BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of rates of Mid-County Services, Inc. in Pinellas County for possible overearnings.	DOCKET NO. 120076-SU ORDER NO. PSC-12-0389-PAA-SU ISSUED: July 27, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

PROPOSED AGENCY ACTION
ORDER FINDING OVEREARNINGS AND DECREASING RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the reduction of rate case expense after four years and requiring proof of book adjustments, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

Background

Utilities, Inc. (UI) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states, including 14 water and wastewater utilities within the State of Florida. Mid-County Services, Inc. (Mid-County or Utility) is one of the aforementioned subsidiaries in Florida.

Mid-County's last rate case was in 2009.[1] In accordance with a settlement for overearnings in 2010, the Utility was ordered to make an across-the-board rate reduction of $35,842 or 1.92 percent, as well as a refund of $35,842, with interest.[2]

On August 18, 2011, we initiated an undocketed earnings investigation and commenced an audit of the Utility. The purpose of the audit was to compile and audit the Utility's rate base,

[1] See Order No. PSC-09-0373-PAA-SU, issued May 27, 2009, in Docket No. 080250-SU, In re: Application for increase in wastewater rates in Pinellas County by Mid-County Services, Inc.
[2] See Order No. PSC-10-0680-PAA-SU, issued November 15, 2010, in Docket No. 100379-SU, In re: Settlement proposal for possible overearnings by Mid-County Services, Inc. in Pinellas County.

capital structure, and net operating income for the 13-month average test year ended December 31, 2010.

On August 26, 2011, Utilities, Inc., Mid-County's parent company, filed a corporate undertaking in the amount of $181,909 for the purpose of guaranteeing potential refunds in connection with the Commission staff's undocketed earnings investigation.[3]

On October 24, 2011, the audit report for Mid-County was completed. The Utility filed a response to the audit on December 20, 2011.

This Order addresses: 1) the refund to Mid-County ratepayers for excess earnings; 2) the appropriate method to administer the refund; and 3) the adjustment to existing rates for Mid-County. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

Decision

Audit Adjustment

In its response to staff's audit report, Mid-County agreed to the audit findings and audit adjustments listed below in Table 1. We hereby approve the following adjustments to rate base and net operating income.

[3] See Document No. 06192, in Docket No. 110000-OT.

Table 1

Approved Audit Adjustments								
Audit Finding	Plant	Accum. Depr.	CIAC	Accum. Amort. of CIAC	Working Capital	O&M Expense	Depr. Expense	Taxes Other Than Income (TOTI)
Finding No. 4 - Adjust Op. Expenses for Aff. Trans. adjustments						($449)		($205)
Finding No. 5 - Prepaid Other Expenses						(304)		
Finding No. 6 - Ordered Adjs and Rule. Depreciation Rates	($390)	$27,154	$1,648	$19,903			($19,021)	
Finding No. 7 - Capitalized Items	(15,101)	818				1,815	(487)	
Finding No. 8 - Retirements	(28,377)	31,034					(1,523)	
Finding No. 9 – Exp. For Other Utilities						(4,969)		
Finding No. 10 - Permit Fees					$7,367	(2,794)		
Finding No. 11 - Penalties						(9,800)		
Finding No. 12 - Rate Case Expense						(19,943)		
Finding No. 13 - Salaries	(2,931)	6,846				63,766	5,570	(435)
Finding No. 14 – HQ Allocations	(54,994)	39,420				(808)	1,734	
Finding No. 15 – Sludge Equipment	(2,155)	25					(108)	
Total Adjustments	($103,948)	$105,297	$1,648	$19,903	$7,367	$26,514	($13,835)	($640)

Phoenix Project

The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. Since 2009, we have approved recovery of the cost of the Phoenix Project in 11 UI rate cases.[4] In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs.

Allocation of Phoenix Project Costs

The amount of cost allocated to Mid-County is based on the ratio of its ERCs to the total ERCs at the corporate level. The allocation from the Illinois office (corporate level) is 1.24 percent for December 2010.

2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as other subsidiaries in other states. In Order No. PSC-10-0585-PAA-WS, we found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but did not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities.[5] Because no added benefit was realized by the remaining subsidiaries, we found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, we ruled that the divested subsidiaries' allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

Commission Staff Affiliate Audit Finding No. 2

In Order PSC-10-0407-PAA-SU, we established that the total cost for the Phoenix Project as of December 31, 2008 was $21,617,487 and required the Company to deduct $1,724,166 from the total cost of Phoenix Project, reducing it to $19,893,321, before allocating costs to the remaining UI subsidiaries.[6] In the Utilities Inc. of Eagle Ridge rate case, Docket No. 110153-SU, UI provided a restatement schedule for all computer balances on its books to take into account the prior Commission-ordered adjustments.[7] The schedule showed that the Utility did not make the adjustment ordered for Phoenix Project. Eagle Ridge's restatement schedule shows the Phoenix Project balance at December 31, 2008 to be $21,545,555. The difference between UI's Phoenix Project balance and the ordered amount is $1,652,234 ($21,545,555 - $19,893,321).

[4] See Docket Nos. 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

[5] See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p. 10.

[6] See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood.

[7] See Order No. PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In Re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge. Eagle Ridge has petitioned this Commission to open a separate generic docket to address its protested issue related to the Utility's Phoenix Project.

In its response to Affiliate Audit Finding No. 2, Mid-County disagreed with the finding and argued that the full balance of the Phoenix Project should be included at the UI level, with 1.24 percent allocated to Mid-County. The Utility contends that it is incorrect to reduce the Phoenix Project balance for sold companies, as none of the Phoenix Project system was sold in conjunction with the divested companies. Mid-County states that the total Phoenix Project balance is currently in service and benefitting ratepayers and it is arbitrary and inappropriate to reduce the balance; doing so guarantees that the Company earns a subpar return on a Commission-approved investment. Mid-County states that any such adjustment is contrary to Section 367.0813, F.S., which provides that gains or losses from a purchase or condemnation of a utility's assets which results in the loss of customers served by such assets and the associated revenue streams shall be borne by the shareholders of the utility. The Utility stated that reducing the Phoenix Project balance for the remaining subsidiaries creates an improper gain on sale situation in the amount of $1,652,234 because it effectively "sells off" this amount of Phoenix Project with the sold companies.

In response to Mid-County's objection to this adjustment, Commission staff pointed out that we have already determined in prior UI rate cases that the Phoenix Project balance should be reduced to account for the divestitures of subsidiary UI systems. Moreover, the Utility's response to the audit adjustment mischaracterizes our ordered adjustment related to the Phoenix Project. This adjustment is not related to gain on sale. The adjustment is being made to prevent UI from allocating additional cost to Florida-utility systems. The additional cost UI has proposed to allocate to Mid-County and other UI-systems is the result of UI's unilateral decision to sell assets unrelated to the provision of regulated wastewater service by Mid-County. UI's proposed incremental increase in the Phoenix Project allocation is not related to additional investment in its computer system to improve its functionality or extend its useful life. Instead, this increase in allocation is designed to offset an unrelated business decision. Without any added benefit or an extension of its useful life, it is inappropriate for UI to attempt to raise water and wastewater rates in Florida simply because it sold systems in other states.

Based on Audit Finding No. 2, adjustments shall be made to plant, accumulated depreciation, and depreciation expense to comply with the practices established in Order No. PSC-10-0407-PAA-SU. The 13-month average adjustment for Headquarters plant and accumulated depreciation shall be reduced by $1,652,234 and $247,823, respectively. Depreciation expense shall be reduced by $165,223. At the Mid-County level, plant and accumulated depreciation shall be reduced by $20,488 and $3,073, respectively. Mid-County's depreciation expense shall be reduced by $2,049.

<u>2010 Divestitures of UI Subsidiaries</u>

In 2010, UI divested four additional systems and subsidiaries as listed below.

Table 2

Date	Subsidiary	ERCs
March 15, 2010	Emerald Point Subdivision (North Carolina)	327
July 19, 2010	River Forest (South Carolina)	74
July 19, 2010	Stone Creek (South Carolina)	172
September 19, 2010	Alafaya Utilities, Inc. (Florida)	8,945
Total		9,518

The four divested systems collectively represent 9,518 ERCs or 3.50 percent. Consistent with our prior decisions, the adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project shall also be made for these subsequent divestitures. As such, we determine that the total cost of the Phoenix Project for UI shall be reduced by an additional 3.50 percent, or $756,709 ($21,617,487 x 3.50 percent), to account for the divestiture of subsidiaries through 2010. The effect on the filing is a decrease to plant of $9,383 ($756,709 x 1.24 percent). Corresponding adjustments shall also be made to decrease both accumulated depreciation by $1,406 and depreciation expense by $938.

Amortization / Depreciation Period

In Staff Affiliate Audit Finding No. 3, audit staff discovered that the Utility did not change the depreciation life for the Phoenix Project from eight to ten years as directed in Order No. PSC-10-0407-PAA-SU. Mid-County disagreed with Audit Finding No. 3 based on the depreciation period used in previous Mid-County dockets. The Utility stated that the Commission previously established a depreciation life of eight years with respect to Mid-County and this is the period used for all other computer software booked to the same account as Phoenix.

In the initial UI cases, when the Phoenix Project was first considered, we approved a six-year amortization period for the Phoenix Project.[8] In subsequent UI cases, we found that an eight-year amortization period was more appropriate for a software project of this magnitude.[9] In 2010, we set the amortization period for the Phoenix Project to ten years in four separate rate cases involving Mid-County sister companies.[10] There were three factors we considered in our decision to increase the amortization period. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. This project is not "off the shelf" software, but software designed to fulfill long-term accounting, billing, and customer service needs specific to UI and its affiliates and subsidiaries. Second, we concluded that the Phoenix Project software will be

[8] See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.
[9] See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.
[10] See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-10-0585-PAA-WS, issued September 22, 2010, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

used for at least ten years. UI's former Legacy accounting system had been used for 21 years. Third, in a 2008 docket involving a UI subsidiary in Nevada,[11] UI responded that any amortization period between four and ten years would be in compliance with Generally Accepted Accounting Principles. Similarly, UI stated that its own research revealed that computer software could be amortized over a period of anywhere from four to ten years.[12] As such, we have determined that ten years is the appropriate amortization period for the instant case.

Based on the aforementioned, we find that the appropriate depreciation period for the Phoenix Project is ten years, which results in a necessary reduction to depreciation expense of $8,898. We have calculated a remaining life depreciation rate as described in Rule 25-30.140 F.A.C., in determining the appropriate reduction to depreciation expense. The remaining life depreciation rate is based on the average remaining portion of the service life expected to be experienced by the investment and on the net unrecovered capital for that investment. Based on a remaining life of the Phoenix Project investment of 7.5 years (10 years less an average age of 2.5 years), we find it appropriate to reduce the depreciation expense by $8,898.

Creation of a Regulatory Asset or Liability

Mid-County has requested consistent treatment with regards to the Phoenix Project in this docket and other dockets before this Commission as part of a proposed settlement of PAA Protests, namely Docket No. 110153-SU.

In that docket, as part of a proposed settlement of PAA protests, Utilities, Inc. (Mid-County's parent company) with the consent and support of the Office of Public Counsel, petitioned this Commission to open a separate generic docket to address its protested issue relating to the Utility's Phoenix Project.[13] In that Agreement, the Parties agree, and this Commission subsequently ordered,[14] that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final Commission decision in Docket No. 120161-WS, the Utility shall be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset[15] or liability,[16] at the 30-day commercial paper rate until the establishment of rates in

[11] See Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

[12] See December 2, 2008, Commission Conference Transcript, Page 26, Line 3, through Page 27, Line 19.

[13] On May 23, 2012, Utilities, Inc.of Eagle Ridge, on behalf of its Florida-subsidiaries and pursuant to a stipulation and settlement agreement entered into with the Office of Public Counsel, filed a for the establishment of a generic docket to address the this Commission's treatment of the Pheonix Project's costs. This generic docket has been assigned Docket No. 120161-WS.

[14] See Order No. PSC-12-0346-FOF-SU, issued July 10, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

[15] A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when they are incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. The Commission's approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.

[16] An example of a regulatory liability would be the deferral of past overearnings to future periods.

Utilities Inc. of Eagle Ridge's next rate proceeding. We also ordered that the regulatory asset or liability shall be amortized over four years.

Therefore, consistent with our actions in Docket No. 110153-SU, and in light of adjustments to previously approved revenue requirements contained in this order we authorize Mid-County to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Mid-County's next rate proceeding. Furthermore, the unamortized regulatory asset or liability shall be amortized over four years.

Conclusion

The ordered adjustments to Mid-County's Phoenix Project balances are summarized in the following table.

Table-3

Commission Adjustment	13-Month Average Plant	13 Month Average Accumulated Depreciation	Depreciation Expense
Affiliate Audit Finding No. 2	($20,488)	$3,073	($2,049)
2010 Divestitures Adjustment	(9,383)	1,406	(938)
Affiliate Audit Finding No. 3	0	0	(8,898)
Total	($29,871)	$4,479	($11,885)

Accordingly, we find that plant be reduced by $29,871. In addition, accumulated depreciation shall be reduced by $4,479 and depreciation expense shall be decreased by $11,885.

Working Capital Allowance

Based on the Commission staff's audit of Mid-County, the 13-month average balance sheet working capital allowance was calculated to be $131,114. During the audit, it was found that Mid-County paid $10,524 for the renewal of its permit. This permit must be renewed every five years. For ratemaking purposes, four-fifths of the permit fee cost should have been deferred and included in working capital. The deferred amount to be included in working capital is $7,367 on a 13-month average basis, and when added to the $131,114 amount previously identified, results in total working capital of $138,481. In addition, it is our practice to include 50 percent of the Utility's approved amount of rate case expense in the working capital calculation for Class A water and wastewater utilities. As such, working capital shall be increased by $3,200, to obtain the ordered working capital allowance of $141,681 ($138,481 + $3,200).

Rate Base

Based on the 13-month average balances and adjustments approved herein, we find that the appropriate rate base for Mid-County is $3,245,368. The schedule for rate base is shown on Schedule 1-A and the adjustments are shown on Schedule 1-B.

Return on Equity

The last authorized return on equity (ROE) for Mid-County was 11.83 percent.[17] Based on the current leverage formula and Mid-County's adjusted capital structure, the current formula yields an ROE of 10.60 percent.[18] Therefore, we find that the appropriate ROE to determine the overall cost of capital is 10.60 percent with a range of reasonableness of 9.60 percent to 11.60 percent on a prospective basis.

Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the 12 months ended December 31, 2010, we establish a weighted average cost of capital of 8.33 percent. Pursuant to Section 367.082(4), F.S., any refund shall 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 that is found reasonable on a prospective basis. Based on Mid-County's adjusted capital structure and the ROE midpoint of 10.60 percent discussed in the preceding section of this order, we find that the appropriate weighted average cost of capital is 8.33 percent. Schedule No. 2 details the overall cost of capital.

Commission Expense

Section 367.081(7), F.S., states that this Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Section 367.0816, F.S., states that rate expense shall be amortized over four years. Also, this Commission previously ruled in a case involving Labrador Utilities, Inc. that the hourly billing rate for the legal consultant should be set at the rate authorized in Labrador's prior (2008) rate case.[19] Therefore, we have determined that the costs incurred by the Utility's legal consultant in responding to the audit and other data requests to determine prospective rates shall be considered a regulatory commission expense. In Mid-County's last rate case, the approved hourly rate for Mr. Martin Friedman of Sundstrom, Freidman, Fumero, LLP was $320 per hour.[20] It is estimated that Mr. Friedman has spent 20 hours processing this docket, which results in regulatory commission expense of $6,400. As a result, we find that the appropriate amount of

[17] See Order No. PSC-09-0373-PAA-SU, p.6.
[18] See Order No. PSC-11-0287-WS, issued July 5, 2011, in Docket No. 110006, 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.
[19] See Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.
[20] See Order No. PSC-09-0373-PAA-SU, p.8.

regulatory commission expense is $6,400. This expense shall be recovered over four years for an annual expense of $1,600.

Revenue Requirement

This 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. We find that the computation of the revenue requirement is $1,716,866, as shown on Schedule No. 3-A, and represents a decrease of $287,690 or 14.35 percent.

Calculation of 2010 Revenue Refund

By a letter dated August 16, 2011, Mid-County agreed to hold $272,737 annually subject to refund. In turn, the Utility secured $181,909 through a corporate undertaking guaranteeing potential refunds as a result of this Commission's investigation into possible overearnings for 2010. The $181,909 amount is based on an eight-month period (September 2011 through April 2012) applied to total estimated annual excess revenues for 2010 of $272,737. The $272,737 equates to a reduction in revenues for 2010 of approximately 13.63 percent.

Pursuant to Section 367.082(4), F.S., any refund shall be calculated to reduce the rate of return of the utility to within the range of the newly authorized rate of return which is found fair and reasonable on a prospective basis, but the refund shall not be in excess of the amount of revenues collected subject to refund. In interpreting and implementing this statute, we removed adjustments in the test year that do not relate to the period rates which were in effect. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.[21]

Our analysis did not include any items which were not incurred during the 2010 period. Based on this analysis, we have determined that Mid-County had excessive earnings of $274,289 or 13.68 percent, based on the Commission-adjusted test year revenues of $2,004,556. However, pursuant to Section 367.082(4), F.S., the refund shall not be in excess of the amount of the revenues collected subject to refund, in accordance with Section 367.082(2)(b), F.S. In addition, we shall require interest on the refund at a rate established by this Commission. As described above, the amount placed subject to refund was 13.63 percent of adjusted revenues for 2010. Therefore, Mid-County shall apply the 13.63 percentage to the monthly revenues from August 16, 2011 until the effective date of the new rates.

Pursuant to Rule 25-30.360(3), F.A.C., the refunds shall be made to the customers of record as of the date this Order is final and made on the basis of usage. The refunds shall be with interest in accordance with Rule 25-30.360(4), F.A.C. In no instance shall maintenance and administrative costs associated with any refund be borne by the customers; the costs are the responsibility of, and shall be borne by, the Utility. Mid-County shall provide refund reports in

[21] See Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket No. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc., p. 34.

accordance with Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), F.A.C.

Rate Decrease

Under the "Revenue Requirement" section of this Order, we ordered that the appropriate revenue requirement for Mid-County is $1,766,866, which equates to excessive earnings of $287,690 (14.35 percent) in 2010. The prospective rates shall be designed to produce annual revenues of $1,716,866. After removing miscellaneous service revenues, this results in an across-the-board rate decrease of 14.35 percent as shown below in Table 4.

Table 4

Calculation of the Percentage Revenue Decrease

Total 2010 Revenues	$2,004,556
Less: Miscellaneous Revenues	(450)
2010 Revenues from Service Rates	$2,004,106
Revenue Decrease	$287,690
Percentage Decrease	14.35%

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice. A comparison of the Utility's current and our approved PAA rates are shown on Schedule No. 4.

Four Year Rate Reduction

Section 367.0816, F.S., requires that rates shall 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, the associated return included in working capital, and the gross-up for RAFs, which is $1,955. The decreased revenue will result in the rate reduction ordered by this Commission as described in Schedule No. 4.

The Utility shall file revised tariffs and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until Commission staff has approved the proposed customer notice. Mid-County shall provide proof of the date notice was given within 10 days of the date of the notice.

If the Utility files this reduction in connection with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, Mid-County shall 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.

Based on the foregoing, it is

ORDERED that the rates for Mid-County Services, Inc. shall be decreased across-the-board by 14.35 percent. It is further

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

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

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice reflecting the appropriate rates and the reason for the reduction within 15 days of the date that this Order is final. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff pursuant to Rule 25-30.475(1), F.A.C., after Commission staff has verified that the proposed customer notice is adequate and has been provided to the customer. The Utility shall provide proof that the customers have received their notice within 10 days after the date of this notice. It is further

ORDERED that the Utility shall refund 13.63 percent, which is equal to the amount collected subject to refund, pursuant to Section 367.082(4), F.S. Pursuant to Rule 25-30.360(3), F.A.C., the refund shall be made to the customers of record as of the date this Order is final and made on the basis of usage. Mid-County shall apply the 13.63 percentage to the monthly revenues from August 16, 2011 until the effective date of the new rates. The refund shall be with interest in accordance with Rule 25-30.360(4), F.A.C. Mid-County shall provide refund reports in accordance with Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refund as CIAC in accordance with Rule 25-30.360(8), F.A.C. It is further

ORDERED that the rates shall be reduced as shown on Schedule No. 4 to remove $1,955 for rate case expense, grossed-up for regulatory assessment fees , which shall be amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall 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. It is further

ORDERED that the Utility is authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in the Utility's next rate proceeding. Furthermore, the unamortized regulatory asset or liability shall be amortized over four years. It is further

ORDERED that the Utility shall 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. It is further

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

ORDERED that in this docket shall be closed administratively after verification and approval by the Commission staff that the Utility has filed the revised tariff sheets and customer notice and has completed the required refund.

By ORDER of the Florida Public Service Commission this 27th day of July, 2012.

Ann Cole

ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MTL

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action herein is preliminary in nature, except for the reduction of rate case expense after four years and requiring proof of book adjustments. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 17, 2012. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Mid-County Services, Inc.
Schedule of Wastewater Rate Base
Year Ended 12/31/10

Schedule No. 1-A
Docket No. 120076-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Comm Adjust-ments	Comm Adjusted Test Year
1	Plant in Service	$7,161,056	0	$7,161,056	($133,819)	$7,027,237
2	Accumulated Depreciation	(2,892,335)	0	(2,892,335)	109,776	(2,782,559)
3	CIAC	(3,042,264)	0	(3,042,264)	1,648	(3,040,616)
4	Amortization of CIAC	1,879,722	0	1,879,722	19,903	1,899,625
5	Working Capital Allowance	131,114	0	131,114	10,567	141,681
6	**Rate Base**	$3,237,293	$0	$3,237,293	$8,075	$3,245,368

	Mid-County Services, Inc. Adjustments to Rate Base Year Ended 12/31/10	Schedule No. 1-B Docket No. 120076-SU
	Explanation	**Wastewater**
	Plant In Service	
1	To reflect Phoenix Project Adjustments.	($29,871)
2	To reflect Ordered adjustments – last rate case (AF No. 6)	(390)
3	To remove capitalized items (AF No. 7)	(15,101)
4	To reflect retirements not booked (AF No. 8)	(28,377)
5	To reflect annualized salaries (AF No. 13)	(2,931)
6	To reflect year-end HQ allocations (AF No. 14)	(54,994)
7	To adjust the cost of Sludge Equipment (AF No. 15)	(2,155)
	Total	($133,819)
	Accumulated Depreciation	
1	To reflect Phoenix Project Adjustments.	$4,479
2	To reflect Ordered adjustments – last rate case (Allocation AF No. 6)	27,154
3	To remove capitalized items (AF No. 7)	818
4	To reflect retirements not booked (AF No. 8)	31,034
5	To reflect annualized salaries (AF No. 13)	6,846
6	To reflect year-end HQ allocations (AF No. 14)	39,420
7	To adjust the cost of Sludge Equipment (AF No. 15)	25
	Total	$109,776
	CIAC	
	To reflect Ordered adjustments – last rate case (AF No. 6)	$1,648
	Accumulated Amortization of CIAC	
	To reflect Ordered adjustments – last rate case (AF No. 6)	$19,903
	Working Capital	
1	Permit Fees (AF No. 10)	$7,367
2	To reflect appropriate amount of deferred rate case expense	3,200
	Total	$10,567

Mid-County Services, Inc.
Capital Structure- 13 Month Average
13-Month Year Ended 12/31/10

Schedule No. 2
Docket No. 120076-SU

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Pro rata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$180,000,000	$0	$180,000,000	($178,407,376)	$1,592,624	49.07%	6.64%	3.26%
2	Short-term Debt	16,123,077	0	16,123,077	(15,980,421)	142,656	4.40%	3.88%	0.17%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	169,648,509	0	169,648,509	(168,147,474)	1,501,035	46.25%	10.60%	4.90%
5	Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
6	Deferred Income Taxes	9,053	0	9,053	0	9,053	0.28%	0.00%	0.00%
7	**Total Capital**	$365,780,639	$0	$365,780,639	($362,535,271)	$3,245,368	100.00%		8.33%
Per Commission									
8	Long-term Debt	$180,000,000	$0	$180,000,000	($178,407,376)	$1,592,624	49.07%	6.64%	3.26%
9	Short-term Debt	16,123,077	0	16,123,077	(15,980,421)	142,656	4.40%	3.88%	0.17%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	169,648,509	0	169,648,509	(168,147,474)	1,501,035	46.25%	10.60%	4.90%
12	Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
13	Deferred Income Taxes	9,053	0	9,053	0	9,053	0.28%	0.00%	0.00%
14	**Total Capital**	$365,780,639	$0	$365,780,639	($362,535,271)	$3,245,368	100.00%		8.33%

	LOW	HIGH
RETURN ON EQUITY	9.60%	11.60%
OVERALL RATE OF RETURN	7.87%	8.79%

Mid-County Services, Inc.
Statement of Wastewater Operations
Year Ended 12/31/10

Schedule No. 3-A
Docket No. 120076-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$2,004,556	$0	$2,004,556	$0	$2,004,556	($287,690) (14.35%)	$1,716,866
	Operating Expenses							
2	Operation & Maintenance	$1,056,316	0	$1,056,316	$28,114	$1,084,430		$1,084,430
3	Depreciation	186,657	0	186,657	(25,720)	160,937		160,937
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	118,664	0	118,664	(640)	118,024	(12,946)	105,078
6	Income Taxes	216,466	0	216,466	(17,072)	199,394	(103,386)	96,008
7	**Total Operating Expense**	$1,578,102	0	$1,578,102	($15,318)	$1,562,784	($116,332)	$1,446,452
8	**Operating Income**	$426,453	0	$426,453	$15,318	$441,771	($171,358)	$270,414
9	**Rate Base**	$3,237,293		$3,237,293		$3,245,368		$3,245,368
10	**Rate of Return**	13.17%		13.17%		13.61%		8.33%

	Mid-County Services, Inc. Adjustment to Operating Income Year Ended 12/31/10	Schedule No. 3-B Docket No. 120076-SU
	Explanation	**Wastewater**
	Operation and Maintenance Expense	
1	To remove operating expenses. (AF No. 4)	($449)
2	To reduce amortization expenses. (AF No. 5)	(304)
3	To expense capitalized items. (AF No. 7)	1,815
4	To remove expenses for other utilities. (AF No. 9)	(4,969)
5	To amortize Permit fees. (AF No. 10)	(2,794)
6	To remove Penalties. (AF No. 11)	(9,800)
7	To reduce last order's rate case expense. (AF No. 12)	(19,943)
8	To increase salary expense. (AF No. 13)	63,766
9	To adjust for revised HQ allocations. (AF No. 14)	(808)
10	To reflect adjustments to rate case expense.	1,600
	Total	$28,114
	Depreciation Expense - Net	
1	To reflect Phoenix Project Adjustments	($2,987)
2	To adjust Phoenix Project depreciation life. (AF No. 3)	(8,898)
3	To reflect Ordered adjustments – last rate case. (AF No. 6)	(19,021)
4	To remove capitalized items. (AF No. 7)	(487)
5	To reflect retirements not booked. (AF No. 8)	(1,523)
6	To increase depreciation expense. (AF No. 13)	5,570
7	To adjust for revised HQ allocations. (AF No. 14)	1,734
8	To adjust for the revised cost of sludge equipment. (AF No. 15)	(108)
	Total	($25,720)
	Taxes Other Than Income	
1	To reduce taxes related to a reduction in operating taxes. (AF No. 4)	($205)
2	To reduce payroll taxes related to a reduction in salary expense. (AF No. 13)	(435)
	Total	($640)

Mid-County Services, Inc. **Schedule No. 4**
Wastewater Bi-Monthly Service Rates **Docket No. 120076-SU**
Test Year Ended 12/31/10

	Present Rates	Approved Rates	Four-Year Rate Reduction
Residential			
Base Facility Charge All Meter Sizes:	$37.97	$32.52	$0.04
Gallonage Charge per 1,000 gallons (20,000 gallon bi-monthly cap)	$3.89	$3.33	$0.00
General Service			
Base Facility Charge by Meter Size:			
1"	$97.42	$83.44	$0.09
1-1/2"	$219.20	$187.73	$0.21
2"	$389.68	$333.74	$0.38
2" (UI)	$389.68	$333.74	$0.38
3"	$877.02	$751.12	$0.86
4"	$1,558.72	$1,334.97	$1.52
6"	$3,507.62	$3,004.10	$3.42
Gallonage Charge per 1,000 Gallons	$4.68	$4.01	$0.00
Multi-Residential - Metered			
Base Facility Charge by Meter Size:			
Flat Rate	$74.66	$63.94	$0.07
5/8" x 3/4"	$37.97	$32.52	$0.04
1"	$97.42	$83.44	$0.09
1-1/2"	$219.20	$187.73	$0.21
2"	$389.68	$333.74	$0.38
3"	$877.02	$751.12	$0.86
4"	$1,558.72	$1,334.97	$1.52
6"	$3,507.62	$3,004.10	$3.42
Gallonage Charge per 1,000 Gallons	$5.61	$4.80	$0.01
Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$49.64	$42.51	
5,000 Gallons	$57.42	$49.17	
10,000 Gallons	$76.87	$65.82	
(Gallonage Cap - 20,000 Gallons Bi-Monthly)			