

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

RECEIVED-FPSC

JUL 22 AM 11:59

COMMISSION  
CLERK

**DATE:** July 22, 2004

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

**FROM:** Division of Economic Regulation (Revel, Edwards, Merchant)  
Office of the General Counsel (Jaeger)

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

**AGENDA:** 08/03/04 – Regular Agenda – Proposed Agency Action Except Issues 17 and 18 – Interested Persons May Participate

**CRITICAL DATES:** 5-Month Effective Date: 8/3/04 - Extended by Utility (PAA Rate Case)

**SPECIAL INSTRUCTIONS:** None

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

DOCUMENT NUMBER-DATE

07983 JUL 22 04

FPSC-COMMISSION CLERK

**TABLE OF CONTENTS**

Case Background ..... 3

**Quality of Service**

1 Quality of Service (Edwards)..... 4

**Rate Base**

2 Land Adjustment (Revell, Edwards)..... 8

3 Uncontested Rate Base Adjustments (Revell) ..... 9

4 Allocation Adjustments (Revell) ..... 13

5 Used and Useful Distribution and Collection Systems (Edwards) ..... 14

6 Deferred Taxes (Revell)..... 16

7 Working Capital Allowance (Revell) ..... 17

8 Working Capital Allowance (Revell) ..... 17

**Cost of Capital**

9 Weighted Cost of Capital (Revell)..... 18

**Net Operating Income**

10 Test Year Revenues (Revell) ..... 19

11 Employee Benefits (Revell)..... 19

12 Rate Case Expense (Revell)..... 20

13 Test Year Operating Income (Revell)..... 22

14 Revenue Requirement (Revell)..... 22

**Rates and Rate Structure**

15 Wastewater Bi-Monthly Service Rates (Revell)..... 23

16 Interim Refund (Revell)..... 25

17 Four-Year Rate Reduction (Revell) ..... 26

**Other Issues**

18 Proof of adjustments Requirement (Revell) ..... 27

19 Close Docket..... 28

**Schedules**

1 Rate Base ..... 29

1-A Adjustments to Rate Base ..... 30

2 Cost of Capital ..... 31

3 Net Operating Income..... 32

3-A Adjustments to NOI ..... 33

4 Rates..... 34

### **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. (UI), 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. By Proposed Agency Action (PAA) Order No. PSC-98-0524-FOF-SU, issued April 16, 1998, the Commission proposed final rates for Mid-County. Several issues in the PAA Order were protested and a hearing was held to address the protest. By Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, the Commission approved final rates and charges for the utility. The issues in the initial PAA order which were not protested were deemed stipulated by this order. 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.

On November 17, 2003, the utility filed its application for approval of final and interim rate increases in this docket and requested that the Commission process the case under the PAA procedure. The information originally 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 (F.S.) By letter dated May 27, 2004, Mid-County extended the 5-month statutory deadline until August 3, 2004.

The test year for interim and final purposes is the historical test year ended December 31, 2002. Mid-County requested interim wastewater revenues of \$1,320,894. The interim revenue request represented an increase of \$292,236, or 28.41%. By Order No. PSC-04-0415-PCO-SU, issued April 22, 2004, the Commission granted interim revenues for Mid-County of \$1,184,848. This represents an interim increase of \$117,221, or an increase of 10.98% above rates in effect at December 31, 2002 of the test year. The utility has requested final wastewater revenues of \$1,441,449. This represents an increase of \$412,791, or 40.13%.

As part of the PAA process, staff held a customer meeting on April 26, 2004, in Dunedin, Florida, which approximately 25 people attended. The concerns voiced by the customers are addressed in Issue 1.

The five-month statutory deadline for the Commission to vote on the utility's requested final rates has been extended to August 3, 2004. This recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

## Discussion of Issues

### Quality of Service

**Issue 1:** Is the quality of service provided by Mid-County satisfactory?

**Recommendation:** Yes. The quality of service should be considered satisfactory. However, staff believes that the utility should be ordered to make the plant improvements as outlined in staff's analysis to reduce the odors being released from the plant. The utility should be required to install and place in service improvements to the static screen and two return pipes on the North plant no later than 90 days after issuance of the consummating order. (G. Edwards, Merchant, Revell)

**Staff Analysis:** In every water and wastewater rate case, pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission shall determine the overall quality of service provided by a utility by evaluating three components. The components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered, along with input from the DEP and health department officials, and consideration of customer comments or complaints. Staff addresses each of these three components below.

Mid-County's wastewater treatment plant is located in the center of the Doral Mobile Home Park (Doral Village) community, which is a master-metered customer. The DEP permitted capacity for the wastewater plant is 900,000 gallons per day (gpd) on an annual average daily flow (AADF) basis. The wastewater treatment plant is an extended-aeration domestic wastewater treatment facility that processes the incoming waste. The activated sludge from the plant is then removed and the effluent is disposed in Curlew Creek.

Staff has reviewed the information submitted by the utility in its MFRs and researched whether any customer complaints were filed with the Commission related to this utility. Staff also conducted a field inspection of the wastewater treatment facilities and spoke with a DEP official regarding the quality of those facilities.

### Quality of Utility's Product

Staff has reviewed the records of the utility and DEP. Staff's analysis of those records indicates that the wastewater treatment facilities meet environmental regulatory standards. Further, DEP staff indicated that the finished product of the plant meets regulatory standards. Based on the above, staff believes that the quality of the finished product for the wastewater treatment plant should be considered satisfactory.

### Operating Condition of the Wastewater Facilities

Based on staff's field inspection and other investigations, the utility's plant and the collection system appear to be in compliance with DEP rules and regulations. Based on the above, staff recommends that the operating condition of the utility's facilities should be considered satisfactory.

### The Utility's Attempt to Address Customer Satisfaction

Staff conducted a customer meeting in the utility's service territory in Dunedin, Florida, on April 26, 2004. In addition to the evening meeting, staff met with two representatives of the Doral Village Homeowners Association (Doral Village). Doral Village has 500 residents, several of whom have homes which are located very close to the wastewater treatment plant. The community pool is also very close to the plant. Of the approximate 25 persons in attendance at the meeting, all were residents from Doral Village and nine of them spoke. The residents' primary concerns were plant odors and noise, but they also complained about the amount of the rate increase since the plant odors had not been eliminated, as well as the sludge hauling trucks traveling through the community. After the meeting, staff requested a written response from the utility regarding the concerns expressed by the residents at the customer meeting. Staff also requested that the utility provide a list of plant improvements that the utility could implement to further reduce the odor from the plant. Staff's analysis of the customer comments are addressed below.

#### Plant Odor

The residents of Doral Village complained that, most of the time, the odor coming from the plant is unbearable and offensive, especially at the recreation center pool area. The odor is worse during the peak season when the majority of the residents are present. They also stated that these complaints have been made before and nothing seems to be done about them.

Staff smelled strong odors at the plant the morning after the customer meeting. While these odors were strong, they appeared to staff to be the normal odors one would encounter when being close to any wastewater treatment plant. Also, during staff's initial investigation, which was not during the peak season, staff did not smell any excessive odors coming from the plant. On March 29, 2004, staff also contacted Ms. Michele Duggan, the DEP inspector for the Mid-County plant. Ms. Duggan stated that in January 2004 based upon the residents' complaints, she performed a site inspection of the Mid-County facilities, including the surrounding Doral Village vicinity. She stated that she was unable to substantiate an odor nuisance at that time and that the plant appeared to be well-maintained and operated. Further, Ms. Duggan stated to staff that she had observed the changes made by the utility to aid in reducing the odor as well as the noise at the plant. Regardless, because of the close proximity of the plant to the residents' homes, staff believes that the utility should take all economically feasible measures to reduce odors emanating from the plant

In its response to the comments made at the customer meeting, the utility stated that, in the last several years, it has made numerous improvements to reduce odors emanating from the

plant. In 1994, it began a process of dewatering materials screened at the head of the plant and collected in a dumpster. It also began adding a scented mulch twice daily to cover the untreated screened materials. In 2000, the utility installed a sprayer to release an aerosol masking agent above the plant and began adding a histosal as a settling aid and to further reduce odors from the plant. It also converted its sludge handling process substantially, further reducing odors from the plant and built a stockade fence for visual as well as odor reduction purposes. In 2001, the utility upgraded its aeration system which improved the oxygen transfer process and made the plant more efficient. Then in 2003, the utility replaced its dumpster with a smaller size and emptied it more often, which is currently three times per week.

Additionally, the utility stated that it could make two improvements to further reduce odors at the plant. First, it could install a stainless steel enclosure over the top and rear faces of the static screen. The utility projected that this improvement would cost \$8,300. Second, the utility proposed that it could replace an 8" PVC sludge return pipe with two 6" pipes on the entrance to the North plant at an estimated cost of \$1,200. This improvement will provide for the permanent elimination of the existing vent stack and thereby decrease the release of gases above the equalization tank. The utility stated that both of these improvements would reduce the time that odor producing waste would be open to the air.

Staff has reviewed the proposed plant improvements that the utility has submitted and we believe that they are reasonable and prudent. Staff notes that these improvements were not included in the utility's MFRs and should be included for rate setting purposes in this case. In addition, staff recommends that the utility implement procedures to add mulch and scented powder to cover the contents of the dumpster a minimum of four times a day, equally spread out during the daylight hours. This low-cost measure will further reduce the amount of time that odor producing waste is exposed to the air at the plant. Staff does not believe that the cost of implementing this procedure will be material to the utility. By adding the recommended pro forma improvements and by mulching more frequently, staff believes that the utility will be able to reduce the odors emanating from the plant.

#### Plant Noise

The residents of Doral Village raised concerns about excessive noise coming from the plant. One resident also stated that he once heard what sounded like the cranking of a motor boat coming from the plant grounds.

In its response, the utility stated that it has made several improvements to reduce the noise level at the plant. In 2001, the utility installed a new centrifugal process blower on the North Plant. The new large blower replaced five small positive displacement blowers and the new blower is much quieter than the small blowers. In addition, the utility stated that it intends to replace the remaining old blowers with a new large blower. Further, the utility stated that it has no knowledge of any noise caused by a motor boat.

During staff's investigation, we observed the difference in noise levels when the small blowers were in operation verses when the large blower was on. The new blower is much quieter

than the smaller blowers. Staff has reviewed the actions taken by the utility to reduce noise and it appears that those actions are reasonable and should aid in reducing the noise level.

### Sludge Hauling and Road Damage

The residents of Doral Village expressed concerns regarding the size of sludge hauling trucks and their gradually degrading the quality of the roadways in the community. The utility indicated that it was aware of road degradation and that it has previously made repairs to the roadways. Further, the utility stated that using one large truck to haul sludge reduces the number of daily hauls required. Staff did not observe evidence of road degradation. However, staff believes that the utility and the residents should meet to discuss future reimbursement for road repair. Further, staff notes that prudent costs paid by the utility can be recovered through rates in the future.

### Summary

Based on staff's review of the wastewater treatment and the collection systems, it appears that all systems are operating properly and are in compliance with DEP standards. Further, staff believes that the utility is actively attempting to address the customers' complaints regarding odor and noise from the treatment plant. Based on the above, staff believes that the quality of service provided by the utility is satisfactory. However, staff recommends that the utility should be required to install and place in service the improvements to the static screen and the two return pipes on the North plant no later than 90 days after issuance of the consummating order.

**Rate Base**

**Issue 2:** Are there any adjustments that should be made to land?

**Recommendation:** Yes. Land should be decreased by \$2,603 to remove an overstated balance.  
(Revell)

**Staff Analysis:** The utility's MFRs indicate that the utility had a balance in its land account of \$21,006. In Audit Exception No. 4, the staff auditors stated that the land balance was overstated because it included \$2,603 in charges that should have been expensed in 2001. The utility agreed with the audit adjustment in a supplemental response to the audit. Therefore, staff recommends that land should be decreased by \$2,603. Since these charges did not occur in the test year, there is no adjustment to Operation & Maintenance (O&M) expenses.



**Issue 3:** Are there any additional rate base adjustments that should be made as a result of the staff audit?

**Recommendation:** Yes. Plant and accumulated depreciation should be reduced by \$1,148,015 and by \$370,955 respectively. Depreciation expense should also be increased by \$53,838. Further, accumulated amortization of CIAC should be increased by \$37,000, and CIAC amortization expense should be increased by \$9,866. Additionally, O&M expenses as a result of these adjustments should be increased by \$3,493. (Revell)

**Staff Analysis:** The staff auditors reviewed the utility's rate base accounts since the last rate case to determine the appropriate balances at the end of the test year. This examination included a review of the last two rate case orders from 1993 and 1996. The audit report contained several recommended adjustments, to which the utility agreed. Upon staff's further review, we believe that several additional adjustments are appropriate. Listed below are adjustments per audit (agreed to by utility), additional staff adjustments and staff's total recommended adjustments.

In Audit Exception No. 1, the staff auditors recommended adjustments to several plant, accumulated depreciation, and depreciation expense accounts because the utility failed to make reductions it was ordered to make in two prior rate cases. The utility agreed with the audit reductions. Staff, however, recommends an additional \$37,638 adjustment to decrease accumulated depreciation because the auditors did not remove depreciation accrued on the books for the overstated plant between the issue date of the orders and the test year. The adjustments are shown below:

<b>Prior Orders Comm. Adj-Exception No. 1</b>	<b>Adj. per Audit</b>	<b>Add'l Adj. per Staff</b>	<b>Total Staff Adjustment</b>
Decrease Plant	(\$157,578)	\$0	(\$157,578)
Decrease Accumulated Depreciation	\$29,297	\$37,638	\$66,935
Decrease Depreciation Expense	(\$9,367)	\$0	(\$9,367)
Increase Accumulated Amortization of CIAC	\$2,697	\$0	\$2,697

In Audit Exception No. 2, staff auditors recommended several adjustments because of improperly capitalized plant, missing invoices, a capitalized item for another system, and items that should have been retired. The utility agreed with all but two of the plant adjustments. First, the utility believed that one adjustment for \$1,101 for a bearing replacement on a bar screen pump should not be removed from plant as recommended by the auditors. Staff has reviewed this invoice and believe that this repair will extend the life of the bar screen. As such, staff agrees with the utility that this amount is properly capitalized.

Second, the auditors recommended removing \$8,821 in undocumented legal fees capitalized during the test year. The auditors also recommended that plant be reduced for items that should have been expensed during the test year. The utility capitalized legal fees of \$1,843 and maintenance expenses of \$1,360 which should have been recorded as O&M expenses. As a result, the auditors recommended a reduction to plant of \$12,024 and a \$3,203 increase to O&M expenses.

The utility later produced the missing legal invoices totaling \$8,821. The \$8,821 in legal fees, along with the \$1,843 amount erroneously capitalized, both related to condemnation and easement related legal services and totaled \$10,664. Staff reviewed these invoices and believe they should not have been capitalized. In order to analyze whether this level of expense was reasonable, staff analyzed the historical balance in legal expenses for the years 2000-2003. The annual average was \$747 and is significantly less than the \$10,664 incurred for these type of legal services. As such, staff believes that these expenses should be amortized over a five-year period pursuant to 25-30.433(8), F.A.C. This results in an annual expense of \$2,133 per year. Staff, therefore, recommends that legal expenses should be increased by \$2,133 and working capital increased by the remaining \$8,531. Overall, staff recommends that O&M expenses be increased by \$3,493, which is \$290 over the audit adjustment.

Staff also reduced the auditors recommended adjustments to accumulated depreciation and depreciation expense by \$183 and \$893, respectively, to reflect the proper retirement entries, remove improperly accrued accumulated depreciation, and to correct test year depreciation expense. The adjustments are shown below:

<b>Misc. Plant Adjustments-Exception No.2</b>	<u>Adj. per Audit</u>	<u>Add'l Adj. per Staff</u>	<u>Total Staff Adjustment</u>
Decrease Plant	(\$31,114)	\$1,101	(\$30,013)
Decrease Accumulated Depreciation	\$9,032	(\$183)	\$8,849
Decrease Depreciation Expense	(\$1,993)	\$893	(\$1,100)
Increase Working Capital	\$0	\$8,531	\$8,531
Increase O&M Expense	\$3,203	\$290	\$3,493

In Audit Exception No. 5, the auditors made adjustments to several accumulated depreciation accounts because the utility used incorrect depreciation rates. The utility agreed with this adjustment. In reviewing the auditor's adjustment, staff believes that the adjustment should be reduced by \$43,805 to reflect the average balance in the test year. Staff also believes that accumulated amortization and test year amortization of CIAC should be increased by \$34,303 and \$9,866, respectively, as these adjustments were not made in the audit. CIAC amortization is calculated using composite depreciation rates. Staff believes that if the depreciation reserve is being adjusted to reflect proper depreciation rates, corresponding adjustments to accumulated and test year amortization of CIAC are required to properly reflect the test year balance of this account. The adjustments are shown below:

<b>Depreciation Rates-Exception No.5</b>	<u>Adj. per Audit</u>	<u>Add'l Adj. per Staff</u>	<u>Total Staff Adjustment</u>
Increase Accumulated Depreciation	(\$454,883)	\$43,805	(\$411,078)
Increase Depreciation Expense	\$87,608	\$0	\$87,608
Increase Accumulated Amortization of CIAC	\$0	\$34,303	\$34,303
Increase CIAC Amortization Expense	\$0	(\$9,866)	(\$9,866)

In its MFRs, the utility requested pro forma plant additions of \$571,487. In Audit Disclosure No. 1, the auditors made a number of adjustments to the utility's requested pro forma plant. These adjustments reduced plant, accumulated depreciation and depreciation expense because the costs were less than projected, improperly supported, or were completed prior to the test year. After reviewing the utility responses to several data requests, staff made additional adjustments to increase pro forma plant by \$146,626 to reflect updated costs or the receipt of documentation. Staff also made corresponding adjustments to accumulated depreciation and depreciation expense.

In its MFRs, the utility did not reflect any retirement adjustments related to the pro forma plant additions. Staff believes that adjustments to decrease both plant and accumulated depreciation by \$78,890 are appropriate, as well as a reduction to depreciation expense of \$1,534, to recognize these retirements. As discussed in Issue 1, staff has recommended that the utility has included expenses for additional odor control facilities in its revised pro forma plant request. Staff reviewed these expenses and agree that no reduction is necessary. The adjustments are shown below:

<b>Pro Forma Plant Additions-Disclosure No. 1</b>	<b>Adj. per <u>Audit</u></b>	<b>Add'l Adj. <u>per Staff</u></b>	<b>Total Staff <u>Adjustment</u></b>
Decrease Pro Forma Plant-per MFRs	(\$415,630)	\$146,626	(\$269,004)
Decrease Accumulated Depreciation	\$7,935	(\$2,117)	\$5,818
Decrease Depreciation Expense	(\$7,935)	\$2,117	(\$5,818)
Decrease Related Plant Retirements	(\$89,247)	(\$78,890)	(\$168,137)
Decrease Related Plant Accumulated Depreciation	\$89,247	\$78,890	\$168,137
Decrease Related Plant Depreciation Expense	(\$2,986)	(\$1,534)	(\$4,520)
Increase Odor Control Pro Forma Plant	-	\$9,500	\$9,500
Increase Accumulated Depreciation	-	(\$488)	(\$488)
Increase Depreciation Expense	-	\$488	\$488

In Audit Disclosure No. 2, the auditors recommended that adjustments be made to reduce plant because the utility completed a number of capital additions without a corresponding retirement; however the audit did not contain a recommended adjustment. The utility agreed that adjustments should be made and that the retired plant amounts should equal 75% of the replacement construction. Staff reviewed the utility's response and agrees with the calculation. As a result, staff reduced both plant and accumulated depreciation by \$532,783, and reduced depreciation expense by \$13,454. The adjustments are shown below:

<b>Construction Proj.-Retirements-Disclosure No. 2</b>	<b>Adj. per <u>Audit</u></b>	<b>Add'l Adj. <u>per Staff</u></b>	<b>Total Staff <u>Adjustment</u></b>
Decrease Plant	-	(\$532,783)	(\$532,783)
Decrease Accumulated Depreciation	-	\$532,783	\$532,783
Decrease Depreciation Expense	-	(\$13,454)	(\$13,454)

Below is a summary of staff's recommended adjustments for this issue.

	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>Depreciation Expense</u>	<u>AA CIAC</u>	<u>Test Year Amort CIAC</u>
Exception No. 1	(\$157,578)	\$66,935	(\$9,367)	\$2,697	\$0
Exception No. 2	(30,013)	8,849	(1,100)	0	0
Exception No. 5	0	(411,078)	87,608	34,303	(9,866)
Disc No.1 Pro Forma Plant	(269,004)	5,818	(5,818)	0	0
Disc. No.1-Retirements	(168,137)	168,137	(4,520)	0	0
Disc. No. 1 Odor Control	9,500	(488)	488	0	0
Disclosure No.2	<u>(532,783)</u>	<u>532,783</u>	<u>(13,454)</u>	<u>0</u>	<u>0</u>
Total:	<u>(\$1,148,015)</u>	<u>\$370,955</u>	<u>\$53,838</u>	<u>\$37,000</u>	<u>(\$9,866)</u>

**Issue 4:** Should an adjustment be made to reflect the utility's common plant allocations from Water Service Corporation (WSC)?

**Recommendation:** Yes. Plant should be increased by \$26,602. (Revell)

**Staff Analysis:** WSC is a subsidiary which provides administrative services to UI's operating subsidiaries. WSC allocates common plant and expenses based on customer equivalents (CEs) primarily, but WSC does utilize other methodologies to allocate computer costs and insurance expenses.

Audit Exception No. 3 of the staff audit stated that the utility's general ledger did not include any common plant allocations from WSC. The WSC common plant allocation schedule indicates that Mid-County's share was \$26,602.

Staff also reviewed the overall WSC allocation methodology. While staff disagrees with certain basis and mechanics of this allocation methodology, staff's analysis reflects that any additional adjustments for Mid-County are immaterial. As a result, staff recommends that no further adjustment should be made.

Based on the above, staff recommends that Mid-County's plant be increased by \$26,602 to appropriately allocate the WSC rate base and other costs.

**Issue 5:** What is the used and useful percentage for the utility's wastewater system?

**Recommendation:** The wastewater treatment plant should be considered 92% used and useful. The wastewater collection system should be considered 100% used and useful. Staff recommends that rate base should be reduced by \$65,559, with corresponding reductions to depreciation expense of \$9,497 and property taxes of \$918. (G. Edwards, Revell)

**Staff Analysis:** In its MFRs, the utility indicated that the used and useful percentage for the wastewater treatment plant was 97% and the collection system was 100%. Staff has analyzed the utility's request and our analysis of the appropriate level of used and useful plant is discussed below.

#### Wastewater Treatment Plant

The utility calculated its used and useful percentage for the wastewater treatment plant by taking the sum of the annual average daily flows (AADF) of 766,836 gpd and a growth allowance of 110,152 gpd. It then divided that total by the plant's DEP permitted capacity of 900,000 gpd AADF. The utility did not make any adjustments for inflow and infiltration (I&I) in its calculations. This resulted in a 97% used and useful percentage for wastewater treatment plant.

In calculating its 110,152 gpd growth allowance, the utility took the simple average growth in ERCs for the five years prior to the test year of 2.87%. It then multiplied the average growth rate by the test year number of ERCs of 2,909. This resulted in an annual growth of 84 ERCs. It then multiplied the 84 ERCs times the 5-year statutory growth period per statute and the test year average consumption of 264 gpd/ERC.

Staff agrees with the utility's calculation of used and useful with the exception of the calculation for growth. Staff believes that the utility should have used linear regression to calculate historical growth instead of a simple average. Staff believes that linear regression is a more accurate method to calculate growth because a simple average does not take into consideration the impact of abnormal weather or wastewater flows for the historical years. Further, the utility did not explain why the Commission should deviate from its policy of using linear regression pursuant to Rule 25-30.431, F.A.C., or why a simple average method was more accurate or better reflected growth for this system. Using the utility's calculation of linear regression submitted in the MFRs, staff calculated an annual growth of 49 ERCs, or a growth allowance of 64,680 gpd. Applying this adjustment to the used and useful formula, staff believes that the wastewater treatment plant should be considered 92% used and useful.

#### Wastewater Collection System

In its filing, the utility stated that the collection system should be considered 100% used and useful because it was built by various developers which then contributed the assets to the utility. As such, the utility indicated that its collection system is approximately 80% contributed. The mains and lift stations that serve the system were built by the utility. The utility also stated that the Commission recognized that the collection system was 100% used and useful in Mid-

County's last rate case (Order No. PSC-98-0524-FOF-SU). The utility states that while there is some undeveloped land in the service territory, additional collection mains would have to be constructed before new customers could be added.

Staff has reviewed the utility's analysis and because there have been no substantial growth or changes in its service territory since the last rate case, agrees with the utility's conclusion. Therefore, staff recommends that the used and useful percentage for the collection system be considered 100%.

Recommended Used and Useful Adjustments

Based on staff's recommended used and useful percentage, the balance of non-used and useful plant, net of accumulated depreciation, should be \$126,598. Based on the above, staff recommends that rate base should be reduced by \$65,559. Corresponding adjustments should also be made to reduce depreciation expense by \$9,497 and property taxes by \$918.

**Issue 6:** What is the appropriate treatment of the utility's deferred taxes?

**Recommendation:** The utility's \$10,964 net debit balance of deferred taxes should be included as a separate line item in rate base. (Revell)

**Staff Analysis:** In its MFRs, the utility reflected a debit balance of \$13,646 in its capital structure. Rule 25-30.433(3), F.A.C., states that used and useful debit deferred taxes shall be offset against credit deferred taxes in the capital structure. This rule further states that any net debit deferred taxes shall be included as a separate line item in the rate base calculation. Staff's review shows that two adjustments should be made to the utility's balance of deferred taxes.

First, staff's initial review of the utility's deferred tax account indicated that this balance was in error. At staff's request, the utility submitted a revised deferred tax schedule which indicated that the correct balance before adjustments was a debit balance of \$47,496. This balance, however, was not adjusted for staff's non-used and useful plant adjustment discussed in Issue 5. After staff's adjustment for that issue, the balance of deferred taxes should be \$45,111.

Second, the utility and staff agree that Mid-County's MFRs do not reflect the effect of the utility's claim of a special tax depreciation allowance. This allowance allows the utility to claim accelerated depreciation on its allowed pro forma plant. Staff has calculated this adjustment to increase credit deferred taxes by \$34,147. The resulting net debit balance is \$10,964 (\$45,111-\$34,147). Therefore, staff recommends that the rate base be increased by \$10,964 to reflect the net debit balance of deferred taxes.



**Issue 7:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$74,108 using the balance sheet method. (Revell)

**Staff Analysis:** In its MFRs, Mid-County's working capital allowance had a net balance of \$87,076. Staff has reviewed the balance and the utility's adjustments, and, as a result of this review, staff recommends two adjustments.

The utility recorded \$78,359 as the unamortized portion of rate case expense for the current case. This amount represents three-quarters, or the remaining three years, amortization of the requested \$104,479 allowance for rate case expense, or \$26,120 per year. As discussed in Issue 12, staff has recommended a reduction of allowed rate case expense of \$28,666. The resulting three-year unamortized amount would therefore be reduced by \$21,499. As discussed in Issue 3, staff increased working capital for deferred expenses associated with condemnation and easement legal services. After making the above adjustments, staff recommends that the proper working capital allowance should be \$74,108.

**Issue 8:** What is the appropriate rate base?

**Recommendation:** The appropriate rate base for the test year ending December 31, 2002, is \$1,982,244. (Revell)

**Staff Analysis:** Staff has calculated Mid-County's rate base using the utility's MFRs with adjustments as recommended in the proceeding issues, as \$1,982,244. Staff's recommended rate base is shown on Schedule No. 1, and the adjustments are shown on Schedule No. 1-A.

### **Cost of Capital**

**Issue 9:** Are any adjustments necessary to Mid-County's capital structure and what is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the test year ended December 31, 2002?

**Recommendation:** All deferred taxes should be removed from the capital structure because staff has previously recommended that the utility's net debit balance of deferred taxes should be included as a part of rate base. Based on the current leverage formula in effect, the appropriate cost of equity should be 11.00%, with a range of 10.00% to 12.00%. The overall cost of capital should be 9.00%, with a range of 8.56% to 9.45%. (Revell)

**Staff Analysis:** In its MFRs, the utility used the debt and equity ratios of its parent, UI, to prorate its share of the parent's capital. The utility reflected accumulated deferred income taxes that are specifically attributable to Mid-County, but it included the deferred taxes as a negative number. Using the Commission's 2003 leverage formula, the utility reflected a cost of 11.54% for equity. Mid-County's requested overall cost of capital was 9.29%. Staff recommends two adjustments to the utility's capital structure, which are discussed below.

First, the utility and staff agree that Mid-County misstated its test year deferred tax balance. As discussed in Issue 6, the utility has a net debit balance of deferred taxes. As such, this balance should be included as part of rate base, and all deferred taxes should be removed from the capital structure.

The Commission's current leverage formula was approved by Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, in Docket No. 040006-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. Based on the current leverage formula and the utility's equity ratio, staff recommends that the appropriate cost of equity should be 11.00%, with a range of 10.00% to 12.00%. Based on the above, staff recommends that an overall cost of capital should be 9.00%, with a range of 8.56% to 9.45%. Staff's recommended cost of capital is shown in Schedule No. 2.

**Net Operating Income**

**Issue 10:** What adjustments, if any, should be made to the utility's test year revenues?

**Recommendation:** Test year revenues should be reduced by \$2,443 to properly reflect test year revenues. (Revell)

**Staff Analysis:** The utility's MFRs reflected adjusted test year revenues of \$1,028,657 before any revenue increase. The utility's billing determinants reported in its MFRs indicated that the utility had one 1.5" and thirty-six 3" meters. However, in a response to a staff data request, the utility indicated that it had inadvertently reversed these meter sizes in its MFRs and incorrectly calculated its test year revenues. Additionally, the utility improperly annualized its revenues during the test year by failing to annualize the 2002 index rate adjustment and incorrectly decreasing test year revenues due to the expiration of the four-year amortization of rate case expense. These adjustments result in a reduction to test year revenues of \$2,443. Thus, staff recommends that test year revenues be reduced by \$2,443.

**Issue 11:** Are there any O&M expense adjustments that should be made related to employee benefits as a result of staff's audit?

**Recommendation:** Yes. Employee benefits should be reduced by \$2,116. (Revell)

**Staff Analysis:** In its MFRs, Mid-County made pro forma adjustments to increase health costs by \$6,577. This represents an increase of 25.86% over test year expenses. The utility made pro forma adjustments to increase insurance costs by \$4,333. This represents an increase of 36.88% over test year expenses.

In Audit Disclosure No. 5, staff auditors stated that actual health costs increased by 9.83% and actual insurance costs increased by 42.93%. As a result, the staff auditors recommended that a net O&M expense reduction of \$2,116 should be made. In its audit response, Mid-County agreed with the auditor's recommendation.

**Issue 12:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate rate case expense for this docket is \$75,813. This expense should be recovered over four years for an annual expense of \$18,953. (Revell)

**Staff Analysis:** The utility included a \$104,479 estimate in the MFRs for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The utility submitted a revised estimated rate case expense through completion of the PAA process of \$79,762. The components of the utility's estimated rate case expense are as follows:

	MFR		Additional	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Total</u>
Filing Fee	\$4,500	\$3,500	\$0	\$3,500
Legal Fees	42,750	24,554	8,300	32,854
Consultant Fees	25,000	20,329	6,450	26,779
WS In-house Fees	12,979	4,553	7,652	12,205
Miscellaneous Expense	<u>19,250</u>	<u>3,039</u>	<u>1,385</u>	<u>4,424</u>
Total R/C expense	<u>\$104,479</u>	<u>\$55,975</u>	<u>\$23,787</u>	<u>\$79,762</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Staff believes that the revised estimate is reasonable with one exception, as discussed below.

Staff's adjustment relates to rate case expense incurred to correct deficiencies in the MFR filing. In its response to Staff's Second Data Request, the utility's consultant stated that of the 24.66 hours spent on staff's MFR deficiency letters, only 2.33 hours related to actual deficiencies. The utility's consultant asserted that the remaining 22.33 hours should be considered responses to data requests instead of MFR deficiencies. Staff disagrees with the consultant's assertion above. Instead, staff believes that 23.66 hours were spent on MFR deficiencies. Staff has analyzed the utility's response to our deficiency letters. Of the 15 major parts, we believe that only 2 items were supplemental data requests as opposed to deficiencies. As such, staff recommends that \$2,500 should be removed for consultant fees and expenses. In addition, staff recommends that the utility's in-house and legal fees should be reduced by \$295 and \$1,154, respectively, to correct the MFRs.

The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU. Accordingly, staff recommends that \$3,654 be removed as duplicative and unreasonable rate case expense.

Staff recommends that the appropriate total rate case expense is \$75,813. A breakdown of the allowance of rate case expense is as follows:

	<u>MFR</u>	<u>Utility Revised</u>	<u>Staff</u>	
	<u>Estimated</u>	<u>Actual &amp; Estimated</u>	<u>Adjustments</u>	<u>Total</u>
Filing Fee	\$4,500	\$3,500	\$0	\$3,500
Legal Fees	42,750	32,854	(1,154)	31,700
Consultant Fees	25,000	26,779	(2,500)	24,279
WSC In-house Fees	12,979	12,205	(295)	11,910
Miscellaneous Expense	<u>19,250</u>	<u>4,424</u>	<u>0</u>	<u>4,424</u>
Total Rate Case Expense	<u>\$104,479</u>	<u>\$79,762</u>	<u>(\$3,949)</u>	<u>\$75,813</u>
Current Amortization	\$26,120		(\$7,167)	\$18,953
Prior Amortization	<u>\$44,592</u>		<u>(\$44,592)</u>	<u>\$0</u>
Total Annual Expense	<u>\$70,712</u>		<u>(\$51,759)</u>	<u>\$18,953</u>

Staff notes that in its MFRs, the utility included \$44,592 in rate case expense from a prior case. This amount has been fully amortized and should be removed from rate case expense in this proceeding. Pursuant to Section 367.0816, rate case expense should be amortized over four years. Staff's recommended annual rate case expense should be \$18,953.

**Issue 13:** What is the test year wastewater operating income before any revenue increase?

**Recommendation:** Based on the adjustments discussed in previous issues, staff recommends that the test year wastewater operating loss before any provision for increased revenues should be (\$17,156). (Revell)

**Staff Analysis:** As shown on attached Schedule No. 3, after applying staff's adjustments, the test year net operating loss before any revenue increase is (\$17,156). Staff's recommended NOI is reflected on Schedule No. 3, with staff's adjustments shown on Schedule 3-A.

**Revenue Requirement**

**Issue 14:** What is the appropriate revenue requirement?

**Recommendation:** The following revenue requirement should be approved. (Revell)

<u>Test Year</u>		<u>Revenue</u>	
<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
\$1,026,215	\$328,399	\$1,354,614	32.00%

**Staff Analysis:** Mid-County requested final rates designed to generate annual revenues of \$1,441,449. These revenues exceed test year revenues by \$412,791, or (40.13%).

Based upon staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a revenue requirement of \$1,354,614. These revenues exceed staff's adjusted test year revenues by \$328,399, or 32.00%. This increase will allow the utility the opportunity to recover its expenses and earn a 9.00% return on its investment in rate base.

**Rates and Rate Structure**

**Issue 15:** What are the appropriate wastewater rates for this utility?

**Recommendation:** The appropriate bi-monthly rates are shown on Schedule No. 4. Staff's recommended rates are designed to produce revenues of \$1,354,294 excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Revell)

**Staff Analysis:** As discussed in Issue 14, the appropriate revenue requirement is \$1,354,614. After excluding water miscellaneous service charges of \$320, the revenues to be recovered through rates are \$1,354,294.

Mid-County's current wastewater rate structure is a base facility charge and gallonage charge with a 20,000 gallonage cap on residential customers. The utility's current bi-monthly rate structure contains a differential in the gallonage charge between residential and general service. This rate differential is designed to recognize that approximately 80% of a residential customer's water usage will return to the wastewater system. Whereas, approximately 96% of multi-family and general service water usage is returned. This wastewater gallonage rate differential is employed by the Commission in wastewater rate settings and is widely recognized as an industry standard. Based on the above, staff believes that the gallonage rate differential should continue to be used in this case, consistent with the differential approved in the last case.

Staff's recommended allocation of base facility charges is consistent with the methodology approved in Mid-County's last rate case, pursuant to Order No. PSC-99-1912-FOF-SU. In that case, the Commission approved the allocation of the base facility charge by meter size for general service and multi-family tariffs based on the Clow pipe economy usage scale as detailed in an exhibit entered into the record in the last rate case. The meter allocation factors rates are as follows:

<u>Meter Size</u>	<u>Clow Pipe Economy Factor</u>
5/8"x3/4"	1.0000
1"	2.5660
1-1/2"	5.7736
2"	10.2642
3"	23.1006
4"	41.0566
6"	92.3899

Staff has reviewed this rate allocation methodology and believes that it should be continued. Mid-County serves many multi-family customers, and in some cases, these customers are large and the flows through their meters are substantially greater than normally experienced through a given-sized meter. Staff notes that while the Clow pipe methodology was

used in the last case, some of the factors were erroneously applied among several meter sizes. In order to correct this, staff has applied the above factors for all general service and multi-family meter sizes.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original and requested rates, the Commission approved interim rates, and staff's recommended PAA rates are shown on Schedule No. 4.



**Issue 16:** In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation:** The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Using these principles, staff recommends that no interim refund is required. (Revell)

**Staff Analysis:** By Order No. PSC-04-0415-PCO-SU, issued April 22, 2004, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirements are shown below:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Wastewater	\$1,184,848	\$117,221	10.98%

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the twelve-month period ended December 31, 2002. Mid-County's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense and the pro forma adjustments were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff has calculated the interim revenue requirement for the interim collection period to be \$118,657. The wastewater revenue levels are greater than the interim revenues which were granted in Order No. PSC-04-0415-PCO-SU. Therefore, staff recommends that no interim refund is required.

**Issue 17:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense ?

**Recommendation:** The rates should be reduced as shown on Schedule 4 to remove \$19,846 for rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Revell)

**Staff Analysis:** Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$19,846. The decreased revenues will result in the rate reduction recommended by staff on Schedule No. 4.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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.

**Other Issues**

**Issue 18:** Should the utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

**Recommendation:** Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Mid-County should provide proof, within 90 days of the consummating order finalizing this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Revell)

**Staff Analysis:** To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that Mid-County should provide proof, within 90 days of the consummating order that the adjustments for all the applicable NARUC USOA primary accounts have been made.

**Issue 19:** Should the docket be closed?

**Recommendation:** Yes. If no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. This docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once the tariff and customer notice have been approved by staff, the corporate undertaking may be released. When the PAA issues are final, the tariff and notice actions are complete, this docket may be closed administratively. (Revell, Jaeger)

**Staff Analysis:** If no person whose substantial interests are affected by the PAA issues files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. This docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, the corporate undertaking may be released and this docket may be closed administratively.

Docket No. 030446-SU

Date: July 22, 2004

Schedules

MID-COUNTY SERVICES, INC.

SCHEDULE NO. 1

SCHEDULE OF WASTEWATER RATE BASE

TEST YEAR ENDED 12/31/02

	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	\$571,487	\$5,776,970	(\$1,121,413)	\$4,655,557
2 LAND	21,006	0	21,006	(2,603)	18,403
3 NON-USED & USEFUL COMPONENTS	0	(61,039)	(61,039)	0	(61,039)
4 CONSTRUCTION WORK IN PROGRESS	27,269	(27,269)	0	0	0
5 ACCUMULATED DEPRECIATION	(1,469,255)	(15,434)	(1,484,689)	370,954	(1,113,735)
6 CIAC	(2,818,225)	0	(2,818,225)	0	(2,818,225)
7 AMORTIZATION OF CIAC	1,179,210	0	1,179,210	37,000	1,216,210
8 DEFERRED TAXES	0	0	0	10,964	10,964
9 WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>87,076</u>	<u>87,076</u>	<u>(12,968)</u>	<u>74,108</u>
10 <b>RATE BASE</b>	<u>\$2,145,488</u>	<u>\$554,821</u>	<u>\$2,700,309</u>	<u>(\$718,066)</u>	<u>\$1,982,244</u>

**MID-COUNTY SERVICES, INC.**  
**ADJUSTMENTS TO RATE BASE**  
**TEST YEAR ENDED 12/31/02**

SCHEDULE 1-A

EXPLANATION	WASTEWATER
<b><u>PLANT IN SERVICE</u></b>	
1 To reflect adjustments from prior orders, unsupported plant, pro forma additions & related retirements.	(\$1,148,015)
2 To reflect adjustment to WSC allocation	<u>26,602</u>
Total	<u>(\$1,121,413)</u>
<b><u>LAND</u></b>	
To reflect the uncontested adjustment.	<u>(\$2,603)</u>
<b><u>NON-USED AND USEFUL</u></b>	
To adjust for non-used and useful plant	<u>(\$65,559)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
To reflect adjustments from prior orders, unsupported plant, pro forma additions & related retirements.	<u>\$370,955</u>
<b><u>ACCUM. AMORT. OF CIAC</u></b>	
To remove adjustments from prior orders not made and correct calculation	<u>\$37,000</u>
<b><u>ACCUMULATED DEFERRED TAXES</u></b>	
To reflect the net debit balance in rate base.	<u>\$10,964</u>
<b><u>WORKING CAPITAL</u></b>	
To adjust for unamortized rate case expense and misc. deferred debits	<u>(\$12,968)</u>

←

Docket No. 030446-SU  
 Date: July 22, 2004

**MID-COUNTY SERVICES, INC.**  
**CAPITAL STRUCTURE**  
**TEST YEAR ENDED 12/31/02**

SCHEDULE NO. 2

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	SUBTOTAL ADJUSTED CAPITAL	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
<b>PER UTILITY</b>									
1 LONG TERM DEBT	\$88,646,986	\$0	\$88,646,986	(\$87,383,911)	\$1,263,075	46.78%	8.04%	3.76%	
2 SHORT-TERM DEBT	16,709,846	0	16,709,846	(16,471,832)	238,014	8.81%	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	(83,916,951)	1,212,867	44.92%	11.54%	5.18%	
5 CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%	
6 DEFERRED INCOME TAXES	<u>(13,646)</u>	<u>0</u>	<u>(13,646)</u>	<u>0</u>	<u>(13,646)</u>	<u>-0.51%</u>	<u>0.00%</u>	<u>-0.00%</u>	
7 <b>TOTAL CAPITAL</b>	<b><u>\$190,473,004</u></b>	<b><u>\$0</u></b>	<b><u>\$190,473,004</u></b>	<b><u>(\$187,772,694)</u></b>	<b><u>\$2,700,310</u></b>	<b><u>100.00%</u></b>		<b><u>9.29%</u></b>	
<b>PER STAFF</b>									
11 LONG TERM DEBT	\$88,646,986	\$0	\$88,646,986	(\$87,724,507)	\$922,479	46.54%	8.04%	3.74%	
12 SHORT-TERM DEBT	16,709,846	0	16,709,846	(16,535,960)	173,886	8.77%	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	(84,243,940)	885,878	44.69%	11.00%	4.92%	
15 CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%	
16 DEFERRED INCOME TAXES *	<u>(13,646)</u>	<u>13,646</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
17 <b>TOTAL CAPITAL</b>	<b><u>\$190,473,004</u></b>	<b><u>\$13,646</u></b>	<b><u>\$190,486,650</u></b>	<b><u>(\$188,504,407)</u></b>	<b><u>\$1,982,243</u></b>	<b><u>100.00%</u></b>		<b><u>9.00%</u></b>	
						<b><u>LOW</u></b>	<b><u>HIGH</u></b>		
RETURN ON EQUITY						10.00%	12.00%		
OVERALL RATE OF RETURN						8.56%	9.45%		

\* To remove deferred taxes from the capital structure in order to reflect a net debit balance in rate base

Docket No. 030446-SU  
 Date: July 22, 2004

**MID-COUNTY SERVICES, INC.**  
**STATEMENT OF WASTEWATER**  
**OPERATIONS**  
**TEST YEAR ENDED 12/31/02**

SCHEDULE NO. 3

† 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>\$388,782</u>	<u>\$1,441,449</u>	<u>(\$415,234)</u>	<u>\$1,026,215</u>	<u>\$328,399</u> 32.00%	<u>\$1,354,614</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$890,029	\$42,929	\$932,958	(\$50,382)	\$882,576		\$882,576
3 DEPRECIATION	83,077	12,933	96,010	34,476	130,486		130,486
4 AMORTIZATION	0	8,920	8,920	0	8,920)		8,920
5 TAXES OTHER THAN INCOME	78,847	21,367	100,214	(19,604)	80,610	14,778	95,388
6 INCOME TAXES	<u>(22,971)</u>	<u>75,458</u>	<u>52,487</u>	<u>(111,708)</u>	<u>(59,221)</u>	<u>118,016</u>	<u>58,794</u>
7 TOTAL OPERATING EXPENSES	<u>\$1,028,982</u>	<u>\$161,607</u>	<u>\$1,190,589</u>	<u>(\$147,218)</u>	<u>\$1,043,371</u>	<u>\$132,794</u>	<u>\$1,176,164</u>
8 OPERATING INCOME	<u>\$23,685</u>	<u>\$227,175</u>	<u>\$250,860</u>	<u>(\$268,016)</u>	<u>(\$17,156)</u>	<u>\$195,605</u>	<u>\$178,450</u>
9 RATE BASE	<u>\$2,145,488</u>		<u>\$2,700,309</u>		<u>\$1,982,244</u>		<u>\$1,982,244</u>
10 RATE OF RETURN	<u>1.10%</u>		<u>9.29%</u>		<u>-0.87%</u>		<u>9.00%</u>



Docket No. 030446-SU

Date: July 22, 2004

**MID-COUNTY SERVICES, INC.**  
**ADJUSTMENTS TO OPERATING INCOME**  
**TEST YEAR ENDED 12/31/02**

SCHEDULE 3-A

**EXPLANATION**

**WASTEWATER**

**OPERATING REVENUES**

1 Remove requested final revenue increase.	( \$412,791 )
2 To reflect correct amount of annualized revenues as of 12/31/02.	( 2,443 )
Total	<u>( \$415,234 )</u>

**OPERATION & MAINTENANCE EXPENSE**

1 To amortize misclassified condemnation legal fees and other maintenance.	3,493
2 To correct pension expense and employee health insurance.	( \$2,116 )
3 To reflect annual rate case expense amortization.	( \$1,759 )
Total	<u>( \$50,382 )</u>

**DEPRECIATION EXPENSE-NET**

1 To reflect adjustments from prior orders, unsupported plant, pro forma additions & related retirements.	\$53,838
2 To remove net depreciation on non-U&U adjustment above.	( 9,497 )
3 To reflect the proper CIAC amortization rates.	( 9,866 )
Total	<u>\$34,476</u>

**TAXES OTHER THAN INCOME**

1 RAFs on revenue adjustments above.	( \$18,686 )
2 To remove property taxes on Non-U&U.	( 918 )
Total	<u>( \$19,604 )</u>

**INCOME TAXES**

To adjust to test year income tax expense.	<u>( \$111,708 )</u>
--	----------------------

**MID-COUNTY SERVICES, INC.**

**SCHEDULE NO. 4**

**WASTEWATER MONTHLY SERVICE RATES**

**TEST YEAR ENDED 12/31/02**

	Test Year Rates at 12/31/02	Rates Prior to Interim	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-year Rate Reduction
<b><u>Residential</u></b>						
Base Facility Charge:						
All meter sizes	\$24.23	\$23.33	\$26.89	\$32.69	\$25.97	\$0.38
Gallorage Charge - Per 1,000 gallons (20,000 gallon cap Bi-Monthly)	\$1.89	\$1.82	\$2.10	\$2.55	\$2.50	\$0.04
Flat Rate Private Residences	50.22	48.35	55.74	67.75	\$57.23	\$0.84
<b><u>General Service</u></b>						
Base Facility Charge: By Meter Size						
5/8" x 3/4"	\$24.23	\$23.33	\$26.89	\$32.69	\$25.97	\$0.38
1"	\$35.06	\$33.76	\$38.91	\$47.31	\$66.65	\$0.98
1-1/2"	\$62.18	\$59.87	\$69.01	\$83.90	\$149.95	\$2.20
2"	\$139.90	\$134.70	\$155.26	\$188.75	\$266.59	\$3.91
3"	\$248.72	\$239.48	\$276.04	\$335.58	\$599.98	\$8.79
4"	\$559.77	\$538.97	\$621.25	\$741.24	\$1,066.34	\$15.62
6"	\$997.99	\$961.03	\$1,107.60	\$1,346.68	\$2,399.59	\$35.16
Gallorage Charge, per 1,000 Gallons	\$2.27	\$2.19	\$2.52	\$3.07	\$3.00	\$0.04
<b><u>Multi-residential-Metered</u></b>						
Base Facility Charge: By Meter Size						
5/8" x 3/4"	24.23	23.33	26.89	32.69	\$25.97	\$0.38
1"	35.06	33.76	38.91	47.31	\$66.65	\$0.98
1-1/2"	62.18	59.87	69.01	83.90	\$149.95	\$2.20
2"	559.77	538.97	621.25	755.25	\$266.59	\$3.91
3"	994.86	957.90	1104.12	1,342.30	\$599.98	\$8.79
4"	994.86	957.90	1104.12	1,342.30	\$1,066.34	\$15.62
6"	2238.74	2,155.56	2484.62	3,020.57	\$2,399.59	\$35.16
Gallorage Charge, per 1,000 Gallons	2.27	2.19	2.52	3.07	\$3.00	\$0.04
5/8" x 3/4" meter			<b><u>Typical Residential Bills</u></b>			
6,000 Gallons	\$35.57	\$34.25	\$39.49	\$51.11	\$40.97	
10,000 Gallons	\$43.13	\$41.53	\$47.89	\$63.39	\$50.97	
20,000 Gallons	\$62.03	\$59.73	\$68.89	\$94.09	\$75.97	
(Gallorage Cap - 20,000 Gallons Bi-Monthly)						