

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-**

---

**DATE:** January 10, 2007

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

**FROM:** Division of Economic Regulation (Revell, Massoudi, Rendell, Bulecza-Banks,  
Fletcher, Springer, Kyle)  
Office of the General Counsel (Gervasi)

**RE:** Docket No. 060254-SU – Application for increase in wastewater rates in Pinellas  
County by Mid-County Services, Inc.

**AGENDA:** 01/23/07 – Regular Agenda – Proposed Agency Action except Issues 20 and 21-  
Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Arriaga

**CRITICAL DATES:** 01/23/07 (5-Month Effective Date-Extended by Utility  
(PAA Rate Case))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\060254.RCM.DOC

---

**Table of Contents**

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	3
	Quality of Service.....	5
1	Quality of Service (Massoudi).....	5
	Rate Base .....	9
2	Uncontested Rate Base Adjustments (Revell).....	9
3	Appropriate Rate Base Allocations (Fletcher, Revell) .....	10
4	Other Rate Base Adjustments (Revell).....	12
5	Used and Useful Plant (Massoudi) .....	13
6	Working Capital Allowance (Revell).....	17
7	Appropriate Rate Base (Revell).....	18
	Capital Structure .....	19
8	Adjustments to Capital Structure (Springer) .....	19
	Net Operating Income .....	20
9	Return on Common Equity and Weighted Cost of Capital (Springer).....	20
10	Uncontested NOI Adjustments (Revell).....	21
11	Allocated Expenses (Fletcher, Revell) .....	22
12	Employee Salaries and Benefits (Fletcher) .....	23
13	Reduction to Amortization Expense (Revell).....	25
14	Adjustments to Taxes Other Than Income (Revell).....	26
15	Rate Case Expense (Revell) .....	27
16	Test Year Operating Income (Revell) .....	34
	Revenue Requirement .....	35
17	Appropriate Revenue Requirement (Revell) .....	35
	Rates and Rate Structure .....	36
18	Wastewater Bimonthly Service Rates (Revell) .....	36
19	Miscellaneous Service Charges (Revell).....	37
20	Interim Refund (Revell) .....	39
21	Four-Year Rate Reduction (Revell).....	40
	Other Issues .....	41
22	Proof of Adjustments Requirement (Revell).....	41
23	Close Docket (Revell, Gervasi).....	42
	Schedule 1 .....	43
	Schedule 1-A.....	44
	Schedule 2.....	45
	Schedule 3.....	46
	Schedule 3-A.....	47
	Schedule 4.....	48
	Attachment A .....	49

### Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 80 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently UI has ten separate rate case dockets pending before the Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
060253-WS	Utilities, Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities, Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities, Inc. of Sandalhaven

This recommendation addresses Docket No. 060254-SU.

Mid-County Services, Inc. (Mid-County or utility) is a Class A utility providing wastewater service to approximately 2,144 customers in Pinellas County. The utility is located in a region which has been designated by the Southwest Florida Water Management District as a critical use area. Water services and billing are provided by Pinellas County. The utility is a wholly-owned subsidiary of UI. Rates were last established for Mid-County in its 2004 rate proceeding.<sup>1</sup>

On May 11, 2006, Mid-County filed its Application for Rate Increase at issue in the instant docket. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The utility had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and August 22, 2006, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005.

---

<sup>1</sup> See Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

Docket No. 060254-SU  
Date: January 10, 2007

In its filing, Mid-County requested interim rates. On July 18, 2006, the Commission approved interim rates designed to generate annual wastewater revenues of \$1,391,518, an increase of \$142,169 or 10.21%.<sup>2</sup>

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-06-0547-PCO-WS, issued June 27, 2006, in this docket. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

---

<sup>2</sup> See Order No. PSC-06-0653-PCO-SU, issued August 4, 2006, in Docket No. 060254-SU, In re: Application for increase in wastewater rates in Pinellas County by Mid-County Services, Inc.

## Discussion of Issues

### Quality of Service

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

**Recommendation:** Staff recommends that the utility's overall quality of service is marginal. The utility should be required to complete any and all improvements to the wastewater system that are necessary to satisfy the standards set by the Department of Environmental Protection (DEP). (Massoudi)

**Staff Analysis:** Rule 25-30.433(1), Florida Administrative Code (F.A.C.), states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's analysis below addresses each of these three components based on the information available.

### Quality of Utility's Product

#### Wastewater Treatment Plant (WWTP)

The WWTP at Mid-County is regulated by DEP. According to the DEP's Compliance Evaluation Inspection letter to the utility dated February 1, 2006, the DEP inspected the utility's WWTP on January 17, 2006. In his letter, the DEP's inspector stated that the utility was found to be out of compliance due to effluent quality issues. According to the DEP's Enforcement Reconnaissance Inspection letter to the utility dated August 1, 2006, the DEP reinspected the utility's WWTP on July 19, 2006. In his letter, the DEP's inspector stated that the utility again was found to be out of compliance due to effluent quality issues. According to the utility's response letters dated February 22, 2006, and August 15, 2006, to DEP, the utility took steps to correct the deficiencies and submitted the requested information related to the effluent deficiencies. On November 9, 2006, the DEP issued another Warning Letter to the utility regarding the effluent quality issues. In this Warning Letter, the DEP stated that a review of the Discharge Monitoring Reports (DMRs) for the period of January 2005 through September 2006

Docket No. 060254-SU

Date: January 10, 2007

indicated that the permitted Total Nitrogen, Total Phosphorus, Fecal Coliform and CBOD effluent limits were exceeded in a couple of months. The DEP stated that this Warning Letter was part of an agency investigation, preliminary to agency action in accordance with Section 120.57(5), F.S., and requested the utility's cooperation in completing the investigation and resolving the matter. On December 7, 2006, the utility's representatives met with the DEP's staff to discuss this issue. According to the utility's response letters dated December 19, 2006, to DEP as follow up to the meeting, the utility performed an investigation to provide a better explanation of exceedences regarding the above issues. In its letter, the utility indicated that the effluent quality exceedences were due to lack of past operation and maintenance. The utility stated that some of the exceedences were due, in part, by taking the samples at the wrong sampling point. The utility further stated that the current operations staff has been trained on the proper sampling protocol and have made corrections to their operations. The DEP inspector, via e-mail, stated that the DEP will examine the next several months of data to ensure that the utility is in compliance.

Although the quality of wastewater service does not appear to meet regulatory standards and is not considered satisfactory by the DEP, it appears that the utility has begun to take the necessary steps toward resolving its effluent quality issues. However, the utility should be required to complete any and all improvements to the wastewater systems that are necessary to satisfy the standards set by the DEP.

#### Operational Conditions at the Plant

##### WWTP

The condition at the wastewater treatment plant is reflective of the product provided by the utility. The utility's operating permit was issued on February 7, 2006 and will expire on February 6, 2011. The WWTP currently discharges treated effluent to Curlew Creek located adjacent to the facility site.

The DEP issued a Warning Letter to the utility on March 29, 2005 for very noticeable and persistent odors around and within the Doral Mobile Home Park. The DEP indicated that the utility was in violation of DEP Rules 62-600.400(2)(a) and 62-600.410(6), F.A.C. and Section 403.161(1)(b)(F.S.). The DEP and representatives of the utility met on May 3, 2005, regarding this issue. At that time, the utility agreed to provide a schedule for corrective action within 30 days of the meeting. Subsequently, an odor study was conducted and the utility indicated that an odor control system would be installed and in operation by December 15, 2005. According to the DEP's Enforcement Reconnaissance Inspection letter to the utility dated August 1, 2006, the DEP's inspector stated that the utility had installed the odor control system and it appeared to be operating well. Therefore, the issues in the Warning Letter appeared to be resolved. However, because the utility violated the above rules, the DEP issued a Proposed Settlement dated August 23, 2006. According to the Proposed Settlement, the utility was assessed civil penalties in the amount of \$4,500 in accordance with Section 403.121(4)(b), F.S.

Docket No. 060254-SU

Date: January 10, 2007

According to the utility's response letter to the DEP's Proposed Settlement dated September 25, 2006, the utility stated that Mid-County is not willing to execute the Consent Order because when the utility staff met with the DEP on May 3, 2005, concerning the odor issues, the utility agreed to make substantial investment in odor control equipment at the plant head-works. No mention was made at the meeting of any fine in the enforcement process. In its letter, the utility also stated it "has gone out of its way to reduce odor generation in the most cost effective manner available" and "has exhibited a great deal of interest and commitment, both financially and otherwise, in resolving this issue for the benefit of the utility's nearby customers." Therefore, Mid-County believed the imposition of a fine of \$4,500 in this instance is inappropriate, unwarranted, unsupported, and nonproductive. According to DEP's letter dated December 12, 2006, the DEP was in receipt of the utility's check, dated November 30, 2006, for \$4,500 for assessed penalties and costs. DEP further stated that since the utility paid the above amount and completed all conditions of the Proposed Settlement satisfactorily, the utility has returned to compliance status and the utility's case is closed on this matter.

In general, during the engineering field inspection, maintenance at the wastewater plant-site appeared to have been given adequate attention. The wastewater plant equipment has been receiving periodic maintenance and was functioning properly. The plant grounds within the fenced area was well maintained. This engineering inspection revealed that the odor control system was in place and appeared to be operating well at that time.

Although, the operational condition at the WWTP was not 100% satisfactory, the DEP inspector believes the utility is cooperating and trying to improve the operational conditions. Based on the above, staff recommends that the operating condition of wastewater facilities should be considered satisfactory.

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

An informal customer meeting was held at 6:00 p.m. on October 18, 2006, in the William E. Hale Activity Center Ballroom in Dunedin, Florida. The meeting was open to all customers. Seven persons attended this meeting, which included two utility representatives and two Office of Public Counsel representatives. Three customers went on record with comments and concerns about the utility. Two came forward with complaints and opinions concerning the rate increase and the operational conditions.

One of the customers who was a resident of the Spanish Acre subdivision, agreed with the proposed rate increase, but was concerned about the reclaimed water service and water conservation in his neighborhood. He stated that the residents of his neighborhood utilize potable water to irrigate lawns and landscaping. He said the City of Dunedin is willing to accept the reclaimed water from the utility and is willing to pay for the reclaimed water piping and mains, and that therefore, the utility should cooperate with the City and consider the reclaimed water program. The customer stated that the Commission should put pressure on the utility to establish the reclaimed water system for a safer environment.

Docket No. 060254-SU

Date: January 10, 2007

Also, staff received a letter dated October 16, 2006, from Mr. John Scherpf, a resident of the Highland Woods Phase II, regarding water conservation and reclaimed water services to his neighborhood. In his letter, Mr. Scherpf stated that the City of Dunedin provides reclaimed water to Highland Woods Phase I and the residents utilize reclaimed water to irrigate their lawns and landscapes. In Phases II and III, residents must utilize potable water to irrigate the lawns. He requested the PSC encourage the utility to provide reclaimed water services in his neighborhood. In his letter, Mr. Scherpf stated the homeowners would more than likely share some of the cost for reclaimed mains and pipes in order to save money on the water bills in the future.

Staff discussed this matter with DEP. The DEP said the utility submitted a wastewater treatment plant reuse feasibility study in 1998. This report was required to be submitted in conjunction with the application for an operating permit. In this report, the utility estimated the costs for capital improvements for installation of the reuse distribution system and the necessary WWTP upgrades to be approximately \$7.1 million dollars. In addition, the residential reuse available (343,000 gpd) within the service area did not provide adequate disposal capacity for the existing and projected average daily WWTP flow (900,000 gpd). Based on the high capital improvements costs and limited available reuse capacity, the utility believed that residential effluent reuse was not feasible in its service area at that time. Since Mid-County was not in a Water Use Caution Area, the DEP did not require the utility to establish the reuse water system at that time. The DEP said it will reconsider this issue when the utility renews its permit in 2011.

Based on the above comments from the customers, staff pursued this issue and investigated further. Staff requested the utility respond to questions related to this issue. After several phone conversations and gathering more information, staff invited representatives of the City of Dunedin, Southwest Florida Water Management District (SWFWMD), DEP, and the utility to discuss this reuse project via teleconference on December 11, 2006. All parties discussed this issue and offered comments. The representative of the City of Dunedin stated the City is willing to accept the reclaimed water from the utility but declined to pay for the cost of this project.

Although the reuse project may be a good idea and would be beneficial to customers, staff agrees with the utility that it is not cost effective for the utility to invest in this reuse project at this time.

All things considered, it is believed that the owner of the utility is putting forth a sufficient good faith effort to justify a "satisfactory" rating concerning its attempts to resolve customer complaints. Since the utility is not in compliance status for the quality of product, it is recommended that the utility's overall quality of service be deemed marginal. The utility should be required to complete any and all improvements to the wastewater system that are necessary to satisfy the standards set by the DEP.



**Rate Base**

**Issue 2:** Should the audit rate base adjustments to which the utility agrees be made?

**Recommendation:** Yes. Based on audit adjustments which the utility agrees with, land should be reduced by \$200, and accumulated depreciation should be increased by \$23,111. In addition, accumulated amortization of Contributions in Aid of Construction (CIAC) should be increased by \$ 4,407. (Revell)

**Staff Analysis:** Staff auditors recommended the following adjustments to the 13-month average rate base:

<u>Audit Adjustments</u>	<u>Land</u>	<u>Accumulated Depreciation</u>	<u>Accumulated Amortization of CIAC</u>
Finding No. 1- Adjustment to Land	(\$200)		
Finding No. 7- Adj. to Accu. Depreciation		\$23,111	
Finding No. 8- Adj. to CIAC Amortization			\$4,407
Adjustment Totals	<u>(\$200)</u>	<u>\$23,111</u>	<u>\$4,407</u>

The utility agrees with all of the above audit adjustments. Therefore, staff recommends that land be reduced by \$200; accumulated depreciation be increased by \$23,111; and accumulated amortization of CIAC be increased by \$4,407.

**Issue 3:** What is the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Mid-County?

**Recommendation:** The appropriate WSC net rate base allocation for Mid-County is \$27,596. This represents an increase of \$11,015. WSC depreciation expense should be reduced by \$765. Further, the appropriate UIF rate base allocation for Mid-County is \$80,532. This represents wastewater plant and accumulated depreciation increases of \$76,124 and \$22,539, respectively. In addition, depreciation expense should be decreased by \$1,193. (Fletcher, Revell)

**Staff Analysis:** On MFR Schedule A-3, the utility reflected a WSC net rate base allocation of \$16,581. Staff performed an affiliate transactions (AT) audit of Utilities, Inc., (UI), the parent company of Mid-County and its sister companies. WSC is a subsidiary service company of UI that supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF is a subsidiary of UI that provides administrative support to its sister companies in Florida. As discussed below, staff believes several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments included recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

#### Audit Adjustments

In Audit Finding No. 1 of the AT audit, the staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS<sup>3</sup>. First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices requested. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate simple average WSC rate base before any allocation is \$2,122,628. Further, there was no audit finding in the AT audit regarding UIF's rate base. Thus, staff recommends that the appropriate simple average UIF rate base before any allocation is \$1,113,433, as reflected on UIF's general ledger.

#### ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, the Commission found that that WSC's method of allocating its common costs based on CEs is unsupported and unreasonable. Further, the Commission ordered UI to use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

---

<sup>3</sup> Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

In Audit Finding No. 4 of the AT Audit, the staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: “(1) If the operating system has both water and wastewater, the wastewater customer is counted as one and one-half; (2) If the customer is an availability customer only, the customer is counted as one-half; (3) If the water company is a distribution company only, the customer is counted as one-half; and, (4) If the wastewater company is a collection company only, the customer is counted as one-half.” Staff believes that these additional four factors unnecessarily complicate the allocation process, versus the use of an ERC-only methodology. With this additional methodology, staff notes that WSC’s ERC count will not conform to the ERC count in each Florida subsidiaries’ annual report filed with the Commission. Further, the use of an ERC-only methodology is consistent with the methodology used by the Commission to set rates for water and wastewater utilities. Accordingly, staff recommends that UI should use the ERC-only methodology for its allocation codes one, two, three, and five.

### Conclusion

Based on the above, staff recommends that the appropriate WSC net rate base allocation for Mid-County is \$27,596. This represents a increase of \$11,015. WSC depreciation expense should be reduced by \$765. Further, staff recommends the appropriate UIF rate base allocation for Mid-County is \$80,532. This represents water plant and accumulated depreciation decreases of \$76,124 and \$22,539, respectively. In addition, depreciation expense should be reduced by \$1,193.

**Issue 4:** Should other rate base adjustments be made in calculating final rates?

**Recommendation:** Yes. Pro forma plant should be reduced by \$65,139, and accumulated depreciation and depreciation expense should be reduced by \$1,631. (Revell)

**Staff Analysis:** In Schedule A-3 of its MFRs, the utility requested the inclusion of \$226,971 in pro forma plant additions. Also included was \$5,299 of related accumulated amortization and depreciation expense. In its first data request, staff asked the utility to provide invoices and signed contracts for the requested pro forma plant. In its response, the utility provided invoices for a number of non-specific projects and two of three specific projects.

After an examination of the company-provided invoices, staff determined that the total projected costs for the two specific projects were overstated by \$42,741. Staff also recommends disallowance of the projected costs associated with a third specific project, totaling \$18,500 for a lift station upgrade, as well as, a net reduction of \$3,898 for several smaller projects, as the utility did not provide sufficient documentation in response to additional data requests from staff and the Office of Public Counsel. Staff also made corresponding reductions of \$1,631 to accumulated depreciation and depreciation expense.

Overall, staff recommends that pro forma plant be reduced by \$65,139, and that accumulated depreciation and depreciation expense be reduced by \$1,631.

**Issue 5:** What is the used and useful percentage of the utility's wastewater treatment plant?

**Recommendation:** The utility's wastewater treatment plant should be considered 92% used and useful. The wastewater collection system, with the exception of Account 354, should be considered 100% used and useful. As a result of the above adjustments, net rate base should be reduced by \$128,974. Corresponding adjustments should also be made to reduce depreciation expense by \$10,087 and property taxes by \$520. (Massoudi, Revell)

**Staff Analysis:**

Wastewater Treatment Plant

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.

The utility calculated the WWTP to be 76% used and useful. However, on Schedule F-6 of the MFRs, the utility stated the WWTP should be considered 100% for the following reasons:

The treated flows in 2005 are 38 MG or 14% less than they were in 2002, the TY of the last case, although the billed wastewater gallons have remained virtually the same. The lack of increase in wastewater billed, in spite of an increase in meter equivalent ERCs is indicative of the redevelopment of mobile home parks in the service area with less dense housing and commercial developments. The substantial reduction in treated flows is the result of (A) the capital investment made by Mid-County in numerous manhole repairs and replacing or relining of mains to reduce infiltration, (B) the dismantling of the poorly maintained mobile home park collection systems and (C) the replacement of those mains in new developments with materials meeting Mid-County's requirements. In the last case setting U&U, Docket No. 030446-SU, the PSC found the WWTP to be 92% U&U. In this case, the PSC should recognize that the U&U would be approaching 100% were not for the actions of the utility to reduce infiltration as much as practical.

In its revised MFRs dated July 29, 2006, Schedule F-6, the utility calculated its used and useful percentage for the wastewater treatment plant by taking the sum of AADF of 662,537 gpd and a growth allowance of 23,832 gpd. It then divided that total by the plant's DEP permitted capacity of 900,000 gpd AADF. Based on the utility's information and calculation, the excessive inflow and infiltration (I&I) was zero. This resulted in a 76% used and useful percentage for the WWTP.

In its MFRs, Schedule F-10, the utility calculated the linear regression to be -10.9 ERCs. The utility stated that a simple average was used in its growth calculation because the regression result was not statistically significant. This resulted in an average growth of 0.72%. It then multiplied the average growth rate by the test year number of ERCs of 2,736. This resulted in an annual growth of 19.7 ERCs (20 ERCs). The utility further stated that the customer growth is occurring from redevelopment of Travel Towne RV Resort into single family and multi family homes, redevelopment of Skylark Mobile Home Park into a Kohl's Department store and four out parcels, and redevelopment of smaller parcels into light commercial along the US 19 and SR 580 corridors. The utility also stated that there are eight remaining mobile home parks in the service area. Redevelopment of mobile home and RV parks is expected to continue.

In this case, since the regression result is not statistically significant, staff agrees with the utility's growth calculation of 20 ERCs. Based on the provided data, staff calculated the WWTP to be 76% used and useful.

Regarding the utility's request for 100% used and useful because the number of customers, I&I and treated flow were reduced since its last rate case, staff reviewed, compared and analyzed the data in the current rate case with the data in the used and useful calculation in the last rate case<sup>4</sup>. The results are shown below:

Rate Case Date	DKT NO.	Average of Customers (ERCs)	Treated Flow (gallon/year)	I & I (gallon/year)	Excessive I&I (gallon/year)
2003	030446-SU	2,909	279,895,000	30,986,840	0
2006	060254-SU	2,736	241,826,000	3,057,050	0
Reduction		173	38,069,000	27,929,790	0
% of Reduction		5.95 %	13.60 %	90.13 %	

Pursuant to Rule 25-30.432, F.A.C, used and useful percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that the Commission will also consider other factors such as the allowance for growth, I&I, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether the flows have decreased due to conservation or a reduction in the number of customers.

The above results show that the utility reduced its customers, treated flows and I&I by 5.95%, 13.60% and 90.13% respectively, since its last rate case. In its MFRs, Schedule F-6, the utility stated that reduction of number of customers was a result of redevelopment of mobile home parks in the service area with less dense housing and commercial developments. Also the utility stated that the substantial reduction in treated flows and I&I was the result of the capital investment made by the utility in numerous manhole repairs, replacing or relining of mains, dismantling of the poorly maintained mobile home park collection systems, and the replacement of those mains in new developments with materials meeting Mid-County's requirements.

<sup>4</sup> Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

In the last case, Docket No. 030446-SU (Order No. PSC-04-0819-PAA-SU), the PSC found the WWTP to be 92% used and useful. In the current rate case, the WWTP is 76% used and useful by calculation. Although, staff agrees with the utility that the WWTP should not be considered 76% used and useful, staff disagrees with utility that the WWTP should be 100% used and useful. Staff believes that the used and useful percentage should be 92% as was allowed in the last rate case, Docket No. 030446-SU (Order No. PSC-04-0819-PAA-SU) for the following reasons:

- 1) Pursuant to Rule 25-30.432, F.A.C., the flows have decreased due to a reduction in the number of customers;
- 2) The I&I have decreased substantially as a result of repair and replacing the mains and manholes; and
- 3) The service area is almost built out.

Therefore, staff recommends 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. The master feeders and lift stations that serve the system were built by the utility. The utility stated that while there is some limited undeveloped land in the service territory, additional collection mains would have to be constructed before new customers could be added.

A review of the utility's analysis shows that there has been no substantial growth or changes in its service territory since the last rate case. Staff notes the collection system was considered 100% used and useful in Mid-County's last rate case (Order No. PSC-04-0819-PAA-SU). Based on the calculation methodology, staff recommends the wastewater collection system be considered 100% used and useful (Attachment A, page 2 of 2).

However, in a review of Schedule A-6 of the MFRs, staff discovered that the utility appears to have transferred a large portion of the balance in Account 380 to Account 354. This transfer occurred in December 2005, the last month of the test year. This transfer has the effect of decreasing the 13-month average balance in Account 380, Treatment and Disposal, while increasing the 13-month average balance in Account 354, Structures and Improvements. In some situations, a transfer of this type would have no effect on rate base, but it does here. In this case, staff has continued to apply an 8% non-U&U adjustment to Account 380, as approved in the last rate case. No adjustment was approved in the last case for Account 354. Therefore, a transfer from Account 380 to Account 354 in December 2005, has the effect of increasing rate base and revenue requirement.

Furthermore, Account 380 is the primary account used by the utility for its facilities used in its wastewater treatment operations, while Account 354 is normally used for such items as the utility offices, landscaping, or out-buildings. Account 354 does not usually contain costs for treatment plant. The utility has not justified this transfer. Therefore, staff has applied the same 8% non-U&U percentage recommended by staff for Account 380 to the amount of plant staff calculated was transferred to Account 354.

Docket No. 060254-SU

Date: January 10, 2007

Overall, the utility's wastewater treatment plant should be considered 92% used and useful. The wastewater collection system, with the exception of Account 354, should be considered 100% used and useful. A portion of plant in Account 354 should be considered 92% used and useful. As a result of the above adjustments, net rate base should be reduced by \$128,974. Corresponding overall adjustments should also be made to reduce depreciation expense by \$10,087 and property taxes by \$520.



**Issue 6:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$220,788 using the balance sheet method. As a result, working capital allowance has been increased by \$32,993. (Revell)

**Staff Analysis:** In its MFRs, Mid-County's working capital allowance had a net balance of \$187,795. In Audit Finding No. 2, the audit staff made a number of corrections to the utility's balance. After these corrections, the calculated 13-month average working capital balance was \$88,555 as of December 31, 2005, prior to the adjustments discussed below. The utility's balance of \$187,795 differs from the historical balance because it includes the unamortized rate case balance for the present proceeding and several of the account balances were incorrect. The utility stated in its response to the audit that while it believed no adjustment was necessary, it agreed with the auditors' December 31, 2005 ending balance calculation of \$88,555. Staff has reviewed the balance and the utility's adjustments, and as a result of this review, staff recommends three additional adjustments.

In Audit Finding No. 4, the auditors found that working capital included expenses for wastewater permits for engineering studies and permit renewal fees related to the utility's reuse permit. Costs such as these are considered non-recurring and should be amortized over five years, and not totally expensed when incurred. As a result, 13-month average working capital should be increased by \$13,426.

In addition, the utility did not include any portion of unamortized rate case expense for the present case. As stated in a prior case, "[W]orking capital should be adjusted to reflect the average unamortized balance of approved rate case expense."<sup>5</sup> Staff used the same methodology to calculate the 13-month average unamortized balance as used in the last water rate case for Florida Public Utilities Company.<sup>6</sup> As a result, staff increased working capital by \$73,492 to reflect the 13-month average unamortized balance of rate case expense.

As discussed in Issue 13, the utility incurred expenses for a maintenance project to inspect the interior of its lines in several areas of its territory. The 13-month average of the remaining unamortized portion of \$45,315 should be included in working capital.

As a result of these changes, the balance of working capital should be \$220,788. Thus, working capital should be increased by \$32,993.

---

<sup>5</sup> Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc., p.40

<sup>6</sup> Order No. PSC-00-248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In Re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company.

Docket No. 060254-SU

Date: January 10, 2007

**Issue 7:** What is the appropriate rate base?

**Recommendation:** The appropriate rate base for the test year ending December 31, 2005, is \$2,577,579. (Revell)

**Staff Analysis:** Staff has calculated Mid-County's rate base using the utility's MFRs, with adjustments as recommended in the preceding issues, as \$2,577,579. Staff's recommended rate base is shown on Schedule No. 1, and the adjustments are shown on Schedule No. 1-A.

## **Capital Structure**

**Issue 8:** What is the appropriate return on common equity?

**Recommendation:** The appropriate return on common equity is 11.46% based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Springer)

**Staff Analysis:** The return on equity (ROE) included in the utility's filing is 11.78%. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 39.95%.<sup>7</sup>

As noted in Audit Finding No. 13, UI's average common equity balance of \$91,510,699 should be adjusted upward by \$3,093,004 to \$94,603,703. Per its response to the Audit Report, the utility is in agreement with the audit finding. This adjustment increases the equity ratio as a percentage of investor-supplied capital from 39.95% to 40.77%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.77%, the appropriate ROE is 11.46%.<sup>8</sup> Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

---

<sup>7</sup> Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-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), Florida Statutes.

<sup>8</sup> Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-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), Florida Statutes.

**Issue 9:** 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, 2005?

**Recommendation:** The appropriate weighted average cost of capital for the test year ended December 31, 2005, is 8.00%. (Springer, Kyle)

**Staff Analysis:** Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 8.00%. The weighted average cost of capital included in the utility's filing is 8.27%. Schedule No. 2 details staff's recommendation.

The test year per book amounts were taken directly from Mid-County's MFR filing Schedule D-2. Staff made specific adjustments to three components in the utility's proposed capital structure. As noted in Audit Finding No. 13, UI's average common equity balance should be adjusted upward by \$3,093,004. In addition, staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt. Finally, staff made an adjustment of \$42,953 to increase the balance of deferred income taxes.

In Audit Finding No. 14, staff auditors noted that the utility did not record its deferred income taxes on a monthly basis, as required by Instruction No. 4, NARUC Uniform System of Accounts. The auditors recalculated the utility's average deferred tax balance as \$117,008, a decrease of \$4,818. The auditors also believe that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by \$48,996. Further, the auditors discovered that deferred taxes for intangible plant were understated by \$129 for state tax purposes and overstated by \$1,354 for federal tax purposes. In its response to the audit report, the utility agrees with these findings. Accordingly, staff recommends that the balance of deferred taxes be increased by \$42,953, the net of these amounts.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.46% is discussed in Issue 8. In addition, the auditors in staff Audit Finding No. 13 recommended an adjustment to the cost rates for long-term debt and short-term debt. The long-term debt cost rate was reduced from the utility proposed rate of 6.65% to 6.58%. The short-term debt cost rate was increased from the utility proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit finding regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 8.00%. Schedule No. 2 details staff's recommendation.

**Net Operating Income**

**Issue 10:** Should audit net operating income adjustments be made?

**Recommendation:** Yes. Operations and Maintenance (O&M) expense should be reduced by \$13,299, depreciation expense should be increased by \$23,111, CIAC amortization expense should be increased by \$4,407 and taxes other than income should be decreased by \$7,441. (Revell)

**Staff Analysis:** The audit findings and recommended adjustments are listed in the table below:

<u>Audit Adjustments</u>	<u>O&amp;M Expense</u>	<u>Depreciation Expense</u>	<u>CIAC Amortization Expense</u>	<u>Taxes Other Than Income</u>
Finding No. 4- Adj. to M&S Exp.	(\$12,061)			
Finding No. 5- Adj. to Misc. Exp.	(\$1,238)			
Finding No. 7- Adj. to Deprec. Exp.		\$23,111		
Finding No. 8- Adj. to CIAC Amortization			\$4,407	
Finding No. 9- Adj. to TOTI				(\$7,441)
Adjustment Totals	<u>(\$13,299)</u>	<u>\$23,111</u>	<u>\$4,407</u>	<u>(\$7,441)</u>

The utility agrees with all of the above audit adjustments. Therefore, staff recommends that O&M expense should be reduced by \$13,299; depreciation expense should be increased by \$23,111; CIAC amortization expense should be increased by \$4,407; and taxes other than income should be reduced by \$7,441.

**Issue 11:** What is the appropriate amount of allocated WSC and UIF expenses for Mid-County?

**Recommendation:** Based on the audit adjustments and the ERC-only methodology, the appropriate WSC operation and maintenance (O&M) expenses and taxes other than income for Mid-County are \$93,604 and \$4,214, respectively. As such, O&M expenses and taxes other than income should be increased by \$13,171 and \$975, respectively. Further, the appropriate UIF O&M expenses for Mid-County is \$9,769. As such, O&M expense should be increased by \$2,349. (Fletcher)

**Staff Analysis:** In its MFRs, the utility reflected total WSC allocated O&M expenses of \$80,433 and taxes other than income of \$3,239. Mid-County also recorded total UIF allocated O&M expenses of \$7,420. As discussed below, staff believes adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors and officers; and (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate WSC expenses before any allocation are \$7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, staff recommends that the appropriate UIF O&M expenses before any allocation are \$266,650.

As recommended in Issue 3, UI should use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, staff recommends that the appropriate WSC O&M expenses and taxes other than income for Mid-County are \$93,604 and \$4,214, respectively. As such, O&M expenses and taxes other than income should be increased by \$13,171 and \$975, respectively. Further, staff recommends the appropriate UIF O&M expenses for Mid-County are \$9,769. As such, O&M expense should be increased by \$2,349.

**Issue 12:** Should adjustments be made to employee salaries and benefits?

**Recommendation:** Yes. Mid-County's salaries and wages should be reduced by \$23,657. Accordingly, pensions and benefits should be reduced by \$6,193, and payroll taxes should be reduced by \$1,336. (Fletcher)

**Staff Analysis:** On MFR Schedule B-6, Mid-County reflected historical wastewater salaries and wages and pensions and benefits of \$233,123 and \$53,204, respectively. On MFR Schedule B-15, Mid-County reflected historical payroll taxes of \$22,354.

On MFR Schedule B-3, the utility requested increases in wastewater salaries and wages, pensions and benefits, and payroll taxes of \$34,169, \$6,443, and \$2,344, respectively. The pro forma salaries and wages represents an increase of 14.66%. The pro forma pensions and benefits represents an increase of 12.11%.

In Staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to 2006, yet the total average salaries from 2005 to 2006 increased \$74,616. Staff notes, however, the total requested pro forma salary increases in UI's current docketed rate cases in Florida is \$332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, staff notes the pro forma salary increases for all of UI's current docketed cases would be \$105,776.

From the information provided by UI, staff is unable to attribute the respective pro forma salary increases in the UI docketed cases to the 2006 employee changes, since there was a net reduction in employees. The utility has the burden of proving that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Staff believes that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 effect the respective rate cases.

In Staff's First Data Request for Mid-County's case, the utility was asked to explain why its pro forma salaries & wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, Mid-County explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

With the exception of Sandalhaven, Docket No. 060285-SU, (a negative pro forma salary adjustment of \$573), staff believes the requested pro forma salary increases in UI's other respective rate cases are excessive. Staff notes the historical 5-year average salary increase of 4.51% is 177 basis points above the Commission's 2006 Price Index of 2.74%. With the exception of Sandalhaven, staff recommends that pro forma salary increases in all of UI's respective cases should be limited to the 4.51% above the 2005 historical salary amounts. The Commission has previously limited pro forma salaries adjustment to a utility's historical average

Docket No. 060254-SU

Date: January 10, 2007

salary increases.<sup>9</sup> Thus, staff recommends that Mid-County's salaries and wages should be reduced by \$23,657. Accordingly, pensions and benefits should be reduced by \$6,193, and payroll taxes should be reduced by \$1,336.

---

<sup>9</sup> By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.



**Issue 13:** Should an adjustment be made to pro forma amortization expense?

**Recommendation:** Yes. Pro forma amortization expense should be reduced by \$16,930. (Revell)

**Staff Analysis:** In Schedule B-3 of its MFRs, the utility indicated that it would incur \$135,000 in expenses to conduct an I&I study of wastewater lines in several areas of its service territory. This study uses a remote controlled camera to inspect and record the condition of its lines. A study of this type is used to determine the location and severity of any sewer main failures or indications of impending failures so that corrective action can be taken if necessary. Since this study is not routine maintenance, the utility proposed to amortize this expense over five years at \$27,000 per year.

In response to a data request, the utility provided staff the invoice associated with the study. It indicated that the total expense was \$50,350. This amount, amortized over five years, is \$10,070, rather than the requested \$27,000. Therefore staff recommends that amortization expense be reduced by \$16,930 (\$27,000-\$10,070). The remaining unamortized portion should be included in working capital as discussed in Issue 6.

**Issue 14:** Should additional adjustments be made to Taxes Other Than Income?

**Recommendation:** Yes. Taxes other than income (TOTI) should be reduced by \$1,338 for the reduction of real estate and personal property taxes. (Revell)

**Staff Analysis:** In its MFRs, the utility indicated that real estate and personal property taxes for existing plant was \$13,401. According to the audit, the utility properly took the available discounts and paid \$12,588. Thus, staff has reduced real estate and personal property taxes on present plant by \$813.

The MFRs also indicated that the taxes on the requested pro forma plant would total an additional \$1,409. Staff made adjustments to reflect the disallowance of a portion of the taxes on the requested pro forma plant disallowed in Issue 4, and to correct a utility error in calculation of taxes on pro forma plant. As a result of these adjustments, TOTI on pro forma plant should be reduced by \$525.

Thus, staff recommends that taxes other than income be reduced by \$1,338 (\$813 + \$525).

**Issue 15:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate rate case expense for the current docket is \$83,794. This expense should be recovered over four years for an annual expense of \$20,949, or \$19,332 less than requested. Rate case expense should be reduced by a total of \$32,472 (\$13,140 to correct inclusion of prior rate case expense + \$19,332 to adjust current rate case expense). (Revell)

**Staff Analysis:** As discussed in detail below, in its determination of rate case expense, staff believes that adjustments are necessary to reflect the appropriate amount of test year amortization.

#### Rate Case Expense for Prior Rate Proceeding

On MFR Schedule B-10, the utility combined \$52,557 for prior unamortized rate case expense with its estimated rate case expense of \$161,121 for this docket. This represents a total combined requested amount of \$213,678 with a requested annual amortization amount of \$53,420 (\$213,678/4). Of the \$53,420 proposed amortization expense, the amount associated with the prior case is \$13,140 (\$52,557/4). However, Mid-County has not made any MFR adjustment to remove the annual amortization of prior rate case expense from its test year O&M expenses. The appropriate annual amortization of \$18,953 for the prior rate case is already included in test year O&M expenses. The utility's request to reamortize prior rate case expense without an adjustment to remove the annual amortization of the prior case Mid-County would be double recover of the \$13,140 amount mentioned above. Further, according to Section 367.0816, F.S., and Order No. PSC-04-0819-PAA-SU, the utility's rates will be reduced on August 22, 2008. It is Commission practice to remove the unamortized balance of prior rate cases from the rate case expense for current cases.<sup>10</sup> Therefore, staff recommends that the \$52,557 amount should be removed and O&M expenses should be reduced by \$13,140.

#### Rate Case Expense for Current case

The utility included a \$161,121 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. On November, 27, 2006, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$183,242. The components of the utility's estimated rate case expense are as follows:

---

<sup>10</sup> Order No. PSC-97-1225-FOF-WU, p. 17, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$53,500	\$24,093	\$47,250	\$71,343
Consultant Fees - Seidman	40,000	24,898	5,525	30,423
WS In-House Fees	49,825	16,165	27,514	43,679
Office Temp Fees	0	2,367	17,633	20,000
Travel - WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	839	11,161	12,000
Notices	<u>2,597</u>	<u>689</u>	<u>1,908</u>	<u>2,597</u>
Total R/C Expense	<u>\$161,122</u>	<u>\$69,051</u>	<u>\$114,191</u>	<u>\$183,242</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. Also, it is the utility's burden to justify its requested costs.<sup>11</sup> Further, the Commission has broad discretion with respect to allowance of 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.<sup>12</sup> As such, staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of the legal and consulting invoices, a number of hours for correcting deficiencies were removed. However, staff identified a number of additional hours, including hours for WSC employees, which should be removed. The amount associated with deficiency corrections (\$250) in Mr. Seidman's invoices was identified by Mr. Seidman, and staff agrees with this amount. Legal expenses were also identified by Mid-County's counsel when submitted to staff for review, and staff agrees with the reductions. However, staff has identified a number of additional hours for correcting deficiencies or for matters that did not relate to the Mid-County rate case totaling an additional \$785. Staff also reviewed the time sheets for WSC employees, and identified a number of hours by three employees that were spent on deficiencies or were not related to the Mid-County rate case.

<sup>11</sup> Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>12</sup> Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied, by 529 So. 2d 694 (Fla. 1988).

This amounted to \$1,777 for WSC employees. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>13</sup> Accordingly, staff recommends that \$2,812 should be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the utility's estimated legal fees to complete the rate case. The utility's counsel estimated 150 hours or \$41,250 in fees plus \$6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time associated with each item. It provided only a total number of hours and the total cost. While the descriptions of the items appeared reasonable, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested legal fees and expenses and believes these estimates reflect an overstatement. As noted in the case background, UI currently has ten pending rate cases with the Commission. In eight out of the ten rate cases, the same amount of estimated legal hours to complete was submitted for the estimated processing of each of the cases. Although the estimate to complete did not indicate the period of time it included, staff made the assumption it included November, 2006 through February, 2007. This would allow time for reviewing the recommendation, attending the agenda conference, reviewing the Commission's PAA order, and submitting the appropriate customer notice and tariffs for approval. The estimate for legal services for eight out of the ten rate cases was 150 hours for each rate case. Staff analyzed the reasonableness of this estimated time to complete each of these cases. Using the estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, staff is aware of numerous other pending dockets, including the two other remaining UI rate cases and undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours every day exclusively for these eight rate cases. Staff does not believe this is a reasonable assumption.

As noted above, it is the utility's burden to justify its requested costs. Staff believes that 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to agenda and attend to miscellaneous post PAA matters. This is consistent with hours allowed for completion by the Commission in the 2004 Labrador Utilities, Inc. (Labrador) rate case.<sup>14</sup> This amounts to a reduction in expense of \$30,250.

There was no breakdown provided of the \$6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, staff calculated a travel allowance. Staff believes that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$414. This was the

---

<sup>13</sup>Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

<sup>14</sup> See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

amount of travel expense the Commission allowed for this law firm in the Labrador rate case supra. Staff calculated travel expenses of \$389, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$215), hotel rates from a website (\$109) and a meal allowance (\$65), but recommends \$414 consistent with the 2004 Labrador case. Further, because legal counsel will also represent Alafaya Utilities, Inc., in Docket No. 060256-SU, and Labrador Utilities, Inc, in Docket No. 060262-WS, at this same agenda, staff believes that travel expenses should be allocated equally between the three rate cases. Therefore, staff believes \$138 is the appropriate travel expense. In addition to travel expense, staff calculated an amount for miscellaneous disbursements. Staff added the actual and unbilled legal disbursements less the filing fee, divided by eight, the number of months represented by the data, then multiplied by two, the time remaining until the agenda. Thus, staff believes \$2,359 is a reasonable amount for miscellaneous disbursements. Therefore, staff believes disbursements should be decreased by \$3,503 (\$6,000 - \$138 - \$2,359). Accordingly, staff recommends that rate case expense be decreased by \$33,753 (\$30,250 + \$3,503).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 24 hours or \$3,000 plus \$25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. Staff believes that four hours is a reasonable amount of time to prepare for and attend the agenda in this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the 2004 Mid-County Services, Inc. rate cases.<sup>15</sup> However, staff is only aware of one subsequent data request from OPC regarding used and useful percentage. Staff believes that no more than two hours at \$125 per hour is reasonable for this data request. Therefore, staff recommends that rate case expense be decreased by \$2,250 (18 hours x \$125).

The fourth adjustment relates to the 624 hours and \$27,514 of estimated costs to complete this case by WSC employees. The utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The utility simply stated that the \$27,514 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable.

The utility's time sheets show that actual hours worked by WSC employees on Mid-County through October 2006 totaled 358 allowed hours. WSC estimated that it would require an additional 624 hours to complete the case. Staff reviewed these requested expenses and believes the estimates reflect an overstatement of the required hours to complete this case. As discussed above, it is the utility's burden to justify its requested costs. Staff notes that WSC was allowed 276 hours in Mid-County's last rate case. In this case, WSC has indicated that it will spend a total of 1,028.67 hours to complete this case, and 2,129.98 hours when temporary personnel are added. This is an increase of 671.73% over approved hours in the last Mid-County case. Staff realizes that UI has experienced employee turnover since the last case and currently has 10 active rate cases in Florida which are possible reasons for an increase in hours to process

---

<sup>15</sup> See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc. and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

the current case. However, staff does not believe that these possible reasons explain the significant increase in hours above the last case.

The audit report for the last case contained 10 audit findings, of which the utility disagreed with only two of the findings. The utility subsequently filed three supplemental responses to the audit, either changing an original position or offering clarification to its earlier responses. The present audit report contains 14 audit findings, and the utility disagreed with one. In the last case, the Commission approved seven pro forma projects totaling \$311,983. As discussed in an earlier issue, staff is also recommending seven pro forma projects in this case totaling \$166,580. Based on the above, staff does not believe there are any glaring or foreseeable reasons why the utility would require the total requested actual and estimated hours of 2,129.98 to complete the current case.

Furthermore, in its rate case expense update, the utility simply stated that the estimated hours for WSC employees and the expenses for the Office Temps personnel were related to assistance with data requests and audit facilitation. Staff has several additional concerns regarding these estimated hours. First, as stated earlier, there should be no estimated hours related to the audit in this case because the utility has already responded to the audit and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, the Commission's practice has been to disallow some portion or remove all unsupported amounts.<sup>16</sup> Third, based on the types of questions in staff's data requests subsequent to December 1, 2006, staff believes that the utility with some assistance of its legal counsel would be responsible for addressing them, not the Office Temps personnel.

For all of the above reasons, staff believes that a reasonable and conservative level of hours for WSC employees is a 20% increase above the 276 hours allowed in the last case, which equals 331.2 hours. This represents a reduction of actual hours of 26.68 hours, or \$1,073 for WSC employees. When the actual hours worked of the office temps is included, this would increase allowed hours in this case by an additional 95.9 hours, for a total of 427.1 hours, or 54.75% additional hours allowed over hours allowed in the prior case. Staff addresses the Office Temps below.

Not only has the utility not sufficiently explained what specific duties would be performed to complete this case, WSC has not explained why the instant case requires 1,854 more hours, including 1,005 hours by temporary workers from mid-November 2006 through the PAA process, to complete this case compared to the last case. Therefore, staff believes that allowed WSC employee expense should be reduced by \$28,586.

The fifth adjustment relates to WSC expenses for Office Temps. The utility did not include this expense in its MFRs, however, in its update, \$20,000 was estimated to assist with data and audit requests. The hours needed to complete data and audit requests was not broken

---

<sup>16</sup> See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

down to estimate the hours needed to complete each item. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable, although as mentioned above, the estimated hours appear to be excessive. As discussed above, it is the utility's burden to justify its requested costs. The utility indicated that it had incurred \$2,908 in expenses for Office Temps. The utility, however, only provided invoices totaling \$2,367, which agreed with the utility's expense re-cap sheet, for temporary services through mid-November, 2006. Staff believes that the additional \$17,633 estimated by Mid-County is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, staff recommends that rate case expense be decreased by \$17,633.

The sixth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. Staff believes that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense the Commission allowed for WSC in the Labrador rate case. Staff calculated travel expenses of \$507, using the coach airfare for January 23, 2007 (\$229), current rental car rates (\$104), hotel rates from a website (\$109) and a meal allowance (\$65), but recommends \$750 consistent with the Labrador case. Further, because WSC is also present on behalf of Labrador Utilities, Inc., and Alafaya Utilities, Inc., at this same agenda, staff believes that travel expenses should be allocated between the three utilities. Therefore, staff believes \$250 is the appropriate travel expense. Accordingly, staff recommends that rate case expense be decreased by \$2,950.

The seventh adjustment relates to WSC expenses for Federal Express Corporation (Fed Ex), copies and other miscellaneous costs. In its MFRs, the utility estimated \$12,000 for these items. In support of this expense, the utility provided only \$296 in identifiable costs for Mid-County from Fed Ex invoices for services through October 16, 2006. There was no breakdown or support for the remaining \$11,704. UI has requested, and received authorization from the Commission to keep its books and records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), FAC. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included rate case expense or recovered through rates.<sup>17</sup> The Commission found the following: "The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988." Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc. to its law firm located in central Florida. Then these are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore, they should bear the related costs. Therefore, staff recommends that rate case expense be decreased by \$12,000.

The utility estimated that total costs for postage and notices will total \$2,597. Staff has calculated that postage costs for three notices will total \$2,251 using a postage bulk rate (3 x

---

<sup>17</sup> By Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.



2,200 x .341) will total \$2,288. The utility has incurred \$688 in actual printing charges, and has estimated remaining charges for printing the customer notice for final rates is (\$380). That is an error and staff believes the utility intended the actual and estimated amount to be \$998 (\$689 actual to date + \$309 estimated to complete). Staff has estimated that total printing costs will be \$882 (\$689 incurred to date + \$194 to complete). Thus, total costs for postage and notices will total \$3,133. Since this exceeds projected expense by \$536, staff recommends that rate case expense be increased by \$536 for expenses related to customer notices and mailing.

In summary, staff recommends that the utility's revised total rate case expense be decreased by \$77,028 for MFR deficiencies, and unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$84,094. A breakdown of rate case expense is as follows:

	<u>MFR</u> <u>Estimated</u>	<u>Utility Revised</u> <u>Actual &amp; Estimated</u>	<u>Staff</u> <u>Adjustments</u>	<u>Total</u>
Legal and Filing Fees	\$53,500	\$71,343	(\$34,538)	\$36,805
Consultant Fees- Seidman	40,000	30,423	(2,500)	27,923
WSC In-house Fees	49,825	43,681	(30,363)	13,318
Office Temp Fees	0	20,000	(17,633)	2,367
Travel-WSC	3,200	3,200	(2,950)	250
Miscellaneous	12,000	12,000	(12,000)	0
Notices	<u>2,597</u>	<u>2,597</u>	<u>537</u>	<u>3,133</u>
Total Rate Case Expense	<u>\$161,122</u>	<u>\$183,244</u>	<u>(\$99,447)</u>	<u>\$83,796</u>
Annual Amortization	<u>\$40,281</u>	<u>\$45,811</u>	<u>(\$24,862)</u>	<u>\$20,949</u>
Disallowed Yearly Expense				<u>\$19,332</u>

In its MFRs, the utility requested total rate case expense of \$161,122, which amortized over four years would be \$40,281 (\$161,122/4). However, staff recommends that the proper yearly amortization should be \$20,949 (\$83,796/4). Thus, rate case expense should be decreased by \$19,332 (\$40,281-\$20,949). The recommended total rate case expense should be amortized over four years pursuant to Section 367.0816, F.S. This represents annual amortization of \$20,949 (\$83,796/4).

To prevent the double recovery of a portion of the previously approved amortization of prior rate case expense, the utility's adjusted O&M expenses should be decreased by \$13,140. The appropriate rate case expense for the current docket is \$83,796. This expense should be recovered over four years for an annual expense of \$20,949, or \$19,332 less than requested. Thus, rate case expense should be reduced by a total of \$32,472 (\$13,140 + \$19,332).

**Issue 16:** What is the test year operating income before any revenue increase?

**Recommendation:** Based on the adjustments discussed in previous issues, the test year operating income before any provision for increased revenues is \$29,064. (Revell)

**Staff Analysis:** As shown on attached Schedule 3-A, after applying staff's adjustments, the test year net operating income before any revenue increase is \$29,064. Staff's adjustments to operating income and expenses are shown on Schedule 3-B.

**Revenue Requirement**

**Issue 17:** What is the appropriate revenue requirement?

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

	<b><u>Test Year Revenues</u></b>	<b><u>\$ Increase</u></b>	<b><u>Revenue Requirement</u></b>	<b><u>% Increase</u></b>
Wastewater	\$1,392,117	\$297,304	\$1,689,421	21.36%

**Staff Analysis:** Mid-County requested final rates designed to generate annual revenues of \$1,769,847. This exceeds test year revenues by \$377,730 (27.13%). The originally requested rates also included its requested pro forma plant.

Based upon staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, and exclusion of pro forma-related adjustments, staff recommends approval of rates that are designed to generate a revenue requirement of \$1,689,421. These revenues exceed staff's adjusted test year revenues by \$297,304, or 21.36%. These increases will allow the utility the opportunity to recover its expenses and earn an 8.00% return on its investment in wastewater rate base.

### **Rates and Rate Structure**

**Issue 18:** What are the appropriate wastewater rates for this utility?

**Recommendation:** The appropriate monthly rates are shown on Schedule No. 4. Staff's recommended rates are designed to produce revenues of \$1,688,822 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 17, the appropriate revenue requirement is \$1,689,421. After excluding miscellaneous service charges of \$599, the revenues to be recovered through rates are \$1,688,822.

Mid-County's' current wastewater rate structure is a base facility charge and gallonage charge with a 20,000 bi-monthly gallonage cap on residential customers. The utility's current 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 not 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.

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 19:** Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected below. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof that customers have received notice within 10 days after the date that the notice was sent. (Revell)

**Staff Analysis:** The miscellaneous service charges currently in effect were approved for Mid-County on November 19, 1991, and have not changed since that date. The approved charges have been the standard charge since at least 1990 - a period of 16 years. Staff believes these charges should be updated to reflect current costs. Staff recommends that Mid-County be allowed to increase its wastewater miscellaneous service charges from \$15 to \$21 for normal hours and from \$15 to \$42 for after hours. The current and recommended charges are shown below.

Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	\$15	\$21	\$42
Normal Reconnection	\$15	\$15	\$21	\$42
Violation Reconnection	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Premises Visit	\$10	\$10	\$21	\$42

Miscellaneous service charges have not been updated in over 16 years and costs for fuel and labor have risen substantially since that time. Further, the Commission’s price index has increased approximately 60% in that period of time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,<sup>18</sup> the Commission expressed “concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs” and directed staff to “examine whether miscellaneous service charges should be indexed in the future and included in index applications.” Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2005 to Mid-County’s \$15 miscellaneous service charge and the result was a charge of \$21. Therefore, staff believes a \$21 charge is reasonable and is cost based. By Order No. PSC-

<sup>18</sup> Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

06-0684-PAA-WS, issued August 8, 2006,<sup>19</sup> and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,<sup>20</sup> the Commission approved a \$20 charge for connections and reconnections during normal hours and a \$40 after hours charge.

In summary, staff recommends the utility's miscellaneous service charges of \$21 and after hours charges of \$42 be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof that customers have received notice within ten days after the date the notice was sent.

---

<sup>19</sup> Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

<sup>20</sup> Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

**Issue 20:** 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-06-0653-PCO-SU, issued August 4, 2006, in this docket, 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	\$1,534,286	\$142,169	10.21%

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, 2005. 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 \$1,568,912. The wastewater revenue levels are greater than the interim revenues which were granted in Order No. PSC-06-0653-PCO-SU. Therefore, staff recommends that no interim refund is required.

**Issue 21:** 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 as required by Section 367.0816, F.S.?

**Recommendation:** The rates should be reduced as shown on Schedule No. 4 to remove \$21,936 of rate case expense, grossed-up for regulatory assessment fees, 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 regulatory assessment fees which is \$21,936. 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 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. 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 ten 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 should 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 22:** 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 final order issued in 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.

Docket No. 060254-SU

Date: January 10, 2007

**Issue 23:** Should this docket be closed?

**Recommendation:** Yes. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the docket should be closed. (Gervasi)

**Staff Analysis:** If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the docket should be closed. (Gervasi)

<b>Mid-County Services, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/05</b>		<b>Schedule No. 1 Docket No. 060254-SU</b>			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$5,413,941	\$243,552	\$5,657,493	22,000	\$5,679,493
2 Land and Land Rights	\$18,603	\$0	18,603	(200)	18,403
3 Non-used and Useful Components	\$0	\$0	0	(128,974)	(128,974)
4 Accumulated Depreciation	(1,633,555)	(5,299)	(1,638,854)	(44,018)	(1,682,872)
5 CIAC	(2,977,668)	0	(2,977,668)	0	(2,977,668)
6 Amortization of CIAC	1,444,003	0	1,444,003	4,407	1,448,410
7 CWIP	144,135	(144,135)	0	0	0
10 Working Capital Allowance	\$0	\$187,795	187,795	32,993	220,788
11 <b>Rate Base</b>	<u>\$2,409,459</u>	<u>\$281,913</u>	<u>\$2,691,372</u>	<u>(\$113,793)</u>	<u>\$2,577,579</u>

**Mid-County Services, Inc.  
Adjustments to Rate Base  
Test Year Ending 12/31/05**

**Schedule No. 1-A  
Docket No. 060254-SU**

Explanation	Wastewater
<u>Plant In Service</u>	
1 To reflect appropriate allocated WSC rate base amount.	\$11,015
2 To reflect appropriate allocated UIF rate base amount.	\$76,124
3 To reflect the reduction in unsupported Pro Forma Plant.	<u>(\$65,139)</u>
Total	<u>\$22,000</u>
<u>Land</u>	
To reflect adjustment to land (AF 1)	<u>(\$200)</u>
<u>Non-used and Useful</u>	
To reflect net non-used and useful adjustment	<u>(\$128,974)</u>
<u>Accumulated Depreciation</u>	
1 Adjustment to Accumulated Depreciation (AF 7)	(\$23,111)
2 To reflect appropriate allocated UIF rate base amount.	(\$22,539)
3 To reflect the reduction in unsupported Pro Forma Plant.	\$1,631
Total	<u>(\$44,018)</u>
<u>Accumulated Amortization of CIAC</u>	
Adjustment to CIAC Amortization (AF 8)	<u>\$4,407</u>
<u>Working Capital</u>	
To reflect net working capital (AF 2)	<u>\$32,993</u>

**Mid-County Services, Inc.**  
**Capital Structure-13 Month Average**  
**Test Year Ending 12/31/05**

**Schedule No. 2**  
**Docket No. 060254-SU**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$131,532,846)	\$1,492,256	55.45%	6.65%	3.69%	
2 Short-term Debt	4,522,923	0	\$4,522,923	(4,472,186)	\$50,737	1.89%	5.01%	0.09%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	91,510,699	0	\$91,510,699	(90,484,146)	\$1,026,553	38.14%	11.78%	4.49%	
5 Customer Deposits	0	0	\$0	0	\$0	0.00%	6.00%	0.00%	
6 Deferred Income Taxes	121,826	0	\$121,826	0	\$121,826	4.53%	0.00%	0.00%	
10 <b>Total Capital</b>	<u>\$229,180,550</u>	<u>\$0</u>	<u>\$229,180,550</u>	<u>(\$226,489,178)</u>	<u>\$2,691,372</u>	<u>100.00%</u>		<u>8.27%</u>	
<b>Per Staff</b>									
11 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$131,641,834)	\$1,383,268	53.67%	6.58%	3.53%	
12 Short-term Debt	4,522,923	(119,308)	\$4,403,615	(\$4,357,824)	45,791	1.78%	5.14%	0.09%	
13 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
14 Common Equity	91,510,699	3,093,004	\$94,603,703	(\$93,619,962)	983,741	38.17%	11.46%	4.38%	
15 Customer Deposits	0	0	\$0	\$0	0	0.00%	6.00%	0.00%	
16 Deferred Income Taxes	121,826	42,953	\$164,779	\$0	164,779	6.39%	0.00%	0.00%	
20 <b>Total Capital</b>	<u>\$229,180,550</u>	<u>\$3,016,649</u>	<u>\$232,197,199</u>	<u>(\$229,619,620)</u>	<u>\$2,577,579</u>	<u>100.00%</u>		<u>8.00%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>		
OVERALL RATE OF RETURN						<u>7.62%</u>	<u>8.38%</u>		

Mid-County Services, Inc. Statement of Wastewater Operations Test Year Ended 12/31/05				Schedule No. 3 Docket No. 060254-SU			
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 <b>Operating Revenues:</b>	<u>1,374,712</u>	<u>395,135</u>	<u>1,769,847</u>	<u>(377,730)</u>	<u>1,392,117</u>	<u>297,304</u> 21.36%	<u>1,689,421</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	1,139,821	125,848	1,265,669	(77,031)	1,188,638	0	1,188,638
3 Depreciation	77,943	10,599	88,542	5,027	93,569	0	93,569
4 Amortization	0	27,000	27,000	0	27,000	0	27,000
5 Taxes Other Than Income	105,210	14,093	119,303	(26,657)	92,646	13,379	106,024
6 Income Taxes	<u>(35,478)</u>	<u>81,158</u>	<u>45,680</u>	<u>(84,480)</u>	<u>(38,800)</u>	<u>106,841</u>	<u>68,041</u>
7 <b>Total Operating Expense</b>	<u>1,287,496</u>	<u>258,698</u>	<u>1,546,194</u>	<u>(183,141)</u>	<u>1,363,053</u>	<u>120,220</u>	<u>1,483,273</u>
8 <b>Operating Income</b>	<u>87,216</u>	<u>136,437</u>	<u>223,653</u>	<u>(194,589)</u>	<u>29,064</u>	<u>177,084</u>	<u>206,148</u>
9 <b>Rate Base</b>	<u>2,409,459</u>		<u>2,691,372</u>		<u>2,577,579</u>		<u>2,577,579</u>
10 <b>Rate of Return</b>	<u>3.62%</u>		<u>8.31%</u>		<u>1.13%</u>		<u>8.00%</u>

**Mid-County Services, Inc.**  
**Adjustment to Operating Income**  
**Test Year Ended 12/31/05**

**Schedule No. 3-A**  
**Docket No. 060254-SU**

Explanation	Wastewater
<u>Operating Revenues</u>	
1 Remove requested final revenue increase	<u>(\$377,730)</u>
<u>Operation and Maintenance Expense</u>	
1 Adjustment to Miscellaneous Expense (AF 4)	(\$12,061)
2 Adjustment to Miscellaneous Expense (AF 5)	(\$1,238)
3 Adjustment to Allocated WSC Expense	\$13,171
4 Adjustment to Allocated UIF Expense.	\$2,349
5 Adjustment to Proforma Salaries and Benefits	(\$29,850)
6 To adjust new rate case expense	(\$19,332)
7 To adjust old rate case expense	(\$13,140)
8 To adjust amortization expense for I/I Study	<u>(\$16,930)</u>
Total	<u>(\$77,031)</u>
<u>Depreciation Expense - Net</u>	
1 To reflect appropriate allocated WSC rate base amount.	(\$765)
2 To reflect appropriate allocated UIF rate base amount.	(\$1,193)
3 Adjustment to Depreciation Expense (AF 7)	\$23,111
4 Adjustment to CIAC Amortization (AF 8)	(\$4,407)
5 To reflect the reduction in unsupported Pro Forma Plant.	(\$1,631)
6 To remove net depreciation on non-U&U adjustment above.	<u>(\$10,087)</u>
Total	<u>\$5,027</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above	(\$16,998)
2 Adjustment to Allocated WSC Expense	\$975
3 Adjustment to Taxes other than Income (AF 9)	(\$7,441)
4 Adjustment to existing plant taxes	(\$813)
5 Adjustment to pro forma plant taxes	(\$525)
6 Adjustment to payroll taxes	(\$1,336)
7 To remove property taxes on NU&U	<u>(\$520)</u>
Total	<u>(\$26,657)</u>

<b>Mid-County Services, Inc. Wastewater Bi-Monthly Service Rates Test Year Ended 12/31/05</b>			<b>Schedule No. 4 Docket No. 060254-SU</b>		
<b>Base Facility Charge All Meter Sizes:</b>	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Staff Recomm. Final</b>	<b>Four-year Rate Reduction</b>
<b><u>Residential</u></b>					
Base Facility Charge All Meter Sizes:	\$26.90	\$29.65	\$34.20	\$31.88	\$0.41
Gallonge Charge - Per 1,000 gallons (20,000 gallon cap)	\$2.59	\$2.85	\$3.29	\$3.20	\$0.04
<b><u>General Service</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$26.90	\$28.62	\$34.20	\$31.88	\$0.41
1"	\$69.03	\$73.46	\$87.77	\$81.81	\$1.06
1-1/2"	\$155.30	\$165.27	\$197.46	\$184.08	\$2.39
2"	\$276.10	\$293.83	\$351.05	\$327.26	\$4.25
2"-UI	\$276.10	\$293.83	\$351.05	\$327.26	\$4.25
3"	\$621.38	\$697.13	\$790.06	\$736.53	\$9.56
4"	\$1,104.37	\$1,238.99	\$1,404.16	\$1,309.03	\$17.00
6"	\$2,485.17	\$2,788.11	\$3,159.79	\$2,945.71	\$38.25
Gallonge Charge, per 1,000 Gallons	\$3.11	\$3.49	\$3.95	\$3.84	\$0.05
<b><u>Multi-Residential</u></b>					
Base Facility Charge by Meter Size:					
Flat Rate	\$59.27	\$63.08	\$62.65	\$62.65	\$0.81
5/8" x 3/4"	\$26.90	\$28.62	\$34.20	\$31.88	\$0.41
1"	\$69.03	\$73.46	\$87.77	\$81.81	\$1.06
1-1/2"	\$155.30	\$165.27	\$197.46	\$184.08	\$2.39
2"	\$276.10	\$293.83	\$351.05	\$327.26	\$4.25
3"	\$621.38	\$697.13	\$790.06	\$736.53	\$9.56
4"	\$1,104.37	\$1,238.99	\$1,404.16	\$1,309.03	\$17.00
6"	\$2,485.17	\$2,788.11	\$3,159.79	\$2,945.71	\$38.25
Gallonge Charge, per 1,000 Gallons	\$3.11	\$3.49	\$3.95	\$4.62	\$0.06
<b><u>Typical Residential Bills 5/8" x 3/4"</u></b>					
		<b><u>Meter</u></b>			
3,000 Gallons	\$34.67	\$38.20	\$44.07	\$41.48	
5,000 Gallons	\$39.85	\$43.90	\$50.65	\$47.88	
10,000 Gallons	\$52.80	\$58.15	\$67.10	\$63.88	
(Wastewater Bi-Monthly Gallonge Cap - 20,000 Gallons)					



## Used and Useful

<b>Mid-County Services, Inc.</b> <b>Docket #: 060254-SU</b>			<b>Attachment A, Page 1 of 2</b> <b>Test Year Jan 05 - Dec 05</b>	
<b>WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA</b>				
<b>1)</b>		<b>Permitted Capacity of Plant (AADF)</b>	900,000	gallons per day
<b>2)</b>	<b>a)</b>	<b>Average Daily Flow (AADF)</b>	662,537	gallons per day
<b>3)</b>		<b>Growth</b>	23,852	gallons per day
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan 2005 - Dec 2005	2,736	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	19.7	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (3b)x(3c)x[2a\((3a)]	23,852	gallons per day
<b>4)</b>		<b>Excessive Infiltration or Inflow (I&amp;I)</b>	0	gallons per day
	a)	Total I & I	8,378	gallons per day
	b)	Percent of Excessive	0	
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	154,797	gallons per day
	d)	Excessive Amount	0	gallons per day

**USED AND USEFUL FORMULA**

[Average Daily Flow + Growth – Excessive Amount] / Permitted Capacity of Plant

$$[662,537 + 23,852 - 0] / 900,000 = 76 \% \quad \text{Used \& Useful}$$

<b>Mid-County Services, Inc.</b> <b>Docket #: 060254-SU</b>		<b>Attachment A, Page 2 of 2</b> <b>Test Year Jan 05 - Dec 05</b>		
<b>WASTEWATER COLLECTION SYSTEM – USED AND USEFUL DATA</b>				
<b>1)</b>		<b>Capacity of System</b> (Number of Potential in ERCs)	2,756	ERCs
<b>2)</b>		<b>Test Year Connections</b> (Customers) Average Test Year in ERC	2,736	ERCs
<b>3)</b>		<b>Growth</b>	100	ERCs
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	19.7	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	100	ERCs

**USED AND USEFUL FORMULA**

[(2)+(3)] / (1) = 100% Used and Useful