

State of Florida



Public Service Commission  
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TALLAHASSEE, FLORIDA 32399-0850

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COMMISSION  
CLERK

DATE: March 25, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Betcher, Merchant, Maurey, Willis) *ALM*  
Office of the General Counsel (Jaeger) *WJH* *JDT* *(m)*

RE: Docket No. 030444-WS – Application for rate increase in Bay County by Bayside Utility Services, Inc.  
County(ies): Bay

AGENDA: 04/06/04 – Regular Agenda – Decision on Interim Rates – Participation is at the Commission’s Discretion

CRITICAL DATES: 60-Day Suspension Date: 04/17/04

SPECIAL INSTRUCTIONS: This item should immediately precede the staff recommendation in Docket No. 030446-SU.

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030444.RCM.DOC

**Case Background**

Bayside Utility Services, Inc. (Bayside or utility) is a class B water and wastewater utility currently serving approximately 283 residential customers and 4 general service customers. Bayside is a reseller utility purchasing water and wastewater service from the City of Panama City Beach and, as such, is considered non-jurisdictional by the Northwest Florida Water Management District. The utility has been providing wastewater service since 1973.

By Order No. PSC-98-1269-FOF-WS, issued September 24, 1998, in Docket No. 971401-WS, In Re: Application for staff-assisted rate case in Bay County by Bayside Utilities, Inc., the Commission approved a rate increase based on a historical test year ended December 31, 1997. By Order No. PSC-99-1818-PAA-WS, issued September 20, 1999, in Docket No. 981403-WS, In Re: Application for transfer of Certificates Nos. 469-W and 358-S in Bay County from Bayside Utilities, Inc. to Bayside Utility Services, Inc., the Commission approved the certificate transfer to Bayside Utility Services, Inc.

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On November 17, 2003, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on February 17, 2004, the utility satisfied the MFRs and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. This utility has requested that the Commission process this case under the Proposed Agency Action (PAA) procedure.

The test year for interim and final purposes is the historical test year ended December 31, 2002. Bayside has requested interim water and wastewater revenues of \$120,894 and \$153,427, respectively. The interim revenue request represents an increase of \$55,000 (or 83.47%) for water and \$60,814 (or 65.66%) for wastewater. The utility has requested final water and wastewater revenues of \$147,563 and \$174,060, respectively. This represents an increase of \$81,669 (or 123.94%) for water and \$81,447 (or 87.94%) for wastewater.

The sixty-day statutory deadline for the Commission to suspend the utility's requested final rates is April 17, 2004. This recommendation addresses the suspension of Bayside's final rates and staff's recommended interim rate increase. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

**Discussion of Issues**

**Issue 1:** Should the utility's proposed water and wastewater rates be suspended?

**Recommendation:** Yes. Bayside's proposed water and wastewater rates should be suspended. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (Fletcher)

**Staff Analysis:** Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty days after filing unless the Commission votes to withhold consent of implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. Staff recommends that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination will include on-site investigations by staff accountants and engineers. Based on the foregoing, staff recommends that it is appropriate to suspend the utility's proposed rate increase.

The docket should remain open pending the Commission's final action on the utility's requested rate increase.

**Issue 2:** Should an interim revenue increase be approved?

**Recommendation:** Yes. On an interim basis, the utility should be authorized to collect annual water and wastewater revenues as indicated below: (Fletcher)

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$65,894	\$42,547	\$108,441	64.57%
Wastewater	\$92,613	\$51,145	\$143,758	55.22%

**Staff Analysis:** In its MFRs, Bayside requested interim rates designed to generate annual revenues of \$120,894 and \$153,427 for water and wastewater, respectively. This represents a revenue increase of \$55,000 (or 83.47%) for water and \$60,814 (or 65.66%) for wastewater. The utility has filed rate base, cost of capital, and operating statements to support its requested water and wastewater increases.

Pursuant to Section 367.082(5)(b)1., Florida Statutes, the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding. Staff has reviewed the utility's interim request, as well as Order No. PSC-98-1269-FOF-WS, in which the Commission last established rate base. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are labeled as Nos. 1-A and 1-B, with adjustments shown on No. 1-C. The capital structure schedule is No. 2, and the operating income schedules for water and wastewater, respectively, are labeled as Nos. 3-A and 3-B, with the adjustments shown on No. 3-C.

**RATE BASE**

Based on analysis of the MFRs and past orders of the Commission, staff believes that adjustments are necessary to the utility's rate base.

**Plant in Service**

In its MFRs, Bayside removed the balance of a negative acquisition adjustment from rate base. By Order No. PSC-99-1818-PAA-WS, p. 5-7, the Commission declined to recognize the negative acquisition above-the-line. In its MFRs, the utility reflected acquisition costs of \$39,040 and \$18,798 for water and wastewater, respectively, as organization and franchise plant. To be consistent with the utility's adjustment to remove the negative acquisition adjustment, staff recommends that these acquisition costs should also be removed. As such, staff recommends that plant should be reduced by \$39,040 for water and \$18,798 for wastewater. Corresponding adjustments should be made to reduce accumulated depreciation by \$2,076 for water and \$1,382 for wastewater. Also, corresponding adjustments should be made to reduce depreciation expense by \$984 for water and \$514 for wastewater.

### Working Capital

The utility used the formula approach (1/8 of operation and maintenance (O&M) expenses) to calculate working capital. Based on staff's recommended adjustments to O&M expenses discussed later in this issue, working capital should be reduced by \$760 for water and \$615 for wastewater.

Based on the above adjustments, staff recommends that Bayside's interim water rate base should be \$83,788. The utility's wastewater rate base should be \$224,879.

### COST OF CAPITAL

In its MFRs, Bayside used a simple average capital structure, which consisted of allocated investor sources of capital from Utilities, Inc. (the utility's parent company) and actual customer deposits and a negative balance of accumulated deferred income taxes for Bayside. Bayside used a return on equity (ROE) of 11.77%, which reflects the mid-point of the Commission's 2003 leverage formula. This formula was established by Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, in Docket No. 030006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S. The utility's requested interim cost of capital was 9.21%.

Staff has reviewed the utility's requested cost of capital and believes that two adjustments are appropriate. First, pursuant to Section 367.082(2)(a), Florida Statutes, Bayside should have used the minimum of the range of its last authorized ROE. According to Order No. PSC-98-1269-FOF-WS, p. 11, the minimum of the utility's last authorized ROE was 9.46%. As such, staff recommends a cost of equity of 9.46% for interim purposes.

Staff's second adjustment to cost of capital relates to the inclusion of Bayside's balance of deferred taxes as a negative number. As reflected in its MFRs, the utility has a simple average credit balance of \$7,305 for deferred taxes. Thus, staff recommends that the deferred taxes should be reflected as a positive \$7,305 balance in the cost of capital calculation.

Based on the above, staff's recommended overall cost of capital for interim purposes should be 7.87%.

### NET OPERATING INCOME

Section 367.082(5)(b)1., Florida Statutes, states that the achieved rate of return is calculated by applying adjustments consistent with the utility's last rate proceeding and annualizing any rate changes occurring during the interim test year. Staff has reviewed the utility's annualized revenues and recommends that no adjustments are necessary. However, staff is recommending several adjustments to operating expenses.

### Operating Expenses

First, the utility made several adjustments to O&M expenses for salaries and other allocated costs. Staff has reviewed these and believes that these adjustments are pro forma in

nature and are not appropriate on an interim basis. Thus, staff recommends that O&M expenses should be reduced by \$2,486 for water and \$2,649 for wastewater. Corresponding adjustments should also be made to remove the utility's pro forma adjustment for payroll taxes of \$53 for both water and wastewater.

Second, in its MFRs, Bayside reflected unaccounted water of 14.13% and purchased water expense of \$48,112. In Bayside's last rate case, the Commission reduced purchased water expense due to an unacceptable level of unaccounted for water in excess of 10%. See Order No. PSC-98-1269-FOF-WS, p. 13-14. Consistent with the utility's last rate case, staff recommends that 4.13% of Bayside's purchased water expense should be removed for interim purposes. This results in a \$1,987 reduction to purchased water expense.

Third, the utility included \$214 of rate case expense for both water and wastewater. Since the utility's last rate proceeding was more than four years ago, no rate case expense should be included in the test year O&M expenses. As such, staff recommends that O&M expenses should be reduced by \$214 for both water and wastewater.

Last, Bayside recorded bad debt expense of \$2,219 for water and \$3,112 for wastewater. In its last rate proceeding, the Commission removed excessive bad debt expenses and found that the appropriate bad debt expenses were \$745 for both water and wastewater. See Order No. PSC-98-1269-FOF-WS, p. 18. Staff notes that the allowed bad debt expenses represented 1.25% and 1.14% of the Commission adjusted test year water and wastewater revenues, respectively. To be consistent, staff believes that interim bad debt expenses should be based on the same ratios allowed in the last rate case. Using those ratios, staff has calculated the bad debt expenses to be \$823 for water and \$1,054 for wastewater. As a result, staff recommends that bad debt expenses should be reduced by \$1,396 for water and \$2,058 for wastewater.

### Net Operating Income

Based on these adjustments, staff recommends that the appropriate test year operating income, before any revenue increase, for water is a loss of \$18,744 and a loss of \$12,755 for wastewater.

### REVENUE REQUIREMENT

Based on the above, staff recommends interim revenue requirements of \$108,441, and \$143,758 for water and wastewater, respectively. This represents an interim increase in annual revenues of \$42,547 (or 64.57%) for water and \$51,145 (or 55.22%) for wastewater. This will allow the utility the opportunity to recover its operating expenses and earn a 7.87% return on its rate base.

**Issue 3:** What are the appropriate interim water and wastewater rates?

**Recommendation:** The service rates for Bayside in effect as of December 31, 2002, should be increased by 65.52% for water and 56.04% for wastewater to generate the recommended revenue increases for the interim period. The approved rates should be effective for service rendered as of 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 should not be implemented until the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice. (Fletcher)

**Staff Analysis:** Staff recommends that interim service rates for Bayside be designed to allow the utility the opportunity to generate annual operating revenues of \$108,441 and \$143,758 for water and wastewater operations. This reflects increases of \$42,547 for water and \$51,145 for wastewater, or 64.57% and 55.22%, respectively, before removal of miscellaneous revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>	<u>Wastewater</u>
1 Total Test Year Revenues	\$65,894	\$92,613
2 Less: Miscellaneous Revenues	<u>955</u>	<u>1,342</u>
3 Test Year Revenues from Service Rates	\$64,939	\$91,271
4 Revenue Increase	<u>\$42,547</u>	<u>\$51,145</u>
5 % Service Rate Increase (Line 4/Line 3)	<u>65.52%</u>	<u>56.04%</u>

These rate increases of 65.52% for water and 56.04% for wastewater should be applied as an across the board increase to the service rates in effect as of December 31, 2002. The interim rates should be implemented for service rendered on or after the stamped approval date on the tariff sheets, provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision, that the proposed notice to the customers is adequate, and that the required security discussed in Issue 4 has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice.

The utility's current and proposed interim and final rates, and staff's recommended interim rates are shown on Schedules Nos. 4-A and 4-B.

**Issue 4:** What is the appropriate security to guarantee the interim increase?

**Recommendation:** A corporate undertaking is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI), and written confirmation of UI's oral attestation that it does not have any outstanding guarantees on behalf of UI-owned utilities in other states. UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of water and wastewater revenues collected under interim conditions. As discussed in the recommendation for Docket No. 030446-SU on this same agenda, staff has recommended an incremental corporate undertaking guarantee of \$58,758. In this docket, staff is recommending an incremental amount subject to refund of \$46,964. These two incremental increases will raise the total cumulative guarantee to \$809,902, which can be supported by UI. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (Fletcher, Maurey)

**Staff Analysis:** Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. Staff has reviewed the financial data of the utility and its parent company and recommends approval of a corporate undertaking guaranteed by the parent company. Staff has calculated the potential refund of wastewater revenues and interest collected under interim conditions to be \$46,964. This amount is based on an estimated six months of revenue being collected from staff's recommended interim rates over the previously authorized rates shown on Schedules Nos. 4-A and 4-B.

The utility has requested a corporate undertaking to secure any interim increase granted. UI currently is guaranteeing a total of \$704,180 with a corporate undertaking on behalf of its Florida subsidiaries. As discussed in the recommendation for Docket No. 030446-SU on this same agenda, staff has recommended an additional corporate undertaking guarantee of \$58,758. The two incremental corporate guarantees considered together would raise UI's total guarantee to a cumulative amount of \$809,902.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Bayside is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. As such, staff reviewed the financial statements of the parent company from 2000 to 2002 to determine the financial condition of UI. Staff's analysis shows that UI has experienced a significant decline in net income and interest coverage from 2000 to 2002. The primary reason for this reversal has been merger-related charges of \$9.8 million in 2001 and \$9.9 million in 2002. UI states that merger related costs have been fully recovered and there will be no additional charges levied by the parent. Absent these merger-related charges, UI's financial performance would show a 3-year trend of stable equity capitalization, interest coverage, and profitability. Based upon this analysis, staff recommends that a cumulative amount of \$809,902 is acceptable contingent upon receipt of the written guarantee of UI and written confirmation of its oral attestation that UI does not have any outstanding guarantees on behalf of UI-owned utilities in other states.



The corporate undertaking should state that it will be released or terminated upon subsequent order of the Commission addressing any refund requirements. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

BAYSIDE UTILITY SERVICES, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/02			SCHEDULE NO. 1-A		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$235,308	\$0	\$235,308	(\$39,040)	\$196,268
2 LAND & LAND RIGHTS	0	0	0	0	0
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(113,161)	0	(113,161)	2,076	(111,085)
5 CIAC	(52,911)	0	(52,911)	0	(52,911)
6 AMORTIZATION OF CIAC	40,503	0	40,503	0	40,503
7 ACQUISITION ADJUSTMENT	(8,656)	8,656	0	0	0
8 WORKING CAPITAL ALLOWANCE	0	<u>11,773</u>	<u>11,773</u>	<u>(760)</u>	<u>11,013</u>
9 RATE BASE	<u>\$101,083</u>	<u>\$20,429</u>	<u>\$121,512</u>	<u>(\$37,724)</u>	<u>\$83,788</u>

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BAYSIDE UTILITY SERVICES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/02			SCHEDULE NO. 1-B		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$382,444	\$0	\$382,444	(\$18,798)	\$363,646
2 LAND	0	0	0	0	0
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(152,932)	0	(152,932)	1,382	(151,550)
5 CIAC	0	0	0	0	0
6 AMORTIZATION OF CIAC	0	0	0	0	0
7 ACQUISITION ADJUSTMENT	(29,367)	29,367	0	0	0
8 WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,398</u>	<u>13,398</u>	<u>(615)</u>	<u>12,783</u>
9 RATE BASE	<u>\$200,145</u>	<u>\$42,765</u>	<u>\$242,910</u>	<u>(\$18,031)</u>	<u>\$224,879</u>

BAYSIDE UTILITY SERVICES, INC.		SCHED. NO. 1-C	
ADJUSTMENTS TO RATE BASE			
TEST YEAR ENDED 12/31/02			
EXPLANATION	WATER	WASTEWATER	
<b><u>PLANT IN SERVICE</u></b>			
To remove acquisition related costs.	<u>(\$39,040)</u>	<u>(\$18,798)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
To remove depreciation related to acquisition costs.	<u>\$2,076</u>	<u>\$1,382</u>	
<b><u>WORKING CAPITAL</u></b>			
To reduce to 1/8 of staff's recommended O&M expense.	<u>(\$760)</u>	<u>(\$615)</u>	

BAYSIDE UTILITY SERVICES, INC.						SCHEDULE NO. 2			
CAPITAL STRUCTURE									
TEST YEAR ENDED 12/31/02									
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	SUBTOTAL ADJUSTED CAPITAL	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED		COST RATE	WEIGHTED COST	
					TO RATE	RATIO			
<b>PER UTILITY 2002 -SIMPLE AVERAGE</b>									
1 LONG TERM DEBT	\$94,090,081	\$0	\$94,090,081	(\$93,903,228)	\$186,853	51.27%	7.56%	3.88%	
2 SHORT-TERM DEBT	11,824,500	0	11,824,500	(11,801,035)	23,465	6.44%	3.93%	0.25%	
3 PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	77,021,455	0	77,021,455	(76,868,530)	152,925	41.96%	11.77%	4.94%	
5 CUSTOMER DEPOSITS	8,484	0	8,484	0	8,484	2.33%	6.00%	0.14%	
6 DEFERRED INCOME TAXES	(7,305)	0	(7,305)	0	(7,305)	(2.00%)	0.00%	(0.00%)	
7 <b>TOTAL CAPITAL</b>	<u>\$182,937,215</u>	<u>\$0</u>	<u>\$182,937,215</u>	<u>(\$182,572,793)</u>	<u>\$364,422</u>	<u>100.00%</u>		<u>9.21%</u>	
<b>PER COMMISSION 2002 - SIMPLE AVERAGE</b>									
8 LONG TERM DEBT	\$94,090,081	\$0	\$94,090,081	(\$93,939,444)	\$150,637	48.80%	7.56%	3.69%	
9 SHORT-TERM DEBT	11,824,500	0	11,824,500	(11,805,569)	18,931	6.13%	3.93%	0.24%	
10 PREFERRED STOCK	0	0	0	-0	0	0.00%	0.00%	0.00%	
11 COMMON EQUITY	77,021,455	0	77,021,455	(76,898,145)	123,310	39.95%	9.46%	3.78%	
12 CUSTOMER DEPOSITS	8,484	0	8,484	0	8,484	2.75%	6.00%	0.16%	
13 DEFERRED INCOME TAXES	(7,305)	14,610	7,305	0	7,305	2.37%	0.00%	0.00%	
14 <b>TOTAL CAPITAL</b>	<u>\$182,937,215</u>	<u>\$14,610</u>	<u>\$182,951,825</u>	<u>(\$182,643,159)</u>	<u>\$308,666</u>	<u>100.00%</u>		<u>7.87%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>9.46%</u>	<u>11.46%</u>		
OVERALL RATE OF RETURN						<u>7.87%</u>	<u>8.67%</u>		

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BAYSIDE UTILITY SERVICES, INC. STATEMENT OF WATER OPERATIONS TEST YEAR ENDED 12/31/02							SCHEDULE NO. 3-A	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT	
1 OPERATING REVENUES	<u>\$64,713</u>	<u>\$56,181</u>	<u>\$120,894</u>	<u>(\$55,000)</u>	<u>\$65,894</u>	<u>\$42,547</u> 64.57%	<u>\$108,441</u>	
<b>OPERATING EXPENSES:</b>								
2 OPERATION & MAINTENANCE	\$91,698	\$2,486	94,184	(6,083)	88,101		88,101	
3 DEPRECIATION	5,985	0	5,985	(984)	5,001		5,001	
4 AMORTIZATION	0	0	0	0	0		0	
5 TAXES OTHER THAN INCOME	4,719	2,641	7,360	(2,528)	4,832	1,915	6,747	
6 INCOME TAXES	<u>(14,723)</u>	<u>16,893</u>	<u>2,170</u>	<u>(15,466)</u>	<u>(13,296)</u>	<u>15,290</u>	<u>1,994</u>	
7 TOTAL OPERATING EXPENSES	<u>87,679</u>	<u>22,020</u>	<u>109,699</u>	<u>(25,061)</u>	<u>84,638</u>	<u>17,205</u>	<u>101,843</u>	
8 OPERATING INCOME	<u>(\$22,966)</u>	<u>\$34,161</u>	<u>\$11,195</u>	<u>(\$29,939)</u>	<u>(\$18,744)</u>	<u>\$25,342</u>	<u>\$6,598</u>	
9 RATE BASE	<u>\$101,083</u>		<u>\$121,512</u>		<u>\$83,788</u>		<u>\$83,788</u>	
10 RATE OF RETURN	<u>(22.72%)</u>		<u>9.21%</u>		<u>(22.37%)</u>		<u>7.87%</u>	

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BAYSIDE UTILITY SERVICES, INC. STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/02						SCHEDULE NO. 3-B	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$90,721</u>	<u>\$62,706</u>	<u>\$153,427</u>	<u>(\$60,814)</u>	<u>\$92,613</u>	<u>\$51,145</u> 55.22%	<u>\$143,758</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$104,533	\$2,650	\$107,183	(\$4,921)	\$102,262		\$102,262
3 DEPRECIATION	10,559	0	10,559	(514)	10,045		10,045
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	5,920	2,959	8,879	(2,790)	6,089	2,302	8,391
6 INCOME TAXES	<u>(12,203)</u>	<u>16,631</u>	<u>4,428</u>	<u>(17,456)</u>	<u>(13,028)</u>	<u>18,380</u>	<u>5,351</u>
7 TOTAL OPERATING EXPENSES	<u>108,809</u>	<u>22,240</u>	<u>131,049</u>	<u>(25,681)</u>	<u>105,368</u>	<u>20,681</u>	<u>126,049</u>
8 OPERATING INCOME	<u>(\$18,088)</u>	<u>\$40,466</u>	<u>\$22,378</u>	<u>(\$35,133)</u>	<u>(\$12,755)</u>	<u>\$30,463</u>	<u>\$17,708</u>
9 RATE BASE	<u>\$200,145</u>		<u>\$242,910</u>		<u>\$224,879</u>		<u>\$224,879</u>
10 RATE OF RETURN	<u>(9.04%)</u>		<u>9.21%</u>		<u>(5.67%)</u>		<u>7.87%</u>

BAYSIDE UTILITY SERVICES, INC.		SCHED. NO. 3-C	
ADJUSTMENTS TO OPERATING INCOME			
TEST YEAR ENDED 12/31/02			
EXPLANATION	WATER	WASTEWATER	
<b><u>OPERATING REVENUES</u></b>			
To remove requested interim revenue increase.	<u>(\$55,000)</u>	<u>(\$60,814)</u>	
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>			
1 To remove pro forma O&M expenses.	(\$2,486)	(\$2,649)	
2 To reflect an unaccounted for water to purchased water.	(1,987)	0	
3 To remove amortization of historical rate case expense.	(214)	(214)	
4 To reflect the appropriate bad debt expense.	<u>(1,396)</u>	<u>(2,058)</u>	
Total	<u>(\$6,083)</u>	<u>(\$4,921)</u>	
<b><u>DEPRECIATION EXPENSE-NET</u></b>			
To remove depreciation related acquisition related costs.	<u>(\$984)</u>	<u>(\$514)</u>	
<b><u>TAXES OTHER THAN INCOME</u></b>			
1 To remove RAFs on revenue adjustments above.	(\$2,475)	(\$2,737)	
2 To remove pro forma payroll taxes	<u>(53)</u>	<u>(53)</u>	
Total	<u>(\$2,528)</u>	<u>(\$2,790)</u>	
<b><u>INCOME TAXES</u></b>			
To adjust to test year income tax expense	<u>(\$15,466)</u>	<u>(\$17,456)</u>	



BAYSIDE UTILITY SERVICES, INC.		SCHEDULE NO. 4-A		
WATER MONTHLY SERVICE RATES				
TEST YEAR ENDED 12/31/02				
	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<b><u>Residential Service</u></b>				
Base Facility Charge:				
5/8" x 3/4"	\$13.25	\$24.47	\$29.91	\$21.93
3/4"	\$19.86	\$36.68	\$44.84	\$32.87
1"	\$33.13	\$61.19	\$74.80	\$54.84
Gallage Charge (per 1,000 gallons)	\$2.11	\$3.90	\$4.76	\$3.49
<b><u>General Service</u></b>				
Base Facility Charge:				
5/8" x 3/4"	\$13.25	\$24.47	\$29.91	\$21.93
3/4"	\$19.86	\$36.68	\$44.84	\$32.87
1"	\$33.13	\$61.19	\$74.80	\$54.84
1-1/2"	\$66.25	\$122.36	\$149.57	\$109.66
2"	\$105.99	\$195.76	\$239.29	\$175.43
3"	\$211.99	\$391.53	\$478.59	\$350.88
4"	\$331.22	\$611.74	\$747.77	\$548.23
6"	\$662.43	\$1,223.47	\$1,495.52	\$1,096.44
Gallage Charge, per 1,000 Gallons	\$2.11	\$3.90	\$4.76	\$3.49
5/8" x 3/4" Meter		<b><u>Typical Residential Bills</u></b>		
3,000 Gallons	\$19.58	\$36.17	\$44.19	\$32.40
5,000 Gallons	\$23.80	\$43.97	\$53.71	\$39.38
10,000 Gallons	\$34.35	\$63.47	\$77.51	\$56.83

BAYSIDE UTILITY SERVICES, INC.		SCHEDULE NO. 4-B		
WASTEWATER MONTHLY SERVICE RATES				
TEST YEAR ENDED 12/31/02				
	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<b>Residential Service</b>				
Base Facility Charge:				
All meter sizes	\$16.91	\$28.18	\$32.00	\$26.39
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)				
	\$4.18	\$6.97	\$7.91	\$6.52
<b>General Service</b>				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$16.91	\$28.18	\$32.00	\$26.39
3/4"	\$25.38	\$42.29	\$48.03	\$39.60
1"	\$42.29	\$70.47	\$80.03	\$65.99
1-1/2"	\$84.56	\$140.90	\$160.02	\$131.94
2"	\$135.31	\$225.47	\$256.06	\$211.13
3"	\$272.81	\$454.58	\$516.26	\$425.68
4"	\$422.84	\$704.58	\$800.17	\$659.78
6"	\$845.70	\$1,409.19	\$1,600.37	\$1,319.60
Gallage Charge, per 1,000 Gallons				
	\$5.00	\$8.33	\$9.46	\$7.80
<u>5/8" x 3/4" Meter</u>		<u>Typical Residential Bills</u>		
3,000 Gallons	\$31.91	\$53.17	\$60.38	\$45.95
5,000 Gallons	\$41.91	\$69.83	\$79.30	\$58.99
10,000 Gallons	\$46.91	\$78.16	\$88.76	\$65.51
(Wastewater Gallage Cap - 6,000 Gallons)				