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June 4, 1998

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BY HAND DELIVERY

Jennifer Brubaker
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Fl 32399-0850

Re: Mid-County Services, Inc.
Docket No. 971065-SU

Dear Jennifer:

We would like to thank the staff for meeting with us last week regarding the possibility of settling Mid-County's protest without the need for a hearing.

The following are the general outlines of a potential offer of settlement that Mid-County believes would provide a reasonable basis for concluding this docket.

* Include 100% of CWIP in rate base. As we discussed, these amounts relate to a post-test-year main extension project.

* Correct the adjustment made for key-man insurance expenses to avoid removing more expense than was allocated to the utility in the first instance.

* Establish a 96% used and useful percentage. The utility derived this figure by adjusting the 88% used and useful percentage from the prior rate case to reflect the 9.1% growth that the utility has experienced in annual average daily flows between the prior test year and the current test year.

* Eliminate one-third of the adjustment to allocated expenses that was proposed in the PAA Order. As we discussed, the utility believes that it has a strong basis to support the allocation methodology contained in the MFRs. This adjustment is proposed in the spirit of compromise.

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133-RECORDS/REPORTING

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* The utility is willing to make reasonable rate structure changes as might be proposed by staff.

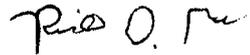
I have attached a spreadsheet showing the approximate results of these proposed changes, which would increase the revenue requirement proposed in the PAA Order by \$102,400, to \$1,092,157. This is still significantly less than the amount the utility believes that it will be able to support at hearing.

The tentative proposals set forth in this letter are for settlement purposes only, and do not represent the position that the utility would take if the case proceeds to hearing.

After you have had an opportunity to review the enclosure, we would appreciate the opportunity to discuss this proposal further. As you know, I will be departing on vacation on June 5, returning on June 20. In my absence, I will ask Mark Kramer to call Marshall Willis directly to discuss this proposal.

If you have any questions, please let me know.

Very truly yours,



Richard D. Melson

RDM/mee
Enclosure

cc: Blanca Bayó (for docket file)
Marshall Willis
Harold McLean
Mark Kramer

Mid-County Services, Inc.

Calculation of Position

Docket No. 971065-SU

Test Year Ended 12/31/96

<u>Description</u>	<u>Test Year Per Utility</u>	<u>Utility Adjustments</u>	<u>Adjusted Test Year Per Utility</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted Test Year</u>	<u>Stipulated Adjustments</u>	<u>Adjusted Stipulated Position</u>
Utility Plant in Service	3,880,925	(131,742)	3,749,183	280,144	4,029,327	-	4,029,327
Land	18,403	(18,403)	-	-	-	-	-
Non-Used & Useful	-	-	-	(337,678)	(337,678)	258,749	(78,929)
Accumulated Depreciation	(1,004,622)	10,754	(993,868)	4,434	(989,434)	(8,613)	(998,047)
CIAC	(2,174,889)	-	(2,174,889)	-	(2,174,889)	-	(2,174,889)
Amortization of CIAC	777,284	2,697	779,981	-	779,981	-	779,981
Construction WIP	-	148,330	148,330	(296,659)	(148,329)	148,329	-
Working Capital Allowance	103,144	(2,048)	101,096	(16,901)	84,195	4,284	88,479
Other	-	58,787	58,787	(2,205)	56,582	-	56,582
Rate Base	1,600,245	68,375	1,668,620	(368,865)	1,299,755	402,748	1,702,503
Operating Revenues	883,000	342,899	1,225,899	(236,142)	989,757	102,400	1,092,157
<u>Operating Expenses</u>							
Operation & Maintenance	825,155	(16,385)	808,770	(112,344)	696,426	34,270	730,696
Depreciation	63,126	3,236	66,362	(24,858)	41,504	8,613	50,117
Taxes Other Than Income	92,989	15,988	108,977	(14,570)	94,407	4,825	99,232
Income Taxes	(64,608)	148,302	83,694	(47,933)	35,761	16,954	52,715
Total Operating Expenses	916,662	151,141	1,067,803	(199,705)	868,098	64,663	932,761
Operating Income	(33,662)	191,758	158,096	(36,437)	121,659	37,737	159,396
Rate of Return	-2.10%	280.45%	9.47%	9.88%	9.36%	9.37%	9.36%

The above schedule contemplates the following adjustments:

Inclusion of 100% of CWIP in rate base
Correction of Key Man life insurance adjustment
Effective U&U based on prior RC
33% reduction in Allocation adjustment

AADF in prior RC 660,550
AADF in current RC 720,956

Increase 60,406
Increase in % 9.1%

U&U determined in Prior 88%

Effective U&U Rate 96%