

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Bay
County by Bayside Utility Services, Inc.

DOCKET NO. 030444-WS
ORDER NO. PSC-04-0820-PAA-WS
ISSUED: August 23, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
LILA A. JABER
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RATE INCREASE AND REQUIRING PARTIAL REFUND OF
INTERIM RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year statutory reduction in rates and the requirement for the utility to provide proof that it has properly adjusted its books, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. BACKGROUND

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

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

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from Bayside Utilities, Inc. to Bayside Utility Services, Inc., we approved the certificate transfer to Bayside Utility Services, Inc. Bayside is a wholly-owned subsidiary of Utilities, Inc. (UI)

On November 17, 2003, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.). 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, F.S. The utility requested that we process this case under the Proposed Agency Action (PAA) procedure.

The test year for interim and final purposes is the historical test year ended December 31, 2002. Bayside requested interim water and wastewater revenues of \$120,894 and \$153,427, respectively. This request represents an increase of \$55,000 (or 83.47%) for water and \$60,814 (or 65.66%) for wastewater. By Order No. PSC-04-0414-PCO-WS, issued April 22, 2004, in this docket, we approved an interim revenue increase of \$42,547 (or 64.57%) for water and \$51,145 (or 55.22%) for wastewater.

The utility has requested final water and wastewater revenues of \$147,563 and \$174,060, respectively. This represents an increase of \$81,669 (or 123.94%) for water and \$81,447 (or 87.94%) for wastewater.

By letter dated May 27, 2004, the utility extended the five-month statutory deadline for this Commission to vote on the utility's requested final rates to August 3, 2004. We have jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, we must determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and (3) the utility's attempt to address customers' satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida 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. Our analysis of each of the three components is set forth below.

A. Quality of Utility's Product

The utility purchases water and wastewater service from the City and resells that service to its 287 connections in Bay County. Bayside has neither a water treatment plant nor a wastewater treatment plant. The City must comply with standards set by the Environmental

Protection Agency (EPA) and enforced by DEP. The DEP has no citations pending against the City for the water system, but a corrective order has been issued against the wastewater system. The City is required to stop discharging effluent into West Bay. According to the DEP, the City is making progress towards correcting the effluent disposal problem. Water service provided to Bayside meets or exceeds all quality standards for safe drinking water.

Since the water service provided by the City is meeting or exceeding the required standards, the quality of the utility's water product is considered satisfactory. While the municipality's effluent disposal does not meet the DEP criteria, Bayside can not be held accountable for the effluent disposal problem. Therefore, the quality of the utility's wastewater product is considered satisfactory.

B. Operational Conditions at the Plant

Since there is neither a water treatment plant nor a wastewater treatment plant, the issue of operational conditions at the plant is moot. However, after reviewing the amount of water purchased versus the amount of water sold, we find that the utility has an unacceptable amount of unaccounted-for water. Historically, an unaccounted-for water percentage of 10% has been found to be acceptable. Bayside's unaccounted for water is 14.54%, which exceeds the 10% threshold by 4.54% for the test year. We will address the issue of unaccounted for water below.

C. Utility's Attempt to Address Customer Satisfaction

Customer meetings were held during the afternoon and evening of April 15, 2004, at the Panama City Beach Senior Center in Panama City Beach. Attending the 4:00 p.m. meeting was the former owner/manager of the utility. Also, in attendance was the president of the homeowner's association, and one other homeowner. The former owner/manager of the utility discussed numerous issues and concerns with our staff. The major issues related to:

1. Numerous back-ups of wastewater that spill and saturate the ground under and around mobile homes in the park.
2. Numerous water outages with the whole park being shut down for repairs.
3. Delayed reaction time to accomplish repairs due to the operator's base of operation being 40 miles away, and the time it takes to get him to the site and make the repair.
4. Difficulty in contacting anyone in the Altamonte Springs office for any reason.
5. The perception that maintenance was non-existent and comments that the emergency light on the middle lift station had been on for three days.

At the evening meeting, approximately 73 customers were present. The former owner/manager spoke first and advised those in attendance of the issues discussed with staff in the earlier meeting. After this presentation, 20 other customers came forward with comments

and concerns. Three customers in attendance declined to address specific points, but stated they supported issues raised during previous comments. The issues were lack of maintenance, no preventative maintenance, sewage spills, slow reaction time to emergencies, frequent leaks, hired maintenance person not making repairs himself, and out-sourcing the work for repairs.

With respect to the customers that have experienced problems with sewage back-ups, this problem has existed during the past two rate cases, and continues today. The former manager believes that the back-up problems experienced by the customers is due to only one pump in the middle lift station.

By Order No. PSC-98-1269-FOF-WS, page 4, this Commission found:

Concerning those customers that have experienced problems with sewage back-ups, it is difficult to determine if the backup problems are due to lift station malfunctions or clogs in the laterals. Should the problem be with the lift stations, the problem appears to have been corrected with recent upgrades (central lift station now has dual pumps).

By letters dated May 6, 2004 and June 14, 2004, Bayside provided a response to the comments presented at the customer meeting. The utility stated that the former owner agreed to install a second pump at the Middle Lift Station at the time of the 1998 staff-assisted rate case, but the pump was never installed. Subsequently, the prior owner agreed to install the second pump and electrical controls in coordination with the development of 75 trailer sites in Bayside's service area. The DEP specifically required that the pump be installed as a condition to the wastewater construction permit issued by the DEP for the 75-unit development. The utility states that, to date, the previous owner has not initiated construction, and DEP has not required Bayside to modify the lift station ahead of the development activity.

Our staff observed that the emergency light at the middle lift station was on the day after the customer meeting. These lights are the primary indicator of a malfunction, and alert the utility and the general public of problems before a possible health hazard occurs.

The utility states that the water and wastewater facilities are visited each business day by utility staff, and the utility's operations staff make every effort to respond promptly to emergencies and effectuate repairs as soon as possible after being notified. The typical daily workload and small frequency of emergency repairs is insufficient to justify a staff person on a continuous basis during the workday.

The service area is primarily a mobile home park that was built in the late 1960's to early 1970's. The original construction of the wastewater collection system consisted of four-inch lines which were used as service laterals that include up to five homes before reaching the utility's collection main. During the late 1960's and early 1970's, most mobile homes were single-wide

trailers that were typically eight, ten and twelve feet in width. However, today, the smallest single-wide is typically twelve feet in width and most residences are now double-wide mobile homes.

As observed in the utility's last rate case, tree roots and other encumbrances periodically clog the wastewater laterals serving these homes, which require the lines to be cleared of obstructions. It appears from customer testimony that when this happens, a dispute occurs between the customer and the utility as to who is responsible. The utility contends that in each case, a licensed plumber is called by the customer to make the repair. If the plumber determines that the clog is located beyond the customer's property, the utility will reimburse the plumber's charges.

In its MFRs, the utility stated it had 8 repairs to mains and associated plant, and 24 incidents requiring cleaning of obstructions involving the wastewater system. For the water system, there were 15 repairs to services and 8 repairs to main breaks. The utility states that the work was required to bring the system to a higher level of operation.

With respect to customer service in the Altamonte Springs office, the utility stated that its customer service representatives are available throughout the business day to address customer issues. After normal business hours, calls are forwarded to an answering service. The answering service routinely contacts the operations dispatcher as needed to relay after-hours problems to field staff.

The quality of customer satisfaction for drinking water and domestic wastewater service appears to be marginal. On May 24, 2004, our staff had an informal meeting with the utility and the Office of Public Counsel. The purpose of the meeting was to discuss where the responsibility for sewer lines begins and ends, and the utility's request for pro forma plant projects. To follow up on the meeting, the utility was to advise our staff on where the utility thought its responsibility for the sewer laterals end, and also any improvements the utility was going to make to the wastewater collection system in order to improve the quality of wastewater service.

While we consider the quality of service to be marginal at this time, the utility appears to be taking appropriate action to improve the quality of service. The utility has requested pro forma plant improvements to improve the quality of service, which are discussed below. Due to the numerous problems with the original construction of the collection system, we find that the utility shall file a plan of improvement for the wastewater collection system within 120 days of the consummating order finalizing this PAA Order.

III. RATE BASE

A. Pro Forma Adjustments

In its filing, the utility requested recovery of the following pro forma plant projects.

<u>Project</u>	<u>Water</u>	<u>Wastewater</u>
Automatic Meter Reading Equipment	\$55,000	
Water Main Improvements	25,000	
Lift Station Improvements	-	\$25,000
Gravity Main Improvements	-	<u>25,000</u>
Total	<u>\$80,000</u>	<u>\$50,000</u>

Bayside has rescheduled the automatic meter reading project for completion in 2006. We find that the installation of automatic meter reading equipment is not needed at this time for Bayside's customers because this utility has only 287 customers. Also, the utility has more pressing improvements that need to be made before automatic meter reading equipment is considered.

In addition, the utility provided vendor estimates totaling \$22,800 for its lift station improvements project and stated that the estimated completion date is December 31, 2004. The purpose of this project is to rehabilitate Bayside's three existing lift stations. This project includes, but is not limited to, installing pumps, pipes, and valves, and replacing electrical components. A review of these vendor estimates shows that these improvements are necessary to insure the proper operation of these lift stations. Also, because administrative and general (A&G) overheads are normal costs incurred as a part of the construction process, we find that a multiplier for A&G overheads in the amount of 10% is appropriate. With this allowance for overheads, we find that the utility's requested \$25,000 pro forma amount for this project is reasonable. These improvements shall be completed within 90 days of the consummating order finalizing this PAA order.

At present, Bayside has not provided any supporting documentation for the water main and wastewater gravity main improvements projects. The proposed water main improvements involve installing isolation valves and loop connections. Bayside stated that the existing distribution system lacks sufficient valves and that these improvements will reduce the impact of maintenance activities on the customers. The proposed gravity main improvements involve reshaping the manhole invert channels and grouting the interior of the manholes. The utility stated that these improvements will allow proper flow velocity through each manhole, reduce the frequency of sewer blockages due to grease and sediment accumulation, reduce groundwater infiltration, and protect the ground surface from sinking. We find that both of these projects are

necessary and would improve the quality of service to the customers. The utility has provided no support for these projects and even commented that the costs could be higher than those included as pro forma adjustments in its MFRs. As such, we do not find it is appropriate to include these projects at this time.

Thus, the appropriate amount of pro forma plant that shall be included for PAA rates at this time is \$25,000 for the lift station improvements. As a result, we have reduced pro forma plant by \$80,000 for water and \$25,000 for wastewater. Corresponding adjustments have also been made to reduce both accumulated depreciation and depreciation expense by \$4,248 for water and \$556 for wastewater. Also, we have made corresponding adjustments to reduce property taxes by \$34 for water and \$6 for wastewater.

Further, the utility shall complete the water main and wastewater gravity main improvements projects within 180 days of the Consummating Order finalizing this PAA Order. Upon the completion of these projects, the utility shall submit supporting documentation reflecting the actual costs and prudence associated with these projects. Our staff shall review this information and file another recommendation addressing whether a Phase II rate increase should be considered. If the improvements required by this Commission are not made within the required timeframes, a show cause proceeding will be initiated.

B. Additional Rate Base Adjustments Pursuant to Audit

Staff auditors recommended the following rate base adjustments.

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
1. Prior Order Commission Adjustments – Exceptions Nos. 1,5, and 7		
Decrease Plant	(\$8,350)	
Increase Plant		\$8,162
Increase Accumulated Depreciation	7,528	49,260
Increase Accumulated Amortization of CIAC	4,317	0
2. Remove Acquisition Related Costs – Exception No. 2		
Decrease Plant	(\$39,365)	(\$18,798)
Decrease Accumulated Depreciation	(2,569)	(1,639)
Decrease Depreciation Expense	(984)	(514)

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
3. Misclassified Plant and Expenses – Exception No. 3		
Decrease Plant	(\$3,215)	(\$1,548)
Decrease Accumulated Depreciation	(70)	(43)
Decrease Depreciation Expense	(70)	(43)
4. Adjustments for Common Plant Allocations – Exception No. 4		
Decrease Plant	(\$2,052)	
Decrease Accumulated Depreciation	(1,001)	
Decrease Depreciation Expense	(440)	
Increase Plant		\$6,134
Increase Accumulated Depreciation		1,001
Increase Depreciation Expense		440
5. Correcting Depreciation Rates – Exception No. 6		
Increase Accumulated Depreciation		\$14,474
Increase Depreciation Expense		6,162

The utility agrees with all of the above audit adjustments. Therefore, plant shall be decreased by \$52,982 for water and \$6,050 for wastewater, and accumulated depreciation shall be increased by \$3,888 for water and \$63,053 for wastewater. In addition, accumulated amortization of contributions in aid of construction (CIAC) shall be increased by \$4,317 for water. Further, corresponding adjustments shall be made to decrease depreciation expense by \$1,494 for water and to increase depreciation expense by \$6,045 for wastewater.

C. Allocations for Water Service Corporation

Earlier in this Order, we included additional common plant that Bayside excluded in its MFRs and to correct the allocation between its water and wastewater systems. In its MFRs, the utility reflected allocated expenses of \$5,309 for both water and wastewater. Water Service Corporation (WSC) is a Utilities, Inc. subsidiary which provides administrative services such as billing 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. Based on further review, we find that additional adjustments are necessary to the WSC allocations for Bayside.

First, UI used a factor of 1.5 to determine Bayside's CEs of 431 (287 customers multiplied by 1.5). According to UI's allocation methodology, the number of customers for water distribution or wastewater collection are multiplied by a factor of 0.5 each in order to determine the proper amount of CEs. Since Bayside is a reseller of water and wastewater service, WSC should have used an allocation factor of 1 which would be 287 CEs.

Second, UI uses a June 30th cutoff date to determine which UI subsidiaries should be included in the allocation process. UI asserted that a cutoff date after June 30th would unfairly allocate expenses to a subsidiary that was owned for less than six months. UI stated that it considered including newly acquired companies based on the date of acquisition, using a weighted average, but UI rejected that as too cumbersome. We note that UI acquired three large utility systems after June 30, 2002, and the Florida subsidiaries added 854 CEs during the last half of 2003. We find that a June 30th cutoff for determining the number CEs of each system does not adequately spread each year's common costs. We believe that a weighted average of all systems better matches the costs on a per system basis and a weighted average shall be used. Moreover, because the test year in this docket is December 31, 2002, we find that it is inappropriate to exclude the additional CEs from the allocation process because resources were expended for those customers during 2002.

Third, excess liability insurance is allocated based on the number of miles of sewer mains, gallons of water sold, and operator's salary. In response to Staff's Second Data Request, Bayside stated that WSC incorrectly reflected gallons sold on 2001 data and that the correct gallons sold for 2002 is 11,661,000 as shown on MFR Schedule F-1. Regarding operator salaries, WSC excluded operators' salaries for three utilities acquired after June 30, 2002, which created a mismatch. Therefore, these salaries for the additional three utilities shall be considered in the allocation process.

Fourth, WSC allocates worker's compensation insurance based on operator salaries only. This insurance also applies to office employees. Therefore, we find that it is appropriate to allocate this insurance based on operator and office salaries.

Applying the above adjustments to the utility's allocation methodology, we find that plant for both water and wastewater shall be decreased by \$533. Depreciation expense for both water and wastewater shall be decreased by \$57. In addition, O&M expenses shall be reduced by \$1,426 for both water and wastewater. Further, UI shall revise its allocation methodology beginning January 1, 2004, to a weighted average of each calendar year in order to properly spread costs to customers.

D. Used and Useful Calculation for Water Distribution and Wastewater Collection System

By Order No. PSC-98-1269-FOF-WS, in Bayside's last rate case, this Commission found that because the utility no longer had water and wastewater treatment plant facilities, a used and useful determination for treatment was not applicable. Bayside's only water facilities are the interconnecting pipe work to the city's main which is considered a component of the distribution system. Wastewater generated by the residents of Bayside is transported to the Panama City Beach system via three in-line lift stations which are considered components of the collection system.

By Order No. PSC-98-1269-FOF-WS, we also found that Bayside's water distribution and wastewater collection systems were 100% used and useful. The network of water distribution and wastewater collection mains are designed to serve the existing capacity of 287 connections. The water and wastewater service area is built out. Therefore, both the water distribution system and the wastewater collection system shall be considered 100% used and useful.

E. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. Based on our adjustments to the utility's O&M expenses and other adjustments, we calculate working capital to be \$10,019 and \$10,787 for water and wastewater, respectively. This reflects a decrease of \$1,754 to the utility's requested working capital allowance of \$11,773 for water and a decrease of \$2,611 from the utility's requested allowance of \$13,398 for wastewater.

F. Total Rate Base

Consistent with our above adjustments, the appropriate simple average rate base for the test year ending December 31, 2002 is \$66,672 for water and \$194,663 for wastewater. Our calculations of the water and wastewater rate bases are shown on Schedules Nos. 1-A and 1-B, respectively, while our adjustments are shown on Schedule No. 1-C.

IV. COST OF CAPITAL

In its MFRs, the utility used the debt and equity ratios of its parent, UI, to prorate Bayside's share of the parent's capital. The utility reflected accumulated deferred income taxes that are specifically attributable to Bayside, but it included the deferred taxes as a negative number. The utility included the actual balance of customer deposits. Using the Commission's 2003 leverage formula, the utility reflected a cost of 11.77% for equity, and requested an overall cost of capital of 9.18%. However, we find that several adjustments are necessary.

First, the utility agrees that its test year deferred taxes balance was misstated in its MFRs. To correct this, deferred taxes shall be increased by \$14,610. Second, the utility agrees that its MFRs do not reflect the effect of the utility's claim of a special tax depreciation allowance. Therefore, Bayside's deferred taxes shall be increased by \$7,108 to reflect the impact of the utility's claim of the special tax depreciation allowance on historical plant, as well as our previously approved pro forma plant. Thus, the appropriate balance of deferred taxes is \$14,413, which represents an increase of \$21,718.

Further, the 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, the appropriate cost of equity is 11.21%, with a range of 10.21% to 12.21%. Based on the above, the overall cost of capital is 8.28%, with a range of 7.90% to 8.67%. Our calculation of the cost of capital is shown on Schedule No. 2.

V. NET OPERATING INCOME

A. Employee Salaries

In its MFRs, the utility reflected adjusted employee salaries of \$22,618 for water and \$20,985 for wastewater. The requested expense reflects a 3% salary increase for 2003. Our staff requested the utility to explain why direct operator salaries increased \$23,889 (or 178%) collectively for both water and wastewater from 2001 to 2002. Bayside stated that the increase related to one operator changing from part-time to full-time employment, as well as the addition of another full-time operator in 2002.

Upon review of the utility's supporting documentation, our staff discovered that the utility's 2002 salaries included amounts of four employees who have been replaced. Further, in 2003, there were four additional employees of Bayside who did not have any salaries in the 2002 test year. Also, one employee did not spend any time at Bayside in 2003, even though a portion of his salary was attributable to the utility in 2002. With the known changes in staffing, we find that corresponding direct operator salaries shall be changed to the 2003 levels. Further, by using the 2003 salary levels, the utility's 3% salary increase for 2003 direct operators salaries shall be removed as well.

According to the utility's 2003 staffing information, there are seven employees that spend a small portion of their hours for Bayside. Basically, there are two employees that deal with the day-to-day operations of the utility. The utility stated that one operator spends half of his work week at Bayside. Based on the duties and time typically spent at the utility, we find this operator's salary is reasonable. The utility stated that the other operator typically spends 6 to 10 hours per week at Bayside. Using a 10 hour per week estimate, 25% of this operator's salary

shall be allocated to Bayside. However, during the 2002 test year, UI attributed 57% of this operator's salary to the utility.

Therefore, to reflect the appropriate staffing levels and adjust operator time based on typical hours worked, employee salaries shall be reduced by \$9,589 for both water and wastewater to reflect the appropriate direct operator salaries. Corresponding adjustments shall be made to reduce pensions & benefits by \$3,652 for both water and wastewater. Further, corresponding adjustments shall be made to reduce payroll taxes by \$734 for both water and wastewater.

B. Audit Adjustments

In its MFRs, Bayside made pro forma adjustments to increase health care costs by \$1,293 for both water and wastewater. This represents an increase of 25.86% over test year expenses. The utility made pro forma adjustments to increase insurance costs by \$534 for water and \$749 for wastewater. This represents an increase of 36.88% over test year expenses.

In Audit Disclosure No. 3, staff auditors stated that actual health care 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 \$714 for water and \$679 for wastewater be made. In its audit response, Bayside agreed with the auditors' recommendation. Based on the above, O&M expenses shall be reduced by \$714 for water and \$679 for wastewater.

C. Unaccounted for Water

In its MFRs, the utility stated that the excessive unaccounted for water is believed to be attributed to meter error and undetected leaks. Because water is a limited resource that should be protected, we find that it is important to reduce the amount of unaccounted for water. However, it is our practice to allow 10% of the total water produced or purchased as acceptable unaccounted for water. In most instances, we have reduced the chemical and electrical costs associated with unaccounted for water in excess of 10% so that ratepayers do not bear those excessive costs. Because this utility does not provide water treatment it does not have direct costs for chemicals and purchased power. In this case, we find that a reduction to purchased water for the amount of purchased water in excess of 10% shall be made. In addition, the utility shall investigate the source of water loss and provide a report identifying the source of the unaccounted for water within 90 days of the Consummating Order finalizing this PAA Order.

The total amount of water purchased of 14,084,269 gallons, less the amount of water sold of 11,661,000 gallons, and less the amount of water accounted for by the utility of 375,000 gallons, equals an unaccounted for water amount of 2,048,269 gallons. Dividing 2,048,269 by 14,084,269 and multiplying by 100% equals 14.54% unaccounted for water. The excess amount of unaccounted for water is 4.54%.

Account No. 610 shows a purchased water expense of \$48,112. This expense for purchased water shall be reduced by 4.54%, or \$2,184 ($\$48,112 \times .0454 = \$2,184$).

D. Materials and Supplies

In its MFRs, the utility reflected test year material and supplies (M&S) expense of \$7,838 for water and \$25,345 for wastewater. Based on staff's review, M&S expense has fluctuated greatly since UI acquired Bayside. To test the reasonableness of the test year level, our staff compared M&S expenses for two years prior and one year after the 2002 test year. According to its annual reports from 2000-2003, the utility incurred average M&S expenses of \$6,707 for water and \$14,909 for wastewater, respectively. To normalize the test year M&S expense, we find that the appropriate expense level for rate setting purposes is the four-year average from 2000 to 2003. We also find that indexing of the 2000 and 2001 expenses by the Commission-approved price indices is appropriate. With the indexing adjustments, the four-year average is \$6,836 for water and \$15,086 for wastewater. As a result, M&S expense shall be reduced by \$1,020 for water and \$10,257 for wastewater.

E. Bad Debt Expense

In its MFRs, Bayside reflected test year bad debt expense of \$2,219 for water and \$3,112 for wastewater. Our staff requested that the utility provide a schedule listing the customer's name, the water and wastewater amount written-off for each customer, and how long the balance due account was outstanding before it was written-off. In its response to staff's data request, the utility stated it was unable to provide this information for the 2002 test year. Due to the transient nature of the utility's customer base, bad debt expense tends to materially fluctuate. We find that the difference between the four-year average from 2000 to 2003 and the 2002 test year amount shall be removed in order to normalize test year bad debt expense. As a result, bad debt expense shall be reduced by \$435 for water and by \$592 for wastewater.

F. Rate Case Expense

In its MFRs, the utility reflected a \$102,909 estimate for rate case expense to process this case. Our 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 \$63,134. The components of the estimated rate case expense are as follows:

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Filing Fee	\$2,000	\$2,000	\$0	\$2,000
Legal Fees	42,750	13,700	12,000	25,700
Consultant Fees	25,000	13,671	6,450	20,121
WSC In-house Fees	13,909	4,332	8,023	12,355
Miscellaneous Expense	<u>19,250</u>	<u>1,494</u>	<u>1,464</u>	<u>2,958</u>
Total Rate Case Expense	<u>\$102,909</u>	<u>\$35,197</u>	<u>\$27,937</u>	<u>\$63,134</u>

Pursuant to Section 367.081(7), F.S., we must determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. The utility has provided our staff with documentation to justify its requested rate case expense. However, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rehearing denied, 529 So. 2d 694 (Fla. 1988). Despite this fact, we have a broad discretion with respect to allowance of rate case expense. Florida Crown Util. Servs., Inc. v. Utility Regulatory Bd. Of Jacksonville, 274 So. 2d 597, 598 (Fla. 1st DCA 1973). After review of the requested actual expenses, supporting documentation, and estimated expenses, we find that the revised estimate is reasonable with three exceptions.

First, we note that the utility incurred additional rate case expense to correct deficiencies in the MFR filing. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for an increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

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. However, an analysis of the deficiency letters and supplemental data requests shows that of the 15 major parts, only 2 items were supplemental data requests as opposed to deficiencies. Therefore, we find that 23.66 hours were spent on MFR deficiencies, and that \$2,500 shall be removed for consultant fees and expenses. Also, we find that the utility's in-house and legal fees shall be reduced by \$295 and \$483, respectively, to correct the MFRs.

Second, the utility’s attorney filed numerous amendments to WSC’s in-house fees and expenses. We find that it is appropriate to reduce the attorney’s total hours by one hour, for a reduction of \$240, to remove these duplicative legal costs. Accordingly, we have removed \$3,518 as duplicative and unreasonable rate case expense.

Also, the utility has included \$214 for both water and wastewater related to rate case expense amortization for a previous case. Because the utility’s last rate proceeding was more than four years ago, the amortized O&M expenses shall be reduced by \$214 for both water and wastewater.

Based on the above adjustments, the appropriate total rate case expense is \$59,369. Pursuant to Section 367.0816, F.S., rate case expense shall be amortized over four years, and, therefore, the annual rate case expense is calculated to be \$14,842. Our calculation of the appropriate annual rate case expense is set out below:

	MFR <u>Estimated</u>	Utility Revised <u>Actual & Estimated</u>	Commn <u>Adjustments</u>	<u>Total</u>
Filing Fee	\$2,000	\$2,000	\$0	\$2,000
Legal Fees	42,750	25,700	(723)	24,977
Consultant Fees	25,000	20,121	(2,500)	17,621
WSC In-house Fees	13,909	12,355	(295)	12,060
Miscellaneous Expense	<u>19,250</u>	<u>2,711</u>	<u>0</u>	<u>2,711</u>
Total Rate Case Expense	<u>\$102,909</u>	<u>\$62,887</u>	<u>(\$3,518)</u>	<u>\$59,369</u>
Current Amortization	\$25,728		(\$10,885)	\$14,842
Prior Amortization	428		<u>(428)</u>	<u>0</u>
Total Annual Expense	<u>\$26,156</u>		<u>(\$11,313)</u>	<u>\$14,842</u>

Dividing the \$14,842 expense equally between water and wastewater, results in an annual amortization expense of \$7,421 for each, respectively. This results in a test year amortization reduction of \$5,656 for both water and wastewater.

G. Wastewater Operating Income

As shown on attached Schedule No. 3, after applying our adjustments, the test year net operating income (NOI) before any revenue increase is a loss of \$13,251 for water and a loss of \$7,472 for wastewater. Our calculations of the appropriate NOI for water and wastewater, respectively, are shown on Schedules Nos. 3-A and 3-B, with our adjustments shown on Schedule 3-C.

VI. REVENUE REQUIREMENT

Bayside requested final rates designed to generate annual revenues of \$147,563 and \$174,060 for water and wastewater, respectively. These revenues exceed test year revenues by \$81,669 (123.94%), and \$81,447 (87.94%) for water and wastewater, respectively.

Based upon our adjustments to rate base, cost of capital, and operating income, we find that the revenue requirement is \$97,411 for water, and \$132,222 for wastewater. These revenues exceed adjusted test year revenues by \$31,517, or 47.83%, for water, and \$39,609, or 42.77%, for wastewater. These increases will allow the utility the opportunity to recover its expenses and earn an 8.28% return on its investment in water and wastewater rate base.

VII. RATES AND RATE STRUCTURE

A. Water Rate Structure

The utility's current water rate structure consists of the base facility charge (BFC) and uniform gallonage charge rate structure, in which the BFC is \$13.25 per month and all usage per month is charged \$2.11 per 1,000 gallons (kgal). It has been our practice over the past several years to implement an inclining block rate structure whenever possible. However, our staff's analysis indicates that the utility customers' overall average monthly consumption is approximately 3.8 kgal, and that the customer base is highly seasonal. Moreover, at least 75% of the utility's residential bills and gallons are captured at 5 kgal or less. Because this is consistent with a high degree of customer seasonality and nondiscretionary consumption, we find that a continuation of the base facility and uniform gallonage rate structure is appropriate for this utility.

Based on our staff's initial analysis of fixed versus variable cost allocation of pre-repression revenue requirement recovery, we find that the utility would recover 40% of the water revenue requirement (\$39,488) in the BFC charge and the remaining 60% (\$59,322) in the gallonage charge. It has been our practice to recover no more than 40% through the BFC. This rate structure guideline was developed by the Southwest Florida Water Management District (SWFWMD) and has been generally adopted by the remaining four Water Management Districts and this Commission. However, Bayside is considered non-jurisdictional by the Northwest Florida Water Management District. Because of the seasonal customer base, we find that a BFC allocation no greater than 40% is appropriate to safeguard the utility's revenue stability. Therefore, we have made no conservation adjustment.

We attempt to design rates such that customers who are at average consumption will receive a price increase approximately equal to the revenue requirement increase. A review of the effect of the approved rate structure indicates that customers at the average level of consumption will receive a price increase in their monthly bill of 54%, which is approximately equivalent to the overall pre-repression revenue requirement increase for water.

B. Wastewater Rate Structure

Bayside's current wastewater rate structure is the base facility charge and gallonage charge rate structure with a 6,000 gallon cap for residential customers, and a differential in the gallonage charge between residential and general service. The differential is designed to

recognize that approximately 80% of the residential customers' water usage will return to the wastewater system. For multi-family and general service customers, approximately 96% of water usage is returned. This wastewater gallonage rate differential is employed by this Commission in wastewater rate setting and is widely recognized as an industry standard. Based on the above, we find that the utility's current rate structure is appropriate and no change is warranted in this case.

C. Repression Adjustment

Based on information contained in our database of utilities receiving rate increases and decreases, there were two water utilities whose prior prices and prior average consumptions closely matched those of Bayside. Furthermore, the approximate 54% average water price increase experienced by the two utilities matches the corresponding pre-repression water increase expected by the Bayside customers.

The reductions in water quantity demanded for the two utilities were 6.8% and 3.2%, respectively. Due to the narrow range of reductions exhibited by the two utilities, coupled with the close match of the utilities' prior prices and average consumptions to Bayside, we find it is reasonable to base Bayside's anticipated water consumption reduction on an average of the two utilities' consumption reductions. This results in an anticipated annual reduction in residential water consumption for Bayside of 5.0%, or 563 kgal, while the corresponding adjustment for the wastewater system is 453 kgal. The overall reductions in consumption are 4.8% for both the water and wastewater systems.

In order to monitor the effects of the revenue changes, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by type of service, customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the rate changes go into effect.

D. Water and Wastewater Rates

Comparisons of the utility's original, interim, requested, and approved water and wastewater monthly rates are shown on Schedules Nos. 4-A and 4-B, respectively. Excluding miscellaneous service revenues, the approved water and wastewater rates are designed to produce revenues of \$96,456 and \$130,880, respectively. The utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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., provided that staff has approved the proposed customer notice. The utility shall provide proof of the date the notice was given no less than 10 days after the date of the notice.

E. Refund Requirement

By Order No. PSC-04-0414-PCO-WS, issued April 22, 2004, we authorized the collection of interim water and 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>
Water	\$108,441	\$42,547	64.57%
Wastewater	\$143,758	\$51,145	55.22%

According to Section 367.082, F.S., any refund must 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. Bayside'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, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense, pro forma adjustments, and the repression adjustments were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we calculate the interim revenue requirement for the interim collection period to be \$91,922 for water and \$122,670 for wastewater. The water and wastewater revenue levels are less than the interim revenues which were granted in Order No. PSC-04-0414-PCO-WS. Therefore, a refund of 15.37% of interim rates for water and 14.81% for wastewater is required. The refunds shall be with interest in accordance with Rule 25-30.360(4), F.A.C. The utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The utility shall also treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

VIII. FOUR-YEAR STATUTORY RATE REDUCTION

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 regulatory assessment fees which is \$7,771 for both

water and wastewater. The decreased revenues will result in the rate reduction as shown on Schedules Nos. 4-A and 4-B.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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., provided that staff has approved the proposed customer notice. The utility shall 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.

IX. ADJUSTMENT OF BOOKS

To ensure that the utility adjusts its books in accordance with our decision, Bayside shall provide proof, within 90 days of the Consummating Order finalizing this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners' Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Bayside Utility Services, Inc.'s application for a rate increase is approved as set forth in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

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

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

ORDERED that Bayside Utility Services, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. It is further

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ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that staff has approved the proposed customer notice. It is further

ORDERED that Bayside Utility Services, Inc. shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that due to the numerous problems with the original construction of the collection system, Bayside Utility Services, Inc. shall file a plan of improvement for the wastewater collection system within 120 days of the Consummating Order finalizing this Proposed Agency Action Order. It is further

ORDERED that the lift station improvements shall be completed within 90 days of the Consummating Order finalizing this Proposed Agency Action Order. It is further

ORDERED that Bayside Utility Services, Inc. shall complete the water main and wastewater gravity main improvements projects within 180 days of the Consummating Order finalizing this Proposed Agency Action Order. Upon the completion of these projects, the utility shall submit supporting documentation reflecting the actual costs and prudence associated with these projects. It is further

ORDERED that failure of Bayside Utility Services, Inc. to timely complete any of the improvements required by this Proposed Agency Action Order will subject it to a show cause proceeding in accordance with Section 367.156, Florida Statutes. It is further

ORDERED that Bayside Utility Services, Inc. shall investigate the source of water loss and provide a report identifying the cause of the unaccounted for water within 90 days of the Consummating Order finalizing this Proposed Agency Action Order. It is further

ORDERED that Bayside Utility Services, Inc. shall refund 15.37% of water and 14.82% of wastewater revenues collected under interim rates as set forth in the body of this Order. It is further

ORDERED that the refunds shall be with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. It is further

ORDERED that Bayside Utility Services, Inc. shall submit proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that Bayside Utility Services, Inc. shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that in order to monitor the effects of the approved revenue changes, Bayside Utility Services, Inc. shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by type of service, customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the rate changes go into effect. It is further

ORDERED that Bayside Utility Services, Inc. shall provide proof, within 90 days of the Consummating Order finalizing this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners' Uniform System of Accounts primary accounts have been made. It is further

ORDERED that the rates shall be reduced as shown on Schedule 4 to remove \$7,771 separately for both water and wastewater for rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. It is further

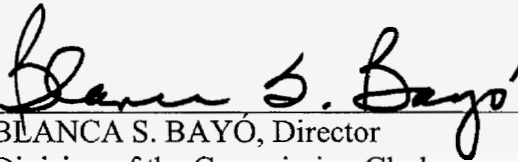
ORDERED that Bayside Utility Services, Inc. shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that if Bayside Utility Services, Inc. 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. It is further

ORDERED that 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 this Order, a Consummating Order will be issued, and this docket shall remain open for our staff's verification that the revised tariff sheets reflecting the rate increase and customer notice have been filed by the utility and approved by our staff, and the refund has been completed. It is further

ORDERED that once these actions are complete, the corporate undertaking may be released and this docket shall remain open for staff to verify that the plant improvements required by this Order have been completed, and for staff to file another proposed agency action recommendation to address a Phase II rate increase for these plant projects.

By ORDER of the Florida Public Service Commission this 23rd day of August, 2004.



BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

RRJ

Commissioner J. Terry Deason dissented from this decision.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our actions, except for the four-year statutory reduction in rates and the requirement for the utility to provide proof that it has properly adjusted its books which are final, are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 13, 2004. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a

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hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request:

- (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

**BAYSIDE UTILITY SERVICES, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/02**

**SCHEDULE NO. 1-A
DOCKET 030444-WS**

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$235,308	\$80,000	\$315,308	(\$133,515)	\$181,793
2 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
3 ACCUMULATED DEPRECIATION	(113,161)	(4,248)	(117,409)	360	(117,049)
4 CIAC	(52,911)	0	(52,911)	0	(52,911)
5 AMORTIZATION OF CIAC	40,503	0	40,503	4,317	44,820
6 ACQUISITION ADJUSTMENT	(8,656)	8,656	0	0	0
7 WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>11,773</u>	<u>11,773</u>	<u>(1,754)</u>	<u>10,019</u>
8 RATE BASE	<u>\$101,083</u>	<u>\$96,181</u>	<u>\$197,264</u>	<u>(\$130,592)</u>	<u>\$66,672</u>

BAYSIDE UTILITY SERVICES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/02			SCHEDULE NO. 1-B DOCKET 030444-WS		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$382,444	\$50,000	\$432,444	(\$31,583)	\$400,861
2 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
3 ACCUMULATED DEPRECIATION	(152,932)	(1,556)	(154,488)	(62,497)	(216,985)
4 CIAC	0	0	0	0	0
5 AMORTIZATION OF CIAC	0	0	0	0	0
6 ACQUISITION ADJUSTMENT	(29,367)	29,367	0	0	0
7 WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,398</u>	<u>13,398</u>	<u>(2,611)</u>	<u>10,787</u>
8 RATE BASE	<u>\$200,145</u>	<u>\$91,209</u>	<u>\$291,354</u>	<u>(\$96,691)</u>	<u>\$194,663</u>

BAYSIDE UTILITY SERVICES, INC.		SCHED. NO. 1-C	
ADJUSTMENTS TO RATE BASE		DOCKET 030444-WS	
TEST YEAR ENDED 12/31/02			
EXPLANATION	WATER	WASTEWATER	
<u>PLANT IN SERVICE</u>			
1 To remove unsupported pro forma plant.(Issue 2)	(\$80,000)	(\$25,000)	
2 To reflect uncontested audit adjustments.(Issue 3)	(52,982)	(6,050)	
3 To reflect the appropriate allocated rate base.(Issue 4)	<u>(533)</u>	<u>(533)</u>	
Total	<u>(\$133,515)</u>	<u>(\$31,583)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1 To remove unsupported pro forma plant. (Issue 2)	\$4,248	\$55	
2 To reflect uncontested audit adjustments.(Issue 3)	<u>(3,888)</u>	<u>(63,053)</u>	
Total	<u>\$360</u>	<u>(\$62,497)</u>	
<u>ACCUM. AMORT. OF CIAC</u>			
To reflect uncontested audit adjustments.(Issue 3)	<u>\$4,317</u>	<u>\$</u>	
<u>WORKING CAPITAL</u>			
Adjust working capital based on staff's adjusted O&M expenses. (Issue 6)	<u>(\$1,754)</u>	<u>(\$2,611)</u>	

BAYSIDE UTILITY SERVICES, INC. CAPITAL STRUCTURE - SIMPLE AVERAGE TEST YEAR ENDED 12/31/02						SCHEDULE NO. 2-A DOCKET 030444-WS		
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	\$94,090,081	\$0	\$94,090,081	(\$93,839,343)	\$250,738	51.32%	7.56%	3.88%
2 SHORT-TERM DEBT	11,824,500	0	11,824,500	(11,793,011)	\$31,489	6.44%	3.93%	0.25%
3 PREFERRED STOCK	0	0	0	0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	77,021,455	0	77,021,455	(76,816,243)	\$205,212	42.00%	11.77%	4.94%
5 CUSTOMER DEPOSITS	8,484	0	8,484	0	\$8,484	1.74%	6.00%	0.10%
6 DEFERRED INCOME TAXES	<u>(7,305)</u>	<u>0</u>	<u>(7,305)</u>	<u>0</u>	<u>(\$7,305)</u>	<u>-1.50%</u>	0.00%	<u>-0.00%</u>
7 TOTAL CAPITAL	<u>\$182,937,215</u>	<u>\$0</u>	<u>\$182,937,215</u>	<u>(\$182,448,597)</u>	<u>\$488,618</u>	<u>100.00%</u>		<u>9.18%</u>
PER COMMISSION								
8 LONG TERM DEBT	\$94,090,081	\$0	\$94,090,081	(\$93,967,444)	\$122,637	46.93%	7.56%	3.55%
9 SHORT-TERM DEBT	11,824,500	0	11,824,500	(11,809,088)	15,412	5.90%	3.93%	0.23%
10 PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
11 COMMON EQUITY	77,021,455	0	77,021,455	(76,921,065)	100,390	38.41%	11.21%	4.31%
12 CUSTOMER DEPOSITS	8,484	0	8,484	0	8,484	3.25%	6.00%	0.19%
13 DEFERRED INCOME TAXES	<u>(7,305)</u>	<u>21,718</u>	<u>14,413</u>	<u>0</u>	<u>14,413</u>	<u>5.52%</u>	0.00%	<u>0.00%</u>
14 TOTAL CAPITAL	<u>\$182,937,215</u>	<u>\$21,718</u>	<u>\$182,958,933</u>	<u>(\$182,697,598)</u>	<u>\$261,335</u>	<u>100.00%</u>		<u>8.28%</u>
						LOW	HIGH	
							10.21%	12.21%
							7.90%	8.67%

BAYSIDE UTILITY SERVICES, INC.
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/02

SCHED. NO. 2-B
DOCKET 030444-WS

EXPLANATION

ACCUMULATED DEFERRED INCOME TAXES

Correct the balance and reflect the utility's special tax depreciation claim.

\$21,718

BAYSIDE UTILITY SERVICES, INC. STATEMENT OF WATER OPERATIONS TEST YEAR ENDED 12/31/02							SCHEDULE NO. 3-A DOCKET 030444-WS	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT	
1 OPERATING REVENUES	<u>\$64,713</u>	<u>\$82,850</u>	<u>\$147,563</u>	<u>(\$81,669)</u>	<u>\$65,894</u>	<u>\$31,517</u> 47.83%	<u>\$97,411</u>	
OPERATING EXPENSES:								
2 OPERATION & MAINTENANCE	\$91,698	\$15,350	\$107,048	(\$26,895)	\$80,153		\$80,153	
3 DEPRECIATION	5,985	4,248	10,233	(5,799)	4,434		4,434	
4 AMORTIZATION	0	0	0	0	0		0	
5 TAXES OTHER THAN INCOME	4,719	3,876	8,595	(4,443)	4,152	\$1,418	5,571	
6 INCOME TAXES	<u>(14,723)</u>	<u>18,302</u>	<u>3,579</u>	<u>(13,173)</u>	<u>(9,594)</u>	<u>11,326</u>	<u>1,732</u>	
7 TOTAL OPERATING EXPENSES	<u>\$87,679</u>	<u>\$41,776</u>	<u>\$129,455</u>	<u>(\$50,310)</u>	<u>\$79,145</u>	<u>\$12,744</u>	<u>\$91,890</u>	
8 OPERATING INCOME	<u>(\$22,966)</u>	<u>\$41,074</u>	<u>\$18,108</u>	<u>(\$31,359)</u>	<u>(\$13,251)</u>	<u>\$18,772</u>	<u>\$5,521</u>	
9 RATE BASE	<u>\$101,083</u>		<u>\$197,264</u>		<u>\$66,672</u>		<u>\$66,672</u>	
10 RATE OF RETURN	<u>(22.72%)</u>		<u>9.18%</u>		<u>(19.88%)</u>		<u>8.28%</u>	

BAYSIDE UTILITY SERVICES, INC. STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/02							SCHEDULE NO. 3-B DOCKET 030444-WS	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT	
1 OPERATING REVENUES	<u>\$90,721</u>	<u>\$83,339</u>	<u>\$174,060</u>	<u>(\$81,447)</u>	<u>\$92,613</u>	<u>\$39,609</u> 42.77%	<u>\$132,222</u>	
OPERATING EXPENSES								
2 OPERATION & MAINTENANCE	\$104,533	\$15,514	\$120,047	(\$33,752)	\$86,295		\$86,295	
3 DEPRECIATION	10,559	1,556	12,115	5,432	17,547		17,547	
4 AMORTIZATION	0	0	0	0	0		0	
5 TAXES OTHER THAN INCOME	5,920	3,904	9,824	(4,405)	5,419	1,782	7,202	
6 INCOME TAXES	<u>(12,203)</u>	<u>17,532</u>	<u>5,329</u>	<u>(14,505)</u>	<u>(9,176)</u>	<u>14,234</u>	<u>5,058</u>	
7 TOTAL OPERATING EXPENSES	<u>108,809</u>	<u>38,506</u>	<u>147,315</u>	<u>(47,230)</u>	<u>100,085</u>	<u>16,016</u>	<u>116,102</u>	
8 OPERATING INCOME	<u>(\$18,088)</u>	<u>\$44,833</u>	<u>\$26,745</u>	<u>(\$34,217)</u>	<u>(\$7,472)</u>	<u>\$23,592</u>	<u>\$16,120</u>	
9 RATE BASE	<u>\$200,145</u>		<u>\$291,354</u>		<u>\$194,663</u>		<u>\$194,663</u>	
10 RATE OF RETURN	<u>(9.04%)</u>		<u>9.18%</u>		<u>(3.84%)</u>		<u>8.28%</u>	

BAYSIDE UTILITY SERVICES, INC.		SCHED. NO. 3-C	
ADJUSTMENTS TO OPERATING INCOME		DOCKET 030444-WS	
TEST YEAR ENDED 12/31/02			
EXPLANATION	WATER	WASTEWATER	
<u>OPERATING REVENUES</u>			
Remove requested final revenue increase	<u>(\$81,669)</u>	<u>(\$81,447)</u>	
<u>OPERATION & MAINTENANCE EXPENSE</u>			
1 To reflect the appropriate WSC allocated costs.(Issue 4)	(\$1,426)	(\$1,426)	
2 To reflect the appropriate operator salaries. (Issue 9)	(9,589)	(9,589)	
3 To reflect the appropriate pensions and benefits. (Issue 9)	(3,652)	(3,652)	
4 To reflect the appropriate health care and insurance costs. (Issue 10)	(714)	(679)	
5 To adjust purchased water for excessive unaccounted for water. (Issue 11)	(2,184)	0	
6 To normalize test year materials and supplies expenses. (Issue 12)	(1,020)	(10,257)	
7 To normalize test year bad debt expense. (Issue 13)	(435)	(592)	
8 To reflect the appropriate rate case expense. (Issue 14)	(5,656)	(5,656)	
9 To reflect the repression adjustment to O&M expenses. (Issue 18)	<u>(2,217)</u>	<u>(1,900)</u>	
Total	<u>(\$26,895)</u>	<u>(\$33,752)</u>	
<u>DEPRECIATION EXPENSE-NET</u>			
1 To remove unsupported pro forma plant. (Issue 2)	(\$4,248)	(\$556)	
2 To reflect uncontested audit adjustments. (Issue 3)	(1,494)	6,045	
3 To reflect the appropriate allocated rate base. (Issue 4)	<u>(57)</u>	<u>(57)</u>	
Total	<u>(\$5,799)</u>	<u>\$5,432</u>	
<u>TAXES OTHER THAN INCOME</u>			
1 RAFs on revenue adjustments above.	(\$3,675)	(\$3,665)	
2 To adjust property taxes for unsupported pro forma plant. (Issue 2)	(34)	(6)	
3 To reduce payroll taxes on above salary adjustments. (Issue 9)	<u>(734)</u>	<u>(734)</u>	
Total	<u>(\$4,443)</u>	<u>(\$4,405)</u>	
<u>INCOME TAXES</u>			
To adjust to test year income tax expense.	<u>(\$13,173)</u>	<u>(\$14,505)</u>	

BAYSIDE UTILITY SERVICES, INC.
WATER MONTHLY SERVICE RATES
TEST YEAR ENDED 12/31/02

SCHEDULE NO. 4-A
DOCKET 030444-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commn Approved Final	Four-Year Rate Reduction
<u>Residential Service</u>					
Base Facility Charge:					
5/8" x 3/4"	\$13.25	\$21.93	\$29.91	\$12.76	\$1.02
3/4"	\$19.86	\$32.87	\$44.84	\$19.15	\$1.53
1"	\$33.13	\$54.84	\$74.80	\$31.91	\$2.55
Gallonage Charge, per 1,000 Gallons	\$2.11	\$3.49	\$4.76	\$5.19	\$0.41
<u>General Service</u>					
Base Facility Charge:					
5/8" x 3/4"	\$13.25	\$21.93	\$29.91	\$12.76	\$1.02
3/4"	\$19.86	\$32.87	\$44.84	\$19.15	\$1.53
1"	\$33.13	\$54.84	\$74.80	\$31.91	\$2.55
1-1/2"	\$66.25	\$109.66	\$149.57	\$63.82	\$5.09
2"	\$105.99	\$175.43	\$239.29	\$102.11	\$8.15
3"	\$211.99	\$350.88	\$478.59	\$204.23	\$16.29
4"	\$331.22	\$548.23	\$747.77	\$319.10	\$25.46
6"	\$662.43	\$1,096.44	\$1,495.52	\$638.20	\$50.91
Gallonage Charge, per 1,000 Gallons	\$2.11	\$3.49	\$4.76	\$5.19	\$0.41
5/8" x 3/4" meter	<u>Typical Residential Bills</u>				
3,000 Gallons	\$19.58	\$32.40	\$44.19	\$28.33	
5,000 Gallons	\$23.80	\$39.38	\$53.71	\$38.71	
6,000 Gallons	\$25.91	\$42.87	\$58.47	\$43.90	

BAYSIDE UTILITY SERVICES, INC.		SCHEDULE NO. 4-I				
WASTEWATER MONTHLY SERVICE RATES		DOCKET 030444-WS				
TEST YEAR ENDED 12/31/02						
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commn Approved Final	Four-Year Rate Reduction	
<u>Residential</u>						
Base Facility Charge:						
All meter sizes	\$16.91	\$28.18	\$32.00	\$21.86	\$1.28	
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)						
	\$4.18	\$6.97	\$7.91	\$7.10	\$0.42	
<u>General Service</u>						
Base Facility Charge:						
Meter Size:						
5/8" x 3/4"	\$16.91	\$28.18	\$32.00	\$21.86	\$1.28	
1"	\$25.38	\$42.29	\$48.03	\$54.64	\$3.21	
1-1/2"	\$42.29	\$70.47	\$80.03	\$109.28	\$6.42	
2"	\$84.56	\$140.90	\$160.02	\$174.85	\$10.28	
3"	\$135.31	\$225.47	\$256.06	\$349.69	\$20.55	
4"	\$272.81	\$454.58	\$516.26	\$546.40	\$32.11	
6"	\$422.84	\$704.58	\$800.17	\$1,092.80	\$64.23	
8"	\$845.70	\$1,409.19	\$1,600.37	\$1,748.47	\$102.77	
Gallage Charge, per 1,000 Gallons	\$5.00	\$8.33	\$9.46	\$8.51	\$0.50	
5/8" x 3/4" meter						
<u>Typical Residential Bills</u>						
3,000 Gallons	\$31.91	\$53.17	\$60.38	\$43.16		
5,000 Gallons	\$41.91	\$69.83	\$79.30	\$57.36		
6,000 Gallons	\$46.91	\$78.16	\$88.76	\$64.46		
(Wastewater Gallage Cap - 6,000 Gallons)						