

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Pinellas
County by Mid-County Services, Inc.

DOCKET NO. 030446-SU
ORDER NO. PSC-04-0415-PCO-SU
ISSUED: April 22, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
LILA A. JABER
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

ORDER SUSPENDING PROPOSED RATES
AND GRANTING INTERIM RATE INCREASE SUBJECT TO REFUND

BY THE COMMISSION:

I. BACKGROUND

Mid-County Services, Inc. (Mid-County or utility) is a Class A wastewater utility located in the City of Dunedin in Pinellas County. The utility, a wholly-owned subsidiary of Utilities, Inc., is located in a region which has been designated by the Southwest Florida Water Management District as a critical use area. As of December 31, 2002, the utility served approximately 1,925 customers. Water service and billing is provided by Pinellas County. According to its 2002 Annual Report, Mid-County reported revenues of \$1,052,667, and a net operating income of \$24,830.

The utility's last rate case was in Docket No. 971065-SU, and on April 16, 1998, this Commission issued Proposed Agency Action (PAA) Order No. PSC-98-0524-FOF-SU to set rates in that docket. Several issues in the PAA Order were protested and a hearing was held to address the protest. The issues in the PAA order which were not protested were deemed stipulated. Subsequent to hearing, on September 27, 1999, this Commission issued Final Order No. PSC-99-1912-FOF-SU, which approved rates and charges for the utility.

On November 17, 2003, the utility filed for approval of final and interim rate increases. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on February 17, 2004, the utility satisfied the MFRs and

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FPSC-COMMISSION CLERK

this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. This utility has requested that we process this case using the PAA procedure. Further, on November 23, 2003, Mid-County's rates were reduced because the four-year period for the amortization of rate case expense incurred in Docket No. 971065-SU was complete.

The test year for interim and final purposes is the historical test year ended December 31, 2002. Mid-County has requested interim wastewater revenues of \$1,320,894. The interim revenue request represents an increase of \$292,236, or 28.41%. The utility has requested final wastewater revenues of \$1,441,449. This represents an increase of \$412,791, or 40.13%.

The sixty-day statutory deadline for this Commission to suspend the utility's requested final rates was April 17, 2004. This Order addresses the suspension of Mid-County's final rates and approval of the appropriate interim rate increase. We have jurisdiction pursuant to Sections 367.081, and 367.082, Florida Statutes.

II. SUSPENSION OF RATES

Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty days after filing unless this Commission votes to withhold consent of implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) we have not acted upon the requested rate increase; or (2) if our PAA action is protested by a party other than the utility.

We have reviewed the filing and have considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. We find that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination will include on-site investigations by staff accountants and engineers. Based on the foregoing, we find that it is appropriate to suspend the utility's proposed rate increase.

III. INTERIM RATES

In its MFRs, Mid-County requested interim rates designed to generate annual revenues of \$1,320,894. This represents a wastewater revenue increase of \$292,236 (28.41%). The utility has filed rate base, cost of capital, and operating statements to support its requested wastewater increase.

Pursuant to Section 367.082(5)(b)1., Florida Statutes, the achieved rate of return for interim purposes must be calculated by applying appropriate adjustments consistent with those made in the utility's most recent rate proceeding. We have reviewed the utility's interim request, and find that adjustments are required as discussed below. We have attached accounting

schedules to illustrate our calculation of the appropriate rate base, capital structure, and test year operating income amounts. The rate base schedule is labeled as No. 1, with adjustments shown on Schedule No. 1-A; the capital structure schedule is No. 2, and the operating income schedule is No. 3, with the adjustments shown on Schedule No. 3-A.

A. Rate Base

The utility has filed a 13-month average wastewater rate base for the calendar year ended December 31, 2002. The utility made adjustments to non-used and useful plant, construction work in progress and working capital. Our adjustments are set out below.

1. Utility Plant in Service

In its last rate proceeding, we reduced plant by \$18,456 for improperly capitalized legal expenses and acquisition costs. Additionally, in the last rate proceeding, the utility made adjustments to reduce land by \$18,403, and various plant accounts by \$131,742 for adjustments ordered by this Commission in Mid-County's 1994 rate case. It does not appear that any of these adjustments have been made in the present MFRs. Thus, land shall be reduced by \$18,403, and plant in service shall be reduced by \$150,198. The related accumulated depreciation and depreciation expense balances shall be reduced by \$44,261 and \$4,945, respectively.

2. Non-Used and Useful Plant

A review of the utility's used and useful calculation for interim shows that the utility's calculation is consistent with the methodology used in the last rate case with one exception. To estimate customer growth, the utility used a simple average instead of the linear regression methodology used in the last rate case. Using the utility's analysis submitted in its MFRs, we find that the annual growth rate should be 49 ERCs instead of 84 ERCs per year. After making this correction, the used and useful percentage is 92% instead of 97%, as requested by the utility. Applying this corrected non-used and useful percentage to our adjusted balance of plant, as discussed above, we find that net used and useful plant shall be reduced by \$94,277. Corresponding adjustments shall be made to reduce depreciation expense by \$3,940, and property tax expense by \$347.

3. Working Capital

In its MFRs, the utility requested working capital based on the balance sheet approach, which is consistent with the method required for Class A utilities by Rule 25-30.433(2), Florida Administrative Code. In the utility's last rate case, working capital was calculated using the formula approach (1/8 of operation and maintenance (O&M) expenses), which is the methodology required by the above rule for Class B and C utilities. Since the last rate case, the utility has become a Class A utility. Thus, consistent with the rule applied in the last rate case, the balance sheet approach is appropriate. A review of the utility's balance sheet calculation for

working capital shows that one adjustment is appropriate. The utility included \$55,348 in deferred rate case expense from its last rate case, Docket No. 971065-SU. Since the expenses related to this case have been fully amortized as of November 23, 2003, this expense shall be removed for interim purposes.

Based on the above adjustments, we find that Mid-County's interim rate base is \$1,847,280. Schedule No. 1 shows our calculations of the appropriate rate base, with adjustments reflected on Schedule No. 1-A.

B. Cost of Capital

In its MFRs, Mid-County used a 13-month average capital structure, which consisted of allocated investor sources of capital from Utilities, Inc. (the parent). The utility included a negative balance of \$13,647 in deferred income taxes and a zero balance in customer deposits. Mid-County used a cost rate of 11.54% for its authorized return on equity (ROE), which is the mid-point of the leverage formula currently in effect. See Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, in Docket No. 030006-WS, which was made final by Consummating Order No. PSC-03-0799-CO-WS, issued July 8, 2003. The utility's requested interim cost of capital was 9.31%.

A review of the utility's calculations shows that two adjustments are appropriate. The first relates to the inclusion of Mid-County's balance of deferred taxes. The utility erroneously reflected a negative balance in deferred taxes. We have made an adjustment to properly reflect this credit balance as a positive number.

The utility also erred in using the leverage formula in calculating its cost rate for common equity. Section 367.082(5)(b)3., Florida Statutes, states that in calculating an interim increase, the minimum of the range of the last authorized ROE shall be used. In Mid-County's last rate case, the midpoint of the authorized ROE was established as 10.16%, with a range of 9.16% to 11.16%. See Order No. PSC-98-0524-FOF-SU, p. 15. Accordingly, for interim purposes, we find that the cost of equity is 9.16%. Based on the above, the overall cost of capital for interim purposes is 8.12%.

C. Net Operating Income

1. Operating Revenues

Section 367.082(5)(b)1., Florida Statutes, states that the achieved rate of return is calculated by applying appropriate adjustments consistent with those which were used in the most recent individual rate proceeding of the utility and annualizing any rate changes occurring during such period. Mid-County's interim test year is the year ended December 31, 2002. In its MFRs, the utility's adjusted test year operating revenues were \$1,028,657. A review of the utility's revenues shows that two adjustments are required.

First, the utility did not annualize the 2002 index rate adjustment which was effective October 8, 2002. Properly annualizing this rate increase results in an increase of \$14,960 in annualized revenues. Additionally, the utility incorrectly decreased test year revenues by \$24,009 due to the expiration of the four-year amortization of rate case expense on November 23, 2003, which was after the interim test year. Removing this adjustment results in an increase of \$24,009 in revenues. The approved interim increase is applied to the rates in effect at the end of the interim test year, which are the rates in effect prior to the four-year rate reduction. Based on the above, the revenue adjustments total \$38,969. Both of these adjustments are included in the calculation of interim revenues, and result in test year adjusted revenues of \$1,067,627.

2. Operating Expenses

The utility made several adjustments to operating expenses for interim purposes. A review of these shows that several adjustments are appropriate, as discussed below.

Mid-County increased interim O&M expenses by \$16,809 for salaries, benefits and insurance. These adjustments are pro forma in nature and are not appropriate on an interim basis. Accordingly, O&M expenses shall be reduced by \$16,809, and a corresponding reduction shall also be made to payroll taxes of \$492. Additionally, the utility reflected \$44,592 in test year expense for rate case expense associated with Docket No. 971065-SU. Pursuant to Order No. PSC-99-1912-FOF-SU, p. 31, the amortization period for this expense expired on November 23, 2003. Pursuant to 367.0816, Florida Statutes, at the conclusion of the four-year recovery period, rates must be reduced by the amount of rate case expense included. As such, it is appropriate to remove this expense for interim because it has been fully recovered pursuant to the statute.

Based upon further review, it appears that the utility's allocation of common costs among its affiliates must be adjusted. Utilities, Inc. uses a customer equivalent (CE) factor instead of equivalent residential connections (ERCs). In Mid-County's last rate case, we converted Mid-County's CEs to ERCs. Based on our staff's review of the MFRs, the utility is still using the CE methodology to allocate costs to Mid-County. The utility's allocation manual in its MFRs states that Mid-County had 3,238 CEs. A review of the utility's engineering and billing analysis in the present case shows that the utility has approximately 2,654 ERCs. This calculation is 22% less than the utility's calculation of 3,238 CEs. Without the total company calculation of ERCs, we are unable to precisely measure the impact of changing the allocation methodology from CEs to ERCs. Therefore, a conservative method for interim purposes is to use the comparison of Mid-County's CEs to ERCs. Accordingly, we find that a 22% reduction to allocated expenses or \$15,388 shall be made.

3. Net Operating Income

Based on these adjustments, we find that the appropriate test year operating income, before any revenue increase, is an income of \$80,171.

D. Revenue Requirement

Based on the above, we find that the interim revenue requirement is \$1,184,848. This represents an interim increase in annual revenues of \$117,221, or 10.98% over the adjusted 2002 test year revenues. This will allow the utility the opportunity to recover its operating expenses and earn an 8.12% return on its rate base.

E. Interim Rates

To determine the appropriate increase to apply to the service rates, miscellaneous service and other revenues must be removed from the test year revenues. The calculation is as follows:

1	Total Test Year Revenues	\$1,067,627
2	Less: Miscellaneous Revenues	<u>320</u>
3	Test Year Revenues from Service Rates	\$1,067,307
4	Revenue Increase	<u>\$117,221</u>
5	% Service Rate Increase (Line4/Line 3)	<u>10.98%</u>

This rate increase of 10.98% shall be applied as an across the board increase to the service rates in effect as of December 31, 2002. The interim rates shall be implemented for service rendered on or after the stamped approval date on the tariff sheets, provided customers have received notice. The revised tariff sheets will be approved upon our staff's verification that the tariff sheets are consistent with our decision, that the proposed notice to the customers is adequate, and that the required security discussed below has been filed. The utility shall provide proof to our staff of the date notice was given within 10 days after the date of notice.

The utility's current, proposed interim, and proposed final rates, and our approved interim rates, are shown on Schedule No. 4.

IV. SECURITY FOR REFUND

Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. The utility has requested a corporate undertaking to secure any interim increase granted. Based on an estimated six months of interim revenue being collected, the potential refund of wastewater revenues and interest is \$58,758.

UI currently is guaranteeing a total of \$704,180 with a corporate undertaking on behalf of its Florida subsidiaries. The same day as our decision here, we also approved an additional corporate undertaking of \$46,964 for another interim increase for a UI subsidiary – Bayside

Utility Services, Inc., in Docket No. 030444-WS. These incremental corporate guarantees raise UI's total guarantee to a cumulative amount of \$809,902.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Mid-County is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. As such, our staff reviewed the financial statements of the parent company from 2000 to 2002 to determine the financial condition of UI. This analysis shows that UI has experienced a significant decline in net income and interest coverage from 2000 to 2002. The primary reason for this reversal has been merger-related charges of \$9.8 million in 2001 and \$9.9 million in 2002. UI states that merger related costs have been fully recovered and there will be no additional charges levied by the parent. Absent these merger-related charges, UI's financial performance would show a 3-year trend of stable equity capitalization, interest coverage, and profitability. Based upon this analysis, we find that a cumulative amount of \$809,902 (\$58,758 for Mid-County) is acceptable contingent upon receipt of the written guarantee of UI and written confirmation of its oral attestation that UI does not have any outstanding guarantees on behalf of UI-owned utilities in other states.

The corporate undertaking shall state that it will be released or terminated upon subsequent order of this Commission addressing any refund requirements. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and shall be borne by, the utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the final rates and schedules proposed by Mid-County Services, Inc. are hereby suspended in accordance with Section 367.081(6), Florida Statutes. It is further

ORDERED that the request for an interim increase in wastewater rates by Mid-County Services, Inc. is hereby granted to the extent 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

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ORDERED that the difference between the interim rates granted herein and Mid-County Services, Inc.'s previously authorized rates shall be collected subject to refund, with interest. It is further

ORDERED that Mid-County Services, Inc. shall provide our staff with revised tariff sheets consistent with this Order, a proposed customer notice, and appropriate security. It is further

ORDERED that the revised tariff sheets shall be approved upon our staff's verification that the tariff sheets are consistent with our decision, that the proposed notice to the customers is adequate, and that the required security discussed below has been filed. It is further

ORDERED that the approved rates shall become effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that Mid-County Services, Inc. shall provide proof to our staff of the date notice was given within 10 days after the date of notice. It is further

ORDERED that the rates shall not be implemented until the required security has been filed. It is further

ORDERED that Utilities, Inc. shall file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of wastewater revenues collected under interim conditions, and also a written confirmation of its oral attestation that it does not have any outstanding guarantees on behalf of its utilities in other states. It is further

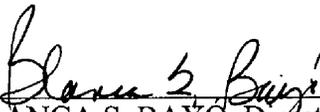
ORDERED that the corporate undertaking shall state that it will be released or terminated only upon subsequent order of this Commission addressing any refund requirements. It is further

ORDERED that pursuant to Rule 25-30.360(6), Florida Administrative Code, Mid-County Services, Inc., shall provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that this docket shall remain open pending our final action on the utility's requested rate increase.

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By ORDER of the Florida Public Service Commission this 22nd day of April, 2004.



BLANCA S. BAYO, Director
Division of the Commission Clerk
and Administrative Services

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

MID-COUNTY SERVICES, INC.					SCHEDULE NO. 1	
SCHEDULE OF WASTEWATER RATE BASE						
TEST YEAR ENDED 12/31/02						
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMN ADJUST- MENTS	COMMN ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$5,205,483	\$0	\$5,205,483	(\$150,198)	\$5,055,285	
2 LAND	21,006	0	21,006	(18,403)	2,603	
3 NON-USED & USEFUL COMPONENTS	0	(61,039)	(61,039)	(94,277)	(155,316)	
4 CONSTRUCTION WORK IN PROGRESS	27,269	(27,269)	0	0	0	
5 ACCUMULATED DEPRECIATION	(1,469,255)	0	(1,469,255)	44,261	(1,424,994)	
6 CIAC	(2,818,225)	0	(2,818,225)	0	(2,818,225)	
7 AMORTIZATION OF CIAC	1,179,210	0	1,179,210	0	1,179,210	
8 WORKING CAPITAL ALLOWANCE	0	64,065	64,065	(55,348)	8,717	
9 RATE BASE	<u>\$2,145,488</u>	<u>(\$24,243)</u>	<u>\$2,121,245</u>	<u>(\$273,965)</u>	<u>\$1,847,280</u>	

MID-COUNTY SERVICES, INC.		SCHEDULE NO. 1-A
ADJUSTMENTS TO RATE BASE		
TEST YEAR ENDED 12/31/02		
EXPLANATION	WASTEWATER	
<u>PLANT IN SERVICE</u>		
To reflect adjustments consistent with last rate case.		<u>(\$150,198)</u>
<u>LAND</u>		
To reflect adjustment consistent with last rate case.		<u>(\$18,403)</u>
<u>NON-USED AND USEFUL</u>		
To reflect net non-used and useful adjustment.		<u>(\$94,277)</u>
<u>ACCUMULATED DEPRECIATION</u>		
To reflect adjustments consistent with last rate case.		<u>\$44,261</u>
<u>WORKING CAPITAL</u>		
To remove prior deferred rate case expense.		<u>(\$55,348)</u>

MID-COUNTY SERVICES, INC.						SCHEDULE NO. 2			
CAPITAL STRUCTURE									
TEST YEAR ENDED 12/31/02									
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST-MENTS (EXPLAIN)	SUBTOTAL ADJUSTED CAPITAL	PRO RATA ADJUST-MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
PER UTILITY									
1 LONG TERM DEBT	\$88,646,986	\$0	\$88,646,986	(\$87,653,407)	\$993,579	46.84%	8.04%	3.77%	
2 SHORT-TERM DEBT	16,709,846	0	16,709,846	(16,522,616)	187,230	8.83%	3.93%	0.35%	
3 PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	85,129,818	0	85,129,818	(84,175,734)	954,084	44.98%	11.54%	5.19%	
5 CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%	
6 DEFERRED INCOME TAXES	(13,647)	0	(13,647)	0	(13,647)	-0.64%	0.00%	-0.00%	
7 DEFERRED ITC'S-ZERO COST	0	0	0	0	0	0.00%	0.00%	0.00%	
8 DEFERRED ITC'S-WTD. COST	0	0	0	0	0	0.00%	0.00%	0.00%	
9 OTHER	0	0	0	0	0	0.00%	0.00%	0.00%	
10 TOTAL CAPITAL	<u>\$190,473,003</u>	<u>\$0</u>	<u>\$190,473,003</u>	<u>(\$188,351,757)</u>	<u>\$2,121,246</u>	<u>100.00%</u>		<u>9.31%</u>	
PER COMMISSION									
11 LONG TERM DEBT	\$88,646,986	\$0	\$88,646,986	(\$87,793,666)	\$853,320	46.19%	8.04%	3.71%	
12 SHORT-TERM DEBT	16,709,846	0	16,709,846	(16,548,996)	160,850	8.71%	3.93%	0.34%	
13 PREFERRED STOCK	0	0	0	-0	0	0.00%	0.00%	0.00%	
14 COMMON EQUITY	85,129,818	0	85,129,818	(84,310,355)	819,463	44.36%	9.16%	4.06%	
15 CUSTOMER DEPOSITS	0	0	\$0	-0	0	0.00%	6.00%	0.00%	
16 DEFERRED INCOME TAXES	(13,647)	27,294	13,647	0	13,647	0.74%	0.00%	0.00%	
17 DEFERRED ITC'S-ZERO COST	0	0	0	-0	0	0.00%	0.00%	0.00%	
18 DEFERRED ITC'S-WTD. COST	0	0	0	-0	0	0.00%	0.00%	0.00%	
19 OTHER	0	0	0	-0	0	0.00%	0.00%	0.00%	
20 TOTAL CAPITAL	<u>\$190,473,003</u>	<u>\$27,294</u>	<u>\$190,500,297</u>	<u>(\$188,653,016)</u>	<u>\$1,847,280</u>	<u>100.00%</u>		<u>8.12%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>9.16%</u>	<u>11.16%</u>		
OVERALL RATE OF RETURN						<u>8.12%</u>	<u>9.01%</u>		

MID-COUNTY SERVICES, INC.						SCHEDULE NO. 3	
STATEMENT OF WASTEWATER OPERATIONS							
TEST YEAR ENDED 12/31/02							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM ADJUST- MENTS	COMM ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$1,052,667</u>	<u>\$268,227</u>	<u>\$1,320,894</u>	<u>(\$253,267)</u>	<u>\$1,067,627</u>	<u>\$117,221</u>	<u>\$1,184,848</u>
						10.98%	
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$890,029	\$16,809	\$906,838	(\$76,789)	\$830,049	0	\$830,049
3 DEPRECIATION	83,077	(2,501)	80,576	(8,884)	71,692	0	71,692
4 AMORTIZATION	0	0	0	0	0	0	0
5 TAXES OTHER THAN INCOME	78,847	15,942	94,789	(12,236)	82,553	5,275	87,828
6 INCOME TAXES	<u>(22,971)</u>	<u>64,249</u>	<u>41,278</u>	<u>(38,115)</u>	<u>3,163</u>	<u>42,125</u>	<u>45,288</u>
7 TOTAL OPERATING EXPENSES	<u>1,028,982</u>	<u>94,499</u>	<u>1,123,481</u>	<u>(136,025)</u>	<u>987,456</u>	<u>47,400</u>	<u>1,034,856</u>
8 OPERATING INCOME	<u>\$23,685</u>	<u>\$173,728</u>	<u>\$197,413</u>	<u>(\$117,242)</u>	<u>\$80,171</u>	<u>\$69,820</u>	<u>\$149,991</u>
9 RATE BASE	<u>\$2,145,488</u>		<u>\$2,121,245</u>		<u>\$1,847,280</u>		<u>\$1,847,280</u>
10 RATE OF RETURN	<u>1.10%</u>		<u>9.31%</u>		<u>4.34%</u>		<u>8.12%</u>

MID-COUNTY SERVICES, INC.		SCHEDULE NO. 3-A
ADJUSTMENTS TO OPERATING INCOME		
TEST YEAR ENDED 12/31/02		
EXPLANATION		WASTEWATER
<u>OPERATING REVENUES</u>		
1	Remove requested interim revenue increase.	(\$292,236)
2	To reflect correct annualized revenues as of 12/31/02.	38,969
	Total	<u>(\$253,267)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>		
1	Remove pro forma salary & benefits adjustments.	(\$16,809)
2	Remove rate case expense amortization.	(44,592)
3	To reflect allocated costs based on ERCs.	<u>(15,388)</u>
	Total	<u>(\$76,789)</u>
<u>DEPRECIATION EXPENSE</u>		
1	To correct test year expense for prior order adjustments.	(\$4,945)
2	To reflect non-used and useful adjustment.	<u>(3,940)</u>
	Total	<u>(\$8,884)</u>
<u>TAXES OTHER THAN INCOME</u>		
1	RAFs on revenue adjustments above.	(\$11,397)
2	Property taxes on increased used and useful %.	(347)
3	Remove pro forma taxes on salary increases.	<u>(492)</u>
	Total	<u>(\$12,236)</u>
<u>INCOME TAXES</u>		
	To adjust to test year income tax expense.	<u>(\$38,115)</u>

MID-COUNTY SERVICES, INC. WASTEWATER MONTHLY SERVICE RATES TEST YEAR ENDED 12/31/02					SCHEDULE NO. 4	
	Test Year Rates at 12/31/02	Present Rates as of 11/23/03	Utility Requested Interim	Utility Requested Final	Comm Approved Interim**	
Residential						
Base Facility Charge:						
All meter sizes	\$24.23	\$23.33	\$29.96	\$32.69	\$26.89	
Gallage Charge - Per 1,000						
Gallons (20,000 gallon cap Bi-Monthly)	\$1.89	\$1.82	\$2.34	\$2.55	\$2.10	
General Service						
Base Facility Charge:						
Meter Size:						
5/8" x 3/4"	\$24.23	\$23.33	\$29.96	\$32.69	\$26.89	
1"	\$35.06	\$33.76	\$43.35	\$47.31	\$38.91	
1-1/2"	\$62.18	\$59.87	\$76.88	\$83.90	\$69.01	
2"	\$139.90	\$134.70	\$172.97	\$188.75	\$155.26	
3"	\$248.72	\$239.48	\$307.52	\$335.58	\$276.04	
4"	\$559.77	\$538.97	\$679.25	\$741.24	\$621.25	
6"	\$997.99	\$961.03	\$1,234.05	\$1,346.68	\$1,107.60	
Gallage Charge, per 1,000 Gallons	\$2.27	\$2.19	\$2.81	\$3.07	\$2.52	
Multi-residential-Metered						
Base Facility Charge:						
Meter Size:						
5/8" x 3/4"	\$24.23	\$23.33	\$29.96	\$32.69	\$26.89	
1"	\$35.06	\$33.76	\$43.35	\$47.31	\$38.91	
1-1/2"	\$62.18	\$59.87	\$76.88	\$83.90	\$69.01	
2"	\$559.77	\$538.97	\$692.09	\$755.25	\$621.25	
3"	\$994.86	\$957.90	\$1,230.33	\$1,342.30	\$1,104.12	
4"	\$994.86	\$957.90	\$1,230.33	\$1,342.30	\$1,104.12	
6"	\$2,238.74	\$2,155.56	\$2,767.94	\$3,020.57	\$2,484.62	
Gallage Charge, per 1,000 Gallons	2.27	2.19	2.81	3.07	\$2.52	
Multi-residential-Flat Rate						
Private Residences	\$50.22	\$48.35	\$62.09	\$67.75	\$55.74	
Master Metered Residential	\$1,544.69	\$1,487.30	\$1,909.83	\$2,084.14	\$1,714.34	
5/8" x 3/4" meter						
Typical Residential Bills						
6,000 Gallons	\$35.57	\$34.25	\$44.00	\$47.99	\$39.49	
10,000 Gallons	\$43.13	\$41.53	\$53.36	\$58.19	\$47.89	
20,000 Gallons	\$62.03	\$59.73	\$76.76	\$83.69	\$68.89	
(Wastewater Gallage Cap - 20,000 Gallons Bi-Monthly)						

** Interim rates were increased 10.98% from the rates in effect at 12/31/02 of the test year.