BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate Increase in Pinellas County by MID-COUNTY SERVICES, INC.	DOCKET NO. 921293-SU ORDER NO. PSC-93-1713-FOF-SU ISSUED: 11-30-93

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
JULIA L. JOHNSON
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED WASTEWATER RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein 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.

BACKGROUND

Mid-County Services, Inc. (Mid-County or utility), a wholly-owned subsidiary of Utilities, Inc., is a Class B utility, located in Pinellas County, Florida. Mid-County provides wastewater service to customers located in Dunedin, Florida. The utility is located in a region which has been designated by the South Florida Water Management District (SFWMD) as a critical use area. As of December 31, 1992, the utility served approximately 1,062 residential customers and 175 general service customers. The wastewater system serves approximately 2,337 equivalent residential connections (ERCs). By Order No. 25257, issued October 28, 1991, we approved a transfer of majority organizational control of Mid-County from the former owner of the utility to Utilities, Inc. The transaction involving the acquisition of stock was completed and the closing occurred on May 22, 1991.

On April 1, 1993, the utility filed the instant application for approval of interim and permanent rate increases pursuant to Sections 367.081 and 367.082, Florida Statutes, and requested that the Commission process this case under the proposed agency action (PAA) procedure. However, the information submitted did not

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satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on May 21, 1993, the utility satisfied the MFRs and this date was designated the official filing date. The test year for interim is the twelve-month period ended December 31, 1992. The test year for the final rate determination is the projected twelve-month period ending March 31, 1994, based on the historical twelve-month period ending June 30, 1992. The current rate case was driven by the capital improvements required by Department of Environmental Protection (DEP) directives. The utility has upgraded personnel and invested approximately $1,500,000 to improve its present service.

Mid-County requested interim wastewater rates designed to generate annual operating revenues of $796,235. Those revenues exceeded test year revenues by $304,591 or 61.95 percent. By Order No. PSC-93-1174-FOF-WU, issued August 10, 1993, we approved annual operating revenues of $755,218 on an interim basis, subject to refund. Mid-County requested final wastewater rates designed to generate annual revenues of $926,127. These revenues exceed test year revenues by $430,548, or 86.88 percent.

The last rate case for the utility was processed in Docket No. 800634-SU, which culminated with the issuance of Order No. 10776 on May 6, 1982. The utility received a price index rate adjustment in 1988. The rate base for this utility was established by Order No. 23643, issued October 22, 1990.

QUALITY OF SERVICE

In evaluating the overall quality of service provided by Mid-County, we analyzed the quality of the utility's product, operational conditions of the utility's plant or facilities, and customer satisfaction.

Quality of Utility's Product

The ultimate concern of a wastewater utility is the quality of the treated wastewater (effluent) being discharged. The degree to which a utility is able to maintain a satisfactory degree of effluent quality is reflected by its ability to meet DEP standards. DEP issued Consent Order No. 92-1510 which requires Mid-County to meet advanced wastewater treatment standards because its effluent is discharged into Curlew Creek, which flows into the Gulf of Mexico. The utility submitted results of effluent analyses to DEP in a timely manner and no violations of DEP consent orders or rules have been noted. Therefore, we find that the quality of Mid-County's treated wastewater is satisfactory.

Operational Conditions of Utility's Plant or Facilities

As stated in the background, Utilities, Inc., acquired the treatment facility in May of 1991. The previous owners were in violation of Federal Environmental Protection Agency (EPA) and DEP regulations by operating with an expired operating permit. A DEP consent order required the utility to repair the plant so that it would meet the advanced wastewater treatment standards. The advanced treatment standards require removal of nitrates and other pollution causing minerals before discharging the effluent into Curlew Creek. Engineering estimates for the changes were slightly over $1 million.

The current owners have made major changes in the treatment of the effluent in a relatively short time. The utility has installed new filters, and provided technically advanced disinfectant treatment of the effluent. These changes have been successful in bringing the plant into EPA and DEP compliance. Our engineer's on-site field investigation, on July 22 and 23, 1993, revealed no operational problems. The inspection covered the wastewater plant, the quality of effluent being discharged into Curlew Creek, the lift stations, and the service areas. The 0.8 million gallons per day (mgd) extended aeration and filtration wastewater treatment plant appeared to be well operated and maintained. In accordance with Chapter 17-699, Florida Administrative Code, the utility is required to have a Class C certified operator or higher on-site for 16 hours per day 7 days per week. The lead operator must be a class B or higher.

Therefore, based upon the on-site investigation and a review of the DEP monthly operating reports and compliance records, we find that the wastewater treatment plant is properly maintained and in satisfactory condition.

Customer Satisfaction

A customer meeting was held on July 22, 1993, at the Clearwater Countryside Library in Clearwater, Florida. Of the approximately 50 people who attended the meeting, four customers testified. In a letter to the Commission dated August 24, 1993, the utility addressed the customer complaints and its proposed solutions, which are outlined below:

One customer complained of odor entering his apartment periodically. Mid-County explained that a force main and the sewer line from this customer's building empty into the same manhole and when the lift station pumps into the manhole sewage backs into the service line. This causes the odor to back-up through his system. The utility has installed a baffle wall in the manhole to divert the sewage from the force main to flow directly down the sewer line. This should prevent the sewage from backing up into the service line. Mid-County will continue to monitor this situation.

Another customer, a member of the Doral Mobile Home Park Board of Directors, was the spokesperson for approximately 35 residents that attended the meeting. The utility's treatment plant is located within this Park. He testified about odor from the plant, noisy trucks in the early morning, and trucks driving over sidewalks in the Park. On August 17, 1993, the utility representative met with members of the Board of Directors of the Doral Mobile Home Park to discuss the situations addressed by customers at the customer meeting and to attempt to remedy the complaints.

To alleviate the odor problems, Mid-County ordered a misting machine that will spray a deodorant. The utility discovered that the truck entering the subdivision early in the morning was a garbage truck that visits the plant daily. The utility has requested that the refuse company change its schedule to pick up later in the morning and the refuse company has agreed to do so.

Finally, the utility determined that semi-trailers hauling sludge from the plant are responsible for running over the edge of the sidewalk. The sidewalk in question is located at a very sharp "S" curve in the road and next to the asphalt surface of the street, which is at the same elevation. There is no curb or separation between the street and the sidewalk. The utility indicated that it will work with the sludge hauling company to see if a solution can be found.

Although specific complaints have been expressed, the utility has made a concerted effort to resolve each of the problems. Generally, the customers were satisfied with the utility's service. Based on the foregoing, we find that the overall quality of service provided by Mid-County to its customers is satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Margin Reserve

The purpose for margin reserve is to allow a utility to expand prudently beyond current demands to enable it to meet reasonable projected short term growth. This practice allows the utility to include some cost of expansion in its rate base without placing an unreasonable burden on current customers to pay for long term growth. It is our practice to allow a reasonable margin reserve when necessary.

In its filing, Mid-County included a 20 percent margin reserve, which produced used and useful percentages in excess of 100 percent for the treatment plant and collection system. The 20 percent margin reserve used by the utility in its calculations was based on a proposed Rule 25-30.432(5)(a). The proposed rules, which have not been approved by this Commission, are still in the formative state and have undergone several revisions. The utility's proposed 20 percent margin reserve has been adjusted to reflect the various revisions.

The MFRs filed by the utility reflect a five year growth of negative 1.38 percent. However, it does not appear that the historic growth pattern is reflective of current trends. Rather, it seems a consequence of unusual circumstances. For example, the utility imposed a moratorium on new connections due to the consent order imposed by DEP on previous owners. The utility is now in compliance with this consent order and has upgraded its plant, as discussed previously. In addition, during the on-site inspection, our engineer noted that there was new construction in the service area, which will result in many new customers.

Mid-County supplied additional information documenting a positive growth pattern of 65 ERCs per year with as many as 100 ERCs being a reliable possibility. Further, the utility stated that since Utilities, Inc., assumed operation of the plant in 1991, 195 new connections have been added. The growth in 1993 equals 7.9 per month or 95 new customers per year. The utility also provided a color coded map which showed various sections of future development in the service area and a large portion of the certificated area on septic systems.

Based on our calculations, we found that the exact margin reserve percentage is 5.75. However, due to the large number of potential customers in the area with septic tanks, the 5.75 percent was rounded down to 5 percent margin reserve. Based on the foregoing, we find that the appropriate margin reserve factor is 5 percent. The 5 percent equates to 39,325 gallons per day (gpd) or 143 ERCs for the system.

Used and Useful

Wastewater Treatment Facility

In its application, the utility reflected that the wastewater treatment facility is 113.50 percent used and useful. This figure was derived by using the projected test year maximum day demand then adding a 20 percent margin reserve based on the 800,000 gpd capacity of the treatment plant. The 20 percent margin reserve figure was originally mentioned as a percentage for margin reserve in proposed Rule 25-30.432(5)(a) and as noted previously, this Rule has not yet been adopted by the Commission.

Our calculation, which uses the maximum monthly average daily flow, 743,000 gpd, divided by the permitted capacity of the facility, 800,000 gpd, produces an 92.8 percent used and useful figure. The utility's base year does not include the anticipated new growth as noted in our discussion of the margin reserve. Therefore, once a 5 percent margin reserve is included, the appropriate used and useful percentage is 97. Based on the foregoing, we find that the wastewater treatment plant is 97 percent used and useful.

Wastewater Collection System

The customary practice when calculating collection system margin reserve is to divide the ERCs being served by the ERC capacity. Using the MFR numbers, the average ERCs for the period ending March 31, 1994 or 2,402, was divided by the ERC capacity, or 2,909. The calculation which results indicates that the wastewater collection system is 82.57 percent used and useful. These numbers included the five year negative growth pattern but did not include recent growth currently being experienced in the area, which was documented by the utility. Based on the construction observed in the area during the on-site inspection and the documentation supplied by the utility, we find it appropriate to add the 5 percent margin reserve in the used and useful calculation for the collection system and to round off the final percentage total. Based on the foregoing, we find that the wastewater collection system is 88 percent used and useful.

Plant in Service

Mid-County projected that its advanced wastewater treatment plant would be in service by March 31, 1993. The utility estimated that the plant would cost $1,471,499. The utility submitted an update that showed actual costs to be $1,379,427, which is a difference of $92,072. Because the actual capital expenditures incurred were less than projected figures, we have reduced rate base for the plant by $92,072, and have reduced accumulated depreciation and depreciation expense by $2,302, respectively.

Acquisition Costs

Mid-County was acquired by a total stock purchase. In a sale of stock, the balance sheet of the utility is unaffected and as a result, no acquisition adjustment exists. The transfer of majority organizational control was acknowledged by Order No. 25257. Our auditor's Audit Disclosures 3, 4, and 5, discussed below, refer to acquisition costs that were capitalized by Utilities, Inc., subsequent to its purchase of Mid-County.

Audit Disclosure No. 3 reported that the utility recorded $77,725 in organization costs during 1991. Of that amount $49,575 related to costs of acquisition, $12,701 related to legal expenses for the period, and $782 related to unsupported amounts. The auditor proposed that a total of $63,028 be removed from rate base.

Audit Disclosure No. 4 stated that $6,282 in undistributed costs should be removed from the treatment plant account and recorded in a non-utility acquisition account. These costs relate to attorneys' fees, filing fees and travel incurred for the stock transfer.

Audit Disclosure No. 5 stated that the utility recorded $2,401 as organizational costs in June 30, 1992. The $2,401 includes $301 for legal services and a $2,100 charge for accounting services related to the transfer. The Audit Disclosure reflected that the $2,401 should be removed from the treatment plant account and recorded in a non-utility acquisition account.

The utility asserts, in its response to the audit report, that these costs were necessary and proper in order to transfer the utility and expedite the plant upgrade. As a direct result of the transfer, Mid-County customers received improved service. The utility also asserted that the increased acquisition costs were due to the complexity of the transfer and the plant upgrade because the wastewater treatment plant was not in compliance with state and federal environmental regulations. The utility claimed that at the time of the transfer, it was under a consent order and agreed to pay fines for violation of environmental standards. The utility incurred high legal costs in defense of claims made by the Natural Resources Defense Council. According to the utility, the Natural Resources Defense Council had threatened punitive litigation if the environmental problems were not remedied immediately. Further, the utility explained that it had incurred additional costs in obtaining approval of the transfer due to some administrative problems it inherited from the prior owner. In conclusion, the utility stated that the costs incurred were for the benefit of the customers and should be recovered through rates.

We are not persuaded by the utility's argument that these costs should be recovered through rates. We believe that the costs incurred for a transfer should not be capitalized and should be recorded as below the line costs of the shareholder. If a utility were purchased and resold several times, capitalizing acquisition costs would result in the rate base being artificially inflated above the original cost of the assets. We believe the only organizational costs which should be allowed are those that are incurred when a utility is first organized. Those organizational costs incurred beyond that time frame serve to benefit the shareholder and not the ratepayer.

Based on the foregoing, we have reduced the treatment plant in service account by $71,711, and made corresponding adjustments of $5,964 and $1,733 to accumulated depreciation and depreciation expense, respectively.

Capitalized Costs

Audit Disclosure No. 6 reflects that the utility capitalized $36,053 to plant, which included $10,752 for sludge hauling expenses, $11,536 for chemicals, $8,764 for travel and other, and $5,000 in unsupported costs. The utility also capitalized $2,115 in maintenance expenses related to the lift stations.

The utility believes that it is appropriate to capitalize the $36,053 in operational costs, which includes sludge, chemicals, travel and other costs. Mid-County argues that the new owner should not be penalized for acquiring a troubled utility and seeking recovery of the prudent and proper costs that were incurred to do so. Again, the utility asserts that the Mid-County customers received improved service as a result.

We requested additional information from the utility so that we may determine whether these costs were on-going operational expenses or specifically related to the cost of construction. We believe that the proper treatment is to expense these costs; it is not appropriate to capitalize them unless they were actual construction costs. The utility did not supply any information that would alter the determination that these were expenses. Further, any additional costs, other than construction, necessary to bring the system into compliance with DEP standards should not be borne by the customers. These costs should be considered when a utility purchases a system and the purchase price should be adjusted accordingly. Since the sale of the utility from the prior owner to Utilities, Inc., was a sale of stock rather than assets, it is difficult to determine whether any consideration was made for these increased costs. If the sale price was reduced by consideration of these costs, then the customers should not be charged for these costs through rates. If these costs were allowed, the current customers would be paying for the new construction plus the cost of the neglect of the prior owner. Therefore, we find it appropriate to reduce plant in service by $36,053 and make corresponding adjustments of $2,704 to accumulated depreciation and $901 to depreciation expense.

Audit Disclosure No. 7 disclosed that, of a total of $4,125 charged to the lift station account, $2,115 booked in 1991 was inappropriately capitalized. This amount more appropriately represents expenses. The lift station costs included an invoice of $1,000 for cleaning out grease from the lift stations and an invoice of $1,115 for checking operations and the repair of the alarm lights, and phase monitors. These amounts are normal recurring maintenance expenses which occurred before the historical test year.

The utility asserts that the company's capitalization policy is taken from the Uniform System of Accounts. Mid-County states it has capitalized these costs because they are a part of its rehabilitation efforts. The utility's view is that if these charges are considered improperly capitalized, then the expenditures incurred during the test year should be included in the operating expenses.

Since the historical base year was used to project the test year expenses it would be appropriate to increase expenses if the costs were included in the base year. These amounts, however, were incurred prior to the base year. Therefore, we believe that a plant adjustment is necessary. Based on the above, we have reduced the lift station plant account by $2,115. Further, accumulated depreciation has been reduced by $159, and depreciation expense has been reduced by $53.

The total of the two above adjustments require a plant reduction of $38,168, and a reduction to accumulated depreciation and depreciation expense of $2,863 and $954, respectively.

Unsupported Prior Owner Costs

The prior owner of the utility system installed additional plant from June 30, 1990 to the date of the sale. The plant additions were booked at $101,112. Mid-County's present owner could only provide invoices totalling $90,084 in support of these additions. Mid-County claimed that it did not have possession of the prior owner's general ledger, trial balance or supporting journals. According to Mid-County, the prior owner made operational plant changes rather than major upgrades. Therefore, no permits were required.

Although we recognize that the improvements were necessary and are still in service, since the records provided failed to support the full cost of the plant, only $90,084 shall be allowed in rate base. Therefore, we find it appropriate to reduce plant in service by $11,028. Accordingly, accumulated depreciation is decreased by $1,103, and depreciation expense is decreased by $276.

Transportation Equipment

In it filing, the utility included the cost for three vehicles. Company policy requires that each of the utility's three operators be assigned a vehicle. The utility is required to provide 24 hour supervision of the plant. Meter readings are performed by Pinellas County, therefore, we do not believe that there is a constant travel demand for each of the operators. An engineering analysis performed by our engineer revealed that two vehicles would be sufficient to handle the maintenance and repairs for the utility. Based on the foregoing, we have reduced transportation equipment by $10,835, which represents one vehicle. Accordingly, we have decreased accumulated depreciation and depreciation expense by $8,084 and $2,709, respectively.

Capitalized Executive Salaries

The utility capitalized $27,909 in executive salaries in the last six months of 1991. In addition, the utility capitalized $36,417 in executive salaries for a portion of 1992 and 1993. The plant account includes the capitalized salaries for the following executives: President, Vice-President of Finance, Vice-President of Operations, Director of Regulatory Accounting, and the Director of Operations. These executives are all located in the service company office in Northbrook, Illinois. The utility records these capitalized costs directly to the plant accounts. The remaining salaries of these executives are then allocated to the utility at a residual percentage of 2.24 percent.

The audit report revealed that the executives traveled to Florida and charged airfare and other travel costs, as well as small amounts of their time to Mid-County construction projects. However, the utility had also hired an engineering firm for planning its expansion, therefore, it appears the executive time is for administrative visits rather than construction costs.

Mid-County's position is that capitalized executive time is proper and was necessary to bring the system into compliance and implement the major capital upgrades. Because of the significant costs related to upgrading, it was imperative that the project be overseen by qualified professionals, both from within the company and from the outside. Further, the utility asserts that if these costs are excluded from the cost of the plant upgrade, they should be included in operating expenses.

In support of its position, the utility asserted that capitalizing salaries is consistent with the NARUC Uniform System of Accounts for recording this type of overhead costs. Accounting Instruction No. 19 (12) states that "general administration capitalized" includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.

Staff Advisory Bulletin No. 33, states that "payroll costs or associated expense of executive officers and of general office employees, including but not limited to accounting, legal, and marketing should not be allocated to construction." Based on the information above and applying the guidelines of the Staff Advisory Bulletin No. 33, we find that these capitalized expenditures are primarily administrative and not directly associated with Mid-County's construction work.

Therefore, we find it appropriate to reduce plant in service by $64,326 to remove the capitalized salaries of the executive officers. Accordingly, accumulated depreciation has been decreased by $3,003 and depreciation expense by $1,608.

Allowance for Funds Used During Construction (AFUDC)

In its filing, the utility requested an AFUDC rate equal to its requested overall cost of capital of 10.27 percent. This Commission has not previously granted approval of any AFUDC rate for Mid-County.

According to Rule 25-30.116 (5), Florida Administrative Code, "No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous year unless authorized by the Commission."

Additionally, Staff Advisory Bulletin No. 31, issued January 27, 1986, states:

> If a utility has not received an approved AFUDC rate from this Commission, the utility may petition the Commission to establish a rate and for authority to apply the rate retroactively to previous years. If the Commission declines to grant the petition for retroactive application, any AFUDC charged between August 11, 1986,

> and the effective date of a utility's approved AFUDC rate established by order of this Commission would not be allowed in determining the appropriate rates and charges of the utility.

Thus, all utilities were put on notice that unauthorized AFUDC would be disallowed. Since that time, the Commission has consistently disallowed AFUDC when a utility did not have an approved rate. Mid-County requested that its approved AFUDC rate be applied retroactively. In this instance, we find it appropriate to retroactively approve the AFUDC rate for this utility. Since the acquisition of this utility in 1991, Utilities, Inc., has made substantial plant upgrades to bring this utility into compliance with the current DEP standards. Upon consideration, this rate shall be applied retroactively with an effective date beginning May 1, 1991. Furthermore, based on the capital structure discussed elsewhere in this Order, we find that the appropriate annual AFUDC rate for the wastewater system is 9.43 percent. This represents a discounted monthly rate of 0.753784 percent, consistent with Rule 25-30.116 (5) Florida Administrative Code.

<u>Contributions in aid of Construction (CIAC)</u>

In its filing, the utility indicates that it expects to add 52 ERCs in 1993 and 52 in 1994. However, the utility did not increase the CIAC to reflect the 104 future connections. The increase in CIAC is determined by multiplying the number ERCs by the plant connection fee. Presently, the plant connection fee is $136.60. The utility has requested a new plant connection fee in this application.

The utility had a self-imposed moratorium for new commercial connections during 1992. Therefore, the CIAC balance would remain the same. In addition, the utility used the previous owner's historical growth figures to determine the future growth. The utility provided additional documentation that shows the previous owner's historical growth figures to be incorrect. The utility now anticipates a favorable growth pattern, due to the lifting of the moratorium and the historical growth in connections. The utility projects growth of approximately 100 ERCs per year.

According to the utility, there have been 195 new connections since the acquisition of the utility in 1991. During the period of January to August of 1993, the utility added 63 connections, which yields an average of 8 ERCs per month. The utility's actual connections from December 1991 to August 1993 should be reflected in the projected CIAC balance.

To project an accurate CIAC balance it is necessary to start with the CIAC balance reported in the utility's 1992 annual report. To determine the CIAC balances for the projected years ending March 31, 1993 and 1994, an average of 8 ERCs per month was added to the balance. We used the 63 connections or the actual number of connections, made from January 1993 to August 1993, in our calculation. The CIAC balance from September 1993 to March 1994 was based on an average of 8 ERCs per month. To calculate the appropriate amount of CIAC to project, the plant capacity fee of $136.60 was multiplied by 8 ERCs per month. For the last four months of the projected period, CIAC additions were determined by using our approved plant connection fee discussed later.

The utility erred in its application by neglecting to take amortization of CIAC during the 1991 year. This resulted in a $42,563 understatement of accumulated amortization of CIAC.

Based on our calculations, we find that the projected average balance of CIAC is $1,751,989. Therefore, we have increased CIAC by $32,129, increased accumulated amortization by $293, and amortization of CIAC by $42,563.

CIAC Offset to Margin Reserve

Typically, the determination of plant used and useful includes an amount for the prospective customers who will be connected during the margin reserve period, which is determined by historical growth patterns. We usually require that only the utility's investment in the margin reserve be recognized in rate base and that CIAC be imputed for the additional ERCs. The imputed CIAC is limited to the plant cost that is included in the rate base as a result of the margin reserve.

The wastewater collection system is considered to be 88 percent used and useful. However, an adjustment to impute CIAC on the margin reserve has not been made since the utility does not have a main extension fee. Consequently, we have only imputed CIAC to the wastewater treatment plant. In calculating the appropriate amount of CIAC to impute for the wastewater treatment plant, we multiplied the 150 ERCs included in the margin reserve by the approved wastewater plant capacity charge of $137. This results in a maximum amount to impute of $20,550. A comparison of this amount to the amount of plant included in the margin reserve which was 5 percent of the total treatment plant, or $101,027, revealed that the amount of the margin reserve included in the treatment plant is greater than the imputed amount.

Based on the foregoing, we have imputed CIAC in the amount of $20,550. Accordingly, we have increased accumulated amortization of CIAC and test year amortization by $289 and $577, respectively.

Working Capital

The utility has used the formula approach (one-eighth of operation and maintenance expenses) to calculate the working capital allowance. We find it appropriate to use the formula method to calculate the working capital requirement for this utility.

Mid-County has requested a working capital allowance of $65,899 for its wastewater system. However, based on our findings and adjustments herein, we have reduced working capital by $4,982. Therefore, the appropriate working capital allowance is $60,917.

Test Year Rate Base

In consideration of the foregoing, we find that the average test year rate base is $1,358,794 for wastewater.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Capital Structure

As stated earlier, Mid-County is a wholly-owned subsidiary of Utilities, Inc. The utility used the debt and equity ratios of its parent's capital structure in its MFRs to calculate its requested cost of capital. We believe that it is reasonable to use the capital structure of the parent since Mid-County's capital structure is 100 percent equity and no debt is issued at the subsidiary level. Further, Mid-County has neither investment tax credits nor customer deposits.

In its capital structure, Mid-County did not include deferred income taxes. However, we have incorporated the utility's balance at zero cost projected for the test year. Based on the above, we believe that the parent's capital structure is the most appropriate for ratemaking purposes, with an adjustment to include projected accumulated deferred income taxes of $80,745.

Interest Rate for Debt Capital

In its filing, for the March 31, 1994 test year, the utility requested long-term debt of $38,426,979 with a cost rate of 9.41 percent. It did not report a 9.01 percent debt issuance of $15,000,000, which was obtained prior to December 31, 1992. The utility's rate case was not submitted until April 1, 1993.

The audited financial statements of Utilities, Inc., for the years ended December 1991 and December, 1992 reported simple average long-term debt of $36,453,069 at a cost of 9.23 percent. According to our auditor, the utility's debt for the test year is $38,130,526 at 9.32 percent This is based upon the outstanding debt at a simple average times the reported coupon rate. Based on the above, we find it appropriate to increase the parent company debt by $15,000,000 at cost rate of 9.01 percent. As a result, the reported 9.41 percent weighted cost of debt will be reduced to 9.32 percent.

Return on Equity

Based upon the components of the adjusted capital structure, the equity ratio for the utility is 39.86 percent. We have calculated the allowed return on equity using the current leverage formula in Order No. PSC-93-1107-FOF-WS, issued July 29, 1993. According to that Order, the appropriate return on equity is 10.97 percent. Therefore, Mid-County's authorized rate of return on equity is 10.97 percent, with a range of reasonableness between 9.97 percent to 11.97 percent.

Overall Rate of Return

The appropriate overall rate of return is determined using the parent company's capital structure with accumulated deferred income taxes specifically reflected for Mid-County and the parent's ratio of debt and equity each reconciled to the utility's rate base on a pro rata basis. This results in an overall rate of return of 9.43 percent, with a range of 9.03 percent to 9.83 percent.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedule No. 3-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Revenues

Pinellas County provides the billing services for the utility. The County uses a periodic billing method based on the cycles established for water services. Consequently, the customers are billed periodically throughout each month. The County remits the billing collections to Mid-County as they are received. In turn, the revenues are recorded by the utility as payments are received from the County. According to the utility, allowing the County to provide the billing services results in lower costs for the utility and convenience for the customers.

The audit report discloses a $3,192 difference between the billed revenues and the cash receipts. In its application, the utility should have based the requested revenues on the billed revenues. The billed revenues represent the maximum amount the utility expects to receive. Therefore, we find it appropriate to increase test year revenues by $3,192 to reflect the actual billed revenues.

Salaries

During the historical test year, the utility capitalized $3,504 in salary expense for an operator's time on a construction project. When the utility capitalized this expense, there should have been a corresponding reduction to the operating expenses; however, this adjustment was not made by the utility. The result is a distortion of the salary expense shown in the historical test year, which is the foundation for the projected computation.

In projecting the utility's 1994 salary expense, the utility used total salary expense incurred in the base year and escalated it by 1.1382 for the years 1993 and 1994. To achieve an accurate salary expense for the projected test year, 1994, we removed the capitalized portion of the operator's salary and the corresponding escalated amount for the projected year 1994 from operating expenses. Based on the foregoing, we find it appropriate to reduce salary expense by $3,988.

Materials and Supplies

The utility is required by DEP to perform monthly testing. The utility originally estimated these testing costs to be $48,998. After discussions between DEP and the utility, a stipulated settlement was negotiated which acknowledged that the frequency of testing in the original draft permit was incorrect. This stipulation was made after the rate case application was submitted to the PSC. Based on the utility's revised testing schedule, the projected costs will be $27,834. Therefore, consistent with the utility's revised costs for testing, the materials and supplies expense account is reduced by $21,164.

Rate Case Expense

The utility included a $112,500 total estimate for rate case expense in its MFRs. The utility provided an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete. The revised estimated rate case expense through completion of the PAA process is $58,887.

The updated rate case expense included payments for legal services ($19,312), accounting and other regulatory services provided by an affiliated company ($27,234), PSC filing fees, audit fees, and cost of copies of rules ($6,994), and various costs to notify customers about this proceeding ($5,326). These revised legal and accounting costs generally appear to be reasonable with slight modifications as discussed below.

Cost of Copying Rules

Mid-County included the cost for copying a proposed Commission rule on the used and useful sections. Prior to the approval of the proposed rule by the Commission, the proposed used and useful sections were removed from the rulemaking docket. We do not believe that this cost should be considered rate case expense, even though Mid-County relied on this proposed rule in its filing. Further, we do not believe the cost of copying this rule should be fully borne by the Mid-County customers, as Utilities, Inc., owns and operates numerous systems in Florida. Therefore, we find it appropriate to disallow this expense.

Auditors' Travel Costs

The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.

Based on the foregoing, rate case expense has been reduced by $3,994 to remove the cost of copying the rules and the audit travel expense and by $53,633 to conform to the revised estimate on costs. Therefore, the appropriate allowed amount of rate case expense is $54,873.

Rate Case Expense Summary

The utility shall submit a detailed statement of the actual rate case expense incurred within 60 days of the effective date of this Order. The original and one copy of this information should be submitted in the form prescribed for Schedule B-10 of the MFRs.

Depreciation Expense

Mid-County determines its depreciation expense by using a composite rate of 2.5 percent multiplied by total depreciable plant less transportation equipment. The transportation equipment depreciation expense is determined by using a rate of 25 percent. These rates were previously approved by the Commission. The utility was authorized to use a composite rate of 2.5 percent for CIAC. In its application, the utility did not petition or justify the need for any other type of depreciation rates. In accordance with Rule 25-30.140 (3), Florida Administrative Code, guideline depreciation rates should be used in rate proceedings before the Commission, unless the utility submits a study which justifies the use of different rates.

Therefore, consistent with Rule 25-30.140(3), Florida Administrative Code, the utility shall use guideline rates when the order in this case is final. To reflect the guideline rates, we hereby increase accumulated depreciation by $2,443, depreciation expense by $4,886, accumulated amortization of CIAC by $2,696, and amortization expense by $5,393.

Test Year Operating Income

Based on our adjustments discussed herein, we find the appropriate level of test year operating income before any provision for increased revenues to be $28,406 for the wastewater system.

REVENUE REQUIREMENT

Based upon the adjustments discussed above, we find that the appropriate annual revenue requirement for this utility is $761,574 for the wastewater system. This revenue requirement represents an annual increase in revenue of $262,803 or 52.69 percent.

RATES AND CHARGES

We have established final wastewater rates for the utility that are designed to produce annual operating revenues of $738,751 using the base facility charge rate design. The base facility charge rate structure allows the utility to more accurately track its costs and allows the customers to have some control over their water and wastewater bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

The rates approved include a base charge for all residential customers regardless of meter size and a cap of 20,000 gallons of usage bi-monthly on which the gallonage charge may be billed. However, there is no cap on usage for general service bills. The differential in the rate charged for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system. The utility's present rates did not recognize this differential.

Effective Date

The approved rates will be effective for service rendered on or after the stamped approval date of the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the revised tariff sheets are consistent with the Commission's decision, that the protest period has expired, and the proposed customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and approved rates is shown on Schedule No. 4.

Statutory Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that rate case expense be apportioned for recovery over a period of four years. The statute further requires that the rates of the utility be reduced immediately by the amount of rate case expense previously included in the rates.

Accordingly, the wastewater rates shall be reduced by $13,718 as shown on Schedule No. 5. The revenue reduction reflects the annual rate case expense amount amortized plus the gross-up for regulatory assessment fees. The utility shall file tariffs no later than one month prior to the actual date of the required rate reduction. The utility also shall submit a proposed "customer letter" setting forth the lower rates and the reason for the reduction.

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

No Refund Required

By Order No. PSC-93-1174-FOF-WU, we approved an interim increase for the wastewater system, subject to refund. The increase resulted in annual revenues of $755,218 for wastewater.

According to Section 367.082, Florida Statutes, 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. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding the test period for establishment of interim rates was the twelve months ended December 31, 1992. The test period for the establishment of final rates is the twelve months ended March 31, 1994. The approved interim rates did not include any provisions for pro forma consideration of increased operating expenses or pro forma plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

In establishing the proper refund amount, we calculated an adjusted final revenue requirement for the interim period using the same data used to establish final rates, but excluding the pro forma provision for rate case expense. This pro forma change was excluded because it was not an actual expense during the interim collection period. No adjustments were necessary to plant since the plant was placed in service before the interim rates became effective. We do not believe any other adjustments are necessary. Therefore, we computed the comparable revenue requirement using the approved cost of capital including the return on equity that, by statute, is the prescribed return to be used to test for excessive earnings during the interim collection period. The approved adjusted revenue requirement is \$710,427 for the wastewater system.

Since the interim test year is historical and the final is projected, we must restate interim revenues using the approved interim rates and the projected test year billing determinants. This is necessary so that the two revenue requirements can be compared on a consistent basis. Based on the calculation, the revised interim revenues are \$710,554.

The difference between the adjusted revenue requirement and the interim revenues represents an annual reduction of \$127. Because the administrative cost to refund this small amount would most likely exceed the amount to be refunded, we find that there need not be a refund of the excess interim rates. Instead, the utility shall credit this difference to the CIAC account.

<u>Service Availability Charges</u>

By Order No. 25257, issued November 19, 1991, the Commission authorized the utility's existing service availability charges. Rule 25-30.580(1)(a) and (b), Florida Administrative Code, set guidelines for maximum and minimum CIAC levels for utilities. The utility's current level of CIAC is 39.17 percent. The minimum CIAC level for this utility is 38.07 percent. Therefore, the utility does not meet the guidelines set forth in Rule 25-30.580(1)(b), Florida Administrative Code.

The utility calculated service availability charges based on existing capacity for further growth of approximately 52 ERCs per year. Based on the Schedule of Projected Customer Growth filed by the utility, the current number of ERCs is 2,337 with a projection factor of 2.23 percent for the test year ending March 31, 1994.

Because of the large customer growth noted since the filing of Mid-County's application, service availability charges have been calculated based on existing capacity for future growth of approximately 100 ERCs per year. Therefore, we have adjusted the Utility's Projected Customer Growth Factor to 4.28 percent for the test year ending March 31, 1994. These charges will not cause the utility to exceed the 75 percent maximum level of CIAC.

These service availability charges will be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon our Staff's verification that the tariff sheets are consistent with the Commission's decision herein, that the PAA period has ended with no protest filed, and that the proposed customer notice is adequate.

BOOKS AND RECORDS

Mid-County is a Class B utility with revenues in excess of $150,000 but less than $750,000. However, when all of Mid-County's affiliates in Florida are considered, the combined total company is considered a Class A utility.

Rule 25-30.115, Florida Administrative Code, requires utilities to maintain accounts and records in conformity with the NARUC Uniform System of Accounts. According to this system of accounts, accounting instruction 28 for Class A utilities requires that a property record system must be maintained.

We find it appropriate that the utility institute procedures to maintain retirement units and a property records system in compliance with the Uniform System of Accounts. The utility shall also prepare written instructions to employees to ensure all costs capitalized are appropriate and properly recognized in its list of retirement units. Plant costs should be assigned to a list of retirement units for the entire plant. The audit report disclosed several items that were unsupported expenditures. Also, there was some co-mingling of account balances revealed by the audit report.

Mid-County asserts that it does maintain retirement units and a property records system in compliance with the Uniform System of Accounts. Further, the utility maintains that it follows the instructions regarding plant additions and retirements for Class B utilities, specifically Accounting instruction 22 and Class A Accounting instruction 28.

The utility explained that it follows a work order system for any non-emergency capital project in the amount of $5,000 or greater. A separate work order tracks each plant project. The plant items are booked at cost to the appropriate plant account and items are retired using the Handy-Whitman Index. Using this index to estimate the original cost of plant retired is an accepted industry procedure and permitted by the Uniform System of Accounts. The utility's accounting department was instructed on the proper coding and classification for plant additions. The utility stated that the discrepancies cited by the auditor do not constitute coding errors, but rather differences in opinion as to the proper coding.

Based on the disclosures in the audit, we are not convinced that the books and records were totally in compliance with Rule 25-30.115, Florida Administrative Code. The utility is considered a Class A utility based on the combined revenue of systems owned by Utilities, Inc. Therefore, we believe the utility, as a whole, should consistently follow all rules regulating Class A utilities, which includes Rule 25-30.115, Florida Administrative Code.

Based on the foregoing, we find that Mid-County shall comply with Rule 25-30.115, Florida Administrative Code, and maintain its books and records in accordance with NARUC. This includes having readily available supporting documents for all plant additions, and having each work order supported by attached invoices documenting detailed labor charges by individual.

If a protest is not received within 21 days of the issuance of this PAA Order, the Order will become final and the docket may be closed upon the utility's filing and staff's approval of revised tariff sheets. The utility's corporate undertaking may be released upon the effective date of this order.

Based on the foregoing, it is therefore,

ORDERED by the Florida Public Service Commission that Mid-County Services, Inc.'s application for increased wastewater rates in Pinellas County is approved as set forth in the body of this Order. 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 by reference incorporated herein. It is further

ORDERED that Mid-County Services, Inc., is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that the service availability charges approved herein shall be effective for connections made on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Mid-County Services, Inc., shall submit and have approved a proposed notice to its customers of the increased rates and charges and the reasons therefor. The notice will be approved upon Staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Mid-County Services, Inc., shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the proposed customer notice is adequate. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall also file a customer notice. It is further

ORDERED that all of the provisions of this Order are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Mid-County Services, Inc., shall submit a statement of the actual rate case expense incurred as set forth within the body of this Order. It is further

ORDERED that Mid-County Services, Inc., shall implement guideline depreciation rates in accordance with Rule 25-30.140, Florida Administrative Code. It is further

ORDERED that Mid-County Services, Inc., shall maintain the utility's books and records in conformity with the NARUC Uniform System of Accounts and Rule 25-30.115, Florida Administrative Code. It is further

ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person, and upon the utility's filing and Staff's approval of revised tariff sheets and a customer notice.

By ORDER of the Florida Public Service Commission, this 30th day of November, 1993.

Steve Tribble

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on December 21, 1993.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting 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 of the effective date 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
TEST YEAR ENDED MARCH 31, 1994

SCHEDULE NO. 1-A
DOCKET NO. 921293-SU

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	3,585,414 $	0 $	3,585,414 $	(288,140)$	3,297,274
2 LAND		18,403	0	18,403	0	18,403
3 NON-USED & USEFUL COMPONENTS		0	0	0	(201,546)	(201,546)
4 ACCUMULATED DEPRECIATION		(659,124)	(40,995)	(700,119)	20,876	(679,243)
5 CIAC		(1,719,860)	0	(1,719,860)	(52,679)	(1,772,539)
6 AMORTIZATION OF CIAC		568,189	21,498	589,687	45,841	635,528
7 ACQUISITION ADJUSTMENTS -NET		0	0	0	0	0
8 CONSTRUCTION WORK IN PROGRESS		0	0	0	0	0
9 DEBIT DEFERRED INCOME TAXES		0	0	0	0	0
10 WORKING CAPITAL ALLOWANCE		65,899	0	65,899	(4,982)	60,917
RATE BASE	$	1,858,921 $	(19,497)$	1,839,424 $	(480,630)$	1,358,794

MID-COUNTY SERVICES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED MARCH 31, 1994

SCHEDULE NO. 1-B
DOCKET NO. 921293-SU
PAGE 1 OF 1

EXPLANATION		WASTEWATER
(1) UTILITY PLANT IN SERVICE		
a) Adjustment to reduce projected plant to actual cost.	$	(92,072)
b) Adjustment to remove acquisition costs		(71,711)
c) Adjustment to remove capitalized expenses		(38,168)
d) Adjustment to remove unsupported prior owner costs		(11,028)
e) Adjustment to remove the cost of a third truck		(10,835)
f) Adjustment to remove capitalized executive salary		(64,326)
Net Adjustment	$	(288,140)
(2) NON-USED AND USEFUL PLANT		
a) Used and useful adjustment to wastewater treatment plant	$	(201,546)
(3) ACCUMULATED DEPRECIATION		
a) Adjustment to reduce projected plant to actual cost.	$	2,302
b) Adjustment to remove acquisition costs		5,964
c) Adjustment to remove capitalized expenses		2,863
d) Adjustment to remove unsupported prior owner costs		1,103
e) Adjustment to remove the cost of a third truck		8,084
f) Adjustment to remove capitalized executive salary		3,003
h) Adjustment to reflect guideline rates		(2,443)
Net Adjustment	$	20,876
(4) CIAC		
a) Projected provision of CIAC to reflect projected growth		(32,129)
b) Imputation CIAC on the margin for non-used and useful		(20,550)
Net Adjustment	$	(52,679)
(5) ACCUMULATED AMORTIZATION		
a) Related adjustment to reflect projected growth	$	293
b) Adjustment corresponse to Imputation of CIAC on the margin		289
c) Adjustment to reflect guideline depr. rates		2,696
d) Adjustment to reflect error in 1991 amort. exp.		42,563
Net Adjustment	$	45,841
(6) WORKING CAPITAL		
a) Adjustment to agree with recommended operating expenses	$	(4,982)

MID-COUNTY SERVICES, INC.
CAPITAL STRUCTURE
TEST YEAR ENDED MARCH 31, 1994

SCHEDULE NO. 2-A
DOCKET NO. 921293-SU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION
1 LONG TERM DEBT	$ 38,426,979	57.44%	9.41%	5.41%	$ (37,649,000)	$ 731,748	53.85%	9.32%	5.02%
2 SHORT-TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	28,467,047	42.56%	12.24%	5.21%	(27,886,232)	546,300	40.20%	10.97%	4.41%
5 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
7 DEFERRED TAXES	0	0.00%	0.00%	0.00%	80,745	80,745	5.94%	0.00%	0.00%
8 OTHER (Explain)	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	$ 66,894,026	100.00%		10.62%	$ (65,454,487)	$ 1,358,794	100.00%		9.43%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.97%	11.97%
OVERALL RATE OF RETURN	9.03%	9.83%

MID-COUNTY SERVICES, INC.
ADJUSTMENTS TO CAPITAL STRUCTURE
TEST YEAR ENDED MARCH 31, 1994

SCHEDULE NO. 2-B
DOCKET NO. 921293-SU

	DESCRIPTION		SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT
1	LONG TERM DEBT	$	(296,453)$	0 $	(37,352,547) $	(37,649,000)
2	SHORT-TERM DEBT		0	0	0	0
3	PREFERRED STOCK		0	0	0	0
4	COMMON EQUITY		0	0	(27,886,232)	(27,886,232)
5	CUSTOMER DEPOSITS		0	0	0	0
6	DEFERRED INCOME TAXES		0	80,745	0	80,745
7	OTHER (Explain)		0	0	0	0
8	TOTAL CAPITAL	$	(296,453)$	80,745 $	(65,238,779) $	(65,454,487)

MID-COUNTY SERVICES, INC.
STATEMENT OF WASTEWATER OPERATIONS
TEST YEAR ENDED MARCH 31, 1994

SCHEDULE NO. 3-A
DOCKET NO. 921293-SU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	$ 495,579	$ 430,548	$ 926,127	$ (427,356)	$ 498,771	$ 262,803	$ 761,574
OPERATING EXPENSES		86.88%				52.69%	
2 OPERATION AND MAINTENANCE	$ 515,744	$ 11,447	$ 527,191	$ (39,859)	$ 487,332		$ 487,332
3 DEPRECIATION	15,392	39,697	55,089	(20,757)	34,332		34,332
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	37,265	47,572	84,837	(21,039)	63,798	11,826	75,624
6 INCOME TAXES	7,071	56,762	63,833	(122,118)	(58,285)	94,442	36,157
7 TOTAL OPERATING EXPENSES	$ 575,472	$ 155,478	$ 730,950	$ (203,773)	$ 527,177	$ 106,269	$ 633,445
8 OPERATING INCOME	$ (79,893)	$ 275,070	$ 195,177	$ (223,583)	$ (28,406)	$ 156,534	$ 128,128
9 RATE BASE	$ 1,858,921		$ 1,839,424		$ 1,358,794		$ 1,358,794
RATE OF RETURN	-4.30%		10.61%		-2.09%		9.43%

MID-COUNTY SERVICES, INC.
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED MARCH 31, 1994

SCHEDULE NO. 3-B
DOCKET NO 921293-SU
PAGE 1 OF 1

EXPLANATION		WASTEWATER
(1) OPERATING REVENUES		
a) Reverse utility's proposed rate increase	$	(430,548)
b) Correction to reflect actual billing revenues		3,192
Net Adjustment	$	(427,356)
(2) OPERATING EXPENSES		
a) Adjustment to reduce projected testing costs	$	(21,164)
b) Remove salary of operator		(3,988)
c) Adjust provision for rate case expense		(14,707)
Net Adjustment	$	(39,859)
(3) DEPRECIATION EXPENSE		
a) Adjustment to remove expense related to advance treat. plt.	$	(2,302)
b) Corresponding adjustment to remove capitalized acquisition costs		(1,733)
c) Adjustment to remove capitalized expenses		(954)
d) Adjustment to remove related unsupported prior owner costs		(276)
e) Remove expense related to transportation cost		(2,709)
f) Corresponding adjustment to remove capitalized salary		(1,608)
g) Used and useful adjustment to wastewater plant		(10,091)
h) Corresponding adjustment for projected CIAC		(5,393)
i) Amortization of imputed CIAC		(577)
j) Adjustment to reflect guideline depr. rates		4,886
Net Adjustment	$	(20,757)
(4) TAXES OTHER THAN INCOME TAXES		
a) Reversing requested RAFs related to revenue adjustment	$	(19,231)
b) Used and useful adjustment to property taxes		(1,808)
Net Adjustment	$	(21,039)
(5) INCOME TAXES		
a) Income taxes associated with adjusted test year income	$	(122,118)
(6) OPERATING REVENUES		
a) Adjustment to reflect recommended revenue requirement	$	262,803
(7) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment taxes on additional revenues	$	11,826
(8) INCOME TAXES		
a) Income taxes related to recommended income amount	$	94,442

Schedule No. 4

Wastewater

Bi-Monthly

Residential

Meter Size	Utility Rates Prior to Filing	Commission Approved Interim Rates	Utility Proposed Final Rates	Commission Approved Final Rates
All Sizes	$ 13.54	$ 21.20	$ 19.40	$ 27.48
Gallonage Charge (Per 1,000 gallons) (Max. 20,000 gals.)	$ 1.19	$ 1.86	$ 2.54	$ 1.44

Typical Residential Bills
All Meter Sizes

6M	$ 20.68	$ 32.36	$ 34.64	$ 36.12
10M	$ 25.44	$ 39.80	$ 44.80	$ 41.88
16M	$ 32.58	$ 50.96	$ 60.04	$ 50.52
20M	$ 37.34	$ 58.40	$ 70.20	$ 56.28

Wastewater

Bi-Monthly

General Service

Meter Size	Utility Rates Prior to Filing	Commission Approved Interim Rates	Utility Proposed Final Rates	Commission Approved Final Rates
5/8" x 3/4"	$ 13.54	$ 21.20	$ 19.40	$ 27.48
3/4"				41.22
1"	33.85	53.01	48.50	68.70
1-1/2"	67.72	106.04	97.00	137.40
2"	108.35	169.67	155.20	219.84
3"	216.71	339.35	291.00	439.68
4"	338.61	530.23	485.00	687.00
6"	677.21	1,060.44	970.00	1,374.00
Gallonage Charge (per 1,000 gallons)	$ 1.19 (No Max.)	$ 1.86	$ 2.54	$ 1.73

Schedule No. 5

Rate Schedule

Schedule of Staff Recommended
Rates and Rate Decrease in Four Years
Wastewater
Bi-Monthly Rates

Residential	Commission Approved Rates	Rate Decrease
Base Facility Charge (All Meter Sizes)	$ 27.48	$ 0.12
Gallonage charge per 1,000 gallons (Maximum 20,000 gallons)	$ 1.44	$ 0.01
General Service		
Base Facility Charge		
Meter Size:		
5/8" x 3/4"	$ 27.48	$ 0.12
3/4"	$ 41.22	$ 0.20
1"	$ 68.70	$ 0.32
1-1/2"	$ 137.40	$ 0.64
2"	$ 219.84	$ 1.04
3"	$ 439.68	$ 2.08
4"	$ 687.00	$ 3.24
6"	$1,374.00	$ 6.48
8"	$2,198.40	$10.36
Gallonage Charge per 1,000 gallons (No Maximum)	$ 1.73	$ 0.01

MID-COUNTY SERVICE INC.
CALCULATION OF AFUDC
Average Capital Structure

Schedule No. 6
Docket No. 921293-SU

Class of Capital	Average Capital Structure	Percent of Capital	Cost Rates	Weighted Cost	Discounted Monthly Rate
LONG TERM DEBT	731,748	53.85%	9.32%	5.02%	
SHORT-TERM DEBT	0	0.00%	0.00%	0.00%	
PREFERRED STOCK	0	0.00%	0.00%	0.00%	
COMMON EQUITY	546,300	40.20%	10.97%	4.41%	
CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	
DEFERRED TAXES	80,745	5.94%	0.00%	0.00%	
OTHER	0	0.00%	0.00%	0.00%	
TOTAL CAPITAL	1,358,793	100.00%		9.43%	0.753784%