

State of Florida



# Public Service Commission

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## -M-E-M-O-R-A-N-D-U-M-

**DATE:** October 14, 2010

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Roberts, Bruce, Fletcher, Hudson, Maurey, *CRB*)  
*Sra* Rieger, Simpson *PR*  
Office of the General Counsel (Young) *KEF KEF FOR OSC*

**RE:** Docket No. 090531-WS – Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

**AGENDA:** 10/26/10 – Regular Agenda – Proposed Agency Action except for Issues 13, 14 and 15 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** 04/20/11 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\090531.RCM.DOC

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### **Case 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 2008 annual report, Lake Placid reported revenues of \$52,212 and \$82,100 for water and wastewater, respectively. Lake Placid reported a net operating loss of \$60,639 for water and a net operating loss of \$75,021 for wastewater. The test period for setting rates is the historical twelve-month period ended December 31, 2008.

Lake Placid was granted Certificate Nos. 414-W and 347-S in 1993.<sup>1</sup> The Commission last established rates for Lake Placid in 2006.<sup>2</sup>

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. Staff has also 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, the Commission acknowledged OPC's intervention.<sup>3</sup>

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

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> See Order No. PSC-10-0343-PCO-WS.

### Discussion of Issues

**Issue 1:** Is the quality of service provided by Lake Placid satisfactory?

**Recommendation:** Yes. The overall quality of service provided by Lake Placid is satisfactory. (Simpson, Rieger)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines 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 the Commission 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.

#### Operational Condition of the Plant

A staff field investigation of the service area was conducted on June 10, 2010. 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. Staff recommends that the quality of drinking water delivered to the customers, the wastewater effluent quality, and the operating condition of the water and wastewater facilities should be considered 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 the OPC were also present. The customer complaints dealt mainly with the amount of the rate increase. Staff explained the rate making process to the customers and followed up on specific inquiries about staff's analysis of the Utility's application. One customer expressed dissatisfaction with the quality of the water, including high levels of chlorine in the water. Staff reviewed the Utility's sanitary surveys and inspection reports, which indicated that the plant operations and remote chlorine residuals were satisfactory. Staff reviewed complaints filed with the 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, staff recommends that the Utility's attempt to address customer concerns should 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, staff recommends that the overall quality of service provided by Lake Placid be considered satisfactory.

**Issue 2:** What are the used and useful percentages for the water treatment plant, the water distribution system, the wastewater treatment plant, and the wastewater collection system?

**Recommendation:** The Lake Placid water treatment plant, water distribution system, and wastewater collection system should be considered 100 percent used and useful (U&U). The wastewater treatment plant should be considered 44 percent U&U. A nine percent adjustment should be made to chemicals and electricity to reflect excessive unaccounted for water (EUW) in the distribution system. A five percent adjustment should be made to chemicals and electricity to reflect excessive infiltration and inflow (I&I) in the wastewater collection system. (Simpson, Rieger)

**Staff Analysis:** In the Utility's last rate case, the Commission 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.<sup>4</sup> However, in Order No. PSC-07-0528-AS-WS,<sup>5</sup> a settlement agreement was approved which recognized that the Parties (Lake Placid and the OPC) agreed to eliminate the language in the Proposed Agency Action (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. The Commission noted that each rate case is decided on its own merits. Subsequently, the Commission 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) should be considered EUW.

<sup>4</sup> 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.

<sup>5</sup> 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.

The WTP should 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 should 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. Lake Placid has excessive I&I of 1,776 gpd (five percent) based on a comparison of the wastewater treated and an allowance for I&I based on the estimated amount of water returned to the WWTP and the size and length of the collection system. Based on this information, the WWTP should be considered 44 percent U&U. A five percent adjustment should 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, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.

#### Summary

In summary, the Lake Placid WTP, water distribution system, and wastewater collection system should be considered 100 percent U&U. The WWTP should be considered 44 percent U&U. A nine percent adjustment should be made to chemicals and electricity to reflect EUW in the distribution system and a five percent adjustment should be made to chemicals and electricity to reflect excessive I&I in the wastewater collection system.

**Issue 3:** Should any adjustments be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

**Recommendation:** Yes. Plant should be reduced by \$559 for water and \$873 for wastewater. In addition, accumulated depreciation and depreciation expense both should be reduced \$180 for water and \$281 for wastewater, respectively. (Deason, Fletcher)

**Staff Analysis:** 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, the Commission approved recovery of the cost of the Phoenix Project in seven UI rate cases.<sup>6</sup> 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 the Commission, 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

Staff 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 staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana<sup>7</sup> that was not included in the ERC count previously provided to the staff 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.

Staff agrees that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project. However, staff does not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. Staff believes the amounts allocated to the divested subsidiaries were recovered by the

<sup>6</sup> See Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

<sup>7</sup> This wastewater system represented approximately 950 ERCs.



shareholders through the sale of those systems. Because no added benefit was realized by the remaining subsidiaries, staff further believes it is not fair, just or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, staff believes the divested subsidiaries allocation amounts should be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

Staff 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, staff determined the actual amount paid of \$21,617,487 for the Phoenix Project should 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 ECRs adjusted for the divestitures, staff recommends that the appropriate amount of Lake Placid's allocated share of the Phoenix Project is \$18,431. As such, staff recommends that plant be reduced by \$1,431, or \$559 for water and \$873 for wastewater.

#### Amortization Period

In the past, the Commission approved a 6-year amortization period for the Phoenix Project.<sup>8</sup> However, in subsequent UI cases,<sup>9</sup> the Commission found that an 8-year amortization period was more appropriate for a software project of this magnitude. For the reason stated below, staff now believes that the amortization period for the Phoenix Project should 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, staff believes 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,<sup>10</sup> UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, staff believes 10 years is a more reasonable amortization period than the 8-year amortization period currently approved by this Commission. Thus, staff recommends that accumulated depreciation and depreciation expense be reduced \$180 for water and \$281 for wastewater, respectively.

#### Summary

In summary, staff recommends that plant be reduced by \$559 for water and \$873 for wastewater. In addition, accumulated depreciation and depreciation expense both should be reduced \$180 for water and \$281 for wastewater, respectively. The above recommended adjustments are consistent with the Commission's decisions for three of Lake Placid's sister companies.<sup>11</sup>

<sup>8</sup> See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

<sup>9</sup> See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

<sup>10</sup> Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

<sup>11</sup> 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

**Issue 4:** What is the appropriate average test year rate base for the Utility?

**Recommendation:** The appropriate average test year rate bases for the Utility are \$191,418 and \$164,885 for water and wastewater, respectively. (Roberts)

**Staff Analysis:** Lake Placid's rate bases were last established by Order No. PSC-07-0287-PAA-WS.<sup>12</sup> The Utility used a test year ended December 31, 2008, for this rate case. A summary of each component and the 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   | 191              | 301               |
| <b>Total</b>  | <b>(\$4,822)</b> | <b>\$224,535</b>  |

Staff's net adjustments to UPIS are a decrease of \$4,822 for water and an increase of \$224,535 for wastewater. Staff recommends UPIS balances of \$414,017 for water and \$657,035 for wastewater.

**Land and Land Rights:** Lake Placid recorded land balance 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. Staff recommends land balances of \$2,751 for water and \$21,709 for wastewater.

**Non-used and Useful Plant:** As discussed in Issue 2, Lake Placid's distribution and collection systems should be considered 100 percent U&U. In addition, the WTP should be considered 100 percent U&U. The WWTP should be considered 44 percent used and useful. As such,

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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.

<sup>12</sup> 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.

wastewater rate base should be reduced by \$16,429 to reflect the 56 percent of the wastewater treatment plant which is non-used and useful.

Accumulated Depreciation: The Utility recorded accumulated depreciation balances of \$111,417 and \$274,517 for water and wastewater, respectively. Staff auditors calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff recommends 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  | \$5,331      | (\$78,518)        |

As a result of staff's adjustments, the accounts were 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. The staff 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, staff increased CIAC by \$675 for water to reflect CIAC recorded as miscellaneous revenues. Therefore, staff's recommended 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 staff 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 staff. In addition, staff has increased CIAC amortization by \$17 for water to correct CIAC recorded as miscellaneous revenues. Staff's net 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., staff used the one-eighth of the operation and

maintenance (O&M) expense formula approach for calculating the working capital allowances. Applying this formula, staff recommends working capital allowances of \$4,176 for water and \$6,577 for wastewater (based on O&M expense of \$33,406 for water and \$52,615 for wastewater). Working capital should be reduced by \$2,542 and \$807 for water and wastewater, respectively.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$191,418 for water and \$164,885 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.

**Issue 5:** What is the appropriate return on equity and overall rate of return for this Utility?

**Recommendation:** The appropriate return on equity (ROE) is 10.64 percent with an allowed range of plus or minus 100 basis points. The appropriate overall rate of return is 7.85 percent. (Roberts)

**Staff Analysis:** 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-WS<sup>13</sup> and an equity ratio of 42.64 percent, the appropriate ROE is 10.64 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of 7.85 percent.<sup>14</sup> The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>13</sup> 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.

<sup>14</sup> The 20-basis point difference in staff's and the Utility's overall cost of capital is the result of staff's recommended \$122,090 increase in the Utility's total rate base.

**Issue 6:** What is the appropriate amount of test year revenue?

**Recommendation:** The appropriate test year revenues for this Utility is \$52,417 for water and \$81,128 for wastewater. (Bruce, Roberts)

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

Based on the above, staff recommends test year revenues 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.

**Issue 7:** What is the appropriate amount of operating expenses?

**Recommendation:** The appropriate amount of operating expenses for the Utility is \$53,343 for water and \$82,079 for wastewater. (Roberts, Deason)

**Staff Analysis:** 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 operating and maintenance expense (O&M) has been reviewed through staff's examination of invoices, canceled checks, and other supporting documentation. Staff recommends 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 \$5,767 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 2005. 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> | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Water salaries      | \$786       | (\$4,893)   | (\$736)     | \$5,045     | \$1,032     |
| Wastewater salaries | \$4,558     | (\$6,127)   | (\$1,128)   | \$5,767     | \$883       |

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 where 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 is more likely to occur at a utility the size of Lake Placid which has a smaller allocation percentage, and, therefore the capitalized time can easily exceed it.

Due to the variability caused by the Utility capitalizing its salaries, staff has used a benchmark increase in order to determine the appropriate amount of salaries. Staff has calculated a benchmark of 16.64 percent based on customer growth and inflation since the Utility's last case. The Commission has utilized a benchmark analysis in previous rate cases.<sup>15</sup> Based on staff's calculated benchmark of 16.64 percent, Lake Placid's employee salaries and wages expense should be decreased by \$4,128 for water and \$447 for wastewater. The

<sup>15</sup> 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.

Commission has approved the benchmark method to determine the approved salary level recently for four sister companies of Lake Placid.<sup>16</sup>

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, staff has decreased expenses for both water and wastewater by \$755 to reflect the correct allocation for salaries. Based on the above, the appropriate officer salaries are \$32 and \$14 for water and wastewater.

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, staff increased purchased power expense for water by \$130 and by \$210 for wastewater to reflect a bill that was charged to a different utility. Staff also increased this expense by \$418 for wastewater to reflect a bill that was incorrectly charged to a different utility. As discussed in Issue 2, the staff engineer is recommending an EUW adjustment of nine percent and an excessive I&I adjustment of five percent. Accordingly, staff has decreased the expense for water by \$187 and decreased the expense for wastewater by \$198. Based on the above, the purchased power expenses are \$1,886 and \$3,765 for water and wastewater, respectively.

Chemicals (618/718) – Lake Placid recorded chemical expense of \$773 for water and \$4,668 for wastewater. Staff decreased chemical expense by \$552 for water and \$402 for wastewater to reflect the lower chlorine costs after the test year. In addition, staff decreased this expense by \$20 for water and by \$213 for wastewater to adjust for EUW and excessive I&I, as discussed in Issue 2. Therefore, staff recommends test year chemical expense of \$201 and \$4,053 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. Staff decreased this expense for water by \$2,029 to reclassify items that should have been capitalized to plant. In addition, staff increased water and wastewater by \$4 and \$51, respectively, to reflect the change in headquarter allocations per ERC. As a result, staff recommends 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. Staff decreased this expense for both water and wastewater by \$2,160 to remove an invoice that was previously recorded. In addition, staff decreased this expense for both water and wastewater by \$75 to remove non-utility expense. Further, staff reduced this expense for water by \$16 and wastewater by \$8 to reflect a change in headquarter allocation per ERC. Staff also decreased this expense

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<sup>16</sup> 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: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.



for both water and wastewater by \$357 for lack of support documentation. Finally, staff reduced this expense for water and increased this expense for wastewater by \$3,060 to reflect the correct ERC allocations between accounts. Staff’s net adjustment represents a decrease of \$5,668 for water and an increase of \$460 for wastewater. Therefore, staff recommends 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. Staff decreased this expense for water by \$803 to remove non-recurring expenses. In addition, staff increased this expense for water by \$426 to reflect the expense of a service agreement. Staff also increased this expense for water by \$43 and wastewater by \$67 to reflect the change in headquarter allocation per ERC. Finally, staff decreased this expense for water by \$32 and wastewater by \$50 to reflect the correct amount of relocation expense. Staff’s net adjustment represents a decrease of \$366 for water and an increase of \$17 for wastewater. Therefore, staff recommends 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. Staff increased this expense for water by \$352 and wastewater by \$554 to reflect the appropriate transportation expense based on ERCs. In addition, staff decreased this expense for water by \$110 and wastewater by \$50 to reflect the appropriate fuel expense. Staff’s net adjustment represents an increase of \$242 for water and \$504 for wastewater. Therefore, staff recommends 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, staff has increased this expense for water by \$66 and for wastewater by \$94 to reflect a change in headquarter allocations per ERC. Staff recommends insurance expense of \$1,172 for both water and wastewater.

Regulatory Commission 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. Staff has made the following adjustments to regulatory commission expense:

Table 7-2

| <u>Adjustment Description</u>                                   | <u>Water</u>     | <u>Wastewater</u> |
|---|------------------|-------------------|
| 1. To remove excess rate case expense. (AF 12)                  | (\$5,219)        | (\$3,008)         |
| 2. To remove pro forma rate case amortization. (AF 19)          | (6,547)          | (8,401)           |
| 3. To reflect change in headquarter allocation per ERC. (AF 15) | (27)             | (27)              |
| 4. To reflect current rate case expense.                        | <u>5,487</u>     | <u>5,487</u>      |
| Total   | <u>(\$6,306)</u> | <u>(\$5,949)</u>  |

Therefore, staff decreased regulatory commission expense by \$6,306 for water and \$5,949 for wastewater. Staff recommends regulatory commission expense of \$6,712 for water and \$6,977 for wastewater.

Date: October 14, 2010

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, staff has 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. Staff recommends 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. Staff recommends this expense be decreased by \$38 for water and increased by \$21 for wastewater to reflect a change in headquarter allocation per ERC. In addition, staff has decreased this expense for water by \$120 and wastewater by \$190 to reflect the appropriate telecommunication expense per ERC. Therefore, staff recommends 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 should be decreased by \$20,338 for water and \$6,458 for wastewater. Staff's recommended O&M expenses of \$33,406 for water and \$52,615 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. Staff auditors calculated depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff has made the following adjustments to depreciation expense:

Table 7-3

| <u>Adjustment Description</u>   | <u>Water</u>   | <u>Wastewater</u> |
|---|----------------|-------------------|
| 1. To correct for rule rates and Comm. Ordered beg ball. (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                |
| <b>Total</b>  | <b>(\$980)</b> | <b>\$3,927</b>    |

Based on the above, staff's net adjustments to depreciation expense are a decrease of \$980 for water and an increase of \$3,927 for wastewater. These adjustments result in a net depreciation expense of \$9,571 for water and \$16,870 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 should 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) should 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, staff

increased this expense for water by \$21 and increased this expense for wastewater by \$5 to reflect taxes related to annualized revenue. Also, staff has increased this expense for water by \$41 and wastewater by \$42 to reflect change in headquarter tax per ERC. Pursuant to Audit Finding No. 17, TOTI should be decreased by \$275 for payroll taxes for both water and wastewater. Additionally, staff has decreased payroll taxes by \$316 for water and \$34 for wastewater to reflect the decreases in salaries based on staff's benchmark adjustment above. Staff has increased the ad valorem tax for water by \$356 and decreased wastewater by \$650 to reflect the 2009 tax. Finally, as discussed in Issue 7, staff has recommended revenue increases of \$15,943 for water and \$13,886 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, the TOTI should be increased by \$717 for water and \$625 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustment to TOTI is an increase of \$993 for water and \$4,563 for wastewater. Staff recommends TOTI for the test year of \$5,378 for water and \$8,298 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, staff has increased water and wastewater income taxes by \$11,778 and \$9,592, respectively. These adjustments result in income tax expense of \$4,987 for water and \$4,296 for wastewater.

Operating Expenses Summary – Based on the adjustments discussed above, staff recommends operating expenses of \$53,343 for water and \$82,079 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.

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$68,360 for water and \$95,014 for wastewater. (Roberts)

**Staff Analysis:** Lake Placid should be allowed an annual increase of \$15,943 (or 30.41 percent) for water and an annual increase for wastewater of \$13,886 (or 17.12 percent). This will allow the Utility the opportunity to recover its expenses and earn a 7.85 percent return on its investment. The calculations are as follows:

|                             | <u>Water</u>  | <u>Wastewater</u> |
|-----------------------------|---------------|-------------------|
| Adjusted Rate Base          | \$191,418     | \$164,885         |
| Rate of Return              | x .0785       | x .0785           |
| Return on Rate Base         | \$15,017      | \$12,935          |
| Adjusted O & M expense      | 33,406        | 52,615            |
| Depreciation expense (Net)  | 9,571         | 16,870            |
| Amortization                | 0             | 0                 |
| Taxes Other Than Income     | 5,378         | 8,298             |
| Income Taxes                | 4,987         | 4,296             |
| Revenue Requirement         | \$68,360      | \$95,014          |
| Less Test Year Revenues     | 52,417        | 81,128            |
| Annual Increase             | \$15,943      | \$13,886          |
| Percent Increase/(Decrease) | <u>30.41%</u> | <u>17.12%</u>     |

**Issue 9:** Should the Utility's current rate structures for the water and wastewater systems be changed, and, if so, what are the appropriate adjustments?

**Recommendation:** No. 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, should remain unchanged. The BFC cost recovery for the water system should be set at 54 percent. In addition, the bulk wastewater rate should continue to be based on a BFC/gallonage charge rate structure. The bulk customers' BFC should be based on 80 percent of the number of ERCs actually connected to the system. Also, the bulk customer's gallonage charge should be set at 80 percent of the general service gallonage charge. Finally, a flat rate structure should be implemented for the two unmetered residential wastewater customers. The BFC cost recovery for the wastewater system should be set at 50 percent. (Bruce)

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

Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

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 staff's 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, staff believes that an inclining block rate structure is not appropriate at this time. Also, staff recommends a continuation of the monthly BFC/uniform gallonage charge rate structure. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

Staff's recommended rate design for the water system is shown on Table 9-1 on the following page. Staff also presents two alternative rate structures to illustrate other recovery methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all levels of consumption.

TABLE 9-1

| <b>LAKE PLACID UTILITIES, INC.<br/>STAFF'S RECOMMENDED AND ALTERNATIVE<br/>WATER RATE STRUCTURES AND RATES</b> |          |  |          |
|--|----------|--|----------|
| <b>Current Rate Structure and Rates</b>  |          | <b>Recommended Rate Structure and Rates</b>      |          |
| Monthly BFC/<br>uniform kgal charge<br>BFC =58%  |          | Monthly BFC/<br>uniform kgal charge<br>BFC = 54% |          |
| BFC  | \$12.71  | BFC  | \$14.94  |
| All kgals  | \$3.67   | All kgals  | \$5.55   |
| <b>Typical Monthly Bills (1)</b>   |          | <b>Typical Monthly Bills</b>                     |          |
| <b>Cons (kgal)</b>   |          | <b>Cons (kgal)</b>                               |          |
| 0  | \$12.71  | 0  | \$14.94  |
| 1  | \$16.38  | 1  | \$20.49  |
| 3  | \$23.72  | 3  | \$31.59  |
| 5  | \$31.06  | 5  | \$42.69  |
| 10   | \$49.41  | 10   | \$70.44  |
| 20   | \$86.11  | 20   | \$125.94 |
| <b>Alternative 1</b>   |          | <b>Alternative 2</b>                             |          |
| Monthly BFC/<br>uniform kgal charge<br>BFC = 40%   |          | Monthly BFC/<br>uniform kgal charge<br>BFC =60%  |          |
| BFC  | \$11.07  | BFC  | \$16.60  |
| All kgals  | \$7.25   | All kgals  | \$4.83   |
| <b>Typical Monthly Bills</b>   |          | <b>Typical Monthly Bills</b>                     |          |
| <b>Cons (kgal)</b>   |          | <b>Cons (kgal)</b>                               |          |
| 0  | \$11.07  | 0  | \$16.60  |
| 1  | \$18.32  | 1  | \$21.43  |
| 3  | \$32.82  | 3  | \$31.09  |
| 5  | \$47.32  | 5  | \$40.75  |
| 10   | \$83.57  | 10   | \$64.90  |
| 20   | \$156.07 | 20   | \$113.20 |

Staff's initial BFC cost recovery is 66 percent. The Commission typically sets the BFC cost recovery no greater than 40 percent. In recent cases, when a customer base is seasonal, the Commission typically set the BFC cost recovery greater than 40 percent. However, staff recommends that its initial BFC allocation of 66 percent be reduced to 54 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, staff recommends that the Utility's current residential and non-residential water system's rate structure, which consists of a monthly base facility (BFC)/uniform gallonage charge rate structures remain unchanged. Furthermore, staff recommends a BFC cost recovery of 54 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 class consists of monthly BFC/gallonage charge rate structure 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.

Furthermore, Order No. PSC-07-0287-PAA-WS,<sup>17</sup> states that the Commission 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, the Commission 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 staff, DeeAnn's residents continue to pay for their lift station, and continue to pay for the electrical pumping power and maintenance. Therefore, staff recommends that the bulk customers' BFC 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, staff recommends a flat rate structure be implemented for these customers.

The accounting staff's initial BFC cost recovery for the wastewater system is 66 percent. This is within the Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. However, staff believes it is appropriate to decrease the initial BFC cost recovery to 50 percent. This will offset the effects of the initial higher BFC to a lower BFC while sending the appropriate price signals. Staff's review of the billing data suggests that the cap should remain at 6 kgal. Furthermore, staff recommends that the general service gallonage charge be 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 9-2 on the following page. Staff also presents two alternative rate structures to illustrate other recovery methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all levels of consumption.

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<sup>17</sup> 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**

| <b>LAKE PLACID UTILITIES, INC.<br/>STAFF'S RECOMMENDED AND ALTERNATIVE<br/>WASTEWATER RATE STRUCTURES AND RATES</b> |         |   |         |
|---|---------|---|---------|
| <b>Current Rate Structure and Rates</b>   |         | <b>Recommended Rate Structure and Rates</b> |         |
| Monthly BFC/<br>uniform kgals charge<br>BFC =48%  |         | BFC/uniform kgals charge<br>BFC = 50%       |         |
| BFC   | \$16.66 | BFC   | \$20.32 |
| All kgals   | \$5.20  | All kgals                                   | \$6.69  |
| <b>Typical Monthly Bills</b>  |         | <b>Typical Monthly Bills</b>                |         |
| <b>Cons<br/>(kgals)</b>   |         | <b>Cons (kgals)</b>                         |         |
| 0   | \$16.66 | 0   | \$20.32 |
| 1   | \$21.86 | 1   | \$27.01 |
| 2   | \$27.06 | 2   | \$33.70 |
| 3   | \$32.26 | 3   | \$40.39 |
| 5   | \$42.66 | 5   | \$53.77 |
| 6   | \$47.86 | 6   | \$60.46 |
| <b>Alternative 1</b>  |         | <b>Alternative 2</b>                        |         |
| BFC/uniform kgals charge<br>BFC = 60%   |         | BFC/uniform kgals charge<br>BFC =70%        |         |
| BFC   | \$24.33 | BFC   | \$28.33 |
| All kgals   | \$5.36  | All kgals                                   | \$4.03  |
| <b>Typical Monthly Bills</b>  |         | <b>Typical Monthly Bills</b>                |         |
| <b>Cons<br/>(kgals)</b>   |         | <b>Cons (kgals)</b>                         |         |
| 0   | \$24.33 | 0   | \$28.33 |
| 1   | \$29.69 | 1   | \$32.36 |
| 2   | \$35.05 | 2   | \$36.39 |
| 3   | \$40.41 | 3   | \$40.42 |
| 5   | \$51.13 | 5   | \$48.48 |
| 6   | \$56.49 | 6   | \$52.51 |

Based on the foregoing, staff recommends 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 should remain set at 6 kgals per month. The general service gallonage charge is 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent.



**Issue 10:** Is a repression adjustment appropriate in this case, and if so, what is the appropriate adjustment to make for this utility, what are the corresponding expense adjustments, and what is the final revenue requirements for the water system?

**Recommendation:** No, a repression adjustment is not appropriate for this utility. However, in order to monitor the effects resulting from the changes in revenues, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. In addition, the reports should be prepared by customer class and meter size. The reports should be filed with staff, 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 should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

**Staff Analysis:** Based on staff's 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, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water system. These reports should 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. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

**Issue 11:** What are the appropriate rates for this utility?

**Recommendation:** The appropriate monthly water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue \$68,360 for water and \$95,014 for wastewater, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within no less than 10 days after the date of the notice. (Bruce, Roberts)

**Staff Analysis:** Excluding miscellaneous service revenues of \$1,024 for water, the recommended rates should be designed to produce of revenue \$68,360 for the water system and \$95,014 for the wastewater system. There are no miscellaneous service revenues for the wastewater system.

Staff recommends that 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 remain unchanged. In addition, the bulk wastewater rate should continue to be based on a BFC/gallonage charge rate structure. The bulk customers' BFC should be based on 80 percent of the number of ERCs actually connected to the system. Also, the bulk customers' gallonage charge should be set at 80 percent of the general service gallonage charge. Furthermore, the two unmetered residential wastewater customers should be implemented a flat rate structure. The BFC cost recovery for the water and wastewater system should be set at 54 percent and 50 percent, respectively.

The approved rates should 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 should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should 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.

**Issue 12:** Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

**Recommendation:** Yes. The Utility's request for a Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should 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 should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days after the date of the notice. (Roberts)

**Staff Analysis:** Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has 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.

Staff believes that Lake Placid should be authorized to collect an NSF fee. Staff believes the NSF fee should 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 is consistent with prior Commission decisions.<sup>18</sup> As such, staff recommends that Lake Placid's proposed NSF fee be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

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<sup>18</sup> 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.

**Issue 13:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Lake Placid should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Roberts)

**Staff Analysis:** 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 will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$7,097 for water and \$7,377 for wastewater. Using Lake Placid's current revenues, expenses, capital structure, and customer base, the reduction in water and wastewater revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B, respectively.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Lake Placid also should be required to 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 should 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.

**Issue 14:** Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

**Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rate is approved on a temporary basis, the revenues collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should 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 should also indicate the status of the security being used to guarantee repayment of any potential refund. (Roberts)

**Staff Analysis:** This recommendation proposes 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, staff recommends that the rates be approved as temporary rates. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

The Utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$9,309 for water and \$8,108 for wastewater. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond should 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 should 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 should 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 should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should 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 should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should 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 should 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 should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 15:** Should the Utility be required to provide proof, within 90 days of an order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission-approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Lake Placid should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Roberts)

**Staff Analysis:** To ensure that the Utility adjusts its books in accordance with the Commission's decision, staff recommends that Lake Placid provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

**Issue 16:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Young)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Once these actions are complete, this docket should be closed administratively.



| Lake Placid Utilities Service, Inc.<br>Schedule of Water Rate Base<br>Test Year Ended 12/31/08 |                             | Schedule No. 1-A<br>Docket No. 090531-WS |                                |
|--|-----------------------------|--|--------------------------------|
| Description  | Test Year<br>Per<br>Utility | Staff<br>Adjustments                     | Staff<br>Adjusted<br>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>(2,542)</u>                           | <u>4,176</u>                   |
| 7 <b>Rate Base</b>   | <u>\$195,017</u>            | <u>(\$3,599)</u>                         | <u>\$191,418</u>               |

| <b>Lake Placid Utilities Service, Inc.</b><br><b>Schedule of Wastewater Rate Base</b><br><b>Test Year Ended 12/31/08</b> |                                | <b>Schedule No. 1-B</b><br><b>Docket No. 090531-WS</b> |   |
|--|--------------------------------|--|---|
| <b>Description</b>   |                                | <b>Test Year<br/>Per<br/>Utility</b>                   | <b>Staff<br/>Adjusted<br/>Test Year</b> |
| 1  | Plant in Service               | \$432,500  | \$657,035                               |
| 2  | Land and Land Rights           | 21,665   | 21,709                                  |
| 3  | Non-used and Useful Components | 0  | (16,429)                                |
| 4  | CIAC                           | (266,824)  | (266,824)                               |
| 5  | Accumulated Depreciation       | (274,517)  | (353,035)                               |
| 6  | Amortization of CIAC           | 118,989  | 115,853                                 |
| 7  | Working Capital Allowance      | <u>7,384</u>   | <u>6,577</u>                            |
| 8  | <b>Rate Base</b>               | <b><u>\$39,196</u></b>                                 | <b><u>\$164,885</u></b>                 |

| <b>Lake Placid Utilities Service, Inc.</b> |   | <b>Schedule No. 1-C</b>     |                   |
|--|---|-----------------------------|-------------------|
| <b>Adjustments to Rate Base</b>            |   | <b>Docket No. 090531-WS</b> |                   |
| <b>Test Year Ended 12/31/08</b>            |   |                             |                   |
| <b>Explanation</b>                         |   | <b>Water</b>                | <b>Wastewater</b> |
| <b>Plant In Service</b>                    |   |                             |                   |
| 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>  |
| <b>LAND</b>                                |   |                             |                   |
|  | To adjust allocated plant for change in ERCs and allocate to WW. (AF 16)          | <u>(\$41)</u>               | <u>\$44</u>       |
| <b>NON-USED AND USEFUL PLANT</b>           |   |                             |                   |
|  | To reflect non-used and useful plant.   | <u>\$0</u>                  | <u>(\$16,429)</u> |
| <b>CIAC</b>                                |   |                             |                   |
|  | To reflect CIAC recorded as miscellaneous revenues. (AF 25)                       | <u>(\$675)</u>              | <u>\$0</u>        |
| <b>Accumulated Depreciation</b>            |   |                             |                   |
| 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> |
| <b>Accumulated Amortization of CIAC</b>    |   |                             |                   |
| 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>  |
| <b>Working Capital</b>                     |   |                             |                   |
|  | To reflect 1/8 of test year O & M expenses.                                       | <u>(\$2,542)</u>            | <u>(\$807)</u>    |

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

**Schedule No. 2  
Docket No. 090531-WS**

| 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         | \$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 <b>Total Capital</b>   | <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>  |  |
| <b>Per Staff</b>         |                      |                      |                           |                        |                                 |                |               |               |  |
| 8 Long-term Debt         | \$180,000,000        | \$0                  | \$180,000,000             | (\$179,835,290)        | \$164,710                       | 46.22%         | 6.65%         | 3.07%         |  |
| 9 Short-term Debt        | 32,637,500           | 0                    | 32,637,500                | (32,607,635)           | 29,865                          | 8.38%          | 5.23%         | 0.44%         |  |
| 10 Preferred Stock       | 0                    | 0                    | 0                         | 0                      | 0                               | 0.00%          | 0.00%         | 0.00%         |  |
| 11 Common Equity         | 158,054,717          | 0                    | 158,054,717               | (157,910,088)          | 144,629                         | 40.59%         | 10.64%        | 4.32%         |  |
| 12 Customer Deposits     | 876                  | 0                    | 876                       | 0                      | 876                             | 0.25%          | 6.00%         | 0.01%         |  |
| 13 Deferred Income Taxes | <u>16,276</u>        | <u>0</u>             | <u>16,276</u>             | <u>0</u>               | <u>16,276</u>                   | <u>4.57%</u>   | 0.00%         | <u>0.00%</u>  |  |
| 14 <b>Total Capital</b>  | <u>\$370,709,369</u> | <u>\$0</u>           | <u>\$370,709,369</u>      | <u>(\$370,353,066)</u> | <u>\$356,303</u>                | <u>100.00%</u> |               | <u>7.85%</u>  |  |
|                          |                      |                      |                           |                        |                                 | <b>LOW</b>     | <b>HIGH</b>   |               |  |
| RETURN ON EQUITY         |                      |                      |                           |                        |                                 | <u>9.64%</u>   | <u>11.64%</u> |               |  |
| OVERALL RATE OF RETURN   |                      |                      |                           |                        |                                 | <u>7.44%</u>   | <u>8.25%</u>  |               |  |

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

| Description                      | Test Year<br>Per<br>Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase       | Revenue<br>Requirement |
|----------------------------------|-----------------------------|---------------------------|--------------------------------|---------------------------|------------------------|
| 1 <b>Operating Revenues:</b>     | <u>\$53,307</u>             | <u>(890)</u>              | <u>\$52,417</u>                | <u>\$15,943</u><br>30.41% | <u>\$68,360</u>        |
| <b>Operating Expenses</b>        |                             |                           |                                |                           |                        |
| 2 Operation & Maintenance        | 53,744                      | (20,338)                  | 33,406                         |                           | 33,406                 |
| 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                          | 717                       | 5,378                  |
| 6 Income Taxes                   | <u>(6,791)</u>              | <u>6,049</u>              | <u>(742)</u>                   | <u>5,729</u>              | <u>4,987</u>           |
| 7 <b>Total Operating Expense</b> | <u>\$61,889</u>             | <u>(\$14,993)</u>         | <u>\$46,896</u>                | <u>\$6,447</u>            | <u>\$53,343</u>        |
| 8 <b>Operating Income</b>        | <u>(\$8,582)</u>            | <u>\$14,103</u>           | <u>\$5,521</u>                 | <u>\$9,496</u>            | <u>\$15,017</u>        |
| 9 <b>Rate Base</b>               | <u>195,017</u>              |                           | <u>191,418</u>                 |                           | <u>191,418</u>         |
| 10 <b>Rate of Return</b>         | <u>-4.40%</u>               |                           | <u>2.88%</u>                   |                           | <u>7.85%</u>           |

| Lake Placid Utilities Service, Inc.<br>Statement of Wastewater Operations<br>Test Year Ended 12/31/08 |                             |                      |                                |                           |                        |
|---|-----------------------------|----------------------|--------------------------------|---------------------------|------------------------|
| Description   | Test Year<br>Per<br>Utility | Staff<br>Adjustments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase       | Revenue<br>Requirement |
| 1 <b>Operating Revenues:</b>  | <u>\$81,006</u>             | <u>\$122</u>         | <u>\$81,128</u>                | <u>\$13,886</u><br>17.12% | <u>\$95,014</u>        |
| <b>Operating Expenses</b>   |                             |                      |                                |                           |                        |
| 2 Operation & Maintenance   | \$59,073                    | (\$6,458)            | \$52,615                       |                           | \$52,615               |
| 3 Depreciation  | 12,943                      | 3,927                | 16,870                         |                           | 16,870                 |
| 4 Amortization  | 0                           | 0                    | 0                              |                           | 0                      |
| 5 Taxes Other Than Income   | 3,735                       | 3,938                | 7,673                          | 625                       | 8,298                  |
| 6 Income Taxes  | <u>(5,296)</u>              | <u>4,602</u>         | <u>(694)</u>                   | <u>4,990</u>              | <u>4,296</u>           |
| 7 <b>Total Operating Expense</b>  | <u>\$70,455</u>             | <u>\$6,009</u>       | <u>\$76,464</u>                | <u>\$5,615</u>            | <u>\$82,079</u>        |
| 8 <b>Operating Income</b>   | <u>\$10,551</u>             | <u>(\$5,887)</u>     | <u>\$4,664</u>                 | <u>\$8,271</u>            | <u>\$12,935</u>        |
| 9 <b>Rate Base</b>  | <u>\$39,196</u>             |                      | <u>\$164,885</u>               |                           | <u>\$164,885</u>       |
| 10 <b>Rate of Return</b>  | <u>26.92%</u>               |                      | <u>2.83%</u>                   |                           | <u>7.85%</u>           |

**Lake Placid Utilities Service, Inc.**  
**Adjustment to Operating Income**  
**Test Year Ended 12/31/08**

| Explanation  | Water            | Wastewater     |
|--|------------------|----------------|
| <b>Operating Revenues</b>  |                  |                |
| 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>   |
| <b>Operation and Maintenance Expense</b>                                   |                  |                |
| 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&M           | <u>(187)</u>     | <u>(198)</u>   |
| Subtotal   | <u>(\$57)</u>    | <u>\$30</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&M           | <u>(20)</u>      | <u>(213)</u>   |
| Subtotal   | <u>(\$572)</u>   | <u>(\$615)</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.                                    | (110)             | (50)             |
|     | Subtotal  | <u>\$242</u>      | <u>\$504</u>     |
| 10. | Insurance Expenses (655/ 755)   |                   |                  |
|     | a. To reflect change in headquarter allocation for ERC change (AF 15)     | \$66              | \$94             |
| 11. | Regulatory Expense (665/ 765)   |                   |                  |
|     | a. To remove excess rate case expense (AF 12)                             | (\$5,219)         | (\$3,008)        |
|     | b. To remove pro forma rate case amortization (AF 19)                     | (6,547)           | (8,401)          |
|     | c. To reflect change in headquarter allocation for ERC change (AF 15)     | (27)              | (27)             |
|     | d. To reflect current rate expense  | <u>5,487</u>      | <u>5,487</u>     |
|     | Subtotal  | <u>(\$6,306)</u>  | <u>(\$5,949)</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)     | (\$38)            | \$21             |
|     | 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>(\$20,338)</u> | <u>(\$6,458)</u> |
|     | <u>Depreciation Expense - Net</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 depreciation expense allocation change for ERCs (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               |
|     | Subtotal  | <u>(\$980)</u>    | <u>\$3,927</u>   |
|     | <u>Taxes Other Than Income</u>  |                   |                  |
| 1   | To reflect the appropriate property tax (AF 5)                            | \$4,278           | \$1,190          |
| 2   | To correct RAF's for accruals (AF 6)                                      | (3,830)           | 3,660            |
| 3   | To reflect taxes related to annualized revenue (AF 14)                    | 21                | 5                |
| 4   | To change in headquarter tax for ERC change (AF 15)                       | 41                | 42               |
| 5   | To reduce payroll taxes associated with payroll correction (AF 17)        | (275)             | (275)            |
| 6   | To reflect appropriate payroll taxes                                      | (316)             | (34)             |
| 7   | To reflect 2009 Ad Valorem taxes  | <u>356</u>        | <u>(650)</u>     |
|     | Subtotal  | <u>\$275</u>      | <u>\$3,938</u>   |



| <b>Lake Placid Utilities Service, Inc.<br/>                     Water Monthly Service Rates<br/>                     Test Year Ended 12/31/08</b> | <b>Schedule No. 4-A<br/>                     Docket No. 090531-WS</b>          |  |   |
|---|--|--|---|
|   | <b>Rates<br/>                     Prior to<br/>                     Filing</b> | <b>Staff<br/>                     Recomm.<br/>                     Final</b> | <b>Monthly<br/>                     Rate<br/>                     Reduction</b> |
| <b><u>Residential Service, General Service and Multi-Residential</u></b>  |  |  |   |
| Base Facility Charge by Meter Size:   |  |  |   |
| 5/8" x 3/4"   | \$12.71  | \$ 14.94   | \$1.55  |
| 3/4"  | \$19.07  | \$ 22.41   | \$2.33  |
| 1"  | \$31.78  | \$ 37.35   | \$3.88  |
| 1-1/2"  | \$63.54  | \$ 74.70   | \$7.76  |
| 2"  | \$101.67   | \$ 119.52  | \$12.41   |
| 3"  | \$203.33   | \$ 239.04  | \$24.82   |
| 4"  | \$317.21   | \$ 373.50  | \$38.78   |
| 6"  | \$635.42   | \$ 747.00  | \$77.56   |
| Gallonage Charge, per 1,000 Gallons   | \$3.67   | \$5.55   | \$0.58  |
| <b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>   |  |  |   |
| 3,000 Gallons   | \$23.72  | \$31.59  |   |
| 5,000 Gallons   | \$31.06  | \$42.69  |   |
| 10,000 Gallons  | \$49.41  | \$70.44  |   |

| <b>Lake Placid Utilities Service, Inc.<br/>Wastewater Monthly Service Rates<br/>Test Year Ended 12/31/08</b> | <b>Schedule No. 4-B<br/>Docket No. 090531-WS</b> |                                    |                                       |
|--|--|------------------------------------|---------------------------------------|
|  | <b>Rates<br/>Prior to<br/>Filing</b>             | <b>Staff<br/>Recomm.<br/>Final</b> | <b>Monthly<br/>Rate<br/>Reduction</b> |
| <b><u>Residential</u></b>  |  |                                    |                                       |
| Base Facility Charge All Meter Sizes:  | \$16.66  | \$20.32                            | \$1.58                                |
| Gallonge Charge - Per 1,000<br>gallons (6,000 gallon cap)  | \$5.20   | \$6.69                             | \$0.52                                |
| <b><u>General Service</u></b>  |  |                                    |                                       |
| Base Facility Charge by Meter Size:  |  |                                    |                                       |
| 5/8" x 3/4"  | \$16.66  | \$20.32                            | \$1.58                                |
| 3/4"   | \$25.00  | \$30.48                            | \$2.37                                |
| 1"   | \$41.66  | \$50.80                            | \$3.94                                |
| 1-1/2"   | \$83.32  | \$101.60                           | \$7.89                                |
| 2"   | \$133.32   | \$162.56                           | \$12.62                               |
| 3"   | \$266.63   | \$325.12                           | \$25.24                               |
| 4"   | \$416.62   | \$508.00                           | \$39.44                               |
| 6"   | \$833.26   | \$1,016.00                         | \$78.88                               |
| Gallonge Charge, per 1,000 Gallons   | \$6.24   | \$8.09                             | \$0.63                                |
| <b><u>Bulk Rate</u></b>  |  |                                    |                                       |
| DeeAnn Estates HOA   | \$567.95   | \$692.91                           | \$53.80                               |
| DeeAnn Gallonge Charge per 1,000   | \$4.99   | \$5.35                             | \$0.42                                |
| <b>Flat rate for unmetered residential<br/>customers</b>   | <b>\$0.00</b>                                    | <b>\$33.03</b>                     | <b>\$2.56</b>                         |
| <b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>  |  |                                    |                                       |
| 3,000 Gallons  | \$32.26  | \$40.39                            |                                       |
| 5,000 Gallons  | \$42.66  | \$53.77                            |                                       |
| 10,000 Gallons<br>(Wastewater Gallonge Cap - 6,000 Gallons)  | \$68.66  | \$87.22                            |                                       |