

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in water and
wastewater rates in Highlands County by Lake
Placid Utilities, Inc.

DOCKET NO. 060260-WS
ORDER NO. PSC-07-0287-PAA-WS
ISSUED: April 3, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year rate reduction and proof of adjustment of books and records, 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

Utilities, Inc. (UI or parent) is an Illinois corporation that owns approximately 80 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently UI has ten separate rate case dockets pending before the Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>UI Subsidiary</u>
060253-WS	Utilities Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities Inc. of Pennbroke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities Inc. of Sandalhaven

This order addresses Docket No. 060260-WS, Lake Placid Utilities, Inc. (Lake Placid or utility), which is a Class C utility providing water and wastewater service to approximately 125

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water and 194 wastewater customers in Highlands County. According to its 2005 annual report, Lake Placid reported revenues of \$45,173 and \$70,362 for water and wastewater, respectively. Lake Placid reported a net operating income of \$29,387 for water and a net operating loss of \$14,944 for wastewater.

On May 15, 2006, Lake Placid filed its application for approval of a final and interim rate increase in this docket and requested that the application be processed using the Proposed Agency Action (PAA) procedure. The utility had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and August 22, 2006, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005.

In its filing, Lake Placid requested an annual interim revenue increase of \$49,376 or 70.12% for wastewater only. On July 19, 2006, we denied the wastewater interim revenue increase. The utility requested final revenue increases of \$30,017 or 66.12% for water and \$71,902 or 102.12% for wastewater. Water and wastewater rates were last established for this utility in its 1995 rate proceeding.¹ In that case, Lake Placid was granted revenue increases of 69.41% and 118.43% for water and wastewater, respectively.

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-06-0649-PCO-WS, issued August 2, 2006. We have jurisdiction pursuant to Section 367.081, Florida Statutes.

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code, in every water and/or wastewater rate case, the Commission shall determine the overall quality of service provided by the utility by evaluating three separate components of water and/or wastewater operations. The components are: 1) quality of utility's product; 2) the operational conditions of the utility's plant and facilities; and, 3) the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall also be considered, along with input from the DEP and health department officials and consideration of customer comments and complaints.

Our analysis of the overall quality of service provided by the utility is derived from the quality of the utility's water and wastewater product, operational condition of the utility's plants or facilities, and customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. We have also considered the utility's current compliance with the DEP.

¹ See Order No. PSC-96-0910-FOF-WS, issued July 15, 1996, in Docket No. 951027-WS, In re: Application for rate increase in Highlands County by Utilities, Inc.

Quality of the product

In Highlands County, the water and wastewater programs are regulated by the DEP South District Office located in Fort Myers. The utility is current in all of the required chemical analyses and the utility has met all required standards for both water and wastewater. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered to be satisfactory by the DEP.

Condition of Plants and Facilities

A field investigation for Lake Placid was conducted on August 17-18, 2006. The water and wastewater treatment facilities appeared to be operating adequately at the time of the field investigation. However, due to continued safety and reliability concerns, the utility was beginning preparations at that time to replace a hydropneumatic tank, internal plant piping and defective check valves at the water treatment plant. Replacements have been completed and the conditions of these facilities (water and wastewater) are currently in compliance with the DEP rules and regulations. A review of the maintenance records and the general condition of the plants appear to be adequate.

A review of flow data during the test year indicates there is excessive unaccounted for water. We believe that for water, the utility has adequately addressed the excessive unaccounted for water situation with the recent replacement of leaking check valves at the water treatment plant. Therefore, we find that the quality of service concerning the condition of the facilities is satisfactory.

Customer Satisfaction

Test Year Complaints. In its filing, the utility provided copies of customer complaints received during the test year. Although there appeared to be no water quality complaints, there were a few complaints concerning customer billing and consumption and various water leaks. For wastewater, there were several complaints concerning liftstation alarms and liftstation overflows. A review of these complaints found that the utility satisfactorily addressed the above mentioned concerns in a proper fashion.

Correspondence. The Commission received no correspondence concerning the quality of service from customers of the utility.

Customer Meeting. A customer meeting was held within the utility's service area on November 8, 2006, in the DeeAnn Lakefront Estates Clubhouse near Lake Placid, Florida. The 10 customers who attended the meeting had no specific comments about the quality of service provided by the utility.

Complaints on file. The PSC Complaint Tracking System (CATS) was reviewed. There are currently no active or recently closed complaints on file.

Conclusion

The overall quality of service provided by the utility shall be considered satisfactory. We believe that the quality of product and the condition of the plants are adequate when it comes to regulatory compliance standards. Also, after review of the complaint records, and the fact that no one brought up any quality of service concerns during the customer meeting, the utility appears to be adequately addressing customer concerns in an acceptable matter.

RATE BASE

We approve the following adjustments to the utility's average rate base:

Audit Adjustment	<u>Plant</u>		<u>Accumulated Depreciation</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Audit Findings 1 & 2	<u>(\$14,150)</u>	<u>(\$3,093)</u>	<u>\$4,555</u>	<u>\$4,424</u>

The utility agrees with all of the above audit adjustments. Therefore, we find that plant shall be reduced by \$14,150 for water and \$3,093 for wastewater and accumulated depreciation shall be increased by \$4,555 for water and \$4,424 for wastewater.

WSC and UIF Rate Base Allocations

On MFR Schedule A-3, the utility reflected a WSC rate base allocation of \$845 for water and \$1,065 for wastewater. Lake Placid also recorded UIF rate base allocation of \$10,022 for water only. Our staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Lake Placid and its sister companies. WSC (a subsidiary service company of UI) supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. As discussed below, we find several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

Audit Adjustments

In Audit Finding No. 1 of the AT audit, our staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS.² First, deferred income taxes were removed because they should be a component of the capital structure. Second, the net computer plant balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several

² Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices requested. In its response to the AT audit, UI agreed with the above audit adjustments. Based on the above, the appropriate simple average WSC rate base before any allocation is \$2,122,628. As there were no audit findings in the AT audit regarding UIF's rate base, we find that the appropriate simple average UIF rate base before any allocation is \$1,113,433 as reflected in UIF's general ledger.

ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, we found that that WSC's method of allocating its common costs based on CEs is unsupported and unreasonable. Further, we found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, our staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: "(1) If the operating system has both water and wastewater, the wastewater customer is counted as one and one-half; (2) If the customer is an availability customer only, the customer is counted as one-half; (3) If the water company is a distribution company only, the customer is counted as one-half; and, (4) If the wastewater company is a collection company only, the customer is counted as one-half." We find that these additional four factors unnecessarily complicate the allocation process versus the use of an ERC-only methodology. With this additional methodology, we note that WSC's ERC count will not conform to the ERC count in each Florida subsidiaries' annual report filed with this Commission. Further, the use of an ERC-only methodology is consistent with the methodology used by this Commission to set rates for water and wastewater utilities. Accordingly, UI shall use the ERC-only methodology for its allocation codes one, two, three, and five.

Conclusion

Based on the above, we find that the appropriate WSC net rate base allocation for Lake Placid is \$824 for water and \$1,591 for wastewater. This represents an increase of \$197 and \$308 for water and wastewater, respectively. WSC depreciation expense shall also be increased by \$12 and \$16, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Lake Placid is \$4,781 for water and \$4,837 for wastewater. This represents water plant and accumulated depreciation decreases of \$12,591 and \$7,350, respectively, and wastewater plant and accumulated depreciation increases of \$12,582 and \$7,745, respectively. In addition, depreciation expense shall be decreased by \$764 for water and increased by \$1,656 for wastewater.

Pro Forma Plant Additions and Accumulated Depreciation

In Schedule A-3 of its MFRs, the utility requested the inclusion of \$71,331 in pro forma plant additions. The utility also included \$1,914 of related accumulated amortization and depreciation expense. In its first data request, our staff asked the utility to provide invoices and signed contracts for the requested pro forma plant. In its response, the utility provided three invoices related to the requested pro forma projects.

After an examination of the company-provided invoices, our staff determined the invoices totaling \$30,788 related to pro forma projects. We find that all requested costs that the utility did not provide sufficient documentation in response to data requests from our staff are hereby disallowed. We find that the recommended projects are specific in nature and are necessary and prudent for this utility. These pro forma plant additions are not for non-specific projects.

Overall, we find that pro forma plant shall be reduced by \$22,424 and \$1,343 for water and wastewater, respectively. Corresponding adjustments shall be made to increase accumulated depreciation by \$17,036 for water and reduce accumulated depreciation by \$30 for wastewater. Adjustments shall also be made to reduce depreciation expense by \$1,083 and \$30 for water and wastewater, respectively.

In schedule A-1 of its MFRs, the utility included a \$9,204 Accumulated Amortization of Acquisition Adjustment. The utility has not booked an acquisition adjustment for the test year, nor has one been approved by this Commission. Therefore, we have removed this amount from its rate base calculation.

We believe the utility erred by reducing plant in service by \$17,900. As such, we have increased plant in service by this amount.

In conclusion, we find that pro forma plant shall be reduced by \$22,424 for water and \$1,343 for wastewater. Corresponding adjustments shall be made to increase accumulated depreciation by \$17,036 for water, decrease accumulated depreciation by \$30 for wastewater and decrease depreciation expense by \$1,083 and \$30 for water and wastewater, respectively. Accumulated amortization of acquisition shall be decreased by \$9,204 for water. Historical plant shall be increased by \$17,900 for wastewater.

Used and Useful

In its application, the utility requested that the water treatment plant be considered 100% used and useful, and the wastewater treatment plant be considered 86% used and useful. In addition, the utility requested that the water distribution and wastewater collection systems be considered 100% used and useful. Attachment A contains a used and useful analysis for the water and wastewater plants, attached hereto.

Water Treatment Plant

In its application, the utility calculated the water treatment plant to be 100% used and useful, the wastewater treatment plant to be 43% used and useful, and the water distribution and wastewater collection systems to be 100% used and useful. However, the utility requested that the wastewater treatment plant be considered 86% used and useful. We recognized in the prior rate case, Order No. PSC-96-0910-FOF-WS, that the used and useful calculation was 40.36% for the water treatment plant, 30.46% for the wastewater treatment plant, 100% for water distribution, 100% for wastewater collection gravity lines, and 84% for force mains.

Because this is a system without storage, the used and useful calculation of the water treatment plant is determined by dividing the peak demand in gallons per minute (gpm) by the firm reliable capacity of the water treatment system in gallons per minute. Consideration is given to fireflow, unaccounted for water, and growth. In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. In this case, the firm reliable capacity is determined by assuming that one of the utility's two wells, rated at 200 gpm each, is out of service. As indicated in Attachment A, since it does not appear to be an anomaly, the peak usage day of 91 gpm (March 1, 2005) should be used. The local fire flow requirement is 500 gpm for 2 hours.

Total unaccounted for water is 2.612 million gallons for the test year or 4.84 gpm (26.92%). Therefore, excessive unaccounted for water (in excess of 10% of average daily flow) is 16.92% or 3.04 gpm. As noted in the application, excessive unaccounted for water during the test year is attributed to two defective water valves located at the water treatment plant. These valves, which were replaced in the fall of 2006, allowed pumped and metered water to seep back into the wells. In the prior rate case, a 47% adjustment was made for excessive unaccounted for water. In this case, in addition to the above plant gallonage adjustment, it is also appropriate to make a 16.92% operation and maintenance (O&M) adjustment for excessive unaccounted for water to Account Nos. 615 (purchased power) and 618 (chemicals). As a result, an adjustment shall be made to reduce O&M expense by \$681 for excessive unaccounted for water.

In reference to growth, a 9.4 gpm allowance based on annual customer growth of 5 ERCs shall be used. As reflected in Attachment A, the water treatment plant is 100% used and useful based on a peaking factor of two times the peak day demand of 91 gpm minus 3.04 gpm excessive unaccounted for water and a growth allowance of 9.4 gpm, plus the required fireflow of 500 gpm, divided by the firm reliable plant capacity of 200 gpm.

It should be noted that the utility does not have sufficient total well capacity (400 gpm) to meet the fire flow requirement of 500 gpm. We considered a used and useful analysis based on gallons per day instead of gallons per minute, even though the utility does not have storage capacity. However, even using a gallons per day analysis, the utility's water system does not have sufficient capacity (144,000 gallons) to meet the fire flow requirement for two hours (60,000 gallons) plus the peak day demand (131,000 gallons).

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, Florida Administrative Code, the used and useful calculation of a wastewater treatment plant is based on the customer demand and permitted capacity of the plant. The rule provides that customer demand should be determined using the same basis as the permitted capacity. Consideration is also given for growth, infiltration and inflow, and other relevant factors.

Lake Placid's wastewater treatment plant is permitted for 90,000 gpd based on annual average daily flows (AADF) and the customer demand based on AADF is 15,597 gpd.³ The utility has a small amount of growth, but no excessive infiltration or inflow. Based on these factors, the utility would be 18.68% used and useful. However, in the utility's last rate case, the wastewater treatment plant was found to be 30.46% used and useful.

Given the age of the system, the limited growth potential, and the higher used and useful percentage allowed in the last rate case, the wastewater treatment plant shall be considered 30.46% used and useful. We note that using seasonal flows during the test year would result in a used and useful of approximately 30%.

However, in a review of Schedule A-6 of the MFRs, we discovered that the utility appears to have transferred a large portion of the balance in Account 380 to Account 354. This transfer occurred during the test year. This transfer has the effect of decreasing the average balance in Account 380, Treatment and Disposal, while increasing the average balance in Account 354, Structures and Improvements. In some situations, a transfer of this type would have no effect on rate base, but it does here. In this case, we applied a 69.54% non-used and useful adjustment to Account 380. No adjustment was approved in the last case for Account 354. Therefore, a transfer from Account 380 to Account 354 in December 2005, has the effect of increasing rate base and revenue requirement.

Furthermore, Account 380 is the primary account used by the utility for its facilities used in its wastewater treatment operations, while Account 354 is normally used for such items as the utility offices, landscaping, or out-buildings. Account 354 does not usually contain costs for treatment plant. The utility has not justified this transfer. Therefore, we applied the same 30.46% used and useful percentage for Account 380 to the amount of plant we calculated that was transferred to Account 354.

Overall, the utility's wastewater treatment plant shall be considered 30.46% used and useful. As discussed below, the wastewater collection system, with the exception of Account 354, shall be considered 100% used and useful. A portion of plant in Account 354 shall be considered 69.54% non-used and useful. As a result of the above adjustments, net wastewater

³ The utility originally reported average annual daily flows for the test year of 35,200 gpd. However, the utility subsequently filed additional information which indicated that during the test year the plant flow meter was found to be inaccurate and was recalibrated. The flows for the twelve months following the recalibration reflect customer demand of 15,597 average annual gallons per day.

rate base shall be reduced by \$94,585. Corresponding adjustments shall also be made to reduce wastewater depreciation expense by \$8,206 and property taxes by \$589.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth. In this case, with only five vacant lots remaining that have mains available for service, the water distribution and wastewater collection systems are considered built out. Therefore, the water distribution and wastewater collection systems are considered 100% used and useful.

Working Capital Allowance

Rule 25-30.433(2), Florida Administrative Code, requires that Class C utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. We have approved several adjustments to the utility's balance of O&M expenses. Due to the adjustments approved in this order, working capital of \$3,181 and \$7,952 shall be approved for water and wastewater, respectively. This reflects a decrease of \$992 to the utility's requested working capital allowance of \$4,173 for water and a decrease of \$1,438 from the utility's request of \$9,390 for wastewater.

Rate Base for the December 31, 2005, Test Year

Staff has calculated Lake Placid's water and wastewater rate base using the utility's MFRs with adjustments as recommended in the proceeding issues, as \$160,656 and \$104,686, respectively.

CAPITAL STRUCTURE

Return on Common Equity

The return on equity (ROE) included in the utility's filing is 11.77%. This return is based on the application of our leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 40.14%.⁴

As noted in Audit Finding No. 11, Utilities, Inc.'s average common equity balance of \$90,787,422 shall be adjusted upward by \$3,093,004 to \$93,880,426. Per its response to the Audit Report, the utility is in agreement with the audit opinion. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 40.14% to 40.95%.

⁴ Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.95%, the appropriate ROE is 11.45%.⁵ An allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

Weighted Average Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, we find it appropriate to approve a weighted average cost of capital of 7.50%. The weighted average cost of capital included in the utility's filing is 8.17%. Schedule No. 2, attached hereto and incorporated herein by reference, details our decision herein.

The test year per book amounts were taken directly from Lake Placid's MFR filing Schedule D-2. We made specific adjustments to three components in the utility's proposed capital structure. As noted in Audit Finding No. 11, Utilities, Inc.'s average common equity balance should be adjusted upward by \$3,093,004. Also in Audit Finding No. 11, staff auditors noted that an average balance of \$1,602 for customer deposits was reflected in the utility's general ledger but was not included in its filing. We made an adjustment of \$1,602 to recognize the amount of customer deposits in the capital structure. Finally, we made an adjustment of \$8,996 to increase the balance of deferred income taxes.

In Audit Finding No. 12, staff auditors noted that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by \$3,564. Further, the auditors discovered that deferred taxes for intangible plant were understated by \$1,422 for state tax purposes and were understated by \$4,010 for federal tax purposes. Accordingly, the balance of deferred taxes shall be increased by \$8,996, the total of these amounts. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

We revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.45% is previously discussed in this order. In addition, the auditors in staff Audit Finding No. 11, the staff auditor made an adjustment to the cost rate for long-term debt. The long-term debt cost rate was reduced from the utility proposed rate of 6.81% to 6.73%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding this adjustment.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, the weighted average cost of capital is 7.50%.

⁵ Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

NET OPERATING INCOME

Adjustments to Test Year Revenue

A utility is required to annualize test year revenues to reflect the effect of any rate increase that accrued during the test year. In its MFRs, the utility made annualized revenue adjustments of \$222 and \$50 for water and wastewater, respectively. However, the proper annualized adjustments are \$2,031 for water and \$1,881 for wastewater.

Therefore, we find that annualized water test year revenues shall be increased by \$1,809 (\$2,031-\$222), and annualized wastewater revenues shall be increased by \$1,831 (\$1,881-\$50).

Adjustments to Test Year Revenues

The audit findings and adjustments are listed in the table below:

<u>Audit Finding</u>	<u>O&M Expense</u>		<u>Taxes Other Than Income</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
AF 1					(\$725)	(\$71)
AF 2					\$371	\$306
AF 6		(\$2,602)				
AF 8					\$1,311	\$527
AF 9			\$468	\$2,064		
Total		<u>(\$2,602)</u>	<u>\$468</u>	<u>\$2,064</u>	<u>\$957</u>	<u>\$762</u>

The utility agrees with all of the audit adjustments listed above. Therefore, water O&M expense shall be reduced by \$2,602. Taxes Other Than Income shall be increased by \$468 and \$2,064 for water and wastewater, respectively. Additionally, water depreciation expense shall be increased by \$957, and wastewater depreciation expense shall be increased by \$762.

WSC and UIF Allocated Expenses

On MFR Schedule B-12, the utility reflected total WSC allocated O&M expenses of \$6,406 and taxes other than income of \$338. Lake Placid also recorded total UIF allocated O&M expenses of \$4,021. As discussed below, we find that adjustments are necessary to the

WSC and UIF expenses before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, our staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors and officers; and, (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's shareholders. Second, our auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, we find that the appropriate WSC expenses, before any allocation, are \$7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, we find that the appropriate UIF O&M expenses before any allocation are \$266,650.

As previously held in this order, UI shall use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Lake Placid are \$2,825 and \$3,724, respectively. As such, water and wastewater O&M expenses shall be increased by \$62 and \$81, respectively, and water and wastewater taxes other than income shall be decreased by \$4 and \$6, respectively. Further, the appropriate UIF O&M expenses for Lake Placid are \$1,913 for water and \$2,522 for wastewater. As such, water and wastewater O&M expense shall be increased by \$178 and \$235, respectively.

Pro Forma Salaries, Wages, Pensions and Benefits, and Payroll Taxes

On MFR Schedule B-5, Lake Placid reflected historical water salaries and wages and pensions and benefits of \$925 and \$682, respectively. On MFR Schedule B-6, the utility reflected historical wastewater salaries and wages and pensions and benefits of \$4,266 and \$1,063, respectively. On MFR Schedule B-15, Lake Placid reflected historical payroll taxes of \$243 for water and \$378 for wastewater.

On MFR Schedule B-3, the utility requested pro forma increases in water salaries and wages, pensions and benefits, and payroll taxes of \$747, \$79, and \$89, respectively, and requested increases in wastewater salaries and wages, pensions and benefits, and payroll taxes of \$941, \$100, and \$113, respectively. The pro forma salaries and wages represents increases of 80.76% for water and 22.06% for wastewater. The pro forma pensions and benefits represents increases of 11.58% for water and 9.41% for wastewater.

In Commission staff's First Data Request in Docket No. 060261-WS, the utility was asked to explain why its pro forma salaries and wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, the utility explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of

costs and a cost of living increase was applied across the board to all Florida office employees and operators.

In Commission staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees through September 2006. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to June 2006. The total average salaries from 2005 to 2006 increased \$74,616; however, we note that the total requested pro forma salary increases in UI's current docketed rate cases in Florida is \$332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be \$105,776.

From the information provided by UI, we are unable to attribute the 2006 employee changes to the respective pro forma salary increases in the UI docketed cases. The utility has the burden of proving that its costs are reasonable. See, Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982). We find that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 affect the respective rate cases.

On January 18, 2007, the utility hand delivered a two-page document reflecting the title and duties of two new employees. However, this document did not contain the annual salary for these two employees nor did it show the utility's calculation of how their respective salaries are allocated to the UI's Florida subsidiaries. Further, the utility has not provided any information regarding any other employee changes from July 1, 2006 to the present.

As such, with the exception of Sandalhaven⁶ (a negative pro forma salary adjustment of \$573), we find that the requested pro forma salary increases in UI's other respective rate cases are excessive. We note that the historical 5-year average salary increase of 4.51% is 177 basis points above our 2006 Price Index of 2.74%. With the exception of Sandalhaven, pro forma salary increases in all of UI's respective cases shall be limited to the 4.51% above the 2005 historical salary amounts. We have previously limited pro forma salaries adjustments to a utility's historical average salary increases.⁷ Thus, Lake Placid's salaries and wages shall be decreased by \$705 for water and \$749 for wastewater. Accordingly, pensions and benefits shall be reduced by \$48 for water and \$52 for wastewater, respectively, and payroll taxes shall be reduced by \$78 and \$96 for water and wastewater, respectively.

⁶ Docket No. 060285-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

⁷ By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.

Taxes Other Than Income

We have reviewed Lake Placid’s operating income and believe that one adjustment is appropriate. The utility reflected test year RAFs of \$1,102 for water and \$1,715 for wastewater. Based on our review, these amounts do not reflect 4.5% of test year revenues. To correct this, RAFs shall be increased by \$931 for water and \$1,451 for wastewater.

Rate Case Expense

The utility included in its MFRs an estimate of \$131,261 for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 22, 2006, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$171,859. The components of the estimated rate case expense are as follows:

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	51,000	16,421	48,500	66,921
Consultant Fees - VK	18,032	18,031	0	18,031
Consultant Fees - Seidman	5,000	2,794	3,025	5,819
WSC In-house Fees	41,600	15,919	28,242	44,161
Various Office Temp Fees	0	1,830	19,431	21,261
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	509	11,491	12,000
Notices	<u>429</u>	<u>88</u>	<u>378</u>	<u>466</u>
Total Rate Case Expense	<u>\$131,261</u>	<u>\$55,592</u>	<u>\$114,267</u>	<u>\$171,859</u>

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on a review of the invoices from the utility’s consultants and the WSC employees, a combined amount of \$2,074 was billed for correcting the MFR deficiencies and revising the utility’s filing. The amount associated with deficiency corrections (\$571) was easily identified in the consultants’ invoices. However, the invoices and the documentation provided for WSC employees did not provide sufficient detail to specifically identify work done on corrections. We

estimated the deficiency corrections by removing invoice amounts during the months of June through August when the corrections were in progress. This amounted to \$1,503 for WSC employees. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.⁸ Accordingly, \$2,074 (\$571 + \$1,503) shall be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the utility's estimated legal fees to complete the rate case. The utility's counsel estimated 150 hours or \$41,250 in fees plus \$6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time associated with each item. Counsel provided only a total number of hours and the total cost. While the descriptions of the activities or tasks appeared reasonable, we have no basis to determine whether the individual hours estimated were reasonable. Upon review of these requested legal fees and expenses, these estimates reflect an overstatement. As noted in the background, UI currently has ten pending rate cases with this Commission. In eight out of the ten rate cases, the same 150 hour amount to complete was submitted for the estimated processing of each of the cases. Although the estimate to complete did not indicate the period of time it included, Commission staff made the assumption it included November 2006 through February 2007. This would allow time for reviewing the recommendation, attending the agenda conference, reviewing the Commission's PAA order, and submitting the appropriate customer notice and tariffs for approval. Commission staff analyzed the reasonableness of this estimated time to complete each of these cases. Using the estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, we are aware of numerous other pending dockets, including the other two remaining UI rate cases, and undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours everyday exclusively of these eight rate cases. We do not believe this is a reasonable assumption.

It is the utility's burden to justify its requested costs. 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to agenda, and attend to miscellaneous post-PAA matters. This is consistent with hours allowed for completion in the 2004 Labrador Utilities, Inc. (Labrador) rate case.⁹ This amounts to \$11,000 of rate case expense, a reduction of \$30,250.

Further, there was no breakdown provided of the \$6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, Commission staff calculated a travel allowance. A reasonable cost for one person traveling from Altamonte Springs to Tallahassee, including meals, vehicle mileage and one day's lodging is \$489 in this

⁸ See Order No. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

⁹ See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

case. We note this amount is greater than the amount of travel expense this Commission allowed for this law firm in the 2004 Labrador rate case supra, as well as recent rate cases recently brought before this Commission. However, we realize the legislative session will have started and the hotel rates will increase. Based on our analysis, we calculated travel expenses of \$489, using the current state mileage rate (503 miles x \$.455 = \$224), hotel rates from websites (\$200), and a meal allowance (\$65). Therefore, \$489 is the appropriate travel expense in this docket. In addition to travel expense, Commission staff calculated an amount for miscellaneous disbursements. Staff added the actual and unbilled legal disbursements less the filing fee, divided by eight, the number of months represented by the data, then multiplied by two, the time remaining until the agenda. Thus, \$1,236 is a reasonable amount for miscellaneous disbursements and disbursements shall be decreased by \$4,275 (\$6,000 - \$489 - \$1,236). Accordingly, rate case expense shall be decreased by \$34,525 (\$30,250 + \$4,275).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 24 hours or \$3,000 plus \$25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. We find that four hours is a reasonable amount of time to prepare for and attend the agenda for this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.¹⁰ However, we are aware only of one subsequent data request from OPC regarding the used and useful percentage. We find that no more than two hours at \$125 per hour is reasonable for this data request. Therefore, rate case expense shall be decreased by \$2,250 (18 hours x \$125).

The fourth adjustment relates to the 491 hours and \$26,267 of estimated costs to complete this case by WSC employees. As of the November 22, 2006 date of the updated rate case expense, the audit was complete and there were no data requests outstanding. The utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The utility simply stated that the \$26,267 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, we have no basis to determine whether the individual hours estimated were reasonable. As discussed below, it is the utility's burden to justify its requested costs. Thus, the utility's requested expense of \$26,267 shall be removed in its entirety. In those cases where rate case expense has not been supported by detailed documentation, it has been our practice to disallow some portion or remove all unsupported amounts.¹¹

¹⁰ See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

¹¹ See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU,

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied by 529 So. 2d 694 (Fla. 1988).

The fifth adjustment relates to WSC expenses for the temporary office workers, Office Team. The utility did not include this expense in its MFRs; however, in its update, \$20,000 was estimated to assist with data and audit requests. The hours needed to complete data and audit requests was not broken down to estimate the hours needed to complete each item. Therefore, we have no basis to determine whether the individual hours estimated were reasonable, although as mentioned above, the estimated hours appear to be excessive. As discussed above, it is the utility's burden to justify its requested costs. The utility indicated that it had incurred \$568 in expenses for Office Team, and provided invoices in support of this total. We find that the additional \$19,432 estimated by Lake Placid is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, rate case expense shall be decreased by \$19,432.

The sixth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. We find that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense we allowed for WSC in the Labrador rate case. However, we do not believe that a WSC employee will attend the agenda conference. In eight out of the ten UI current rate dockets currently before this Commission, the utilities have consistently requested this travel. In seven out of nine dockets decided at previous agenda conferences, we have allowed this travel expense from Chicago. No WSC employee has attended any previous agenda conference for any of the seven dockets. We do not believe this docket would warrant a WSC employee attending the agenda conference. Therefore, no travel expense is allowed. Accordingly, rate case expense shall be decreased by \$3,200.

The seventh adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the utility estimated \$12,000 for these items. In support of this expense, the utility provided only \$577 in costs from FedEx invoices for services through October 16, 2006. There was no breakdown or support for the remaining \$11,423. Staff is also concerned with the amount of requested costs for FedEx expense. UI has requested and received authorization from this Commission to keep its records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application

In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

for a Rate Increase in Pinellas County by Mid-County Services, Inc., we found that 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.¹² The requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc. to its law firm located in central Florida. Then the documents are submitted to this Commission. We do not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore, they shall bear the related costs. Therefore, rate case expense shall be decreased by \$12,000.

In summary, the utility's revised rate case expense shall be decreased by \$101,239 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$70,620. A breakdown of rate case expense is as follows:

	MFR <u>Estimated</u>	Utility Revised <u>Actual & Estimated</u>	Commission <u>Adjustments</u>	<u>Total</u>
Legal and Filing Fee	\$51,000	\$66,921	(\$36,794)	\$30,127
Consultant Fees - VK	18,032	18,032	2,180	20,212
Consultant Fees- Seidman	5,000	5,819	(2,250)	3,569
WSC In-house Fees	41,600	44,161	(29,745)	14,416
Various Office Temp Fees	0	21,262	(19,432)	1,830
WSC Travel	3,200	3,200	(3,200)	0
Miscellaneous	12,000	12,000	(12,000)	0
Notices	<u>429</u>	<u>466</u>	<u>0</u>	<u>466</u>
Total Rate Case Expense	<u>\$131,261</u>	<u>\$171,859</u>	<u>(\$101,239)</u>	<u>\$70,620</u>
Annual Amortization	<u>\$32,815</u>		<u>(\$15,160)</u>	<u>\$17,655</u>

In its MFRs, the utility requested total rate case expense of \$131,261, which amortized over four years would be \$32,815. The utility actually included in its MFRs \$14,513 and \$18,302 for rate case expense in the test year for water and wastewater, respectively. Thus rate case expense shall be decreased by \$6,745 for water and \$8,415 for wastewater, respectively.

¹² Order No. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by Utilities, Inc. of Florida; and Order No. 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of Miles Grant Water and Sewer Company for an increase in water and sewer rates in Martin County.

Test Year Operating Income

As shown on Schedules 3-A and 3-B, after applying the adjustments, the test year net operating income before any revenue increase is \$6,469 and (\$3,219) for water and wastewater, respectively. The adjustments to operating income and expenses are shown on Schedule 3-C, attached hereto and incorporated herein by reference.

Revenue Requirement

Lake Placid's requested final rates are designed to generate annual revenues of \$75,413 and \$142,314 for water and wastewater, respectively. These revenues exceed test year revenues by \$30,017 (66.12%), and \$71,902 (102.12%) for water and wastewater, respectively.

Consistent with our determinations herein regarding the rate base, cost of capital, and operating income issues, we find it appropriate to approve rates that are designed to generate a water revenue requirement of \$56,579 and a wastewater revenue requirement of \$90,637. These revenues exceed our adjusted test year revenues of \$9,375, or 19.86% for water and \$18,591 or 25.81% for wastewater. These revenue requirement amounts are shown on attached Schedules 3-A and 3-B. These amounts will allow the utility the opportunity to recover its expenses and earn an 7.50% return on its investment in water and wastewater rate base.

RATES AND RATE STRUCTURE

Rate Structures

The current rate structures for the utility's respective water and wastewater systems were approved in the utility's last rate case. In that case, we approved a BFC/uniform gallonage charge rate structure for the water system. We also found that the BFC/gallonage charge rate structure was appropriate for the wastewater system, with the exception of DeeAnn Estates, a 70-unit condominium facility (plus clubhouse) that was served by a water source other than the utility. Because these customers' water consumption data was not available, a flat monthly rate was approved for each condominium customer.¹³ Each DeeAnn Estates resident is currently billed a flat rate of \$23.51 per month for wastewater service.

Our staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts. Based on our analysis, the average water consumption per residential customer is approximately 2,400 gallons (2.4 kgal) per month. Therefore, changing the utility's water rate structure to a more aggressive inclining-block rate structure is unnecessary.

¹³ See Order No. PSC-96-0910-FOF-WS, issued July 15, 1996 in Docket No. 951027-WS, In re: Application for a rate increase in Highlands County by Lake Placid Utilities, Inc., pp. 11-12.

The utility is located within the Southwest Florida Water Management District (SWFWMD or District). On January 9, 2007, a public hearing was held at the headquarters of the SWFWMD. Specific data presented at the hearing included but was not limited to: 1) rainfall data indicating that the deficits in several counties, including Highlands County, were categorized as critically abnormal; 2) all 16 counties within the District were experiencing drought or drought-like conditions; and 3) the Long Term Palmer Index indicating that all 16 counties were experiencing severely abnormal conditions. Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD ordered that a Phase II Severe Water Shortage be declared for all ground and surface waters within the District's 16 county area.¹⁴

Ordinarily, one method our staff uses to make the rates more conservation-oriented is to shift some of the cost recovery from the BFC to the gallonage charge such that no more than 40% of the costs are recovered through the BFC. Based on initial accounting allocations, the BFC in this case would recover approximately 42.1% of the costs. This results in a BFC reduction of almost \$3 compared to the BFC prior to filing the case. However, we do not believe a reduction to the current BFC is appropriate due to the seasonality of the utility's customer base – almost half of the bills are for consumption of 1 kgal or less. Instead, we find that the water BFC shall be set at 54.6%, which results in no change compared to the BFC prior to filing.

The increase to the utility's water system is less than 20%. Based on the declared water shortage in the SWFWMD, and our finding that the BFC remain unchanged from its level prior to filing this case, it is appropriate to place all of the revenue requirement increase into the gallonage charge. This results in a pattern of increasingly greater percentage price increases at increasing levels of consumption, which is consistent with how we typically sets water rates.

Based on our initial accounting allocations, the wastewater system's BFC would recover 44% of the cost of service. However, due to the capital-intensive nature of wastewater systems, the BFC shall be set at 50%.

Before the scheduled customer meeting in the instant case, our staff met with several representatives of the DeeAnn Estates Homeowners Association (DEHOA). During that meeting, customers expressed their concerns that the revenues from the flat rate structure were disproportionately great compared to the revenues generated by the remaining wastewater rates. The customers suggested that, rather than continuing to bill each individual customer a flat rate every month, the DEHOA be billed each month based on a BFC/gallonage charge rate structure. The DEHOA would pay the bill, and subsequently bill each resident an equal portion of the total bill. Each resident of DeeAnn Estates (DeeAnn) is a member of the DEHOA.

Before approving a BFC/gallonage charge rate for DeeAnn Estates, we had to first determine whether the requisite water consumption data would be available to the utility each month. DeeAnn Estates receives water service from its own well, which is of sufficient size that

¹⁴ Southwest Florida Water Management District, Order No. SWF 07-02, In re: Declaration of Water Shortage, pp. 1-5.

monthly operating reports must be supplied to the Florida Department of Environmental Protection (DEP). Therefore, monthly consumption data is available. The utility may obtain this data in one of three ways: 1) directly reading the utility's water well meter each month; 2) obtaining the data from DEP; or 3) obtaining the monthly meter readings from Short Utility Services, the well operator contracted by DeeAnn Estates.

In its original recommendation filed February 1, 2007, for the February 13, 2007, agenda conference, our staff recommended, among other things, that the wastewater rate structure for the customers of DeeAnn be changed from a flat rate per unit per month to a traditional BFC/general service gallonage charge rate structure. In addition, the homeowners' association, rather than the individual customers, would become the single customer of record. The meter readings from DeeAnn's dedicated water well would be used for wastewater billing. In an email to our staff dated February 12, 2007, the customers of DeeAnn Estates had reviewed staff's original recommendation and provided staff with additional information and comments which, they believed, would change staff's recommended wastewater rate design treatment of DeeAnn's customers.

The customers stated that each unit in DeeAnn Estates has a water service control switch plus an outside faucet to use as needed for car washing, shrub watering, etc. This results in a difference between water gallons pumped and gallons returned to the wastewater system. The customers also stated that Lake Grassy is the source of supply for the common area irrigation. Based on these factors, the customers believe that each unit is essentially an individual home deserving the residential, rather than general service, gallonage charge. Finally, at the customer meeting and reiterated in the email, DeeAnn's residents do not believe they should be charged a BFC "unless consideration is given for our added cost and over-head of the lift station."

Despite each DeeAnn resident having a separate outside faucet for some non-indoor needs, the residents nevertheless should be charged the general service gallonage charge. The differentiation between residential and general service gallonage charges is to recognize that while approximately 20% of residential metered water usage is not returned to the wastewater system (mostly due to irrigation and pool needs), virtually 100% of general service metered water is returned to the system. DeeAnn's 70 units are spread over 9 different buildings, and as previously stated, DeeAnn's common area irrigation needs are met by a nearby lake. Fully 100% of the water pumped from the customers' dedicated well may not be used for indoor purposes and returned to the wastewater system. Nevertheless, the percentage of pumped water for residential indoor use is closer to 100% than 80%. Therefore, we find that the general service gallonage charge is more appropriate for DeeAnn's residents than the residential gallonage charge.

Our staff researched prior cases to obtain guidance on the possible application of a bulk wastewater rate for the customers of DeeAnn Estates. In a 1984 case involving Martin Downs Utilities, Inc. and Martin County (County), the County was responsible for all water distribution beyond the point of delivery. We approved a BFC for Martin County that was based on 80% of the number of ERCs actually connected to the system plus the tariff-approved usage charge. The Order states, "The 20% reduction in the base facility charge reflects the savings to the utility in

billing and bookkeeping, as well as the maintenance responsibility for the mains on the discharged side of the meter.”¹⁵ In another case involving K W Resort Utilities Corporation, we recognized that in K W Resort’s prior rate case there were wastewater customers who owned their lift station. This Commission decided in that docket that the private lift station (PLS) customers should be charged the same BFC as other service classes, but that those customers should be charged only 80% of the gallonage charge to recognize the reduced costs of service to the PLS owners. The reduced cost of service stems from the PLS owners paying for their own electrical pumping power and maintenance of the lift station.¹⁶

We believe that the circumstances in the instant case match those circumstances from both prior cases referenced above. As discussed previously, we find that the homeowners’ association, rather than the individual customers, shall be the customer of record. This would reflect savings to the utility in billing and bookkeeping. Furthermore, because the customers own their lift station, there is a reduced cost to serve the customers because the customers, not the utility, are paying for the electrical pumping power and maintenance of the lift station. Therefore, we find that the appropriate wastewater rate structure for DeeAnn’s residents is a bulk rate BFC/gallonage charge rate structure. The BFC shall be based on 80% of the ERCs actually connected to the system, while the gallonage charge shall be set at 20% less than the general service wastewater gallonage charge to reflect the fact that DeeAnn pays for all costs associated with its lift station. The resulting gallonage charge for DeeAnn’s residents is slightly less than the residential gallonage charge. The bulk rate also gives consideration to DeeAnn’s residents for their added cost and over-head of the lift station.

Our staff noticed during its analysis that the current gallonage charge for multi-residential service is equal to the gallonage charge for residential service. This is incorrect – the multi-residential service gallonage charge shall be set equal to the general service gallonage charge rate. This is to correctly reflect the anticipation that approximately 80% of residential water consumption is returned to the wastewater system, while approximately 100% of multi-residential and general service water consumption is returned to the wastewater system.

Our staff obtained test year 2005 water flow data for DeeAnn Estates, and recalculated wastewater rates based on: 1) the application of the BFC/gallonage charge rate structure to all classes except for DeeAnn Estates; 2) the elimination of DeeAnn’s residential wastewater-only flat rates replaced by a bulk rate BFC/gallonage charge rate structure; and 3) the correction of the multi-residential gallonage charge so that it was equal to the general service gallonage rate. Our staff then calculated, by customer class and meter size, a comparison of typical bills based on average usage. The results, shown in Table 1 on the following page, indicate that the 71 residents at DeeAnn Estates have been subsidizing the remaining 117 customers of the utility.

¹⁵ Order No. 17269, issued March 10, 1987 in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc., for increase in water and sewer rates in Martin County, Florida, p. 3.

¹⁶ Order No. PSC-02-1165-PAA-SU, issued August 26, 2002 in Docket No. 020520-SU, In re: Complaint by Safe Harbor marina against K W Resort Utilities Corp. and request for new class of service for bulk wastewater rate in Monroe County, p. 3; Order No. 13862, issued November 19, 1984 in Docket No. 830388-S, In re: Application of Stock Island Utility Company, Inc., for increased sewer rates to its customers in Monroe County, Florida, p. 3.

TABLE 1

**LAKE PLACID UTILITIES, INC.
 REVISED WASTEWATER RATE STRUCTURE:
 CUSTOMERS' CHANGE IN AVERAGE MONTHLY BILLS**

<u>Customer Class</u>	<u>Average Kgal per Month</u>	<u>Bill Under Current Rate Structure</u>	<u>Bill Under Approved Rate Structure</u>	<u>Amt Chg in Bill</u>	<u>Pct Chg in Bill</u>
Residential 5/8"	2.100	\$19.73	\$27.28	\$7.55	38%
Gen Serv 5/8"	7.189	\$36.58	\$60.82	\$24.25	66%
Multi Resid 5/8"	0.833	\$16.45	\$21.62	\$5.17	31%
Gen Serv 1"	18.750	\$93.83	\$156.85	\$63.03	67%
Multi Resid 1"	8.250	\$57.07	\$92.09	\$35.02	61%
DeeAnn Estates / Multi Resid (1)	140.667	\$23.51	\$17.68	(\$5.83)	(25%)
Gen Serv 4"	197.385	\$968.75	\$1,629.48	\$660.73	68%
Multi Resid 4"	20.792	\$410.71	\$540.26	\$129.55	32%

(1) BFC under approved rate structure is based on 34.1 ERCs [71 connections x 0.6 ERC per connection (for multi-family units) x 80%].

Source: Lake Placid Utility Company, MFRs, Schedule No. E-2; Short Utility Services, 2005 monthly water well flow data for DeeAnn Estates.

As shown on Schedule No. 3-B, the wastewater revenue requirement shall be increased by approximately 26%. As shown in Table 1, under the new wastewater rate structures, the average bill for a resident of DeeAnn Estates would decrease by 25 percent, while the average bills for all other customers would increase between 31% and 68%. The subsidization of the remaining wastewater customers by the residents of DeeAnn Estates represents a rate structure inequity. We believe that such inequities, when discovered, must be corrected.

Based on the foregoing, we find the appropriate rate structure for the water system is a continuation of the current BFC/uniform gallonage charge rate structure. The residential wastewater-only flat rate structure shall be discontinued and replaced with a bulk wastewater rate based on a BFC/gallonage charge rate structure. The bulk customers' BFC shall be based on 80% of the number of equivalent residential connections actually connected to the system, while the gallonage charge shall be set at 80% of the general service gallonage charge. The traditional BFC/gallonage charge rate structure shall be continued for the remaining wastewater customers. The BFC cost recovery shall be set at 54.6% for the water system and 50% for the wastewater system. The multi-residential gallonage charge rate shall be set at an amount equal to the general service gallonage charge rate.

Monthly Rates for Water and Wastewater Systems

The appropriate revenue requirements are \$56,579 for the water system and \$90,637 for the wastewater system. Excluding miscellaneous service revenues of \$398 for the water system and \$0 for the wastewater system, the resulting revenues from monthly service \$56,181 for the water system and \$90,637 for the wastewater system.

As previously discussed, the appropriate rate structure for the water system is a continuation of the current BFC/uniform gallonage charge rate structure. The residential wastewater-only flat rate structure shall be discontinued and replaced with a bulk wastewater rate based on a BFC/gallonage charge rate structure. The bulk customers' BFC shall be based on 80% of the number of equivalent residential connections actually connected to the system, while the gallonage charge shall be set at 80% of the general service gallonage charge. The traditional BFC/gallonage charge rate structure shall be continued for the remaining wastewater customers. The BFC cost recovery shall be set at 54.6% for the water system and 50% for the wastewater system. The multi-residential gallonage charge rate shall be set at an amount equal to the general service gallonage charge rate.

Approximately 54.6% of the monthly service revenues for the water system (or \$30,667) and 50% of the corresponding wastewater system revenues (or \$45,304) are recovered through the base facility charges. Approximately 45.4% of the monthly service revenues for the water system (or \$25,517) and 50% of the corresponding wastewater system revenues (or \$45,327) represents revenue recovery through the consumption charges.

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedules Nos. 4-A and 4-B, attached hereto.

Four-Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. The decreased water and wastewater revenues will result in the rate reduction as shown approved on Schedule Nos. 4-A and 4-B, attached hereto and incorporated herein by reference.

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

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

Miscellaneous Service Charges

Miscellaneous service charges were approved for Lake Placid in 1993, and have not changed since that date. Similar charges have been the standard charge in other cases since at least 1990 - a period of 16 years. We find that these charges shall be updated to reflect current costs. Lake Placid shall be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 for normal hours and from \$15 to \$42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. If both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of the utility requires multiple actions. The current and approved charges are shown below.

Water Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Commission Approved</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	\$15	N/A	\$21	\$42
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

The general industry-wide miscellaneous service charges have not been updated in over 16 years and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 60% in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,¹⁷ we expressed concern that miscellaneous service charges were eight years old and could not

¹⁷ Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

possibly cover current costs, and directed staff to examine whether miscellaneous service charges should be indexed in the future and included in index applications. Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, Florida Administrative Code. However, few utilities request their miscellaneous service charges be indexed. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,¹⁸ and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,¹⁹ we approved a \$20 charge for connection and reconnections during normal hours and a \$40 after hours charge. Therefore, a \$21 charge is reasonable and is cost based.

In summary, the utility's miscellaneous service charges for normal hours of \$21 and after hours charges of \$42, are hereby approved because the increased charges are cost-based, reasonable, and consistent with fees we have approved for other utilities. The utility shall file a proposed customer notice to reflect the charges approved herein. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by Commission staff. Within ten days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within ten days after the date the notice was sent.

Proof of Compliance with NARUC USOA

To ensure that the utility adjusts its books in accordance with our decision, Lake Placid shall provide proof, within 90 days of the issuance of the Consummating Order, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Lake Placid Utilities, Inc.'s application for increased water and wastewater rates is 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 are hereby approved in every respect. It is further

ORDERED that all matters contained herein, whether set forth in the body of this Order or in the attachments and schedules attached hereto, are incorporated herein by reference. It is further

ORDERED that Lake Placid Utilities, Inc. shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates shown on Schedule Nos. 4-A and 4-B. It is further

¹⁸ Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

¹⁹ Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved water and wastewater rates shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that Lake Placid Utilities, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Lake Placid Utilities, Inc. is hereby authorized to charge the rates and charges are set forth in the body of this Order. It is further

ORDERED that Lake Placid Utilities, Inc. shall be authorized to revise its miscellaneous service charges as set forth herein. It is further

ORDERED that Lake Placid Utilities, Inc. shall file a proposed customer notice to reflect the approved miscellaneous service charges. It is further

ORDERED that the approved miscellaneous service charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. It is further

ORDERED that within ten days of the date the order is final, Lake Placid Utilities, Inc. shall provide notice of the tariff changes regarding its miscellaneous service charges to all customers. The utility shall provide proof the customers have received notice within ten days after the date that the notice was sent. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that 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 for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the increased rates and charges approved herein shall be effective for service rendered on or after the stamped approved date on the revised tariff sheets, in accordance with Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that the approved rates and charges shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days are the date of the notice. It is further

ORDERED that our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. It is further

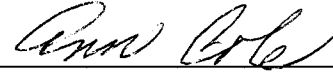
ORDERED that if the revised tariff sheets are filed and approved, the tariff sheets shall become effective on or after the stamped approval date. It is further

ORDERED that Lake Placid Utilities, Inc. shall provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

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

ORDERED that if no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a Consummating Order will be issued. However, the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.

By ORDER of the Florida Public Service Commission this 3rd day of April, 2007.



ANN COLE
Commission Clerk

(S E A L)

KEF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action herein, except for the four-year rate reduction, and proof of adjustment of books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 24, 2007. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Lake Placid Utilities Inc. of Florida
 Water Treatment System Without Storage
 Used and Useful Analysis

1	Firm Reliable Capacity		200 gpm
2	Demand		91 gpm
	a Maximum Day (131,000 gpd)	91 gpm	
	b 5 Max Day Average (76,600 gpd)	53 gpm	
	c Average Daily Flow (25,584 gpd)	18 gpm	
3	Excessive Unaccounted for Water = a-b		3.04 gpm
	a Total Unaccounted for Water (26.92%)	4.84 gpm	
	b 10% of Average Daily Flow	1.80 gpm	
4	Required Fire Flow		500 gpm
5	Growth = $((2/5a) \times 5b \times 5 \text{ yrs})$		9.4 gpm
	a Average Test Year Customers	243 ERCs	
	b Annual Customer Growth	5	
6	Used and Useful = $[2^{20} \times (2 - 3 + 5) + 4]/1$		100+%
	$[(2(91 - 3.04 + 9.4) + 500)]/200$		

²⁰ Peak Factor

Lake Placid Utilities Inc. of Florida
 Wastewater Treatment System
 Used and Useful Analysis

1	Permitted Capacity (AADF)		90,000 gpd
2	Demand (AADF)		15,597 gpd
3	Excessive Infiltration and Inflow (I&I)		0 gpd
	a Water demand per ERC	70.6 gpd	
	b AADF per ERC	48.7 gpd	
4	Growth = ((70.6 x 4b x 5 yrs)		1,218 gpd
	a Average Test Year Customers	320 ERCs	
	b Customer Growth	5 ERCs	
5	Used and Useful = (2 – 3 + 4)/1		18.68%
	Staff recommended		30.46%

Note – Staff recommends that the used and useful percentage (30.46%) approved in the utility’s last rate case in Order No. PSC-96-0910-FOF-WS be used because of the age of the system and the limited growth possibilities for the service area.

Lake Placid Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/05			Schedule No. 1-A Docket No. 060260-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	<u>\$320,753</u>	<u>\$39,279</u>	\$360,032	(\$48,968)	\$311,064
2 Utility Land & Land Rights	<u>\$2,707</u>	<u>\$0</u>	\$2,707	\$0	\$2,707
3 Construction Work in Progress	<u>\$14,528</u>	<u>(\$14,528)</u>	\$0	\$0	
4 Non-used and Useful Components	<u>\$0</u>	<u>\$0</u>	\$0	\$0	\$0
5 Accumulated Depreciation	<u>(\$123,370)</u>	<u>\$30,983</u>	(\$92,387)	(\$14,241)	(\$106,628)
6 CIAC	<u>(\$89,440)</u>	<u>\$0</u>	(\$89,440)	\$0	(\$89,440)
7 Amortization of CIAC	<u>\$39,772</u>	<u>\$0</u>	\$39,772	\$0	\$39,772
8 Acquisition Adjustment	<u>\$0</u>	<u>\$0</u>	\$0	\$0	\$0
9 Accum Amort of Acq Adjustment	<u>\$9,204</u>	<u>\$0</u>	\$9,204	(\$9,204)	\$0
10 Working Capital Allowance	<u>\$0</u>	<u>\$4,173</u>	\$4,173	(\$992)	\$3,181
11 Other	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
12 Rate Base	<u>\$174,154</u>	<u>\$59,907</u>	<u>\$234,061</u>	<u>(\$73,405)</u>	<u>\$160,656</u>

Lake Placid Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/05			Schedule No. 1-B Docket No. 060260-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$560,019	(\$15,492)	\$544,527	\$26,354	\$570,881
2 Utility Land & Land Rights	\$21,665	\$0	\$21,665	\$0	\$0
3 Construction Work in Progress	\$0	(\$13,188)	(\$13,188)	\$0	(\$13,188)
4 Non-used and Useful Components	\$0	\$0	\$0	(\$94,585)	(\$94,585)
5 Accumulated Depreciation	(\$302,910)	(\$30)	(\$302,940)	(\$12,139)	(\$315,079)
6 CIAC	(\$154,466)	\$0	(\$154,466)	\$0	(\$154,466)
7 Amortization of CIAC	\$103,172	\$0	\$103,172	\$0	\$103,172
8 CWIP	\$0	\$0	\$0	\$0	\$0
9 Advances for Construction	\$0	\$0	\$0	\$0	\$0
10 Working Capital Allowance	\$0	\$9,390	\$9,390	(\$1,438)	\$7,952
11 Other	\$0	\$0	\$0	\$0	\$0
12 Rate Base	\$227,480	(\$19,320)	\$208,160	(\$81,809)	\$104,686

Lake Placid Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/05		Schedule No. 1-C Docket No. 060260-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1	Unrecorded A/D (AF-1)	(\$14,150)	(\$3,093)
2	To reflect appropriate amount of historical plant	\$0	\$17,900
3	To adjust for unsupported Pro Forma Plant	(\$22,424)	(\$1,343)
4	Reflect appropriate WSC rate base allocation.	\$197	\$308
5	Reflect appropriate UIF rate base allocation.	(\$12,591)	\$12,582
	Total	<u>(\$48,968)</u>	<u>\$26,354</u>
<u>Non-used and Useful</u>			
	To reflect net non-used and useful adjustment	<u>\$0</u>	<u>(\$94,585)</u>
<u>Accumulated Depreciation</u>			
1	Unrecorded A/D (AF-2)	(\$4,555)	(\$4,424)
2	Reflect appropriate UIF rate base allocation.	\$7,350	(\$7,745)
3	To adjust for unsupported Pro Forma Plant	(\$17,036)	\$30
	Total	<u>(\$14,241)</u>	<u>(\$12,139)</u>
<u>Accum Amort of Acq Adjustment</u>			
	Remove Accum Amort of Acq Adj	(\$9,204)	\$0
		<u>(\$9,204)</u>	<u>\$0</u>
	Total		
	<u>Working Capital</u>	<u>(\$992)</u>	<u>(\$1,438)</u>

Lake Placid Utilities, Inc.
 Capital Structure-Simple Average
 Test Year Ended 12/31/05

Schedule No. 2
 Docket No. 060260-WS

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$124,044,203	\$0	\$124,044,203	(\$123,817,501)	\$226,702	52.35%	6.81%	3.57%	
2 Short-term Debt	\$11,347,000	\$0	\$11,347,000	(11,326,262)	\$20,738	4.79%	2.00%	0.10%	
3 Preferred Stock	\$0	\$0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	\$90,787,422	\$0	\$90,787,422	(90,621,500)	\$165,922	38.32%	11.77%	4.51%	
5 Customer Deposits	\$0	\$0	\$0	0	\$0	0.00%	6.00%	0.00%	
6 Deferred Income Taxes	\$19,655	\$0	\$19,655	0	\$19,655	4.54%	0.00%	0.00%	
10 Total Capital	<u>\$226,198,280</u>	<u>\$0</u>	<u>\$226,198,280</u>	<u>(\$225,765,263)</u>	<u>\$433,017</u>	<u>100.00%</u>		<u>8.17%</u>	
Per Commission									
11 Long-term Debt	\$124,044,203	\$0	\$124,044,203	(\$123,917,011)	\$127,192	47.93%	6.73%	3.23%	
12 Short-term Debt	\$11,347,000	\$0	\$11,347,000	(\$11,335,365)	\$11,635	4.38%	2.00%	0.09%	
13 Preferred Stock	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
14 Common Equity	\$90,787,422	\$3,093,004	\$93,880,426	(\$93,784,163)	\$96,263	36.28%	11.45%	4.15%	
15 Customer Deposits	\$0	\$1,602	\$1,602	\$0	\$1,602	0.60%	6.00%	0.04%	
16 Deferred Income Taxes	\$19,655	\$8,996	\$28,651	\$0	\$28,651	10.80%	0.00%	0.00%	
20 Total Capital	<u>\$226,198,280</u>	<u>\$3,103,602</u>	<u>\$229,301,882</u>	<u>(\$229,056,629)</u>	<u>\$265,342</u>	<u>100.00%</u>		<u>7.50%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.45%</u>	<u>12.45%</u>		
OVERALL RATE OF RETURN						<u>7.14%</u>	<u>7.87%</u>		

Lake Placid Utilities, Inc.
Statement of Water Operations
Test Year Ended 12/31/05

Schedule No. 3-A
Docket No. 060260-WS

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$45,173</u>	<u>\$30,239</u>	<u>\$75,412</u>	<u>(\$28,208)</u>	<u>\$47,204</u>	<u>\$9,375</u> 19.86%	<u>\$56,579</u>
Operating Expenses							
2 Operation & Maintenance	\$17,676	\$15,711	\$33,387	(\$7,939)	\$25,448		\$25,448
3 Depreciation	\$8,722	\$1,914	\$10,636	(\$878)	\$9,758		\$9,758
4 Amortization	(\$7,894)	\$7,894	\$0	\$0	\$0		\$0
5 Taxes Other Than Income	\$3,386	\$1,440	\$4,826	\$47	\$4,873	\$422	\$5,295
6 Income Taxes	(\$14,339)	\$20,868	\$6,529	(\$5,873)	\$656	\$3,369	\$4,025
7 Total Operating Expense	<u>\$7,551</u>	<u>\$47,827</u>	<u>\$55,378</u>	<u>(\$14,643)</u>	<u>\$40,735</u>	<u>\$3,791</u>	<u>\$44,526</u>
8 Operating Income	<u>\$37,622</u>	<u>(\$17,588)</u>	<u>\$20,034</u>	<u>(\$13,565)</u>	<u>\$6,469</u>	<u>\$5,584</u>	<u>\$12,053</u>
9 Rate Base	<u>\$174,154</u>		<u>\$234,061</u>		<u>\$160,656</u>		<u>\$160,656</u>
10 Rate of Return	<u>21.60%</u>		<u>8.56%</u>		<u>4.03%</u>		<u>7.50%</u>

Lake Placid Utilities, Inc.
 Statement of Wastewater
 Operations
 Test Year Ended 12/31/05

Schedule No. 3-B
 Docket No. 060260-WS

	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	Operating Revenues:	<u>\$70,362</u>	<u>\$71,952</u>	<u>\$142,314</u>	<u>(\$70,271)</u>	<u>\$72,043</u>	<u>\$18,591</u> 25.81%	<u>\$90,637</u>
	Operating Expenses							
2	Operation & Maintenance	\$52,976	\$22,147	\$75,123	(\$11,506)	\$63,617		\$63,617
3	Depreciation	\$13,194	\$30	\$13,224	(\$5,802)	\$7,422		\$7,422
4	Amortization	\$529	(\$529)	\$0	\$0	\$0		\$0
5	Taxes Other Than Income	\$5,271	\$3,348	\$8,619	(\$337)	\$8,282	\$837	\$9,118
6	Income Taxes	<u>\$13,559</u>	<u>\$13,971</u>	<u>\$27,530</u>	<u>(\$31,588)</u>	<u>(\$4,058)</u>	<u>\$6,681</u>	<u>\$2,623</u>
7	Total Operating Expense	<u>\$85,529</u>	<u>\$38,967</u>	<u>\$124,496</u>	<u>(\$49,234)</u>	<u>\$75,262</u>	<u>\$7,518</u>	<u>\$82,780</u>
8	Operating Income	<u>(\$15,167)</u>	<u>\$32,985</u>	<u>\$17,818</u>	<u>(\$21,037)</u>	<u>(\$3,219)</u>	<u>\$11,073</u>	<u>\$7,854</u>
9	Rate Base	<u>\$227,480</u>		<u>\$208,160</u>		<u>\$104,686</u>		<u>\$104,686</u>
10	Rate of Return	<u>-6.67%</u>		<u>8.56%</u>		<u>-3.08%</u>		<u>7.50%</u>

Lake Placid Utilities, Inc.		Schedule 3-C	
Adjustment to Operating Income		Docket No. 060260-WS	
Test Year Ended 12/31/05			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$30,017)	(\$71,902)	
2 To reflect the appropriate amount of annualized revenues.	<u>\$1,809</u>	<u>\$1,631</u>	
Total	<u>(\$28,208)</u>	<u>(\$70,271)</u>	
<u>Operation and Maintenance Expense</u>			
1 To properly record the utility's misc exp (AF-6)	\$0	(\$2,606)	
2 Adjustment to Proforma Salaries and Benefits	(\$753)	(\$801)	
3 Adjustment to Rate Case Expense	(\$6,745)	(\$8,415)	
4 To reflect the appropriate WSC allocated expenses.	\$62	\$81	
5 To reflect the appropriate UIF allocated expenses.	\$178	\$235	
6 Adjustment for excessive accounted for water	(\$681)	\$0	
Total	<u>(\$7,939)</u>	<u>(\$11,506)</u>	
<u>Depreciation Expense – Net</u>			
1 Unsupported Plant Additions (AF-1)	(\$725)	(\$71)	
2 Unrecorded A/D (AF-2)	\$371	\$306	
3 To adjust understated DE (AF-8)	\$1,311	\$527	
4 To remove net depreciation on non-U&U adjustment above.	\$0	(\$8,206)	
5 Reflect appropriate WSC rate base allocation.	\$12	\$16	
6 Reflect appropriate UIF rate base allocation.	(\$764)	\$1,656	
7 To adjust for unsupported Pro Forma Plant	<u>(\$1,083)</u>	<u>(\$30)</u>	
Total	<u>(\$878)</u>	<u>(\$5,802)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above	(\$1,269)	(\$3,162)	
2 To adjust understated TOTI (AF-9)	\$468	\$2,064	
3 To the appropriate WSC allocated property taxes.	(\$4)	(\$6)	
4 Adjustment to Payroll Taxes	(\$78)	(\$96)	
5 To reflect reduced property taxes on NU & U Property.	\$0	(\$589)	
6 To reflect appropriate TY RAFs	<u>\$931</u>	<u>\$1,451</u>	
Total	<u>\$47</u>	<u>(\$337)</u>	

Lake Placid Utilities, Inc.					Schedule No. 4-A
Water Monthly Service Rates					Docket No. 060260-WS
Test Year Ended 12/31/05					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four-year Rate Reduction
<u>Residential, Multi-Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$12.59	\$0.00	\$12.20	\$12.59	\$ 1.81
3/4"	\$18.87	\$0.00	\$18.30	\$18.89	\$ 2.72
1"	\$31.45	\$0.00	\$30.51	\$31.48	\$ 4.53
1 1/2"	\$62.92	\$0.00	\$61.01	\$62.95	\$ 9.05
2"	\$100.67	\$0.00	\$97.62	\$100.72	\$14.48
3"	\$201.33	\$0.00	\$195.24	\$201.44	\$28.96
4"	\$315.61	\$0.00	\$305.06	\$314.75	\$45.25
6"	\$629.15	\$0.00	\$610.12	\$629.50	\$90.50
Gallonage Charge, per 1,000 Gallons	\$2.29	\$0.00	\$6.34	\$3.64	\$ 0.52
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$19.46	\$0.00	\$31.22	\$23.51	
5,000 Gallons	\$24.04	\$0.00	\$43.90	\$30.79	
10,000 Gallons	\$35.49	\$0.00	\$75.60	\$48.99	

Lake Placid Utilities, Inc.					SCHEDULE NO. 4-B Docket No. 060260-WS
Wastewater Monthly Service Rates					
Test Year Ended 12/31/05					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four-year Rate Reduction
<u>Residential</u>					
Base Facility Charge :					
5/8"	\$14.29	\$0.00	\$15.41	\$16.48	\$ 1.88
All other meter sizes	--	--	--	\$16.48	\$1.88
DeeAnn Estates (flat rate per unit)	\$23.51	\$0.00	\$25.35	--	--
Gallorage Charge - Per 1,000 gallons					
(6,000 gallon cap)	\$2.59	\$0.00	\$12.10	\$5.14	\$0.59
<u>General Service/Multi-Residential</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$14.29	\$0.00	\$15.41	\$16.48	\$1.88
3/4"	\$21.39	\$0.00	\$23.11	\$24.72	\$2.82
1	\$35.70	\$0.00	\$38.52	\$41.20	\$4.71
1-1/2"	\$71.37	\$0.00	\$77.04	\$82.40	\$9.41
2"	\$114.20	\$0.00	\$123.27	\$131.84	\$15.06
3"	\$228.39	\$0.00	\$246.53	\$263.68	\$30.12
4"	\$356.86	\$0.00	\$385.21	\$412.01	\$47.06
6"	\$713.74	\$0.00	\$770.41	\$824.03	\$94.13
DeeAnn Estates HOA (bulk rate)	--	--	--	\$561.66	\$64.16
Gallorage Charge (GS/MS), per 1,000 gallons	\$3.10	\$0.00	\$14.52	\$6.17	\$0.70
Gallorage Charge – DeeAnn Estates HOA (bulk rate) per 1,000 gallons	--	--	--	\$4.93	\$0.56
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$31.28	\$0.00	\$58.97	\$31.90	
5,000 Gallons	\$36.46	\$0.00	\$88.01	\$42.18	
10,000 Gallons	\$39.05	\$0.00	\$102.53	\$47.32	
(Wastewater Gallorage Cap - 6,000 Gallons)					