Depreciation (Issue 4)	(\$11,358)
2 Imputed CIAC Amortization (Issue 6)	(1,887)
3 Allocations (Issue 18)	(13,747)
4 Capitalized Expenses (Issue 8)	(178)
5 Discounts Not Taken (Issue 9)	(57)
6 Retirements (Issue 10)	(165)
7 CWIP (Issue 11)	(150)
Total	(\$27,541)
AMORTIZATION EXPENSE	
	\$0
TAXES OTHER THAN INCOME	
1 RAFs on revenue adjustments above	(\$14,054)
2 Non-Used and Useful Property Tax (Issue 5)	(2,866)
3 Audit Adjustments (Issue 17)	755
4 Allocations (Issue 18)	(2,293)
Total	(\$18,458)
INCOME TAXES	
Adjust to test year income tax expense	(\$65,467)

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	Staff Recomm. Final
BI-MONTHLY RATES				
Residential				
Base Facility Charge: All meter sizes	\$28.80	\$36.98	\$38.66	\$27.89
Gallorage Charge - Per 1,000 gallons (20,000 gallon cap)	\$1.51	\$1.93	\$2.03	\$1.58
General Service and Multi-Family				
Base Facility Charge: Meter Size:				
5/8" x 3/4"	\$28.80	\$36.98	\$38.66	\$27.89
1"	\$72.01	\$92.44	\$96.65	\$69.73
1-1/2"	\$144.02	\$184.87	\$193.30	\$139.46
2"	\$230.44	\$295.79	\$309.29	\$223.14
3"	\$460.89	\$591.59	\$618.57	\$446.28
4"	\$720.13	\$924.13	\$966.52	\$697.31
6"	\$1,440.28	\$1,848.74	\$1,933.03	\$1,394.62
Gallorage Charge, per 1,000 Gallons	\$1.81	\$2.32	\$2.43	\$1.89
Flat Rate				
Residential	\$50.67	\$65.04	\$68.01	\$53.75
Mobile Home Park	\$1,595.45	\$2,047.92	\$2,141.57	\$956.57
Typical Residential BI-Monthly Bills				
5/8" x 3/4" meter				
3,000 Gallons	\$34.23	\$43.94	\$45.95	\$32.62
5,000 Gallons	\$37.85	\$48.58	\$50.81	\$35.77
10,000 Gallons	\$46.90	\$60.18	\$62.96	\$43.65
(Wastewater Gallorage 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	Staff Recomm. Final Rates	Decrease	Staff Recomm. Decrease
BI-MONTHLY RATES			
Residential			
Base Facility Charge: All meter sizes	\$27.89	(\$1.76)	\$26.14
Gallonge Charge - Per 1,000 gallons (20,000 gallon cap)	\$1.58	\$0.00	\$1.58
General Service and Multi-Family			
Base Facility Charge: Meter Size:			
5/8" x 3/4"	\$27.89	(\$1.76)	\$26.14
1"	\$69.73	(\$4.39)	\$65.34
1-1/2"	\$139.46	(\$8.78)	\$130.69
2"	\$223.14	(\$14.04)	\$209.10
3"	\$446.28	(\$28.08)	\$418.20
4"	\$697.31	(\$43.88)	\$653.44
6"	\$1,394.62	(\$87.75)	\$1,306.87
Gallonge Charge, per 1,000 Gallons	\$1.89	\$0.00	\$1.89
Flat Rate			
Residential	\$53.75	(\$1.75)	\$52.00
Mobile Home Park	\$956.57	(\$14.04)	\$942.54