

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

COMMISSION
CLERK

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DATE: March 25, 2004

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

FROM: Division of Economic Regulation (Revel, G. Edwards, Merchant) *RE* *JD* *JD*
Office of the General Counsel (Jaeger) *W*

RE: Docket No. 030446-SU – Application for rate increase in Pinellas County by Mid-County Services, Inc.

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 follow the staff recommendation in Docket No. 030444-WS

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030446.RCM.DOC

Case Background

Mid-County Services, Inc. (Mid-County or utility) is a Class A wastewater utility located in the City of Dunedin in Pinellas County. The utility, a wholly-owned subsidiary of Utilities, Inc., is located in a region which has been designated by the Southwest Florida Water Management District as a critical use area. As of December 31, 2002, the utility served approximately 1,925 customers. Water service and billing is provided by Pinellas County. According to its 2002 Annual Report, Mid-County reported revenues of \$1,052,667, and a net operating income of \$24,830.

The utility’s last rate case was in Docket No. 971065-SU, In re: Application for Rate Increase in Pinellas County by Mid-County Services, Inc. On April 16, 1998, the Commission issued Proposed Agency Action (PAA) Order No. PSC-98-0524-FOF-SU to set rates. Several issues in the PAA Order were protested and a hearing was held to address the protest. The issues in the PAA order which were not protested were deemed stipulated. Subsequent to

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hearing, the Commission issued Final Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, which approved rates and charges for the utility.

On November 17, 2003, the utility filed for approval of final and interim rate increases. 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 PAA procedure. Further, staff notes that on November 23, 2003, Mid-County's rates were reduced because the four-year period for the amortization of rate case expense incurred in Docket No. 971065-SU was complete.

The test year for interim and final purposes is the historical test year ended December 31, 2002. Mid-County has requested interim wastewater revenues of \$1,320,894. The interim revenue request represents an increase of \$292,236, or 28.41%. The utility has requested final wastewater revenues of \$1,441,449. This represents an increase of \$412,791, or 40.13%.

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 Mid-County'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 wastewater rates be suspended?

Recommendation: Yes. Mid-County's proposed wastewater rates should be suspended. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (Revell)

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 wastewater revenues as indicated below: (Revell, G. Edwards)

	<u>Test Year</u> <u>Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Wastewater	\$1,067,627	\$117, 221	\$1,184,848	10.98%

Staff Analysis: In its MFRs, Mid-County requested interim rates designed to generate annual revenues of \$1,320,894. This represents a wastewater revenue increase of \$292,236 (28.41%). The utility has filed rate base, cost of capital, and operating statements to support its requested wastewater increase.

Pursuant to Section 367.082(5)(b)1., Florida Statutes, the achieved rate of return for interim purposes must be calculated by applying appropriate adjustments consistent with those made in the utility's most recent rate proceeding. Staff has reviewed the utility's interim request, as well as prior orders concerning the utility's 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 schedule is labeled as No. 1, with adjustments shown on Schedule No. 1-A; the capital structure schedule is No. 2, and the operating income schedule is No. 3, with the adjustments shown on Schedule No. 3-A.

Rate Base

The utility has filed a 13-month average wastewater rate base for the calendar year ended December 31, 2002. The utility made adjustments to non-used and useful plant, construction work in progress and working capital. Staff has reviewed the utility's MFRs for consistency with the last rate proceeding. As a result of this review, staff believes that several adjustments should be made.

Utility Plant in Service

In its last rate proceeding, the Commission reduced plant by \$18,456 for improperly capitalized legal expenses and acquisition costs. Additionally, in the last rate proceeding, the utility made adjustments to reduce land by \$18,403, and various plant accounts by \$131,742 for adjustments ordered by the Commission in Mid-County's 1994 rate case. It does not appear that any of these adjustments have been made in the present MFRs. Thus, staff recommends that land should be reduced by \$18,403, and plant in service should be reduced by \$150,198. The related accumulated depreciation and depreciation expense balances should be reduced by \$44,261 and \$4,945, respectively.

Non-Used and Useful Plant

Staff has reviewed the utility's used and useful calculation for interim. The utility's calculation is consistent with the methodology used in the last rate case with one exception. To

estimate customer growth, the utility used a simple average instead of the linear regression methodology used in the last rate case. Using the utility's analysis submitted in its MFRs, staff believes that the annual growth rate should be 49 ERCs instead of 84 ERCs per year. After making this correction, staff recommends that the used and useful percentage should be 92% instead of 97%, as requested by the utility. Staff has applied the corrected non-used and useful percentage to the staff adjusted balance of plant, as discussed above. Thus, staff recommends that net used and useful plant should be reduced by \$94,277. Corresponding adjustments should be made to reduce depreciation expense by \$3,940, and property tax expense by \$347.

Working Capital

In its MFRs, the utility requested working capital based on the balance sheet approach, which is consistent with the method required for Class A utilities by Rule 25-30.433(2), Florida Administrative Code. In the utility's last rate case, working capital was calculated using the formula approach (1/8 of operation and maintenance (O&M) expenses), which is the methodology required by the above rule for Class B and C utilities. Since the last rate case, the utility has become a Class A utility. Thus, consistent with the rule applied in the last rate case, staff agrees with the utility that the balance sheet approach is appropriate. Staff has reviewed the utility's balance sheet calculation for working capital and believes that one adjustment is appropriate. The utility included \$55,348 in deferred rate case expense from its last rate case, Docket No. 971065-SU. Since the expenses related to this case have been fully amortized as of November 23, 2003, staff is recommending that this expense be removed for interim purposes.

Based on the above adjustments, staff recommends that Mid-County's interim rate base should be \$1,847,280. Schedule No. 1 details staff's recommended rate base, with adjustments reflected on Schedule No. 1-A.

Cost of Capital

In its MFRs, Mid-County used a 13-month average capital structure, which consisted of allocated investor sources of capital, from Utilities, Inc. (the parent). The utility included a negative balance of \$13,647 in deferred income taxes and a zero balance in customer deposits. Mid-County used a cost rate of 11.54% for its authorized return on equity (ROE), which is the mid-point of the leverage formula currently in effect. See Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, 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., and made final by Consummating Order No. PSC-03-0799-CO-WS, issued July 8, 2003. The utility's requested interim cost of capital was 9.31%.

Staff has reviewed the utility's calculations and believes that two adjustments are appropriate. The first relates to the inclusion of Mid-County's balance of deferred taxes. The utility erroneously reflected a negative balance in deferred taxes. Staff has made an adjustment to properly reflect this credit balance as a positive number.

The utility also erred in using the leverage formula in calculating its cost rate for common equity. Section 367.082(5)(b)3, Florida Statutes, states that in calculating an interim increase,

the minimum of the range of the last authorized ROE shall be used. In Mid-County's last rate case, the midpoint of the authorized ROE was established as 10.16%, with a range of 9.16% to 11.16%. See Order No. PSC-98-0524-FOF-SU, p. 15. Accordingly, for interim purposes, staff recommends a cost of equity of 9.16%. Based on the above, staff's recommended cost of capital for interim purposes is 8.12%.

Net Operating Income

Operating Revenues

Section 367.082(5)(b)1, Florida Statutes, states that the achieved rate of return is calculated by applying appropriate adjustments consistent with those which were used in the most recent individual rate proceeding of the utility and annualizing any rate changes occurring during such period. Mid-County's interim test year is the year ended December 31, 2002. In its MFRs, the utility's adjusted test year operating revenues were \$1,028,657. Staff has reviewed the utility's revenues and believes that two adjustments should be made.

First, the utility did not annualize the 2002 index rate adjustment which was effective October 8, 2002. Properly annualizing this rate increase results in an increase of \$14,960 in annualized revenues. Additionally, the utility incorrectly decreased test year revenues by \$24,009 due to the expiration of the four-year amortization of rate case expense on November 23, 2003, which was after the interim test year. Removing this adjustment results in an increase of \$24,009 in revenues. Staff notes that the recommended interim increase is applied to the rates in effect at the end of the interim test year, which are the rates in effect prior to the four-year rate reduction. Based on the above, the revenue adjustments total \$38,969. Staff recommends that both of these adjustments be included in the calculation of interim revenues. Thus, staff recommends that test year adjusted revenues should be \$1,067,627.

Operating Expenses

The utility made several adjustments to operating expenses for interim purposes. Staff has reviewed these and believes that several adjustments are appropriate, as discussed below.

Mid-County increased interim O&M expenses by \$16,809 for salaries, benefits and insurance. Staff believes that these adjustments are pro forma in nature and are not appropriate on an interim basis. Accordingly, O&M expenses should be reduced by \$16,809, and a corresponding reduction should also be made to payroll taxes of \$492. Additionally, the utility reflected \$44,592 in test year expense for rate case expense associated with Docket No. 971065-SU. Pursuant to Order No. PSC-99-1912-FOF-SU, p. 31, the amortization period for this expense expired on November 23, 2003. Pursuant to 367.0816, Florida Statutes, at the conclusion of the four-year recovery period, rates must be reduced by the amount of rate case expense included. As such, staff believes that it is appropriate to remove this expense for interim because it has been fully recovered pursuant to the statute.

Based on our analysis, staff recommends that another expense adjustment is necessary for interim. In allocating common costs among its affiliates, Utilities, Inc., uses a customer equivalent (CE) factor instead of equivalent residential connections (ERCs). In Mid-County's

last rate case, the Commission converted Mid-County's CEs to ERCs. Based on staff's review of the MFRs, the utility is still using the CE methodology to allocate costs to Mid-County. The utility's allocation manual in its MFRs states that Mid-County had 3,238 CEs. Staff has reviewed the utility's engineering and billing analysis in the present case and believes that the utility has approximately 2,654 ERCs. This calculation is 22% less than the utility calculation of 3,238 CEs. Without the total company calculation of ERCs, staff is unable to precisely measure the impact of changing the allocation methodology from CEs to ERCs. Therefore, staff believes that a conservative method for interim is to use the comparison of Mid-County's CEs to ERCs. Accordingly, staff believes that a 22% reduction to allocated expenses or \$15,388 should be made.

Net Operating Income

Based on these adjustments, staff recommends that the appropriate test year operating income, before any revenue increase, is an income of \$80,171.

Revenue Requirement

Based on the above, staff recommends an interim revenue requirement of \$1,184,848. This represents an interim increase in annual revenues of \$117,221, or 10.98%. This will allow the utility the opportunity to recover its operating expenses and earn an 8.12% return on its rate base.

Issue 3: What are the appropriate interim wastewater rates?

Recommendation: The service rates for Mid-County in effect as of December 31, 2002, should be increased by 10.98% to generate the recommended revenue increase 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. Also, the rates should not be implemented until the required security has been filed. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice. (Revell)

Staff Analysis: Staff recommends that interim service rates for Mid-County be designed to allow the utility the opportunity to generate additional annual operating revenues of \$117,221, an increase of 10.98% over the adjusted 2002 test year revenues. To determine the appropriate increase to apply to the service rates, miscellaneous service and other revenues should be removed from the test year revenues. The calculation is as follows:

1	Total Test Year Revenues	\$1,067,627
2	Less: Miscellaneous Revenues	<u>320</u>
3	Test Year Revenues from Service Rates	\$1,067,307
4	Revenue Increase	<u>\$117,221</u>
5	% Service Rate Increase (Line4/Line 3)	<u>10.98%</u>

This rate increase of 10.98% 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 to staff 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 Schedule No. 4.

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. 030444-WS on this same agenda, staff has recommended an incremental corporate undertaking guarantee of \$46,964. In this docket, staff is recommending an incremental amount subject to refund of \$58,758. 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. (Revell, 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 \$58,758. 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 Schedule No. 4.

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. 030444-WS on this same agenda, staff has recommended an additional corporate undertaking guarantee of \$46,964. 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. Mid-County 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.

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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.

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MID-COUNTY SERVICES, INC.					SCHEDULE NO. 1	
SCHEDULE OF WASTEWATER RATE BASE						
TEST YEAR ENDED 12/31/02						
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	\$5,205,483	\$0	\$5,205,483	(\$150,198)	\$5,055,285	
2 LAND	21,006	0	21,006	(18,403)	2,603	
3 NON-USED & USEFUL COMPONENTS	0	(61,039)	(61,039)	(94,277)	(155,316)	
4 CONSTRUCTION WORK IN PROGRESS	27,269	(27,269)	0	0	0	
5 ACCUMULATED DEPRECIATION	(1,469,255)	0	(1,469,255)	44,261	(1,424,994)	
6 CIAC	(2,818,225)	0	(2,818,225)	0	(2,818,225)	
7 AMORTIZATION OF CIAC	1,179,210	0	1,179,210	0	1,179,210	
8 WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>64,065</u>	<u>64,065</u>	<u>(55,348)</u>	<u>8,717</u>	
9 RATE BASE	<u>\$2,145,488</u>	<u>(\$24,243)</u>	<u>\$2,121,245</u>	<u>(\$273,965)</u>	<u>\$1,847,280</u>	

MID-COUNTY SERVICES, INC.		SCHEDULE NO. 1-A
ADJUSTMENTS TO RATE BASE		
TEST YEAR ENDED 12/31/02		
EXPLANATION	WASTEWATER	
<u>PLANT IN SERVICE</u>		
To reflect adjustments consistent with last rate case		<u>(\$150,198)</u>
<u>LAND</u>		
To reflect adjustment consistent with last rate case.		<u>(\$18,403)</u>
<u>NON-USED AND USEFUL</u>		
To reflect net non-used and useful adjustment.		<u>(\$94,277)</u>
<u>ACCUMULATED DEPRECIATION</u>		
To reflect adjustments consistent with last rate case		<u>\$44,26</u>
<u>WORKING CAPITAL</u>		
To remove prior deferred rate case expense.		<u>(\$55,348)</u>

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MID-COUNTY 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 TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY								
1 LONG TERM DEBT	\$88,646,986	\$0	\$88,646,986	(\$87,653,407)	\$993,579	46.84%	8.04%	3.77%
2 SHORT-TERM DEBT	16,709,846	0	16,709,846	(16,522,616)	187,230	8.83%	3.93%	0.35%
3 PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	85,129,818	0	85,129,818	(84,175,734)	954,084	44.98%	11.54%	5.19%
5 CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
6 DEFERRED INCOME TAXES	(13,647)	0	(13,647)	0	(13,647)	-0.64%	0.00%	-0.00%
7 DEFERRED ITC'S-ZERO COST	0	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED ITC'S-WTD. COST	0	0	0	0	0	0.00%	0.00%	0.00%
9 OTHER	0	0	0	0	0	0.00%	0.00%	0.00%
10 TOTAL CAPITAL	<u>\$190,473,003</u>	<u>\$0</u>	<u>\$190,473,003</u>	<u>(\$188,351,757)</u>	<u>\$2,121,246</u>	<u>100.00%</u>		<u>9.31%</u>
PER COMMISSION								
11 LONG TERM DEBT	\$88,646,986	\$0	\$88,646,986	(\$87,793,666)	\$853,320	46.19%	8.04%	3.71%
12 SHORT-TERM DEBT	16,709,846	0	16,709,846	(16,548,996)	160,850	8.71%	3.93%	0.34%
13 PREFERRED STOCK	0	0	0	-0	0	0.00%	0.00%	0.00%
14 COMMON EQUITY	85,129,818	0	85,129,818	(84,310,355)	819,463	44.36%	9.16%	4.06%
15 CUSTOMER DEPOSITS	0	0	\$0	-0	0	0.00%	6.00%	0.00%
16 DEFERRED INCOME TAXES	(13,647)	27,294	13,647	0	13,647	0.74%	0.00%	0.00%
17 DEFERRED ITC'S-ZERO COST	0	0	0	-0	0	0.00%	0.00%	0.00%
18 DEFERRED ITC'S-WTD. COST	0	0	0	-0	0	0.00%	0.00%	0.00%
19 OTHER	0	0	0	-0	0	0.00%	0.00%	0.00%
20 TOTAL CAPITAL	<u>\$190,473,003</u>	<u>\$27,294</u>	<u>\$190,500,297</u>	<u>(\$188,653,016)</u>	<u>\$1,847,280</u>	<u>100.00%</u>		<u>8.12%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.16%</u>	<u>11.16%</u>	
OVERALL RATE OF RETURN						<u>8.12%</u>	<u>9.01%</u>	

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MID-COUNTY SERVICES, INC.						SCHEDULE NO. 3	
STATEMENT OF WASTEWATER OPERATIONS							
TEST YEAR ENDED 12/31/02							
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>\$1,052,667</u>	<u>\$268,227</u>	<u>\$1,320,894</u>	<u>(\$253,267)</u>	<u>\$1,067,627</u>	<u>\$117,221</u> 10.98%	<u>\$1,184,848</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$890,029	\$16,809	\$906,838	(\$76,789)	\$830,049	0	\$830,049
3 DEPRECIATION	83,077	(2,501)	80,576	(8,884)	71,692	0	71,692
4 AMORTIZATION	0	0	0	0	0	0	0
5 TAXES OTHER THAN INCOME	78,847	15,942	94,789	(12,236)	82,553	5,275	87,828
6 INCOME TAXES	<u>(22,971)</u>	<u>64,249</u>	<u>41,278</u>	<u>(38,115)</u>	<u>3,163</u>	<u>42,125</u>	<u>45,288</u>
7 TOTAL OPERATING EXPENSES	<u>1,028,982</u>	<u>94,499</u>	<u>1,123,481</u>	<u>(136,025)</u>	<u>987,456</u>	<u>47,400</u>	<u>1,034,856</u>
8 OPERATING INCOME	<u>\$23,685</u>	<u>\$173,728</u>	<u>\$197,413</u>	<u>(\$117,242)</u>	<u>\$80,171</u>	<u>\$69,820</u>	<u>\$149,991</u>
9 RATE BASE	<u>\$2,145,488</u>		<u>\$2,121,245</u>		<u>\$1,847,280</u>		<u>\$1,847,280</u>
10 RATE OF RETURN	<u>1.10%</u>		<u>9.31%</u>		<u>4.34%</u>		<u>8.12%</u>

MID-COUNTY SERVICES, INC.		SCHEDULE NO. 3-A
ADJUSTMENTS TO OPERATING INCOME		
TEST YEAR ENDED 12/31/02		
EXPLANATION	WASTEWATER	
<u>OPERATING REVENUES</u>		
1 Remove requested interim revenue increase.		(\$292,236)
2 To reflect correct annualized revenues as of 12/31/02.		38,969
Total		<u>(\$253,267)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>		
1 Remove pro forma salary & benefits adjustments.		(\$16,809)
2 Remove rate case expense amortization.		(44,592)
3 To reflect allocated costs based on ERCs.		<u>(15,388)</u>
Total		<u>(\$76,789)</u>
<u>DEPRECIATION EXPENSE</u>		
1 To correct test year expense for prior order adjustments.		(\$4,945)
2 To reflect non-used and useful adjustment		<u>(3,940)</u>
Total		<u>(\$8,884)</u>
<u>TAXES OTHER THAN INCOME</u>		
1 RAFs on revenue adjustments above.		(\$11,397)
2 Property taxes on increased used and useful %.		(347)
3 Remove pro forma taxes on salary increases.		<u>(492)</u>
Total		<u>(\$12,236)</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense.		<u>(\$38,115)</u>

MID-COUNTY SERVICES, INC. WASTEWATER MONTHLY SERVICE RATES TEST YEAR ENDED 12/31/02			SCHEDULE NO. 4		
	Test Year Rates at 12/31/02	Present Rates as of 11/23/03	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim**
Residential					
Base Facility Charge					
All meter sizes	\$24.23	\$23.33	\$29.96	\$32.69	\$26.89
Gallage Charge - Per 1,000 Gallons (20,000 gallon cap Bi-Monthly)	\$1.89	\$1.82	\$2.34	\$2.55	\$2.10
General Service					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	\$24.23	\$23.33	\$29.96	\$32.69	\$26.89
1"	\$35.06	\$33.76	\$43.35	\$47.31	\$38.91
1-1/2"	\$62.18	\$59.87	\$76.88	\$83.90	\$69.01
2"	\$139.90	\$134.70	\$172.97	\$188.75	\$155.26
3"	\$248.72	\$239.48	\$307.52	\$335.58	\$276.04
4"	\$559.77	\$538.97	\$679.25	\$741.24	\$621.25
6"	\$997.99	\$961.03	\$1,234.05	\$1,346.68	\$1,107.60
Gallage Charge, per 1,000 Gallons	\$2.27	\$2.19	\$2.81	\$3.07	\$2.52
Multi-residential-Metered					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	\$24.23	\$23.33	\$29.96	\$32.69	\$26.89
1"	\$35.06	\$33.76	\$43.35	\$47.31	\$38.91
1-1/2"	\$62.18	\$59.87	\$76.88	\$83.90	\$69.01
2"	\$559.77	\$538.97	\$692.09	\$755.25	\$621.25
3"	\$994.86	\$957.90	\$1,230.33	\$1,342.30	\$1,104.12
4"	\$994.86	\$957.90	\$1,230.33	\$1,342.30	\$1,104.12
6"	\$2,238.74	\$2,155.56	\$2,767.94	\$3,020.57	\$2,484.62
Gallage Charge, per 1,000 Gallons	2.27	2.19	2.81	3.07	\$2.52
Multi-residential-Flat Rate					
Private Residences	\$50.22	\$48.35	\$62.09	\$67.75	\$55.74
Master Metered Residential	\$1,544.69	\$1,487.30	\$1,909.83	\$2,084.14	\$1,714.34
5/8" x 3/4" meter			Typical Residential Bills		
6,000 Gallons	\$35.57	\$34.25	\$44.00	\$47.99	\$39.49
10,000 Gallons	\$43.13	\$41.53	\$53.36	\$58.19	\$47.89
20,000 Gallons	\$62.03	\$59.73	\$76.76	\$83.69	\$68.89
(Wastewater Gallage Cap - 20,000 Gallons Bi-Monthly)					
** Interim rates were increased 11.19% from the rates in effect at 12/31/02 of the test year.					