

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Highlands County by Lake Placid Utilities,
Inc. | DOCKET NO. 090531-WS
ORDER NO. PSC-11-0015-PAA-WS
ISSUED: January 5, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
NATHAN A. SKOP
RONALD A. BRISÉ
EDUARDO E. BALBIS

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates in the event of protest, 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 (F.A.C.).

BACKGROUND

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 15 water and wastewater utilities within the State of Florida.

Lake Placid Utilities, Inc. (Lake Placid or Utility), is a Class C utility providing water and wastewater service to approximately 122 water and 192 wastewater customers in Highlands County. Lake Placid is located in the Southwest Florida Water Management District (SWFWMD or District), a critical use area. According to its 2009 annual report, Lake Placid reported revenues of \$49,130 and \$80,455 for water and wastewater, respectively. Lake Placid reported water operating expenses of \$55,604 and wastewater operating expenses of \$49,561. The test period for setting rates is the historical twelve-month period ended December 31, 2008.

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* FPSC-COMMISSION CLERK

Lake Placid was granted Certificate Nos. 414-W and 347-S in 1993.¹ This Commission last established rates for Lake Placid in 2006.²

On December 8, 2009, Lake Placid filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on January 19, 2010. Our staff has conducted a field investigation of the Utility's plant and service area.

On March 18, 2010, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket. On June 2, 2010, we acknowledged OPC's intervention.³

At the request of OPC, we deferred this item to provide an opportunity to discuss concerns raised by OPC and to give our staff an opportunity to consider any additional information that may arise from the informal meeting between the parties held on November 5, 2010. As a result of that discussion, the Utility requested additional time to respond to OPC's and our concerns. The Utility requested the item be deferred until December 14, 2010.

We have jurisdiction in this case pursuant to Section 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

DECISION

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we must determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are 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. The utility's compliance with the Florida Department of Environmental Protection (DEP) over the preceding 3-year period is also considered.

Quality of Utility's Product

A review of sanitary surveys and compliance inspection reports over the last three years indicates that deficiencies were identified, but were subsequently corrected by the Utility. According to the DEP, the water and wastewater systems are currently in compliance with DEP rules and regulations.

¹ See Order No. PSC-93-1448-FOF-WS, issued on October 4, 1993, in Docket No. 930570-WS, In re: Application for Transfer of Certificates Nos. 414-W and 347-S From Lake Placid Utilities to Lake Placid Utilities, Inc.

² See Order No. PSC-07-0287-PAA-WS, issued on April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

³ See Order No. PSC-10-0343-PCO-WS.

Operational Condition of the Plant

On June 10, 2010, we conducted afield investigation of the Utility's service area. The water and wastewater treatment facilities appeared to be operating normally. According to the Utility, some of the mechanical systems at the wastewater treatment plant, including the blowers, motors, and the electrical panel, were over 20 years old and needed to be replaced. A lift station upgrade was also needed. The replacements and lift station upgrade have now been completed. Thus, we find that the quality of drinking water delivered to the customers, the wastewater effluent quality, and the operating condition of the water and wastewater facilities satisfactory.

Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on June 10, 2010, in the DeeAnn Lakefront Estates Clubhouse, near Lake Placid, Florida. Five customers attended and four spoke. Representatives of the Utility and OPC were also present. The customer complaints dealt mainly with the amount of the rate increase. We explained the rate making process to the customers and followed up on specific inquiries about our analysis of the Utility's application. One customer expressed dissatisfaction with the quality of the water, including high levels of chlorine in the water. We reviewed the Utility's sanitary surveys and inspection reports, which indicated that the plant operations and remote chlorine residuals were satisfactory. We reviewed complaints filed with this Commission over the last three years and found one complaint related to a billing issue which was resolved. According to the Utility's records, 46 complaints were received from 2007 to 2009 related to discoloration of the water, billing issues, pressure problems, water outages, leaks, and line breaks. The Utility responded to each complaint and followed up, as necessary, including flushing lines, testing meters, resolving water outages, and repairing line breaks and leaks. The Utility appears to be addressing customer complaints in a timely manner. Therefore, we find that the Utility's attempt to address customer concerns shall be considered satisfactory.

Conclusion

In summary, Lake Placid is in compliance with DEP rules and regulations, the water and wastewater treatment plants are operating normally, and the Utility appears to address customer complaints in a timely manner. Therefore, we find that the overall quality of service provided by Lake Placid is satisfactory.

USED AND USEFUL

In the Utility's last rate case, we made a finding as to the used and usefulness of the Lake Placid water and wastewater systems in Order No. PSC-07-0287-PAA-WS.⁴ However, in Order No. PSC-07-0528-AS-WS,⁵ a settlement agreement was approved which recognized that the Parties (Lake Placid and OPC) agreed to eliminate the language in the Proposed Agency Action

⁴ See Order No. PSC-07-0287-PAA-WS, issued on April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

⁵ See Order No. PSC-07-0528-AS-WS, issued on June 26, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

(PAA) Order relating to the determination of the used and usefulness of the Lake Placid water treatment plant. This was done so that the U&U determination in the PAA Order would have no precedential value. We noted that each rate case is decided on its own merits. Subsequently, we adopted Rule 25-30.4325, F.A.C., effective June 6, 2008, which addresses the method by which the used and usefulness of a water system is determined.

Water Treatment Plant (WTP)

Pursuant to Rule 25-30.4325, F.A.C., the U&U calculation of a water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment plant. Because the system has no storage facilities, the calculation is in gallons per minute (gpm). Consideration of growth, fire flow requirements, unaccounted for water, and other factors may also be included.

The WTP has two wells rated at 200 gallons per minute (gpm) each. The raw water is injected with liquid chlorine, discharged into a hydropneumatic tank, and channeled into the distribution system. According to the Utility's records, 7.707 million gallons of finished water were produced in the test year and 5.576 million gallons of water were sold. The Utility's peak day of 55,000 gallons or 38.2 gpm occurred on December 12, 2008. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The Utility's fire flow requirement is 500 gpm. The projected growth in the service area is 5 equivalent residential connections (ERCs) per year for five years, or 3.88 gpm. The Utility estimated that 0.670 million gallons of water were used to flush the distribution system, leaving 1.461 million gallons of pumped but unaccounted for water (19 percent). Pursuant to Rule 25-30.4325, F.A.C., unaccounted for water in excess of 10 percent of the amount produced is EUW. Therefore, nine percent of the water produced (1.32 gpm) shall be considered EUW.

The WTP shall be considered 100 percent U&U based on a peak day of 38.2 gpm, EUW of 1.32 gpm, a fire flow allowance of 500 gpm, a growth allowance of 3.88 gpm, and firm reliable capacity of 200 gpm. A nine percent adjustment shall be made to chemicals and electricity to reflect EUW in the distribution system.

Wastewater Treatment Plant (WWTP)

The WWTP is an extended aeration, activated sludge plant with three lift stations located within the service area. The collection system is composed of gravity and force mains. The plant is permitted by DEP to treat 90,000 gallons per day (gpd) based on the annual average daily flow (AADF). Liquid chlorine disinfection is applied prior to the treated wastewater effluent flowing into the percolation ponds. Rule 25-30.432, F.A.C., provides that the U&U percentage for a wastewater plant should be calculated based on customer demand and the permitted capacity of the plant. The rule also provides that customer demand should be determined using the same basis as the permitted capacity. Consideration is given to growth, I&I, conservation, and other factors.

The customer demand for the test year based on the AADF was 37,282 gpd. Projected growth for the Utility over the next five years is five ERCs per year or 4,070 gpd. Our staff initially recommended that we find that the WWTP was 44 percent U&U and that an adjustment be made to chemicals and electricity to reflect excessive I&I of 5 percent. However, prior our vote on the matter, OPC questioned the calculation of excessive I&I and the resulting impact on U&U. Upon review, our staff discovered several inconsistencies within the information provided by the Utility with respect to billing determinants and the estimate of excessive I&I used to calculate U&U. Commission performed and provided revised U&U and I&I to all parties.

The Utility objected to the revised calculations and provided three reasons for its objection. First, the Utility stated that the estimate of water from residents in DeeAnn Estates that might be returned to the WWTP should be 96 percent instead of 90 percent because those residents use lake water for irrigation instead of potable well water. In response to staff's data request in this case, the Utility had used an estimate of 90 percent return of water to the wastewater system for residents in DeeAnn Estates in its I&I calculation and staff relied on the Utility's estimate in its initial U&U calculation. The impact of an estimated 96 percent return of water to the wastewater system for DeeAnn Estates customers, instead of 90 percent originally provided by the Utility, is immaterial, resulting in a reduction to the adjustments to excessive I&I and, in turn, U&U of less than .05 percent.

Second, the Utility stated that the average daily flow was probably inflated, but indicated that the period beginning from September 2007 to December 2009 provided a reasonable range between 34,000 to 39,000 gpd. In this particular case, the AADF, as shown in Table 2-1, falls within the range being provided by Lake Placid. Commission staff relied on the Utility's Discharge Monitoring Reports filed with DEP and Rule 25-30.435, F.A.C. in using the AADF for the test year in the U&U calculation.

Third, the Utility suggested only the purchased power associated with two lift stations be adjusted. The Utility argued that there should not be any adjustment to purchased power for the remainder of the WWTP because the purchased power to operate the treatment plant is the same regardless of plant flows. The Utility also asked that no adjustment be made to chemicals because the chemical feed rate for the small plant would essentially be the same if there was no excess I&I.

Excessive I&I adjustments typically are made for purchased power and chemicals, consistent with our practice. In Lake Placid's 1995 rate case,⁶ a 27 percent adjustment due to excessive I&I was made to purchased power and chemicals. In the 2006 rate case,⁷ the Utility originally reported AADF 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 following the recalibration was 15,597

⁶ 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.

⁷ See Order No. PSC-07-0287-PAA-WS, issued April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

gpd, and therefore, no adjustment was made for excessive I&I. In this particular case, the Utility did not address the possible reasons for the excessive I&I in the system. Furthermore, there was insufficient supporting data or documentation to reject the excessive I&I in the system. Therefore, we find that the wastewater treatment plant shall be considered 28.5 percent U&U as shown on Table 2-1. In addition, we find that a 42 percent adjustment shall be made to chemicals and electricity to reflect excessive I&I in the collection system.

Water Distribution and Wastewater Collection Systems

The U&U calculations for the water distribution and the wastewater collection systems are based on the number of customers connected to the systems divided by the capacity of the systems. Consideration is given to growth. Because the Utility's current distribution system and collection systems are needed to serve the existing customers and a significant portion of the distribution and collection systems were contributed to the Utility, we find that the water distribution and wastewater collection systems shall be considered 100 percent U&U.

Summary

In summary, the Lake Placid WTP, water distribution system, and wastewater collection system shall be considered 100 percent U&U. The WWTP shall be considered 28.5 percent U&U. A nine percent adjustment shall be made to chemicals and electricity to reflect EUW in the distribution system and a 42 percent adjustment shall be made to chemicals and electricity to reflect excessive I&I in the wastewater collection system.

Table 2-1
Wastewater Treatment Plant Used and Useful Analysis

1)	Permitted Capacity (AADF)	90,000	gpd
2)	Average Daily Flow (AADF)	37,282	gpd
3)	Growth		
a)	Average Test Year Customers in ERCs	229	ERC
b)	Customer Growth in ERCs using Regression Analysis for 5 years	5	ERC
c)	Statutory Growth Period	5	years
d)	Growth = [(3b) x (3c) x (2)]/(3a)	4,070	gpd
4)	Infiltration and inflow (I&I)		
	Annual infiltration @500 gpd/inch-dia/mile	1,148,920	gallons
	Inflow at 10% of water sold	657,300	gallons
	RS estimated return at 90%	2,349,900 ⁸	gallons
	RS non water return at 90%	1,098,900 ⁹	gallons
	GS multi-family return at 96%	1,319,040 ¹⁰	gallons
	GS estimated return at 96%	1,312,320 ¹¹	gallons
	Acceptable I&I and wastewater return	7,886,380	gallons
	Wastewater Treated	13,644,900	gallons
	Excess I&I = (7,886,380-13,644,900)/366	15,734 ¹²	gpd
	Used and Useful Wastewater Treatment Plant	28.5%¹³	

⁸ Residential 2,611,000 @ 90% = 2,349,900

⁹ Dee Ann Estates 1,221,000 @ 90% = 1,098,900

¹⁰ Multi-family 1,374,000 @ 96% = 1,319,040

¹¹ General Service 1,367,000 @ 96% = 1,312,320

¹² 15,734/37,282 = 42% Excessive I&I

¹³ (AADF – Excessive I&I + Growth)/AADF Capacity = (37,282 – 15,734 + 4,070)/90,000 = 28.5% U&U

THE PHOENIX PROJECT

The purpose of the Phoenix Project was to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. UI allocated the cost of the Phoenix Project to all its subsidiaries based on each subsidiary's ERCs as of September 30, 2009.

Allocation of Phoenix Project Costs

In 2009, we approved recovery of the cost of the Phoenix Project in seven UI rate cases.¹⁴ The approved costs were allocated based on each subsidiary's specific test year ERCs to the total UI test year ERCs. With respect to the current UI cases before us, UI allocated the Phoenix Project costs based on each subsidiary's ERCs at the end of the 2008 test year, in relation to UI's total 2008 ERCs. Lake Placid divided its ERCs by UI's total ERCs, resulting in an allocation percentage of 0.093. This percentage was multiplied by the total investment in the Phoenix Project. Based on total Phoenix Project costs of \$21,364,569, Lake Placid's calculated allocated share was \$19,863. Of this amount, \$7,747 (or 39 percent) was assigned to the water system and \$12,116 (or 61 percent) was assigned to the wastewater system.

Divestiture of UI Subsidiaries

We used a more recent ERC count provided by the Utility which recognized the divestitures of certain UI subsidiaries in 2009. According to the Utility, UI recently divested several Florida subsidiaries, including Miles Grant Water and Sewer Company (Miles Grant), Utilities, Inc. of Hutchinson Island (Hutchinson), and Wedgefield Utilities, Inc. (Wedgefield), as well as subsidiaries in other states.

In addition, during a noticed conference call on April 16, 2010, between our staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana¹⁵ that was not included in the ERC count previously provided to our auditors. The Utility stated that the ERCs for the newly acquired system should be included in order to properly account for that system's share of cost of the Phoenix Project.

We agree that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project. However, we do not find the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. We find the amounts allocated to the divested subsidiaries were recovered by the shareholders through the sale of those systems. Because no added benefit was realized by the remaining subsidiaries, we do not find it fair, just or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, we find that the divested subsidiaries allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

¹⁴ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

¹⁵ This wastewater system represented approximately 950 ERCs.

Our auditors determined that the correct ledger balance of the software is \$21,617,487, not the \$21,364,569 that Lake Placid used to calculate its allocated share of the Phoenix Project. Based on the ERC percentages of all the divested subsidiaries immediately prior to their respective closing dates, we find that the actual amount paid of \$21,617,487 for the Phoenix Project shall be reduced by \$1,724,166, resulting in a remaining balance of \$19,893,321. Based on the unrecovered cost of the Phoenix Project and the number of ERCs adjusted for the divestitures, we find that the appropriate amount of Lake Placid's allocated share of the Phoenix Project is \$18,431. As such, we find that plant be reduced by \$1,431, or \$559 for water and \$873 for wastewater.

Amortization Period

In the past, we approved a 6-year amortization period for the Phoenix Project.¹⁶ However, in subsequent UI cases,¹⁷ we found that an 8-year amortization period was more appropriate for a software project of this magnitude. For the reason stated below, we now find that the amortization period for the Phoenix Project shall be changed to 10 years. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. Such a project is not "off the shelf" software, but software designed to fulfill long term accounting, billing, and customer service needs. Second, we believe that the software will be used for at least 10 years. UI's legacy accounting system had been used for 21 years. Third, in a recent docket involving a UI subsidiary in Nevada,¹⁸ UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, we find that 10 years is a more reasonable amortization period than the 8-year amortization period currently approved by us. Thus, we find that accumulated depreciation and depreciation expense be reduced \$180 for water and \$281 for wastewater, respectively.

Summary

In summary, we find that plant be reduced by \$559 for water and \$873 for wastewater. In addition, accumulated depreciation and depreciation expense both shall be reduced \$180 for water and \$281 for wastewater, respectively. The above findings adjustments are consistent with our decisions for three of Lake Placid's sister companies.¹⁹

¹⁶ See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

¹⁷ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

¹⁸ Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

¹⁹ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010 in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; PSC-10-0400-PAA-WS, issued June 18, 2010 in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010 in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

RATE BASE

Lake Placid's rate bases were last established by Order No. PSC-07-0287-PAA-WS.²⁰ The Utility used a test year ended December 31, 2008, for this rate case. A summary of each component and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded UPIS balances of \$418,839 for water and \$432,500 for wastewater. Staff recommends the following adjustments to the water and wastewater UPIS amounts.

Table 4-1

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To correct Utility's reconciliation errors to prior Commission Order. (AF 2)	\$12,544	\$211,944
2. To remove plant that should have been expensed. (AF 4)	(985)	0
3. To capitalize well screens that had been expensed. (AF 9)	415	0
4. To record pro forma plant additions and retirements. (AF 13)	0	5,117
5. To capitalize pressure valve that had been expensed. (AF 8)	150	0
6. To adjust allocated plant for change in ERC's and allocate WW. (AF 16)	(14,373)	10,251
7. To change allocations for vehicles related to Salaries. (AF 17)	(2,205)	(2,205)
8. Reflect appropriate amount for Project Phoenix. (Issue 3)	(559)	(873)
9. New Phone System	<u>191</u>	<u>301</u>
Total	<u>(\$4,822)</u>	<u>\$224,535</u>

Our net adjustments to UPIS are a decrease of \$4,822 for water and an increase of \$224,535 for wastewater. We find UPIS balances of \$414,017 for water and \$657,035 for wastewater.

Land and Land Rights: Lake Placid recorded land balances of \$2,791 for water and \$21,665 for wastewater. Pursuant to Audit Finding No. 16, land has been decreased by \$41 for water and increased by \$44 for wastewater to adjust the allocated plant for the change in ERCs. We find that the land balances of \$2,751 is for water and \$21,709 is for wastewater.

Non-used and Useful Plant: As discussed above, Lake Placid's distribution and collection systems shall be considered 100 percent U&U. In addition, the WTP shall be considered 100 percent U&U. The WWTP shall be considered 28.5 percent used and useful. Further, consistent with our decision in the Utility's last rate case, this U&U percentage shall also be applied to \$170,670 of plant recorded in Account 354.²¹ As such, wastewater rate base shall be reduced by \$88,327 to reflect the 71.5 percent of the wastewater treatment plant which is non-used and useful.

²⁰ See Order No. PSC-07-0287-PAA-WS, issued April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

²¹ See Order No. PSC-07-0287-PAA-WS, p. 8.

Accumulated Depreciation: The Utility recorded accumulated depreciation balances of \$111,417 and \$274,517 for water and wastewater, respectively. Our auditors calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Thus, we find the following adjustments to accumulated depreciation.

Table 4-2

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To correct to rule rates and correct G/L to correct balances. (AF 3)	(\$2,565)	(\$92,544)
2. To remove plant that should have been expensed. (AF 4)	99	0
3. To reflect Acc. Dep. on well screens that had been expensed. (AF 9)	(7)	0
4. To record pro forma plant additions and retirements. (AF 13)	0	15,110
5. To record Acc. Dep. on pressure valve. (AF 8)	420	0
6. To adjust for allocated plant for change in ERCs and allocate to WW. (AF 16)	5,127	(3,233)
7. To reflect pro forma change allocations for vehicles related to salaries. (AF 17)	2,448	2,448
8. Reflect appropriate amount of Acc. Dep. for Project Phoenix. (Issue 3)	(180)	(281)
9. New Phone System.	(11)	(18)
Total	<u>\$5,331</u>	<u>(\$78,518)</u>

As a result of our adjustments above, the accounts are decreased by \$5,331 for water and increased by \$78,518 for wastewater. These adjustments result in average accumulated depreciation balances of \$106,086 for water and \$353,035 for wastewater.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC balances of \$171,944 for water and \$266,824 for wastewater. Our auditor compiled additions to CIAC from January 1, 2006, through December 31, 2008, to determine Lake Placid's CIAC balance for this rate case proceeding. Pursuant to Audit Finding No. 25, we increased CIAC by \$675 for water to reflect CIAC recorded as miscellaneous revenues. Therefore, we find that CIAC is \$172,619 for water and \$266,824 for wastewater.

Accumulated Amortization of CIAC: Lake Placid recorded amortization of CIAC of \$50,029 for water and \$118,989 for wastewater. Amortization of CIAC has been recalculated by us using composite depreciation rates. The accounts have been decreased by \$867 for water and \$3,136 for wastewater to reflect amortization of CIAC as calculated by us. In addition, we increased CIAC amortization by \$17 for water to correct CIAC recorded as miscellaneous revenues. The net result of our adjustments to this account results in amortization of CIAC balances of \$49,179 for water and \$115,853 for wastewater.

Working Capital Allowance: The Utility recorded working capital allowances of \$6,718 for water and \$7,384 for wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or other going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the operation and maintenance O&M expense formula approach for calculating the working capital allowances. Applying this formula, we find working capital allowances of \$4,793 for water and \$7,342 for

wastewater (based on O&M expense of \$38,342 for water and \$58,738 for wastewater). Working capital shall be reduced by \$1,925 and \$42 for water and wastewater, respectively.

Rate Base Summary: Based on the foregoing, we find that the appropriate average test year rate base is \$192,035 for water and \$93,752 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

RATE OF RETURN

The Utility's capital structure consists of common equity, long-term debt, short-term debt, customer deposits, and accumulated deferred taxes. Because all the capital improvements for this Utility are funded by its intermediate parent company, the relative percentages of investor sources of capital of UI are used for Lake Placid. The customer deposits and accumulated deferred income taxes balance are specifically identified for the Utility.

Based on the current leverage formula approved in Order No. PSC-10-0401-PAA-WS²² and an equity ratio of 42.64 percent, we find that the appropriate ROE is 10.64 percent. Also, we find an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. In addition, based upon the proper components, amounts, and cost rates associated with the capital structure, we find a weighted average cost of capital of 7.75 percent.²³ The ROE and overall rate of return are shown on Schedule No. 2.

TEST YEAR REVENUE

Lake Placid recorded total revenue of \$53,307 for water and \$81,006 for wastewater. We have annualized revenues based on test year billing determinants and existing rates. As a result, we have increased water and wastewater test year revenues by \$460 and \$122, respectively. In addition, water revenue are decreased by \$1,350 to remove CIAC recorded as miscellaneous revenues.

Based on the above, we find test year revenue of \$52,417 for water and \$81,128 for wastewater. Water and wastewater test year revenue is shown on Schedule Nos. 3-A and 3-B, respectively. The related adjustments are shown on Schedule No. 3-C.

OPERATING EXPENSE

The Utility recorded operating expenses of \$61,889 for water and \$70,455 for wastewater for the test year ended December 31, 2008. Adjustments have been made to reflect unrecorded test year expenses and to adjust annual operating costs. The test year expense O&M has been reviewed through our examination of invoices, canceled checks, and other supporting

²² See Order Nos. PSC-10-0401-PAA-WS, issued June 18, 2010, and PSC-10-0446-CO-WS, issued July 13, 2010, in Docket No. 100006-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.

²³ The 10-basis point difference between our approved and the Utility's proposed overall cost of capital is the result of our approved \$122,090 increase in the Utility's total rate base.

documentation. We find several adjustments to Lake Placid’s operating expenses, as summarized below:

Salaries and Wages - Employees (601/701) – Lake Placid recorded salaries and wages – employees expense of \$5,045 for water and \$5,768 for wastewater. The recorded expenses represent an increase of 541 percent for water and 26 percent for wastewater over the levels reflected in the Utility’s last rate case in 2006. Below is a breakdown of the Utility’s recorded water and wastewater salaries since the Utility’s last rate case:

Table 7-1

	<u>2005</u> Commission Approved order	<u>2006</u> Annual Report	<u>2007</u> Annual Report	<u>2008</u> MFRS	<u>2009</u> Annual Report
Water salaries	\$786	(\$4,893)	(\$736)	\$5,045	\$1,032
Wastewater salaries	\$4,558	(\$6,127)	(\$1,128)	\$5,767	\$883

Our staff inquired about the variability in recorded salaries for the past five years. The Utility stated that the reported salaries are made up of a combination of salary components, including actual salaries paid or allocated and capitalized salaries. In years when more capitalized time is booked than allocated salaries, the resulting amount is negative. This occurred in both 2006 and 2007. The Utility asserts that this type of situation is more likely to occur at a utility the size of Lake Placid which has a smaller allocation percentage, and, therefore the capitalized time associated with large capital projects can easily exceed the typical level of annual salaries.

Due to the variability caused by the Utility capitalizing its salaries, we used a benchmark increase in order to determine the appropriate amount of salaries. We calculated a benchmark of 16.64 percent based on customer growth and inflation since the Utility’s last case. We have utilized a benchmark analysis in previous rate cases.²⁴ Based on our calculated benchmark of 16.64 percent, Lake Placid’s employee salaries and wages expense shall be decreased by \$4,128 for water and \$447 for wastewater. We have approved the benchmark method to determine the approved salary level recently for four sister companies of Lake Placid.²⁵

²⁴ See Order Nos. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU, In re: Application for sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc. in Pasco County; and PSC-92-0336-FOF-WS, issued May 12, 1992, in Docket No. 911194-WS, In re: Application for a rate increase in Collier County by Florida Cities Water Company, Golden Gate Division.

²⁵ See Order Nos. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; PSC-10-0423-PAA-WS, July 1, 2010, in Docket No. 090402-WS, In re:

Salaries and Wages – Officers (603/703) – The Utility recorded officers salary expense of \$787 for water and \$769 for wastewater. Pursuant to Audit Finding No. 17 and the Utility’s audit response, we have decreased expenses for both water and wastewater by \$755 to reflect the correct allocation for salaries. Based on the above, we find that the appropriate officer salaries are \$32 and \$14 for water and wastewater, respectively.

Purchased Power (615/715) – The Utility recorded purchased power expense of \$1,943 for water and \$3,735 for wastewater. The purchased power wastewater account has been decreased by \$400 to remove deposits that were incorrectly expensed. In addition, we increased purchased power expense for water by \$130 and by \$210 for wastewater to reflect a bill that was charged to a different utility. We also increased this expense by \$418 for wastewater to reflect a bill that was incorrectly charged to a different utility. As discussed above, we find a EUW adjustment of 9 percent and an excessive I&I adjustment of 42 percent. Accordingly, we have decreased the expense for water by \$187 and decreased the expense for wastewater by \$1,591. Based on the above, we find that the purchased power expenses are \$1,886 and \$2,372 for water and wastewater, respectively.

Chemicals (618/718) – Lake Placid recorded chemical expense of \$773 for water and \$4,668 for wastewater. We decreased chemical expense by \$552 for water and \$402 for wastewater to reflect lower chlorine costs. In addition, we decreased this expense by \$20 for water and by \$1,713 for wastewater to adjust for EUW and excessive I&I, as discussed above. Therefore, we find test year chemical expense of \$201 and \$2,553 for water and wastewater, respectively.

Materials and Supplies (620/720) – The Utility recorded materials and supplies expense of \$4,422 for water and \$1,801 for wastewater. We decreased this expense for water by \$2,029 to reclassify items that should have been capitalized to plant. In addition, we increased this expense for water and wastewater by \$4 and \$51, respectively, to reflect the change in headquarter allocations per ERC. As a result, we find materials and supplies expense of \$2,397 and \$1,852 for water and wastewater, respectively.

Contractual Services – Professional (631/731) – Lake Placid recorded contractual services - professional expense of \$19,938 for water and \$23,008 for wastewater. We decreased this expense for both water and wastewater by \$2,160 to remove an invoice that was previously recorded. In addition, we decreased this expense for both water and wastewater by \$75 to remove non-utility expense. Further, we reduced this expense for water by \$16 and wastewater by \$8 to reflect a change in headquarter allocation per ERC. We also decreased this expense for both water and wastewater by \$357 for lack of support documentation. Finally, we reduced this expense for water and increased this expense for wastewater by \$3,060 to reflect the correct ERC allocations between accounts. Our net adjustment represents a decrease of \$5,668 for water and an increase of \$460 for wastewater. Therefore, we find contractual services – professional expense of \$14,270 for water and \$23,468 for wastewater.

Contractual Services – Other (636/736) – The Utility recorded contractual services – other expense of \$1,135 for water and \$221 for wastewater. We decreased this expense for water by \$803 to remove non-recurring expenses. In addition, we increased this expense for water by \$426 to reflect the expense of a service agreement. We also increased this expense for water by \$43 and wastewater by \$67 to reflect the change in headquarter allocation per ERC. Finally, we decreased this expense for water by \$32 and wastewater by \$50 to reflect the correct amount of relocation expense. Our net adjustment represents a decrease of \$366 for water and an increase of \$17 for wastewater. Therefore, we find contractual services – other expense of \$769 and \$238 for water and wastewater, respectively.

Transportation Expense (650/750) – Lake Placid recorded transportation expense of \$919 for water and \$894 for wastewater. We increased this expense for water by \$352 and wastewater by \$554 to reflect the appropriate transportation expense based on ERCs. In addition, we decreased this expense for water by \$110 and wastewater by \$50 to reflect the appropriate fuel expense. Our net adjustment represents an increase of \$242 for water and \$504 for wastewater. Therefore, we find transportation expense of \$1,161 for water and \$1,398 for wastewater.

Insurance Expense (655/755) – The Utility recorded insurance expense of \$1,106 for water and \$1,078 for wastewater. Pursuant to Audit Finding No. 15, we have increased this expense for water by \$66 and for wastewater by \$94 to reflect a change in headquarter allocations per ERC. Thus, we find insurance expense of \$1,172 for both water and wastewater.

Rate Case Expense (665,765) – Lake Placid recorded \$13,018 in regulatory commission expense for water and \$12,926 for wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. In Order No. PSC-07-0287-PAA-WS²⁶ from Lake Placid's last rate case, we approved rate case expense of \$7,768 and \$9,887 for water and wastewater, respectively. The Utility provided documentation for its rate case expense for this instant case which totaled \$41,812. We find the requested amount shall be reduced by \$1,869 to remove costs associated with a test year request letter that was never filed, the Utility's SARC application, and preparation of final notices. Based on the above, we decrease rate case expense by \$1,370 for water and increased rate case expense by \$3,067 for wastewater. Therefore, we find regulatory commission expense of \$11,648 for water and \$15,993 for wastewater.

Bad Debt Expense (670/770) – The Utility recorded bad debt expense of \$705 for water and \$10 for wastewater. Pursuant to Audit Finding No. 15, we have decreased the expense for water by \$610 and increased this expense for wastewater by \$321 to reflect the appropriate ERC allocation of bad debt expense between the water and wastewater systems. Thus, we find bad debt expense for the test year of \$95 for water and \$331 for wastewater.

Miscellaneous Expense (675/775) – Lake Placid recorded miscellaneous expense of \$2,088 for water and \$2,036 for wastewater. We find this expense be decrease by \$38 for water and increase by \$21 for wastewater to reflect a change in headquarter allocation per ERC. In addition, we have decreased this expense for water by \$120 and wastewater by \$190 to reflect

²⁶ See Order No. PSC-07-0287-PAA-WS, issued April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc. p. 18.

the appropriate telecommunication expense per ERC. Therefore, we find miscellaneous expense for the test year of \$1,930 for water and \$1,868 for wastewater.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense shall be decreased by \$15,402 for water and \$335 for wastewater. Our finding to O&M expense of \$38,342 for water and \$58,738 for wastewater are shown on Schedule Nos. 3-A and 3-B, respectively. The related adjustments are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC) – Lake Placid recorded depreciation expense of \$10,551 for water and \$12,943 for wastewater. Our auditors calculated depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Thus, we find the following adjustments to depreciation expense:

Table 7-2

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To correct for rule rates and Comm. Ordered beg bal. (AF3)	(\$332)	\$2,441
2. To correct amortization for rule rates. (AF 3)	92	1,693
3. To remove plant additions that should have been expensed. (AF 4)	(57)	0
4. To reflect depreciation on pressure relief valve. (AF 8)	15	0
5. To reflect depreciation on well screens. (AF 9)	14	0
6. To reflect depreciation on pro forma plant.	0	239
7. To reflect change in headquarter allocation per ERC. (AF 15)	(420)	(99)
8. To correct vehicle depreciation. (AF 17)	(99)	(99)
9. To record amortization for tap fees not recorded. (AF 25)	(34)	0
10. Reflect appropriate amount of Dep. Expense for Project Phoenix. (Issue 3)	(180)	(281)
11. New Phone system.	21	33
12. Non-U&U depreciation expense.	0	(7,706)
Total	(\$980)	(\$3,779)

Based on the above, our approved adjustments to depreciation expense result in net decreases of \$980 for water and \$3,779 for wastewater. These adjustments result in a net depreciation expense of \$9,571 for water and \$9,163 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded a TOTI balance of \$4,385 for water and \$3,735 for wastewater. Pursuant to Audit Finding No. 5, TOTI shall be increased by \$4,278 for water and \$1,190 for wastewater to reflect the appropriate property tax for the Utility. Regulatory assessment fees (RAFs) shall be reduced by \$3,830 for water and increased by \$3,660 for wastewater to correct the accrual pursuant to Audit Finding No. 6. In addition, we increase this expense for water by \$21 and increased this expense for wastewater by \$5 to reflect taxes related to annualized revenue. Also, we have increased this expense for water by \$41 and wastewater by \$42 to reflect the change in headquarter tax per ERC. Pursuant to Audit Finding No. 17, TOTI shall be decreased by \$275 for payroll taxes for both water and wastewater. Additionally, we have decreased payroll taxes by \$316 for water and \$34 for wastewater to reflect the decreases in salaries based on our benchmark adjustment discussed above. We have increased the ad valorem tax for water by \$356 and decreased wastewater by \$650 to reflect the 2009 tax. Finally, as discussed above, we approve revenue increases of \$20,924 for water and \$4,320 for wastewater to reflect the change in revenue required to cover expenses and allow the

recommended return on investment. As a result, the TOTI shall be increased by \$942 for water and \$194 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Our net adjustment to TOTI is an increase of \$1,217 for water and \$4,132 for wastewater. Therefore, we find TOTI for the test year of \$5,602 for water and \$7,868 for wastewater.

Income Tax – Lake Placid recorded negative income tax of \$6,791 for water and \$5,296 for wastewater. The Utility is an 1120 C corporation and an income tax liability is anticipated in the future. To recognize the Utility’s tax liability on a prospective basis, we have increased water and wastewater income taxes by \$11,732 and \$7,708, respectively. These adjustments result in income tax expense of \$4,941 for water and \$2,412 for wastewater.

Operating Expenses Summary – Based on the adjustments discussed above, we find operating expenses of \$58,456 for water and \$78,181 for wastewater. Water and wastewater operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Lake Placid shall be allowed an annual increase of \$20,924 (or 39.92 percent) for water and an annual increase for wastewater of \$4,320 (or 5.32 percent). This will allow the Utility the opportunity to recover its expenses and earn a 7.75 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$192,035	\$93,752
Rate of Return	x .0775	x .0775
Return on Rate Base	\$14,885	\$7,267
Adjusted O & M expense	38,342	58,738
Depreciation expense (Net)	9,571	9,163
Amortization	0	0
Taxes Other Than Income	5,602	7,868
Income Taxes	4,941	2,412
Revenue Requirement	\$73,341	\$85,448
Less Test Year Revenues	52,417	81,128
Annual Increase	\$20,924	\$4,320
Percent Increase/(Decrease)	<u>39.92%</u>	<u>5.32%</u>

RATE STRUCTURE

The Utility's current rate structure for the water system's residential and non-residential classes consists of monthly BFC/gallage charge rate structure wherein the BFC is \$12.71 and all gallons are charged \$3.67 per kgal.

We 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 our Memorandum of Understanding with the state's five Water Management Districts.

The Utility is located within the SWFWMD. Over the past few years, the District has required whenever possible that an inclining block rate structure be implemented. This type of rate structure sends increasingly stronger price signals as customers consume larger quantities of water. However, the Utility falls below the District's pumping threshold and is therefore considered non jurisdictional. Based on our analysis, the average water consumption per residential customer is approximately 2,097 gallons per month. Furthermore, based on the billing analysis, 51 percent of the bills are for consumption at 1 kgal and less. This is an indication that the customer base is very seasonal. Therefore, we find that an inclining block rate structure is not appropriate at this time. Also, we find a continuation of the monthly BFC/uniform gallage charge rate structure is appropriate. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases. We approve a rate design for the water system is shown on Table 9-1 on the following page. Our approved rate structure result in price increases at all levels of consumption.

TABLE 9-1

LAKE PLACID UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Approved Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC = 58%		Monthly BFC/ uniform kgal charge BFC = 52%	
BFC	\$12.71	BFC	\$15.45
All kgal	\$3.67	All kgal	\$6.23
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$12.71	0	\$15.45
1	\$16.38	1	\$21.68
3	\$23.72	3	\$34.14
5	\$31.06	5	\$46.60
10	\$49.41	10	\$77.75
20	\$86.11	20	\$140.05

Currently, the Utility's estimated fixed cost is 58 percent of the total revenue requirement. We typically set the BFC cost recovery no greater than 40 percent. In recent cases, when a customer base is seasonal, we typically set the BFC cost recovery greater than 40 percent. We find that the BFC allocation shall be set at 52 percent. This allows the Utility sufficient cash flow to cover fixed costs and minimize the rate impact while the seasonal customers are out of residence.

Based on the foregoing, we find that the Utility's current residential and non-residential water system's rate structures, which consist of monthly base facility (BFC)/uniform gallonage charge rate structures remain unchanged. Furthermore, we approve a BFC cost recovery of 52 percent for the water system.

The current residential and non-residential wastewater rate structure consists of a BFC/gallonage charge rate structure with the exception of DeeAnn Estates. These customers are served by a water source other than the Utility. The Utility's current rate structure for the water system's residential and non-residential classes consist of monthly BFC/gallonage charge rate structures wherein the BFC is \$16.66 and all residential gallons are charged \$5.20 per kgal and \$6.24 per kgal for the general service class.

By Order No. PSC-07-0287-PAA-WS²⁷ we approved a bulk rate/BFC gallonage charge rate structure for DeeAnn's residents. Also, the Order states that these customers own their lift station. For this reason, we approved a reduced cost wherein their BFC is based on 80 percent of the ERCs actually connected to the system, while the gallonage charge is 20 percent less than the general service wastewater gallonage charge to reflect the fact that DeeAnn's residents, not the Utility, are paying for the electrical pumping power and maintenance of the lift station. According to Utility, DeeAnn's residents continue to pay for their lift station, and continue to pay for the electrical pumping power and maintenance. Therefore, we find that the bulk customers' BFC shall continue to be based on 80 percent of the number of ERCs actually connected to the system, while the bulk customer's gallonage charge is set at 80 percent of the general service gallonage charge.

There are two unmetered wastewater residential customers who are not part of DeeAnn Estates, and according to representatives of the Utility, also are served by a water source other than the Utility. Therefore, on a going forward basis, a flat rate structure shall be implemented for these customers.

Currently, the Utility's estimated fixed cost is 48 percent of the total revenue requirement. This is slightly lower than our practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. Therefore, we find that it is appropriate to set the BFC allocation to 50 percent. Our review of the billing data suggests that the cap shall remain at 6 kgal. Finally, we find that the general service gallonage charge shall be 1.2 times greater than the residential charge.

Our approved rate design for the wastewater system is shown on Table 9-2 on the following page. Our approved rate structure result in price increases at all levels of consumption.

²⁷ Issued April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

TABLE 9-2

LAKE PLACID UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
<u>Current Rate Structure and Rates</u>		<u>Approved Rate Structure and Rates</u>	
Monthly BFC/ uniform kgals charge BFC =48%		BFC/uniform kgals charge BFC = 50%	
BFC	\$16.66	BFC	\$15.64
All kgals	\$5.20	All kgals	\$6.27
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgals)</u>		<u>Cons (kgals)</u>	
0	\$16.66	0	\$15.64
1	\$21.86	1	\$21.91
2	\$27.06	2	\$28.18
3	\$32.26	3	\$34.45
5	\$42.66	5	\$46.99
6	\$47.86	6	\$53.26

Based on the foregoing, we find that the appropriate rate structure for the wastewater system's residential and non-residential customers, which consists of a monthly BFC/uniform gallonage charge rate structure, remain unchanged. The wastewater gallonage cap shall remain set at 6 kgals per month. The general service gallonage charge shall be 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system shall be set at 50 percent.

REPRESSION

Based on our analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 2,097 gallons and the customer base is very seasonal. This is an indication that there is virtually no consumption above 3 kgal. However, we find that monthly reports shall be prepared to monitor the effects from changes in revenue to the water system. These reports shall be filed with us 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 with us a revised monthly report for that month within 30 days of any revision.

APPROPRIATE RATES

Excluding miscellaneous service revenues of \$1,024 for water, the approved rates shall be designed to produce revenues of \$73,341 for the water system and \$85,448 for the wastewater system. There are no miscellaneous service revenues for the wastewater system.

We approve a continuation of the Utility's current residential and non-residential water and wastewater rate structures, which consist of a monthly base facility (BFC)/uniform gallonage charge rate structures. In addition, the bulk wastewater rate shall continue to be based on a BFC/gallonage charge rate structure. The bulk customers' BFC shall be based on 80 percent of the number of ERCs actually connected to the system. Also, the bulk customers' gallonage charge shall be set at 80 percent of the general service gallonage charge. Furthermore, the two unmetered residential wastewater customers shall be implemented a flat rate structure. The BFC cost recovery for the water and wastewater system shall be set at 52 percent and 50 percent, respectively.

The approved rates shall be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. Moreover, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

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

RETURNED CHECK CHARGE

Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by us. We have authority to establish, increase, or change a rate or charge. Lake Placid has requested an NSF fee in accordance with Section 832.08(5), F.S.

We find that Lake Placid shall be authorized to collect an NSF fee. We find the NSF fee shall be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5), the following fees may be assessed:

- 1) \$25, if the face value does not exceed \$50,
- 2) \$30, if the face value exceeds \$50 but does not exceed \$300,

- 3) \$40, if the face value exceeds \$300, or
- 4) five percent of the face amount of the check, whichever is greater.

Approval of an NSF fee properly assigns costs to the cost causer and is consistent with our prior decisions.²⁸ As such, we find that Lake Placid's proposed NSF fee be approved. This fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

RATE CASE EXPENSE

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year 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 \$4,475 for water and \$6,671 for wastewater. Using Lake Placid's current revenues, expenses, capital structure, and customer base, the reduction in water and wastewater revenues shall result in the rate decreases as shown on Schedule Nos. 4-A and 4-B, respectively.

The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Lake Placid also shall file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

RATES SUBJECT TO REFUND IF PROTESTED

This Order provides for an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, we find that the rates be approved as temporary rates. These temporary rates collected by the Utility shall be subject to the refund provisions discussed below.

The Utility shall be authorized to collect the temporary rates upon our staff's approval of appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$12,218 for water and \$4,320 for

²⁸ See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20; PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.; and PSC-94-0036-FOF-TL, issued January 11, 1994, in Docket No. 930901-TL, In re: Request for approval of tariff filing to increase service connection charges and establish a non-sufficient funds check charge by Vista-United Telecommunications.

wastewater. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;

- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

PROOF OF ADJUSTMENTS

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

Based on the foregoing, it is

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

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

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. 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 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 and wastewater 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 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 the water and wastewater rates shall be reduced as shown on Schedule No. 4 to remove rate case expense, grossed-up for regulatory assessment fees, which rate case expense 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 the Utility's request for a Non-Sufficient Funds (NSF) fee is approved. The NSF fee shall be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. The NSF fee shall be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates shall not be implemented until staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days after the date of the notice. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates approved herein shall be approved for the Utility on a temporary basis, subject to the refund provisions set forth in the body of this Order, in the event of a protest filed by a party other than the Utility. It is further

ORDERED that prior to implementation of any temporary rates, the Utility shall provide appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$12,218 for water and \$4,448 for wastewater. Alternatively, the Utility may establish an escrow agreement with an independent financial institution. It is further

ORDERED that irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C. It is further

ORDERED that Lake Placid Utilities, Inc. shall maintain a record of the amount of the bond and the amount of revenues that are subject to refund. It is further

ORDERED that after any temporary rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The reports shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. However, monthly reports shall be prepared by the Utility to monitor the effects from changes in revenue to the water system. These reports shall be filed with the Commission on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. It is further


ORDERED that to the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file with the Commission a revised monthly report for that month within 30 days of any revision.

ORDERED, in the event no protest is filed, this docket shall remain open until our staff has approved the revised tariffs sheets and customer notices, the Utility has sent the notices to its customers, our staff has received proof that the customers have received notice within 10 days after the date of the notice, and the Utility has provided our staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once staff has verified all of the above actions are complete, this docket shall be closed administratively.

ORDERED the provisions of this Order, except for the granting of temporary rates in the event of protest, the reduction for rate case expense, and the proof of adjustment of books, are issued as proposed agency action, and 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, F.A.C., is received by the Office of 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."

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DOCKET NO. 090531-WS
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By ORDER of the Florida Public Service Commission this 5th day of January, 2011.



ANN COLE
Commission Clerk

(SEAL)

KY

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 actions, except for the granting of temporary rates in the event of protest, the reduction for rate case expense, and the proof of adjustment of books 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 January 26, 2011. 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.

Lake Placid Utilities Service, Inc.		Schedule No. 1-A	
Schedule of Water Rate Base		Docket No. 090531-WS	
Test Year Ended 12/31/08			
Description	Test Year Per Utility	Commission Adjustments	Approved Adjusted Test Year
1 Plant in Service	\$418,839	(\$4,822)	\$414,017
2 Land and Land Rights	2,791	(41)	2,751
3 Accumulated Depreciation	(111,417)	5,331	(106,086)
4 CIAC	(171,944)	(675)	(172,619)
5 Amortization of CIAC	50,029	(850)	49,179
6 Working Capital Allowance	<u>6,718</u>	<u>(1,925)</u>	<u>4,793</u>
7 Rate Base	<u>\$195,017</u>	<u>(\$2,982)</u>	<u>\$192,035</u>

Lake Placid Utilities Service, Inc.		Schedule No. 1-B	
Schedule of Wastewater Rate Base		Docket No. 090531-WS	
Test Year Ended 12/31/08			
Description	Test Year Per Utility	Commission Adjustments	Approved Adjusted Test Year
1 Plant in Service	\$432,500	\$224,535	\$657,035
2 Land and Land Rights	21,665	44	21,709
3 Non-used and Useful Components	0	(88,327)	(88,327)
4 CIAC	(266,824)	0	(266,824)
5 Accumulated Depreciation	(274,517)	(78,518)	(353,035)
6 Amortization of CIAC	118,989	(3,136)	115,853
7 Working Capital Allowance	<u>7,384</u>	<u>(42)</u>	<u>7,342</u>
8 Rate Base	<u>\$39,196</u>	<u>\$54,556</u>	<u>\$93,752</u>

Lake Placid Utilities Service, Inc. Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-C Docket No. 090531-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To correct for errors in trying to adjust per Commission Order. (AF 2)	\$12,544	\$211,944	
2 To remove plant that should have been expenses. (AF 4)	(985)	0	
3 To capitalize well screens that had been expensed. (AF 9)	415	0	
4 To record pro forma plant additions and retirements. (AF 13)	0	5,117	
5 To capitalize pressure valve that had been expenses. (AF 8)	150	0	
6 To adjust allocated plant for change in ERC's and allocate WW. (AF 16)	(14,373)	10,251	
7 To change allocations for vehicles related to Salaries. (AF 17)	(2,205)	(2,205)	
8 Reflect appropriate amount for Project Phoenix. (Issue 3)	(559)	(873)	
9 New Phone System.	191	301	
Total	<u>(\$4,822)</u>	<u>\$224,535</u>	
<u>LAND</u>			
To adjust allocated plant for change in ERCs and allocate to WW. (AF 16)	(\$41)	\$44	
<u>NON-USED AND USEFUL PLANT</u>			
To reflect non-used and useful plant.	\$0	(\$88,327)	
<u>CIAC</u>			
To reflect CIAC recorded as miscellaneous revenues. (AF 25)	(\$675)	\$0	
<u>Accumulated Depreciation</u>			
1 To correct to rule rates and correct G/L to correct balances. (AF 3)	(\$2,565)	(\$92,544)	
2 To remove plant that should have been expensed. (AF 4)	99	0	
3 To reflect Acc. Dep on well screens that had been expensed. (AF 9)	(7)	0	
4 To record pro forma plant additions and retirements. (AF 13)	0	15,110	
5 To record Acc. Dep on pressure valve. (AF 8)	420	0	
6 To adjust for allocated plant for change in ERCs and allocate to WW. (AF 16)	5,127	(3,233)	
7 To reflect pro forma change allocations for vehicles related to salaries. (AF 17)	2,448	2,448	
8 Reflect appropriate amount of Acc. Dep. for Project Phoenix. (Issue 3)	(180)	(281)	
9 New Phone System	(11)	(18)	
Total	<u>\$5,331</u>	<u>(\$78,518)</u>	
<u>Accumulated Amortization of CIAC</u>			
1 To correct to rule rates and correct G/L to correct balances. (AF 3)	(\$867)	(\$3,136)	
2 To correct CIAC recorded as miscellaneous revenue. (AF 25)	17	0	
Total	<u>(\$850)</u>	<u>(\$3,136)</u>	
<u>Working Capital</u>			
To reflect 1/8 of test year O & M expenses.	(\$1,925)	(\$42)	

Lake Placid Utilities Service, Inc.
 Capital Structure-Simple Average
 Test Year Ended 12/31/08

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	\$180,000,000	\$0	\$180,000,000	(\$179,894,600)	\$105,400	45.00%	6.65%	2.99%	
2 Short-term Debt	32,637,500	0	32,637,500	(32,618,389)	19,111	8.16%	5.23%	0.43%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	158,054,717	0	158,054,717	(157,962,167)	92,550	39.52%	10.64%	4.20%	
5 Customer Deposits	876	0	876	0	876	0.37%	6.00%	0.02%	
6 Deferred Income Taxes	<u>16,276</u>	<u>0</u>	<u>16,276</u>	<u>0</u>	<u>16,276</u>	<u>6.95%</u>	0.00%	<u>0.00%</u>	
7 Total Capital	<u>\$370,709,369</u>	<u>\$0</u>	<u>\$370,709,369</u>	<u>(\$370,475,156)</u>	<u>\$234,213</u>	<u>100.00%</u>		<u>7.65%</u>	
Per Commission									
8 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,835,290)	\$130,443	45.64%	6.65%	3.07%	
9 Short-term Debt	32,637,500	0	32,637,500	(\$32,613,848)	23,652	8.28%	5.23%	0.43%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	158,054,717	0	158,054,717	(157,940,177)	114,540	40.08%	10.64%	4.26%	
12 Customer Deposits	876	0	876	0	876	0.31%	6.00%	0.02%	
13 Deferred Income Taxes	<u>16,276</u>	<u>0</u>	<u>16,276</u>	<u>0</u>	<u>16,276</u>	<u>5.70%</u>	0.00%	<u>0.00%</u>	
14 Total Capital	<u>\$370,709,369</u>	<u>\$0</u>	<u>\$370,709,369</u>	<u>(\$370,423,582)</u>	<u>\$285,787</u>	<u>100.00%</u>		<u>7.75%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>9.64%</u>	<u>11.64%</u>		
OVERALL RATE OF RETURN						<u>7.35%</u>	<u>8.15%</u>		

Lake Placid Utilities Service, Inc. Statement of Water Operations Test Year Ended 12/31/08				Schedule No. 3-A Docket No. 090531-WS	
Description	Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$53,307</u>	<u>(\$890)</u>	<u>\$52,417</u>	<u>\$20,924</u> 39.92%	<u>\$73,341</u>
Operating Expenses					
2 Operation & Maintenance	53,744	(15,402)	38,342		38,342
3 Depreciation	10,551	(980)	9,571		9,571
4 Amortization	0	0	0		0
5 Taxes Other Than Income	4,385	275	4,661	942	5,602
6 Income Taxes	<u>(6,791)</u>	<u>4,213</u>	<u>(2,578)</u>	<u>7,519</u>	<u>4,941</u>
7 Total Operating Expense	<u>\$61,889</u>	<u>(\$11,894)</u>	<u>\$49,996</u>	<u>\$8,461</u>	<u>\$58,456</u>
8 Operating Income	<u>(\$8,582)</u>	<u>\$11,004</u>	<u>\$2,422</u>	<u>\$12,463</u>	<u>\$14,885</u>
9 Rate Base	<u>195,017</u>		<u>192,035</u>		<u>192,035</u>
10 Rate of Return	<u>-4.40%</u>		<u>1.26%</u>		<u>7.75%</u>

Lake Placid Utilities Service, Inc.
 Statement of Wastewater Operations
 Test Year Ended 12/31/08

Schedule No. 3-B
 Docket No. 090531-WS

Description	Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$81,006</u>	<u>\$122</u>	<u>\$81,128</u>	<u>\$4,320</u> 5.32%	<u>\$85,448</u>
Operating Expenses					
2 Operation & Maintenance	\$59,073	(\$335)	\$58,738		\$58,738
3 Depreciation	12,943	(630)	9,163		9,163
4 Amortization	0	0	0		0
5 Taxes Other Than Income	3,735	3,938	7,673	194	7,868
6 Income Taxes	<u>(5,296)</u>	<u>4,971</u>	<u>(860)</u>	<u>1,552</u>	<u>2,412</u>
7 Total Operating Expense	<u>\$70,455</u>	<u>\$7,944</u>	<u>\$76,434</u>	<u>\$1,747</u>	<u>\$78,181</u>
8 Operating Income	<u>\$10,551</u>	<u>(\$7,821)</u>	<u>\$4,694</u>	<u>\$2,573</u>	<u>\$7,267</u>
9 Rate Base	<u>\$39,196</u>		<u>\$93,752</u>		<u>\$93,752</u>
10 Rate of Return	<u>26.92%</u>		<u>5.01%</u>		<u>7.75%</u>

Lake Placid Utilities Service, Inc. Adjustment to Operating Income Test Year Ended 12/31/08		Schedule No. 3-C Docket No. 090531-WS	
Explanation	Water	Wastewater	
Operating Revenues			
a. To remove CIAC from revenue (AF 25)	(\$1,350)	\$0	
b. To annualize revenues for most recent rates	460	122	
Total	<u>(\$890)</u>	<u>\$122</u>	
Operation and Maintenance Expense			
1. Salaries and Wages Employees (601/ 701)			
a. To reflect the appropriate amount of employee salaries	<u>(\$4,128)</u>	<u>(\$447)</u>	
2. Salaries and Wages Officers (603/ 703)			
a. To correct allocation for salaries, payroll taxes and vehicles (AF 17)	<u>(\$755)</u>	<u>(\$755)</u>	
4. Purchased Power (615/ 715)			
a. To remove deposits that were expensed (AF 7)	\$0	(\$400)	
b. To reflect a bill that was charged to a different utility (AF 7)	130	210	
b. To reflect a bill that was charged to a different utility (AF 18)	0	418	
c. To reflect excessive unaccounted for water and wastewater I&I	<u>(187)</u>	<u>(1,591)</u>	
Subtotal	<u>(\$57)</u>	<u>(\$1,363)</u>	
5. Chemicals (618/ 718)			
a. To reflect decrease in chlorine costs after test year (AF 20)	(\$552)	(\$402)	
b. To reflect excessive unaccounted for water and wastewater I&I	<u>(20)</u>	<u>(1,713)</u>	
Subtotal	<u>(\$572)</u>	<u>(\$2,115)</u>	
6. Materials & Supplies (620/ 720)			
a. To remove pressure relief valve to capitalize in plant (AF 8)	(\$1,199)	\$0	
b. To remove well screens to capitalize in plant (AF 9)	(830)	0	
c. To reflect change in headquarter allocation for ERC change (AF 15)	4	51	
Subtotal	<u>(\$2,025)</u>	<u>\$51</u>	
7. Contractual Services - Professional (631/ 731)			
a. To remove an invoice recorded twice (AF 11)	(\$2,160)	(\$2,160)	
b. To remove interest and customer inside leak repair (AF 11)	(75)	(75)	
c. To reflect change in headquarter allocation for ERC change (AF 15)	(16)	(8)	
d. To decrease allocation from headquarters for invoices not found (AF 22)	(357)	(357)	
e. To reflect the correct ERC allocation between both accounts	<u>(3,060)</u>	<u>3,060</u>	
Subtotal	<u>(\$5,668)</u>	<u>\$460</u>	
8. Contractual Services - Other (636/ 736)			
a. To remove non-recurring expense (AF 10)	(\$803)	\$0	
b. To reflect expense for service agreement (AF 4)	426	0	
c. To reflect change in headquarter allocation for ERC change (AF 15)	43	67	
d. To reflect relocation expense adjustment.	<u>(32)</u>	<u>(50)</u>	
Subtotal	<u>(\$366)</u>	<u>\$17</u>	
(O & M EXPENSES CONTINUED ON NEXT PAGE)			

(O & M EXPENSES CONTINUED)

9.	Transportation Expense (650/ 750)		
	a. To correct allocation for salaries, payroll taxes and vehicles (AF 17)	\$352	\$554
	b. To reflect fuel expense adjustment.	<u>(110)</u>	<u>(50)</u>
	Subtotal	<u>\$242</u>	<u>\$504</u>
10.	Insurance Expenses (655/ 755)		
	a. To reflect change in headquarter allocation for ERC change (AF 15)	<u>\$66</u>	<u>\$94</u>
11.	Rate Case Expense (665/ 765)		
	a. To reflect the appropriate Rate Case expense	<u>(\$1,370)</u>	<u>\$3,067</u>
12.	Bad Debt Expense (670/770)		
	a. To reflect change in headquarter allocation for ERC change (AF 15)	<u>(\$610)</u>	<u>\$321</u>
13.	Miscellaneous Expense (675/ 775)		
	a. To reflect change in headquarter allocation for ERC change (AF 15)	<u>(\$38)</u>	<u>\$21</u>
	b. To reflect the appropriate telecommunication expense	<u>(120)</u>	<u>(190)</u>
	Subtotal	<u>(\$158)</u>	<u>(\$169)</u>
	Total O&M Adjustments	<u>(\$15,402)</u>	<u>(\$335)</u>
	<u>Depreciation Expense - Net</u>		
1	To correct for rule rates and Comm. Ordered beg bal (AF3)	<u>(\$332)</u>	<u>\$2,441</u>
2	To correct amortization for rule rates (AF 3)	<u>92</u>	<u>1,693</u>
3	To remove plant additions that should have been expensed (AF 4)	<u>(57)</u>	<u>0</u>
4	To reflect depreciation on pressure relief valve (AF 8)	<u>15</u>	<u>0</u>
5	To reflect depreciation on well screens (AF 9)	<u>14</u>	<u>0</u>
6	To reflect depreciation on pro forma plant	<u>0</u>	<u>239</u>
7	To depreciation expense allocation change for ERCs (AF 15)	<u>(420)</u>	<u>(99)</u>
8	To correct vehicle depreciation (AF 17)	<u>(99)</u>	<u>(99)</u>
9	To record amortization for tap fees not recorded (AF 25)	<u>(34)</u>	<u>0</u>
10	To reflect appropriate amount of Acc. Dep. allocated from Project Phoenix	<u>(180)</u>	<u>(281)</u>
11	New Phone system	<u>21</u>	<u>33</u>
12	Non-U&U depreciation expense.	<u>0</u>	<u>(7,706)</u>
	Subtotal	<u>(\$980)</u>	<u>(\$3,779)</u>
	<u>Taxes Other Than Income</u>		
1	To reflect the appropriate property tax (AF 5)	<u>\$4,278</u>	<u>\$1,190</u>
2	To correct RAF's for accruals (AF 6)	<u>(3,830)</u>	<u>3,660</u>
3	To reflect taxes related to annualized revenue (AF 14)	<u>21</u>	<u>5</u>
4	To change in headquarter tax for ERC change (AF 15)	<u>41</u>	<u>42</u>
5	To reduce payroll taxes associated with payroll correction (AF 17)	<u>(275)</u>	<u>(275)</u>
6	To reflect appropriate payroll taxes	<u>(316)</u>	<u>(34)</u>
7	To reflect 2009 Ad Valorem taxes	<u>356</u>	<u>(650)</u>
	Subtotal	<u>\$275</u>	<u>\$3,938</u>

Lake Placid Utilities Service, Inc.		Schedule No. 4-A	
Water Monthly Service Rates		Docket No. 090531-WS	
Test Year Ended 12/31/08			
	Rates Prior to Filing	Commission Approved Final	Monthly Rate Reduction
<u>Residential Service, General Service and Multi-Residential</u>			
Base Facility Charge by Meter Size:			
5/8" x			
3/4"	\$12.71	\$ 15.45	\$0.94
3/4"	\$19.07	\$ 23.18	\$1.41
1"	\$31.78	\$ 38.63	\$2.36
1-1/2"	\$63.54	\$ 77.25	\$4.71
2"	\$101.67	\$ 123.60	\$7.54
3"	\$203.33	\$ 247.20	\$15.08
4"	\$317.21	\$ 386.25	\$23.57
6"	\$635.42	\$ 772.50	\$47.14
Gallage Charge, per 1,000 Gallons			
	\$3.67	\$6.23	\$0.38
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>			
3,000 Gallons	\$23.72	\$34.14	
5,000 Gallons	\$31.06	\$46.60	
10,000 Gallons	\$49.41	\$77.75	

Lake Placid Utilities Service, Inc. Wastewater Monthly Service Rates Test Year Ended 12/31/08		Schedule No. 4-B Docket No. 090531-WS	
	Rates Prior to Filing	Commission Approved Final	Monthly Rate Reduction
<u>Residential</u>			
Base Facility Charge All Meter Sizes:	\$16.66	\$15.64	\$1.22
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$5.20	\$6.27	\$0.49
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8" x 3/4"	\$16.66	\$15.64	\$1.22
3/4"	\$25.00	\$23.46	\$1.83
1"	\$41.66	\$39.10	\$3.05
1-1/2"	\$83.32	\$78.20	\$6.11
2"	\$133.32	\$125.12	\$9.77
3"	\$266.63	\$250.24	\$19.54
4"	\$416.62	\$391.00	\$30.53
6"	\$833.26	\$782.00	\$61.06
Gallage Charge, per 1,000 Gallons	\$6.24	\$7.52	\$0.59
<u>Bulk Rate</u>			
DeeAnn Estates HOA	\$567.95	\$532.92	\$41.61
DeeAnn Gallage Charge per 1,000	\$4.99	\$6.02	\$0.47
Flat rate for unmetered residential customers	\$0.00	\$27.55	\$2.15
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>			
3,000 Gallons	\$32.26	\$34.45	
5,000 Gallons	\$42.66	\$46.99	
10,000 Gallons	\$68.66	\$53.26	
(Wastewater Gallage Cap - 6,000 Gallons)			