

RECEIVED-FPSC
State of Florida



APR 23 AM 11:16
COMMISSIONER
CLERK

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: April 23, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Buys, Bulecza-Banks, Daniel, Fletcher, Maurey, Walden) *DB* *CB* *PA* *BZ*
Office of the General Counsel (Hartman) *AA* *SB* *ALM*

RE: Docket No. 080250-SU – Application for increase in wastewater rates in Pinellas County by Mid-County Services, Inc.

AGENDA: 05/05/09 – Regular Agenda – Proposed Agency Action Except Issues 14 and 15 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 5-Month Effective Date Waived Through 05/05/09

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080250.REVISED.RCM.DOC

DOCUMENT NUMBER-DATE
03779 APR 23 8
FPSC-COMMISSION CLERK

Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background	3
	QUALITY OF SERVICE.....	4
1	Quality of Service (Walden)	4
2	Stipulated Audit Adjustments (Buys)	6
3	Pro Forma Plant and Expense Additions (Buys).....	7
4	Used and Useful (Walden).....	8
5	Working Capital (Buys)	10
6	Rate Base (Buys).....	11
	COST OF CAPITAL	12
7	Return on common equity (Buys)	12
8	Weighted Average Cost of Capital (Buys).....	13
	NET OPERATING INCOME	14
9	Contractual Services - Other Expense (Buys).....	14
10	Rate Case Expense (Buys)	15
11	Operating Income Before Any Increase (Buys).....	20
	REVENUE REQUIREMENT	21
12	Revenue Requirement (Buys)	21
	RATES AND CHARGES	22
13	Rate Structure (Buys).....	22
14	Interim Refund (Buys)	23
15	Four-Year Rate Reduction (Buys)	24
16	Proof of Adjustments (Buys)	25
17	Docket Closure (Buys, Hartman).....	26
<u>Sch.</u>	<u>Description</u>	<u>Page</u>
1-A	Rate Base.....	27
1-B	Adjustments to Rate Base	28
2	Cost of Capital.....	29
3-A	Wastewater Operating Income	30
3-B	Adjustments to Operating Income	31
4	Wastewater Rates and Four-Year Reduction	32

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 4 separate rate case dockets pending before the Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
080247-SU	Utilities Inc. of Eagle Ridge
080248-SU	Tierra Verde Mid-County Utilities, Inc.
080249-WS	Labrador Utilities, Inc.
080250-SU	Mid-County Services, Inc.

This recommendation addresses Docket No. 080250-SU, Mid-County Services, Inc. (Mid-County or Utility). Mid-County is a Class A utility providing wastewater service to approximately 2,342 customers in the City of Dunedin in Pinellas County. The Utility is a wholly-owned subsidiary of UI. Mid-County 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 is provided by Pinellas County. The Utility's wastewater rates were last established in its 2006 rate proceeding.¹

On August 22, 2008, Mid-County filed its application for a rate increase. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. Mid-County had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and November 17, 2008, 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, 2007.

Mid-County requested interim rates designed to generate annual wastewater revenues of \$1,907,277, an increase of \$175,711 or 10.15 percent. By Order No. PSC-08-0763-PCO-SU, issued November 17, 2008, the Commission approved interim rates designed to generate annual wastewater revenues of \$1,731,567, an increase of \$62,872 or 3.63 percent.² The Utility requested final rates designed to generate wastewater revenues of \$2,098,901, an increase of \$386,288 or 22.56 percent.

Staff filed its recommendation on April 9, 2009, for the April 21, 2009, Agenda Conference. On April 14, 2009, Mid-County contacted staff to discuss several issues in staff's recommendation and provide additional information to clarify its prior response to staff's first data request. As a result, the Utility requested a deferral of this item until the May 5, 2009, Agenda Conference. Staff notes that the only substantive changes were to Issue 9 which in turn resulted in fall-out changes to other issues. This revised recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

¹ See Order No. PSC-07-0134-PAA-SU, issued February 16, 2007, in Docket No. 060254-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc. Consummating Order No. PSC-07-0227-CO-SU, issued March 13, 2007, made Order No. PSC-07-0134-PAA-SU final and effective.

² See Order No. PSC-08-0763-PCO-SU, issued November 17, 2008, in Docket No. 080250-SU, In re: Application for increase in wastewater rates in Pinellas County by Mid-County Utilities, Inc.

Discussion of Issues

QUALITY OF SERVICE

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

Recommendation: Yes. The overall quality of service provided by the Utility is satisfactory. (Walden)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission shall determine the overall quality of service provided by the utility. Items considered are the quality of the product, the operating conditions of the plant, and customer satisfaction.

Quality of the Product

Mid-County's wastewater plant is regulated by the Department of Environmental Protection (DEP). The Commission found in the last rate case that the quality of service was marginal because while the Utility was making efforts and taking necessary steps to resolve effluent quality issues, the Utility was not yet in compliance with DEP regulations. The effluent quality issues were related to exceedances in certain testing parameters for a couple months in 2005 and 2006. Exceedances occurred due to past operation and maintenance conditions as well as collecting samples at incorrect sampling locations. A Warning Letter was sent to Mid-County in November 2006, citing a number of deficiencies.

A compliance inspection conducted in April 2007 by the DEP showed a number of compliance issues involving sampling, records and reports, low chlorine readings, ambient monitoring data deficiencies, and effluent quality exceedances for a variety of parameters. The utility responded in May 2007, delineating the steps already taken or being taken to correct the deficiencies, or explaining the reason why the parameter had been exceeded. Operational changes were made and the requirements of the DEP rules were met.

DEP assessed penalties to resolve the matters addressed in the Warning Letter from November 2006, noting that corrective actions had been performed to bring the plant into compliance. An executed Consent Order with an effective date of July 22, 2008, addressed these same issues and resolved the effluent quality exceedances, including penalties. According to DEP, the penalties were paid, and the case was closed August 6, 2008.

While the utility experienced some operational deficiencies, compliance with DEP regulations has been achieved. A review of the correspondence indicates that the utility moved in the direction of resolution of each of the issues noted by DEP. Staff believes that circumstances showed an effort to comply and therefore recommends that the quality of the product is satisfactory.

Operating Conditions of the Plant

As discussed above, the Utility experienced a number of deficiencies as noted by DEP inspections in 2006 and 2007. The issues have been resolved. The most recent inspection by the DEP in February 2008 noted some minor out-of-compliance issues. The Utility responded to the DEP with its plans for improving the plant operation to correct the deficiencies that were found. At the time of our staff's field inspection in 2009, the plant appeared to be operating normally and the site was adequately maintained. Based upon the most current information, staff recommends that the operating conditions of the plant are satisfactory.

Customer Satisfaction

In its rate filing, the Utility included ten customer complaints for the 2007 test year. Complaints included sewer back ups, noise from the wastewater plant, and odor. The Utility responded quickly to investigate each problem cited, and resolved the inquiries quickly. There is one complaint on the Commission's complaint tracking system (CATS) where a customer contacted the Commission expressing opposition to the requested rate increase.

Two letters have been received by the Commission Clerk and are contained in the docket file. Both letters oppose the rate increase, with one noting due to fixed incomes and other increases, that this is not a good time for an increase in rates. The second letter is from a manufactured home community stating that many residents live on fixed incomes and that the Utility had a rate increase that went into effect in January 2009.

The Commission scheduled an informal customer meeting in Dunedin on February 25, 2009, to allow customers to provide input to the staff concerning the rate increase application of the Utility. No customers attended the meeting.

After a review of the complaints in the filing, the correspondence received by the Commission, and attendance at the customer meeting, it appears that the service provided to customers is adequate. Staff therefore recommends that the Commission find that customer satisfaction is satisfactory.

Summary

The Utility faced some operational issues at the wastewater treatment plant since the last rate case and has been successful in resolving the deficiencies cited by the DEP. A review of correspondence from customers did not show any circumstances of service problems. In addition, no customers attended the customer meeting. Staff therefore concludes that the overall quality of service provided by Mid-County is satisfactory.

Issue 2: Should the audit adjustments to rate base and operating expenses to which the Utility and staff agree be made?

Recommendation: Yes. Based on the audit adjustments agreed to by the Utility and staff, the following adjustments should be made to rate base and operating expenses. (Buys)

Audit Finding	Wastewater
No. 1 - Decrease Plant in Service	\$385
No. 1 - Decrease Accumulated Depreciation	\$10
No. 1 - Decrease Depreciation Expense	\$23
No. 2 - Decrease CIAC	\$633
No. 3 - Decrease Accumulated Depreciation	\$3,290
No. 6 - Increase RAF Expense (TOTI)	\$7,736
AT No. 4 - Increase Plant in Service	\$18,392
AT No. 5 - Increase Transportation Expense	\$5,422

Staff Analysis: Mid-County either agreed to the audit findings and adjustments in staff's audit report or proposed alternative adjustments to which staff agrees. Those adjustments are summarized in the table below.

Audit Finding	Wastewater
No. 1 - Decrease Plant in Service	\$385
No. 1 - Decrease Accumulated Depreciation	\$10
No. 1 - Decrease Depreciation Expense	\$23
No. 2 - Decrease CIAC	\$633
No. 3 - Decrease Accumulated Depreciation	\$3,290
No. 6 - Increase RAF Expense (TOTI)	\$7,736

In addition, staff auditors performed an affiliate transactions (AT) audit of UI, the parent company of Mid-County and its sister companies. Based on AT Audit Finding No. 4, the 13-month average rate base should be increased by \$18,392 for vehicle cost. Based on AT Audit Finding No. 5, transportation expense should be increased by \$5,422. The aforementioned adjustments related to rate base and operating expenses are reflected on Schedules 1-B and 3-B.

Issue 3: Should any adjustments be made to the Utility's pro forma plant additions and associated expenses?

Recommendation: Yes. Mid-County's pro forma plant additions should be decreased by \$30,000 for wastewater. Corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense by \$333, and \$667, respectfully. (Buys)

Staff Analysis: Mid-County reflected a pro forma plant addition of \$30,000 on MFR Schedule A-3 for the "I/I Macaroni Grill L/S area." In its response to staff's first data request regarding this entry, the Utility stated the project was cancelled and should be removed from the filing. Hence, staff recommends that plant in service be decreased by \$30,000. Accordingly, corresponding adjustments should also be made to decrease accumulated depreciation and depreciation expense by \$333, and \$667, respectively.

Issue 4: What are the used and useful percentages of the Utility's wastewater collection system?

Recommendation: The wastewater treatment plant is 92 percent used and useful. The collection system is 100 percent used and useful, except that portion of the collection system that is booked in Account 354, which is 92 percent used and useful. Staff has reduced rate base by \$272,407 and has made corresponding adjustments to reduce depreciation expense by \$12,004 and reduce property tax by \$1,422. Staff's adjustments to non-used and useful plant are shown on the rate base and operating income adjustment Schedules 1-B and 3-B. (Walden)

Staff Analysis:

Wastewater Treatment Plant

Mid-County's wastewater treatment plant is located inside the Doral Mobile Home Park community. This mobile home park and others, including Spanish Oaks, Frontier Village, Silk Oak, Serendipity, and Regency Heights developments are customers of the Utility. There are some other smaller mobile home parks, several apartment developments, single family residential, and a number of commercial customers. The permitted capacity of the advanced wastewater treatment plant is 900,000 gallons per day (gpd), based upon annual average daily flows. Treated effluent is discharged to Curlew Creek.

In the Utility's last rate case, Docket No. 060254-SU, the Commission made a determination that the plant was 92 percent used and useful as determined in the utility's prior rate case, Docket No. 030446-SU, even though the calculated percentage based upon flows plus growth was 76 percent. The Commission was not persuaded that the plant was 100 percent as the Utility requested, even though the service area was nearly built out. Also, in the prior rate case, the Commission recognized that the Utility's service area was experiencing redevelopment and additional redevelopment was expected to continue. Further, the Commission recognized that the Utility had taken steps to reduce infiltration and inflow.

For the current rate case, the Utility proposed that that plant be considered 100 percent used and useful in recognition of the Utility's actions to reduce infiltration as much as practical. The average daily flow during the current test year of 654,413 gpd is less than the average daily flow in the prior rate case (662,537 gpd), despite modest increases in connections. The Utility believes that the downward trend in treated flows is indicative of the redevelopment of the mobile home parks in the service area with less dense housing and commercial developments, as well as: (1) the Utility's capital investment in numerous manhole repairs and replacing or relining of mains to reduce infiltration, (2) the dismantling of the poorly maintained mobile home park collection system, and (3) the replacement of mains in the new developments with materials meeting the Utility's requirements.

Using the test year flows of 654,413 gpd plus a growth allowance of 110,247 gpd, the wastewater treatment plant would be 85 percent used and useful. However, staff recommends that the wastewater treatment plant be considered 92 percent used and useful, consistent with the Commission's finding in the prior rate cases. This finding recognizes some additional capacity is available as redevelopment and some growth in the service area occurs.

Wastewater Collection System

Mid-County states in its filing that the collection system should be considered 100 percent used and useful. While there are some pockets of undeveloped land, those areas are limited and additional collection mains must be constructed to accommodate development in those areas. A review by staff indicates that the collection system in place is needed to serve the current customers. There is virtually no change to the service area since the last rate case.

In the last rate case, the Commission found that the Utility had transferred a large amount of the balance from Account 380 to Account 354 which occurred in the last month of that test year. Sufficient justification of the transferred amount was not provided, and therefore the Commission applied the same 92 percent used and useful to Collection System Account 354 as was applied to the wastewater treatment plant discussed above.

Based upon staff's review of the filing, it is recommended that the Commission find the collection system 100 percent used and useful, except for that portion booked in Account 354, which should be 92 percent used and useful as determined in the last rate case.

Accordingly, staff recommends that the wastewater treatment plant is 92 percent used and useful. The collection system is 100 percent used and useful, except that portion of the collection system that is booked in Account 354, which is 92 percent used and useful. Staff has reduced rate base by \$272,047 and has made corresponding adjustments to reduce depreciation expense by \$12,004 and reduce property tax by \$1,422. Staff's adjustments to non-used and useful plant are shown on the rate base and operating income adjustment Schedules 1-B and 3-B.

Issue 5: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$13,356. (Buys)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the balance sheet method. In MFR Schedule A-17, Mid-County calculated total company working capital as \$246,216. Staff agrees with the Utility's calculation, except as related to deferred rate case expense. The Utility included deferred rate case expense in the amount of \$286,844. As discussed in Issue 10, staff has recommended adjustments to Mid-County's rate case expense, reducing the total recommended amount to \$107,968. It is Commission practice to include only fifty percent of the utility's approved amount of rate case expense in the working capital calculation for Class A water and wastewater utilities.³ As such, the amount of rate case expense to be included in working capital should be \$53,984. Accordingly, working capital should be reduced by \$232,860 (\$286,844 less \$53,984). Therefore, staff recommends that the appropriate allowance for working capital is \$13,356 (\$246,216 less \$232,860).

³ See Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.; PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company.; and 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.

Docket No. 080250-SU
Date: April 23, 2009

Issue 6: What is the appropriate rate base for the December 31, 2007, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2007, is \$2,907,990. (Buys)

Staff Analysis: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2007, is \$2,907,990. Staff's rate base is shown on Schedule 1-A. The adjustments are shown on Schedule 1-B.

COST OF CAPITAL

Issue 7: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.83 percent based on the Commission's leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Buys)

Staff Analysis: The return on equity (ROE) included in the Utility's filing is 11.57 percent. This return is based on the application of the Commission's leverage formula at the time of the filing and an equity ratio of 43.87 percent.⁴

Based on the current leverage formula approved in Order No. PSC-08-0846-FOF-WS and an equity ratio of 43.87 percent, the appropriate ROE is 11.83 percent.⁵ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

⁴ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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.

⁵ See Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-WS, In re: Water and Wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., Florida Statutes.

Docket No. 080250-SU
Date: April 23, 2009

Issue 8: 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, 2007?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2007, is 8.52 percent. (Buys)

Staff Analysis: Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2007, staff recommends a weighted average cost of capital of 8.52 percent. The weighted average cost of capital included in the Utility's filing is 8.48 percent. Staff revised the respective cost rate for common equity. The appropriate cost rate for common equity of 11.83 percent is discussed in Issue 7. Schedule No. 2 details staff's recommendation.

NET OPERATING INCOME

Issue 9: Should an adjustment to Contractual Services-Other be made?

Recommendation: Yes. Contractual Services-Other should be decreased by \$2,840 ~~\$18,872~~.
(Buys)

Staff Analysis: On MFR Schedule B-8, the Utility reflected an adjusted test year amount of \$25,126 for Contractual Services-Other, which represents an increase of \$18,872 or 301.76 percent over the prior test year. Mid-County's explanation for this increase was, "[t]emporary employment has increased the cost of other contractual services." In addition, MFR Schedule B-8, Lines 1 through 3, reflects an increase of \$34,816 or 14.29 percent for Salaries & Wages-Employees and \$8,912 or 16.67 percent for Employee Pensions & Benefits. Mid-County noted that the reason for these increases are due to "annualization, cost of living increases, and the need for additional employees."

In its first data request, staff requested that the Utility provide support for its increase in temporary employment by identifying each temporary position employed during the test year and providing a detail of the duties performed and the associated cost. In its response, Mid-County failed to provide a detail of the duties performed and the associated cost. The Utility stated that \$10,910 of the difference between the prior test year and the current test year results from an allocation adjustment to allocate costs on an ERC basis and not a customer equivalent (CE) basis; the remaining \$14,217 is what was actually booked to the general ledger during the current test year. Mid-County stated that only \$2,840 (\$3,734 booked less the credit adjustment of \$894 from the allocation adjustment) of the \$25,126 is related to temporary employment.

~~By Order No. PSC 03-1440-FOF-WS, issued December 22, 2003, the Commission found that Water Service Corp.'s (WSC's) method of allocating its costs based on CEs was unsupported and unreasonable. The Commission ordered UI to use ERCs, measured at the end of the test year, as a basis for allocating costs in Florida.⁶ The support documentation listing the \$2,840 in temporary employment was presented as an allocated amount using CEs. Consequently, staff was unable to determine the actual amount of expenses that were related to temporary employment for Mid-County. Although the Utility reported that \$10,910 of the increase is due to an allocation adjustment, Mid-County did not provide the requested documentation to support the \$14,217 that was actually booked to the general ledger for Contractual Services-Other during the current test year which gave rise to the allocation adjustment. On April 14, 2009, the Utility submitted a memo to staff wherein it provided further explanation of the costs included in the Contractual Services-Other account. In subsequent telephone conversations with Mid-County, staff confirmed that the Utility's adjusted amount of \$25,126 for the test year, except for the \$2,840 related to temporary employment, was appropriate. Staff Based on the aforementioned, staff believes that the Utility's increase of \$2,840 for temporary employment in Contractual Services-Other for the test year, in addition to a 14.29 percent increase in salaries and wages, is unsupported and excessive. Therefore, staff recommends that Contractual Services-Other be decreased by \$2,840 ~~\$18,872~~.~~

⁶ See 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.

Issue 10: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$107,968. This expense should be recovered over four years for an annual expense of \$26,992. The Utility's requested annual rate case expense of \$71,711 should be reduced by \$28,748 to remove prior rate case expense of \$28,748, and reduced by \$15,972 for staff's recommended adjustments to current rate case expense, for a total reduction of \$44,720. (Buys)

Staff Analysis: On MFR Schedule B-10, Mid-County requested total rate case expense of \$286,844 with a requested annual amortization of \$71,711 ($\$286,844 \div 4$). The Utility's total rate case expense included \$114,990 for prior unamortized rate case expense and \$171,854 for current rate case expense. It is Commission practice to remove the unamortized balance of prior rate cases from the rate case expense for current cases.⁷ Of the \$71,711 requested annual rate case expense, the amount related to the prior rate case is \$28,748 ($\$114,990 \div 4$). Therefore, staff recommends that Mid-County's current annual amortization rate case expense of \$71,711 be reduced by \$28,748.

Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the additional estimated amount necessary to complete the case. On January 7, 2009, the Utility submitted a revised MFR Schedule B-10 reflecting actual charges as of December 15, 2008, and the total estimated charges of \$168,692, or when amortized over four years, \$42,173 for annual rate case expense.

	MFR <u>Estimated</u>	<u>Actual</u>	Additional <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$ 45,200	\$10,007	\$35,193	\$45,200
Consultant Fees – M&R	43,650	27,480	16,170	43,650
WSC Fees – In House	60,700	18,881	38,657	57,538
Filing Fee	4,000	0	0	4,000
Travel – WSC	3,200	56	3,144	3,200
Miscellaneous	12,000	254	11,746	12,000
Notices	<u>3,104</u>	<u>222</u>	<u>2,882</u>	<u>3,104</u>
Total Rate Case Expense	<u>\$171,854</u>	<u>\$56,900</u>	<u>\$107,972</u>	<u>\$168,692</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. In those cases where rate case expense has not been supported by detailed documentation, Commission practice has been to disallow some portion or remove all unsupported amounts.⁸ It

⁷ See 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.

⁸ See Order Nos. 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.; 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 PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for

is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Staff has examined the requested actual expenses, supporting documentation, and estimated total expenses as listed above for the current rate case. Based on its review, staff believes several adjustments are necessary to Mid-County's 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 invoices from Rose, Sundstrom & Bently, LLP, a combined amount of \$278 was billed for correcting the MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.⁹ Accordingly, staff recommends that \$278 be removed from legal fees.

The second adjustment relates to the Utility's estimated legal fees for Rose, Sundstrom & Bently, LLP to complete the rate case. As of March 13, 2009, Rose, Sundstrom & Bently, LLP estimated 52.1 hours or \$16,932.50 (52.1 hours x \$325) to complete the rate case. On March 31, 2009, Mr. Martin Freidman of Rose Sundstom & Bently, LLP informed staff via email that his hourly rate as of January 1, 2009, is \$320 per hour. Accordingly, the estimated cost to complete the case should be reduced by \$5 per hour or \$260 (52.1 hours x \$5). Of the 52.1 hours estimated to complete the case, fifteen hours is to prepare for and attend Agenda Conference and discuss the Agenda with client and staff. Commission practice has been to allow fourteen hours to travel and attend Agenda Conference. In this case, Mid-County's counsel is representing another UI company, Tierra Verde Utilities, Inc., at the same Agenda Conference. Therefore, staff believes the cost to attend Agenda Conference should be shared by both Utilities, and the estimated fifteen hours should be reduced to seven for each Utility. Accordingly, legal fees should be reduced by \$2,560 (8 x \$320). Staff believes that the remaining 45 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to the customer meeting, and attend to miscellaneous post-PAA matters. In total, staff recommends that the estimated legal fees should be reduced by an additional \$2,820 (\$260 + \$2,560).

The third adjustment relates to the Utility's estimated consultant fees for Mr. Frank Seidman with Management & Regulatory Consultants, Inc., to complete the rate case. As of March 13, 2009, Mr. Seidman estimated 111 hours or \$16,095 (111 hours x \$145) to complete the rate case. Of the 111 hours estimated, 107 hours was allocated to, "Assist with MFRs, data requests, COAs¹⁰ and documentation requests; respond to formal data requests from staff; respond to informal requests for information from staff; assess recommendation and the order; and, U&U Analysis." The remaining four hours were allocated to prepare for and attend Agenda Conference. At this time in the rate case process, there are no outstanding data requests that require a response and no justification was provided for the estimated number of hours to complete the PAA case. According to the analysis of rate case expense as of December 15, 2008, Mr. Seidman's services included used and useful analysis, assisting with MFRs, data

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.

⁹ See Order Nos. 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-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.

¹⁰ Commission Ordered Adjustments

requests, and audit facilitation. Staff believes the majority of the work performed by Mr. Seidman was accounted for in the \$27,480 total provided by Mid-County in the updated rate case expense. Staff believes that four hours is a reasonable amount of time to prepare for and attend the Agenda Conference for this docket. This is consistent with the hours allowed for completion by the Commission in the prior cases, including Indiantown Company, Inc. and Mid-County Services, Inc. last rate case.¹¹ Therefore, staff recommends that rate case expense be decreased by \$15,515 (107 hours x \$145).

The fourth adjustment relates to the estimated costs to complete this case by WSC employees. In Mid-County's updated rate case expense analysis, the Utility estimated a total of 1,500 hours and \$60,700 for WSC employees to process the entire PAA case. Mid-County did not include an estimate for the number of work hours needed to complete the case on a going forward basis. The Utility reported that it has already incurred a cost of \$18,881 for 489 hours worked through November 30, 2008. However, Mid-County failed to provide any detailed documentation of what tasks were involved for each WSC employee or the hours needed to assist with MFRs, respond to data requests, and facilitate the audit. In addition, there were no timesheets provided to show actual hours worked. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable.

Staff reviewed the requested expenses and believes the estimate reflects an overstatement. As discussed above, it is the Utility's burden to justify its requested costs. In those cases where rate case expense has not been supported by detailed documentation, Commission practice has been to disallow some portion or remove all unsupported amounts.¹² By applying the individual employee rates and the average number of hours worked by WSC employees, staff recommends that the estimated WSC fees to complete the case should be \$15,746. Staff believes that 400 hours to complete the PAA case in addition to the 489 hours already incurred is reasonable to allow Mid-County to respond to data requests, facilitate the audit, and review the PAA recommendation. Mid-County has already incurred \$18,881 through November 30, 2008. Staff's estimated total expense for WSC employees is \$34,627 (\$18,881 + \$15,746). Thus, the Utility's revised expense for WSC employees of \$57,538 should be decreased by \$22,911 (\$57,538 less \$34,627).

¹¹ See Order Nos. 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.

¹² See Order Nos. 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.; 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 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.

The fifth adjustment addresses WSC travel expenses. In its updated rate case expense, Mid-County reflects actual and estimated costs of \$56 and \$3,200, respectively, for travel. Based on several previous UI rates cases, it is staff's understanding that for PAA rate cases UI does not send a representative from their Illinois office to attend the Agenda Conference. Therefore, the entire amount of travel expense should be removed. Accordingly, staff recommends that rate case expense be decreased by \$3,200.

The sixth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its revised MFR Schedule B-10, Mid-County reflects actual and estimated costs of \$254 and \$12,000, respectively, in its updated rate case expense analysis. The Utility did not provide a breakdown of these costs. UI has requested and received authorization from the Commission, to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. 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 in rate case expense or recovered through rates. 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., the Commission found that the Utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because Mid-County's books are maintained out of state, the auditors had to travel out of state to perform the audit. The Commission has consistently disallowed this cost in rate case expense.¹³ 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 requests, etc. to its law firm located in central Florida, then the documents 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 UI, and therefore, the Utility should bear the related costs. Therefore, staff recommends that miscellaneous rate case expense be decreased by \$12,000.

The seventh adjustment relates to the filing fee. In its MFRs, the Utility estimated \$4,000 for the filing fee. The filing fee for a Class A water and wastewater utility is \$3,500. The filing fee was paid to the Commission by Rose, Sundstrom & Bently, LLP, on behalf of Mid-County. Rose, Sundstrom & Bently, LLP, included the \$3,500 filing fee in its legal fees billed to the Utility, and consequently, the fee is already included in the rate case expense. Therefore, staff recommends that rate case expense be reduced by \$4,000.

¹³See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by Utilities, Inc. of Florida, and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of Miles Grant Water and Sewer Company for an increase in Water and Sewer Rates in Martin County.

In summary, staff recommends that Mid-County's revised rate case expense of \$168,692 be decreased by \$60,724 for MFR deficiencies, and for unreasonable and unsupported rate case expense. The appropriate rate case expense is \$107,968. A breakdown of rate case expense is as follows:

<u>Description</u>	<u>MFR Estimated</u>	<u>Utility Revised Actual & Estimated</u>	<u>Staff Adjustments</u>	<u>Total</u>
Legal Fees	\$45,200	\$45,200	(\$3,098)	\$42,102
Consultant Fees-M&R	43,650	43,650	(15,515)	28,135
WSC In-House Fees	60,700	57,538	(22,911)	34,627
Filing Fee (\$3,500 included in legal fees)	4,000	4,000	(4,000)	0
WSC Travel	3,200	3,200	(3,200)	0
Miscellaneous	12,000	12,000	(12,000)	0
Customer Notices & Postage	<u>3,104</u>	<u>3,104</u>	<u>0</u>	<u>3,104</u>
Total Rate Case Expense	<u>\$171,854</u>	<u>\$168,692</u>	<u>(\$60,724)</u>	<u>\$107,968</u>
Annual Amortization	<u>\$42,964</u>	<u>\$42,173</u>	<u>(\$15,181)</u>	<u>\$26,992</u>

In its MFRs, Mid-County requested a current rate case expense of \$171,854, or an annual expense of \$42,964. Subsequently, the Utility filed a revised rate case expense of \$168,692, or an annual expense of \$42,173. To adjust for the revised rate case expense, staff recommends that the annual expense first be reduced by \$791 (\$42,964 less \$42,173). Based on the revised data provided by the Utility and the staff-recommended adjustments discussed above, staff recommends annual rate case expense of \$26,992. Staff recommends that the revised rate case expense be reduced by \$15,181 (\$42,173 less \$26,992). In total, staff recommends that the current rate case expense be reduced by \$15,972 (\$791 + \$15,181).

Based on the aforementioned, staff recommends that the appropriate amount of rate case expense is \$107,968. This expense should be recovered over four years for an annual expense of \$26,992. The Utility's requested annual rate case expense of \$71,711 should be reduced by \$28,748 to remove prior rate case expense of \$28,748, and reduced by \$15,972 for staff's recommended adjustments to current rate case expense, for a total reduction of \$44,720.

Issue 11: What is the test year wastewater operating income or loss before any revenue increase?

Recommendation: The test year operating income is \$59,407 ~~\$69,406~~ for wastewater before any revenue increase. (Buys)

Staff Analysis: This issue is subject to resolution of other issues related to revenues and operating expenses and rate base, and is primarily a "fall-out" number. Based on the adjustments discussed in previous issues, staff recommends that the test year operating income before any provision for increased revenues should be a net loss of \$59,407 ~~\$69,406~~ for wastewater. The schedule for wastewater operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

Issue 12: What is the appropriate revenue requirement?

Recommendation: The following is the appropriate revenue requirement:

	<u>Test Year</u>		<u>Revenue</u>	
	<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Wastewater	\$1,712,614	<u>\$316,160</u>	<u>\$2,028,774</u>	<u>18.46%</u>
		\$299,373	\$2,011,987	-17.48%

(Buys)

Staff Analysis: The issue is a summary computation that is subject to the resolution of other issues related to rate base, and cost of capital, and is primarily a “fall-out” number. The computation of the revenue requirement is shown on Schedule No. 3-A and is \$2,028,774 ~~\$2,011,987~~ which represents an increase of \$316,160 ~~\$299,373~~ or 18.46 ~~17.48~~ percent.

RATES AND CHARGES

Issue 13: What are the appropriate wastewater rates for Mid-County?

Recommendation: The appropriate monthly rates are shown on Schedule No. 4. Staff's recommended rates are designed to produce revenues of ~~\$2,028,774~~ ~~\$2,011,987~~ 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. (Buys)

Staff Analysis: As discussed in Issue 12, staff's recommended revenue requirement is ~~\$2,028,774~~ ~~\$2,011,987~~ After excluding miscellaneous service charges of \$1,350, the revenue to be recovered through rates is ~~\$2,027,424~~ ~~\$2,010,637~~.

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 percent of a residential customer's water usage will not return to the wastewater system, whereas, approximately 96 percent 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 14: 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 and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, no wastewater refunds are required. (Buys)

Staff Analysis: By Order No. PSC-08-0763-PCO-SU, issued November 17, 2008, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$1,731,567 for wastewater, which represents an increase of \$62,872 or 3.63 percent.

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 simple average ending December 31, 2007. 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 at the floor of the last authorized range for equity earnings.

Using the principles discussed above, staff calculated a revised interim revenue requirement of \$1,999,160 ~~\$1,982,373~~ utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Because the \$1,731,567 interim wastewater revenue requirement granted in Order No. PSC-08-0762-PCO-SU for the test year is less than the revised revenue requirement for the interim collection period of \$1,999,160 ~~\$1,982,373~~ staff recommends that no refund is required for wastewater revenues collected under interim rates.

Issue 15: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove \$28,263 for rate case expense, grossed-up for regulatory assessment fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Buys)

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 \$28,263 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4.

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

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data 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.

Docket No. 080250-SU
Date: April 23, 2009

Issue 16: 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 in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Buys)

Staff Analysis: 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 in this docket that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Issue 17: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund, if any, has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released. (Buys, Hartman)

Staff Analysis: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund, if any, has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released.

Mid-County Services, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/07			Schedule No. 1-A Docket No. 080250-SU		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$6,244,515	\$305,162	\$6,549,677	(\$11,993)	\$6,537,684
2 Land and Land Rights	20,148	0	20,148	0	20,148
3 Non-used and Useful Components	0	0	0	(272,407)	(272,407)
4 Accumulated Depreciation	(1,984,790)	(30,393)	(2,015,183)	3,633	(2,011,550)
5 CIAC	(3,025,365)	0	(3,025,365)	633	(3,024,732)
6 Amortization of CIAC	1,636,280	9,211	1,645,491	0	1,645,491
7 CWIP	46,438	(46,438)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>246,216</u>	<u>246,216</u>	<u>(232,860)</u>	<u>13,356</u>
9 Rate Base	<u>\$2,937,226</u>	<u>\$483,758</u>	<u>\$3,420,984</u>	<u>(\$512,994)</u>	<u>\$2,907,990</u>

Mid-County Services, Inc. Adjustments to Rate Base Test Year Ended 12/31/07		Schedule No. 1-B Docket No. 080250-SU
Explanation	Wastewater	
<u>Plant In Service</u>		
1 To reflect reduction of capitalized time (AF No. 1)		(\$385)
2 To reflect adjustment for vehicle cost (Allocation AF No. 4)		18,392
3 To remove discontinued Macaroni Grill project (Data Request No. 1)		(30,000)
Total		<u>(\$11,993)</u>
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment		<u>(\$272,407)</u>
<u>Accumulated Depreciation</u>		
1 To reflect corresponding adjustments (AF No. 1)		\$10
2 To reflect adjustment from prior order and rollforwards (AF No. 3)		3,290
3 To reflect corresponding adjustments for decrease in plant (DR No. 1)		333
Total		<u>\$3,633</u>
<u>CIAC</u>		
To reflect reduction of tap fees (AF No. 2)		<u>\$633</u>
<u>Working Capital</u>		
To reflect appropriate amount of deferred rate case expense		<u>(\$232,860)</u>

**Mid-County Services, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/07**

**Schedule No. 2
Docket No. 080250-SU**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,173,753)	\$1,826,247	53.38%	6.65%	3.55%
2 Short-term Debt	1,530,769	0	1,530,769	(1,515,238)	15,531	0.45%	12.34%	0.06%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	141,856,780	0	141,856,780	(140,417,527)	1,439,253	42.07%	11.57%	4.87%
5 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
6 Deferred Income Taxes	<u>139,952</u>	<u>0</u>	<u>139,952</u>	<u>0</u>	<u>139,952</u>	<u>4.09%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$323,527,501</u>	<u>\$0</u>	<u>\$323,527,501</u>	<u>(\$320,106,518)</u>	<u>\$3,420,983</u>	<u>100.00%</u>		<u>8.47%</u>
Per Staff								
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,459,289)	\$1,540,711	52.98%	6.65%	3.52%
9 Short-term Debt	1,530,769	0	1,530,769	(1,517,666)	13,103	0.45%	12.34%	0.06%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	141,856,780	0	141,856,780	(140,642,556)	1,214,224	41.75%	11.83%	4.94%
12 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
13 Deferred Income Taxes	<u>139,952</u>	<u>0</u>	<u>139,952</u>	<u>0</u>	<u>139,952</u>	<u>4.81%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$323,527,501</u>	<u>\$0</u>	<u>\$323,527,501</u>	<u>(\$320,619,511)</u>	<u>\$2,907,990</u>	<u>100.00%</u>		<u>8.52%</u>
						<u>LOW</u>	<u>HIGH</u>	
					RETURN ON EQUITY	<u>10.83%</u>	<u>12.83%</u>	
					OVERALL RATE OF RETURN	<u>8.10%</u>	<u>8.94%</u>	

Mid-County Services, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/07

Schedule No. 3-A
Docket No. 080250-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 Operating Revenues:	<u>\$1,624,065</u>	<u>\$474,837</u>	<u>\$2,098,902</u>	<u>(\$386,288)</u>	<u>\$1,712,614</u>	<u>\$316,160</u>	<u>\$2,028,774</u>
						<u>\$299,373</u>	<u>\$2,011,987</u>
						18.46%	
Operating Expenses						47.48%	
2 Operation & Maintenance	\$1,308,988	\$127,116	\$1,436,104	<u>(\$42,138)</u>	<u>\$1,393,966</u>		<u>\$1,393,966</u>
				<u>(\$58,170)</u>	<u>\$1,377,934</u>		<u>\$1,377,934</u>
3 Depreciation	141,732	32,815	174,547	(12,694)	161,853		161,853
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	104,113	31,294	135,407	(11,069)	124,338	<u>14,277</u>	<u>138,565</u>
						<u>13,472</u>	<u>137,810</u>
6 Income Taxes	<u>(5,751)</u>	<u>68,494</u>	<u>62,743</u>	<u>(89,693)</u>	<u>(26,950)</u>	<u>113,617</u>	<u>86,668</u>
				<u>(83,660)</u>	<u>(20,917)</u>	<u>107,585</u>	
7 Total Operating Expense	<u>\$1,549,082</u>	<u>\$259,719</u>	<u>\$1,808,801</u>	<u>(\$155,594)</u>	<u>\$1,653,207</u>	<u>\$127,845</u>	<u>\$1,781,052</u>
				<u>(\$165,593)</u>	<u>\$1,643,208</u>	<u>\$121,056</u>	<u>\$1,764,265</u>
8 Operating Income	<u>\$74,983</u>	<u>\$215,118</u>	<u>\$290,101</u>	<u>(\$230,694)</u>	<u>\$59,407</u>	<u>\$188,316</u>	<u>\$247,722</u>
				<u>(\$220,695)</u>	<u>\$89,406</u>	<u>\$178,317</u>	
9 Rate Base	<u>\$2,937,226</u>		<u>\$3,420,984</u>		<u>\$2,907,990</u>		<u>\$2,907,990</u>
10 Rate of Return	<u>2.55%</u>		<u>8.48%</u>		<u>2.04%</u>		<u>8.52%</u>
					<u>2.39%</u>		

Mid-County Services, Inc. Adjustment to Operating Income Test Year Ended 12/31/07		Schedule 3-B Docket No. 080250-SU
Explanation	Wastewater	
<u>Operating Revenues</u>		
Remove requested final revenue increase		<u>(\$386,288)</u>
<u>Operation and Maintenance Expense</u>		
1 To reduce temporary employment in Contractual Services - Other		<u>(\$2,840 48,872)</u>
2 To increase transportation expense (Allocation AF No. 5)		5,422
3 To reflect adjustments to rate case expense		<u>(44,720)</u>
Total		<u>(\$42,138 58,170)</u>
<u>Depreciation Expense - Net</u>		
1 To reflect corresponding adjustments (AF No. 1)		(\$23)
2 To reflect corresponding adjustments to decrease in plant (DR No. 1)		(667)
3 To remove non-U&U depreciation expense		<u>(12,004)</u>
Total		<u>(\$12,694)</u>
<u>Taxes Other Than Income</u>		
1 To increase RAFs in test year (AF No. 6)		\$7,736
2 RAFs on revenue adjustments above		(17,383)
3 To reflect property tax adjustment due to non U&U		<u>(1,422)</u>
Total		<u>(\$11,069)</u>

Mid-County Services, Inc. Wastewater Bi-Monthly Service Rates Test Year Ended 12/31/07			Schedule No. 4 Docket No. 080250-SU			
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-year Rate Reduction	
Residential						
Base Facility Charge All Meter Sizes:	\$32.22	\$33.39	\$39.49	<u>\$38.27</u>	37.95	\$0.53
Gallonge Charge per 1,000 gallons (20,000 gallon bi-monthly cap)	\$32.23	\$3.35	\$3.96	<u>\$3.93</u>	3.90	\$0.05
General Service						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$32.22	\$33.39	\$39.49	<u>\$38.27</u>	37.95	\$0.53
1"	\$82.68	\$85.68	\$101.34	<u>\$98.20</u>	97.39	\$1.37
1-1/2"	\$186.04	\$192.80	\$228.02	<u>\$220.96</u>	219.13	\$3.08
2"	\$330.74	\$342.76	\$405.37	<u>\$392.82</u>	389.57	\$5.47
2" (UI)	\$330.74	\$342.76	\$405.37	<u>\$392.82</u>	389.57	\$5.47
3"	\$744.37	\$771.42	\$912.33	<u>\$884.09</u>	876.76	\$12.32
4"	\$1,322.95	\$1,371.02	\$1,621.46	<u>\$1,571.28</u>	1,558.26	\$21.89
6"	\$2,977.06	\$3,085.24	\$3,648.80	<u>\$3,535.87</u>	3,506.56	\$49.26
Gallonge Charge per 1,000 Gallons	\$3.88	\$4.02	\$4.76	<u>\$4.72</u>	4.68	\$0.07
Multi-Residential - Metered						
Base Facility Charge by Meter Size:						
Flat Rate	\$63.36	\$65.66	\$77.66	<u>\$75.26</u>	74.64	\$1.05
5/8" x 3/4"	\$32.22	\$33.39	\$39.49	<u>\$38.27</u>	37.95	\$0.53
1"	\$82.68	\$85.68	\$101.34	<u>\$98.20</u>	97.39	\$1.37
1-1/2"	\$186.04	\$192.80	\$228.02	<u>\$220.96</u>	219.13	\$3.08
2"	\$330.74	\$342.76	\$405.37	<u>\$392.82</u>	389.57	\$5.47
3"	\$744.37	\$771.42	\$912.33	<u>\$884.09</u>	876.76	\$12.32
4"	\$1,322.95	\$1,371.02	\$1,621.46	<u>\$1,571.28</u>	1,558.26	\$21.89
6"	\$2,977.06	\$3,085.24	\$3,648.80	<u>\$3,535.87</u>	3,506.56	\$49.26
Gallonge Charge per 1,000 Gallons	\$4.65	\$4.82	\$5.70	<u>\$5.66</u>	5.62	\$0.08
Typical Residential Bills 5/8" x 3/4" Meter						
3,000 Gallons	\$41.91	\$43.44	\$51.37	<u>\$50.07</u>	49.66	
5,000 Gallons	\$48.37	\$50.14	\$59.29	<u>\$57.94</u>	57.46	
10,000 Gallons	\$64.52	\$66.89	\$79.09	<u>\$77.61</u>	76.97	
(Gallonge Cap - 20,000 Gallons Bi-Monthly)						