State of Florida

Public Service Commission

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COMMISSION CLERK

DATE: June 7, 2012

TO: Office of Commission Clerk (Cole)

JS BF ALM

FROM: Division of Economic Regulation (Wright, Fletcher, Maurey)
Office of the General Counsel (Lawson) JSC

RE: Docket No. 120076-SU – Investigation of Rates of Mid-County Services, Inc. in Pinellas County for Possible Overearnings.

AGENDA: 06/19/12 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 11 and 12 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:/PSC/ECR/WP/120076.RCM.DOC

Case 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, Commission staff 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, 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 staff audit report for Mid-County was completed. The Utility filed a response to the staff audit on December 20, 2011.

This recommendation 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. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

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

Discussion of Issues

Issue 1: Should the audit adjustments to rate base and net operating income, to which the Utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, the following adjustments to rate base and net operating income, as set forth in Table 1-1 below, should be made. (Wright, Fletcher)

Staff Analysis: In its response to staff's audit report, Mid-County agreed to the audit findings and audit adjustment amounts listed below. Staff recommends the following adjustments to rate base and net operating income.

Table 1-1

Audit Adjustments to Which Mid-County Agrees								
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)

Issue 2: Should any adjustment be made to the Utility's Phoenix Project Financial/Customer Care Billing System (Phoenix Project)?

Recommendation: Yes. Plant should be reduced by $29,871. In addition, accumulated depreciation should be reduced by $4,479 and depreciation expense should be decreased by $11,885. (Wright, Fletcher)

Staff Analysis: 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, the Commission 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, the Commission found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but it 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, the Commission found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, the Commission 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.

Staff Affiliate Audit Finding No. 2

In Order PSC-10-0407-PAA-SU, the Commission established that the total cost for the Phoenix Project at 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

[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.

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).

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, staff points out that the Commission has 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 the Commission-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 proposed 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 need to 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 should be reduced by $1,652,234 and $247,823, respectively. Depreciation expense should be reduced by $165,223. At the Mid-County level, plant and

[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 the Commission to open a separate generic docket to address its protested issue related to the Utility's Phoenix Project.

accumulated depreciation should be reduced by $20,488 and $3,073, respectively. Mid-County's depreciation expense should be reduced by $2,049.

2010 Divestitures of UI Subsidiaries

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

Table 2-1

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 prior Commission decisions, the adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project should also be made for these subsequent divestitures. As such, staff calculated that the total cost of the Phoenix Project for UI should 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 should 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, staff auditors 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. In its response to Affiliate Audit Finding No. 3, Mid-County disagreed with staff's finding 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, the Commission approved a six-year amortization period for the Phoenix Project.[8] In subsequent UI cases, the Commission found that an eight-year amortization period was more appropriate for a software project of this magnitude.[9] In 2010, the Commission set the amortization period for the Phoenix Project to ten years in four separate rate cases involving Mid-County sister companies.[10] There

[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;

were three factors the Commission considered in its 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, the Commission concluded that the Phoenix Project software will be 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 to this Commission that its own research revealed that computer software could be amortized over a period of anywhere from four to ten years.[12] As such, staff believes ten years is the appropriate amortization period for the instant case.

Based on the aforementioned, staff recommends that the appropriate depreciation period for the Phoenix Project is ten years which results in a necessary reduction to depreciation expense of $8,898. Staff calculated a remaining life depreciation rate as described in Rule 25-30.140(u) 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), staff recommends an adjustment to depreciation expense of $8,898.

Conclusion

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

Table 2-2

Staff 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, staff recommends that plant be reduced by $29,871. In addition, accumulated depreciation should be reduced by $4,479 and depreciation expense should be decreased by $11,885.

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.

[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.

Issue 3: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $141,681. (Wright, Fletcher)

Staff Analysis: Based on staff's audit of Mid-County, the 13-month average balance sheet working capital allowance was calculated to be $131,114. During the staff audit, it was found that Mid-County paid $10,524 for the renewal of its permit. This permit renewal must be done 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 Commission 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 should be increased by $3,200, which results in a recommended working capital allowance of $141,681 ($138,481 + $3,200).

Issue 4: What is the appropriate rate base for the year ended December 31, 2010?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base for Mid-County is $3,245,368. (Wright, Fletcher)

Staff Analysis: Based on the 13-month average balances and staff's recommended adjustments, staff recommends that the appropriate rate base for Mid-County is $3,245,368. Staff's recommended schedule for rate base is shown on Schedule No. 1-A and the adjustments are shown on Schedule No. 1-B.

Issue 5: What is the appropriate return on equity?

Recommendation: The appropriate return on equity is 10.60 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Wright, Fletcher)

Staff Analysis: The last authorized return on equity (ROE) for Mid-County was 11.83 percent.[13] Based on the current leverage formula and Mid-County's adjusted capital structure, the current formula yields an ROE of 10.60 percent.[14] Therefore, staff recommends 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.

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[13] See Order No. PSC-09-0373-PAA-SU, p.6.

[14] 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.

Issue 6: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the year ended December 31, 2010.

Recommendation: The appropriate weighted average cost of capital for the year ended December 31, 2010, is 8.33 percent. (Wright)

Staff Analysis: Based upon the proper components, amounts, and cost rates associated with the capital structure for the 12 months ended December 31, 2010, staff recommends 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 Issue 5, staff recommends that the appropriate weighted average cost of capital is 8.33 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 7: What is the appropriate amount of regulatory commission expense related to this earnings investigation of Mid-County?

Recommendation: Regulatory commission expense of $6,400 should be allowed for the Mid-County wastewater system. To reflect the 4-year amortization, the O&M expenses of Mid-County should be increased by $1,600. (Wright, Fletcher)

Staff Analysis: Staff believes that the costs incurred by the Utility's legal consultant in responding to audit and other data requests to determine prospective rates should be considered regulatory commission expense. Section 367.081(7), F.S., states that the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Further, Section 367.0816, F.S., states that rate expense should be amortized over four years. The Commission recently found 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 last (2008) rate case.[15] For consistency, in Mid-County's last rate case, the approved hourly rate for Mr. Martin Friedman of Sundstrom, Freidman, Fumero, LLP was $320 per hour.[16] It is estimated that Mr. Friedman will have spent 20 hours processing this docket, which results in regulatory commission expense of $6,400. Based on the aforementioned, staff recommends that the appropriate amount of regulatory commission expense is $6,400. This expense should be recovered over four years for an annual expense of $1,600.

[15] 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.
[16] See Order No. PSC-09-0373-PAA-SU, p.8.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is $1,716,866. (Wright, Fletcher)

Staff Analysis: This issue is a summary computation that is subject to the resolution of other issues related to rate base and cost of capital, and is primarily a "fall-out" number. The computation of the revenue requirement of $1,716,866 is shown on Schedule No. 3-A and represents a decrease of $287,690 or 14.35 percent.

Issue 9: In determining whether any refund is appropriate, how should the refund be calculated and what is the amount of the refund, if any, for 2010?

Recommendation: The adjusted final 2010 revenue requirement should be compared with the 2010 operating revenues to determine if a refund is necessary. Based on staff's analysis of Mid-County, the Utility should 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 should be made to the customers of record as of the date the PAA Order is final and made on the basis of usage. Mid-County should apply the 13.63 percentage to the monthly revenues from August 16, 2011 until the effective date of the new rates. The refund should be with interest in accordance with Rule 25-30.360(4), F.A.C. Mid-County should provide refund reports in accordance with Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refund as CIAC in accordance with Rule 25-30.360(8), F.A.C. (Wright, Fletcher)

Staff Analysis: By 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 the 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 the same level 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 this statute, staff removed adjustments in the test year that do not relate to the period rates 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.[17]

The staff analysis did not include any items which were not incurred during the 2010 period. Based on this analysis, staff has determined that Mid-County had excessive earnings of $274,289 or 13.68 percent, based on staff-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, the Commission may require interest on the refund at a rate established by the Commission. As described above, the amount placed subject to refund was 13.63 percent of adjusted revenues for 2010. Staff recommends, therefore, that Mid-County 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 should be made to the customers of record as of the date the PAA Order is final and made on the basis of usage. The refunds should be with interest in accordance with Rule 25-30.360(4), F.A.C. In no instance should maintenance and administrative costs associated with any refund be borne by the customers; the

[17] 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.

costs are the responsibility of, and should be borne by, the Utility. Mid-County should provide refund reports in accordance with Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), F.A.C.

Issue 10: Are the present rates for Mid-County appropriate on a going-forward basis?

Recommendation: No. The rates for Mid-County should be decreased across-the-board by 14.35 percent. The Utility should 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 the Order is final. The approved rates should 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 staff has verified that the proposed customer notice is adequate and this notice has been provided to the customer. The Utility should provide proof that the customers have received notice within 10 days after the date of the notice. (Wright, Fletcher)

Staff Analysis: In Issue 8, staff recommended 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 should be designed to produce annual revenues of $1,716,866. After taking out miscellaneous service revenues, this results in an across-the-board rate decrease of 14.35 percent as shown below in Table 10-1.

Table 10-1

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

Issue 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove $1,955 for rate case expense, grossed-up for Regulatory Assessment Fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Wright, Fletcher)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, 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 recommended by staff on Schedule No. 4.

The Utility should be required to file revised tariffs and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Mid-County should 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 should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Issue 12: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Mid-County should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Wright, Fletcher)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Mid-County should provide proof, within 90 days of the final order in this docket that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Issue 13: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the refund, if any, has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively. (Lawson, Wright, Fletcher)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the refund, if any, has been completed and verified by staff.

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	Staff Adjust-ments	Staff 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 Staff									
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	Staff Adjust-ments	Staff 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. Wastewater Bi-Monthly Service Rates Test Year Ended 12/31/10		Schedule No. 4 Docket No. 120076-SU	
	Present Rates	Staff Recommen. 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)			