

MEMORANDUM

November 25, 1998

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RECORDS AND
REPORTING

TO: DIVISION OF RECORDS AND REPORTING
FROM: DIVISION OF LEGAL SERVICES (FLEMING) *SLF YF*
RE: DOCKET NO. 980445-WU - APPLICATION FOR STAFF-ASSISTED
RATE CASE IN OSCEOLA COUNTY BY MORNINGSIDE UTILITY, INC.

98-1585-FOF-N14

Attached is an ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST, DECLINING TO INITIATE A SHOW CAUSE PROCEEDING AND NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING INCREASED RATES AND CHARGES, to be issued in the above-referenced docket.

(Number of pages in order - 34)

SRF/lw

Attachment

cc: Division of Water and Wastewater (Galloway, Gilchrist, Golden, Munroe, Rendell, Willis)

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ATTACHMENT(S) NOT ON-LINE

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Osceola County by Morningside Utility, Inc.

DOCKET NO. 980445-WU
ORDER NO. PSC-98-1585-FOF-WU
ISSUED: November 25, 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.

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST,
DECLINING TO INITIATE A SHOW CAUSE PROCEEDING
AND NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest and our decision not to initiate a show cause proceeding, 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

Morningside Utility, Inc., (utility or Morningside) is a Class C water utility located in Osceola County. The utility provides water service to approximately 181 residential customers who utilize septic tanks for waste disposal. The Commission acquired jurisdiction over Osceola County on October 12, 1959. However, the Commission was unaware of the utility's existence until 1997.

On May 28, 1997, the utility filed its application for an original certificate pursuant to Section 367.045, Florida Statutes. The utility was granted operating Certificate No. 595-W, pursuant

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FPSC-RECORDS/REPORTING

to Order No. PSC 97-1211-FOF-WU, issued October 7, 1997. Morningside was established in 1983 by Schoolfield Properties. The present owner, Mr. George Devillers, purchased the utility in 1988 from Schoolfield Properties.

On March 30, 1998, Morningside applied for this staff-assisted rate case pursuant to Section 367.0814, Florida Statutes. Eligibility for the utility's request was determined by letter dated April 27, 1998. The utility paid its filing fee on May 26, 1998.

In its application, the utility requested an increase in water rates. We audited the utility's records for compliance with our rules and orders and examined all components necessary for rate setting. Our staff engineer also conducted a field investigation, which included a visual inspection of the water plant and distribution system along with the service area. The utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service and quality of service.

On September 3, 1998, a customer meeting was held at the Elks Lodge (BPOE #1873) in Kissimmee, Florida. Even though the utility customers were properly noticed, none attended the meeting.

A historical test year ended December 31, 1997 was selected for this case. Adjusted test year revenues are \$53,040 and adjusted expenses are \$64,743. This results in an adjusted net loss of \$11,703.

QUALITY OF SERVICE

In order to assess the overall quality of service provided by the utility, the quality of the product (water and/or wastewater) must be evaluated. This evaluation consists of a review of the utility's current compliance with Department of Environmental Protection (DEP) and Health Department (water and wastewater) standards.

The ultimate concern of a water utility is the quality of piped water consumed by customers. The degree to which a utility is able to maintain satisfactory water quality may be reflected by its ability to meet DEP primary and secondary drinking water

standards, as well as several unregulated standards set by the Environmental Protection Agency (EPA).

The primary drinking water standards include maximum contaminant levels for harmful contaminants. These maximum contaminant levels are not to be exceeded, unless specified otherwise by a DEP variance or exemption. Additionally, each utility must periodically test for several unregulated contaminants, which the EPA considers potentially harmful. These contaminants are still under investigation.

Morningside has no current DEP, Health Department or EPA violations with its water facilities.

The operational conditions of the utility's treatment and distribution 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 Department of Environmental Protection standards of operation as well as an analysis of proper system design. The utility is in compliance with all operational regulations. During a site inspection performed by our staff engineer the week of May 18, 1998, all facilities were found to be in proper maintenance and operational condition.

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.

A customer meeting was held at 6:30 P.M. on September 3, 1998. The location of the meeting was the Elks Lodge (BPOE #1873) in Kissimmee, Florida. Although all utility customers were properly noticed, none attended the meeting.

The utility has made a concerted effort to prevent quality of service problems and to promptly correct any complaints that arise. Therefore, we find the quality of service provided to its customers by Morningside to be satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. 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.

Used and Useful

Water Treatment Plant

A strict used and useful calculation based on actual flow data and rated capacity would result in the water treatment plant being considered 17% used and useful. However, because of the small size of this utility and limits to potential growth, we find it appropriate that an alternate method of calculating used and useful based on current customers versus customers in the service area at buildout. Using this method results in the water treatment plant being 80% used and useful.

Distribution System

The distribution system is built out, and is therefore 100% used and useful.

Test Year Rate Base

The appropriate components of the utility's rate base include utility plant in service (UPIS), land, non-used and useful plant, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC and working capital allowance.

In September of 1988, Mr. Devillers purchased Morningside Utility, Inc. from Schoolfield Properties. As part of the purchase agreement, Mr. Devillers paid \$100,000 for utility stock in addition to a land swap. The purchase price of the stock exceeded the net book value of the acquired property. An acquisition adjustment is not appropriate for this utility given that the 1988 purchase was accomplished through a stock transfer and not through purchase of assets. Adjustments have been made to reflect the

appropriate balances. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS)

The utility's books reflected a plant balance of \$0 at the beginning of the test year. An original cost study determined the appropriate balance for each of the various plant accounts. UPIS was increased by \$140,220 to reflect the appropriate amount of depreciable plant in service. Of this amount, based on the original cost study, \$91,530 was associated with plant put into service in 1983, when the utility was established. Also, according to the original cost study, additions to utility plant were made in 1996 in the amount of \$44,776. Further, adjustments were made to reflect the misclassification of plant in various expense accounts during the test year in the amount of \$7,829. Therefore, UPIS has been increased by \$144,135 to reflect total plant. However this balance was reduced by \$3,915 to reflect an averaging adjustment. The resulting UPIS is \$140,220.

Land

We included land value in the amount of \$38,000 in rate base. This amount is based on and supported by the Osceola County Property Appraiser's records along with the land value reported on the utility's 1997 tax return.

Non-Used and Useful Plant

Our staff engineer has determined the used and useful percentage for all plant accounts. The non-used and useful percentages times the appropriate accounts reflect average non-used and useful plant of \$15,464. The average accumulated non-used and useful depreciation on this plant is \$5,732. The net non-used and useful plant is \$9,732. Net non-used and useful plant has a negative impact on rate base. Therefore, rate base is decreased by \$9,732.

Contribution-in-Aid-of-Construction (CIAC)

By Order No. PSC-97-1211-FOF-WU, issued October 7, 1997, a system capacity charge of \$600 per connection was approved. Both the original owners and the present owners have charged this amount since the utility was established in 1983. While the utility recorded no CIAC on its books, detailed records exist which enabled

us to determine the appropriate amount of cash CIAC. Prior to purchase in 1988, system capacity charges in the amount of \$57,000 were collected. Since the 1988 purchase, system capacity charges in the amount of \$52,800 were collected. The resulting total CIAC balance is \$109,800. We decreased the total amount of CIAC to reflect an averaging adjustment of \$600. Therefore, the calculated average CIAC is \$109,200.

Accumulated Depreciation

The utility recorded no accumulated depreciation on its books. We have calculated the appropriate balances based on depreciation rates in conformity with Rule 25-30.140, Florida Administrative Code. The appropriate balance including the effect of an averaging adjustment is \$57,374.

Amortization of CIAC

Amortization of CIAC has been calculated consistent with our calculation of accumulated depreciation. The resulting accumulated amortization is \$40,697. An adjustment of this amount was made to reflect the appropriate average balance of amortization of CIAC through December 31, 1997.

Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, the one-eighth of operation and maintenance expense (O&M) formula approach shall be used for calculating working capital allowance. Applying that formula, and based on O&M expense of \$58,757, we find that the working capital allowance is \$7,345.

Rate Base Summary

Applying all of the above adjustments results in a year end rate base of \$49,957.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. 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.

Return on Equity

The utility's capital structure includes common equity of \$79,423 and long term debt in the amount of \$29,549, resulting in total capital of \$108,972. The utility's long term debt consists of two separate notes payable. The utility's books reflected a total notes payable balance of \$14,646 for the test year. We reduced the \$14,646 balance by \$1,466 to reflect a current loan balance of \$13,180. To reflect a second note which was not recorded on the utility's books, we increased long term debt by \$16,369.

Using the current leverage formula approved by Order No. PSC-98-0903-FOF-WS, in Docket No. 980006-WS, the rate of return on equity is 8.89% with a range of 7.89% - 9.89%.

The utility's cost of debt is 10.25% for the \$13,180 loan and 10.00% for the \$16,369 loan. Applying the cost times the pro rata share of each capital component results in an overall rate of return of 9.21% with a range of 8.48%-9.94%.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedules Nos. 3-A and 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.

Test Year Revenues

During the test year the utility provided water service to approximately 181 residential customers. The utility recorded revenue of \$75,409. Per the audit, the utility recorded as revenue, CIAC in the amount of \$1,200; two loans in the amount of \$6,000 and \$15,000; and redeposits in the amount of \$540. These

amounts which total \$22,740, have been removed from the utility's recorded revenue resulting in a balance of \$52,669.

The selected test year for this rate case includes the 12 month period from January 1997 through December 1997. Annualized revenues have been calculated using test year number of bills and gallons of water billed times the existing rates. Annualized revenue is \$51,930. We have increased the annualized revenue amount by \$1,110 to reflect the late payment charges collected during the test year (miscellaneous revenues). The resulting test year revenue balance is \$53,040. Therefore, the total net adjustment for revenue is (\$22,369).

Operation and Maintenance Expenses (O&M)

The utility charged \$65,512 in O&M expenses during the test year. A summary of adjustments follows:

Salaries and Wages - Employees

The utility recorded employee salaries and wages of \$10,900 during the test year. This amount represents a salary for the bookkeeping, billing, receptionist and clerical duties associated with the utility. We find that this amount is reasonable for the duties described.

No salary was recorded for the owner/operator. We approve an additional allowance to salaries and wages expense of \$19,760 for the duties associated with operating the utility. These duties include meter reading, grounds keeping, and general management along with labor for various repairs. The total adjustment for this expense is an increase in the amount of \$19,760.

Salaries and Wages - Officers

The utility recorded a \$0 balance in this account. We have increased this account by \$3,640 to reflect salaries associated with the two officers of this utility.

As stated above, the owner/operator of this utility performs a variety of tasks necessary for the day-to-day operations of the utility. Therefore, we approve a total allowance of \$3,640 for the President and the Vice President/Treasurer.

Purchased Power

The utility recorded purchased power expense in the amount of \$2,274. We have reduced this balance by \$91 to reflect the repression adjustment. The resulting balance for this expense is \$2,183.

Chemicals

The utility recorded chemicals expense of \$2,400. An automatic chlorinator was misclassified to this expense account. We have removed \$660 which represents the cost of the automatic chlorinator and included this cost as part of the utility's plant. We also adjusted this account to reflect a repression adjustment in the amount of \$70. The appropriate chemicals expense is \$1,670.

Materials and Supplies

During the test year, the utility recorded \$9,475 for materials and supplies. Of this balance, \$5,499 was misclassified by the utility. We have reduced this account by \$115 which represents costs associated with Well #2; \$877 which represents costs associated with the generator; \$3,950 which represents costs associated with the electric panel; and \$557 which represents costs associated with the alarm. All of the misclassified items have been included in the appropriate plant accounts. The resulting balance for materials and supplies is \$3,976.

Contractual Services - Accounting

The utility shall maintain its books and records in conformity with the National Association of Regulatory Commission's (NARUC) Uniform System of Accounts (USOA) and shall reconcile its books with this Order. The utility recorded a \$0 balance in this account. The utility provided an estimate in the amount of \$1,300 to convert the utility's accounting system to the NARUC's USOA. We find that this amount is reasonable and have included it in this account. We have increased this expense by \$260 (\$1,300/5) to reflect the accounting allowance of \$1,300 amortized over five years.

Contractual Services - Testing

The utility recorded \$3,952 for testing expense. This expense has been decreased by \$1,670 to reflect a reclassification to

plant, and by \$600 to reflect a reclassification to contractual services - repairs and maintenance. A schedule of the required water tests, frequency and costs follows:

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Microbiological	Monthly	\$ 215
Primary Inorganics	36 Months	62
Secondary Inorganics	36 Months	45
Asbestos	1/ 9 Years	20
Nitrate & Nitrite	12 Months	25
Volatile Organics	36 Months	210
Pesticides & PCB	36 Months	253
Radionuclides		
Group I	36 Months	100
Group II	36 Months	220
Unregulated Organics	36 Months	67
Lead & Copper	Biannually	<u>465</u>
	Total Amount	\$1,682

Contractual Services - Repairs and Maintenance

The utility recorded a \$0 balance in this account. We have increased this account by \$120 to reflect a reclassification from contractual services - testing. The utility misclassified a generator repair expense in the amount of \$600. This amount has been amortized this over 5 years resulting in an adjustment of \$120.

Rents

The utility recorded a \$0 balance in this account. To reflect an allowance for rental of office space, this account has been increased by \$1,200 (\$100.00/month).

Regulatory Commission Expense

The utility paid a \$1,000 filing fee for this rate case. Pursuant to Section 367.0816, Florida Statute, this expense has been amortized over 4 years, which allows an annual expense of \$250. The utility did not record a regulatory commission expense. Therefore, this expense has been increased by \$250.

Rule 25-30.455(1), Florida Administrative Code, states that if a utility chooses to utilize the staff assisted rate case option, and employs outside experts to assist in developing information for staff or evaluating staff's schedules and conclusions, the prudent expense can be recovered through the rates developed by staff.

The utility employed professional accounting services for rate case purposes. We find that the expense is prudent and an additional allowance of \$197 ($\$788/4$) is approved for this account. Therefore, the total adjustment for regulatory commission expense is \$447.

Miscellaneous Expense

The utility recorded \$4,642 in this expense. We reduced this balance by \$750 to reflect a misclassified and incorrectly calculated regulatory assessment fee. We reclassified the appropriate regulatory assessment fee for 1997 as taxes other than income, shown on Schedule 3. The resulting balance for miscellaneous expenses is \$3,892.

Depreciation Expense

Test year depreciation expense has been calculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code. Test year depreciation is \$6,645. Test year non-used and useful depreciation is \$897. Net depreciation is \$5,748. The utility recorded depreciation expense in the amount of \$12,845. This expense has been decreased by \$7,097 to reflect calculated depreciation expense.

Amortization of CIAC

Amortization of CIAC has a negative impact on depreciation expense. The utility did not record an amortization expense. This expense has been adjusted by a negative \$5,034 to reflect our calculated test year amortization of CIAC expense.

Taxes Other Than Income

The utility recorded \$2,886 in this expense. This total includes \$278 for real estate tax, \$1,177 for tangible tax, \$1,080 for FICA and \$351 for other state sales and payroll taxes. The total does not include the appropriate regulatory assessment fee. The utility misclassified regulatory assessment fees in the amount of \$750 as miscellaneous expense. We have adjusted the total taxes other than income by \$750 to reclassify the misclassified amount. In addition, we have increased this amount by \$1,637 to reflect the appropriate regulatory assessment fee on test year revenue. Therefore, the total adjustment to taxes other than income is an increase of \$2,387.

Increase in Operating Revenues and Expenses

Operating Revenue

Revenue has been increased by \$17,073 to reflect the increase required to allow the utility to recover its expenses and earn the authorized return on its investment.

Taxes Other Than Income

This expense has been increased by \$768 to reflect regulatory assessment fees at 4.5% on the required increase in revenue.

Operating Expenses Summary

The application of our adjustments to the utility's recorded operating expenses results in approved operating expenses of \$65,512.

REVENUE REQUIREMENT

The utility is allowed an annual increase in revenue of \$17,073 (32.19%). This increase will allow the utility the opportunity to recover its expenses and earn a 9.21% return on its investment. The calculations are as follows:

Adjusted rate base	\$ 49,957
Rate of return	x .0921
Return on investment plus	\$ 4,601
Adjusted O&M expense	58,757
Depreciation expense	5,748

Amortization expense	(5,034)
Taxes other than income	<u>6,041</u>
Revenue requirement	\$ 70,113
Test year revenue	<u>(53,040)</u>
Increase in revenue	\$ 17,073
Percentage increase	32.19% (\$17,073/\$53,040)

The revenue requirement is shown on Schedule No. 3.

RATES AND CHARGES

Rates and Rate Structure

The utility's current rate structure consists of a base facility and gallonage charge rate structure. Under the current rate structure, the total average consumption per bill is 6,840 gallons which is below the 10,000 gallon threshold that determines whether a more aggressive conservation-oriented rate structure is appropriate. Although this utility has not implemented a conservation program, it appears that its customers are voluntarily making efforts to conserve water because the water consumption for this utility is low.

The current rate structure promotes conservation and is designed to provide equitable sharing by the rate payers of both the fixed and variable costs for providing service. The base facility charge is based on the concept of readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of the fixed costs for providing service (through the base facility charge) and also pay their share of the variable costs of providing service (through the consumption or gallonage charge).

During the test year the utility provided water service to approximately 181 residential customers. As discussed later, we are implementing a regression adjustment to the number of gallons sold to customers. Therefore, rates have been calculated using the number of bills and the adjusted number of gallons of water billed during the test year. A schedule of the utility's existing rates and our approved rates are as follows:

WATER
Monthly Rates

BASE FACILITY CHARGE	<u>Existing Rates</u>	<u>Approved Rates</u>
<u>Meter Size</u>		
5/8 x 3/4"	\$ 12.00	\$ 15.47
1"	N/A	38.68
1 1/2"	N/A	77.37
2"	N/A	123.79
3"	N/A	247.58
4"	N/A	386.84
6"	N/A	773.69
GALLONAGE CHARGE	\$ 2.20	\$ 3.12

The average number of gallons of water billed for the test year is approximately 6,840 gallons per month/customer. A schedule of an average bill based on existing rates and new rates are as follows:

Average bill using recommended rates	\$ 36.81
Average bill using existing rates	<u>(27.05)</u>
Increase in bill	\$ 9.76
Percentage increase in bill	36.10% (\$ 9.76/\$27.05)

The new rates are designed to produce revenue in the amount of \$69,003, which excludes miscellaneous service revenues. The utility shall retain the base facility and gallonage charge rate structure. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

REPRESSION OF CONSUMPTION

Repression Adjustment

Our analysis in this case was performed using two different bases of comparison. The first basis of comparison used Morningside's preliminary rate increase to the water system (before a repression adjustment) of 34%. This preliminary rate increase

was compared to other utilities in the database which, as in Morningside's case, underwent no change in the base facility charge/gallongage water system rate structure. We then isolated seven utilities in the database which had experienced similar percentage increases in the average monthly bills. The change in average monthly consumption per meter equivalent for these seven isolated utilities was (13%), (13%), (7%), (4%), (1%), 1% and 5%. The utilities with the 1% and 5% increases in average consumption appear to be anomalous, as the other utilities all exhibited consumption reductions ranging from 1% to 13% following rate increases. Next, we compared Morningside's average consumption per meter equivalent to the remaining five utilities. The utilities which most closely matched Morningside's average consumption exhibited 1% and 4% consumption reductions. Based on this analysis, a consumption reduction between 1% and 4% would appear to be a conservative prediction of Morningside's anticipated consumption reduction.

The second basis of comparison used Morningside's annual revenue requirement increase, which was \$110 per meter equivalent. The remaining steps using this basis of comparison follow those described in the preceding paragraph. The \$110 per meter equivalent increase was compared to similar increases in annual revenue requirement per meter equivalent of other utilities in the database which underwent no change in the base facility charge/gallongage water rate structure. This comparison produced five utilities which experienced similar increases. The changes in average monthly consumption per meter equivalent for these five utilities were (7%), (5%), (1%), (1%) and 5%. We find that the utility with the 5% increase in average consumption is anomalous also, as the other four utilities all exhibited consumption reductions. We then compared Morningside's average consumption per meter equivalent to the remaining four utilities. The two utilities that exhibited 1% reductions in consumption most closely matched Morningside's average consumption. Using this basis of analysis, a 1% consumption reduction would appear to be the most conservative prediction of Morningside's anticipated consumption reduction.

As discussed above, this case represents only the fourth instance in which we approve a regression adjustment, and, as such, we have no established, previously-approved methodology to calculate an appropriate adjustment. Until approved methodologies are in place, we find it appropriate to err on the side of caution when considering the magnitude of our approved adjustments. As

discussed above, our analysis indicates that in this case a consumption reduction between 1% and 4% is more likely to occur than a reduction in the 5% to 13% range seen at the high end of the sample. Although our analysis leans more heavily toward a 1% repression adjustment, we are concerned that given the wide range of decreases that appeared in both samples a 1% reduction may be too conservative. In consideration of these factors, we find that a 4% repression adjustment is appropriate in this case. Therefore, we find that the appropriate consumption adjustment for this water system is a reduction of 525,280 gallons.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of the revenues associated with the amortization of rate expense and the gross-up for regulatory assessment fees, which is \$468. The reduction in revenues will result in the rates as shown on Schedule No. 4.

The utility shall file revised 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 for the reduction in the rates due to the amortized rate case expense.

TEMPORARY RATES IN THE EVENT OF PROTEST

This order proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a party other than the utility, we authorize the utility to collect the rates approved herein as temporary rates. The rates approved shall be collected by the utility subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon Commission staff's approval of the security for potential

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refund and the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of \$11,802. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

NO SHOW CAUSE REQUIRED

Morningside is presently charging a \$5.00 late payment fee that is not contained in its tariff. The utility collected late payment charges in the amount of \$1,110. Morningside is in apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes, which provide that a utility may only collect rates and charges approved by the Commission and contained in the tariff.

Additionally, during the test year, the utility's books were not maintained in conformity with the USOA. Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities," states:

- 1) Water and Sewer Utilities shall, effective January 1, 1998, maintain its [sic] accounts and records in conformity with the 1996 NARUC Uniform System of Accounts Adopted by the National Association of Regulatory Utility Commissioners.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's failure to maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts, would meet the standard for a "willful violation." In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

After much consideration, we find it appropriate not to initiate a show cause proceeding for either apparent violation. First, during the test period, the utility collected late payment charges in the amount of \$1,110. This amount represents 220 late payments or approximately 11.4% of the utility's customer base making late payments each month. Applying the percentage of late payments to the utility's average monthly revenue results in a significant portion of this utility's revenue not being realized each month which in turn places the utility at risk of inability to pay monthly utility expenses. Further, the cost causer (customers who are late on payment) should pay the costs incurred to the utility by late payments. Therefore, we find that Morningside shall not be required to show cause for this violation of Sections 367.081 and 367.091, Florida Statutes. However, the utility is placed on notice that pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may in the future only collect

rates and charges approved by the Commission. Further, we do not find it appropriate to require a refund of the \$1,110.

Second, with regard to the apparent violation of Rule 25-30.115, Florida Administrative Code, we find that a show cause proceeding is unwarranted for the following reasons. The test year for this rate case ended December 31, 1997, and the utility was not aware of the Commission's rules and regulations until mid-way through the test year. As stated in the background, this utility was granted operating Certificate No. 595-W, pursuant to Order No. PSC-97-1211-FOF-WU, issued October 7, 1997. This current proceeding is the utility's first rate case before the Commission. Therefore, given the relatively short time under Commission jurisdiction, we find it appropriate to allow the utility sufficient time and an accounting allowance to set up its books in conformity with NARUC USOA and to reconcile its books with the Commission's order.

We have approved an additional \$1,300 accounting allowance for the purpose of setting up the utility's books in conformity with the USOA. The accounting allowance is amortized over 5 years, resulting in an annual accounting allowance of \$350 for this purpose. These funds will also be used to reconcile the utility's books with this order.

Therefore, we find it appropriate not to order Morningside to show cause for violation of Rule 25-30.115, Florida Administrative Code. However, the utility is ordered to maintain its books and records in conformity with the 1996 NARUC USOA and is required to submit a statement from its accountant by March 31, 1999, along with its 1998 annual report, stating that its books are in conformity with NARUC USOA and have been reconciled with this order.

IMPLEMENTATION OF LATE PAYMENT CHARGE AND CUSTOMERS DEPOSIT

While the utility's tariff does not have a provision for a late payment charge, the utility collected late payment charges in the amount of \$1,110 during the test period. This amount represents 220 late payments or approximately 11.4% of the utility's customer base making late payments each month. Applying the percentage of late payments to the utility's average monthly revenue results in a significant portion of this utility's revenue not being realized each month which in turn places the utility at risk of inability to pay monthly utility expenses.

In the past, late payment fee requests have been handled on a case-by-case basis. We have authorized late payment charges for water and wastewater companies based on demonstration by the company of a service delinquency. Presently, our rules provide that late paying customers may be required by the utility to provide an additional deposit. However, there is no further incentive for late paying customers to pay their bills on time. We find that the cost causer should pay the additional costs incurred to the utility by late payments, rather than the general body of the utility's rate payers. Therefore, we approve the implementation of a late payment charge of \$5.00.

Additionally, we approve that a provision be included in the utility's tariff for a customer deposit. Rule 25-30.311(1), Florida Administrative Code, states:

A utility may require, upon reasonable written notice of not less than 30 days, such request or notice being separate and apart from any bill for service, a new deposit, where previously waived or returned, or an additional deposit, in order to secure payment of current bills; provided, however, that the total amount of the required deposit shall not exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12 month period immediately prior to the date of notice. In the event the customer has had service less than 12 months, then the utility shall base its new or additional deposit upon the average monthly billing available.

The utility has experienced a high number of late paying during the test year. We find that in an effort to discourage these payment practices, a customer deposit shall be included in the utility's tariff. We have calculated a customer deposit of \$73.62. Therefore, we approve a customer deposit in the amount of \$73.62 for the residential customers.

The utility shall file revised tariff sheets which are consistent with the our vote. Our staff shall be given administrative authority to approve the revised tariff sheets upon verification that the tariffs are consistent with the our decision. If the revised tariff sheets are filed and approved, the late payment charges and customer deposits shall become effective after the stamped approval date of the revised tariff sheets, if no protest is filed.

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CLOSING THE DOCKET

Upon expiration of the protest period, this docket shall be closed if no person, whose interests are substantially affected by the proposed action, files a protest within the 21 day protest period.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Morningside Utility, Inc.'s application for increased water rates and charges is hereby approved as set forth in the body of this Order. It is further

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

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

ORDERED that Morningside Utility, Inc. is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Morningside Utility, Inc.'s rates and charges shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received proper notice. It is further

ORDERED that Morningside Utility, Inc. shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, Morningside Utility, Inc. is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Morningside Utility, Inc. first furnishes and have approved by Commission staff, adequate security for any potential refund and a proposed customer notice. It is further

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ORDERED that, prior to its implementation of the rates and charges approved herein, Morningside Utility, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the customer notice is adequate and that any required security has been provided. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Morningside Utility, Inc. shall submit and have approved a bond or letter of credit in the amount of \$11,802 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

ORDERED that Morningside Utility, Inc. shall submit monthly reports no later than 20 days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that Morningside Utility, Inc. shall not be ordered to show cause in writing for violation of Rule 25-30.115, Florida Administrative Code, and Sections 367.081(1) and 367.091(3), Florida Statutes. It is further

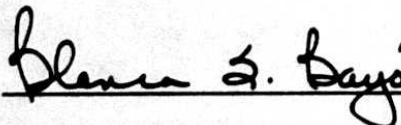
ORDERED that the provisions of this Order regarding our granting increased rates and charges, except for the granting of temporary rates, subject to refund, in the event of a protest and our decision not to initiate show cause proceedings are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.029, 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

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ORDERED that Morningside Utility, Inc. shall maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts. It is further

ORDERED that if no timely protest is received from a substantially affected person within twenty-one days of the issuance of this Order, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 25th day of November, 1998.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

SRF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action is preliminary in nature, except for the granting of temporary rates, subject to refund, in the event of a protest and our decision not to initiate show cause proceedings. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 16, 1998. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective on the date subsequent to the above date.

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 the relevant portion of this order becomes final and effective on the date described above, any party adversely 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.

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Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of 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 after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

MORNINGSIDE UTILITY, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 1
 DOCKET NO. 980445-WU

	BALANCE PER UTILITY	COMMISSION APPROVED ADJUSTMENT TO UTIL. BAL.	BALANCE PER COMMISSION
UTILITY PLANT IN SERVICE	\$ 0	\$ 140,220 A	\$ 140,220
LAND/NON-DEPRECIABLE ASSETS	0	38,000 B	38,000
NON-USED AND USEFUL PLANT	0	(9,732) C	(9,732)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	0	0	0
CIAC	0	(109,200) D	(109,200)
ACCUMULATED DEPRECIATION	0	(57,374) E	(57,374)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	40,897 F	40,697
WORKING CAPITAL ALLOWANCE	0	7,345 G	7,345
WATER RATE BASE	\$ 0	\$ 49,957	\$ 49,957

MORNINGSIDE UTILITY, INC.
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 1A
 DOCKET NO. 980445-WU

		<u>WATER</u>
A. <u>UTILITY PLANT IN SERVICE</u>		
1.	To record plant per original cost study at establishment (198	\$ 91,530
2.	To record 1996 additions to plant	44,776
3.	To record test year additions to plant	7,829
4.	To reduce plant by averaging adjustment	<u>(3,915)</u>
		<u>\$ 140,220</u>
B. <u>LAND</u>		
1.	To record land	<u>\$ 38,000</u>
C. <u>NON-USED AND USEFUL PLANT</u>		
1.	To reflect non-used and useful average plant	\$ (15,464)
2.	To reflect non-used and useful average accumulated depreciation	5,732
		<u>\$ (9,732)</u>
D. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)</u>		
1.	To reflect CIAC at 12/31/97	\$ (109,800)
2.	To reflect averaging adjustment	600
		<u>\$ (109,200)</u>
E. <u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect accumulated depreciation at 12/31/97	\$ (60,696)
2.	To reflect averaging adjustment	3,322
		<u>\$ (57,374)</u>
F. <u>AMORTIZATION OF CIAC</u>		
1.	Amortization of CIAC at 12/31/97	\$ 43,214
2.	To reflect averaging adjustment	<u>(2,517)</u>
		<u>\$ 40,697</u>
G. <u>WORKING CAPITAL ALLOWANCE</u>		
1.	To reflect 1/8 of operation and maintenance expense	<u>\$ 7,345</u>

MORNINGSIDE UTILITY, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 2
 DOCKET NO. 980445-WU

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	PER UTILITY	COMMISSION APPROVED ADJUSTMENT TO UTIL. BAL.	ADJUSTED BALANCE PER COMMISSION	PRO RATA ADJUSTMT. PER COMMISSION	RECONCILIATION TO RATE BASE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	\$ 79,423	\$ 0	\$ 79,423	\$ (43,012)	36,411	72.88%	8.89%	6.48%
LONG-TERM DEBT	14,646	(1,466)	13,180	(7,138)	6,042	12.09%	10.25%	1.24%
LONG-TERM DEBT	0	16,369	16,369	(8,865)	7,504	15.02%	10.00%	1.50%
PREFERRED EQUITY	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
OTHER	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 94,069	\$ 14,903	108,972	\$ (59,015)	49,957	100.00%		9.21%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.89%	9.89%
OVERALL RATE OF RETURN	8.48%	9.94%

MORNINGSIDE UTILITY, INC.
 SCHEDULE OF WATER OPERATING INCOME
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 3
 DOCKET NO. 980445-WU

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER COMM.</u>
OPERATING REVENUES	\$ 75,408	\$ (22,389) A	\$ 53,040	\$ 17,073 F	\$ 70,113
				32.19%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 42,670	\$ 16,087 B	\$ 58,757	\$ 0	58,757
DEPRECIATION (NET)	12,845	(7,097) C	5,748	0	5,748
AMORTIZATION (CIAC)	0	(5,034) D	(5,034)	0	(5,034)
TAXES OTHER THAN INCOME	2,886	2,387 E	5,273	768 G	6,041
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 58,401	\$ 6,343	\$ 64,743	\$ 768	\$ 65,512
OPERATING INCOME/(LOSS)	\$ 17,008		\$ (11,703)		\$ 4,601
WASTEWATER RATE BASE			\$ 49,957		\$ 49,957
RATE OF RETURN			-23.43%		9.21%

MORNINGSIDE UTILITY, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO 3A
PAGE 1 OF 2
DOCKET NO. 980445-WU

A. OPERATING REVENUES

WATER

1.	To reflect misclassified CIAC	\$ (1,200)
2.	To reflect misclassified loans	(21,000)
3.	To reflect redeposits	(540)
4.	To reflect annualized revenue based on existing rates	371
		<u>\$ (22,369)</u>

B. OPERATION AND MAINTENANCE EXPENSES

1.	<u>Salaries and Wages - Employees</u>	
a.	To reflect salaries and wages associated with owner/operator (groundskeeping, meter reading, general management and labor)	\$ <u>19,780</u>
2.	<u>Salaries and Wages - Officers</u>	
a.	To reflect salaries and wages for President & Vice President/Treasurer	\$ <u>3,640</u>
3.	<u>Purchased Power</u>	
a.	To reflect repression adjustment	\$ <u>(91)</u>
4.	<u>Chemicals</u>	
a.	To reflect misclassified automatic chlorinator	\$ (660)
b.	To reflect repression adjustment	(70)
		<u>(730)</u>
5.	<u>Material and Supplies</u>	
a.	To reflect misclassified costs associated with Well #2	\$ (115)
b.	To reflect misclassified costs associated with generator	(877)
c.	To reflect misclassified costs associated with electric panel	(3,950)
d.	To reflect misclassified costs associated with alarm	(557)
		<u>(5,499)</u>
6.	<u>Contractual Services (Accounting)</u>	
a.	To reflect accounting allowance	\$ <u>280</u>
7.	<u>Contractual Services (Testing)</u>	
a.	Reclassification to plant	\$ (1,670)
b.	To reflect misclassified costs associated with repair to generator	(600)
		<u>(2,270)</u>
8.	<u>Contractual Services (Other)</u>	
a.	To reflect repair to generator amortized over 5 years (\$600/5)	\$ <u>120</u>
9.	<u>Rents</u>	
a.	To reflect office space rental	\$ <u>1,200</u>
10.	<u>Regulatory Commission Expense</u>	
a.	To reflect rate case expense amortized over 4 years	\$ <u>447</u>
11.	<u>Miscellaneous Expense</u>	
a.	To remove misclassified regulatory assessment fee	\$ <u>(750)</u>
	TOTAL O & M ADJUSTMENTS	\$ <u>16,087</u>

MORNINGSIDE UTILITY, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 3A
PAGE 2 OF 2
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C. DEPRECIATION EXPENSE

1. To remove recorded test year depreciation expense	\$ (12,845)
2. To reflect appropriate used & useful test year depreciation expense	6,845
3. To reflect non-used and useful depreciation expense	<u>(897)</u>
	\$ <u>(7,097)</u>

D. AMORTIZATION EXPENSE (CIAC)

1. To reflect test year amortization of CIAC	\$ <u>(5,034)</u>
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E. TAXES OTHER THAN INCOME

1. To reflect reclassification of regulatory assessment fees from miscellaneous expense	\$ 750
2. To adjust for appropriate amount of regulatory assessment fees @ 4.5% of test year revenues	<u>1,637</u>
	\$ <u>2,387</u>

F. OPERATING REVENUES

1. To reflect increase in revenue required to cover expenses and allow recommended rate of return	\$ <u>17,073</u>
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G. TAXES OTHER THAN INCOME

1. To reflect regulatory assessment fee at 4.5% on increase in revenue	\$ <u>768</u>
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MORNINGSIDE UTILITY, INC.
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 3B
 DOCKET NO. 980445-WU

	TOTAL PER UTILITY	COMMISSION APPROVED ADJUSTMENTS	TOTAL PER COMMISSION
#601 SALARIES AND WAGES - EMPLOYEES	\$ 10,900	\$ 19,780 [1]	\$ 30,680
#603 SALARIES AND WAGES - OFFICERS	0	3,640 [2]	3,640
#604 PENSIONS AND BENEFITS	2,495	0	2,495
#610 PURCHASED WATER	0	0	0
#615 PURCHASED POWER	2,274	(91)[3]	2,183
#616 FUEL FOR POWER PRODUCTION	75	0	75
#618 CHEMICALS	2,400	(730)[4]	1,670
#620 MATERIALS AND SUPPLIES	9,475	(5,489)[5]	3,976
#630 CONTRACTUAL SERVICES (MGMT)	0	0	0
#631 CONTRACTUAL SERVICES (ACCOUNTING)	0	280 [6]	280
#635 CONTRACTUAL SERVICES (TESTING)	3,952	(2,270)[7]	1,682
#635 CONTRACTUAL SERVICES (OPERATOR)	2,395	0	2,395
#636 CONTRACTUAL SERVICES (REPAIRS & MAINT.)	0	120 [8]	120
#640 RENTS	0	1,200 [9]	1,200
#650 TRANSPORTATION EXPENSE	2,122	0	2,122
#655 INSURANCE EXPENSE	1,940	0	1,940
#665 REGULATORY COMMISSION EXPENSE	0	447 [10]	447
#670 BAD DEBT EXPENSE	0	0	0
#675 MISCELLANEOUS EXPENSES	4,642	(750)[11]	3,892
	<u>\$ 42,670</u>	<u>\$ 16,087</u>	<u>\$ 58,757</u>

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MORNINGSIDE UTILITY, INC.
SCHEDULE OF RATE CASE EXPENSE RATE
REDUCTION AFTER FOUR YEARS
TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 4
DOCKET NO. 980445-WU

MONTHLY RATES

RESIDENTIAL WATER SERVICE

COMMISSION
APPROVED
RATES

COMMISSION
APPROVED
DECREASE

BASE FACILITY CHARGE:

Meter Size:

5/8" x 3/4"	\$	15.47	\$	0.18
1"		38.68		0.44
1 1/2"		77.37		0.89
2"		123.79		1.42
3"		247.58		2.85
4"		386.84		4.45
6"		773.69		8.90

RESIDENTIAL GALLONAGE CHARGE
PER 1,000 GALLONS

\$	3.12	\$	0.04
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