

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in  
Highlands County by Placid Lakes Utilities,  
Inc. | DOCKET NO. 080353-WU  
ORDER NO. PSC-09-0632-PAA-WU  
ISSUED: September 17, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman  
LISA POLAK EDGAR  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING APPLICATION FOR RATE INCREASE  
AND  
FINAL ORDER FINDING AN INTERIM REFUND IS NOT REQUIRED  
AND APPROVING FOUR-YEAR RATE REDUCTION

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except with regard to findings concerning the four-year rate reduction, no interim refund, and the requirement of proof of adjustments, are 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

Placid Lakes Utilities, Inc. (Placid Lakes or the Utility) is a Class B water utility providing service to approximately 1,959 customers in Highlands County. Placid Lakes is located in a region which has been designated by the Southwest Florida Water Management District (SWFWMD) as a critical use area. The Utility's water rates were last established in its 2001 rate proceeding.<sup>1</sup> Placid Lakes is a wholly-owned subsidiary of Lake Placid Holding Company (LPHC), the primary developer of the Placid Lakes subdivision. In its 2008 annual report, the Utility reported operating revenues of \$525,902 and a net operating loss of \$11,456.

<sup>1</sup> See Order No. PSC-01-0327-PAA, issued February 6, 2001, in Docket No. 000295-WU, In re: Application for Rate Increase in Highlands County by Placid Lakes Utilities, Inc.

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FPSC-COMMISSION CLERK

On October 14, 2008, Placid Lakes filed its application for approval of final and interim rate increases in the instant docket. The Utility had a few deficiencies in the minimum filing requirements (MFRs). The deficiencies were corrected, and December 5, 2008, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the twelve-month period ended December 31, 2008.

Placid Lakes requested interim rates designed to generate annual water revenues of \$643,135, an increase of \$101,903 or 18.83 percent. The Utility requested final rates designed to generate annual water revenues of \$705,582, an increase of \$169,182 or 31.54 percent.

By Order No. PSC-09-0022-PCO-WU, issued January 6, 2009, we granted Placid Lakes interim rates designed to generate annual revenues of \$592,263. This represents a revenue increase of \$51,031 (9.43 percent).

On June 18, 2009, our staff filed a PAA recommendation for the June 30, 2009, Agenda Conference. On June 25, 2009, the Utility requested a deferral and waiver of the statutory deadline through August 18, 2009, in order to provide additional information regarding our staff's non-used and useful recommended adjustment. As addressed subsequently in the Order, our staff adjusted the recommended non-used and useful adjustment to account for contributions related to the Utility's distribution system. Our staff also adjusted its recommended return on equity because the 2009 leverage formula became effective. These changes affected the final revenue requirement, as well as other fall-out issues and schedules. We considered this matter at our August 18, 2009, Agenda Conference.

This order addresses the revenue requirement and rates to be charged on a prospective basis. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

### DECISION

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we determine the overall quality of service provided by a utility by evaluating three separate components of water operations, including the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by us from customers are reviewed. We also consider the utility's current compliance with the Florida Department of Environmental Protection (DEP).

#### Quality of Utility's Product

Placid Lakes' water facilities are regulated by the DEP South District office in Tampa. The Utility is current in all of the required chemical analyses. Also, the Utility has met all required standards for the water plant and system. The quality of drinking water delivered to the customers is considered to be satisfactory by the DEP.

### Operational Conditions of Plants

A field investigation of the Placid Lakes' service areas was conducted May 1, 2009. We found no apparent problems with the operations of the water treatment facilities. The water plant was operating normally and was well-maintained. The conditions of these facilities are currently in compliance with the DEP rules and regulations. Based on review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, we find that the quality of service for the condition of the water plant is satisfactory.

### Customer Satisfaction

The Utility provided copies of customer complaints received during the test year. The water quality complaints dealt with odor, taste, sand, and one low pressure complaint. A review of these complaints found that Placid Lakes often responded with the flushing of lines to help resolve the water quality problems. Reviewing the comments addressing resolution of complaints shows that the Utility responded promptly to complaints and endeavored to fix the problem and satisfy the customer in each instance.

A customer meeting was held on April 30, 2009, in Lake Placid. One customer spoke about the service provided by the company characterizing it as good, and another spoke about offensive taste and smell. After the customer meeting, a visit was made to three homes on Thurman Avenue. All three customers spoke of the water periodically having an offensive odor, taste, and leaving a residue, noting that the water quality improves when the Utility flushes the water line on Thurman. The customers also said the utility's personnel are responsive to the need for line flushing. There is about a 300 foot section on Thurman Avenue where two opposing water lines could be looped, and this improvement might mitigate the taste and odor issue experienced by the three customers. There are no road crossings involved, but the construction would require a county permit and engineering design. The estimated cost is \$3,978, and we find that this distribution system improvement shall be a pro forma plant item to be completed by December 31, 2009. As such, we find that plant shall be increased by \$3,978 in accordance with our decision herein regarding the distribution system improvement. Accordingly, corresponding adjustments shall be made to increase depreciation expense and accumulated depreciation both by \$93. Placid Lakes is in agreement with this improvement.

The PSC Complaint Tracking System was reviewed. There has been one customer inquiry since 2006 involving a question about service availability and the connection fees required.

### Quality of Service Summary

Placid Lakes' overall quality of service is satisfactory. We find that the quality of the product and the condition of the plants are satisfactory in regard to regulatory compliance standards. The Utility has addressed customer concerns adequately and there are no outstanding problems at this time. Therefore, we find the overall quality of service is satisfactory.

### Use and Useful

The water treatment plant is essentially the same in this case as it was in the last rate case. Equipment changes include the addition of a new generator which was added several years ago, replacing an older model, and a new master flow meter which was installed at the plant after the former meter failed. The water distribution system is also essentially the same, although there have been some line extensions as new homes have been built. The yield from the wells at the plant has increased from the last rate case.

In its application, the Utility asserts that the water treatment plant is 100 percent used and useful, and the water distribution system is 84.64 percent used and useful. The methods and calculations in the current filing are the same as those proposed in the prior rate case, and approved by us in that prior case.<sup>2</sup>

### Water Treatment Plant

Rule 25-30.4325, F.A.C., implemented since the Utility's last rate case, provides that "the used and useful calculation for the water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment system, based on 16 hours of pumping." Consideration is given to fire flow, unaccounted for water, growth, and capacity limitations. One of the Utility's wells is on site and the other two are near the water treatment plant. The Utility is permitted for a fourth well, but that well has not been needed and has not been drilled.

Placid Lakes has three wells that are active. The firm reliable well capacity of 1,094,400 gallons per day (gpd) is determined by removing one well from service and then totaling the remaining well capacities. Plant capacity is limited by the Southwest Florida Water Management District (SWFWMD) permit which limits pumping to 401,100 gpd on an annual average basis and peak flows of 469,400 gpd. The amount of water pumped, sold, as well as unaccounted for water, has been reviewed. The amount of unaccounted for water is under 3 percent, which is acceptable.

For growth, the Utility prepared calculations using average customers and equivalent residential connections (ERCs), as well as a linear regression analysis. Linear regression projections for five years' growth of 450 ERCs are slightly higher than the average calculations. In light of the economic downturn in home construction, we believe that a more accurate projection for future growth based on average growth. For this reason, we find that an average annual growth of 69 customers is more realistic. Actual growth from 2007 into 2008 of 37 customers, plus 345 customers for each of the next five years, results in 382 new customers. Using a peak day demand of 254 gpd/ERC, results in a growth allowance of 97,028 gpd. Peak day demand was calculated using the average number of customers and the single maximum day from historical test year 2007 (1942 customers/494,103 gpd).

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<sup>2</sup> See Docket No. 000295-WU, Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

Therefore, we find that the water treatment plant shall be considered 100 percent used and useful. Our decision is based on the peak day demand of 494,103 gpd, which occurred on July 13, 2007, plus the required fire flow of 120,000 gpd, and a growth allowance of 97,028 gpd, divided by the firm reliable plant capacity of 469,400 gpd, based upon the limitation of the water management district permit.

### Storage

Pursuant to Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful. Therefore, the Utility's two storage tanks shall be considered 100 percent used and useful because the 270,000 gallons of usable storage (90 percent of 300,000 gallons) is less than the peak day demand of 494,103 gallons.

### Water Distribution System

In its last rate case, the Utility's distribution system was found to be 76.37 percent used and useful. The Utility proposed an 84.64 percent used and useful allowance for the distribution system based on the methodology used in the last rate case. A detailed used and useful analysis for the distribution system is contained in the filing. The analysis is consistent with the methodology from the last rate case approved by us, where mains larger than 6 inches in diameter were considered 100 percent used and useful, and other lines were evaluated comparing lots with homes connected to the system to lots with water available. This method is not materially different from an evaluation based on ERCs because the vast majority of the Utility's customers (97 percent) are residential customers with 5/8 X 3/4 inch meters, and the general service customer demand is similar to the residential customer demand. Homes that have private wells for domestic supply are not included in the calculation. A traditional analysis of the distribution system results in a used and useful 46 percent based on 1,942 connected lots, a growth allowance of 414 ERCs, and 5,103 total lots.

The distribution system has been designed to serve the existing customers and new lines are installed as new customers need service. We agree with the Utility's weighted average used and useful calculation of 67.37 percent for test year customers; however, it appears that the Utility's proposed growth allowance of 450 ERCs is excessive given the average historical growth the Utility has experienced. The addition of 382 new customers, which is a growth allowance of 17.43 percent, is consistent with the growth allowance recognized for the water treatment system, and brings the used and useful allowance for the distribution system to 79.09 percent. Thus, the water distribution system shall be considered 79.09 percent used and useful.

As a result of these used and useful percentages and based on the supplemental information regarding contributions for the Utility's distribution system,<sup>3</sup> water rate base shall

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<sup>3</sup> It is Commission practice to treat all contributed facilities as 100 percent used and useful. See Order Nos. PSC-07-0865-PAA-SU, issued October 29, 2007, in Docket No. 060285-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven; PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by

be reduced by \$15,363 to reflect that 20.91 percent of the distribution system is non-used and useful. Accordingly, corresponding adjustments shall be made to reduce depreciation expense by \$305 and property tax expense by \$700.

#### Pro-forma Plant Adjustment

Placid Lakes stated in its application that a total of \$62,700 was to be spent on remote meter reader installations. Documentation supporting this plant improvement project was requested. The Utility only provided out-dated quotes of the remote meter reader installations and did not submit a completion date. We again requested supporting documentation (i.e. invoices or signed contracts). Placid Lakes failed to provide such documentation. Due to the lack of support for the remote meter reader installation, plant-in-service shall be reduced by \$62,700.

In its filing, the Utility also reflected a pro forma plant addition of \$17,000 for a new truck. Placid Lakes' adjusted plant-in-service included a reduction of \$10,000 for a truck retirement. We requested documentation showing original cost of the old truck, in order to determine the appropriate amount of retirement. The Utility could not provide such documentation and was only able to provide the replacement value of the truck in its MFRs. When the original cost and the original in-service date are not known, it is our practice to determine the retirement cost by using 75 percent of the replacement value.<sup>4</sup> As such, we calculated a retirement amount of \$12,750 (\$17,000 x 75 percent). Thus, we find that plant-in-service shall be further reduced by \$2,750 (\$12,750 - \$10,000).

In summary, plant-in-service shall be reduced by \$65,450 (\$62,700 + \$2,750) to reflect pro-forma plant adjustments. Corresponding adjustments shall also be made to decrease accumulated depreciation and depreciation expense by \$65,450 and \$3,593, respectively.

#### Working Capital

The Utility calculated its working capital allowance pursuant to Rule 25-30.433(2), F.A.C., which requires Class B utilities to use the formula method, or one-eighth of operation and maintenance (O&M) expenses. We have made several adjustments to O&M expenses as discussed in later sections of this order. Based on the adjusted balance of O&M expenses, we find that working capital provision for Placid Lakes is \$59,853. This represents an increase of \$2,680 to the Utility's requested working capital allowance of \$57,173.

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Sanlando Utilities Corp.; PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff- assisted rate case in Highlands County by Holmes Utilities, Inc.; and PSC-99-2116-PAA-SU, issued October 25, 1999, in Docket No. 980778-SU, In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.

<sup>4</sup> See Docket No. 030423-WU, Order No. PSC-04-0356-PAA-WU, issued April 5, 2004, In Re: Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County; See Docket No. 040450-WS, Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, In Re: Application for rate increase in Martin County by Indiantown Company, Inc.

### Rate Base

Based on our adjustments in this order and the use of a simple average test year, rate base for Placid Lakes is \$535,134. The rate base schedule is attached as Schedule 1-A. The schedule of adjustments to rate base is attached as Schedule 1-B.

### Return on Equity (ROE)

Using our 2009 leverage formula<sup>5</sup> and an equity ratio of 100 percent, we find that the appropriate ROE for the Utility is 9.67 percent. It has been our practice to use the most recent leverage formula in effect at the time we vote to approve final rates. We also find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes. The ROE is shown on Schedule No. 2.

### Weighted Average Cost of Capital

In its MFRs, Placid Lakes requested a 9.46 percent overall rate of return in this proceeding. The Utility reflected only the reconciled rate base capital structure without taking the actual capital structure items into account. However, Placid Lakes' balance sheet on MFR Schedule A-19 reflected the unreconciled balance of common equity. Pursuant to Rule 25-30.433(4), F.A.C., the averaging method used by us to calculate cost of capital is a simple average for Class B utilities. Per the rule, we calculated the cost of capital using a simple average of the test year and the prior year. This resulted in an adjustment to increase common equity by \$82,088. Based on the above and the ROE mentioned above, we approve the Utility's capital structure yields an overall cost of capital of 9.58 percent. Schedule No. 2 details our decision to set a weighted average cost of capital of 9.58.

## NET OPERATING INCOME

### Operation and Maintenance Expense

Based on our review, we find that several adjustments must be made to O&M expenses which relate to contractual services-legal and contractual services-other.

Placid Lakes adjusted contractual services-legal by \$2,108 to reflect a five-year average level. The Utility reflected no contractual services-legal in the 2007 historical test year. As such, it normalized the legal expenses to reflect a five-year average between 2002 and 2006. We find that the five-year period suggested by the Utility is too volatile. During that period, legal expenses ranged from zero in cost for two different years and up to \$6,427 in one year. In addition, no legal expenses were incurred by Placid Lakes in 2008 based on its current annual report filed with us. We find that a more reasonable method to determine legal fees was to take the last approved amount for contractual services-legal and index it up for customer growth and

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<sup>5</sup> See Order No. PSC-09-0430-P AA-WS, issued June 19,2009, in Docket No. 090006-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), F.S.

inflation. The last approved amount of contractual services-legal was \$238.<sup>6</sup> Based upon this conclusion, we find that legal fees shall be reduced by \$1,724.

In the Utility's filing, contractual services-other was recorded as \$70,885. Placid Lakes made a reduction of \$10,800 to the test year amount to amortize tank maintenance over two years. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. It is our practice to amortize tank painting over five years.<sup>7</sup> We requested documents to support Placid Lakes' request to use only a two-year amortization period. The Utility failed to justify why the expense should be amortized over two years, and simply stated that two years was its normal maintenance cycle for the painting of tanks. The Utility's policy is not consistent with our policy. Therefore, contractual services shall be reduced by \$17,280 (4/5 of the total, \$21,600) to reflect the five-year amortization period. As such, we find that the Utility's adjustment to contractual services-other shall be reduced by \$6,480 (\$17,280-\$10,800).

#### Rate Case Expense

Placid Lakes initially submitted in its MFRs \$134,650 in rate case expense, with an annual amortization expense of \$33,663. The breakdown of fees is shown below as reflected in the Utility's MFRs.

	<u>MFR Estimated</u>	<u>Utility Revised</u> <u>Actual</u>
Accounting/Engineering- Guastella & Associates	\$93,300	\$86,568
Legal- James Ade	26,000	27,670
In house- Pam Brewer	5,000	6,650
Accounting- Larry King	5,000	5,000
Other- administrative, mailings, filing fee	<u>5,350</u>	<u>5,350</u>
Total	<u>\$134,650</u>	<u>\$131,238</u>

<sup>6</sup>See Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

<sup>7</sup>See Order Nos. PSC-07-0130-SC-SU, p. 19, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.; PSC-98-1579-FOF-WS, p. 22, issued November 25, 1998, in Docket No. 980441-WS, In re: Application for staff-assisted rate case in Polk County by Orchid Springs Development Corporation.; and PSC-96-0934-FOF-WS, p. 9, issued July 18, 1996, in Docket No. 951296-WS, In re: Application for a staff-assisted rate case in Volusia County by Plantation Bay Utility Co.



Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses which are 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, we find that several adjustments are necessary to the revised rate case expense estimate.

The first adjustment is in regard to the rate expense for Larry King, CPA. In its filing, the Utility requested \$5,000 for Mr. King. In the first data request, our staff requested documentation to support the expense. The response from the Utility showed Mr. King worked a total of 24 hours, through January 30, 2009, in order to "provide historical and base year financial information (P&L statements, balance sheet, asset records and depreciation schedules)." The response given to us lacked the actual invoices showing these duties performed, the time to perform such duties and the specific fees charged to the Utility. Staff again requested this information in its second data request. Once again, Placid Lakes failed to provide supporting documentation. Due to the lack of supporting invoices for work provided by Larry King, CPA, we find that this portion of rate case expense shall be removed, representing a reduction of \$5,000.

The second adjustment refers to the in-house rate case expense work completed by Pam Brewer. As the table above shows, the Utility requested \$5,000 in rate case expense. The specific services rendered were administrative in nature, specifically, compiling data, inputting operational data, mailings, preparing notices, and copying. In the first and second data request, our staff asked for a more thorough description and breakdown of Ms. Brewer's incremental overtime duties. Subsequent to the second data request, the Utility provided us with an updated account of hours spent on the case as well as a breakdown of duties performed. This breakdown indicated total hours of 399. Because the Utility failed to provide us with an hourly rate in response to the second data request, we calculated an hourly rate of \$16.67 ( $\$5,000/300$  hours) based on the hours and total amount provided in response to our first data request. Ms. Brewer spent 60 hours working on the change in test year. Since the test year change was an update requested by the Utility, we find it shall be removed from total rate case expense. We find that 60 hours shall be reduced from the total requested hours for Ms. Brewer. This represents a reduction of \$1,000 ( $\$16.67 \times 60$ ). As such, we find that the rate case expense for Pam Brewer shall be adjusted to \$5,650 ( $\$16.67 \times 339$  hours). We find this to be a reasonable expense for in-house costs associated with a rate case.

The third adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based upon our review of job detail reports and invoices for the Utility's consultants, a combined amount of \$6,402 was billed for correcting the MFR deficiencies and revising the Utility's filing. According to the invoices, Guastella Associates, Inc. billed the Utility 21.5 hours related to the correction of MFR deficiencies. This included 21 hours by Mr. Guastella at an hourly rate of \$190, and 0.5 hours of administrative work at an hourly rate of \$12. This resulted in a total charge for work on deficiencies by Guastella Associates, Inc. of \$4,119. Additionally, James L. Ade, P.L., billed the Utility for hours related to the correction of MFR deficiencies. Mr. Ade initially supplied us with an invoice that included the job details but the invoice did not reflect the amount of time worked. Our staff requested a detailed report showing time spent on

deficiencies from Mr. Ade. Mr. Ade stated that the total amount charged by him for time spent on deficiencies was in the amount of \$4,355. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>8</sup> Accordingly, we find that \$8,474 (\$4,119+\$4,355) shall be removed rate case expense because Mr. Ade's work was duplicative and resulted in an unreasonable expense.

The fourth adjustment is in regards to the hourly rate charged by Guastella Associates, which includes services by Mr. Guastella and Mr. White. In this proceeding, Mr. Guastella and Mr. White charged \$190 per hour for rate case expense. According to the invoices submitted, 432 total hours were billed for services provided by Mr. Guastella and Mr. White. We find that the hourly rate of \$190 is high compared to other accounting and rate consultants that practice before us. While Placid Lakes' decision to retain Guastella Associates for their expertise is reasonable, it does not automatically follow that the customers should have to bear the full costs for their services. We have previously reduced Mr. Guastella's hourly rate, and found that an hourly rate of \$140 was appropriate.<sup>9</sup> Applying a similar rate reduction in this docket, results in a decrease to consulting and accounting fees of \$21,600 [(\$190 - \$140) x 432hours].

It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, we have broad discretion with respect to the 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), rev. den. 529 So. 2d 694 (Fla. 1988).

In summary, we find that Placid Lakes' revised rate case expense be decreased by \$36,074 for MFR deficiencies, and for unsupported and unreasonable rate case expense. We approve an appropriate total rate case expense of \$95,164. A breakdown of rate case expense is as follows:

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<sup>8</sup> See Order Nos. 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.; and 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.

<sup>9</sup> See Order Nos. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc. and PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

<b>Description</b>	<b>MFR Estimated</b>	<b>Utility Revised Actual &amp; Estimated</b>	<b>Commission Adjustments</b>	<b>Total</b>
Legal Fees	\$26,000	\$27,670	(\$4,355)	\$23,315
Consultant Fees-G&W	93,300	86,568	(25,719)	60,849
Consultant Fees- King	5,000	5,000	(5,000)	0
In-House Fees	5,000	6,650	(1,000)	5,650
Filing Fee	2,000	2,000	0	2,000
Printing MFR	1,250	1,250	0	1,250
Published Notice	600	600	0	600
Customer Notices & Postage	1,500	1,500	0	1,500
<b>Total Rate Case Expense</b>	<b><u>\$134,650</u></b>	<b><u>\$131,238</u></b>	<b><u>(\$36,074)</u></b>	<b><u>\$95,164</u></b>
<b>Annual Amortization</b>	<b><u>\$33,663</u></b>	<b><u>\$32,810</u></b>	<b><u>(\$9,019)</u></b>	<b><u>\$23,791</u></b>

In its MFRs, Placid Lakes requested total rate case expense of \$134,650, which amortized over four years would be \$33,663. Thus, rate case expense shall be decreased by \$9,872. The approved total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Placid Lakes and our adjustments discussed above, we approve an annual rate case expense amortization of \$23,791.

#### Operating Income

Based on the operating expense adjustments discussed in previous issues, Placid Lakes experienced a net loss of \$29,694 for the test year. The schedule for water operating income is attached as Schedule No. 3-A, and the adjustments are shown on Schedule No. 3-B.

#### REVENUE REQUIREMENT

##### Revenue Requirement

The revenue requirement is a summary computation that is dependent upon the previous issues related to rate base, cost of capital, and operating expenses. Placid Lakes requested final rates designed to generate annual revenues of \$705,582. These revenues exceed test year revenues by \$169,182 (or 31.54 percent).

Based upon our decisions concerning the underlying rate base, cost of capital, and operating income issues, Placid Lakes' revenue requirement is \$672,493. These revenues exceed Placid Lakes' approved test year revenues by \$136,093 (or 25.37 percent) as shown on attached Schedule 3-A.

## RATES AND CHARGES

### Water Rates

The current rate structure for the Utility's water system is a three-tiered inclining-block rate structure, with monthly usage blocks of: a) 0-10 kgals; b) 10.001-20 kgals; and c) usage in excess of 20 kgals, and corresponding usage block rate factors of 1.0, 1.5 and 2.0, respectively. The monthly BFC for a 5/8" x 3/4" meter is \$9.73, and the corresponding gallonage charges are \$2.80, \$4.15, and \$5.50, respectively. The rate structure is considered conservation-oriented, because price signals are used to encourage customers to reduce consumption. In this case, through the inclining-block rate structure, customers receive increasingly greater price signals at increasing levels of consumption.

The residential customer base is moderately seasonal, with a modest average consumption per customer of approximately 4.1 kgals per month. Approximately 93 percent of the Utility's residential bills and 90 percent of the corresponding consumption are captured at usage of 10 kgals or less, while approximately 99 percent of the bills and 96.5 percent of the consumption is captured at usage of 20 kgals or less.

We take several things into consideration when designing rates, including the current rate structure, characteristics of the utility's customer base, various conditions of the Utility's Water Use Permit (WUP), and current and anticipated climatic conditions in the Utility's service area. The modest average monthly consumption, coupled with the relatively few bills and kgals remaining at usage levels greater than 10 kgals, indicate to us that a change to a more aggressive inclining-block rate structure is unwarranted. We approve the rate structure, shown on Table 1 on the following page. A complete discussion of our rate structure methodology is contained in Attachment A.

Based on the foregoing, the information contained on Table 1, and the discussion contained in Attachment A, the appropriate rate structure for the Utility is a continuation of the three-tiered inclining-block rate structure, with monthly usage blocks of: a) 0-10 kgals; b) 10.001-20 kgals; and c) usage in excess of 20 kgals, and usage block rate factors of 1.0, 1.5, and 2.0. The BFC cost recovery allocation shall be set at 40 percent.

TABLE 1

**PLACID LAKES UTILITIES, INC.  
COMMISSION APPROVED PRE-REPRESSION ANALYSIS**

<u>Current Rate Structure and Rates</u>		<u>Approved Rate Structure and Rates</u>	
Three-Tiered Inclining-Blocks		Three-Tiered Inclining-Blocks BFC = 40 percent	
BFC	\$9.73	BFC	\$10.67
0-10 kgal	\$2.80	0-10 kgals	\$3.81
10.001-20 kgal	\$4.15	10.001-20 kgals	\$5.72
20+ kgal	\$5.50	20+ kgals	\$7.62
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgals)</u>		<u>Cons (kgals)</u>	
0	\$9.73	0	\$10.67
2	\$15.33	2	\$18.29
3	\$18.13	3	\$22.10
5	\$23.73	5	\$29.72
7	\$29.33	7	\$37.34
10	\$37.73	10	\$48.77

Repression Adjustment

Using our database of utilities that have previously had repression adjustments made, we calculated repression adjustments for the Utility based upon our decision increases in revenue requirements for the test year, and the historically observed response rates of consumption to changes in price. In addition, we excluded nondiscretionary consumption from the repression calculation. This is the same methodology for calculating repression adjustments that we approved in prior cases.<sup>10</sup>

Based upon our analysis, we find that repression adjustments to the Utility's water system are appropriate. Residential water consumption shall be reduced by 5.0 percent, resulting in a consumption reduction of approximately 4,789.1kgals. Total residential water consumption for ratesetting is 90,225.5 kgals, which represents a 4.9 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$836 in purchased power expense, \$546 in chemicals expense, and \$65 in regulatory assessment fees (RAFs). The post-repression revenue requirement for the water system is \$664,977.

<sup>10</sup> See Order Nos. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; and No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

In order to monitor the effect of the change in revenue, the Utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed for each system. In addition, the reports shall be prepared by customer class and meter size. These reports shall be filed with this Commission, on a semi-annual basis, for a period of two years, beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision.

#### Appropriate Rates

Excluding miscellaneous service revenues, the approved water rates shown on Schedule No. 4 are designed to produce revenues of \$664,977. Approximately 40 percent (or \$265,991) of the monthly service revenues is recovered through the base facility charges, while approximately 60 percent (or \$398,986) represents revenue recovery through the consumption charges.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff approves the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

#### 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 shall reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$25,205. The decreased revenue will result in the rate reduction as shown on Schedule No. 4.

The Utility shall file a revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff approves the proposed customer notice. Placid Lakes shall provide proof of the date notice was given no less than 10 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.

#### Interim Refund

By Order No. PSC-09-0022-PCO-WU, issued January 6, 2009, we approved an interim revenue requirement of \$592,263. This represented an increase of \$51,031 or 9.43 percent.

Pursuant to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the simple average test year ending December 31, 2008. Placid Lakes' approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs and the floor of the last authorized range for equity earnings.

Using the principles discussed above, we calculated a revised interim revenue requirement of \$592,263 utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. The water revenue of \$697,806 is greater than the interim revenues of \$592,263 granted in Order No. PSC-09-0022-PCO-WU, and, as such, no water interim refund shall be made.

#### Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, Placid Lakes shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increase water rates of Placid Lakes Utilities, Inc. is approved as set forth in the body of this Order. It is further

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

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

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

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 rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

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

ORDERED that the water rates shall be reduced as shown on Schedule No. 4 to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. 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 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 Placid Lakes Utilities, Inc. shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. It is further

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

ORDERED that in the event this Order becomes final, 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 Commission staff. Once these actions are complete, this docket shall be closed administratively, and the escrow account shall be released.



By ORDER of the Florida Public Service Commission this 17th day of September, 2009.



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ANN COLE  
Commission Clerk

( S E A L )

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice shall 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, except for the actions finding an interim refund is not required and approving a four-year rate reduction, are 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 October 8, 2009. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Placid Lakes Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 080353-WU		
Description	Test Year Per Utility	Utility Adjust- ments	Commission Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$2,668,467	\$85,972	\$2,754,439	(\$61,472)	\$2,692,967
2 Land and Land Rights	1,000	0	1,000	0	1,000
3 Non-used and Useful Components	(36,993)	(3,273)	(40,266)	(15,363)	(55,629)
4 Accumulated Depreciation	(1,064,711)	(40,967)	(1,105,678)	5,792	(1,099,886)
5 CIAC	(1,648,731)	(10,857)	(1,659,588)	0	(1,659,588)
6 Amortization of CIAC	704,165	25,322	729,487	0	729,487
7 Advances for Construction	(133,071)	0	(133,071)	0	(133,071)
8 Working Capital Allowance	<u>57,012</u>	<u>161</u>	<u>57,173</u>	<u>2,680</u>	<u>59,853</u>
9 Rate Base	<u>\$547,138</u>	<u>\$56,358</u>	<u>\$603,496</u>	<u>(\$68,362)</u>	<u>\$535,134</u>

Placid Lakes Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-B Docket No. 080353-WU
Explanation	Water	
<u>Plant In Service</u>		
1 Reflect pro forma item to improve quality of service. (Issue 1)	\$3,978	
2 Remove remote meter installation. (Issue 2)	(62,700)	
3 Adjust truck retirement. (Issue 2)	<u>(2,750)</u>	
Total	<u>(\$61,472)</u>	
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment. (Issue 3)	<u>(\$15,363)</u>	
<u>Accumulated Depreciation</u>		
1 Reflect pro forma item to improve quality of service. (Issue 1)	(\$93)	
2 Adjust for meter installation. (Issue 2)	3,135	
3 Adjust for truck retirement. (Issue 2)	<u>2,750</u>	
Total	<u>\$5,792</u>	
<u>Working Capital</u>		
To reflect the appropriate amount of working capital. (Issue 4)	<u>\$2,680</u>	

Placid Lakes Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/08							Schedule No. 2 Docket No. 080353-WU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost		
<b>Per Utility</b>										
1	Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4	Common Equity	590,783	0	590,783	0	590,783	97.89%	9.53%	9.33%	
5	Customer Deposits	12,714	0	12,714	0	12,714	2.11%	6.00%	0.13%	
6	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
7	<b>Total Capital</b>	<u>\$603,497</u>	<u>\$0</u>	<u>\$603,497</u>	<u>\$0</u>	<u>\$603,497</u>	<u>100.00%</u>		<u>9.46%</u>	
<b>Per Commission</b>										
8	Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.10%	0.00%	
9	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11	Common Equity	590,783	82,088	672,871	(147,660)	525,211	97.62%	9.67%	9.44%	
12	Customer Deposits	12,714	0	12,714	0	12,714	2.38%	6.00%	0.14%	
13	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
14	<b>Total Capital</b>	<u>\$603,497</u>	<u>\$82,088</u>	<u>\$685,585</u>	<u>(\$150,450)</u>	<u>\$535,135</u>	<u>100.00%</u>		<u>9.58%</u>	
							<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY							<u>8.67%</u>	<u>10.67%</u>		
OVERALL RATE OF RETURN							<u>8.60%</u>	<u>10.56%</u>		

Placid Lakes Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 080353-WU	
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 <b>Operating Revenues:</b>	<u>\$542,460</u>	<u>\$163,122</u>	<u>\$705,582</u>	<u>(\$169,182)</u>	<u>\$536,400</u>	<u>\$135,815</u>	<u>\$672,215</u>
						<u>25.32%</u>	
<b>Operating Expenses</b>							
2 Operation & Maintenance	457,384	39,517	496,901	(18,076)	478,825		478,825
3 Depreciation	47,044	(601)	46,443	(3,805)	42,638		42,638
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	64,559	6,659	71,218	(8,313)	62,905	6,112	69,017
6 Income Taxes	<u>0</u>	<u>33,964</u>	<u>33,964</u>	<u>(52,302)</u>	<u>(18,338)</u>	<u>48,807</u>	<u>30,470</u>
7 <b>Total Operating Expense</b>	<u>\$568,987</u>	<u>\$79,539</u>	<u>\$648,526</u>	<u>(\$82,495)</u>	<u>\$566,031</u>	<u>\$54,919</u>	<u>\$620,950</u>
8 <b>Operating Income</b>	<u>(\$26,527)</u>	<u>\$83,583</u>	<u>\$57,056</u>	<u>(\$86,687)</u>	<u>(\$29,631)</u>	<u>\$80,896</u>	<u>\$51,265</u>
9 <b>Rate Base</b>	<u>\$603,496</u>		<u>\$603,496</u>		<u>\$535,134</u>		<u>\$535,134</u>
10 <b>Rate of Return</b>	<u>-4.40%</u>		<u>9.45%</u>		<u>-5.54%</u>		<u>9.58%</u>

Placid Lakes Utilities, Inc.		Schedule 3-B
Adjustment to Operating Income		Docket No. 080353-WU
Test Year Ended 12/31/08		
Explanation	Water	
<u>Operating Revenues</u>		
Remove requested final revenue increase.		<u>(\$169,182)</u>
<u>Operation and Maintenance Expense</u>		
1 Normalize legal fees. (Issue 8)		(\$1,724)
2 Adjust operations contract to amortize tank maintenance over five years. (Issue 8)		(6,480)
3 To reflect the appropriate amount of rate case expense. (Issue 9)		(9,872)
Total		<u>(\$18,076)</u>
<u>Depreciation Expense - Net</u>		
1 Reflect pro forma item to improve quality of service. (Issue 1)		\$93
2 Adjust for meter installation. (Issue 2)		(3,135)
3 Adjust for truck retirement. (Issue 2)		(458)
4 To remove net depreciation on non-U&U adjustment above. (Issue 3)		(305)
Total		<u>(\$3,805)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$7,613)
2 To reflect the appropriate non-U&U property taxes. (Issue 3)		(700)
Total		<u>(\$8,313)</u>

**Placid Lakes Utilities, Inc.**  
**Water Monthly Service Rates**  
**Test Year Ended 12/31/08**

	<b>Rates Prior to Filing</b>	<b>Commission Approved Interim</b>	<b>Utility Requested Final</b>	<b>Commission Approved. Final</b>	<b>4-year Rate Reduction</b>
<b><u>Residential, General Service and Multi-Family</u></b>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.73	\$10.68	\$14.64	\$10.65	\$0.40
1"	\$14.60	\$16.03	\$21.96	\$26.63	\$1.00
1-1/2"	\$24.37	\$26.76	\$36.66	\$53.25	\$2.00
2"	\$48.64	\$53.40	\$73.16	\$85.20	\$3.19
3"	\$77.85	\$85.47	\$117.10	\$170.40	\$6.39
4"	\$155.69	\$170.94	\$234.18	\$266.25	\$9.98
6"	\$243.28	\$267.10	\$365.93	\$532.50	\$19.97
Gallonge Charge, 0-10,000 Gallons	\$2.80	\$3.07	\$3.27	\$3.99	\$0.15
Gallonge Charge, 10,001-20,000 Gallons	\$4.15	\$4.56	\$4.90	\$5.99	\$0.22
Gallonge Charge, Over 20,000 Gallons	\$5.50	\$6.04	\$6.53	\$7.98	\$0.30
GS Gallonge Charge, per 1,000 Gallons	\$3.18	\$3.49	\$3.76	\$4.27	\$0.16
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$18.13	\$19.89	\$24.45	\$22.62	
5,000 Gallons	\$23.73	\$26.03	\$30.99	\$30.60	
10,000 Gallons	\$37.73	\$41.38	\$47.34	\$50.55	



PLACID LAKES UTILITIES, INC.  
HISTORICAL TEST YEAR ENDED  
DECEMBER 31, 2007 FOR PROJECTED  
TEST YEAR ENDED DECEMBER 31, 2008

ATTACHMENT A  
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## DETERMINATION OF APPROPRIATE RATE STRUCTURE

- HISTORY OF CURRENT RATES**
- (1) The utility's rates were last established in a limited proceeding in Docket No. 011621-WU.<sup>11</sup> The approved monthly rates for the water system were a monthly BFC of \$9.30 for a 5/8" x 3/4" meter, and gallonage charges for monthly usage of: a) \$2.67 for 0-10 kgals; b) \$4.02 for 10.001-20 kgals; and c) \$5.35 for usage in excess of 20 kgals.
- (2) The utility's rate structure was changed from the BFC/gallonage charge rate structure to a three-tiered inclining-block rate structure in Docket No. 000295-WU.<sup>12</sup> In that case, we approved a BFC cost recovery percentage of 36 percent.
- PRACTICES WITH THE WATER MANAGEMENT DISTRICTS**
- (3) We have a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40 percent of the revenues to be generated from monthly service.<sup>13</sup> We follow the WMD guideline whenever possible.<sup>14</sup>
- (4) The utility is located in the Southwest Florida Water Management District in the Southern Water Use Caution Area.<sup>15</sup>
- WATER CONSERVATION INITIATIVE**
- (5) In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the base facility charge portion of the bill usually should not represent more than 40 percent of the Utility's total revenues.<sup>16</sup>

<sup>11</sup> See Order No. PSC-02-1657-PAA-WU, issued November 26, 2002 in Docket No. 011621-WU, In re: Petition for limited proceeding to implement an increase in water rates in Highlands County, by Placid Lakes Utilities, Inc.

<sup>12</sup> See Order No. PSC-01-0327-PAA-WU, issued February 6, 2001 in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

<sup>13</sup> See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; and 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.

<sup>14</sup> See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; and Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

<sup>15</sup> Placid Lakes Utilities, Inc., Southwest Florida Water Management District Water Use Permit No. 4980.008.

<sup>16</sup> Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

PLACID LAKES UTILITIES, INC.  
HISTORICAL TEST YEAR ENDED  
DECEMBER 30, 2007 FOR PROJECTED  
TEST YEAR ENDED DECEMBER 31, 2008

ATTACHMENT A  
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### DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)

- |  |      |   |
|--|------|---|
| <b>WATER<br/>CONSERVATION<br/>INITIATIVE (cont.)</b>       | (6)  | Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC) and its associated Work Plan. <sup>17</sup> |
| <b>FLORIDA<br/>STATUTES re:<br/>WATER<br/>CONSERVATION</b> | (7)  | Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources."   |
| <b>CLIMATIC<br/>CONDITIONS</b>                             | (8)  | We evaluate available drought information to better design rates that achieve conservation. Based on information from the U.S. Drought Monitor, the Utility's service area is not located in a drought area. <sup>18</sup>  |
|  | (9)  | Based on information from the National Weather Service's Climate Prediction Center, the Utility's service area will experience greater than average temperatures and precipitation through November 2009.   |
| <b>WATER SYSTEM<br/>USAGE<br/>PATTERNS:</b>                | (10) | The Utility has a moderately seasonal customer base. The average monthly consumption per residential customer is approximately 4.1 kgal. Approximately 93 percent of the residential bills and 90 percent of the residential kgals sold have been accounted for at 10 kgals or less. <sup>19</sup>  |
| <b>WATER SYSTEM<br/>BFC COST<br/>RECOVERY:</b>             | (11) | We performed detailed analyses of Placid Lake's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the Utility to recover its revenue requirements; and 2) equitably distribute cost recovery among the Utility's customers  |
|  | (12) | As discussed in above, we approve a revenue requirement increase of 25.37 percent. In order to comply with the WMD and PRELIMINARY WCI guidelines regarding the percentage of BFC cost recovery, we evaluated BFC cost recovery percentages at 40 percent, 35 percent and 30 percent.   |

<sup>17</sup> Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

<sup>18</sup> U.S. Drought Monitor, July 7, 2009.

<sup>19</sup> Placid Lakes Utilities, Inc., Minimum Filing Requirements, Schedule E-13.

PLACID LAKES UTILITIES, INC.  
HISTORICAL TEST YEAR ENDED  
DECEMBER 31, 2007 FOR PROJECTED  
TEST YEAR ENDED DECEMBER 31, 2008

ATTACHMENT A  
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**DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)**

**WATER SYSTEM BFC COST RECOVERY:** (13) Customers' bills at monthly consumption of less than 2 kgal will be greater at a cost recovery percentage of 40 percent, compared to the other two rate structure alternatives considered. We find this greater revenue stream is important to mitigate the seasonality of the Utility's residential customer base. This rate structure will achieve the guidelines of the WMDs and the WCI. Conversely, the BFC cost recovery at 40 percent results in lower bills at monthly consumption of 3 kgal or greater, compared to the bills produced by the other two alternative rate structures considered. Although we recognize the importance of sending strong conservation signals to those utilities located in Water Use Caution Areas, we find that due to the nature of the customers' seasonality and modest average monthly usage, the primary goal must be the revenue stability of the Utility.

<b>COMMISSION APPROVAL FOR THE WATER SYSTEM:</b>	The appropriate rate structure for the water system is a continuation of the three-tiered inclining-block rate structure, with usage blocks for monthly usage of: a) 0-10 kgals; b) 10.001-20 kgals; and c) usage in excess of 20 kgals, and usage block rate factors of 1.0, 1.5 and 2.0, respectively. The BFC cost recovery allocation shall be set at 40 percent.
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